



NEWSLETTER

OCTOBER 2010

The benefits of Washington's alcohol system

Historian tracks the developments that led to state regulation

The state of Washington manages hard liquor sales through more than 300 outlets as part of a regulatory system that balances the availability of alcohol with protecting public health and safety. But this system - which in more than seven decades has produced considerable revenues for cities, counties and the state that fund law enforcement and other vital services - would be abolished under Initiatives 1100 and 1105 on the November ballot. The initiatives also would lead to an explosion of private outlets licensed to sell alcohol.

Why did Washington become a so-called "control" state? How does the alcohol regulatory system continue to benefit residents today? To answer these questions, Public Action Management asked journalist Barry Finnemore to interview W.J. Rorabaugh, a University of Washington history professor who has written about the state's system:

Q: What were the key factors that led Washington to embrace state alcohol regulation in 1934, the year after Prohibition ended?

A: Unregulated saloons and Prohibition drove the change. Most saloons, prior to Prohibition, were owned or controlled mostly by brewers but also distillers, and cutthroat competition led to an oversupply of saloons as well as alcohol sales to children and problem drinkers, prostitution, political corruption, gambling and violent crime. It caused a lot of social disruption. Prohibition promised an end to alcohol-related problems but resulted instead in alcohol that was dangerous to drink, and an increase in corruption and organized crime.

As Prohibition became unpopular with a growing segment of Americans, momentum built for repeal. When the 21st Amendment that ended Prohibition took effect, all alcohol was legal in Washington, but no system of state taxation or regulation existed. Cross-border Canadian bootlegging continued to be a big problem. In 1934, state lawmakers passed the Washington State Liquor Act, also known as the Steele Act, which established state stores for hard liquor sales; a three-tiered system of producers, distributors and retailers for beer; and a mixed state and private system for wine. The Washington State Liquor Control Board's purpose was promoting moderation in alcohol use. The keys to its success were effective management and a statute that was boilerplate language from British Columbia's successful regulatory system.

Q: What is the importance of the three-tiered system, which still exists today?

A: The three-tiered system taxes alcohol at the wholesale level and prevents producers and distributors from financially controlling retailers. It requires producers to post their prices with the state and to sell to all wholesalers at the same price. Wholesalers also are required to sell to taverns and other retailers at the same price. Alcohol is not an “ordinary” product, like orange juice. While it is often beneficial to consumers to drive down prices for many products, this situation is not desirable for alcohol. Predatory pricing would create a situation where smaller, financially pressed vendors would be encouraged to sell to youth or people who are intoxicated.

Q: Beyond leveling the playing field for businesses, what other benefits does Washington’s alcohol regulatory system produce?

A: The regulatory system controls liquor licensing. We know from scientific studies over the last 60 years in many countries that the number of outlets selling alcohol correlates with use. Under the proposed initiatives any outlet in Washington with a license to sell beer and wine could apply for a liquor license. The more easily available alcohol is, the more it will be consumed. The current system also generates considerable tax revenue for cities, counties and the state, which is particularly helpful at a time of budget shortfalls.

Information for this piece was collected via an interview with W.J. Rorabaugh and from his article “The Origins of the Washington State Liquor Control Board.” The article appeared in the fall 2009 Pacific Northwest Quarterly, published by the University of Washington. Barry Finnemore is a journalist who has been working and writing on alcohol issues for over 8 years.