Testimony on House Bill 2206
House Committee on Commerce, Labor and Economic Development
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March 7 2013

Kansas' retail liquor system adheres to principles of a free market while providing a strong economic model that takes into account issues of social responsibility that come with selling spirits, strong beer and wine. HB 2206 is a radical restructuring that will not benefit the economy, will harm communities and increase spending.

Eighty-Four percent of Kansas businesses are classified as small businesses by the Department of Revenue. Small businesses are the engine of our economy and legislation that shuts down hundreds of parts of that engine is not sound economic policy.

Statewide Poll Shows Kansans Have No Desire For Change.

A recent statewide poll, conducted by Public Opinion Strategies, shows Kansans do not want expanded alcohol sales. *The survey is Appendix A*. Overall, 66% oppose changing the law; 81% said alcohol should be displayed and sold away from items such as milk and candy; 70% said a change would be bad for the economy. Kansans have no appetite for the Legislature to expand sales into thousands of new outlets.

Job Loss

The average Kansas liquor store has 8.5 employees[1]. Some as few as 3, while large stores employ more than 30. Estimates are at least 340 local stores close upon implementation of this legislation[2]. Just allowing for the sale of strong beer in grocery and convenience stores will close as many as 217 liquor stores[3]. **That is nearly 3,000 people HB 2206 puts out of work.**

Big-box, grocery and convenience stores will not make up these lost jobs. In most cases, grocery/convenience stores have the staff they need. Adding a product then making dozens of new hires is counterproductive. New income and new expenses rise proportionally. This is especially true with beer and wine - low-margin products that must be sold in high volumes to produce a cost benefit. Profit is maximized from these low margin items by hiring as few individuals as possible. National chains also demand - and get - assistance from suppliers and distributors in ordering, stocking, shelving and marketing, which decreases the need for new staff. *Appendix B is one of many studies which explains how big-box stores create few new jobs and over time contributes to a reduction of overall retail jobs in a community.*

$1.9 million Fiscal Note, Plus Additional Costs

The fiscal note is $1.9 million and represents a nearly 50% expansion of Alcohol Beverage Control. The note also states, *"The Department indicates the bill would not produce any significant change in liquor enforcement tax receipts"* dispelling ideas that expanding alcohol sales leads to increased tax revenue *(Appendix C)* A 2011 memo from the Department for Children and Families, then SRS, indicates **$4.2 million will be needed yearly for prevention and treatment programs** as a direct result of this type of legislation *(Appendix D)*

Kansas' System is Not a Monopoly

Kansas' retail alcohol system is not a monopoly, for a variety of reasons: its specific inclusion in the U.S and Kansas Constitutions; no illegal activities being conducted, such as price fixing; no federal antitrust laws are being violated; Kansas has an open market; and alcohol is intended to be regulated. *(Appendix F)*

Alcohol is Not a Factor in Construction Decisions

In researching documents from proponent companies – Annual Reports, SEC filings and other public papers – there is no mention of a necessity to sell alcohol in order to expand. Instead, factors include population density, tax base, incentives, population income, other area stores, etc. It is disingenuous for proponents to claim they must have alcohol to expand. There are numerous recent examples of Quiktrip, Dillon's, HyVee, Wal-Mart, Trader Joes, and others expanding in Kansas, without selling alcohol.

Kansans Shop in Missouri because of Taxes, Not Alcohol

Alcohol, cigarettes, gas and food are cheaper in Missouri because of lower tax rates. HB2206 does not solve the problem. *For a comprehensive look at the tax rate differences, see page 3 of "Common Sense Economic Reasons the Current Retail Liquor System is Best for Kansas." (Appendix E)*

Kansas' beer tax is **3 TIMES** that of Missouri. Missouri has the fifth lowest tax on spirits, per gallon, in the U.S. - 50 cents lower per gallon than Kansas. Missouri's gas tax is 7.7 cents per gallon lower; they charge 62 cents less on a pack of cigarettes; and Missouri has a base tax rate on many food items of 1.22%, compared to Kansas' base rate of 6.3% Companies build in Missouri because they can sell products at a lower rate, which attracts customers. HB2206 does not address this issue.

It's a Practical, Not Theoretical, Problem

The average liquor store in Kansas is 3,000 square feet[1]. HB2206 allows liquor stores to sell other products. Where will they put them? Big-box and grocery stores can clear shelves and stack product in other sections.

Many liquor stores are landlocked in shopping centers or areas where permitting and zoning issues make it impossible to expand. If a current liquor-store owner wants to move or expand, where will the resources come from? Lending to small businesses is at an all-time low, and passage of this legislation tells bankers half of these stores will go out-of-business, making them poor investments. This is a real-world, practical problem that must be addressed.

HB2532 Harms Rural Grocers Who Can Sell Alcohol Under Current Law

Any Kansas grocer has the ability to sell alcohol and create de-facto liquor departments under current law. They can open a liquor store or put a separate entrance in their current store so individuals do not have to leave the building. If Kansas grocers believed selling alcohol was a solution or beneficial, they would be selling alcohol today. A survey conducted by Kansas State University and the Kansas Sampler Foundation found that 80% of rural grocers said the biggest threat to their business is out-of-state grocers and big-box stores. No study concludes selling alcohol will keep rural stores open.

Kansas is Not Comparable to Other States

Every state has liquor laws tailored to fit its values, population and economic models. Comparisons to other states are not valid. No state has switched from a system like Kansas to another system. There is no model. Many states used as examples of where so-called de-regulation has been successful were primarily "Control States" before they privatized systems. Control States are those in which the state itself owns, operates and sells all, or a portion of, the alcoholic liquor. Those states went from systems in which alcoholic product was controlled by state government then turned over to private industry to take control of the alcohol business.

Of course this had a short-term economic impact! Private industry will always be an improvement over state-run stores. Private industry will spend more, promote more and invest more than government. Those systems had nowhere to go but up. Kansas has never been a control state and always had a privatized industry.

Other systems used as examples have had, or still have in place, caps on the number of licenses they issue or that entities can purchase. Basing an economic model for Kansas on systems that will never compare to Kansas is apples vs. oranges.

HB2206 is bad economic policy and I encourage you to support the current retail liquor system.

Sources

(1) Capitol Connection, LLC. *Statewide survey of more than 200 Kansas liquor stores*, 2013. www.capitolconnectionks.com

(2) "*An Economic Case for Increased Competition in the sale of Beer, Wine and Spirits in the State of Kansas*" Dr. Art Hall, PhD, January 2011

(3) "*Distilled Spirits Council of America, Kansas Fiscal Analysis of Strong Beer Sales*'" 2008. www.discus.org

Appendix A

Kansas Statewide Survey

Alcohol Sales in Grocery and Convenience Stores

PUBLIC OPINION STRATEGIES

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Public Opinion Strategies is a national political and public affairs research firm which has conducted more than six million interviews with voters and consumers in all fifty states. Headquartered in Alexandria, Virginia, its nationwide presence is achieved through strategically sited offices in California and Colorado and twelve partners and two Vice Presidents leading research efforts.

Public Opinion Strategies has conducted polling on some of the most complex public policy issues, including: Health care, Tort reform, Medicare, Social Security, Education, Deregulation, and Economic Development.

www.pos.org

Commissioned By Keep Kansans in Business (www.keepkansasjobs.com)

Conducted by Public Opinion Strategies (www.pos.org)

Do you support changing the law to allow for the sale of hard liquor, wine, strong beer and malt liquor in grocery stores, convenience stores and department stores?

66%   Oppose changing the law

29%   Support Changing the law

5%   Don't Know/Undecided/Refused

Do you believe wine and hard liquor should be displayed and sold next to items such as milk and candy?

81%   No, alcohol should be displayed and sold away from those items

15%   Yes, liquor should be allowed to be displayed and sold next to those items.

4%   Undecided/Don't Know/No Answer

Do you believe individuals who are not of drinking age should be allowed to sell and handle alcohol in grocery and convenience stores?

77%   No, only individuals who are of drinking age should sell alcohol

21%   Yes, individuals who are not of drinking age should be allowed to sell alcohol

2%   Undecided/Don't Know/No answer

Do you believe the state should ease restrictions on the sale of alcohol?

78%   No, restrictions on alcohol should stay the same

16%   Yes, restrictions on alcohol should be reduced

6%   Don't Know/Undecided/Refused

Do you believe local stores should be in charge of alcohol sales in our community?

61%   Yes, I trust local small businesses to better handle the sale of alcohol in my community

31%   No, it does not matter who sells alcohol

8%   Don't Know/Undecided/Refused

Do you think the change to the liquor law would be good for the Kansas economy?

70%   No, it would be bad for the Kansas economy

19%   Yes, it would be good for the Kansas economy

11%   Don't Know/Undecided/Refused

Additional Survey Results/Information

- A statewide survey, covering more than 80 counties.

- All individuals surveyed are likely 2014 primary voters.

- 45% of those surveyed identified as Republicans; 26% Democrat; 27% unaffiliated; 2% Other/Don't Know/Refused

- 58% of individuals between the ages of 18 and 44 oppose changing current retail alcohol laws

- 61% of Women oppose changing current retail alcohol laws

- 63% of Republicans surveyed oppose changing current retail alcohol laws

- 54% of Democrats surveyed oppose changing current retail liquor laws

- 77% identified themselves as moderate, somewhat conservative and/or very conservative

- 17% identified themselves as somewhat liberal and/or very liberal

- 46% have college and/or post-graduate degrees

- 52% surveyed were Women

- 48% surveyed were Men

Appendix B

The effects of Wal-Mart on local labor markets ☆

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Abstract

We estimate the effects of Wal-Mart stores on county-level retail employment and earnings, accounting for endogeneity of the location and timing of Wal-Mart openings that most likely biases the evidence against finding adverse effects of Wal-Mart stores. We address the endogeneity problem using a natural instrumental variables approach that arises from the geographic and time pattern of the openings of Wal-Mart stores, which slowly spread out from the first stores in Arkansas. The employment results indicate that a Wal-Mart store opening reduces county-level retail employment by about 150 workers, implying that each Wal-Mart worker replaces approximately 1.4 retail workers. This represents a 2.7 percent reduction in average retail employment. The payroll results indicate that Wal-Mart store openings lead to declines in county-level retail earnings of about $1.4 million, or 1.5 percent. Of course, these effects are counted against a backdrop of rising retail employment, and only imply lower retail employment growth than would have occurred absent the effects of Wal-Mart.
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JEL classification: J2; J3; R1

Keywords: Wal-Mart; Employment; Earnings

1. Introduction

Wal-Mart is more than just another large company. It is the largest corporation in the world, with total revenues of $285 billion in 2005. It employs over 1.2 million workers in the United States, at about 3600 stores.[1] To put this in perspective, the Wal-Mart workforce represents just under 1 percent of total employment and just under 10 percent of retail employment in the United States. It exceeds the number of high school teachers or middle school teachers, and is just under the size of the elementary school teacher workforce. Wal-Mart is reported to be the nation's largest grocer, with a 19 percent market share, and its third-largest pharmacy, with a 16 percent market share (Bianco and Zellner, 2003).

[1] See http://www.walmartfacts.com/newsdesk/wal-mart-fact-sheets.aspx#a125 (as of September 8, 2005).

During the past two decades, as Wal-Mart sharply expanded its number of stores in the United States, it increasingly encountered resistance from local communities. Opponents of Wal-Mart have tried to block its entry on many grounds, including the prevention of urban sprawl, preservation of historical culture, protection of the environment and "main-street" merchants, and avoidance of road congestion.[2] Yet two of the most commonly-heard criticisms are that Wal-Mart eliminates more retail jobs than it creates for a community, and that it results in lower wages, especially in retail.[3] Wal-Mart executives dispute these claims, especially with regard to employment. For example: its Vice President Bob McAdam has argued that there are many locations where Wal-Mart creates jobs in other businesses in addition to what Wal-Mart itself offers (PBS, 2004); the Wal-Mart web-site Walmartfacts.com trumpets the positive effects of Wal-Mart stores on retail jobs in the communities where stores open[4]; and an advertisement run in the *USA Today*, *The Wall Street Journal*, and *The New York Times* on January 14, 2005, displayed an open letter from Lee Scott, Wal-Mart President and CEO, stating "This year, we plan to create more than 100,000 new jobs in the United States."[5] Of course Wal-Mart offers other potential benefits in the form of lower prices for consumers (Basker, 2005a; Hausman and Leibtag, 2004).

In this paper, we seek to provide a definitive answer regarding whether Wal-Mart creates or eliminates jobs in the retail sector, relative to what would have happened absent Wal-Mart's entry. Also, because of concern over the effects of Wal-Mart on wages, and because policymakers may be interested in the impact of Wal-Mart on taxable payrolls, we also estimate the effects of Wal-Mart on earnings in the retail sector, reflecting the combination of influences on employment, wages, and hours. We believe that our evidence improves substantially on existing studies of these and related questions, most importantly by implementing an identification strategy that accounts for the endogeneity of store location and timing and how these may be correlated with future changes in earnings or employment. Indeed, it has been suggested that Wal-Mart's explicit strat-

[2] See, for example, Bowermaster (1989), Ingold (2004), Jacobs (2004), Kaufman (1999), Nieves (1995), and Rimer (1993).
[3] See, for example, Norman (2004), Quinn (2000), and Wal-Mart Watch (2005).
[4] See http://www.walmartfacts.com/newsdesk/wal-mart-fact-sheets.aspx (as of December 15, 2005).
[5] If this refers to gross rather than net job creation, it could be consistent with Wal-Mart destroying more jobs than it creates.

egy was to locate in small towns where the population growth was increasing (Slater, 2003, p. 92) and it is reasonable to expect that Wal-Mart entered markets where projected retail growth was strong. If Wal-Mart tends to enter fast-growing areas in booming periods, then we might expect to observe employment and earnings rising in apparent response to Wal-Mart's entry, even if the stores actually have negative effects.

Our identification strategy is driven by a systematic pattern in the openings of Wal-Mart stores. Sam Walton, the founder of Wal-Mart, opened the first Wal-Mart store in 1962 in Rogers, Arkansas, in Benton County. Five years later, Wal-Mart had 18 stores with $9 million of annual sales. Wal-Mart first grew into a local chain store in the northwest part of Arkansas. It then spread to adjacent states such as Oklahoma, Missouri, and Louisiana. From there, it kept expanding to the rest of the country after closer markets were largely saturated (Slater, 2003, pp. 28–29). The relationship between Wal-Mart stores' opening dates and distance to the headquarters is primarily a result of Wal-Mart's "saturation" strategy for growth, which we also examine on control of and distribution of stores, as well as word-of-mouth advertising. In his autobiography, Sam Walton describes the control and distribution motive as follows:

> "[Our growth strategy] was to saturate a market area by spreading out, then filling in. In the early growth years of discounting, a lot of national companies with distribution systems already in place—K-Mart, for example—were growing by sticking stores all over the country. Obviously, we couldn't support anything like that. ... We figured we had to build our stores so that our distribution centers, or warehouses, could take care of them, but also so those stores could be controlled. We wanted them within reach of our district managers, and of ourselves here in Bentonville, so we could get out there and look after them. Each store had to be within a day's drive of a distribution center. So we would go as far as we could from a warehouse and put in a store. Then we would fill in the map of that territory, state by state, county by county seat, until we had saturated that market area. ... So for the most part, we just started repeating what worked, stamping out stores cookie-cutter style" (Walton, 1992, pp. 110–111).

