Assessing the impact of alcohol sales restrictions on alcohol consumption

Tuomas Kusonen (VATT, Helsinki)

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Abstract:

We examine the impacts of alcohol sales restrictions and alcohol taxation on alcohol sales that is a proxy for alcohol consumption. We also assess the broader welfare implications. We focus on the role of government alcohol monopolies in an environment where the sales of alcohol is allowed but limited outside of the state monopoly stores. We are able to leverage two reforms that relaxed the restriction on alcohol sales outside of the state monopoly. We also utilize changes in alcohol tax rates. Our data comprise of product and store (region) level monthly sales from the state monopolies in Finland and Sweden as well as private grocery store chains in the two countries spanning a decade. In these data we can study in detail the impact of the reforms on total alcohol sales as well as substitution and spillover patterns across product categories and store chains. Our results indicate that sales of alcohol products that were newly allowed in grocery stores increased to about 500\% of the level the products that had been sold in the state monopoly prior to loosening the restriction in 2018. Contrasting this large main effect, we also find very large substitution between different product categories and between the state monopoly and private stores. The net effect of the reform in 2018 seems to be negligible on total alcohol consumption when accounting all these substitution patterns, despite the very large direct effect. We also find evidence of spillover effects to the sales of more distant alcohol product categories than the ones directly affected by the reform. Preliminary results from 2024 reform that further loosened sales restrictions are aligning with those of the 2018 reform. These effects entail a welfare loss originating from alcohol sales restrictions. In general the results suggest very limited gains in terms of reduced alcohol consumption from the sales restrictions. We provide a theory discussion and survey evidence to discuss the potential mechanisms behind the main effects.

Authors:

Sami Jysmä {Labour Institute for Economic Research and FIT}, Arnaldur Stefansson {University of Iceland} and Lukas Worku {Tampere University and FIT}, Tuomas Kusonen (VATT, Helsinki).