

What really motivates states to change their alcohol distribution laws?

Regulating Wine by Mail

BY GINA M. RIEKHOF, *Wallace, Saunders, Austin, Brown & Enochs*

AND MICHAEL E. SYKUTA, *University of Missouri-Columbia*

IN 1986, CALIFORNIA PASSED LEGISLATION prohibiting the direct shipment of wine to its residents from another state unless the originating state allows California wineries to ship directly to that state's residents. This "reciprocity" restriction marked a change from California's previously unfettered direct shipment regime.

The legislation's obvious intent was to break down other states' barriers to the direct shipment of California wine. Prior to 1986, direct shipment was a misdemeanor crime in 47 states; only California, Alaska, and Rhode Island allowed the practice. In effect, California attempted to leverage its large wine-consuming population to open access to the rest of the country for the state's wine industry. A less charitable interpretation is that small California wine producers held California wine consumers hostage until other states would cede to the producers' direct shipment demands.

That effort has met with general, but mixed, success. In the past 18 years, 43 states have considered more than 160 bills proposing changes to their direct shipment laws. Twenty-three of those states have adopted some form of direct shipment allowance, ranging from reciprocity regulations to permitting systems to special handling provisions. But four states went the opposite direction and made the receipt of direct-shipped wine a felony.

Legislative battles triggered a series of court cases testing the

legality of state-level restrictions on interstate shipping. Advocates for direct shipping claim such restrictions violate the Commerce Clause of the U.S. Constitution; opponents of direct shipping argue that states have a 21st Amendment right to regulate the distribution of alcohol within their borders. Split decisions among several federal appellate courts have led the U.S. Supreme Court to take up the matter in its next term.

Putting aside the legal questions, the fact that some states have relaxed their direct shipping laws while others have maintained or tightened theirs raises an interesting question: Are the direct shipment restrictions primarily based on public welfare interests or on protectionist economic interests? We will attempt to answer that question after first discussing recent trends in the wine industry that have engendered a growing direct shipment wine market.

THE U.S. WINE INDUSTRY

The U.S. wine industry has undergone tremendous structural change in the past 25 years, resulting in tensions between a growing wine production segment and an increasingly concentrated distribution and retail system. The convergence of those forces has put immense pressure on the traditional three-tier alcoholic beverage distribution network.

WINE PRODUCTION U.S. wine consumption was fairly stable through the 1980s. But demand increased rapidly through the 1990s, going from 106.8 million cases in 1991 to 145.1 million cases in 2001. Most of that growth occurred in the premium-priced wine segments.

The number of U.S. wine producers has also grown considerably in recent decades. The 1974 issue of *Wines & Vines Annual Buyer's Guide* listed 800 wineries operating in 34 states; the 2002 issue listed more than 3,180 wineries operating in all 50 states.

Gina M. Riekhof is a former graduate fellow at the University of Missouri-Columbia's Contracting and Organizations Research Institute. She is now an associate attorney in the Kansas City office of the law firm of Wallace, Saunders, Austin, Brown & Enochs. Riekhof can be contacted by e-mail at griekhof@wsabe.com.

Michael E. Sykuta is a professor in the Department of Agricultural Economics at the University of Missouri-Columbia and is director of the university's Contracting and Organizations Research Institute. He can be contacted by e-mail at sykutam@missouri.edu.

This article is based on a longer paper that is forthcoming in the *American Journal of Agricultural Economics*.