One might wonder whether this need to be near a distribution center requires a steady spreading out from Arkansas. Why not, for example, open distribution centers further away, and build stores near them? The explanation seems to lie in the word-of-mouth advertising

advantage perceived to result from the growth strategy Wal-Mart pursued:

> "This saturation strategy had all sorts of benefits beyond control and distribution. From the very beginning, we never believed in spending much money on advertising, and saturation helped us to save a fortune in that department. When you move like we did from town to town in these mostly rural areas, word of mouth gets your message out to customers pretty quickly without much advertising. When we had seventy-five stores in Arkansas, seventy-five in Missouri, eighty in Oklahoma, whatever, people knew who we were, and everybody except the merchants who weren't discounting looked forward to our coming to their town. By doing it this way, we usually could get by with distributing just one advertising circular a month instead of running a whole lot of newspaper advertising" (Walton, 1992, p. 111).[6]

Wal-Mart's practice of growing by "spreading out" geographically means that distance from Benton County, Arkansas, and time—and more specifically their interaction—help predict when and where stores opened.[7] Thus, the key innovation in this paper is to instrument for the opening of Wal-Mart stores with interactions between time and the distance between Wal-Mart host counties and Benton County, Arkansas, where Wal-Mart headquarters are located and the first Wal-Mart store opened.

2. Literature review

There are a number of studies that address claims about Wal-Mart's impacts on local labor markets, emphasizing the retail sector. However, we regard much of this literature as uninformative about the causal impact of Wal-Mart on retail employment and earnings. Some of the existing work is by advocates for one side or the other in local political disputes regarding

[6] See Holmes (2005) for an explanation of Wal-Mart's expansion pattern based on the cost savings of locating stores close to one another. He calls such savings the "economies of density" that are derived from not just the word-of-mouth advertising and shared distribution system. For example, opening new stores near existing ones also makes it cost-effective for Wal-Mart to hire and train employees at existing stores and then transfer them to nearby new stores once they open.
[7] For example, Wal-Mart's expansion did not reach California until 1990. It first entered New England in 1991. In 1995 Wal-Mart opened its first store in Vermont and finally had a presence in all 48 contiguous states.

Wal-Mart's entry into a particular market. These studies are often hastily prepared, plagued by flawed methods and arbitrary assumptions, and sponsored by interested parties such as Wal-Mart itself, its competitors, or union groups (e.g., Bianchi and Swinney, 2004; Freeman, 2004; and Rodino Associates, 2003), and can hardly be expected to provide impartial evidence on Wal-Mart's effects. Hence, they are not summarized here.

There is also an academic literature on the impact of Wal-Mart stores, focusing on the effects of Wal-Mart openings on local employment, retail prices and sales, poverty rates, and the concentration of the retailing industry, as well as the impact on existing businesses. This research is limited by three main factors: the restriction of much of it to small regions (often a single small state); its lack of focus on employment and earnings effects; and its failure to account for the endogeneity of Wal-Mart locations, either at all or, in our view, adequately.

Many of these studies, especially the early ones, focus on the effects of Wal-Mart at the regional level, spurred by the expansion of Wal-Mart into a particular region. Most of these studies focus on the effects of Wal-Mart on retail businesses and sales, rather than on employment and earnings. The earliest study, which is typical of much of the research that has followed, is by Stone (1988). He defines the "pull factor" for a specific merchandise category as the ratio of per capita sales in a town to the per capita sales at the state level, and examines the changes in the pull factor for different merchandise categories in host and surrounding towns in Iowa after the opening of Wal-Mart stores. Stone finds that, in host towns, pull factors for total sales and general merchandise (to which all Wal-Mart sales belong) rise after the arrival of Wal-Mart. Pull factors for eating and drinking and home furnishing also go up because Wal-Mart brings in more customers. However, pull factors for grocery, building materials, apparel, and specialty stores decline, presumably due to direct competition from Wal-Mart. He also finds that small towns surrounding Wal-Mart towns suffer a larger loss in total sales compared to towns that are further away.[8] Related results for other regions—which gener-

[8] Stone's study was updated regularly (see, for example, Stone, 1995, 1997), but its central message remained the same: Wal-Mart pulls more customers to the host town, hurts its local competitors, but benefits some other local businesses that do not directly compete with it. Using the same methods, Stone et al. (2002) show similar results regarding the effects of Wal-Mart Supercenters on existing businesses in Mississippi.

ally, although not always, point to similar conclusions—are reported in Artz and McConnon (2001), Barnes et al. (1996), Davidson and Rummel (2000), and Keon et al. (1989). All of these studies use administrative data, and employ research designs based on before-and-after comparisons in locations in which Wal-Mart stores did and did not open.[9]

The studies reviewed thus far do not address the potential endogeneity of the location and timing of Wal-Mart's entry into a particular market. In addition, these studies do not focus on the key questions with which this paper is concerned—the effects of Wal-Mart on retail employment and earnings. A few studies come closer to the mark. Ketchum and Hughes (1997), studying counties in Maine, recognize the problem of the endogenous location of Wal-Mart stores in faster-growing regions. They attempt to estimate the effects of Wal-Mart on employment and earnings using a difference-in-difference-in-differences (DDD) estimator that compares changes in retail employment and earnings over time in counties in which Wal-Mart stores did and did not locate, compared to changes for manufacturing and services. However, virtually none of their estimated changes are statistically significant and the data appear very noisy, so the results are generally uninformative. More important, their approach does not address the key endogeneity question of whether Wal-Mart location decisions were based on anticipated changes after stores opened, or instead only prior trends that were already different (despite the authors posing these questions).[10] Hicks and Wilburn (2001), studying the impact of Wal-Mart openings in West Virginia, estimate positive impacts of Wal-Mart stores on retail employment and the number of retail firms. They do not explicitly

[9] A couple of studies rely on surveys of local businesses rather than administrative data. McGee (1996) reports results from a small-scale survey of small retailers in five Nebraska communities conducted soon after Wal-Mart stores entered. He finds that 53 percent of the responding retailers reported negative effects of Wal-Mart's arrival on their revenues while 19 percent indicated positive effects. In a survey of Nebraska and Kansas retailers, Peterson and McGee (2000) find that less than a third of the businesses with at least $1 million in annual sales reported a negative effect after Wal-Mart's arrival, while close to one half of the businesses with less than $1 million in annual sales indicated a negative effect, with negative effects most commonly reported by small retailers in central business districts. The research design in these surveys fails to include a control group capturing changes that might have occurred independently of Wal-Mart openings. In addition, reported assessments by retailers may not reflect actual effects of these openings.
[10] The second question can only be addressed via an instrumental variables approach, and the first requires looking at changes in growth rates, not changes in levels; their study only does the latter.

account for endogeneity, although they do address the issue. In particular, they report evidence suggesting that Wal-Mart location decisions are independent of long-term economic growth rates of individual counties in their sample, and that current and lagged growth have no significant effect on Wal-Mart's decision to enter. However, these results do not explicitly address endogeneity with respect to future growth. The latter, in particular, could generate apparent positive impacts of Wal-Mart stores.

In more recent work, Basker (2005b) studies the effects of Wal-Mart on retail employment using nationwide data. Basker attempts to account explicitly for endogeneity by instrumenting for the actual number of stores opening in a county in a given year with the planned number. The latter is based on numbers that Wal-Mart assigns to stores when they are planned; according to Basker, these store numbers indicate the order in which the openings were planned to occur. She then combines these numbers with information from Wal-Mart *Annual Reports* to measure planned and actual openings in each county and year; the data reflect some measurement error in store opening dates.[11] Her results indicate that county-level retail employment grows by about 100 in the year of Wal-Mart entry, but declines to a gain of about 50 jobs in five years as other retail establishments contract or close. In the meantime, possibly because Wal-Mart streamlines its supply chain, wholesale employment declines by 20 jobs in the longer term.[12]

The principal problem with this identification strategy, however, is that the instrument is unconvincing. For the instrument to be valid, two conditions must hold. The first is that planned store openings should be correlated with (predictive of) actual openings; this condition is not problematic. The second condition is that the variation in planned openings generates exogenous variation in actual openings that is uncorrelated with the unobserved determinants of employment that endogenously affect location decisions. This second condition holds if we assume, to quote Basker, that "the number of

[11] This is detailed in an appendix available from the authors.
[12] Using the same instrumental variables strategy, Basker (2005a) estimates the effects of Wal-Mart entry on prices of consumer goods at the city level, finding long-run declines of 8–13 percent in prices of several products including aspirin, detergent, Kleenex, and toothpaste, although it is less clear to us why location decisions would be endogenous with respect to price. Ordinary least squares (OLS) estimation also finds long-run negative effects of Wal-Mart on prices for nine out of ten products, although only three are significant and all are smaller than the IV results. Hausman and Leibtag (2004) study the effects of Wal-Mart on food prices.

planned Wal-Mart stores ... for county *j* and year *t* is *independent of the error term ... and planned* Wal-Mart stores affect retail employment per capita only insofar as they are correlated with the *actual* construction of Wal-Mart stores" (Basker, 2005b, p. 178). The second part of the assumption is potentially problematic; actual stores should, of course, be the driving influence, although planned stores—even if they do not materialize or do so only with delay—may still affect decisions of other businesses.[13] The first part of the assumption is a more serious concern, though, as it seems most likely that planned openings will reflect the same unobserved determinants that drive endogenous location as are reflected in actual openings, and we cannot think of an argument to the contrary (nor does Basker offer one). In this case if the OLS estimate of the effect of Wal-Mart stores on retail employment is biased upward because of endogeneity, the instrumental variable (IV) estimate may also be upward biased, and more so than the OLS estimate.[14]

Using various data sources, Goetz and Swaminathan (2004) study the relationship between Wal-Mart openings between 1987 and 1998 and county poverty rates in 1999, conditional on 1989 poverty rates (as measured in the 1990 and 2000 Censuses of Population). They also use an IV procedure to address the endogeneity of Wal-Mart entry, instrumenting for Wal-Mart openings during 1987–1998 in an equation for county poverty rates in 1999. Their IVs include an unspecified pull factor, access to interstate highways, earnings per worker, per capita property tax, population density, percentage of households with more than three vehicles, and number of female-headed households. The results suggest that county poverty rates increase when Wal-Mart stores open, perhaps because Wal-Mart lowers earnings (although the authors offer other explanations as well). However, why the IVs should affect Wal-Mart openings only, and not changes in poverty directly (conditional on Wal-Mart openings), is not clear, and it is not hard to construct stories in which invalid exclusion restrictions

[13] A telling example occurred in 2003, after Wal-Mart announced plans to build 40 Supercenters in California. Supermarket chains in southern California including Albertsons, Ralphs, and Vons immediately sought to lower costs and avoid being undercut by Wal-Mart, leading to four months of labor conflict, all before Wal-Mart opened its first Supercenter in California (in March 2004). See, for example, Goldman and Cleeland (2003) and Hiltzik (2004).

[14] See the discussion in the longer working paper version of this study (Neumark et al., 2005). Basker also motivates the IV by correcting for bias from measurement error in the actual opening dates of Wal-Mart stores in her data. But the same argument against the validity of planned openings as an instrument applies.

would create biases towards the finding that Wal-Mart openings increase poverty.[15]

Our research addresses the four principal shortcomings of the existing research on the effects of Wal-Mart on local labor markets. First, we estimate the effects of Wal-Mart openings on retail employment (as well as earnings). Second, we have—we believe—a far more convincing strategy to account for the potential endogeneity of Wal-Mart openings. Third, we are able to use administrative data on Wal-Mart openings that eliminate the measurement error in recent work. And finally, we use a data set that is national in scope.

3. Data

The analysis is done at the county level. Aside from following Basker's strategy, this strikes us as a reasonable geographic level of disaggregation at which to detect the effects of Wal-Mart stores—not so small that many of the effects may occur outside of the geographic unit, and not so large that the effects may be undetectable.

Employment and payroll data are drawn from the US Census Bureau's County Business Patterns (CBP).[16] CBP is an annual series that provides economic data by industry and county. The series includes most economic activity, but excludes data on self-employed individuals, employees of private households, railroad employees, agricultural production workers, and most government employees. Payroll in the CBP includes salaries, wages, reported tips, commissions, bonuses, vacation allowances, sick-leave pay, employee contributions to qualified pension plans, and taxable fringe benefits, and is reported before deductions for Social Security, in-

[15] For example, consider the use of the number of female-headed households as an IV, and suppose that this variable is positively correlated with changes in poverty rates (because of rising inequality over this period), and also positively correlated with Wal-Mart openings (because they locate in lower-income areas). In this case the IV estimate of the effect of Wal-Mart openings on changes in poverty rates is biased upward because of the positive correlation between the instrument (female-headed households) and the error term in the equation for the change in the poverty rate. In addition, although the authors do not specify how they construct their pull factor, we assume it is similar to the measure described above—a ratio of county to statewide retail sales. Given that this is a dependent variable in other studies of the effects of Wal-Mart, it is hard to justify using it as an IV for Wal-Mart openings.

[16] A good description of the CBP data is available at http://www.census.gov/epcd/cbp/view/cbpview.html (as of August 15, 2005).

come tax, insurance, etc.[17] It does not include profit or other compensation earned by proprietors or business partners. Payroll is reported on an annual basis. The employment measure in the CBP data is a count of jobs, rather than the number of people employed (in one or more jobs). Employment covers all full- and part-time employees, including officers and executives, as of the pay period including March 12 of each year. Workers on leave are included, while proprietors and partners are not.

The most significant limitation of the CBP data for studying the effects of Wal-Mart is that a wage cannot be computed. The CBP data do not provide a breakdown of employment into full-time and part-time workers, or any information on skill composition. Thus, we cannot tell whether changes in payrolls reflect changes in pay rates for comparable workers or shifts in skill composition or hours. As a consequence, these data cannot be used to address questions of the effects of Wal-Mart on wages. We can, though, estimate Wal-Mart's effect on total retail payrolls.

We use CBP data from 1977 through 2002. We began with 1977 because CBP data are not continuously machine-readable for the years 1964–1976, and ended with 2002 because that was the last year available. As explained below, however, most our analysis goes only through 1995—a period for which our identification strategy is most compelling.

We study the retail sector as a whole, as well as the general merchandising subsector—which includes Wal-Mart and other general department-style stores.[18] Looking at results for these different retail sectors is useful for assessing and understanding the results. For example, if Wal-Mart reduces retail employment, we would expect the employment reduction to show up for the aggregate retail sector, but if it competes mainly with small specialized retail businesses there should also be a sizable increase in general merchandising. Some complications arise in working with the CBP data because by federal law no data can be published that might dis-

[17] Given that it excludes non-taxable fringe benefits, of which the most important is health insurance, we refer to the CBP measure as earnings, rather than compensation.

[18] General merchandising includes retail stores which sell a number of lines of merchandise, such as dry goods, apparel and accessories, furniture and home furnishings, small wares, hardware, and food. The stores included in this group are known as department stores, variety stores, general merchandise stores, catalog showrooms, warehouse clubs, and general stores. (See http://www.census.gov/epcd/ec97sic/def/G53.TXT, as of June 13, 2007). Based on 1997 Census data, general merchandising makes up about 2.2 percent of all retail establishments, and 10.7 percent of all retail employment.

close the operations of an individual employer. As we look at more disaggregated subsets of industries, it is more likely that data are suppressed and so our sample becomes smaller. We therefore constructed two samples with which we can consistently compare at least some retail industry sectors for the same set of observations:

- *A sample*: all county-year observations with complete (non-suppressed) employment and payroll data for aggregate retail, and in total.
- *B sample*: all observations in the A sample that also have complete data for the general merchandising retail subsector to which Wal-Mart belongs.

Because the rules for whether or not data are disclosed depend on the size of the retail sector and the size distribution of establishments within it, sample selection is endogenous. We therefore emphasize results for the A sample, which includes nearly all counties and years. We use the B sample only to compare estimates for aggregate retail and general merchandising; as long as any biases from selection into the B sample are similar across retail subsectors, the estimates for aggregate retail and general merchandising can still be meaningfully compared.[19]

Wal-Mart provided us with administrative data on 3066 Wal-Mart Discount Stores and Supercenters. The data set contains every Discount Store and Supercenter still in operation in the United States at the end of fiscal year 2005 (January 31, 2005), as well as the opening date.[20] Because employment in the CBP data is measured as of early March in each year, we code store openings as occurring in the first full calendar year for which they are open. If we instead coded the store opening as occurring in the previous calendar year (sometime during which the store did in fact open), in most cases (unless the store opened before early March) we

[19] Basker (2005b) also focuses on the retail subsector excluding eating and drinking places and automotive dealers and gasoline service centers—subsectors that are least likely to compete directly with Wal-Mart. However, constructing data for this subsector results in nearly two-thirds of county-year pairs being discarded because of nondisclosure, in which case endogenous sample selection can be severe.

