



2014 ISSUE BRIEFS FOR STATES

Brief Explanations of Common Alcohol Regulatory Issues Facing State and Local Communities

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An Introduction to the 2014 Issue Briefs for State Policy-Makers

This is a package of simple briefs that address common issues about alcohol regulation. It is designed for community leaders, elected officials and other policy-makers who need a short, straightforward explanation of a given issue.

For each brief, research citations are given where they exist. The Appendix lists resources for further information about a given issue as well as the sources for quotations and facts cited. This publication is issued annually in order to incorporate current information.

Alcohol problems are complex and impacted by a variety of factors. Drinking is more prevalent in northern countries and in northern US states. Religious prohibitions may lower consumption rates. Young people, males and some ethnic groups drink at higher rates. A complex social problem generally requires a comprehensive system of regulation to address all its facets.

A growing body of research points to the need for a comprehensive system with multiple methods to contain price, availability, potentially dangerous products and aggressive promotions. These regulations work together, so changing a single regulation can change the workings of the entire system.

The primary purpose of the alcohol regulatory system and its individual regulations is to protect public health and safety. Whenever a change is proposed, the first question should be: How will this change affect public health and safety?

How to use these briefs:

Each brief is designed to stand alone. Please feel free to copy any of them including the attribution to healthyalcoholmarket.com. If you wish to modify one or more of the briefs, please contact the author, Pamela S. Erickson, and she will attempt to accommodate your needs. She can be reached at pam@pamaction.com. Further information can be found at healthyalcoholmarket.com.

New is this edition:

Most of the briefs have received minor editing for updated information and additional clarity. Brief #6 regarding why some states own and operate the liquor business was extensively revised to provide updated information on Washington state's recent privatization. A new brief (Brief #16) was added on the value of a strong wholesale sector. New research on privatization and the efficacy of forty-seven alcohol policies was incorporated into Brief #6 and Brief #16.

This publication is available in pdf format at healthyalcoholmarket.com. Each brief is also available as a single pdf on the same website.

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Issues relating to the history and purpose of alcohol regulation:

1. Aren't our alcohol regulations antiquated? Weren't they designed to prevent organized crime and other problems of Prohibition?
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Revenue and safety:

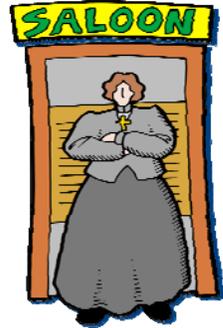
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Issue Brief #1:

Aren't our alcohol regulations antiquated? Weren't they designed to prevent organized crime and other problems of Prohibition?

Today's alcohol regulations were primarily designed to prevent problems which occurred **before Prohibition**. As Historian W.J. Rorabaugh reminds us, "For generations, Americans had been heavy drinkers, and by 1900 saloons were identified with political corruption, prostitution, gambling, crime, poverty and family destruction." Prior to Prohibition alcohol was sold in a free-market scenario with little regulation. National manufacturers controlled the industry and owned retail saloons—called "tied houses"—where almost all alcohol was consumed. To compete, each national company saturated neighborhoods with multiple outlets which were often located near factories to attract workers. Aggressive promotions encouraged high volume consumption and money was used to dissuade politicians from crack-downs.



Most of our alcohol regulations are designed to prevent companies from dominating local markets by heavily promoting large amounts of cheap alcohol. That is a very modern concern given the propensity of large corporations to do that with other commodities and to do that in countries where alcohol can be sold in virtual free-market scenarios.

The lessons from Prohibition are different. A primary lesson is that extreme measures applicable to the entire country with very little flexibility do not work. Second, laws must have public support to be effective. As a result, our alcohol regulations are state-based, allowing for differences and for experimentation.

Currently, our regulations enjoy a **high** level of support as evidenced in numerous surveys. Based on a national survey, Alexander Wagenaar and his colleagues found that the "Results showed high levels of public support for most alcohol control policies. Over 80% support restrictions on alcohol use in public places, such as parks, beaches, concert venues, and on college campuses. Eighty-two percent support increased alcohol taxes, provided the funds are used for treatment or prevention programs. Over 60% support alcohol advertising and promotion restrictions, such as banning billboard advertising, banning promotion at sporting events, or banning liquor and beer advertising on television."

"Those who cannot remember the past are condemned to repeat it."

***George Santayana,
Reason in Common Sense,
The Life of Reason, Vol. 1.***



Issue Brief #2:

Why do we need regulations to balance our alcohol market systems?

The reason for regulations in the alcohol market is very simple: some common business practices can produce social harm. These practices often work well for other products, but not for alcohol.

Consider this example of three typical business plan strategies:

1. Efforts to retain and increase purchases by customers who are “**frequent buyers.**”
2. Discounts and promotions to gain **new frequent buyer** customers.
3. Advertising to **young people** to build a future customer base.

When applied to alcohol sales, such business practices would:

1. Increase sales to frequent buyers, including **heavy drinkers and alcoholics.**
2. Use volume discounts and incentives to **encourage heavy use.**
3. Market alcohol to youth, thus encouraging **underage drinking.**

Alcohol regulatory systems seek to achieve a healthy balance of business practices which keep prices moderate: not too low to push consumption, not too high to push bootlegging or theft. They also make products reasonably available for customers, prohibit promotions that foster heavy consumption and strictly control sales to minors. These things are designed to foster moderation because we know from research that moderation in consumption of alcohol avoids most problems. One should be skeptical of cries for a free market environment with no regulations. A truly free-market, devoid of any rules at all, does not really exist for any commodity; for alcohol, it would result in serious unintended consequences.

Estimates indicate the alcohol market includes:

- 17.5% underage drinkers
- 20+% adult abusive/dependent drinkers
- 10-20% of alcohol sold is consumed by underage drinkers

Archives of Pediatrics and Adolescent Medicine, 2006



Issue Brief #3:

Since alcohol is a legal product, why can't it be sold like orange juice or any other legal product?

Most "legal" products are regulated to protect the public's health and safety. In the US, food products are regulated by the Food and Drug Administration to ensure that products are safe and that the contents match their labels. When regulation is weak or sloppy, we are at risk of food poisoning, food-borne illnesses, fraudulent packaging and other problems. For similar reasons, restaurants are regularly inspected locally to ensure that they serve only safe and healthy products. Fines and other penalties are issued to those in violation. No one would suggest that we should have no food regulations merely because the sale of food products is legal.



One highly regulated product in today's market is the automobile. Regulations require that each car sold must contain a long list of equipment to ensure its safety, fuel economy, and to reduce air pollution. Once you buy a car, there are more regulations to follow, including those for proper use of children's car seats, seat belts, safe driving speeds, and so on. Once again, no one would ever suggest that we should eliminate regulations just because the automobile is a legal product.