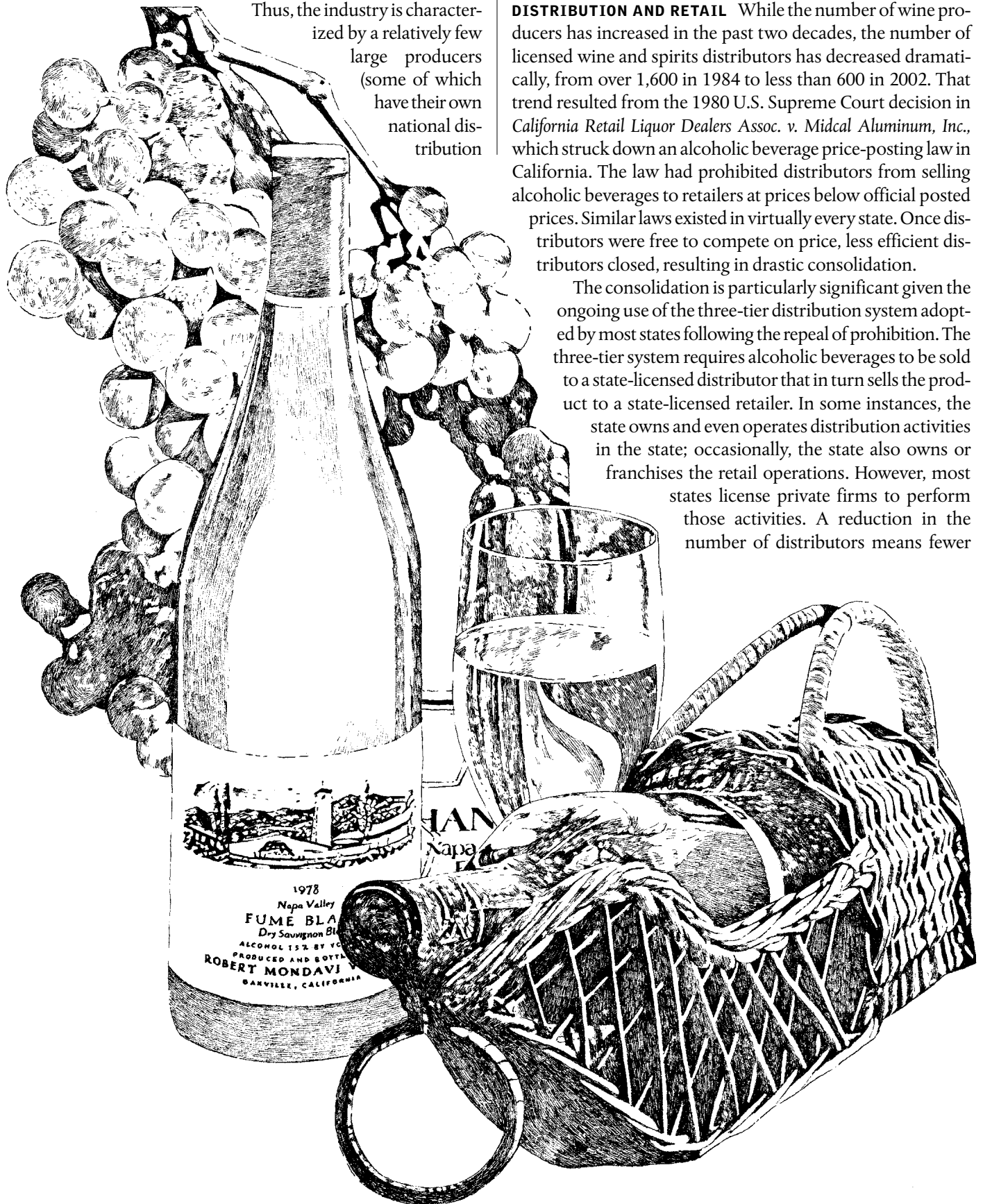
Although the total number of wineries has increased, market concentration in distribution and retail has led to tremendous consolidation in wine production over the past decade. The February 2004 issue of *Wine Business Monthly* reports that the top 30 U.S. wine companies produced over 90 percent of U.S. wine (by case sales) in 2003.

Thus, the industry is characterized by a relatively few large producers (some of which have their own national distribution

systems in place) and a large number of small wineries that primarily sell directly to consumers. For smaller wineries to access a larger geographic market, they must develop relations with distributors or larger wineries, or find alternative means for directly accessing distant markets.

