Economic Analysis of Senate Bill 17-269

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Proposed Colorado Senate Bill 17-269 excludes revenues from the sale of tobacco, nicotine, and lottery products from the calculation of a retail liquor store's total revenues from non-alcoholic product sales. This paper will discuss the purpose of regulating the shares of revenue for retail liquor stores and analyze the effects of excluding tobacco, nicotine, and lottery products from the total non-alcoholic revenues.

Current Colorado liquor law states that retail liquor stores may sell non-alcoholic products as long as the revenues from the sale of non-alcoholic products do not exceed twenty percent of the store's total sales revenue. That is, for every additional dollar in revenue, at most twenty cents can be from the sale of non-alcoholic products, such as ice, cigarettes, and soft drinks. SB17-269 calls for the exclusion of tobacco products, nicotine products, and lottery products from non-alcoholic revenue calculations. By excluding these products from the total non-alcoholic revenues, liquor stores would be able to expand their non-alcoholic sales and increase their revenues.

To determine if this is an economically justified bill, it must first be determined why the regulatory practice of mandating that no more than twenty percent of revenue can be from non-alcoholic sales exists. Typically in a market where there are large regulatory pressures, it is assumed that either the market is going to produce at a below optimum level

Regulations are placed on alcohol because of the large social cost of excessive alcohol consumption. In 2006, the cost of excessive alcohol consumption to society was $223.5 billion. The primary causes of these costs are workplace productivity losses, be determined if excluding tobacco, nicotine, and lottery products exposes consumers, especially those with addictive tendencies, to further addictive substances.

Nicotine, and by extension tobacco, are addictive drugs. Cigarette smoking is the leading cause of preventable disease and premature death in the United States, “435,000 people … die prematurely from smoking-related diseases each year”(Benowitz, 2010)[4]. The cost to society from smoking-related illnesses is $300 billion annually. Cigarettes also have an inelastic demand curve, with a ten percent increase in price decreasing consumption by slightly less than four percent[5].

Lottery products have also shown to be addictive. The lottery is similar to between alcohol consumption and the consumption of tobacco, nicotine, and lottery products must be examined.

Alcohol and cigarettes have been shown to be economic compliments of one another, “cigarette demand is consistent with rational addiction… positively affected by current alcoholic beverage consumption which means alcohol is a compliment for cigarettes”(Koksal, Wohlgenant, 2011)[7]. Since changes in prices have very little effect on the demand of these goods, it is possible that the convenience of buying both products in one place would increase the propensity to consume. Due to the social cost of consuming both of these products, any increase in consumption of one of the goods as a result of consumption of the other could be considered a negative externality.

There is a socioeconomic correlation between those who consume lottery products and those who consume excessive amounts of alcohol. Although total consumption of alcohol is similar among socioeconomic classes, binge drinking and

It could be argued that, due the availability of tobacco, nicotine, and lottery products currently in the market, excluding those goods from the non-alcoholic revenue sales would not increase consumption of those goods. Those goods are also still available to be purchased at retail liquor stores under current law, as long as non-alcoholic revenues haven't exceeded twenty percent of total revenues. Under SB17-269 a consumer is guaranteed to be able to consume both products at a liquor store regardless of the revenue breakdown. Due to the nature of cigarettes and alcohol being complements, the convenience of buying at one store rather than two could in fact increase consumption.

It is also likely that consumers with addictive tendencies would be exposed to additional addictive products, increasing consumption. Any increase in consumption of these goods would surely lead to increased social costs. Despite the potential increases in revenues for retail liquor stores, the potential for increased costs to society as a result of increased consumption of unhealthy and dangerous products is unavoidable. As a result, SB17-269 should not be passed.