[20] Unfortunately, we are often missing information on when Discount Stores converted to Supercenters, which is frequent in the later part of the sample. All we know is the current store type. We also received data identifying a small number of stores (54, as of 2005) that closed. We return to this issue in some of our robustness analyses. This data set also indicated some store relocations within counties, which are treated as continuing stores because Wal-Mart replaced smaller, older stores with larger ones in nearby locations.

would be using an employment level prior to the store opening as a measure of employment post-opening.[21]

After dropping stores in Alaska and Hawaii, we used 2211 stores in our main analysis through 1995, and 2795 stores when we use the full sample period through 2002. By 2005, Wal-Mart also had 551 Sam's Club stores in the United States (the first opened in 1983), on which we also obtained data, although the data were less complete (for example, lacking information on square footage). We do most of our analysis considering the Wal-Mart stores other than Sam's Clubs, but also do some analysis incorporating information on the latter.[22]

We constructed a county-year file by collecting county names and FIPS codes for the 3141 US counties from the US Census Bureau.[23] We created time-consistent geographical areas accounting for merges or splits in counties during the sample period. For counties that split during the sample period we maintained the definition of the original county, and for counties that merged during the sample period we created a single corresponding county throughout.[24] This led to a file of 3094 counties over 19 years (26 years when we use the full sample), to which we merge the CBP and Wal-Mart data. We assigned to the counties population data for each year from the US Census Population Estimates Archives.[25] Finally, we compiled latitude and longitude data for each county centroid from the US Census Bureau's Census 2000 Gazetteer Files.[26] We constructed distance measures from each county to Wal-Mart headquarters in Benton County, Arkansas, for reasons explained below,[27] creating dummy variables for county centroids in rings within a radius of 100 miles from

[21] The measurement error corresponding to stores opening in January through early March of the previous year is less important in the IV estimation than it is in OLS estimation, because the IV estimation identifies the effect from the predicted probability of store openings rather than actual openings, and these predictions typically will not vary much between adjacent years.

[22] Sam's Clubs are different because customers have to become members, like at Costco. The small number of Wal-Mart Neighborhood Markets is not included in any data we have, but the first one did not open until 1998, beyond the sample period used for most of our analysis.

[23] Downloaded from http://www.census.gov/datamap/fipslist/AllSt.txt (as of April 5, 2005).

[24] The code for creating consistent counties over time through 2000 was provided by Emek Basker, and supplemented by us.

[25] Downloaded from http://www.census.gov/popest/archives/ (as of April 5, 2005).

[26] Downloaded from http://www.census.gov/tiger/tms/gazetteer/county2k.txt (as of April 5, 2005).

[27] We use the Haversine distance formula for computing distances on a sphere (Sinnott, 1984).

Benton County, Arkansas, 101–200 miles, etc., out to the maximum radius of 1800 miles (with the vector of these dummy variables denoted *DIST* below).

4. Empirical approach and identification

We estimate models for changes in retail employment and payrolls. We generally capture increased exposure to Wal-Mart stores via a measure of store openings in a county-year cell—i.e., the change in the number of stores. We define changes in employment, payrolls, and number of stores on a per person basis, to eliminate the undue influence of a small number of large employment changes in extraordinarily large counties. As long as we divide all of these changes by the number of persons in the county, the estimated coefficient on the Wal-Mart variable still measures the effect of a Wal-Mart store opening on the level of retail employment or earnings. To control for overall income growth that may affect the level of demand for retail, we include changes in total payrolls per person as a control variable, capturing economic shocks specific to counties and years that could coincidentally be associated with the distance-time interactions that make up the instrumental variable, since these shocks likely affect specific regions in specific periods. In addition, all models include fixed year effects to account for aggregate influences on changes in retail employment or earnings that might be correlated with Wal-Mart openings, which occur with greater frequency later in the sample.

We denote the county-level measures of retail employment and payrolls (per person) as *Y*, the number of Wal-Mart stores (per person) as *WM*, total payrolls per person as *TP*, and year fixed effects (in year *s*) as YR_s. Indexing by county j ($j = 1, \ldots, J$) and year t ($t = 1, \ldots, T$), and defining α, β, γ, and δ_s as scalar parameters, our baseline model for the change in the dependent variable *jt* is:

$$\Delta Y_{jt} = \alpha + \beta \, \Delta WM_{jt} + \gamma \, \Delta TP_{jt} + \sum_{s=1}^{T} \delta_s YR_s + \varepsilon_{jt}. \quad (1)$$

Fixed county differences in the levels of the dependent variables drop out of the first-differenced model. However, there may be systematic variation in these first differences across different regions, corresponding to faster or slower growth. We allow for this in a highly flexible manner by also estimating the first difference models including county fixed effects (*CO*), which al-

lows for a different linear trend for each county, so the model becomes

$$\Delta Y_{jt} = \alpha + \beta \, \Delta WM_{jt} + \gamma \, \Delta TP_{jt} + \sum_{s=1}^{T} \delta_s YR_s + \sum_{i=1}^{J} \varphi_i CO_i + \varepsilon_{jt}, \quad (1')$$

where the ϕ_i are also scalar parameters.

4.1. Endogeneity of Wal-Mart location decisions and identification

Consistent estimation of Eqs. (1) or (1') requires that ε_{jt} is uncorrelated with the right-hand-side variables. If Wal-Mart location decisions are based in part on contemporaneous and future changes in employment or payrolls, then this condition could be violated. This endogeneity is natural, since Wal-Mart would be expected to make location decisions (including the location and timing of store openings) based on current conditions and future prospects, which might be related to both employment and payroll. As but one example, Wal-Mart may open stores where real estate development and zoning have recently become favorable to retail growth.

Our identification strategy in light of this potential endogeneity is based on the geographic pattern of Wal-Mart store openings over time. Fig. 1 illustrates how Wal-Mart stores spread out geographically throughout the United States, beginning in Arkansas in 1965, expanding to Oklahoma, Missouri, and Louisiana by 1970, Tennessee, Kansas, Texas, and Mississippi by 1975, much of the South and the lower Midwest by 1985, more of the Southeastern seaboard, the plains, and the upper Midwest by 1990, and then, in turn, the Northeast, West Coast, and Pacific Northwest by 1995. After 1995, when the far corners of the country had been entered, there was only filling in of stores in areas that already had them. This pattern is consistent with Wal-Mart's growth strategy, discussed in the Introduction.

This pattern of growth generates an exogenous source of variation in the location and timing of Wal-Mart store openings that provides natural instrumental variables for Wal-Mart openings.[28] In particular, time and distance from Benton County, Arkansas

[28] Jia (2006) addresses the endogeneity of Wal-Mart store locations in a more structural fashion. In particular, she studies the entry of chain stores such as Wal-Mart and K-Mart into local markets and their effects on the numbers of small retailers (rather than retail employment) as a two-stage game in which Wal-Mart and K-Mart first enter

predict where and when Wal-Mart stores will open. However, this does not necessarily imply that time and distance can serve as instrumental variables for exposure to Wal-Mart stores. If we posit an equation for Wal-Mart openings of the form

$$\Delta WM_{jt} = \kappa + \pi \, \Delta TP_{jt} + \sum_{i=1}^{J} \lambda_i DIST_i + \sum_{s=1}^{T} \mu_s YR_s + \eta_{jt}, \quad (2)$$

then because Eq. (1') already includes year and county fixed effects, and the latter capture all the variation in distance, the time and distance variables in Eq. (2) give us no identifying information.

However, Eq. (2) does not accurately capture the geographic and time-related pattern of Wal-Mart openings. In particular, the additivity of the distance and year effects in Eq. (2) implies that differences across years in the probability of Wal-Mart openings are independent of distance from Benton County. But as shown in Fig. 2, which depicts openings only, in the area near Arkansas openings are concentrated in the earliest years, whereas in the 1981–1985 period, for example, openings are more concentrated further away from Arkansas. This pattern becomes more obvious in the 1986–1990 and 1991–1995 maps, where openings thin considerably in the area of Wal-Mart's original growth, and are more common first in Florida, then in the Southeast and the lower Midwest, and finally in California, the upper Midwest, and the Northeast.

The fact that the rate of openings slows considerably in the Southeast, for example, in the later years, and increases in areas further away—in a rough sense spreading out from Benton County like a wave (albeit irregular)—contradicts the additivity of distance and time effects in Eq. (2), and instead implies that the model for Wal-Mart openings should have distance-time interactions, with the probability of openings higher early in the sample period in locations near Benton County, but higher later in the sample period further away from Benton County. Because this relationship holds through 1995, when Wal-Mart had begun to saturate border areas, we restrict most of our analysis to

local markets, and in the second stage small retailers decide whether to enter. Her estimates suggest that during the 1988–1997 sample period Wal-Mart's expansion is responsible for half to three quarters of the decline in the number of small retailers. In addition, she shows that estimating a reduced-form model and ignoring the endogeneity of entry decisions could underestimate the adverse effects of Wal-Mart on small retailers by 50–60 percent.

*Includes all locations as of January 31, 2005.

Fig. 1. Location of Wal-Mart stores, 1965–2005.

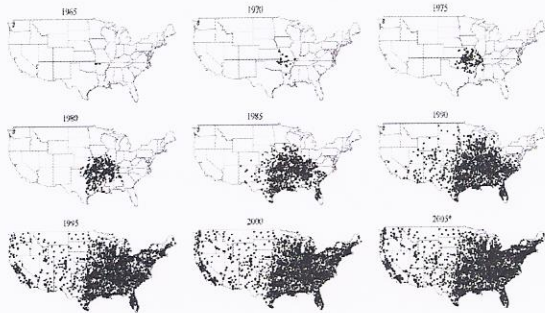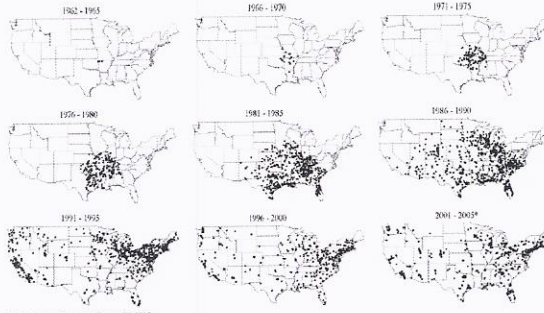*Includes all openings as of January 31, 2005.

Fig. 2. Location of Wal-Mart openings, 1962–2005.

this period, although we also report results using the full sample through 2002. The most flexible form of this interaction, expanding on Eq. (2), includes interactions between dummy variables for year and for the different distance ranges, as in

$$\Delta WM_{jt} = \kappa + \pi \, \Delta TP_{jt} + \sum_{i=1}^{J} \lambda_i DIST_i + \sum_{s=1}^{T} \mu_s YR_s$$
$$+ \sum_{s=1}^{T} \sum_{i=1}^{J} \vartheta_{is}(DIST_i \times YR_s) + \eta_{jt}. \qquad (3)$$

Given this specification, the endogenous effect of Wal-Mart openings is identified in Eq. (1′) by using the distance-time interactions as instruments for exposure to Wal-Mart stores.[29,30] Throughout, we report standard errors that cluster on state and year, which are robust to heteroskedasticity of the error across state-year cells, and to spatial autocorrelations across counties within states.[31]

A few comments regarding identification of the model are in order. First, although there are, technically speaking, more instruments than are needed to identify the model, overidentifying tests are in our context uninformative about the validity of the instruments. Conceptually, there is one instrument—the interaction of distance and time—and all we do here is to use a flexible form of this variable. Were there a good reason—based, for example, on location strategies gleaned from Sam Walton's writings—to think that there were particularly exogenous location decisions in a narrower time period or at a specific distance from Benton County, then arguably one might want to use this information to identify the model, and test for the validity of distance-time interactions from other periods or further distances using overidentification tests.[32] Walton's writings, however, bolstered by the maps in Fig. 2, suggest that distance and time acted in a similar fashion throughout the entire period during which Wal-Mart stores spread to the borders of the United States. Thus, the entire set of instruments is either jointly valid, based on a priori arguments, or it is not.[32]

Second, in addition to the distance-time interactions predicting store openings, we also must be able to exclude distance-time interactions from the models for changes in retail employment and payrolls. Given that points at a given distance from Benton County are located on a circle with Benton County at its center, there is no obvious reason why this condition would be expected to be violated. A particular area—say, 500 miles straight east from Benton County—may have economic conditions or structure that differ from those in Benton County and hence also have systematically different trends (or changes) in retail employment or earnings. But this does not imply that we should expect similar influences at the same time at points that are a common distance from Benton County, aside from the effects of Wal-Mart in these areas. Indeed this seems likely to be *particularly* true for retail, which should exhibit little or no regional concentration, but instead be roughly the same across regions with similar levels of income. In contrast, this is less likely to hold for other industries, which—because they need not be located near their customers—can be regionally concentrated; manufacturing is the prime example, but the same is true of many other industries. Nonetheless,

[29] Soon after our research was completed, we discovered recent research done concurrently by Dube et al. (2005), which also exploits the geographic pattern of Wal-Mart openings to identify their effect on retail earnings growth. They focus only on earnings, and restricts the analysis to the 1992–2000 period. The discussion of the maps in Figs. 1 and 2, which suggest that Wal-Mart's "fanning out" growth strategy had run its course after 1995 or so, raises concerns about identification of the effects of Wal-Mart stores using data only from 1992–2000. In addition, Dube et al. estimate the models in levels—i.e., retail earnings growth on the number of stores (both on a per person basis)—instrumenting for the number of stores with distance-time interactions. However, as Figs. 1 and 2 make clear, it is openings that are predicted by the distance-time interaction, not the total number of stores; for example, the number of stores remains high near Benton County late in the sample period. As a consequence, this model is misspecified. If the distance-time interactions appear in the equation for openings (or the first difference for the number of stores), the equation in levels would have to have these interactions multiplied by a linear time trend, which would capture the fact that the number of stores *grew faster*, for example, at distances far from Benton County late in the sample period. An even more recent paper is by Drewianka and Johnson (n.d.), which echo our concern about the IV identification strategy in the more recent period they study (n.d.). They instead simply control for county-specific trends. However, the fact that the IV strategy we use probably makes little sense in part of the period they study does not negate the endogeneity problem, which they do not address.

[30] See a longer working paper version of this paper (Neumark et al., 2005) for a simple theoretical model that gives more rigorous justification for our empirical specifications.

[31] Below, we also report estimates clustering on state only, which also allows temporal autocorrelation. The standard errors are only slightly larger and the qualitative conclusions are unchanged. One problem with this level of clustering is that given the large set of instrumental variables we have, the implicit number of degrees of freedom falls below the number of exclusion restrictions, so we cannot calculate an F-statistic for the exclusion restrictions in the first stage.