Cigarettes are highly regulated products that have some interesting parallels with alcohol. While cigarettes are legal to buy and smoke, there are many restrictions on their sale and use. You have to be 18 to purchase cigarettes. You may not smoke in most public places. And you may have to pay higher insurance fees if you are a smoker. We all know that the reason behind these regulations is the great harm cigarettes can cause to the human body, including to those who inhale passive smoke from others. Research has shown a connection between cigarette smoke and cancer and many other health problems.



Alcohol is unique in that it is invariably harmful when used to excess. The Centers for Disease Control and Prevention estimate that 80,000 deaths occur annually due to alcohol. In 2012, drunk driving alone caused 10,322 deaths (this is an increase from 2011 and amounts to 1 every 51 minutes), 345,000 injuries and \$132 billion in costs, according to Mothers Against Drunk Driving. These data alone justify the need for significant regulation.

Although there are some situations where alcohol should not be used at all, alcohol can usually be enjoyed if used in moderation. Alcohol regulations both encourage moderation and restrict excessive use. This preserves individual choice while protecting public health and safety.

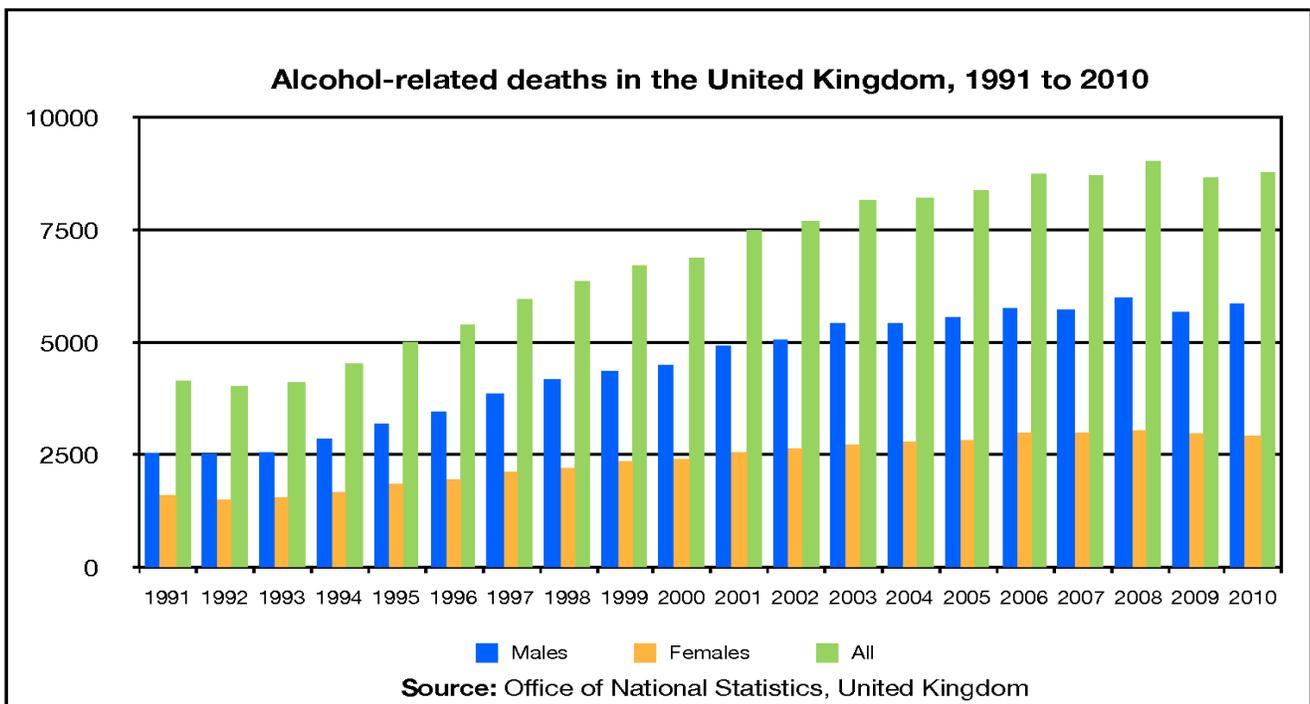


Issue Brief #4:

What are some real-world examples of what happened when alcohol was deregulated?

The United Kingdom is today’s best example, although the State of Washington recently passed a ballot measure which will make it one of the least regulated states. Over time, we will be able to measure the impact on public health and safety.

The United Kingdom deregulated over a long period of time with an increase in problems following closely in the wake. It began in the 1960’s with allowing all forms of alcohol in grocery stores. As competition heated up, alcohol became cheaper and even more available. Closing hours and other controls were abandoned. Today in the UK you can buy all forms of alcohol everywhere with few restrictions, 24 hours a day, 7 days a week; this “convenience” has caused a serious alcohol epidemic. For example, hospital admissions for liver disease and acute intoxication have more than doubled over 10 years. Underage drinking in the UK is almost twice the US rate.



Other countries have also suffered severe problems from alcohol deregulation:

Finland: Since the early 1960s, Finland gradually liberalized alcohol regulations and cut taxes. As a result, **average consumption for those over age 15 increased fourfold** - from 3 liters per capita in 1969 to 12 liters in 2004. In 1998, Finland decreased its excise duties for some alcohol products by 17%. Again in 2004, it was dropped another 33% in an effort to compete with other European Union countries. In the case of each tax cut, consumption rose by 10%. Alcohol problems rose in tandem. In 1995, alcohol-related mortality rose

Issue Brief #4: What are some real-world examples of what happened when alcohol was deregulated? Continued

by 14% and in 2004 by 20%. Also in 2004, deaths from liver disease increased by 30%. The pressure for these changes came from the EU, which favored deregulation for alcohol and lower taxes. Since 2004, Finland has done a “U-turn” and raised taxes twice in an effort to reduce harm.

Russia: Alcohol is a primary cause for drastically reduced life expectancy for men. In Russia, where men are very heavy drinkers, life expectancy for men is 63, versus 75 for women. Per capita consumption of alcohol is enormous – about 4 gallons. This is twice the level the World Health Organizations considers the “danger level.” The number of deaths is staggering: an estimated 500,000 annually. 59% of deaths of Russians aged 15 – 54 were caused by alcohol. President Putin is working to curb this problem with a series of tax increases, penalties for sales to minors, restrictions on where liquor can be sold, health warnings, and regulations for advertisers.



"We have a problem in New Zealand with the sale of really cheap alcohol. Cheaper alcohol tends to be bought more by harmful drinkers than moderate drinkers and studies show that it is also attractive to young people."

