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Exploring the effects of state differences in alcohol retail restrictions

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A B S T R A C T

Laws regulating the retail sale of alcoholic beverages vary greatly by state. Whereas some states allow the sale of beer, wine and hard liquor at grocery stores and other retail establishments, others restrict the sale of one or more of the beverage categories to liquor stores. In recent years, several states across the country have considered loosening existing restrictions. This paper examines the impact of retail restrictions on retail sector structure and employment using panel data from the fifty US states and the District of Columbia from 2001 to 2013. Our results suggest that restricting hard liquor and wine sales to liquor stores has no impact on employment, number of establishments or total wages in the liquor store sector. However, restricting the sale of hard liquor, wine and beer to liquor stores has a positive effect on employment, wages, and number of establishments in the liquor store sector. Results in the grocery store sector are sensitive to specification, however, there is no strong evidence that retail restrictions have a corresponding negative effect on the grocery and convenience store sectors. These results contribute to the ongoing policy debates regarding the liberalization of state alcohol retail laws by empirically testing a number of the hypotheses put forth by proponents and opponents of the liberalization debate.

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1. Introduction

The sale and consumption of alcoholic beverages in the United States is heavily regulated through state laws. The degree and form of state alcohol policies vary greatly across states, with some regulations dating as far back as the Prohibition era. The existing laws and policies vary with respect to regulation of the sale and distribution of alcohol, excise taxation of various alcoholic beverages, legal limits on blood alcohol concentration levels and penalties for associated violations, open container laws, beer keg registration and alcohol server training laws, or open container laws.

The last four decades have seen a more restrictive regulatory environment along some dimensions. Examples include establishing stricter blood alcohol concentration limits and keg registration rules. At the same time, other regulations, such as effective excise tax rates, were lowered. The push towards a liberalization of alcohol-related laws has gotten especially strong in recent years. Most prominently, in 2012 Washington ended the state monopoly on alcohol sales, allowing alcohol to be sold at privately owned liquor stores, grocery stores and other retail establishments. Calls for similar changes have been voiced in Oregon (Mapes, 2015) and Pennsylvania (Finnerty, 2016), among other states. Other examples of the liberalization trend abound. In 2008 Vermont allowed sales of beer with up to 16% alcohol by volume in convenience and grocery stores. In 2011 a number of Georgia municipalities eliminated the prohibition of Sunday sales of packaged liquor. In 2011 and 2012 Tennessee and Kansas, respectively, eliminated their ban on the distribution of free beverage samples in restaurants and bars. In 2016, Pennsylvania allowed sales of wine at grocery stores (Langley, 2016).

The majority of arguments in the alcohol liberalization debate revolve around four topics: consumer choice and convenience, the effect on alcohol consumption volume, wealth distribution effects, and the overall effect on local economies in terms of job creation and tax revenue. This paper attempts to contribute to the understanding of alcohol policies by focusing on how state restrictions on retail alcohol sales impact employment, the number of establishments and total wages in the liquor store and grocery store sectors.

The next section provides a more detailed overview of existing alcohol retail restrictions and states the research questions. Section 3 reviews prior literature relevant to the questions at hand. Section 4 describes the data sources, provides the descriptive anal-

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ysis of the data, and explains the statistical methodology. Results are presented and discussed in Section 5. Section 6 reiterates the main conclusions stemming from this work.

2. Types and forms of restrictions in sale and distribution of alcohol

States currently regulate the sale of alcoholic beverages under two general systems: a control system or a licensure system. Generally, when a state directly controls the pricing of some types of alcoholic beverages – through operating state stores, regulating agency stores, or directly setting the retail price – such a state is considered a "control" or "monopoly" state. When a state government indirectly controls the sale and distribution of alcohol through licensing of privately owned establishments, it is considered a "licensure" or "privatized" state.

Currently in the United States most states operate under a licensure system. However, 18 states maintain some direct control over certain sectors of the alcoholic beverage market. The following table summarizes the specifics of retail provisions for those eighteen alcoholic beverage control (ABC) states.

Among the licensure states, retail restrictions also vary significantly. Some states have few restrictions whereas others have restrictions on the days and hours of alcohol sales or the type of establishments through which alcohol can be sold to consumers. In the most restrictive states, all alcoholic beverages must be sold at licensed retail liquor stores. There are also states in which such limitations apply to stronger alcoholic beverages whereas beverages with lower alcohol content can be sold at a wide range of establishments. The line between the beverage groups can differ by state but in all cases restrictions (or absence thereof) are tied to the alcohol content.