[32] More generally, suppose there is a continuous instrumental variable Z that is argued to be valid on a priori grounds. One could not create a set of dummy variables corresponding to each value of Z and do an overidentification test to establish the validity of Z as an instrument.

the model with fixed county effects allows for different trends by county over the sample period, and thus should largely capture differential changes in economic conditions across regions. Hence, even when looking at retail, we have more confidence in the exclusion restrictions for the validity of the instruments when the county fixed effects are included. Moreover, for this specification there is less reason to be skeptical of using this framework to study employment changes in other industries, which can serve as a falsification test; in particular, we estimate the model for manufacturing employment, which should not be affected, locally, by the opening of Wal-Mart stores.[33]

Third, one might view the pattern of roll-out of Wal-Mart stores as indicating that store openings are exogenous and therefore it is not necessary to correct for endogeneity. However, while the overall pattern and timing appear to be exogenous, the exact counties in which stores locate are not. That is, Wal-Mart's decision to enter an approximate "ring" around Benton County, Arkansas, in a particular period may be exogenous, but where in the ring they enter is not, and it is this endogeneity with which we are concerned, and for which our instrument corrects.[34]

5. Empirical results

5.1. Descriptive statistics

Descriptive statistics for population, employment, and payroll are reported in Table 1. Most of the statistics are for the A sample, with the exception of those for general merchandising. Statistics for the B sample were

[33] On the other hand, we cannot completely rule out some correlation of retail activity with county- and year-specific shocks. Of course the most flexible model is the fully saturated one that includes county-specific fixed effects as well as their interactions with the year fixed effects in the equations we estimate, allowing for arbitrary differences in the changes in the dependent variables by county and year. In this case, of course, the distance-time interactions would provide no identifying information. But even in the absence of attempts to account for endogeneity, a model with unrestricted time effects for each county would not permit the identification of the effects of Wal-Mart stores. Thus, a more restricted version of how distance-time interactions enter the employment and earnings equations would have to be imposed whether or not we were addressing the endogeneity of Wal-Mart openings.

[34] Khanna and Tice (2000, 2001) have also noted the geographic pattern of the spread of Wal-Mart stores that we exploit. Based on this pattern, they study the effect of Wal-Mart entry on incumbent firms, treating Wal-Mart entry as exogenous. They use somewhat larger areas than we do (based on the first three digits of zip codes), but even so, decisions as to which of these to enter may be endogenous.

Table 1
County-level summary statistics, population, employment, and payroll, 1977–1995

	Means (1)	Medians (2)
Population	78,223 (256,595)	22,644
Number of counties/share of total	3032 0.98	…
Aggregate retail employment (N = 57,964)	5659 (19,758)	1105
Retail payrolls ($1000s) (N = 57,964)	92,208 (364,022)	14,990
General merchandising employment (B sample, N = 37,999)	966 (2691)	195
General merchandising payrolls ($1000s) (B sample, N = 37,999)	14,170 (43,099)	2477

Figures are for full (A) sample except for general merchandising. In column (1) standard deviations are reported in parentheses. Payrolls are in thousands of 1999 constant dollars.

similar, although counties in the B sample are larger since data are less likely to be suppressed for larger counties and counties with larger retail sectors. On average, counties have approximately 78,000 residents. The data cover 3032 counties, 98 percent of the total. The average level of aggregate retail employment is 5659, or about 5.5 percent of total employment. Employment in general merchandising is about one-sixth of the retail total, or 966 workers on average. Average aggregate retail payrolls are around $92 million, and general merchandising payrolls are about $14 million. Although not reported in the table, average retail payrolls per worker across counties is around $13,700, and the figure for general merchandising is around $13,100.

Table 2 provides some descriptive statistics on Wal-Mart stores, as of 1995. As indicated in the first row, for counties with one or more stores open the average number of stores is 1.43. The second row indicates that just over half of counties have at least one Wal-Mart store. The remaining rows of the table report the distribution of number of stores per county (for counties with one or more stores). Among the counties with one or more Wal-Mart stores have only one store, about 13 percent have two stores, and around 4 percent have three stores. There is then a smattering of observations with more stores (with a maximum of 17 stores at the end of the sample period in Harris County, Texas, which includes Houston).

5.2. Preliminary evidence on endogeneity bias

It is useful to ask whether we can detect evidence of endogeneity, and infer something about the direction of endogeneity bias, without relying explicitly on the
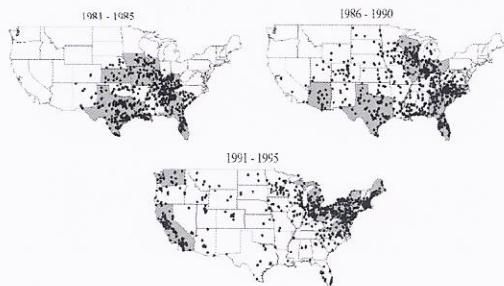
Fig. 3. Geographic concentration of Wal-Mart openings by period and geographic area.

Table 2
County-level summary statistics, Wal-Mart stores, 1995

Average number of stores, for counties with stores	1.43
Share with one or more stores open, all counties	0.505
Share with given number of stores, for counties with stores	
1 store	0.783
2 stores	0.128
3 stores	0.042
4 stores	0.017
5 stores	0.013
6 stores	0.006
7 stores	0.004
8 stores	0.003
9 stores	0.002
10 stores	0.001
11 stores	0.001
12 stores	< 0.001
13 stores	< 0.001
14 stores	< 0.001
15 stores	< 0.001
16 stores	< 0.001
17 stores	< 0.001
Number of counties	3064

Numbers are for full (A) sample of observations with aggregate retail employment data in 1995.

identifying assumptions underlying the IV estimation. One way to get some indirect evidence on endogeneity is to look at the relationship between past growth in retail employment and decisions to open Wal-Mart stores. As Figs. 1 and 2 indicate, the correct comparison for any period is not between all counties where stores did and did not open. Rather, for a particular period we should identify the region in which many stores were opening, and ask whether—within that region—stores were opening in fast-growing counties.[35]

We did this comparison for different selected periods and regions to give a sense of what this calculation yields throughout the sample. We first focused on store openings in the early 1980s, in states close to Arkansas, restricting attention to openings in the 1983–1985 period. We computed openings per state, and chose the ten states with the highest number of openings. These ten states are shaded in the first map in Fig. 3, which clearly shows that these are states in relatively close proximity to Arkansas (as well as Florida). The map also shows the same openings, in the 1981–1985 period, which were displayed in Fig. 2. The overlaying of these openings and the shaded states makes clear that these were the states in which openings were concentrated in this period. For each county in these ten states, we computed the annualized rate of growth of retail employment over the immediately preceding five-year period 1977–1982.[36] We then estimated linear probability models for whether Wal-Mart entered a county (opening its first store, which, as Table 2 shows, would be the case for most openings), as a function of the prior growth rate of retail employment. We add controls for county population as well as state dummy variables, to account for the effects of population density as well

[35] A recent study commissioned by Wal-Mart (Global Insight, 2005) instead does the first comparison, and erroneously concludes that there is no evidence of endogeneity bias.

[36] This window is arbitrary, but follows the calculation in the Global Insight study (Global Insight, 2005).

Table 3
Estimated relationships between store openings and prior retail employment growth

Openings in:	1983–1985 (1)	1988–1990 (2)	1993–1995 (3)	1993–1995, Excluding CA and WA (4)
Annualized rate of growth of retail employment in previous five-year period	0.439*** (0.143)	0.191 (0.177)	0.122 (0.515)	0.407 (0.613)
N	854	615	363	299

Estimates are from linear probability models, with standard errors robust to heteroskedasticity. The states covered in each sample period are shown in Fig. 3. The previous five-year periods corresponding to the three columns are: 1977–1982, 1982–1987, and 1987–1992. County population in the ending year of these five-year periods, and state dummy variables, are included as controls. Growth rates are computed relative to the average at the beginning and end of each period, because there are a handful of observations with retail employment of zero. Growth rates are measured on an annualized basis. Thus, for example, the estimate in column (1) implies that a 1 percent higher annual growth rate boosts the probability of a store opening by 0.0044; this is a 2.7 percent increase in the probability of a store opening.
*** Significant at the 1% level.

as other unspecified features of states on store openings. We then did the same for the 1988–1990 period, using retail employment growth from 1982–1987, and the 1993–1995 period, using retail employment growth from 1987–1992. The corresponding maps are shown in the second and third panels of Fig. 3.

The results, reported in Table 3, indicate that Wal-Mart stores entered counties—among an appropriate comparison group—that had previously had faster retail employment growth. For the 1993–1995 estimation, the set of ten states with the most openings includes California and Washington, which are quite far geographically from the other eight states and therefore the comparison to counties in those other states may not be appropriate; we therefore also show results excluding these two states. As the table shows, in every case the relationship between prior growth and whether a store opened is positive (and sometimes significant, although that is not of foremost interest here). This evidence does not directly address the issue of endogeneity bias—which concerns the link between store openings and future retail employment absent store openings. But it does suggest that endogeneity is a concern.

5.3. First-stage estimates

Turning to our main analysis, Fig. 4 displays information on the estimated coefficients of the distance-time interactions from the first stage, although for ease of interpretability we present estimates for the change in the number of stores rather than the number of stores per person. The omitted categories are 900–1000 miles and 1988. The first-stage regression includes 272 distance-time interactions (between 17 year dummy variables and 16 distance dummy variables). In Fig. 4, we break these up into the 16 distance groups, for each distance range around Benton County.

Starting with distances near Benton County, Arkansas, we see that store openings were more likely early in the sample period, and less likely later on. Conversely, at distances far from Benton County store openings were much more common later in the sample period. Alternatively, store openings were much more likely at nearby distances early in the sample, and at farther distances later in the sample. Thus, these regressions confirm the impression from the maps in Fig. 2 that store openings spread out over the sample period, concentrated near Benton County early in the sample period and farther later.

5.4. Effects on retail sector employment

We now turn to the OLS and IV estimates. The OLS estimates identify the effect of Wal-Mart simply from differences in outcomes in counties and years where stores opened compared to those where they did not. In contrast, the IV estimates identify the effect from differences in outcomes in counties and years with a high versus a low predicted probability of store openings, as depicted in Fig. 4. Thus, for example, a negative effect of Wal-Mart openings on retail employment will be inferred when retail employment fell (or grew more slowly) in county-year pairs that were in geographic regions (defined by distance from Benton County, Arkansas) and years in which store openings were more likely, without reference to the actual counties within these regions in which stores opened.

Table 4 reports estimates for retail employment. The dependent variable is the change in retail employment per person at the county level, and the Wal-Mart measure is the change in the number of stores per person. We report estimates both excluding and including county-specific time trends (Eqs. (1) and (1')); the latter is our preferred specification. The estimates for retail employment (and earnings) turn out to be insensitive to the inclusion of the county fixed effects, which bolsters the validity of the assumption that the instrumental variables are not correlated with the error terms.

The OLS estimates point to increases of 40–55 workers in both aggregate retail and general merchandising
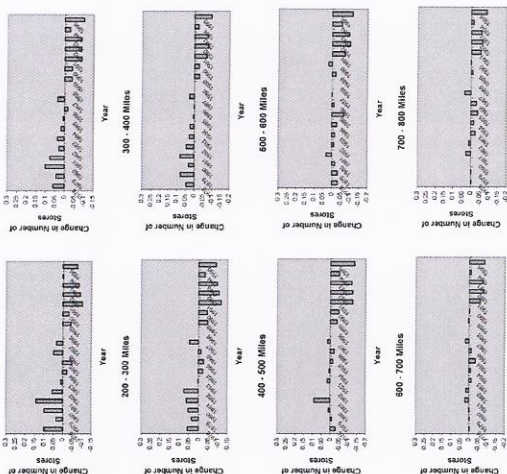
Fig. 4. First-stage results for change in number of stores.

Panels show estimated coefficients of distance-year interactions from estimates of Eq. (3), although estimated for the change in the number of stores rather than the change in the number of stores per person. The omitted reference categories are 1988 and 900–1000 miles.

Fig. 4. (continued)

Table 4
Estimated effects of Wal-Mart stores on retail employment

	County-specific time trends excluded (Eq. (1))			County-specific time trends included (Eq. (1'))		
	Agg. Retail (1) A Sample	Agg. Retail (2) B Sample	Gen. Merch. (3) B Sample	Agg. Retail (4) A Sample	Agg. Retail (5) B Sample	Gen. Merch. (6) B Sample
OLS						
Wal-Mart stores	44.52***	42.33***	54.74***	40.01***	42.75***	53.81***
	(6.29)	(9.11)	(3.94)	(6.02)	(9.61)	(3.99)
Total payrolls per person	0.001***	0.001***	0.0001***	0.001***	0.001***	0.0001***
	(0.0002)	(0.0003)	(0.00003)	(0.0003)	(0.0003)	(0.00003)
Adjusted R^2	0.084		0.109	0.081	0.089	0.038
IV for Wal-Mart stores						
Wal-Mart stores	−166.98***	−134.48**	29.36**	−146.35***	−105.80*	17.92
	(48.83)	(54.26)	(11.80)	(47.77)	(56.69)	(14.20)
Total payrolls per person	0.001***	0.001***	0.0001**	0.001***	0.001***	0.0001***
	(0.0002)	(0.0004)	(0.00003)	(0.0003)	(0.0003)	(0.00003)
F-statistics	12.8	6.8	6.8	4.2	3.9	3.9
Reject null of no endogeneity bias at 5% level	Yes	Yes	Yes	Yes	Yes	Yes
N	54,554	32,668	32,668	54,554	32,668	32,668

The Wal-Mart variable is the change in the number of stores per person, and the dependent variable is the change in employment per person. The coefficients measure the effect of one Wal-Mart store opening on county-level retail employment. The instrumental variables are interactions between dummy variables for years and dummy variables for counties with centroids at a radius of 100 miles from Benton County, Arkansas, 101–200 miles, 201–300 miles, etc., out to 1800 miles. All of the radii except the last cover a 100 mile range; the last covers 1601–1800 miles, because there is only one county beyond the 1700 mile radius. All specifications include year fixed effects, and the specifications in columns (4)–(6) also include county dummy variables (in both the first and second stages). Standard errors (shown in parentheses below the estimates) and F-statistics are calculated clustering on state and year, and hence allow arbitrary contemporaneous correlations across counties in a state. The sample period covers 1977–1995. See notes to Table 1 for additional details. The results for the test of the null hypothesis of no endogeneity bias are based on bias-corrected bootstrapped empirical distributions for the difference between the OLS and IV estimates, with the bootstrapping based on states and years rather than individual observations (the level of clustering used in the standard error calculations); this is preferable to the conventional Hausman test (Hausman, 1987) because OLS is inefficient if there is either heteroskedasticity across counties or autocorrelation within counties.
* Significant at the 10% level.
** Idem, 5%.
*** Idem, 1%.

employment from a Wal-Mart store opening.[37] For the A sample, the estimates imply an increase in county-level aggregate retail employment of about 0.8 percent at the mean. The estimate for general merchandising is slightly greater than the estimate for aggregate retail, for the B sample for which these estimates are comparable, suggesting that there is at most a small reduction in employment in the rest of the retail sector; however, the difference is not significant. Finally, as we might expect, the estimated coefficient of total payrolls per person is positive.

In contrast to the OLS estimates, the IV estimates—which conditional on the identification strategy being valid are interpretable as causal effects of Wal-Mart openings on retail employment—point to employ-

[37] The retail estimates are similar to the long-run OLS estimates reported by Basker (2005b).

ment declines in the aggregate retail sector.[38] Without county-specific trends, the estimates for the A sample indicate that a Wal-Mart store opening reduces employment at the county level by about 167 workers. With county-specific trends the estimate falls to 146. In the B sample the estimates are smaller by about 30. Since the average number of workers in a Wal-Mart store is about 360 (Basker, 2005b), the estimated employment decline (using a figure of 150, close to the Eq. (1') estimate) implies that each Wal-Mart worker takes the place of 1.4 retail workers. On a county basis, this estimate implies

[38] The F-statistics for the joint significance in the first-stage regression of the distance-time interactions that serve as instruments range from 3.9 to 12.8 across the different samples and specifications in Table 4. These F-statistics are sometimes small enough that asymptotic results may not apply well (Staiger and Stock, 1997). However, in such cases bias in the IV estimates is in the direction of the OLS bias (Chao and Swanson, 2003), and therefore such bias cannot account for the differences between our IV and OLS results.

a 2.7 percent reduction in retail employment attributable to a Wal-Mart store opening. This could reflect a combination of closings of other retail establishments and employment reductions at those establishments. And of course these estimates do not imply absolute declines in retail employment, but only that retail employment was lower than it would have been had Wal-Mart stores not opened.