*Alcohol Advisory Council Chief Executive
Gerard Vaughan*

New Zealand: Loosened regulations in 1989 and problems increased. Since that time there have been numerous discussions, committees, and cries for re-regulation. In 2010, an Alcohol Reform Bill was developed. In December 2012, Parliament passed the reform bill which will allow communities to regulate outlet density and hours / days of sale, increase the drinking age, ban dangerous products and products appealing to youth, limit the size and strength of alcohol and increase penalties. An entire year was given to enact these new rules. Indeed, re-regulation takes a very long time.



Issue Brief #5:

What does a good alcohol regulatory system look like?

Today we know a great deal about what works in alcohol regulation thanks to a large body of high-quality research. The World Health Organization has done extensive review of this research and developed recommendations on how best to regulate alcohol. The following chart presents many of those recommendations in an easy-to-understand “alphabet” format:

Our greatest protection is an effective alcohol control system which addresses the ABC's of regulation:

- **Availability.** Allows alcohol to be sold by the bottle and the drink, but limits the number, location, types of alcohol products, and hours of outlets.
- **No “Bargain Booze”.** Regulations balance prices, control price competition, and restrict dangerous marketing and promotional practices.
- **Children and Teens.** Age restrictions protect young people from the serious problems of underage drinking.
- **Drunk Driving.** Creates and enforces strict measures against drinking and driving- sobriety checks, blood alcohol limits, driver's license suspension.
- **Education and Enforcement.** Uses the carrot of education (alcohol awareness programs, “schools” for offenders) and the stick of enforcement (fines, community service and jail) when education fails.

Source: Adapted from World Health Organization recommendations.

In a recent article in the American Journal of Preventive Medicine, "Efficacy and the Strength of Evidence of U.S., Alcohol Control Policies," a highly respected team of experts rated 47 different policies on their efficacy and strength of evidence in reducing binge drinking and alcohol-impaired driving among the general population and among the youth population. The top ten policies in rank order were:

Alcohol excise taxes
State alcohol control systems
Bans on alcohol sales
Outlet density restrictions
Wholesale price restrictions
Retail price restrictions
ABCs (Alcohol Beverage Control agencies) present, functional, adequately staffed
Dram shop liability laws
Hours of sale restrictions
Alcohol consumption restricted in public



Issue Brief #6:

Why are some states in the liquor business? Can't a control state convert to a license state and save money?

After Prohibition, eighteen of the states and a few individual local governments adopted the “control system” (government-owned liquor business) because that removed the profit motive from selling alcohol. Before Prohibition, large alcohol companies were strongly profit driven and pushed retailers to sell alcohol aggressively to factory workers, heavy drinkers and even to children. They used credit, volume discounts, and other inducements to increase the sale and consumption of alcohol. This encouraged intoxication and created major social problems.



A Control System ensures that no one will have a profit incentive to sell alcohol to people who shouldn't drink, such as youth and intoxicated persons. Several states, some local governments, most Canadian provinces and some Northern European countries have some version of a control system. Since the state takes the profit from the sale of alcohol, it can then use those funds to offset the costs to taxpayers of alcohol abuse. These costs are substantial. According to the Centers for Disease Control and Prevention, “...excessive alcohol consumption cost the United States \$223.5 billion in 2006, or about \$1.90 per drink.”

Conversion from a control to a license system is far from simple and has consequences for public health and safety, revenue, and the local business markets. And, we now have a specific state example that illustrates the issues and complexity of conversion. In November 2011, the state of Washington passed a ballot measure (I-1183), written and sponsored by the Costco Corporation, that converted Washington's control system for spirits to a license system and eliminated other regulations so that wine and spirits could be sold in a highly deregulated environment.

It will take a few years to fully assess the impact on revenue, public health safety, and business, but some impacts are immediately apparent.

Price increase: If a control state's business is eliminated, the only way to replace lost revenue with a privatized system is to impose new, high taxes. The reason is that control systems provide revenue through both business profit and tax collection. So, you have to replace both. This is exactly what the Washington ballot measure did. First, the retail sales tax of 20.5% and the \$3.77 per liter taxes were retained. Then, two new “fees” were added, a 10% distribution fee and a 17% retail fee. On top of all of these taxes and fees, an amount for profit must be added. As a result, the average price per liter of hard liquor after taxes increased by almost \$4: from \$24.06 to \$21.59 according to the Washington State Department of Revenue. The price at the register is so high that customers have been shopping across the border in Idaho and Oregon for bargains.

Sign in a Washington State Grocery Store

Liquor Price Estimator						
		20.5% Sales Tax	Bottle Size	Liter Tax		Total
If the shelf price is =	\$ 10.00	\$2.05	750 ml.	\$ 2.83	Your final price is =	\$ 14.88
If the shelf price is =	\$ 10.00	\$2.05	1.75 ml.	\$ 6.60	Your final price is =	\$ 18.65
If the shelf price is =	\$ 15.00	\$3.08	750 ml.	\$ 2.83	Your final price is =	\$ 20.91
If the shelf price is =	\$ 15.00	\$3.08	1.75 ml.	\$ 6.60	Your final price is =	\$ 24.68
If the shelf price is =	\$ 20.00	\$4.10	750 ml.	\$ 2.83	Your final price is =	\$ 26.93
If the shelf price is =	\$ 20.00	\$4.10	1.75 ml.	\$ 6.60	Your final price is =	\$ 30.70
If the shelf price is =	\$ 25.00	\$5.13	750 ml.	\$ 2.83	Your final price is =	\$ 32.96
If the shelf price is =	\$ 25.00	\$5.13	1.75 ml.	\$ 6.60	Your final price is =	\$ 36.73

Issue Brief #6: Why are some states in the liquor business? Can't a control state convert to a license state and save money? Continued

Large, national corporations will likely dominate all tiers of the liquor business: Conversion will invariably change local markets to favor large retail, wholesale and manufacturing corporations. Since the need to replace revenue leaves a small margin for profit, large corporations are at an advantage and small businesses have difficulty surviving.

In Washington, Costco wrote the ballot measure to eliminate any barriers to large-scale purchasing directly from suppliers at discount. While Washington auctioned off all of its former state stores, these stores are finding it difficult to survive. Those located near the Oregon and Idaho border face loss of business to those states due to high prices. But, they also face competition from the large grocery retailers who can sell products cheaper thanks to their ability to execute large wholesale purchases at discount and store those products in a large warehouse.

At the wholesale level, it is difficult for small local operators to gain a foothold in newly converted markets. Established wholesalers have systems, national contracts with distillers and considerable know-how. It is relatively easy for them to step quickly into the market and capture much of the business. In Washington, two large national wine and spirits distributors immediately captured most of the market share. For the first calendar year of operation, these two companies had 93% of the total market according to the Washington State Liquor Board website.