DISTRIBUTION AND RETAIL While the number of wine producers has increased in the past two decades, the number of licensed wine and spirits distributors has decreased dramatically, from over 1,600 in 1984 to less than 600 in 2002. That trend resulted from the 1980 U.S. Supreme Court decision in *California Retail Liquor Dealers Assoc. v. Midcal Aluminum, Inc.*, which struck down an alcoholic beverage price-posting law in California. The law had prohibited distributors from selling alcoholic beverages to retailers at prices below official posted prices. Similar laws existed in virtually every state. Once distributors were free to compete on price, less efficient distributors closed, resulting in drastic consolidation.

The consolidation is particularly significant given the ongoing use of the three-tier distribution system adopted by most states following the repeal of prohibition. The three-tier system requires alcoholic beverages to be sold to a state-licensed distributor that in turn sells the product to a state-licensed retailer. In some instances, the state owns and even operates distribution activities in the state; occasionally, the state also owns or franchises the retail operations. However, most states license private firms to perform those activities. A reduction in the number of distributors means fewer



distribution outlets for wineries to get their products into other markets; it also suggests greater opportunity for collusive behavior among distributors.

Moreover, because few distributors have licensed operations in all 50 states, wine producers might have to develop relations with several different distributors to gain access to a broad geographic market. Thus, there are high transaction costs for wineries in identifying and negotiating marketing agreements with distributors across several states. Those costs are exacerbated by “franchise laws” in some

states that make it difficult, if not impossible, for producers of alcoholic beverages to unilaterally terminate relations with a distributor.

THE DIRECT SHIPMENT RESPONSE Continuing consolidation in the distribution and retail sectors makes direct sales the most efficient form of distribution for many small wineries, especially with the advance of Internet-based commerce. However, prohibitions on direct shipment to consumers across state lines effectively limit small wineries to onsite visitor sales and

If the earlier direct shipment prohibitions were in place for public interest reasons, it would be difficult to explain why California’s policy had its intended effect.

states that make it difficult, if not impossible, for producers of alcoholic beverages to unilaterally terminate relations with a distributor.

From the distributor’s perspective, carrying small-volume wine products also creates transaction costs. Alcohol distributors do not simply resell or direct products to established retail outlets. Alcohol distributors are frequently responsible for developing and implementing promotional activities for the products they carry. Distributor-sponsored wine tastings, advertising, and physical displays are just some of the expenses typically incurred. Small-volume products may not justify distributor marketing costs.

Not only did distribution become more concentrated in the wake of the 1980 ruling, but national retail systems also became more concentrated. Although the number of retail outlets has grown, the number of companies controlling those outlets has decreased. Centralized purchasing has created further pressure for higher-volume wine products. Moreover, competition for retail shelf space places pressure on retailers and distributors to offer recognized brands with established consumer bases. Although some space typically is allocated for smaller specialty items, shelf space is not proportional to the number of small wine producers, adding to the difficulty small wineries have in acquiring a distributor relationship.

Anecdotal evidence supports the argument that distribution is difficult and costly to access, even for larger producers. Ernest & Julio Gallo, by far the largest producer in the nation, has developed its own national distribution company. Foster’s Brewing of Australia, primarily a beer producer, acquired California’s Beringer winery in 2001 to leverage Beringer’s established distribution system for Foster’s expansion in the U.S. market. Constellation Brands, now boasting about 65 brands, grew to be the second-largest U.S. wine producer (by volume) by consolidating a portfolio of medium-sized wineries to take advantage of their combined distri-

butation capacity. Such acquisitions and vertical integration suggest the costs of market transactions to achieve the same market access must be high.

intrastate consumer markets. Direct shipment prohibitions represent a significant obstacle to growth for small wineries seeking to increase their volume, consumer base, and geographic market.