The estimated magnitude strikes us as plausible. Government data indicate that sales per employee are much higher at large retailers than at small retailers,[39] and a McKinsey study (Johnson, 2002) suggests much higher sales per employee at Wal-Mart than at other large retailers (in 1995, 70 percent higher than Sears, and 36 percent higher than K-Mart). In addition, a negative employment effect would be expected if Wal-Mart is indeed more efficient and can be profitable while charging significantly lower prices.[40] Finally, Wal-Mart is currently about 1 percent of the workforce, but it was smaller during most of sample period, so this displacement figure does not imply large-scale employment declines; as noted above, it implies that a store opening results in a 2.7 percent decline in retail employment.

For general merchandising, the IV estimates continue to point to increases in employment (sometimes significant), qualitatively similar to the OLS estimates although smaller. We might expect increases in general merchandising employment since this is the sector in which Wal-Mart is classified. However, the evidence that the estimated increase in general merchandising employment is much less than the size of an average Wal-Mart store suggests that Wal-Mart reduces employment at other employers in the general merchandising sector as well as in the remainder of the retail sector.[41] Thus, the estimates are consistent with reduc-

[39] See, for example, data from the 2002 Economic Census, at http://factfinder.census.gov/servlet/IBQTable?_bm=y&-geo_id=&-ds_name=EC0244SSSZ1&-_lang=en (as of September 21, 2006).
[40] There is a potential countervailing positive effect from Wal-Mart's greater efficiency if lower prices in retail boost consumer demand enough through either income or substitution effects that overall retail sector employment increases. However, this "retail scale" effect may be small if the types of products sold at Wal-Marts and the retail establishments with which they compete are more likely to be inferior goods, so that much of the increase in real income stemming from lower prices is spent in other sectors of the economy (including higher-end retail).
[41] There is a potentially important implication of this finding for interpreting our estimates. In particular, the estimated effects of Wal-Mart openings could be exaggerated if Wal-Mart store openings tend to spur the opening of other large retailers in the same area, in which case we are effectively estimating the impact of more than just Wal-

reducing overall retail employment, although shifting its composition toward general merchandising; recall, though, that the evidence for general merchandising (and the B sample overall) may be tainted by endogenous sample selection because of suppressed data.

The finding that the OLS estimates of employment effects for the aggregate retail sector are generally positive, and the IV estimates negative, is consistent with Wal-Mart endogenously locating stores in places where retail growth is increasing. As shown in the table, there is always statistically significant evidence of endogeneity bias in the aggregate retail sector. We also reject exogeneity in the estimates for general merchandising, and the bias still appears to be upward, which is what we would expect if Wal-Mart enters markets where prospects for general merchandising are good. However, we should not expect much endogeneity bias in the estimated effect of Wal-Mart on employment in this subsector, and that is reflected in the much smaller difference between the OLS and IV estimates of the effects of Wal-Mart on general merchandising employment. Wal-Mart may well have chosen to locate in areas where retail growth was likely to be strong, but the composition of the retail sector is more likely to be a direct consequence of where Wal-Mart chose to locate than a determinant of its location decisions.

5.5. Effects on retail sector earnings

Table 5 turns to effects on retail sector earnings. The dependent variable is now the change in retail payrolls per person. The first three columns report results without county-specific trends, and the last three columns including these trends. The results are similar in both cases.

The OLS estimates indicate that a Wal-Mart store opening is associated with increases in retail payrolls of about $0.2 to $0.3 million in aggregate retail and about $0.44 million in the general merchandising sector. In contrast, the IV estimates indicate that aggregate retail payrolls fall when a Wal-Mart store opens, by approximately $1.1 to $1.7 million for the A sample; the range is slightly smaller for the B sample. In addition, the evidence is weaker statistically for the B sample and

Mart stores. (It is unlikely that the issue is one of Wal-Mart opening where other large retailers already exist, given the geographic pattern of Wal-Mart openings. Also, even if this sometimes happens, our IV estimates will not pick up the effects of these other stores because their openings will not be predicted by the first stage.) But given that general merchandising employment scarcely rises when Wal-Mart stores open, this seems unlikely.

Table 5
Estimated effects of Wal-Mart stores on retail payrolls ($1000s)

	County-specific time trends excluded (Eq. (1))			County-specific time trends included (Eq. (1'))		
	Agg. Retail (1) A Sample	Agg. Retail (2) B Sample	Gen. Merch. (3) B Sample	Agg. Retail (4) A Sample	Agg. Retail (5) B Sample	Gen. Merch. (6) B Sample
OLS						
Wal-Mart stores	270.2***	166.4	458.9***	233.1***	172.5	427.6***
	(90.0)	(145.1)	(38.9)	(89.7)	(154.1)	(39.3)
Total payrolls per person	0.024***	0.020***	0.001***	0.023***	0.020***	0.002***
	(0.005)	(0.005)	(0.0003)	(0.005)	(0.006)	(0.0003)
Adjusted R^2	0.110	0.151	0.067	0.094	0.123	0.039
IV for Wal-Mart stores						
Wal-Mart stores	−1,711.4**	−1,669.8*	684.3***	−1,149.8	−1,547.6*	525.4***
	(778.1)	(912.6)	(132.2)	(735.8)	(894.4)	(149.2)
Total payrolls per person	0.023***	0.020***	0.001***	0.023***	0.020***	0.002***
	(0.005)	(0.005)	(0.0003)	(0.005)	(0.006)	(0.0003)
Reject null of no endogeneity bias at 5% level	Yes	Yes	Yes	Yes	Yes	No
N	54,554	32,668	32,668	54,554	32,668	32,668

The notes from Table 4 apply. The only difference is that the dependent variable is the change in retail payrolls per person, so the coefficients now measure the effect of one Wal-Mart store opening on county-level retail payrolls (measured in units of thousands of 1999 constant dollars). The F-statistics for the first stage are as reported in Table 4.
* Significant at the 10% level.
** Idem, 5%.
*** Idem, 1%.

when county-specific trends are included (not significant for the A sample). However, the positive effect of Wal-Mart openings on payrolls in general merchandising remains, and the estimates are a bit larger than the OLS estimates.

The payroll results largely parallel those for employment. Of course, much of the public debate over Wal-Mart concerns the levels of wages Wal-Mart pays and whether it drives down wages of competitors. As pointed out earlier, because the CBP data do not distinguish part-time from full-time workers, the data cannot be used to compute hourly wages. In addition, the data do not allow any controls for individual worker characteristics that would be required to determine whether wages were lower for comparable workers. Nonetheless, we estimated models for changes in retail earnings per worker, with the Wal-Mart variable in this case simply measuring the change in the number of stores. The point estimates were positive for the A sample (although small—indicating increases of $7 to $47—and insignificant); they were negative and insignificant for the B sample. Thus, there is certainly no evidence that Wal-Mart openings reduce retail earnings per worker. Taken literally, the implication of no impact of store openings on wages would imply that the labor supply curve to the retail industry is close to perfectly elastic. A highly elastic labor supply curve may

not be unreasonable, given that retail is a small share of the overall labor market, and is a very low-skill sector in which labor supply can respond very quickly and strongly to wage changes (in contrast to a highly-skilled sector). However, we remind the reader that the CBP data could be quite misleading about wage effects. For example, if Wal-Mart induces a shift toward older or full-time workers, increased retail earnings per worker could be consistent with lower wage rates for comparable workers.[42] Regardless, the combined estimates indicate that overall earnings in the retail sector decline after Wal-Mart stores open.

5.6. Identification

A natural principal concern with our approach is identification. We therefore address a few issues related to identification in Table 6, focusing on the aggregate retail employment estimates for the full (A) sample. First, if we are actually detecting effects of Wal-Mart

[42] In principle, one could study these issues using data from the Current Population Survey (CPS) or the Decennial Census of Population. However, in the CPS most county identifiers are suppressed for reasons of confidentiality. Census data are less attractive because they are not available for each year but only once a decade. Furthermore, in downloadable Census estimates by county from all long-form respondents, neither hours, education, nor income are available by industry.

Table 6
Assessments of identification

	County-specific time trends excluded (Eq. (1)) Employment (1)	County-specific time trends included (Eq. (1')) Employment (2)
1. Table 4 estimates, retail employment	−166.98*** (48.83)	−146.35*** (47.77)
Falsification test, manufacturing employment		
2. IV [first-stage F-statistic]	160.74** (80.67) [12.8]	−60.45 (73.05) [4.2]
Restricted IVs isolating Wal-Mart entry		
3. Instrument with year-distance interactions for pairs satisfying (i) 1982 or earlier and within 500 miles of Benton County, or (ii) 1992 or later and 1000 miles or more from Benton County [first-stage F-statistic], retail employment	−190.47*** (59.74) [7.7]	−97.15* (54.45) [7.8]
Exclude counties near Benton County		
4. Exclude counties within 100 miles of Benton County (N = 53,716), retail employment	−179.27*** (52.59)	−159.34*** (50.86)
5. Exclude counties within 200 miles of Benton County (N = 51,539), retail employment	−197.59*** (58.22)	−177.03*** (56.80)
6. Exclude counties within 300 miles of Benton County (N = 47,321), retail employment	−207.38*** (64.84)	−185.66*** (64.31)

Table reports IV estimates of coefficient on change in number of Wal-Mart stores per person. See notes to Tables 1 and 4. All estimates are for A Sample. Sample sizes are the same as in Table 4. Estimated coefficients of total payroll per person variable are not shown.
* Significant at the 10% level.
** Idem, 5%.
*** Idem, 1%.

stores, then paralleling the evidence of adverse effects on retail, we should *fail* to find evidence of effects of store openings on industries unlikely to be affected. Employment in service industries and retail sectors other than department stores do not necessarily provide useful falsification exercises of this type, since the location of retail activity may affect these other industries and sectors. However, it is useful to look at manufacturing. Although this industry might be affected by cost pressures exerted by Wal-Mart, there is no reason why the effects of Wal-Mart openings should be felt on *local* manufacturers. As noted earlier, we are skeptical of using our instrumental variables approach to study an industry like manufacturing when the county fixed effects are excluded, since the other industry may have strong region-specific trends; but we are more confident with the county fixed effects included. The results for manufacturing are reported in row 2 of Table 6. We find that in the specification with the county dummies, there is no effect of Wal-Mart openings. On the other hand, the specification without the county dummies show a positive effect. The fact that we only get an effect when we exclude the county dummies (which means we do not allow for county-specific trends) helps confirm our concerns about the validity of the instrument for man-

ufacturing, as the differences in results imply that the instrument(s) is (or are) correlated with these trends. But the results with the county dummies clearly provide a better falsification test, and show no effect of Wal-Mart precisely where we should see none.

A second concern is that our distance-time interaction instrumental variables do not simply capture the beginning of the period when Wal-Mart stores first "reach" a region, but also periods in which they were filling in regions where numerous stores had already opened. For example, Fig. 4 shows that in the band 200–300 miles from Benton County, there are higher predicted openings through 1982, when stores were first opening in this region, as well as in 1987, when stores were filling in this region. This is not necessarily problematic for the IV strategy. The distance and time interactions predict where and when stores were opened, whereas the endogeneity we are trying to purge concerns the choice about the *particular* counties in which to open stores given that Wal-Mart was opening stores in a particular region. So the first-stage estimates will also reflect stores opening in the 200–300 mile band in 1987. But *all* counties in this band in this year have a higher predicted probability of a store opening, not just the specific counties where stores opened. Nonetheless, it might be prefer-

able to focus on the variation in store openings associated with Wal-Mart's initial wave of entry into a region, *which may be more exogenous than where the company chose to fill in stores.* To do this, we restricted the distance-time interactions included in the first stage to those picking up either observations early in the sample period close to Benton County (1982 or earlier and *within 500 miles of Benton County*), or observations late in the sample period far from Benton County (1992 or later and 1000 miles or more from Benton County). Figure 4 suggests that these periods and distances capture distinct initial waves of Wal-Mart openings. The estimates, reported in row 3 of Table 6, are relatively similar to the baseline estimates, although the specification with county dummy variables included provides weaker evidence (significant only at the 10-percent level) of negative employment effects.[43]

Finally, our identification strategy requires that there not be unmeasured shocks to the dependent variable that are common to points on a ring of given radius around Benton County. We argued that this condition seems likely to hold, since there is no obvious reason why all points within, say 400–500 miles should exhibit systematically different changes in particular periods relative to Benton County (aside from the effects of Wal-Mart). However, for short distances around Benton County it is possible that there are common shocks, and if it is the differences in retail employment growth between these short distances and greater distances that identifies the effects of Wal-Mart in our empirical analysis, then we could be picking up a spurious relationship. In rows 4–6 of Table 6, we present evidence assessing this possibility, dropping all observations on counties within, in turn, 100, 200, and 300 miles of Benton County. As the table shows, the results are robust to dropping these counties.

5.7. Robustness and other analyses

We close the empirical analysis by briefly describing some additional analyses exploring the robustness of our results on retail employment, and some other issues, in Table 7. As noted earlier, we have reported standard errors clustered on state and year. In row 2, we instead report estimates (which are the same) with standard errors clustered on state only, which allows temporal autocorrelation within and across counties in each state. The standard errors are larger in all cases, although not by that much, and the statistical conclusions are unchanged. Note also that in column (2) the

[43] This specification uses 58 instead of 272 instruments.

standard error changes by less. This is what we would expect if the inclusion of the county-specific trends captures *sources of dependence between observations on the same county.*

We have included a control for total payrolls per person in all of the specifications reported thus far. Because this variable includes retail payroll, it is potentially endogenous. In rows 3 and 4 we therefore report two additional specifications: one with retail payrolls subtracted out of total payrolls; and the other simply dropping the total payrolls control. The qualitative conclusions are very similar, although both changes—and more so dropping the total payroll control—yield slightly larger negative effects on retail employment. Next, we drop counties that never had a Wal-Mart store during the sample period. In this case, identification of the effects of Wal-Mart stores comes only from the time-series variation in store openings for the set of counties that got a store, providing a potentially "cleaner" control group. The results, reported in row 5, are qualitatively similar, although the estimated negative employment effects are smaller.

We also consider some other differences in the sample definition. Row 6 reports estimates dropping the small number of counties with stores that closed; these estimates are very close to the baseline estimates.[44] Following that, row 7 reports estimates extending through the entire period covered by the data—ending in 2002 rather than 1995—even though, as discussed earlier, the identifying relationship between time, location, and store openings is strongest through 1995. For the longer period the evidence suggests sharper declines in retail employment.

Thus far we have ignored information on Sam's Clubs. We do not necessarily want to treat these as equivalent to other Wal-Mart stores, so we study them in two ways. First, we omit all counties that had a Sam's Club at some point during the sample period; 97 percent of these counties also had a Wal-Mart. Second, we use the full sample but treat each Sam's Club store like other Wal-Mart stores. As the table shows, in rows 8 and 9, the results dropping the counties with Sam's Clubs are qualitatively similar, although the estimated effects are smaller. The results are quite insensitive to simply treating Sam's Clubs like other Wal-Mart stores.

To this point we have simply used a count of Wal-Mart stores (on a per capita basis) to measure exposure

[44] An alternative is to incorporate information on store closings as reductions in the number of Wal-Mart stores. However, we are skeptical that store closings and openings have symmetric (opposite-sign) effects, and we do not have a natural instrument for store closings.

