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Wine Economics

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Foreword

It is my distinct pleasure to introduce you to the English-language version of Stefano Castriota's extraordinary book on the economics of wine. Combining insights from economics with carefully selected and relevant sets of data, this volume is essential reading for anyone interested in the economic aspects of the consumption, production, or distribution of wine.

I had just one question when I first previewed the original book in Italian: when would we have an English version? We finally have the version I wanted, but we have more too. By adding extensive new material, the book has become even more useful. Although the basics of the economic aspects of wine may be similar across space and even over time, regulatory regimes often differ extensively across (and even within) countries as well as over time. By incorporating a detailed discussion of regulatory regimes, Castriota has enhanced the value of this book for many readers.

To some people it may come as a surprise to learn that in the last decades, a group of economists, statisticians, psychologists, and agronomists has created an academic subject that encompasses "wine economics." Judged by the usual standards of the academy, wine economics has become a respectable field of economics. There are several academic associations devoted to research about the economics of wine, including the American Association of Wine Economists (AAWE), of which I am currently president. These organizations have lively annual meetings where often over one hundred papers are presented. And there are several journals in the field, including the *Journal of Wine Economics*, which is published for the AAWE in partnership with the Cambridge University Press. The *JWE* is now in its fourteenth volume, and it has reached an audience far beyond the academy. Published articles now receive wide coverage in newspapers and magazines.

Castriota has provided the reader with a look at the general nature of the subject of wine economics but with an eye to its applicability in matters of public policy. He sets the stage for this discussion with a broad description of the evolution of wine consumption and production worldwide. Many readers will be surprised to learn that the consumption of wine, beer, and spirits has tended to converge across

countries over time so that total per capita alcohol consumption has also tended to converge.

Much of this book is devoted to the role that government plays, whether for better or for worse, in the market for wine. There are several different aspects of wine that lead to a natural interest in government regulation. One important issue is the abuse of alcohol and what role the state should play to ameliorate such problems. Castriota provides a careful review of the health economics literature so as to inform a sensible public policy approach. Another important research area that Castriota has himself made important contributions is the role of wine region appellations, typically designated by government regulation, in creating value for both consumers and producers. Finally, Castriota does not shy away from the discussion of the role that governments have played in impeding the smooth adjustment of wine prices in response to changes in demand and supply.

One extremely useful distinction that Castriota treats with care is the difference between homogeneous commodity wines and wines that aspire to have distinguishable characteristics. In the usual jargon of economics, homogeneous wines are sold in a perfectly competitive market where producers cannot affect their prices while wines with distinguishable characteristics operate in imperfectly competitive markets where suppliers have pricing power. The characteristics that make wines imperfect substitutes are not entirely known, and to some extent, as with any branded product, subjective matters may play an important role in determining the consumer's perception of the quality of a wine. This area of research is one that makes "wine economics" an especially interesting subject. Although differences in wine quality no doubt exist, it can be extremely difficult to assess these differences in practice. The result is that wine prices can diverge dramatically from what could be justified by the costs of production. With such dramatic divergences between price and cost the role of expert opinion becomes of special interest. The result is that a great deal of research in wine economics is about the assessment of the role of experts in price determination.

This fine book deserves a wide audience. It will be of interest to a broad cross-section of producers, investors, and consumers in the world of wine.

Orley Ashenfelter

Joseph Douglas Green 1895 Professor of Economics
Princeton University