California has the most wineries of any state, accounting for approximately 50 percent of the national total. Between 1980 and 1986, the number of wineries in California grew by 60 percent. Therefore, it is easy to understand why the state’s lawmakers would want to nurture this growing industry by pushing other states to allow direct shipment. But, as noted earlier, the results of the lawmakers’ efforts have not been uniformly successful. In the first seven years following California’s move, 11 states adopted reciprocity direct shipment legislation, thereby opening their borders to California wines. In the next 10 years, 15 states enacted new legislation regarding direct shipment, but only two of those states adopted simple reciprocity laws. Ten states moved to allow direct shipment, but they require some form of permitting on the part of the consumer, the winery, or both, prior to shipping. Permitting schemes vary in cost; some states offer free permits while other states impose fees that make direct shipment unappealing for most wine purchases. Three states elected to allow consumers to special order wine through the state’s three-tier system, with delivery either to the distributor or a retailer.

PUBLIC AND PRIVATE EXPLANATIONS OF VARIATION

If direct shipment prohibitions prior to 1986 were in place solely for public interest reasons, it would be difficult to explain why California’s decision to adopt reciprocity would have its intended effect of opening up access to no-shipment states. The reciprocity incentive only affected wine producers in no-shipment states that desired to direct-ship their wines to California consumers. Thus, the fact that 23 states moved to allow direct shipment in some form suggests that the private economic

interests of wine producers in those states outweighed whatever public interest allegedly supported the original direct shipment prohibition.

To better assess whether public or private interests were the driving factors in the adoption of direct shipment legislation, we conducted an econometric analysis that used various dimensions to measure certain public and private interests in different states, and then compared those measures to the ultimate policy outcomes when state legislatures took up the direct shipment issue. Below is an in-depth description of our research methods and findings.

THE MODEL AND DEPENDENT VARIABLE For this analysis, we used a hazard model to estimate the likelihood that a state would choose to deregulate direct shipping by adopting either reciprocity or a permit system in a given year (provided it had not previously done so) based on a set of explanatory variables. Our sample began in 1986 with all 47 non-direct shipment states and continued through to 2001. Because there were some years in which no state adopted direct shipment regulation, we broke the sample into eight two-year periods (e.g., 1986–87, 1988–89, etc.) to ensure at least one state experienced a hazard in each period.

Our dependent variable took one of three values: “0” if the state did not pass direct shipment legislation in the observation period, “1” if the state passed reciprocity legislation, or “2” if the state adopted a permit system. We assumed that states could only move from nondirect shipment to direct shipment once. Thus, if a state’s dependent variable took on a nonzero value in a given year, the state was dropped from the hazard pool and was not observed in the rest of the sample period. States that did not adopt any direct shipment legislation remained in the pool throughout the sample.

We collected information on private-sector economic interests, public-sector economic interests, and proxies for public

health and safety interests related to alcohol consumption. For each observation period, we used the average value for each variable in the two years. Table 1 provides summary statistics.

THE PRIVATE SECTOR The primary private-sector interests we identified related to the size and structure of the state’s wine industry at the production, distribution, retail, and consumer levels. Wine production is measured by the number of wineries scaled by the gallons of wine consumed in the state. We also calculated the Herfindahl-Hirschman Index (HHI) and the Gini Coefficient for the state wine industry in each year based on winery storage capacity.

We expected the number of wineries relative to state consumption to be positively associated with adoption of direct shipment regulation. A larger number of wineries suggests not only a larger industry lobby, but also a greater need to seek out markets in other states. Further, we expected the winery HHI to be positively related to direct shipment. Previous research shows more concentrated industries are generally more politically effective. One theory for this result is the reduced opportunity for free riding by smaller producers.

On the other hand, we expected the winery Gini to have a negative relationship. The Gini value ranges from zero (an evenly distributed market) to one (an extremely unevenly distributed market). The greater the Gini value, the greater the inequality in production across firms. We expected greater inequality to be negatively associated with direct shipment passage; a high Gini may indicate a dispersion of economic interests (making industry consensus on legislation less likely) or an increase in the free-rider problem, both of which are likely to make the industry less politically effective.