Table 7
Robustness analyses

	County-specific time trends excluded (Eq. (1))	County-specific time trends included (Eq. (1′))
	Retail employment (1)	Retail employment (2)
1. Table 4 estimates	−166.98***	−146.35***
	(48.83)	(47.77)
2. Cluster on state only	−166.98***	−146.35***
	(55.94)	(49.28)
3. Subtract retail payroll out of total payroll per person control	−174.07***	−153.74***
	(45.07)	(49.57)
4. Omit total payroll per person control	−181.58***	−162.07***
	(46.12)	(51.23)
5. Drop counties that never have a store (N = 30,957)	−94.40***	−103.10***
	(30.63)	(34.95)
6. Drop counties with closed stores (N = 53,746)	−166.68***	−144.08***
	(43.15)	(47.19)
7. Through 2002 (N = 75,482)	−184.84***	−215.29***
	(41.27)	(59.53)
8. Drop counties with Sam's Clubs (N = 49,031)	−150.47***	−130.88***
	(43.63)	(47.31)
9. Combine Wal-Mart stores with Sam's Clubs	−161.44***	−175.96***
	(42.72)	(47.81)
10. Weighted by store size	−216.12***	−223.48***
	(59.53)	(62.41)
11. Counties with above median population (21,000) in 1977 (N = 27,290)	−81.13	−105.00**
	(57.58)	(48.90)
12. Counties with below median population (21,000) in 1977 (N = 27,264)	−103.28*	−90.03
	(53.48)	(59.70)
13. Two-year differences (N = 51,429)	−196.48***	−209.61***
	(34.73)	(48.49)
14. Three-year differences (N = 48,362)	−206.03***	−224.35***
	(35.81)	(45.24)

Table reports IV estimates of coefficient on change in number of Wal-Mart stores per person. See notes to Tables 1 and 4. All estimates are for A Sample. Sample sizes are the same as in Table 4 unless otherwise noted. Estimated coefficients of total payroll per person variable, where included, are not shown. For the estimates labeled "weighted by store size," stores are weighted by their square footage (at the end of the sample period) divided by the average square footage for the sample, to maintain comparability with the baseline estimates. The specifications using two- and three-year differences use dummy variables for the distinct two- or three-year periods over which the differences are computed, rather than dummy variables for single years. That way, the same dummy variables appear in the first-differenced and levels regressions.
* Significant at the 10% level.
** Idem., 5%.
*** Idem., 1%.

to Wal-Mart. But store size varies—for example, counties with smaller populations may get smaller stores[45]—and the exposure measure should perhaps take this into account. Thus, we computed an exposure measure that weights by store size relative to the average store size. These estimates are reported in row 10, and reveal somewhat larger effects. Note, however, that in our data size is measured as of the end of the sample period only, and will not pick up things such as the conversion of a regular store to a Supercenter.

[45] This may in part reflect whether or not the Wal-Mart store is a Supercenter.

The effects of Wal-Mart stores may depend on the type of area in which they are located. In rural and less dense counties Wal-Mart may have a larger impact because there are fewer other large-scale competitors before they enter. Alternatively, in these areas the stores may be more likely to create jobs because shoppers (and workers) come from other counties. As shown in Fig. 5, Wal-Mart stores originally opened more commonly in rural areas, and over time shifted to more urban areas. (This classification is based on whether the store opened in what is now classified as an MSA.) Because we do not have a clean classification of counties located in MSAs or not, we instead focus on county population,

Percentage of Wal-Mart Openings in Urban Locations, 1977-1995
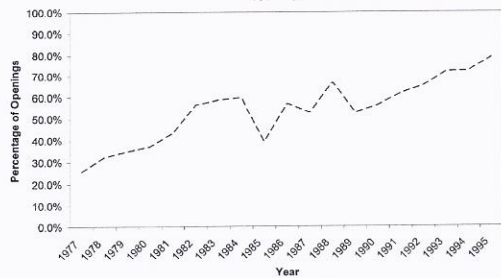

Fig. 5. Locations of Wal-Mart openings.

and estimate the models for two samples: counties with above median population at the beginning of the sample period, and counties with below median population. As shown in rows 11 and 12, there is no clear connection between density and the effects of Wal-Mart.

Finally, we use equations differenced over two and then three years, rather than one year. We do this for a few reasons. First, there may be some anticipatory effects of Wal-Mart store openings. This could lead to effects of store openings that are biased towards zero, if the shorter differences do not include these anticipatory effects (which seem likely to be in the same direction as those occurring after stores open). Second, the effects of store openings might not all occur within a year. Allowing for longer differences can pick up longer-term effects, and it is ambiguous whether these are likely to be larger or smaller.[46] Third, because of how we code store openings, in about one-sixth of cases (for stores opening between January and early March) the employment change and store opening may be misaligned, likely biasing the estimated effect towards zero. By using longer differences, we reduce this problem substantially. As the estimates in the last two rows of Table 7 show, with two-

and three-year differences the estimates are qualitatively very similar (and were for the other samples, for general merchandising, and for OLS as well as IV), but always slightly larger in absolute value the longer the differences, as we might have expected from the first and third considerations discussed above.[47]

6. Conclusions and discussion

Motivated in large part by local policy debates over Wal-Mart store openings, and the large size of Wal-Mart relative to the retail sector, we estimate the effects of Wal-Mart stores on retail employment and earnings. Critics have charged that Wal-Mart's entry into local labor markets reduces employment and wages, and the company (and others) have countered that these claims are false, and touted Wal-Mart's retail job creation effects.

Our analysis emphasizes the importance of accounting for the endogeneity of the location and timing of Wal-Mart openings that—in our view, and as borne out by the data—is most likely to bias the evidence against

[46] In principle, one can study contemporaneous and lagged effects more directly by including lagged store openings as well. However, experimenting with such specifications in the IV setting led to uninformative estimates, because predicted values of store openings at different lag lengths were very highly correlated, which is not surprising given the nature of our IV.

[47] Finally, although not reported in the table, we also estimated a simpler specification for the change in retail employment per person on the change in the number of Wal-Mart stores (with the latter not on a per capita basis, unlike the rest of the estimates reported in the paper). Both the OLS and IV estimates were qualitatively similar to those reported in Table 4, and implied similar percentage changes in retail employment.

finding adverse effects of Wal-Mart stores. Our strategy for addressing the endogeneity problem is based on a natural instrumental variables approach that arises because of the geographic and time pattern of the opening of Wal-Mart stores, which slowly spread out in a wave-like fashion from the first stores in Arkansas.

The findings in this paper rather strongly belie claims, as well as recent research findings, suggesting that Wal-Mart store openings lead to increased retail employment. On average, Wal-Mart store openings reduce retail employment by about 2.7 percent, implying that each Wal-Mart employee replaces about 1.4 employees in the rest of the retail sector. Driven in part by the employment declines, retail earnings at the county level also decline as a result of Wal-Mart entry, by about 1.5 percent. It is harder to draw any firm conclusions regarding the effects of Wal-Mart on wages, although the data do not provide any indication that retail earnings per worker are affected by Wal-Mart openings.

Note that the estimated adverse effects on retail employment do not imply that the growth of Wal-Mart has resulted in lower absolute levels of retail employment. Like in all studies of this type, the estimates are relative to a counterfactual of what would have happened to retail employment absent the effects of Wal-Mart. From 1961, the year before the first Wal-Mart store opened, through 2004, the last full year for which we have a count of the Wal-Mart Discount Stores and Supercenters, retail employment in the United States grew from 5.56 million to 15.06 million, or 271 percent, considerably faster than overall employment (242 percent).[48] If each of the 3066 stores present in January of 2005 reduced retail employment by our estimate of 146 workers (Table 4, column (4)) relative to the counterfactual, then our estimates imply that, in the absence of Wal-Mart, retail employment would have instead grown to 15.51 million as of 2004, or 3 percent higher than the observed figure. So the negative employment effects of Wal-Mart that we estimate simply imply that retail employment growth was a bit more modest than it would otherwise have been, growing by 271 percent from 1961 through 2004, rather than 279 percent. The estimates do imply, however, that retail employment is lower than it would have been than if Wal-Mart entered, and hence that Wal-Mart has negative rather than positive effects on net job creation in the retail sector.

The lower retail employment associated with Wal-Mart does not necessarily imply that Wal-Mart stores

worsen the economic fortunes of residents of the markets that these stores enter. Our results apply only to the retail sector, and we suspect that there are not aggregate employment effects, at least in the longer run, as labor shifts to other uses. Wage effects are more plausible, although these may operate more on the manufacturing side through the buying power that Wal-Mart exerts, as opposed to the retail side which is a low-wage sector regardless of Wal-Mart—although there are exceptions such as relatively highly-paid grocery workers who may be harmed from competition with Supercenters. If there are wage (or employment) effects that arise through cost pressures on Wal-Mart's suppliers, however, they would not necessarily be concentrated in the counties in which stores open, so that our methods would not identify them.

Moreover, Wal-Mart entry may also result in lower prices that increase purchasing power, and if prices are lowered not just at Wal-Mart but elsewhere as well, the gains to consumers may be widespread. Furthermore, the gains may be larger for lower-income families (Hausman and Leibtag, 2005), although it is also possible that labor market consequences for these families are also more adverse.

Another line of criticism of Wal-Mart is that through lowering wages it increases the burden on taxpayers by increasing eligibility for and receipt of government benefits.[49] However, a key implicit assumption is that in the absence of Wal-Mart, employees of the company would have higher-paying jobs, rather than, for example, no jobs. Thus, the validity of this criticism hinges on whether Wal-Mart's entry into a labor market affects overall employment and wages. It is also worth pointing out that if Wal-Mart causes both earnings and price declines for low-income families, then taxpayer burden could increase even if the price declines more than offset the earnings declines for these families, because government programs are typically tied to earnings.

Thus, aside from the question of employment effects, there are numerous remaining questions of considerable interest regarding the effects of Wal-Mart on labor markets and goods markets, on consumption, and on social program participation and expense. In addi-

[48] See http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?&series_id=CEU4200600001 and ftp://ftp.bls.gov/pub/suppl/empsit.ceseeb1.txt (as of December 22, 2006).

[49] A report by the Democratic Staff of the Committee on Education and the Workforce of the US Congress (Miller, 2004) claims that because of Wal-Mart's low wages, an average Wal-Mart employee costs federal taxpayers an extra $2103 in the form of tax credits or deductions, or public assistance such as healthcare, housing, and energy assistance (see also Dube and Jacobs, 2004). There are many heroic assumptions needed to construct such estimates, and this is not the place to dissect them.

tion, of course, there are non-economic issues that play a role in the debate over Wal-Mart, such as preferences for downtown shopping districts versus suburban malls. The identification strategy developed in this paper may prove helpful in estimating the effects of Wal-Mart stores on some of these other outcomes as well.

Acknowledgments

We are grateful to Ron Baiman, Emek Basker, Marianne Bitler, Jan Bruckner, Eric Brunner, Colin Cameron, Wayne Gray, Judy Hellerstein, Hilary Hoynes, Chris Jepsen, Giovanni Peri, Howard Shatz, Betsey Stevenson, Brandon Wall, Jeff Wooldridge, two anonymous referees, and seminar participants at Brookings, Clark, Cornell, HKU, IZA, PPIC, Stanford, UQAM, UC-Davis, UC-Irvine, UC-Riverside, UC-San Diego, UConn, and USC for helpful comments. We are also grateful to Wal-Mart for providing data on store locations and opening dates, and to Emek Basker for providing her Wal-Mart data set and other code; any requests for Wal-Mart data have to be directed to them. Despite Wal-Mart having supplied some of the data used in this study, the company has provided no support for this research, and had no role in editing or influencing the research as a condition of providing these data. The views expressed are those of the authors, and not those of Wal-Mart.

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Division of the Budget

Steven J. Anderson, CPA, MBA, Director

Sam Brownback, Governor

February 19, 2013

The Honorable Marvin Kleeb, Chairperson
House Committee on Commerce, Labor and Economic Development
Statehouse, Room 286-N
Topeka, Kansas 66612

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2206 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2206 is respectfully submitted to your committee.

HB 2206 would amend the Kansas Liquor Control Act to authorize the licensing and selling of alcoholic liquor at retail in convenience stores, gasoline stations with convenience stores, grocery stores, pharmacies and drug stores, department stores, discount department stores, and all other general merchandise stores. The bill would limit the total number of retail licenses issued during July 1, 2013, through June 30, 2015, to the number issued as of June 30, 2013. However, the limit on the number of retail licenses issued would be removed beginning July 1, 2015. Beginning January 1, 2014, any licensee would be allowed to transfer a valid license to any qualifying person for a fee of $25 as long as the person receiving the license is premised in the same county the license was issued. The transferred license would be valid for the remainder of the term and the transfer must be approved by the Director of Alcoholic Beverage Control (ABC).

The Director of ABC would be required to propose rules and regulations to implement these provisions; to limit the number of licenses issued in a month beginning July 1, 2015, to what can be reasonably processed based on ABC resources; and to require applications to be submitted prior to July 1, 2015, for review. Retailers would be required to verify the age of any purchaser who reasonably appears to be no more than 27 years of age; and to utilize age verification technology that is consistent with nationally recognized industry standards for making such determinations. Liquor stores with a retailer's license would be limited to sales of liquor and lottery tickets through June 30, 2015. Sales of any other good or service would be allowed on the licensed premise beginning July 1, 2015.

The bill would prohibit the issuance of a retailer's license to any officer, director, or manager of the licensed premise or stockholder owning more than 25.0 percent of the stock in the corporation who fails to meet any eligibility requirement other than for citizenship. The bill would also prohibit the issuance of a retailer's license to a person who is not engaged in business

The Honorable Marvin Kleeb, Chairperson
February 19, 2013
Page 2—HB 2206

as a liquor, convenience, or grocery store. However, the bill would remove from the list of ineligibility: a person who has a beneficial interest in any other retail establishment licensed under this act; and a co-partnership, unless all of the copartners are qualified. The bill would change the corporate requirement for obtaining a liquor license from procuring a certificate of authority to filing a formation document with the Secretary of State and having a resident of Kansas as its resident agent. It would also remove the requirement that the formation document or a copy of a power of attorney be filed with the Director. The bill would authorize retailers to allow any person who is at least 18 years of age to sell at retail any alcoholic liquor at the point of sale.

The bill would also shift 3.0 percent of liquor excise tax which is currently being deposited in the State General Fund to the Local Cereal Malt Beverage Sales Tax Fund. The bill would require the Department of Revenue to make quarterly distributions from this fund as part of the January, April, July, and October sales tax distribution to cities and counties which levy a local retailers' sales tax. The distribution would be based on a weighted population average, computed by multiplying the total tax rate in effect for the city or county by the population of the city or county. The weighted population average would then be divided by the total Kansas population and the resulting quotient would be the percentage of distribution for such city or county. The population data would be updated annually with the issuance of the certified population data through the Division of the Budget. Finally, the bill includes various technical corrections, clarifications, and revisions and adds definitions for convenience store, grocery store, liquor store, and retailer's license.

| | Estimated State Fiscal Effect | | | |
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	($1,845,000)	($1,845,000)
Expenditure	--	--	--	$1,910,000
FTE Pos.	--	--	--	20.50

The Department of Revenue estimates that the provision in HB 2206 which shifts 3.0 percent of the liquor excise tax to the Local Cereal Malt Beverage Sales Tax Fund would decrease State General Fund revenues by approximately $1.8 million in FY 2014. The shift would increase local revenues by the same amount in FY 2014. The Department indicates that the bill would not produce any significant change in liquor enforcement tax receipts. The Department estimates that any revenue generated from the $25 transfer fee would be negligible. The decrease in revenues and how the November 6, 2012, consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2012)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	$ 39,000	$ --	$ 39,000
Income Taxes:			
Individual	2,385,000	--	2,385,000
Corporate	360,000	--	360,000
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	--	1,952,000
Compensating Use	303,000	--	303,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	137,400	--	137,400
All Other Excise Taxes	99,600	(1,845)	97,755
Other Taxes	151,500	--	151,500
Total Taxes	$5,555,500	$ --	$5,553,655
Other Revenues:			
Interest	$ 9,700	$ --	$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	55,000	--	55,000
Total Other Revenues	($ 91,200)	$ --	($ 91,200)
Total Receipts	$5,464,300	$ (1,845)	$5,462,455

The fiscal effect to state revenues during subsequent years would be as follows:

	FY 2015	FY 2016	FY 2017	FY 2018
State General Fund	($1,845,000)	($1,845,000)	($1,845,000)	($1,845,000)
Local Governments	1,845,000	1,845,000	1,845,000	1,845,000
	$ --	$ --	$ --	$ --

To formulate these estimates, the Department of Revenue reviewed data on liquor enforcement tax collections which are anticipated to be approximately $61.5 million in FY 2014. The Department indicates that the reduction in revenues to the State General Fund could lessen as beer sales replace sales for cereal malt beverages.