Before conversion, Washington had a fledgling craft spirits business. Local distillers could get their products in state stores by using the state's listing process. State stores typically carried a wide variety of products. This made it easier to get a specialty product listed. After conversion, large grocery chains carried a more limited product line than state stores. Small liquor stores struggling to compete may be less willing to take a chance on buying new specialty products. All of these factors will likely thin the ranks of craft distillers. Some local wineries will also be impacted as the state stores carried wine, particularly local wine.

Privatization usually results in increased problems with alcohol due to greater availability and higher consumption. Privatization invariably makes alcohol more available with less regulation, which leads to more aggressive promotions and inducement for purchase. Higher consumption usually follows along with the associated social problems. Research on previous instances of privatization is sufficient to convince health authorities to recommend against privatization. While it is too early to clearly assess the public health and safety problems with Washington's privatization, availability has clearly increased. Under the state system there were 325 state and contract stores. Now there are over 1,400 and it will likely go higher. That is a fourfold increase in availability. While high prices may inhibit consumption, retailers now have the ability to offer inducements such as sale prices at cost (though not below cost), discounts for volume purchase, and advertising with few restrictions. These things could readily boost sales. During the first six months of conversion, reports of liquor theft were high.

A new research report by Roland Zullo et al of the University of Michigan found that state monopolies had the potential to generate 2-3 times the revenue from alcohol sales than license states. And, those that had both the retail and wholesale business did the best. Moreover, "The more valuable advantage in state ownership of retail is a reduction in alcohol-related social harm, especially alcohol-related vehicle fatalities and some types of crime."

"Based on its charge to identify effective disease and injury prevention measures, the Task Force on Community Preventive Services recommends against the further privatization of alcohol sales in settings with current government control of retail sales, based on strong evidence that privatization results in increased per capita alcohol consumption, a well-established proxy for excessive consumption."

Centers for Disease Control and Prevention



Issue Brief #7:

Why are beer, wine and spirits regulated differently?

After Prohibition, both a new alcohol marketplace and a new regulatory system had to be created. Since state legislators knew little about alcohol markets, all states relied—more or less—on a study called *Toward Liquor Control* by R. B. Fosdick and A.L. Scott. This work was sponsored by John D. Rockefeller, a leading entrepreneur of the day. The two authors studied alcohol regulatory systems in other countries and developed a set of recommendations designed to foster public safety by eliminating violence in public drinking places and encouraging moderation among those who wanted to drink. To encourage moderate consumption, they recommended two types of licenses that would encourage consumption of “light alcohol products” in single-serving containers and discourage consumption of more potent products.

The first license type was for retailers who sold “lighter” beverages, which usually meant 3.2% beer because Americans did not drink much wine. The idea was to have widespread availability for the sale of these “light” products. The new approach meant that beer would no longer be sold primarily in kegs and buckets, as it was before Prohibition, but in single-serving size cans and bottles. These smaller size containers were meant to limit intake or, at least, give the consumer some idea of how much they were drinking. The license for these stores usually allowed the sale of other products, so the grocery store became the most common type of licensee.

The second type of license (or state-operated store) was the liquor store—often referred to as a “package store.” There were fewer of these stores, their hours were curtailed, they did not permit entrance to those underage, and they were the only places where hard liquor and high-alcohol wine or beer could be sold. Generally, these licenses did not permit extensive sale of other products. The idea was that licensees would become specialists in the proper selling of alcohol. Moreover, they would not be able to sell alcohol very cheaply because they had no other products from which to make up profits lost by deep discounting.

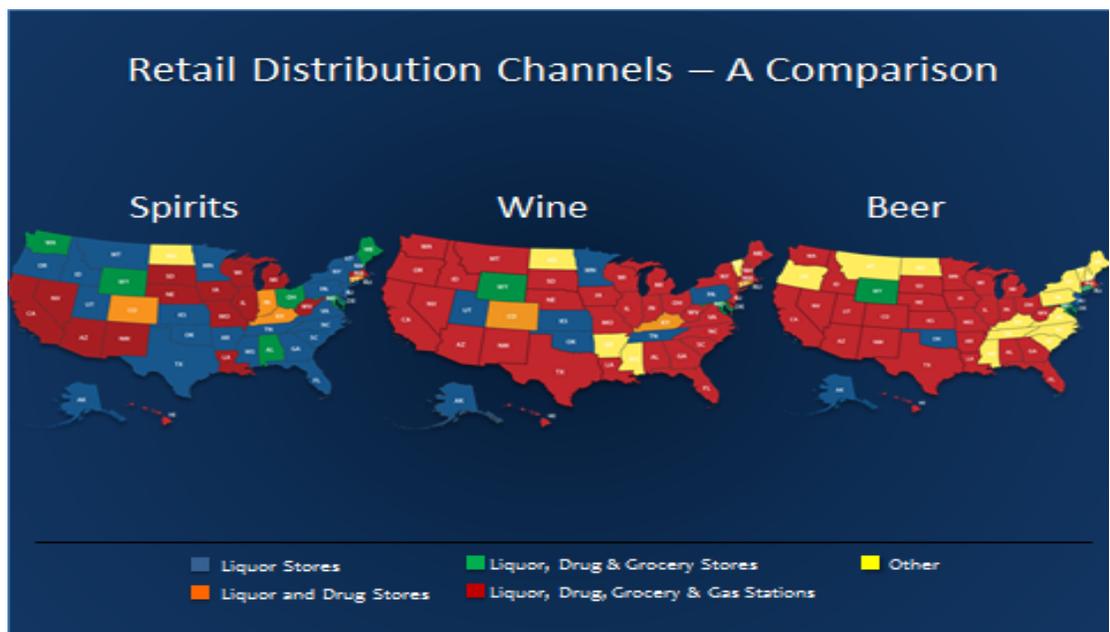
Grocery Store		Liquor Store
<ul style="list-style-type: none"> - Low alcohol beer in single serving containers (3.2% - 6%) - Light wine (often 12% - 13%) - Other products such as groceries available - Sale of alcohol not necessary to be a profitable store 	< Items Sold >	<ul style="list-style-type: none"> - Spirits and other higher alcohol content products - Primarily sell alcohol. Loss leader is difficult without non-alcohol products to sell. Promotion / advertising sometimes controlled.
<ul style="list-style-type: none"> - Outlets widely available 	< Outlet Density >	<ul style="list-style-type: none"> -Outlets limited by state quotas, local ordinance or state ownership
<ul style="list-style-type: none"> - Greater days / hours of sale 	< Hours of Sale >	<ul style="list-style-type: none"> -Limited hours / days of sales: generally no Sunday, holiday or late-night sales
<ul style="list-style-type: none"> - Customers of any age 	< Minors >	<ul style="list-style-type: none"> - Customers must be 21+. Some states cite minors for being in store.
<ul style="list-style-type: none"> - Usually clerks can be under 21 - High turnover provides less expertise in regulatory requirements to avoid sales to minors and intoxicated persons. 	< Employees >	<ul style="list-style-type: none"> - Clerks must be 21+. - Mandatory training in alcohol regulation is common.