We used the same measures of sector size and structure for distributors in the state; namely, the number of distributors per gallon of wine consumed, the distributor HHI, and the distributor Gini coefficient in each state in each year. Because dis-

TABLE 1

Summary Statistics for Explanatory Variables

Variable Name	Observations	Mean	Std. Dev.	Minimum	Maximum
Wineries per gallon consumed	309	0.0013	0.0013	0	0.0077
Winery HHI	309	4.5404	3.2142	0	10.0000
Winery Gini	209	0.3925	0.2931	0	0.9823
Distributors per gallon consumed	309	0.0036	0.0038	0.0001	0.0227
Distributor HHI	309	1.6697	1.3032	0	8.3158
Distributor Gini	309	0.4457	0.1981	0	0.8981
Retail sales of wine as % of GSP	309	0.0030	0.0178	0.0005	0.3140
Excise taxes as % total state revenue	309	0.0117	0.0075	0.0012	0.0465
License fees as % total state revenue	309	0.0008	0.0008	0	0.0040
License state (=1)	309	0.5825	0.4939	0	1.0000
Ideology	282	50.6167	24.4128	0.8333	96.2500
Liquor law violations	275	0.0637	0.0481	0	0.2417
DUIs	275	0.1211	0.0586	0	0.3841

tributors are an obvious victim of direct shipping, we expected the signs to be the opposite of those of the winery variables. In particular, we expected the number and concentration of distributors to be negatively related to adoption of direct shipment legislation and we expected the Gini (dispersion) measure to be positively related to passage.

No reliable figures were available for the number of wine retail outlets by state or sales volume of individual retail outlets for the entire sample period, so we could not construct similar measures. Instead, we used the ratio of retail wine sales as a share of gross state product to measure the size of the retail wine industry. This is not a perfect measure because it captures both retailers' interests in protecting wine flows through their outlets and consumers' demand for wine, which might suggest greater demand for access to difficult-to-find, out-of-state labels.

THE PUBLIC SECTOR To account for states' financial interests in the sale of wine, we included variables for alcohol revenue sources (excise taxes and licensing fees) as a percentage of total state revenue. Most state reciprocity laws expressly allow wineries and consumers to avoid the excise tax. States that are more reliant on those funds might be less likely to pass such legislation. In the case of licensing fees, the argument is less clear. Because direct shipment is not likely to change the number of licensed distributors or retailers in a state, there may be less concern regarding licensing fees. Moreover, a fee-based permitting system may increase total licensing fee revenues. Consequently, the effect of licensing fee revenue on reciprocity is unclear and might actually increase the probability of adopting a permit system.

In addition to tax revenues, control system states — those that operate at the distributor and (in some cases) retail levels — have business interests similar to private distributors and retailers. Besides the wholesale margins a state-monopoly distributor may be able to generate, state-run distribution systems also create public-sector jobs that have economic interests in preserving the status quo. Although license jurisdictions require employees to process and enforce private parties' permits, it is reasonable to assume the public-sector employment interests in those states are smaller, if not in line with a permitting system. We employed a dichotomous variable that took a value of "1" for license jurisdictions and "0" for control states to account for those structural differences. We expected license states to be more likely to pass direct shipment regulation.

To measure the public interest, we included two variables reflecting negative social impacts of alcohol consumption: DUI arrests and violations of existing liquor control laws (e.g., minor in possession, distribution to minors). We calculated the percentage of DUI arrests and the percentage of liquor law violations relative to all arrests each year by state. We expected higher incidences of alcohol-related arrests would decrease the likelihood of passing direct shipment legislation. Unfortunately, data on arrests were only available through 1999 and included some missing observations for individual states in some years.