The Department estimates that HB 2206 would increase its expenditures by approximately $1.9 million in FY 2014, which includes $1,555,000 for increased salaries and wages expenditures and $355,000 for one-time other operating expenditures. The Department

indicates that the additional salaries and wages expenditures would provide 20.50 FTE positions and two temporary clerks to process paperwork and answer telephones. Of the additional 20.50 FTE positions, the Department indicates 1.50 Customer Service Representative FTE positions would be required to assume additional tax processing and tax clearances in the Division of Taxation. The remaining FTE positions would be required for the Division of Alcoholic Beverage Control, including 9.00 Enforcement Agent FTE positions to assist with the increased workload; 7.00 FTE positions to assume additional licensing functions; 2.00 Attorney FTE positions; and 1.00 Legal Assistant FTE position. The one-time expenditures would be required to provide computers, office supplies and furnishings; to update forms and publications; to modify computer systems; and to provide user testing. Any fiscal effect associated with HB 2206 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue

Appendix D

February 14, 2011

Steve Anderson, Director
Division of the Budget
Landon State Office Building
900 SW Jackson, Suite 504
Topeka, Kansas 66612

RE: Senate Bill 54

Dear Mr. Anderson,

The following information is in response to your request for a fiscal impact.

Bill Number: SB 54	Assigned Committee: Committee on Federal and State Affairs
FN Due Date:	
Hearing Scheduled? Yes	Date of Hearing: February 15, 2011
Version of the bill: Introduced	DOB Analyst:
Responding Agency: Social and Rehabilitation Services	
Prepared by: Ray Dalton	

Fiscal Impact	Yes	No
State (Would this bill have a fiscal effect on your agency?)	X	
Local (Would this bill have a fiscal effect on local governments?)	X	
Tax Revenue (Would this bill affect State General Fund revenues?)	X	
Fee or Other Revenue (Would this bill affect revenues to other state funds?)	X	

KS Dept of Social and Rehabilitation Services

	FY 2012	FY 2013	FY 2014
Expenditures			
State General Fund -- Treatment Expenditures	1,750,000	3,500,000	3,500,000
State General Fund -- Prevention Expenditures	750,000	750,000	750,000
Federal Fund			
Total Expenditures	2,500,000	4,250,000	4,250,000
Revenues			
State General Fund	-	-	-
Fee Fund(s)	-	-	-
Federal Fund	-	-	-
Total Revenues	-	-	-
FTE Positions			

Bill Description

SB54 would repeal current law that limits licensees to selling only alcoholic liquor on the licensed premises and allows for the sale of any goods on the premises as well as allows an inside entrance that connects with another place of business. The bill also allows a retailer to employ someone at least 18 years of age to sell beer and wine. The bill limits the total number of Class C licenses issued in FY 2012 through January 1, 2015, to the total number issued in FY 2011.

Assumptions for Fiscal Effect Estimate

Even with a restriction of the number of licenses provided it is projected that the passage of SB 54, which would allow the purchase of alcoholic liquor in grocery stores and convenience stores in Kansas, would have an impact of increased consumption rates due to availability, density rates, and increased accessibility for underage purchasers.

The projected effect of increased consumption and easier access for adults can be assumed to extend to easier access for underage youth as well. A survey of over 6,000 teenagers conducted by the Alcohol Epidemiology Program, University of Minnesota revealed Convenience stores are the easiest places to buy alcohol. The survey states the types of alcohol establishments may be more likely to sell to underage persons were grocery/convenience stores, when compared to liquor stores. The behavior pattern of obtaining alcohol from the increased exposure to alcohol products, is projected to increase the public health risk for adults and youth that is associated with harmful alcohol use and rates of addiction. Studies have shown that the greater outlet density for sales locations of alcohol is associated with increased alcohol consumption and related harms, including medical harm, injury, crime, and violence. (1) This projected increase in consumption can be assumed to result in a subsequent increase in the number of persons that would need services for alcohol misuse. In addition, the age of onset of alcohol usage is a direct factor in the development of addiction as an adult. The easier alcohol is to obtain by youth, the more likely they are to begin drinking at an earlier age.

KS Dept of Social and Rehabilitation Services

A study completed in Sweden in 2010 states that making all alcohol available in grocery stores according to the projections showed a consumption increase of 37.4% (2). Because of the increased availability and accessibility of alcoholic liquor, rates of consumption factored by the number of youth with early onset usage due to increased accessibility, could lead to more individuals needing treatment in the state's publicly funded treatment system. If those factors led to even a 10% increase in numbers served, that would equate to approximately 2,000 additional persons each year. The average cost of treatment services in Kansas's publicly funded system is $1,750 per person per episode of treatment. Using this estimated cost per treatment, the fiscal impact on the treatment system would reach $3.5 million dollars each year.

Because of the greater number of check-out points at larger retail centers, the need (and costs) of prevention education of workers at these locations will go up substantially. Grocery and convenience stores experience fairly high rates of salesclerk turnover due to the number of part time and young adult employees. This would require the need for increased educational services and training of retail employees on preventing sales to minors.

To address the increased risk on our underage youth, prevention programming, aimed at adults who may purchase alcohol for underage youth, would also need to be established. This would require additional efforts and resources on the part of the regional prevention centers to meet the needs of training and public prevention marketing. It is estimated that the cost of these prevention services could range from $750,000 to 1 million dollars annually.

1 (Addiction Volume 105, Issue 12, pages 2113–2119, December 2010)

2 (Am J Prev Med 2009;37(6):556–569) Published by Elsevier Inc. on behalf of American Journal of Preventive Medicine

Long-Term Fiscal Considerations
Treatment of Substance use disorders often takes repeated episodes and that would lead to ongoing increase in those served each year, in addition to the number that have increased due to consumption rates and youth exposure rates.

Local Government Fiscal Effect
The bill creates the Local Cereal Malt Beverage Sales Tax Fund and requires 3.0% of liquor enforcement remittances to be deposited into this fund each quarter and distributed to the cities and counties with a local sales tax based on the formula in the bill.

References/Sources
Attachment A provides the research which led to the assumptions on the effects of SB54.

If you have any additional questions, please let me know, Lois Weeks at 296-6217.

Appendix E

Common Sense
Economic Reasons

Our Current Retail Liquor System
is Best for Kansas

Keep Kansans In Business
keepkansasjobs.com

2013

ABOUT US

Keep Kansans in Business is a community of citizens, businesses, civic and social organizations and others, dedicated to ensuring Kansan-owned local businesses are not forgotten when policymakers create and change business and tax policies.

Nearly 84% of all Kansas businesses are small-businesses. They are the engine of the Kansas economy.

These businesses employ thousands of Kansans, are essential to their communities - especially in rural areas - and are an important tax base.

Keep Kansans in Business is truly grassroots - started and operated by Kansas small business owners, with no national affiliations or associations with other organizations whose primary funding is provided by out-of-state entities.

Keep Kansans in Business is local, and we encourage policies in the best interest of the state economy.

AUTHORSHIP

This analysis was prepared primarily by Spencer L. Duncan. Mr. Duncan is a native Kansan with a B.S. and B.A. from the University of Kansas, and holds a Masters Degree in Business Administration. Mr. Duncan works with businesses across Kansas as President of Capitol Connection, LLC

Information was also provided by Dr. David Burress, Ph.D, who spent 20 years as research economist at the Institute for Public Policy and Business Research at the University of Kansas, studying the Kansas economy.

84% of KS Businesses are Classified as Small Businesses.

Small Businesses are *THE* engine of the Kansas economy.

Passing legislation that will close as many as 341* parts of that engine - primarily in rural communities - is not strong economic policy.

* Source: Dr. Art Hall, "An Economic Case for Increased Competition in the Sale of Beer, Wine and Spirits in the State of Kansas," 2011

OVERVIEW

Altering Kansas' retail liquor system would be harmful to the state economy.

This analysis provides detailed explanations of the specific economic harms that would occur within the Kansas economy and the damage incurred by Kansas small-business owners if the current retail liquor system were changed.

This analysis examines some of the practical reasons why this change would put small-business owners out-of-business, and highlights economic reasons the current system is beneficial to the economy of Kansas.

> Locally-owned businesses generate 70% more local economic impact per square foot than chain stores.
> *(Andersonville Study of Retail Economics)*
>
> 3 times as much money stays in the local economy when you buy goods and services from local businesses instead of chain stores.
> *(Economic Impact of Locally Owned Businesses vs. Chains)*
>
> Local stores retain a larger share of profits within the local economy.
> *(Economic Impact Analysis: A Case Study)*
>
> Kansan-owned stores keep their spending in Kansas, using local contractors, architects, accountants, vendors, consultants, lawyers, and many other professional goods and services. Big-box, grocery and convenience stores with out-of-state owners spend dollars in states where they have corporate offices (Iowa, Arkansas, Ohio, etc...)

Support your LOCAL ECONOMY — LEARN ABOUT THE LOCAL MULTIPLIER EFFECT HERE

LOCAL MULTIPLIER EFFECT

An Essential Component to a Strong Economy

The **Local Multiplier Effect (LME)** is a valuable feature of our economy. The term refers to how many times dollars are recirculated within a local economy before leaving. Economist John Maynard Keynes coined the term "Local Multiplier Effect" in his book *The General Theory of Employment, Interest and Money.*

The concept is simple: Local businesses spend money locally, keeping dollars circulating in a local economy where it can be used to help a community prosper. Out-of-state companies spend few dollars locally, taking money away from a local economy. **When money does not recirculate, communities suffer.**

Local businesses hire local accountants, janitorial companies, printers, banks, marketing professionals, lawyers, advertise more locally, etc. These local individuals/companies spend their dollars at local businesses, who in turn hire locally, and so on. Every dollar spent in a local business multiplies itself throughout the community and Kansas, strengthening our economic base.

Out of state companies rarely hire local businesses/individuals, as they have corporate offices in other states and, in some cases, outside of the United States. Dollars spent in those stores leave Kansas and weaken communities.

Over the past 50 years, the expansion of national businesses into local markets has diverted this vital monetary stream and redirected it to centralized corporate coffers. There it is spent on large capital expenditures, overseas goods and, all too frequently, executive salaries.

This interception of funds has depleted local towns and cities across our nation of an important source of funds: *recirculated income.*

It has been estimated that 50 years ago, thriving communities had an LME in the low 30s. This meant a dollar circulated as many as 30 times in a community! Twenty-five years ago, it is estimated that number was in the low 20s. **Today it's estimated to be as little as 5 times!** This reduction in the number of rounds monies make has had an extremely negative effect on our local economy.

All areas of community life are affected by this deficit. This lost treasure of local economies cannot be ignored! Supporting local liquor stores keeps money circulation in communities.

The Current System is A Free Market

Any Kansan can own and operate a liquor store — even Kansans who own convenience and grocery stores. These stores compete against one another.

The Kansas Legislature passes and reaffirms laws in the best interest of our economy:

- KSA 17-5904 allows Kansas counties input into if corporations and non-Kansans can own or acquire farmland. This law exists to protect Kansan-owned family farms.

- KSA 8-2430 allows car dealers and the Director of Vehicles to deny a potential new dealership from selling the same brand in a market, limiting most Kansas communities to one dealer selling a brand of vehicle

- Tax credits, exemptions and other "breaks" are designed to encourage growth and provide advantages to one business over another, often within the same industry.

- Kansas limits territory where a credit union operates versus banks, which can operate anywhere.

- Real estate agencies cannot sell title insurance. Title insurance sales are limited to title companies.

- Certain pest control chemicals can only be sold by certain companies with licenses, and not everyone can hold a license.

- STAR Bonds, TIFF dollars, PEAK Program Giveaways and Rural Opportunity Zones are all legislative approved programs providing opportunities for one industry over another or one community over another.

Kansas' retail liquor industry is not unique. These examples, and others, exist because past and current legislators determined these are the right economic decisions for Kansas.

Proposed changes to our liquor retail system will lead to consolidation of liquor sales - a transition from hundreds of businesses to dominance of a handful of big-box and out-of-state grocers and convenience stores. This creates a consolidated market that does not adhere to free market principles.

Nobel Laureate Milton Friedman, the great defender of free markets and economic adviser to President Ronald Reagan, said of big business: *"business corporations in general are not defenders of free enterprise. On the contrary, they are one of the chief sources of danger."* His premise was that what's perceived as good for big business isn't always good for taxpayers and freedom, as big corporations favor government regulations that give them an edge in the long-term over small business. Big business does not compete, it assimilates and dominates a market.

Adam Smith, the Father of Economics, believed in free markets. He also believed the best economic systems were as local as possible. The more localized a market the more input a consumer has in that market. This ensures a market remains free for local traders to operate and consumers' voices to be heard. He also believed localized markets provide better state and national security and that local trading is a driving force of an economy.

It is not as simple as just using the term "free market" to talk about an economic model. Every market must be evaluated on its merits and in reference to where and how it operates.

Kansas' current retail liquor market allows for open trade, provides any Kansan the freedom to enter the marketplace, adheres to free market pricing principles, provides wide accessibility to those of legal age, has localized trade providing consumers a direct voice in the marketplace - something big corporations do not provide - and has forged a strong economic model that benefits the state economy and local communities.

Impact On Others

Sharkbite Cocktails
Olathe, Kansas

"My business has spread out to 15 other states...With the spread of our business I've encountered head on the differing nuances of one state regulation as opposed to another. At the same time, I've seen the practices of alcohol distributors and retailers in these markets...I'm lucky, my business happens to be based in Kansas, had it been in a state that allowed for the big box corporations to dictate commerce my business would just be an idea I talked about and never realized...in the states we do business that allow the practice of what this bill concerns I've witnessed the negative effects it delivers." - *Brad Dickson, Owner, Sharkbite Cocktails*

Law Enforcement

"It is not clear how many additional outlets the proposed expansion would create...It is obvious if the number of outlets expands, there will need to be additional resources to maintain the same level of enforcement...The expansion into stores with more clerks, such as super markets, will add a large number of people involved in the sales that will need training and monitoring...Clearly enforcement of underage sales will become much more challenging for law enforcement under this proposal. Liquor stores are relatively easy to monitor. Larger stores will be impossible to monitor from outside the store... These additional challenges will add to the workload of both local law enforcement and the ABC enforcement section."
- **Ed Klumpp, KS Association of Chiefs of Police & KS Peace Officers Association**

Kansas Banks

"I find it troubling legislation is being considered that could unfavorably impact the ability of many existing small businesses to repay loans they have with financial institutions...If the sale of wine and spirits is expanded to be permitted in larger grocery stores or retailers like WalMart, I believe locally owned and operated liquor stores will be adversely impacted...The result will be lost jobs and very likely their inability to repay business loans they may have to commercial banks, most of whom are Kansas based and locally owned as well...Banks should not be placed in a situation where they could incur loan losses because of legislative changes."
- **Scott Griffith, Kansas banker, Topeka**

Cities & Counties

"We cannot estimate the fiscal impact of the new fund...We do anticipate that amounts distributed to counties under the proposal will be different from current law, as the bill creates a distribution formula based on a weighted population average, whereas under current law the counties selling CMB are the ones who earn the sales tax."
- **Kansas Association of Counties.**

"When CMB violations occur, cities are able to address the violation without depending on the State...with a movement away from having CMB in convenience and grocery stores, local governments lose control of the licensing of those vendors. Cities have concerns about the loss of local control, because they will still have the duty of detecting violations of the liquor laws, but will not be able to respond and deal with the violations through the licensing process over vendors which they previously had control." - **League of Kansas Municipalities**

Liquor Store Owners Welcome Competition.
The Practical Problem is Locally-Owned Stores Don't Have the Space or Borrowing Resources.

The average liquor store in Kansas is 3,500 square feet. Proposed Legislation would allow current liquor store owners to sell other products, BUT WHERE WILL THEY PUT THEM?

