

The Economic Impact of Pet Sales in Connecticut

By

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Introduction

The Pet Industry Joint Advisory Council has asked me to provide an economic analysis of proposed regulations that would prohibit the sale by Connecticut pet stores of dogs and cats that come from out-of-state breeders. While the desire to address the cruelties inflicted by unscrupulous “puppy mill” operators springs from noble and humane motives, it is my considered professional opinion¹ that the economic impact of a ban on the sales of dogs and cats by pet stores in Connecticut would not substantially mitigate the problem, but would rather cause considerable hardship for small pet stores in Connecticut and negative effects for the broader Connecticut economy. These effects would result from many of the same reasons that regulatory burdens disproportionately impact small businesses, the availability of close substitutes to purebred dogs and cats sold in Connecticut pet stores, and the “local spending multiplier” impact of taking away business from small local firms within a community. Instead, there is good reason to believe that a better approach would be to target the breeders themselves with new regulations that would create a high standard for ethical breeders and drive the less scrupulous ones out of the market.

Regulation and the Impact on Small Connecticut Pet Stores

Empirically, the effects of new regulations on the sale of dogs and cats are likely to impact small pet stores in Connecticut quite strongly. A 2010 study sponsored by the U.S. Small Business Administration found that the costs of government regulation for small businesses (defined as fewer than 20 employees) in the U.S. were approximately \$10,585 per employee, whereas the equivalent number for large businesses (500 or more employees) was \$7,755, or a difference of 36%.² There are several reasons these numbers that come from standard economic theory.

As a general rule, small businesses have a harder time adjusting to new government regulations than do large businesses. This disproportionate impact is because those larger businesses often

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² “[The Impact of Regulatory Costs on Small Firms](#)” by Nicole V. Crain and Mark W. Crain. Small Business Administration Office of Advocacy Contract #SBAHQ-08-M-0466. Released September, 2010. See, in particular, pages 54-55.

have advantages over smaller businesses in both economies of scale and economies of scope. Economies of scale refers to the idea that, as some businesses become larger, they can more easily spread out certain fixed costs of their operations over a larger sales volume. For instance, a large national chain can afford to hire or retain specialized lawyers in order to help them to interpret the new regulations and to formulate strategies that will maintain the firm's profitability while satisfying rules for compliance. For smaller firms, such a comprehensive strategy may be beyond their limited financial reach. They will have to comply with such regulations as best they can, even if their limited knowledge means that their subsequent strategies are suboptimal.

Economies of scope refers to the likelihood that a larger firm may be able to diversify its revenue streams across several different sources, whereas a smaller firm may heavily rely on one or two sources of revenue. Because the larger firm has multiple sources of revenue to fall back on, it may find it easier to shut down or redirect resources from a segment of its business or geographic location that is being hindered by regulation to other segments or locations that are not facing constraints. Thus, the firm as a whole may be able to stay healthy even while certain parts of it are hindered. A smaller firm – especially a small firm that is strongly embedded in one community – does not have a similar option. If its primary revenue stream is disrupted by new local regulation, the financial health of the store will be significantly impacted, and the store could be forced to close.

Substitutability and the Impact on Connecticut Consumers

Small pet stores that sell dogs and cats are a part of Connecticut's economy because they satisfy a demand created by the state's consumers for purebred dogs. The effect of a law that would prohibit Connecticut pet stores from selling from breeders that are not locally-sourced would not be to reduce that demand, but rather channel that demand to out-of-state retailers. The economic impact of any ban would be greatly affected by the substitutability of Connecticut-based pet stores with other sources of purebred dogs. We have every reason to believe that substitutability in this industry would be high – that is, a ban on selling dogs bred out-of-state would not substantially reduce the demand for such dogs. Rather, the demand would go to pet stores in neighboring states and to internet-based out-of-state breeders, where Connecticut state regulations would not apply and the dollars spent would not benefit the Connecticut economy.

In a state that is relatively small geographically such as Connecticut, consumers will always have the option of leaving the state to make a purchase if state regulations make it difficult for them to buy the product that they want. Springfield, Massachusetts is about half an hour drive from Hartford. White Plains, New York is about 45 minutes from Bridgeport. Westerly, Rhode Island is about 25 minutes from New London. In short, a large fraction of Connecticut's population

lives within a very short driving distance of towns and cities just over the border in neighboring states. These distances are relatively small when compared to the driving behavior of the average Connecticut resident. According to the August 2013 “Traffic Volume Trends” survey of the U.S. Department of Transportation, the average Connecticut resident drives approximately 25 miles per day.³

Because Connecticut’s neighbors do not have restrictive legislation regarding the sale of pets sourced from breeders, Connecticut residents in the market for purebred dogs could easily take their business to pet stores in neighboring states or internet-based breeders if they are unable to get the breed that they are looking for from a local pet store. Such a development would do nothing to shift the demand for dogs from out-of-state breeders to local shelters and rescue centers, but would rather have a highly negative impact on small pet stores in Connecticut.

There are many costs that go in to owning a dog – between dog food, veterinary visits, vaccines, toys and obedience classes, the bill can be quite large, easily exceeding \$1000 per year over the course of a dog’s life. Indeed, the purchase price of a dog is a relatively small fraction of the overall cost of owning a dog, even when purchased from a high-quality breeder.⁴ Furthermore, the driving distance to another state is relatively small for most Connecticut residents. Given the overall high costs of owning a dog, it is unlikely that consumer preferences (which, in the market for purebred dogs, tend to be very specific) will be sensitive to relatively modest changes in the cost associated with purchasing a dog. The increase in transportation costs entailed in purchasing a dog from a neighboring state is indeed very modest when compared to the many other considerations that go into owning a dog.