TABLE 2

Competing Risks Hazard Results, 1986-1999

Variable Name	Model A		Model B	
	Reciprocity	Permit	Reciprocity	Permit
Period 1 (1986-87)	-22.772*** (8.647)	-44.257*** (4.818)	-10.421*** (4.491)	-40.046*** (2.101)
Period 2 (1988-89)	-18.365*** (5.877)	-44.502*** (4.811)	-10.274** (4.573)	-40.354*** (2.215)
Period 3 (1990-91)	-17.111*** (6.309)	-45.067*** (5.656)	-9.027** (4.373)	-40.844*** (2.132)
Period 4 (1992-93)	-14.528*** (5.674)	-45.570*** (5.662)	-8.134** (4.157)	-41.398*** (2.133)
Period 5 (1994-95)	-56.717*** (5.663)	-5.351 (4.017)	-48.037*** (4.176)	-3.578** (1.841)
Period 6 (1996-97)	-16.588*** (5.708)	-5.301 (4.771)	-9.459** (3.905)	-3.571 (2.251)
Period 7 (1998-99)	-57.653*** (7.187)	-2.335 (3.642)	-46.934*** (3.922)	-0.504 (1.689)
Wineries per gallon consumed	4024.2*** (1364.41)	-1737.5* (1105.2)	-2360.0*** (876.5)	-1545.1* (1050.9)
Wine industry concentration (HHI)	0.292 (0.244)	0.207 (0.187)	-0.037 (0.171)	0.178* (0.131)
Wine industry dispersion (Gini)	-14.481** (6.715)	-2.270 (2.558)	-9.000** (5.099)	-2.759 (2.904)
Distributors per gallon consumed	-1033.58*** (429.78)	-61.454 (137.27)	-155.81 (190.35)	-36.831 (117.193)
Distribution industry concentration (HHI)	-7.738*** (2.675)	0.105 (0.330)	-2.971*** (1.164)	0.152 (0.319)
Distribution industry dispersion (Gini)	29.433** (13.940)	8.957* (5.131)	22.726** (9.873)	8.226** (4.118)
Retail wine sales % GSP	-1094.8 (1959.3)	-197.60 (442.74)	-556.02 (1223.60)	-218.55 (463.62)
Excise taxes % total revenue	-255.37** (120.12)	298.53* (201.54)	-44.436 (91.593)	-295.36** (133.48)
License fees % total revenue	1453.83** (747.79)	12679 (1325.4)	-591.01 (1249.81)	1046.2 (889.5)
License jurisdiction	9.592*** (3.186)	-0.327 (1.646)	3.837* (2.699)	-0.395 (1.696)
Government conservatism	-0.083*** (0.027)	-0.013 (0.024)	-0.055** (0.030)	-0.022 (0.018)
DUI arrests	56.948** (23.762)	3.631 (14.662)		
Liquor law violations	37978* (25.307)	8.351 (14.256)		
Number of observations	275		282	
Log likelihood	-34.017		-40.493	
Pseudo R ²	0.887		0.869	

NOTE: ***, **, and * signify statistical significance at the 1%, 5%, and 10% levels, respectively. Standard errors in parentheses.

TABLE 3

Competing Risks Hazard Model, Full Sample

Variable Name	Reciprocity	Permit
Period 1 (1986–87)	-10.159*** (3.188)	-36.561*** (1.052)
Period 2 (1988–89)	-10.069*** (2.987)	-36.760*** (0.965)
Period 3 (1990–91)	-9.302*** (2.730)	-36.983*** (0.955)
Period 4 (1992–93)	-9.039*** (2.718)	-37.178*** (0.987)
Period 5 (1994–95)	-43.958*** (2.486)	-3.200*** (1.043)
Period 6 (1996–97)	-9.091*** (2.773)	-2.909* (1.476)
Period 7 (1998–99)	-42.697*** (2.568)	-0.228 (1.058)
Period 8 (2000–01)	-8.377*** (2.634)	-0.402 (1.237)
Wineries per gallon consumed	1405.6*** (416.7)	-916.8* (573.9)
Wine industry concentration (HHI)	-0.041 (0.122)	0.1632* (0.111)
Wine industry dispersion (Gini)	-4.924** (2.602)	-1.275 (1.649)
Distributors per gallon consumed	56.018 (140.8)	83.74 (77.25)
Distribution industry concentration (HHI)	-1.155* (0.699)	-0.130 (0.253)
Distribution industry dispersion (Gini)	13.879*** (5.274)	1.616 (2.809)
Retail wine sales % GSP	-134.09 (547.4)	-224.4 (382.9)
Excise taxes % total revenue	-55.387 (72.460)	-166.9* (117.1)
License fees % total revenue	-841.99 (757.450)	608.5 (783.6)
License jurisdiction	2.098* (1.301)	0.482 (1.314)
Number of observations	309	
Log likelihood	-57.8756	
Pseudo R ²	0.8295	