Issue Brief #7: Why are beer, wine and spirits regulated differently? Continued

Pressure to move from tight to light control for all alcohol products.

The original dual license system has eroded in several ways:

- The alcohol content of “lighter” products has increased. While 3.2% beer is still produced, the alcohol content of beer now averages around 4-5%, with some craft brews much higher. Many states have increased the allowable percentage of alcohol in beer sold in stores to as high as 8-12 percent. The percentage of alcohol in wine has increased from around 12% to 13-14%, with some varieties much higher.
- The place of wine in our markets has changed. For some time after Prohibition, few Americans drank wine. That has changed as about 1/3 of Americans now drink wine as their primary alcoholic beverage. And, the availability of wine has increased as more states have allowed it to be sold in grocery and convenience stores.
- New products, many of which appeal primarily to youth, are sold in grocery and convenience stores because they are “malt-based” and qualify as beer, or they are “wine-based” and qualify as wine.
- Products which appeal to youth or problem drinkers are often sold in large containers--over 20 ounces with 12% alcohol.
- Several states have allowed hard liquor and other high-alcohol content products to be sold in grocery and convenience stores without the additional controls that liquor stores have.
- Hours and days of sale have been extended; and many states are moving toward allowing the sale of all forms of alcohol for extended hours, seven days a week.
- Many grocery and convenience stores have lightly controlled check-out systems. Large grocery stores use self-service lines and many stores are lightly staffed which can increase theft as well as sale of alcohol to youth and intoxicated persons.



Source: National Alcohol Beverage Control Association.



Issue Brief #8:

What are the benefits of a three-tier system of alcohol control?

The United States has a unique system that requires alcohol to be sold through three separate market tiers: manufacturer/supplier, wholesaler, and retailer.

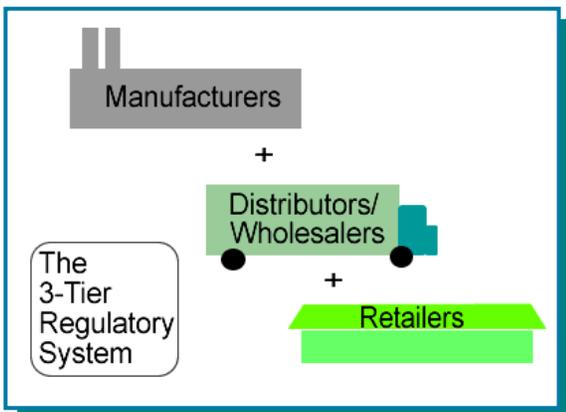
Generally, the tiers must be separately licensed and owned, independent of one another. This prevents marketplace domination by large companies that seek to greatly increase the sale of alcohol through aggressive sales practices, or by controlling the entire alcohol distribution chain, from manufacturer to consumer.

Before Prohibition, large manufacturers dominated the alcohol marketplace by owning chains of retail establishments. They pushed the retailers to sell very aggressively to make high profits. A modern version of marketplace domination can be found in the United Kingdom, where four large grocery chains dominate the market and sell alcohol so cheaply that it has fueled an epidemic of alcohol-related illnesses. It is also believed that this domination has caused many traditional pubs to close since more people are drinking cheap alcohol at home.

The tiered system in the US keeps prices balanced, prohibits or inhibits aggressive sales practices, and allows both small and large operators to be profitable. This system also uses checks and balances from one tier to another to enforce many provisions, and the middle tier is used to collect taxes and track products (a function the government would otherwise have to perform at extra cost to the taxpayers).

Below is a general illustration of how the three-tier system works. Each state does it somewhat differently and all are subject to some federal regulations preventing ownership or financial ties between manufacturers and retailers. A publication that features just two of the benefits of the three tiered system called, "Safe and Sound". How the three-tier system of U.S. alcohol regulations helps ensure safe products and protects against revenue loss, is available at healthyalcoholmarket.com.

How the Three-Tier Alcohol Control System Supports a Healthy Alcohol Marketplace



- **Financial Independence** prevents business practices which promote increased and high-volume consumption through price reductions. (Ownership prohibited between sectors)
- **Functional Independence** protects the integrity of the three-tier system by prohibiting ways to circumvent it. (One sector can't perform function of another)
- **Price Regulations** prevent increased consumption that would occur by selling large quantities of very cheap product. (Uniform pricing, ban on volume discounts)
- **Promotion and Advertising Regulations** prevent business practices that target high-drinking groups and promote volume consumption.
- **Tax Collection** provides for an efficient tax collection system.
- **Product Tracking** prevents sale of tainted and counterfeit product.
- **Age Restrictions** prevent sales to underage youth.
- **Availability Limits** reduce consumption, social problems and burden on law enforcement.



Issue Brief #9:

Isn't alcohol regulation bad for business? Shouldn't we loosen alcohol regulations to help local business?

The answer is generally no to both questions. In fact, for most businesses alcohol regulation offers some real benefits. While the system sometimes seems cumbersome and a business owner may wish for a free market system, most free markets end up benefiting only a few large companies. The states' alcohol regulatory systems are designed to foster alcohol moderation, prevent underage drinking and other problems **AND to allow the owners of all sizes and types of businesses to make a reasonable profit.** Much has been said about the public safety issues, but policy-makers should also consider the following benefits to business:

The Three-Tier System prevents market domination: Look at the soda pop shelf in your grocery store and you have an idea of what alcohol might look like in a deregulated environment. The soda space is occupied by two major companies. The alcohol regulatory system requires that alcohol be sold through three separate, independent tiers: manufacturer, wholesaler and retailer. In addition, most states require price policies that level the playing field. For example, uniform price laws require the wholesaler to sell their products at the same price to all retailers. This means the large corporation can't get a better deal than the local mom-and-pop store. It also keeps prices from going so low that "bargains" encourage people to drink more.

Regulations reduce some costs of doing business: For most commodities, large grocery stores require slotting fees; that is, payments made to the grocer to assure products a place on their shelves. Manufacturers and wholesalers may also have to stock shelves, pay for advertising, provide promotional point-of-sale items, and buy refrigerated units. These are generally illegal for alcohol products. If controls are removed, small players would not be able to get their product to market without paying for these "extras."



Freedom from price wars and other forms of market volatility: Most states have several ways of keeping the price of alcohol balanced, i.e. not low enough to encourage volume consumption, nor so high as to encourage bootlegging and illegal importation. Laws such as bans on volume discounts and selling below cost keep prices reasonably stable. Without these laws, large corporations with huge economic buying power would undercut small—usually local—businesses, and possibly put them out of operation.

