

NATIONAL REVIEW

Liquor-License Rules Are Crippling Restaurants at the Worst Possible Time

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September 19, 2021

Now is not the time to hammer food establishments trying to crawl out of the pandemic.

The pandemic and related closures hit the restaurant industry hard, with about 90,000 eateries closing permanently. When the pandemic finally subsides, America will need entrepreneurs to launch new restaurants and fill the void.

But restaurant entrepreneurs face government barriers. Before opening in New York City, for example, a “restaurant may need to obtain as many as 30 permits, registrations, licenses, and certificates and could face as many as 23 separate inspections.”

In many states, alcohol licensing can be the largest barrier. By my count, there are 18 states that, using per capita formulas, cap the number of licenses in cities and counties. The caps can make restaurant launches very costly or block them entirely, particularly when businesses want to serve liquor in addition to beer and wine.

In the states with caps, entrepreneurs can buy a liquor license from a restaurant that is closing, but they can cost a fortune. Licenses cost up to \$300,000 in Alaska and California, \$445,000 in Florida, \$250,000 in Idaho, \$400,000 in Indiana and Massachusetts, \$370,000 in Montana, \$350,000 in New Jersey and Pennsylvania, and \$300,000 in South Dakota.

These high costs favor corporate chains with deep pockets over independent entrepreneurs. License restrictions also increase risks, because entrepreneurs usually need to sign leases and start paying rent before they know whether a license will be available and be approved by officials months down the road. Obtaining a license can be crucial, as restaurants earn a large share of their profits from alcohol.

States and cities with tight alcohol-license caps strangle economic development and neighborhood revitalization. The poorest neighborhoods suffer the most, because entrepreneurs there cannot afford the high license costs. News stories across the country highlight the unfairness and needless harm done by license restrictions.

In Boston, it costs about \$400,000 for a liquor license and \$150,000 for a beer-and-wine license. As a result, the *Boston Globe reported*, some poorer “neighborhoods have largely missed out on Boston’s restaurant boom, as developers and restaurateurs in wealthier parts of the city pay top dollar to secure the available licenses.” One study found that the wealthiest one quarter of census tracts in the city hold more than half of the available licenses.

In Pennsylvania, Hamir Patel, the chef and owner of a downtown restaurant, opened Hamir's Indian Fusion in 2018. "By his estimate, it would take him another three or four years before he can afford to purchase a liquor license," according to the *York Daily Record*. "He said the cheapest license he has found has cost \$350,000 to \$400,000 — a price he can't afford. Without a license, he believes he is suffering at least a 25 percent loss in potential revenue."

In South Dakota, Rudy Navarrete, a Sioux Falls, entrepreneur closed his restaurant because, according to the *Argus Leader*, the city's "liquor laws also makes it hard for anyone local to run a restaurant unless they're a franchisee of a national chain. With the cost of a full on-sale liquor license often topping \$300,000, Navarrete was never able to afford the ability to have a full bar and serve up high-end margaritas to his customers, he said. 'It's just kind of set up for franchises to succeed.'"

The *Argus Leader* also profiled Ted Thoms, who "still sees potential in the grassy lot at West 12th Street and Sertoma Avenue where he once hoped to open a steakhouse. . . , He filed for a liquor license from City Hall. Ten years later, his application was approved. By then, he'd sold the land, given up on the project and deemed the restaurant investment 'one of the worst investments I've ever made.'"

In New Jersey, liquor licenses costing \$350,000 are "crippling the state's dining scene," reported NorthJersey.com. The high cost is "often out of reach for independent chefs and restaurateurs. And without the ability to serve alcohol, 'You can't make any money,' said Drew Nieporent, a celebrated New York restaurateur and former New Jersey resident. Nieporent has owned more than 40 restaurants . . . but refuses to open a restaurant in the Garden State."

Meanwhile, chef Peter Loria "still recalls with disappointment the time he tried to open a restaurant in Ridgewood. He poured a chunk of his retirement savings into what he thought would become a destination for New Jersey food lovers, but he hit a common roadblock. 'I couldn't get a liquor license. . . . So it never opened. It was heartbreaking.'"

NorthJersey.com says that alcohol-license caps "are seen by local officials as holding back efforts to revitalize downtowns and attract new, often younger residents." The caps frustrate "local officials and developers who have embarked on ambitious projects across the state to revitalize downtowns with new housing, entertainment and — crucially — restaurants."

In San Francisco, "with the cost of a full liquor license . . . now running as much as \$300,000, restaurant and bar owners in the city's outlying, lower-income neighborhoods have been all but drained of the ability to serve liquor and cocktails — and the attendant profits." The pandemic has reduced license costs somewhat, and California has pursued reforms to provide cheaper licenses for selected low-income areas.

But why don't California and other states repeal those caps altogether as bottlenecks to inclusive economic growth? Partly it is because of old-fashioned views about controlling vices with top-down regulations. And partly it is because existing restaurateurs lobby against reforms that would devalue their high-cost licenses. In Sioux City, as noted in the *Argus Leader*, "attempts to change the law have failed or been watered down, as reformers fight against business groups that benefit from the current system, entrenched in South Dakota for decades."

It is true that reform would undermine existing license holders, but the caps in 18 states are causing real damage, and the other 32 states are doing fine without them. So a compromise is needed — perhaps loosening the caps over time, leading to full repeal in the long run.

Restaurant entrepreneurs face many challenges, including finding workers and dealing with pandemic mandates from governments. An added challenge in 18 states is that government caps create artificial scarcity for alcohol licenses. Repealing the caps would benefit entrepreneurs and economic growth particularly in lower-income neighborhoods, and so it should be a reform that both liberals and conservatives can support.

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