

Wholesale Silliness or Purposeful Policy?

By: [Andrew Brod](#)

Brod, Andrew (2009). Wholesale Silliness or Purposeful Policy? *The Business Journal*. May 29 – Jun. 4 2009, 27

Made available courtesy of Dr. Andrew Brod and The Business Journal: <http://triad.bizjournals.com/triad/>

***** Note: Figures may be missing from this format of the document**

Article:

The deadline has passed in the General Assembly for bills that will not affect the state budget. One of the bills that didn't make it would have expanded the ability of small brewers to distribute their own beers to retail outlets.

Currently, a brewer can self-distribute only if it produces less than 25,000 barrels per year. The proposed bill, designated S918 in the Senate, would have raised that to 60,000 barrels. The bill had one major supporter, Whitsett's Red Oak Brewery, which sees it as a key to its long-term expansion. Red Oak claims that its preservative-free craft beers need to be treated with greater care than beer distributors can give.

It's not surprising that S918 died. Opposing the bill was the N.C. Beer and Wine Wholesalers Association. As the number of beer distributors has declined around the country (from roughly 6,000 in 1950 to fewer than 600 today), the industry has become easier to organize and is known as a powerful lobby. In addition, the N.C. Brewers Guild, of which Red Oak is a member, declined to support S918, saying it had other legislative priorities such as a proposed increase in the excise tax on beer.

At issue is the so-called three-tier distribution system: brewer to distributor to retailer. State laws created the system after Prohibition ended in 1933 in order to insulate retailers from brewers. Since then, brewers have been required to market their products through distributors.

The current 25,000-barrel cap for self-distribution is an exception to the three-tier system, and S918 would widen that loophole. But although S918 wouldn't eliminate the three-tier system, it's worth asking whether the system has outlived its usefulness. It was created in a time when distributors were small relative to the brewers they served. Consolidation among distributors and the emergence of microbreweries has turned that relationship at least partly on its head.

If the three-tier system were eliminated, beer distributors would still be profitable. As in other industries, however, they'd have to attract business by the value of their services, not by force of law. For many brewers, the value would still be there. Budweiser would still be distributed by Greensboro's R.H. Barringer, for example. But craft brewers like Red Oak could decide for themselves.

Of course distributors defend the legal system that protects their place in the supply chain. They say it provides for efficient tax collection and ensures product safety. But we manage to collect taxes and protect consumers in numerous industries that aren't subject to such tight state control.

The most revealing claim in defense of the three-tier system is that it promotes moderate consumption of alcohol. Of course moderation is a good thing, but the issue is whether it should be achieved by state control or individual choice. Like a number of other states, North Carolina has chosen the former. The state monopoly on hard liquor drives prices up and consumption down. It's designed to minimize consumer welfare, not maximize it.

This is why further exceptions to the three-tier system, such as S918, will be hard to achieve. The three-tier system is of dubious value from an economic perspective, but it's consistent with the demand-suppressing objectives of North Carolina's alcohol laws.

The three-tier system applies to wine as well. A recent study by UNC-Greensboro and N.C. A&T State University found that Yadkin Valley wineries strongly prefer self-distribution to the current law. Perhaps the next challenge to the three-tier system will come from wineries rather than brewers.