Product tracking protects against unwarranted business ruination: Even the best manufacturing companies can make a mistake that creates a tainted batch or product. In today's market, even minor problems with product quality can ruin a company or disrupt a commodity market. This is much less likely to happen in the alcohol marketplace because wholesalers are required to track every bottle and can. With this system, a problem batch or product can be quickly identified and removed from the retail shelf. This minimizes harm and can save a business.

Predictability: Because the regulations keep the alcohol marketplace balanced and free from extreme volatility, business owners can have confidence in their investments. Predictability reduces risks and makes business planning easier.

Compliance with regulations helps prevent neighborhood and community problems: Most business people find that a clean and safe neighborhood is good for business. Alcohol regulations help. By preventing sales to underage youth and intoxicated people, fewer neighborhood problems are likely.

Policy-makers should consider these points very carefully when alcohol deregulation measures are under review. While being free of regulations may sound good, the reality is often very different. Remember that the change in rules must apply to all licensees. For example, if the law requiring uniform prices is abandoned, wholesalers would then be allowed to give some retailers special prices. Who would get that special price and how would that impact local businesses? Chances are that large, global corporations would be the only ones getting the best deals because they alone can buy a very large volume of product. Thus, a so-called "free market" would only benefit a few companies.



Issue Brief #10:

Since the recession, all Americans expect good values, so what's the problem with lower prices for alcohol?

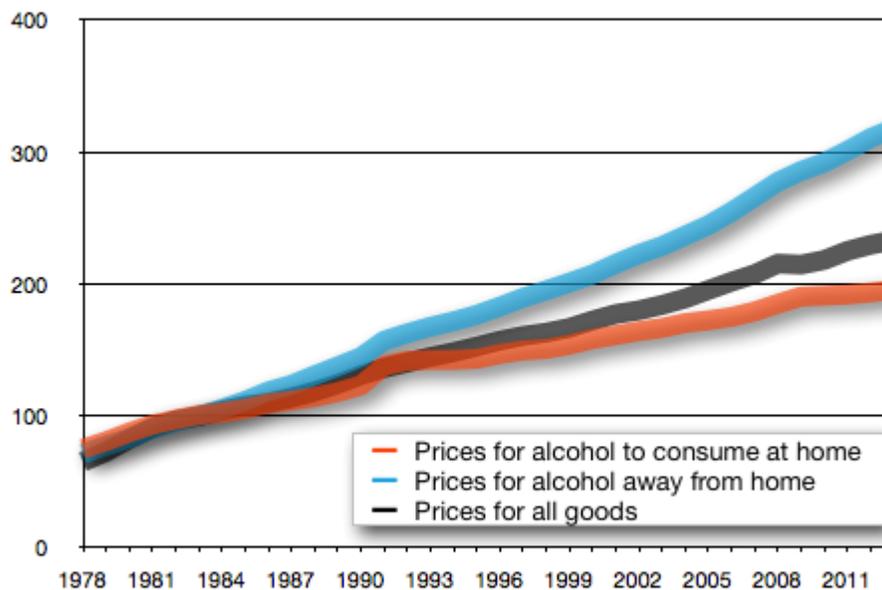
The answer is simple: lower prices increase drinking and the problems that come with drinking. Price is one of the most powerful tools available to reduce social problems with alcohol. Consider this evidence: a team of researchers from the University of Florida reviewed over 100 separate studies that had over 1000 statistical estimates of price versus consumption. The showing was very consistent, demonstrating that alcohol taxes and prices impact the level of drinking.

For Americans alcohol prices have seen primarily modest increases except for prices in bars and restaurants where they have gone up steadily and now represent a major difference between prices for at home versus away from home. This likely reflects the hyper-competitive environment of the grocery business today and the extensive use of price reductions to draw customers into a store.

“When prices go down, people drink more, and when prices go up, people drink less.

*Alexander C. Wagenaar, Ph.D.,
Professor of
Epidemiology and
Health Policy
Research at the
University of Florida*

Consumer prices, 1978-2013



Source: Bureau of Labor Statistics

Offering cheap prices for alcohol facilitates excess consumption in various ways. For example, underage drinkers are price-sensitive and generally drink to intoxication. They are the consumers who likely purchase inexpensive products in stores since they can't readily drink in bars. The rising gap also fosters pre-drinking practices which means drinkers may be impaired before and after going out.



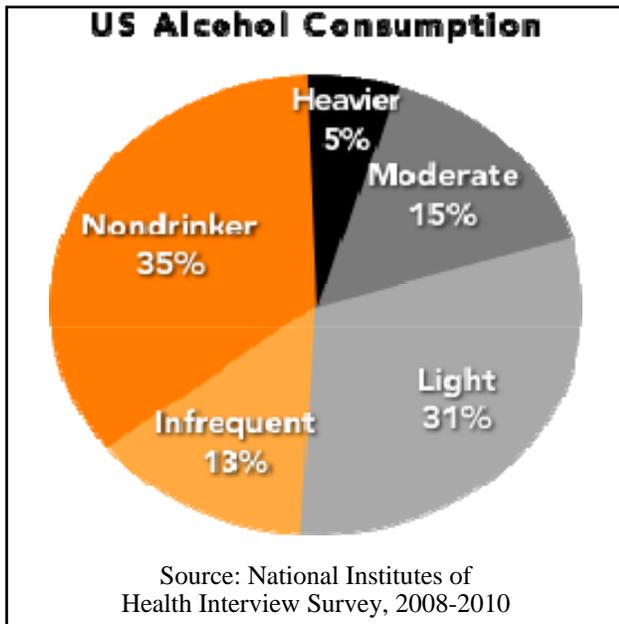
Issue Brief #11:

Why shouldn't alcohol be more convenient for customers to buy? Shouldn't those who drink exercise personal responsibility?

Additional convenience for alcohol consumers would mean more stores, longer opening hours, and more forms of alcohol in more locations. A review of the research indicates that all of these things increase consumption, which leads to more social problems. This, in turn, puts a large and costly burden on social services and law enforcement. When regulations are relaxed, most of the additional alcohol sold is purchased by heavy drinkers, a category which also includes youth.

A survey by the Centers for Disease Control and Prevention reveals that most Americans do not consume alcohol regularly.

As one can see, 35% of Americans do not drink at all, and another 13% drink only a few times a year. In addition, 31% have three drinks or fewer per week, which means they buy less than a six-pack of beer or one bottle of wine a week. This leaves moderate drinkers (1-2 drinks per day) and heavy drinkers (3 or more drinks per day) as regular alcohol customers. Thus, the expanded availability of alcohol would benefit only 20% of the population at most, but the increased social and law enforcement costs would be borne by every taxpayer.