NOTE: ***, **, and * signify statistical significance at the 1%, 5%, and 10% levels, respectively. Standard errors in parentheses.

We also used a measure of government ideology available from the Inter-university Consortium for Political and Social Research (ICPSR) for the years through 1999. This measure is meant to capture the political conservatism or liberalism of state governments. The government ideology measure is essentially a weighted index of the political affiliations of elected state officials, adjusted for voting record scores produced by the Americans for Democratic Action and the AFL-

CIO Committee on Political Education. A weighted average score is assigned for each body of the state legislature and the governor, and then weighted by 25 percent for each legislative house and 50 percent for the governor to arrive at a final score for each state. The score ranges from 0 to 100, with 0 being most conservative and 100 being most liberal. Although we had no strong *a priori* argument that one political ideology would necessarily be more likely to pass direct shipment regulation, conservatives are generally viewed as more supportive of free trade, suggesting a negative relation between this index and direct shipment. However, conservatives are also generally more supportive of states' rights and are more likely influenced by conservative groups that promote temperance.

EMPIRICAL RESULTS Given the limitations in arrest and governmental variables, we estimated three specifications of the same basic model. The first results, presented in Table 2 as Model A, are for the period 1986–1999 and include all the variables discussed above. Column 1 of Table 2 shows results for the reciprocity hazard for Model A. As expected, the number of wineries relative to state wine consumption is positive and strongly significant. Winery concentration (HHI) has the expected positive sign but is not significant. Greater winery dispersion (Gini) significantly reduces the likelihood of adopting reciprocity, as expected. All of the distributor industry variables are significant at the 5 percent level or better and have the expected signs. More distributors and higher concentration reduce the likelihood that reciprocity direct shipment will be passed, while greater dispersion increases the likelihood of reciprocity. Thus, private-sector economic interests appear to affect regulatory outcomes in expected ways.

Of the public-sector variables, dependence on excise taxes is significant and negatively related to the likelihood of adopting direct shipment, suggesting states' financial interests play a role in direct shipment. Whether the state operates a control or license distribution system has the expected positive sign, meaning license states are more likely to adopt reciprocity, which is significant at the 1 percent level. Those results are consistent with the argument that economic interests within the public sector also have significant influence on direct shipping regulation.

The public interest results show liberal state legislatures are less likely to adopt reciprocity, suggesting conservative pro-trade leanings extend to interstate commerce. The one puzzle in the public interest variables is a positive and strongly significant coefficient on DUI arrests. We do not have a good explanation for that, as the result is inconsistent with the public interest expectation.

The second column under Model A in Table 2 presents results for the permit system "hazard." In general, few estimates are significant at even the 10 percent level. Of those that are significant, wine industry concentration, distribution industry dispersion, and excise tax dependence have the expected signs, as in the reciprocity results. Interestingly, the number of wineries is negatively associated with adoption of permit systems.

That is counter to our original expectations, but is not necessarily counter-intuitive. Given that new legislation represents a certain degree of “lock-in,” wineries may oppose permit-based direct shipment if they believe a reciprocity alternative might otherwise be available. If wineries thought passage of a permit system would preclude the opportunity to pass simple reciprocity, then they may opt to retain that legislative option by opposing a permit bill.