Individual state alcoholic beverage control boards establish several categories of alcoholic beverages. Aside from some exceptions, they are usually "hard liquor", "wine", "regular strength beer" or simply "beer", and "cereal malt beverages", or CMB. Generally, the category of 'hard liquor' includes spirits and fortified wine. The minimum alcohol contents threshold qualifying a beverage as "hard liquor" ranges between 16 and 22% by volume and varies across states. The "regular strength" term is used to describe beer with alcohol contents greater than 3.2% (in some cases 3.5%) by volume. Beer and wine coolers with lower alcohol content fall into the CMB category.

Table 2 details the nature of alcohol retail restrictions in 32 licensure states and the District of Columbia. Additionally, several states still have dry counties where sales of alcohol by the drink are banned.

Just like in the case of liquor laws in general, there has been a push for liberalization of retail restriction rules. The state of Kansas is one such example. It is currently among the most restrictive among the licensure states, with sales of packaged alcohol with greater than 3.2% alcohol content allowed exclusively at licensed retail liquor stores. Bills seeking to remove that restriction and allow wider sales of alcohol at various retail establishments were introduced to state legislative at regular intervals since 2011 but none of them were passed.

Numerous arguments in favor and against the proposed changes have surfaced during state legislative hearings. Those in favor of liberalizing existing alcohol retail restrictions posit it would promote greater competition in the retail sector and increase efficiency (Dillon, 2017). Another argument is that consumers would benefit from increased convenience (Langley, 2016; Carpenter, 2017) and lower prices (Bissett, 2017; Queen, 2017). The ability to sell alcoholic beverages may also be a deciding factor in attracting new grocery businesses to a particular state, which would have a positive effect on the local economies through job creation in the grocery sector and construction (Bissett, 2017; Dillon, 2017). Proponents also argue that liberalization of alcohol retail laws would help the survival of small grocery stores in rural communities and improve economic competitiveness of retail establishments located along state borders (Kansas Legislature, 2011) and that state tax revenue would increase as a result of greater economic activity (Glendening, 2017). Quantitative estimates of the possible economic effects of deregulation vary. A study presented to a Kansas Senate Committee in 2011 stated that "statewide retail transformation and expansion will add more than 15,000 jobs, more than $340 million in workers' wages, and more than $70 million in annual state and local tax revenues"(Kansas Legislature, 2011). Rickard (2012) estimated the increase in New York state government revenue resulting from deregulation of wine sales at $22 million.

Arguments in favor of keeping the existing restrictions abound as well. A concise summary in Carpenter (2017) mentions the negative impact on small, locally owned stores replaced by large grocery stores, dangers of corporate profits being funneled to other states instead of contributing to the local economic activity, potentially greater availability of alcohol to minors due to looser regulations at grocery stores, and the prospect of increased alcohol consumption. Furthermore, the article challenges the credibility of some claims made by liberalization proponents. Jabara (2017) argues that the convenience for consumers does not justify the added temptation for children and individuals fighting alcohol addiction resulting from the greater visibility of alcoholic beverages. Those in favor of keeping restrictions in place also cite the fact that liberalization would increase the fiscal burden by requiring a larger regulatory body to oversee the increased number of licenses (Sullivan, 2017). The likely decrease in the available selection of alcohol products on store shelves (Duncan, 2017), the disproportionally negative effect on small local breweries and wineries (Duncan, 2017; Meyer, 2017), and the increased opportunities for alcohol shoplifting, especially for minors (Walla Walla Union Bulletin, 2013) are also mentioned among justifications for maintaining the status quo.

The composition of interest groups on each side of the debate can be easily traced to the welfare effects of the possible change. In the case of Kansas, the bills calling for restrictions removal receive consistently strong support from the Chamber of Commerce, large grocery store chains, and the state's Petroleum Marketers and the Convenience Store Association. Opposition comes from the Coalition of Liquor Store Owners, Wine & Spirits Wholesalers Association, Farm Winery Association, as well as religious groups and anti-alcoholism groups (Kansas Legislature, 2017). Liquor stores funded studies contending that eliminating the restrictions would adversely affect employment as liquor stores lost sales to retailers, whereas proponents of the law funded studies contending that eliminating the restrictions would result in job growth in grocery stores that would more than offset any losses in the liquor store sector.

The effects of the state alcohol retail laws are an important research subject for more than one reason. First, proposals for change have been aggressively introduced on several state legislative agendas and that trend is not likely to diminish any time soon. Second, the issues of competition and efficiency raised in the debate are important for public policy. This paper attempts to contribute to the understanding of the role played by alcohol retail restrictions by providing an objective analysis of economic outcomes that may result from such policies. More specifically, we are interested in establishing the relationship between the degree of alcohol retail restrictions on the one hand and the viability of the retail sector and its specific segments on the other.

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