Another point of this survey is that the vast majority of Americans already exercise personal responsibility by limiting their consumption of alcohol. Only 5% are heavy drinkers, and only a portion of these drinkers cause serious public health and safety problems.

Given these statistics, the question becomes: "Is it sensible to inconvenience 20% of the population to protect the other 80% from the social ills and law enforcement costs that occur when problem drinkers have unlimited access to alcohol?"

As it is not illegal to be a heavy drinker, regulating the availability of alcohol remains a highly effective way to control problem drinking. Such regulations have the added benefit of being minimally intrusive for the rest of society because they affect just a small percentage of the population.



Issue Brief #12:

What is the problem with allowing more stores to sell alcohol?

We've always known that a neighborhood saturated with bars, liquor stores and other alcohol outlets can be a recipe for disaster. Now we have research that confirms this idea. The Centers for Disease Control and Prevention hosts an independent task force that reviews credible research. That group, the Community Preventive Services Task Force, recommends using regulatory authority, such as licensing and zoning, to limit outlet. Their research shows a positive link between the number of establishments selling alcohol, over-consumption and related harms.

Here are some examples of specific research findings: Two Indiana University professors reported on their analysis of crime and outlet density in Cincinnati. They found that off-premise outlets were responsible for one in four simple assaults and one in three aggravated assaults. In another study of eight college communities, E. R. Weitzman and her team from the Harvard School of Public Health found that alcohol outlet density was correlated with heavy drinking, frequent drinking, and drink-related problems, particularly among women, underage students, and students who did not drink prior to coming to college.



Using alcohol regulation or local zoning to reduce outlet concentration can be complicated. It usually involves a process of establishing problem areas by mapping crime and nuisance incidents and locations of licenses. These are the areas where caution is needed when considering applications for new licenses. This is particularly true for the types of licenses that generate the most police calls, i.e. places where alcohol constitutes the bulk of sales. In Glendale, Arizona, police found that the top six convenience stores for police calls cost the city \$39,000 a year. Four of those six had over 1,000 calls to police in just one year. While most licensees are responsible, adding many more outlets can overwhelm law enforcement. There are helpful resources available to guide local communities in dealing with this issue. The Center for Alcohol Marketing and Youth (camy.org) and the Community Anti-Drug Coalitions of America (cadca.org) have an action guide for use by local coalitions.

The Community Preventive Services Task Force recommends: “the use of regulatory authority (e.g., through licensing and zoning) to limit alcohol outlet density on the basis of sufficient evidence of a positive association between outlet density and excessive alcohol consumption and related harms.”



Issue Brief #13:

Why are there special hours for alcohol sales? Why do some states prohibit alcohol sales on Sunday or holidays?

Research shows that when regulations change to allow more hours and days of sale, alcohol problems get worse. In fact, a national task force has generally recommended that these types of limits be retained. The Task Force on Community Preventive Services states, “On the basis of strong evidence of effectiveness, the Task Force recommends maintaining existing limits on the days on which alcoholic beverages are sold as one strategy for the prevention of excessive alcohol consumption and related harms.” This evidence came from the Task Force’s assessment of studies on the impact of repeal of these limits. The Task Force is an independent, nonfederal group that is developing a Guide to Community Prevention Services with the support of the US Department of Health and Human Services.

Generally, research has found that the more widely available alcohol is in a community, the more problems that community has with alcohol. The Task Force, which conducted a systematic review of research, noted that removal of days of sale for off-premise licensees (grocery and convenience stores) resulted in small increases in alcohol consumption and motor vehicle fatalities. Removal of such limits for on-premise licensees (bars, taverns, restaurants) was associated with substantial increases in motor vehicle related harm and smaller increases in consumption.

Regarding hours of sale, the Task Force states, “On the basis of sufficient evidence of effectiveness, the Task Force recommends maintaining existing limits on the hours during which alcoholic beverages are sold at on-premise outlets as another strategy for preventing alcohol-related harms.” It found that increasing hours of sale by two or more hours for on-premise places resulted in significant increases in vehicle crash injuries, emergency room admissions, and alcohol-related assault and injury. Changes of less than two hours showed inconsistent results, and there were no studies of off-premises hour changes to review.

The Community Preventative Services Task Force on “recommends maintaining existing limits of the days on which alcoholic beverages are sold as one strategy for the prevention of excessive alcohol consumption and related harms.”

The United Kingdom has generally abandoned limits on hours and days of sale, now allowing alcohol to be sold 24 hours a day. The theory was that bar violence would decrease when there was no “last call” for drinks, and patrons could exit any time of the day or night. This regulation is now widely recognized as a failure because patrons drink for more hours per bar visit, and police and emergency medical resources are experiencing greater stress and utilization.

A final consideration is that of police resources. Laws cannot be effective with little or no enforcement. As more hours and days of sale are added, this puts a strain on enforcement agencies that work to prevent illegal sales to minors, sales to intoxicated patrons, disturbances at bars and drunk driving. All of these things increase with longer hours, creating dangers for our communities.



Issue Brief #14:

Can't we save taxpayers some money by eliminating the liquor cops and using local law enforcement or state police instead?

Today, states are under great pressure to reduce budgets. All government agencies are vulnerable. However, budget changes which result in greatly reduced alcohol law enforcement can have serious consequences.

There are some disturbing trends. According to former Michigan regulator Pat Gagliardi, the burden for liquor enforcement has increased significantly. The number of licensees per liquor enforcement agent went up 22% from 2003 to 2012. While some states added staff, more of them decreased it. Some states have taken drastic steps to downgrade liquor law enforcement, adding this function to already burdened local or state law enforcement, or merging with other agencies such as lottery or tobacco.

All states should carefully review these kinds of proposals to clearly understand the losses and gains. While merging liquor enforcement with a criminal justice or other regulatory agency may gain some administrative efficiency, it may result in less effective liquor law enforcement. Here are some potential impacts of such a measure:

Loss of effective industry partnerships:

Regulating the alcohol industry is very different from enforcing criminal laws. It requires an effective and active working relationship with the regulated community. The reason is that major responsibilities for prevention of problems are placed on the shoulders of licensees. These include stopping sales to minors and intoxicated persons. For these functions the retail licensee is the front line of defense. Substantial responsibilities are also required of licensed wholesalers. They collect the excise tax. They must track every bottle and can to guard against fake and tainted products. When a damaged product is identified, they must quickly remove it from the market. In some states, wholesalers are required to implement pricing regulations to prevent price wars. Such price practices invariably increase consumption, particularly among young people.