The lack of more robust statistical significance in the permit results might be indicative of political bargaining among competing interest groups. Becker argues that multiple interest groups with competing interests will result in negotiated policies that do not reflect any group’s most desired outcome. That is also consistent with the time period dummy variables, which show — other things equal — the probability of passing permit legislation goes up over time while the probability of passing simple reciprocity goes down. Combined with the results on the economic interest variables, those temporal trends suggest states with relatively stronger wine interests quickly pass legislation most favorable to the wine industry (reciprocity) while states with stronger distributor and state economic interests do not pass any direct shipment allowance. States with relatively balanced interests end up passing compromise legislation (permitting some form of direct shipment), but only after a more prolonged legislative process.

On the whole, the results from Model A are largely consistent with an economic interest theory of regulation and show little evidence of public interest factors playing a significant role in determining interstate direct shipping regulation. Indeed, the results on alcohol-related arrests indicate a positive — and in the case of reciprocity, a significantly positive — effect on allowing direct shipment, counter to a public interest rationale.

Because the above specification has missing observations in the arrest data, we re-estimated the model without the liquor law and DUI arrest variables. The results are reported as Model B in Table 2. Comparing the results to Model A, there are no substantive changes in the direction of relationship, only in the level of significance. By and large, the results are consistent across the board. Economic interests in both the private and public sectors appear to affect significantly the likelihood of regulatory change in direct shipment. A log-likelihood ratio test fails to reject the hypothesis that the constrained model performs significantly differently.

Finally, we omitted the government ideology and arrest variables and re-estimated the model using the full sample across all eight time periods. The results of this specification are reported in Table 3. Once again, the number of wineries has a strong positive association with passage of reciprocity legislation, and dispersion among wineries has a negative, though weakly significant, effect. Increased concentration among distributors reduces the likelihood of passage, though more dispersed distribution industries increase the likelihood of passage. States with license distribution systems continue to appear more likely to adopt reciproc-

ity. Results on the permit system are likewise consistent with earlier results, both in their lack of overwhelming statistical support for particular economic interests and in their consistency with Becker’s argument regarding competing political interests.

CONCLUSION

California’s 1986 passage of reciprocity direct shipment regulation tightened the state’s borders with respect to wines from other states. The legislation’s purpose was to pry open the borders of the 47 states that then prohibited interstate direct shipment of wine to their citizens. In the 18 years that followed, an interesting legacy has evolved: a nationwide patchwork of direct shipment regulation, a conflicted set of appellate judicial rulings, and an impending Supreme Court battle.

At the heart of the debate is a simple question: Do state restrictions on direct interstate shipment stem from public welfare concerns or economic interests? Our study suggests economic interests in both the private and public sectors are the principal drivers of restrictions on direct interstate shipping of wine.

Those results have immediate consequence for the legal battles raging across the country contesting the constitutionality of direct shipment laws. To the extent that public welfare interests are required by courts to justify states’ restrictions on interstate commerce, our results cast a shadow of doubt on public interest arguments in the instance of direct shipment of wine. They also raise questions about similar restrictions on direct interstate shipping of other alcohol products, particularly specialty microbrew beers that face similar distribution hurdles. **R**

READINGS

- “California’s Wine Industry Enters New Era,” by Dale Heien and Philip L. Martin. *California Agriculture*, Vol. 57 (July–September 2003).
- “A Changing Distribution System,” by Ed Everett. In *Successful Wine Marketing*, edited by Kirby S. Moulton and James T. Lapsley; Gaithersburg, Md.: Aspen Publishers, 2001.
- “The Impact of the Canada–United States Free Trade Agreement on U.S. Wine Exports,” by Dale Heien and Eric N. Sims. *American Journal of Agricultural Economics*, Vol. 82 (2000).
- “Interstate Obstacles to Commerce,” by Gerald P. O’Driscoll, Jr. In *Free Trade within North America: Expanding Trade for Prosperity*, edited by Gerald P. O’Driscoll, Jr.; Norwell, Mass.: Kluwer Academic Publishers, 1993.
- “A Theory of Competition among Pressure Groups for Political Influence,” by Gary S. Becker. *Quarterly Journal of Economics*, Vol. 98 (1983).