Multiplier Effects and the Impact on the Broader Connecticut Economy

Small pet stores are a significant employer in Connecticut and are an integral part of the economies in the communities that they operate in. Of their total retail sales, store level data provided by the Pet Industry Joint Advisory Council indicates that sales of dogs and cats account for something on the order of 25% of total revenues on average – although for some stores, it can be much higher. Even if we make the heroic assumption that banning the sale of dogs and cats would only cause store revenues to go down by 25% and not force any stores to close completely, this could still represent a large direct and indirect impact on the broader Connecticut economy.

³ “August 2013 Traffic Volume Trends” by the Office of Highway Policy Information, U.S. Department of Transportation. Accessed online on November 18, 2013.

⁴ See, for example, “How Much is that Doggie in the Window? The Surprising Economics of Purchasing a Purebred Puppy” by Allen St. John, Forbes.com, Feb. 2, 2012.

If a significant portion of Connecticut's pet stores were to shut down or scale back operations as a result of a ban on pet sales, there would be ripple effects on the rest of the Connecticut economy. Pet stores employ people directly, and in a still-less-than-robust job market, any Connecticut residents losing their jobs as a result of new regulations may find it difficult to transition into new employment. This hurts their own ability to buy goods and services from other Connecticut businesses. Such a "local spending multiplier" effect can multiply the impact of lower spending and job losses beyond the immediately affected industry.

There is some debate in the literature on regional economics as to how large such multipliers are in practice, and surely the result is contingent on a number of factors such as the size of the defined region, the state of the local economy and some of the particular characteristics of the affected industry. However, one generally accepted result from the economic literature is that small local businesses tend to have a larger local multiplier effect than larger national chains. The reason is largely because money spent at small local businesses is more likely to be recirculated in the community. For example, a local business's profits will more likely be distributed to local owners rather than national shareholders. Also, small local businesses are also more likely than large national chains to use other local businesses for ancillary services such as bookkeeping. Any excess funds that a local business has are more likely to be deposited in a local bank and loaned out to other local businesses. Thus, money spent at small local businesses is less likely to "leak" into neighboring states and regions.

Given these observations, it is not unreasonable to assume that a ban on the sales of dogs and cats in small Connecticut pet stores would have a relatively high multiplier effect on the Connecticut economy. For example, a recent study by the group Civic Economics of businesses in the Canadian province of British Columbia found that local independent retailers recirculated approximately 45% of their revenues in the local economy.⁵

Assume that the same 45% number applied to revenues earned by a small Connecticut pet store. In such a scenario, \$1000 worth of business for the pet store becomes \$450 worth of business for other Connecticut firms. However, the impact does not stop there. Even if only 30% of that \$450 is spent in Connecticut, then that money accounts for another \$135 worth of local spending. Assuming a constant 30% local recirculation rate on subsequent purchases the total amount of economic activity in Connecticut generated by that initial \$1000 purchase in the small pet store could be as high as \$2092.⁶

⁵ "Independent BC: Small Business and the British Columbia Economy" by Civic Economics, February 2013. Accessed online November 20, 2013. See, in particular, page 11.

⁶ The precise formula used here is:

$$\$1000 + \$450 + \$450 * (0.3 + 0.3^2 + 0.3^3 + \dots) = \$1450 + \$450 * \left(\frac{1}{1-0.3}\right) = \$2092.86$$

While these numbers are for illustrative purposes only, and the exact impact of a fall in revenues for Connecticut pet stores on the broader Connecticut economy would be determined by factors unique to that economy, there is good reason to believe that the impact of lost sales caused by regulations on the sale of dogs and cats in pet stores would be considerably in excess of the direct impact of lost sales.

An Alternate Approach: Targeting Out-of-State Breeders

The above arguments demonstrate that an approach that targets Connecticut pet stores that sell dogs and cats will be bad for the Connecticut economy while doing little to address the underlying problem. However, they do not offer an alternate approach that would be more effective. In this case, regulations that set humane standards for out-of-state breeders that they would have to meet in order to sell dogs and cats to Connecticut retailers would be a more effective approach.

Automobile manufacturers often advertise that their cars meet California emissions standards, even when they are selling outside of California. They do so because many other states have adopted California's standards as their own. As a result, auto manufacturers have increased their standards across-the-board in their production process, as tailoring their production processes to individual states is too costly a process for them. A high standard for out-of-state pet breeders who wish to sell dogs and cats to stores in Connecticut could potentially have a similar effect, especially if Connecticut were to act in concert with neighboring states. Besides placing the burden of regulatory compliance on out-of-state businesses, offering a set of high standards for breeders to follow is more likely to attain the goal of a humane pet industry, as reputable breeders would strive to meet the highest standards of any state that they do business in.

Conclusions

The pet industry suffers from the practice of unscrupulous and inhumane breeders. That the legislature of Connecticut wishes to do something to end these practices speaks well of the state. However, an approach that targets local Connecticut pet stores and puts a burden on them in terms of restricting sales will do little to address the problem. Instead, it will simply shift the same business out of the state, thereby doing nothing that will significantly affect the worst breeders, but having negative impacts on the Connecticut economy – starting with the small business owners that make up a significant portion of the pet store industry. A better strategy is to focus on the breeders themselves, setting a high standard for them, and transforming an industry that is meeting a demand for purebred cats and dogs.