Low priority for liquor enforcement: Local law enforcement naturally puts a priority on serious criminal offenses such as murder, robbery, rape and assault. While law enforcement is keenly aware that a large portion of those crimes are committed under the influence of alcohol, they are often overwhelmed with the need to respond to specific criminal incidents. In many instances, they have sustained recent budget cuts, are already over-burdened with responsibility, and don't have much capacity for additional functions.

Loss of effective means to control underage drinking and intoxication: Public health officials have consistently recommended that enforcement of liquor laws be strengthened in order to reduce commercial availability of alcohol to minors. Programs to reduce public intoxication and bar violence are critical to community livability. While local law enforcement has often been active in conducting compliance checks to reduce underage drinking, the alcohol beverage control agencies have been the statewide leaders that facilitate

Issue Brief #14: Can't we save taxpayers some money by eliminating the liquor cops and using local law enforcement or state police instead? Continued

partnerships with local and state enforcement. They often establish standards, conduct training for local enforcement, publicize results to increase deterrence, and track effectiveness. Many beverage control agencies have active programs to deal with problem bars and to reduce public intoxication. While law enforcement can do these things also, the alcohol beverage agency can use the liquor license as leverage to gain compliance. All laws must be enforced to some degree. To allow lawlessness is an affront to the honest businessperson. And, sometimes only a little enforcement is needed. When coupled with publicity, a little enforcement goes a long way to deterring future offenses.

"The Community Preventive Services Task Force recommends enhanced enforcement of laws prohibiting sale of alcohol to minors, on the basis of sufficient evidence of effectiveness in limited underage alcohol purchases."

www.thecommunityguide.org/alcohol/lawsprohibitingsales.html

Loss of efforts to educate licensee community: If we expect licensees to comply with regulations and perform their duties, they must know what they are, why they exist and specifically what actions are required. For example, retailers must know how to judge age, check ID and effectively refuse sales to minors. They should be able to spot obvious fake ID and inform law enforcement when there are thefts and obvious situations in which adults furnish alcohol to minors. Without these actions, the prohibition against sales to minors would be quite ineffective. Bar personnel must know the laws concerning service to intoxicated persons, be able to spot signs of intoxication and effectively refuse additional sales. In order for these functions to be performed routinely and effectively, there needs to be ongoing communication and educational efforts.

Loss of Cooperation and Compliance: No system of law or regulation can work by intensely scrutinizing and policing all laws and all those subject to regulation. It would be too big of a job requiring enormous resources. All systems—from criminal law to child labor regulations—count on compliance by most parties. The partnership between regulatory enforcement and the regulated community, which seeks to maximize compliance, is very cost-effective and saves taxpayer dollars.

In a study of the efficacy and strength of forty seven alcohol policies, a team of researchers ranked "ABCs present, functional, adequately staffed" seventh highest in terms of impacting binge drinking and drunk driving.



Issue Brief #15:

Why don't we have problems with fake alcohol or tax revenue loss?

Have you ever noticed that there are no stories about counterfeit alcohol in the United States? Did you know that tax collections for alcohol excise tax are almost 100%? Indeed, these are major problems elsewhere. In February 2011, the BBC was quoted as saying, "Up to a quarter of licensed premises in some parts of the UK have been found to have counterfeit alcohol for sale." It was also noted that alcohol fraud costs the UK about 1 billion pounds per year in lost revenue. (Feb. 15, 2011, "Fake alcohol on sale in many UK off-licenses".) More recently, over 35 people died in the Czech Republic because counterfeit spirit products containing methanol were distributed to stores in that country. The government had to ban spirit sales for a period of time to ensure safety. It caused substantial loss to business and in tax revenue. Problems with fake alcohol have occurred in Turkey, Ecuador, China and India.

The reason for our good fortune is the strength of our "three-tier regulatory system." The United States has a closed distribution system which prevents adulterated and contaminated products from reaching the consumer. In the U.S. we require that alcohol go from a licensed manufacturer to a licensed distributor to a licensed retailer. The businesses in each tier are separately licensed and no manufacturer can own or have a financial interest in a retailer. Many states also prohibit ownership between all three tiers.

Distributors have major regulatory responsibilities. They collect the excise tax on alcohol and are responsible for tracking all products. Because of the tracking system, spoiled or recalled products can be quickly identified and pulled. An added benefit is the fact that these regulations are not expensive to enforce. Because distributors visit retailers regularly, they notice a product that they did not supply. It is their obligation to immediately report such products to the regulatory agency. Under this system, it would be very difficult for a retailer to systematically sell counterfeit or untaxed products. And, a distributor is unlikely to jeopardize their license by offering a fake product to a retailer.



As the United Kingdom and other countries grapple with alcohol regulation, the lessons learned by the United States should be considered by policy-makers. While lost revenue is a problem, the consequences of consuming counterfeit alcohol can be quite serious. Illegal products often contain high levels of methanol. Methanol is not fit for human consumption and can cause blindness or death. Public safety needs to be the first consideration when considering changes to alcohol regulation.



Issue Brief #16:

Why do we need a strong wholesale tier?

One of the unique features of the US alcohol regulatory system is the wholesale structure. It is one of the most effective methods of controlling alcohol problems, producing state revenue and fostering strong local businesses. Unfortunately, these benefits are virtually unknown and unappreciated. Because of that, we are in grave danger of losing them thanks to heavy lobbying from the retail and manufacturing sectors. Let's review the unique and beneficial features of this system:

Price balancing reduces alcohol abuse problems. Price is a very strong driver of consumption; therefore, it is important to prevent the deep discounting practices which foster increases in drinking rates particularly among youth. Our wholesale system does that in several ways:

- High volume, deep discounts are curtailed by requiring all products to be sold through a three-tiered licensed system.
- "Same price for all" laws, common in many states, require wholesalers to sell all products for the same price to all retailers. This levels the playing field for small and large operators and reduces the incentive to engage in deep discounting.
- Prohibitions against selling below cost, again common in several states, prevent extreme price reductions and price wars that generally induce greater consumption.
- A balanced market with many players provides sufficient competition to keep prices from going too high. High prices can foster theft, bootlegging and other illegal practices.

Tied house laws foster markets characterized by increased sales due to product performance as opposed to pay-to-play systems which limit choice and stifle innovation. Tied house laws prevent a system where payments or other things of value are offered a retailer if that retailer will favor a particular product through special promotions, favorable placement, or carrying products to the exclusion of others. In today's commodity markets, pay-to-play systems and exclusive contracts are very common. These systems are anti-competitive because they reduce the number of products on the market. Products get favorable treatment, not because they have great sales performance or are a high quality product, but because someone has paid for the favorable treatment.

Wholesale price restrictions are rated highly by alcohol researchers for effectiveness in reducing binge drinking and drunk driving. Generally these policies restrict volume discounts and other discount practices and prohibit credit extensions. These practices keep prices balanced and help prevent aggressive deep discounting.

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