



# TESTIMONY

April 2, 2013

## LIMITATIONS ON DISTRIBUTOR OWNERSHIP ARE UNNECESSARY

*By David Stokes*

*Testimony Before The Missouri Senate General Laws Committee*

### **To the Honorable Members of This Committee**

Ladies and gentlemen, thank you for the opportunity to testify today. My name is David Stokes and I am a policy analyst for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are my own. This testimony is intended to summarize research that the Show-Me Institute has conducted and reviewed regarding free markets and the burdens of regulations.

The primary justification for government regulation of the economy is to address a market failure. As the argument goes, the smelter bears no direct costs by polluting the air, so it is necessary for the government to come in and regulate the activity. With that in mind, I am at a loss to see the

market failure that these proposed new regulations in Senate Bill 412 would address. We can all agree that there should be some government regulation of the alcohol industry: age limits, driving-while-intoxicated laws, basic liquor licenses, and more. However, I think that preventing a producer from having even a small interest in a distributor goes way too far, as do the rest of these proposed legislative changes. Producers should be able to have the same freedom to get their product in front of final consumers as any other business.

I recognize that the rules for alcohol distribution have been in place for a long time, but that is not a justification in 2013 for new rules that prevent a maker of alcohol from simply having an ownership interest in a distributor of alcohol. For example, this legislation forbids any employee of a brewer from having a financial interest — even a

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*David Stokes is a policy analyst at the Show-Me Institute, which promotes market solutions for Missouri public policy.*

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small one — in a beer wholesaler. I can imagine no market failure or public good problem that this proposed law would address. The point here seems to be the preservation of existing distributorships and the limiting of competition. But there may well be strong reasons a maker of alcohol wishes to have an interest in the distributor of their product. Whatever those reasons may be, they relate to private business enterprise and should not involve additional government regulation. Simply put, the government should not mandate the use of a middleman.

I have no doubt that most producers will still continue to use distributors in this industry. The distributors have the contacts, the relationships, the networks, and the equipment to get the product to the market. However, the choice to use a distributor should be a voluntary activity as part of a free-market economy, not a government mandate.

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