Many stores are landlocked or in areas where zoning and permitting make it difficult to expand. It's not about not wanting to compete - its about not having the resources!

Big-box and grocery stores will clear off a few shelves and add liquor to their inventory, with few concerns about space.

If a liquor store owner wants to move or expand, where will they get the resources? Lending to small businesses is at record lows, especially in rural communities. Upon passage of this legislation, the state is telling every banker in Kansas nearly half* of these stores are going out-of-business, making them ALL poor investments.

Having the ability to sell "other" goods is not a solution. Having nowhere to put them - and no borrowing options to expand - is a practical problem the legislation ignores.

*Source: Dr. Art Hall, "An Economic Case for Increased Competition in the Sale of Beer, Wine and Spirits in the State of Kansas" 2011

The State Created the Current System. It's Responsible to Honor that System

Kansas' retail liquor system has been in place since its creation in the 1940's. Every Kansan investing in a liquor store has done so with a promise from the state that they were investing in a specific system established by the state. Changing the current system undermines the investment Kansans have made in Kansas. The State of Kansas should continue to respect - and honor - that commitment.

Kansas Liquor Laws Are Not Outdated

No state has voted to put wine in grocery stores in 25 years. Since then, Colorado, Kentucky, Minnesota, New York, Oklahoma and Massachusetts have rejected this change out of concerns for small businesses and public safety.

Many states differentiate between the sale of alcohol by packaged stores versus big-box stores. Some states do not allow the sale of refrigerated alcohol in retail outlets. There are control states - which only allow the state itself to sell spirits. It is not correct to paint

Kansas as the most regulated. Kansas has direct wine shipping, Sunday sales, farm wineries, microbreweries, in-store sampling, outdoor zones for festivals, wine doggie bags and other "modern" laws.

Kansas has a model system: with one liquor store per 3,600 citizens, we have a balance between the desires of those who would expand access versus those who prefer a model closer to prohibition.

Kansas has a Tax Problem.
That is Why We Lose Sales to Missouri.
Food. Gas. Alcohol. Cigarettes.
All have significantly lower tax rates in Missouri.

Missouri ranks 49th lowest in the U.S. in Beer Excise Tax. Only Wyoming has a lower rate. Kansas is 27th, with a rate THREE TIMES HIGHER than Missouri.

Missouri is 45th lowest in U.S. Spirits Excise Tax. Kansas is 38th with a rate 50 cents higher per gallon than Missouri.

Missouri has a base tax of 1.225% on many food items compared to Kansas' base rate of 6.3%

Kansas' liquor excise tax rate is nearly double Missouri's base tax rate on packaged alcohol.

Missouri's cigarette tax is 62 cents lower per pack than Kansas. Missouri's gas tax is 7.7 cents per gallon lower.

Missouri has a lower sales tax than 71.2% of other states.

Taxes are the reason border consumers choose Missouri over Kansas.

Taxes are the reason companies build in Missouri, not Kansas -

they can sell products at a lower price, which attracts more customers.

Proposed legislation does not fix the problem. Missouri will be a cheaper place to shop for border consumers until Kansas addresses its tax policies.

	Missouri	Kansas	KS Differential
Beer	.06	.18	+ .12
Spirits	2.00	2.50	+ .50
Wine (less than 14%)	.36	.30	- .06
Wine (14% or higher)	.36	.75	+ .39
Cigarettes	.17	.79	+ .62
Gas	17.3	25.0	+ 7.7
General Sales Tax	4.225%	6.3%	+ 2.075%
Alcohol Excise/ Sales Tax	4.225%	8%	+ 3.775%
Food Sales Tax	1.225%	6.3%	+ 5.075%

NOTES: All numbers are in cents or percentage. Measurements are by gallon (alcohol), pack (cigarettes), item (food/goods). Many wines carry an alcohol content of 14% or higher; This chart does not factor in city/county tax rates; Missouri state law mandates no county/city tax can exceed 5.01%

REDUCTION IN TAX REVENUE?

Many big-box stores use wine and beer as a "loss leader." They do this because alcohol accounts for a minimal amount of overall sales and they sell thousands of high-margin products to offset low-margin alcohol. Selling wine and beer at, or near cost attracts customers to help sell and market higher-priced goods. Thousands of new outlets selling alcohol at, or near, cost could equate to no significant increase in enforcement tax collections.

Changing the System is Expensive to Taxpayers

The Division of Alcoholic Beverage Control (Department of Revenue) would need to nearly double the number of enforcement agents beyond its current staff and increase administrative staff to enforce expansion of alcohol to more than 3,500 new outlets, according to Dean Reynoldson, Director of Kansas Alcoholic Beverage Control. He made the comments while testifying before the House Federal and State Affairs Committee in 2013.

A *minimum* of 20.5 new individuals would have to be hired to regulate the system being proposed. (*Division of the Budget, February 2013*)

It leads to an approximate 50% budget increase for Alcohol Beverage Control. Additional positions represent a minimum of $1.9 million in additional money to fund these positions. (*Division of the Budget, February 2013*)

A memo from the Kansas Department for Children and Families (formerly SRS) indicated it will cost an additional $4.2 million for treatment and prevention programs. Proposed changes takes millions from the State for distribution to cities and counties while creating a new tax system.

Cost to Taxpayers = a *minimum* of $6.1 million additional dollars

New Fiscal Costs Come with Increased Access

Increasing alcohol outlets by more than 2,500 and allowing 18, 19 and 20-year olds to stock and sell hard liquor, strong beer and wine, has additional costs the state will have to fund.

Wichita Pastor Terry Fox, who also served more than 10 years in law enforcement, opposes changing the system because of the additional enforcement that will be required. He writes, "I am confident that enforcing the law and regulations of this bill will be nearly impossible in the State of Kansas as well as time consuming." The Kansas Peace Officers Association and Kansas Chiefs' of Police have expressed similar concerns.

The Marin Institute and Indiana University have studied the effects of having a high density of alcohol outlets. Among their findings were that areas with increased retail alcohol outlets had higher suicide rates, increased drunk driving rates, more instances of violent crime, and increases in sales to minors.

Additional enforcement and increases in social problems associated with thousands of new outlets carry an economic cost the state will have to fund through increases in law enforcement, treatment programs and underage drinking initiatives.

Changing the System Harms Rural Communities

A survey by Kansas State University and the Kansas Sampler Foundation found 40% of rural grocers said the biggest threat to their business is out-of-state grocers and big-box stores.

David E. Proctor, Director of the Center For Engagement and Community Development at Kansas State University, wrote in his article "The Rural Grocery Crisis": "The most frequent, significant challenge identified by our rural grocers was competition with big box grocery stores. In the past twenty years, we have seen a tremendous rise in the number of big-box, national-chain markets. In addition, big-box wholesalers have moved into the grocery business, and now many offer large food sections as part of their stores. Rural store owners view these stores as competition that threatens their very survival."

In a report on factors leading to why rural grocery stores are closing, **Jon Bailey, Center for Rural Affairs**, concluded: "The advent of corporate, chain grocery store facilities in nearby larger cities and the relative ease in driving due to advances in vehicles and highways often make shopping at larger grocery stores more attractive, further reducing the customer base and the economic margins for small, local stores."

In Iowa, 43% of grocery stores in communities with less than 1,000 population have closed. Leading factor: big-box and out-of-state grocers.

No study indicates selling alcoholic beverages will keep rural stores open. Studies do conclude the biggest threat to rural, Kansan-owned businesses is out-of-state operated grocers and big - box stores.
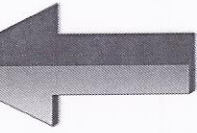
Proposed Legislation will assist big-box and out-of-state grocers too increase market share and buying power, helping them shut down local, rural grocers.

Kansas Grocers Can Sell Alcohol Under Current Law

Under **current** Kansas law, independently owned Kansas grocery stores can own a liquor store adjacent to their store. They can even design the liquor department so customers do not have to leave their building to purchase alcohol from them.

Proposed legislation is designed to allow out-of-state corporations to sell hard liquor and take profits out of Kansas.

If rural and independent grocers believe it would benefit them to sell alcohol, they can do so right now!

BIG-BOX HURTING RURAL KANSAS

Kansas' rural communities suffered population losses in the last decade. A primary factor: consolidation created by big-box stores. These out-of-state entities push small businesses to closure, creating fewer businesses in rural communities, leading to fewer jobs and causing population exoduses.

Largest population losses by county (2010 Census)

County	Loss	County	Loss
		Rawlins	- 15.07%
Kiowa	- 22.12%	Smith	- 15.06%
Greeley	- 18.71%	Republic	- 14.65%
Lane	- 18.79%	Osborne	- 13.34%
Jewell	- 18.83%	Cheyenne	- 13.87%
Chataqua	- 15.83%	Greenwood	- 12.82%
Wallace	- 15.09%	Woodson	- 12.65%
		Gove	- 12.16%

Big-Box, Grocery, Convenience Sales Reduce Consumer Choice

Big-box, grocery and convenience stores sell a limited number of alcohol items and focus on top-selling, national brands. As these stores dominate the market and put Kansan-owned stores out-of-business, variety will decline.

Less product variety is a deterioration of consumer choice.

While some liquor stores will attempt to sell "niche" products, they must sell top brands to make a profit.

Liquor stores can put top-selling brands on shelves, but big-box stores sell top-brand labels near cost as loss leaders.

Big-box, grocery and convenience stores do not need variety and "niche" alcohol products to stay in business, but liquor stores cannot sell just "niche" items and stay business.

This creates a system in which the only stores standing will be big-box and out-of-state grocers who will limit product choice.

According to the National Beer Wholesalers Association: "When independent retailers suffer at the hand of huge corporations, consumers are also impacted through the loss of choice and convenience."

Kansas-based Sharkbite cocktails, which sells in more than 15 states, opposes changes to the system. Company owner Brad Dickson says in states dominated by big-box stores selling alcohol, new brands and products are not provided shelf space by big-box retailers.

As Dickson says, if consumers reject his product that's their choice; but in states dominated by big-box retailers consumers are not even given the opportunity to try new products produced by small-to-mid size business. That is not consumer choice — it's big-box retailers dictating markets, and reducing consumer choice.

Resources for this analysis include, but are not limited to:

Adam Smith Institute

Americans For Prosperity

Anderson Study of Retail Economics

An Economic Case for Increased Competition in the Sale of Beer, Wine and Spirits in the State of Kansas." by Dr. Art Hall, PhD

Bob Weeks,
The Voice of Liberty

Campaign for Tobacco Free Kids

Capitol Connection, LLC: Poll on size and employment of Kansas Liquor Stores

Community Environmental Defense Fund

Des Moines Register

Dr. David Burress, PhD Economic Impact Analysis: A Case Study

Emporia Gazette

Gone Mild Blog gonemild.com

Hays Daily News

Indiana University

Kansas Alcoholic Beverage Control

Kansas Chamber of Commerce

Kansas City Star

Kansas Department for Children and Families

Kansas Department of Agriculture

Kansas Department of Revenue

Kansas Division of the Budget

Kansas Family Policy Council

Kansas Families Against Liberal Liquor Laws

Kansas Policy Institute

Kansas Sampler Foundation

Lawrence Journal World

Marin Institute

Missouri Department of Revenue

National Bureau of Labor Statistics

Public Health Institute

Salina Journal

Tax Foundation

Topeka Capital Journal

U.S. Census Bureau

Wichita Business Journal

Wine and Spirits Wholesalers Association

Current Beverage Industry Benefits Kansas

The beverage alcohol industry in Kansas employs nearly 41,000 Kansans. This high rate is because Kansas retail liquor stores and on-premise establishments maintain an industry, profitable for Kansas, because of community roots.

Retail liquor stores work closely with local law enforcement, distributors, bars, clubs, restaurants, local organizations and everyone who buys alcohol to ensure sales are responsible.

Retail liquor store owners in Kansas are all members of their communities, living in local neighborhoods and answering to their neighbors.

These local, community-based relationships ensure Kansans stay employed, turnover rates are kept low (**unburdening the unemployment system**), profits stay in Kansas and tax collections remain high.

Bars/Restaurants in 14 Dry Counties — most local businesses — at Risk by Proposed Changes

There are more than 100 restaurants, pubs and bars in Kansas' 14 dry counties which, by law, can only serve 3.2 Beer. While proposed legislation does not ban 3.2 beer, it puts its Kansas future in jeopardy.

As grocery and convenience stores replace 3.2 beer with strong beer, this dilutes sales of 3.2 beer, making it less profitable for beer producers to make for Kansas.

3.2 beer is profitable for producers and sold in other states (Colorado, Minnesota, Missouri, Oklahoma, Utah). However, the product is packaged specifically to adhere to Kansas regulations.

Changing the current retail liquor system will create an eventual tipping point where 3.2 beer is no longer profitable for producers to package and sell in Kansas, making them likely to stop offering 3.2 beer in Kansas.

This puts dry-county bars and pubs, most of which are locally owned and in rural communities, out-of-business since 3.2 beer is the only alcohol they can serve , as decided upon by the citizens of those counties.

KS Counties Without Liquor-By-The Drink
(as determined by the citizens who live there)

Clay	Elk
Clark	Gray
Doniphan	Haskell
	Jewell
	Meade
	Rice
	Sheridan
	Stanton
	Stafford
	Wallace
	Wichita

Convenience store owners have testified that beer sales account for between 4% and 8% of total sales. For Kansan-owned liquor stores, beer sales account for an average of 50% of sales, and in some stores it is as high as 80%. **Big-Box and convenience stores do not need this additional product to continue to thrive, while loss of these sales to out-of-state entities will put Kansas owned stores out of business.**

Kansas' Retail Alcohol System is Not a Monopoly
An Explanation

Kansas' retail alcohol industry is in compliance with the U.S. and Kansas Constitutions, violates no federal laws, is open to all Kansas residents, and is an open marketplace. Here are reasons Kansas' retail alcohol industry is not a monopoly:

1) The 21st Amendment to the United States Constitution

Section 2 of the 21st Amendment to the U.S. Constitution establishes the rights of each state to determine its own alcohol laws. The 21st amendment is specific to alcohol in this regard.

2) Kansas Retail Liquor Stores Do Not Meet the Definition of a Monopoly

Anticompetitive monopolization includes a variety of acts which are illegal. Kansas liquor stores are not committing, creating or encouraging these illegal acts. These include:

- Price Fixing
- Price Discrimination
- Exclusive Dealings
- Group Boycotts
- Tying Contracts

Calling Kansas retail liquor stores monopolies implies they are committing illegal acts. Calling Kansas retail liquor stores monopolies, while knowing they are not committing these acts, is potentially slanderous.

3) Kansas' Retail Liquor Stores Violate No Federal Antitrust Laws

There are two primary federal laws relating to antitrust and monopolies. They are:

- Sherman Antitrust Act
- Clayton Antitrust Act

Kansas retail liquor stores do not meet any criteria as offenders of the provisions of any of these acts. Simply put: Kansas retail liquor stores do not meet federal definitions for antitrust violations or monopolies.

4) Kansas Has an Open Market

Kansas' current retail liquor market allows for open trade, provides any Kansan the freedom to enter the marketplace, adheres to free market pricing principles, provides wide accessibility to those of legal age, has localized trade providing consumers a direct voice in the marketplace and has forged an economic model that benefits the citizens of Kansas.

5) Alcohol Is Intended to be Regulated

Alcohol is not milk, or toilet paper, or toothpaste. Misuse, mistreatment and unregulated sales of alcohol has social and economic consequences. Alcohol contributes to drunk driving accidents and death, violence, underage binge drinking, addiction and other problems. Kansans, like the majority of states and the Federal Government, have determined alcohol should be available to citizens of drinking age, but continuously regulated.

The 21st Amendment to the U.S. Constitution and **Article 15, Section 10 of the Kansas Constitution** specifically address alcohol to affirm that this product can and should be regulated. The current retail alcohol system is the method Kansans have decided best regulates alcohol sales.

Kansas' retail alcohol system is not a monopoly, does not meet the standards of a monopoly and should not be referred to as a monopoly.