1. Introduction

A 2006 article in *Time* reported on the findings of a Harvard Medical School/National Institute on Aging research study of the effects of consuming resveratrol, a natural substance found in grape skins (Sayre 2006). While they gained weight, mice fed a high-calorie diet along with large doses of the substance lived longer and suffered fewer of the effects of overeating such as liver damage and diabetes. This led some wine lovers to conclude that, sure enough, wine could be the “elixir of life”. The designation “elixir” here is particularly fitting as it captures both the potentially genuine health benefits of wine and the historic tendency to impute alchemic, even mystical properties to it.1

Consistent with the long tradition of such elixirs, subsequent investigation cast some doubt upon the designation (Semba et al. 2014).

The finding of life-enhancing qualities of wine is simply another in a long line of stories connecting wine and the human experience. The quip that “like a fine wine, I get more complex with age” might contain more wisdom than humor. More than one observer has noticed the remarkable similarities between the life of a wine and human life. The themes—and language—of conception, “pre-natal care”, birth (and concern about infanticide), nurture, maturity, environmental quality, aging, decline, and death are prominent in both. The variety of outcomes that reflect origins, culture, chance occurrences, and different values is common to both. Both worlds are populated by a large variety of inhabitants reflecting hierarchies with large and densely populated lower rungs and increasingly rare and remarkable characteristics as we rise through them. Some of these hierarchies have many levels, some very few. They are typically culture-specific so that comparisons across cultures are challenging: we find differences at both the tops and the bottoms, but we cannot say that one hierarchy is superior to another. Tendencies toward homogeneity clash with determination to preserve differences.

Popular discussion of wine often involves economics: the aphorism “Life is too short to drink bad wine” is a statement about both time horizon and opportunity cost.

Also, just as economics strives to provide a comprehensive understanding of behavior, the seemingly timeless search for narcotics—something that provides “the power to banish care”—is full of economic content.
If we find enough similarity, then it should not be surprising that looking at the story of wine—past, present, and future—as economists provides a rich journey just as the analysis of human behavior from the economic perspective is rich and rewarding. Few products in the world enjoy such wide distribution and rich history and interest as wine. When one finds other examples such as cheese or bread, they are among the necessities of life at the core of various cultures’ sustenance.

In this book, we examine various dimensions of transacting wine. As we shall see, economics provides a rich literature with many insightful—and sometimes surprising—applications to the market for wine. We touch upon the primary fields of economics from agricultural economics and international trade to public choice and econometrics and discuss their relevance to the market for wine. We emphasize how the basic principles of economics help us to understand better the market for wine, the variety of institutions that have arisen in that market, and the international differences in that market.

The organization of the material resembles that of many introductory economics books. We start with a discussion of the meaning of economics and the ubiquity of choice—the central theme of economics—in the world of wine. While our focus is market transactions, we note some alternative allocation mechanisms. We then present a discussion of the motivation to transact and review the economics of both the buying and selling decisions, including a note about the importance of models in economics. We then discuss markets in which wine-related trade occurs and the motivations of participants to adapt to and sometimes modify “free market” activities. Introduction of the political nature of these markets leads to a discussion of the varieties of government involvement in them. We then turn to two particularly challenging characteristics of wine markets—the challenge of knowing what is in the bottle and the wider importance of wine as a cultural good—and provide some concluding remarks.

In every chapter we provide not only a discussion of the basic economics of the topic but also reference to related recent research. The more technical material is based upon basic economics so the book should be accessible to anyone with even a limited background in the subject. The discussion draws upon basic microeconomic principles and develops these selectively. Those without that background can turn to one of many elementary texts to learn it, although they might find the thrust of much of the discussion accessible even without it.

The book is directed to those with a general interest in the topic but has applications to management. The managerial content appears in the topics we choose to emphasize, the illustrations, and the applications. One goal
is to illuminate the relevance of sound economic reasoning to management rather than to provide a prescription for making money from wine. The breadth of coverage here should be useful not only to those in the industry looking for the guidance in critical thinking and problem solving that “thinking like an economist” can offer but also to those seeking an overview of the insights and issues economics highlights in this remarkable marketplace.

A NOTE ON THE EVOLUTION OF WINE WRITING

As with any market, communication and education are central to understanding wine markets. Consider the evolution of wine writing. As Storchmann notes (2012), wine writing goes back thousands of years. As happens when we start recording information in any area, the early writings are descriptive—perhaps general tasting notes, reports of “wine tastings”, and descriptions of winemaking that seemed successful and worth sharing. Wine reports and books have existed for at least centuries and probably proliferated apace with the invention of the printing press in the fifteenth century. By the time of the Third Edition of his popular Wine Buyer’s Guide (1993), Robert M. Parker was including a discussion of wine writing in his introductory material and characterized popular wine writing prior to his introduction of his Wine Advocate newsletter in the late 1970s as largely romantic and promotional and lacking contributions that aimed for objective product analysis. Along with other publications like the Wine Spectator that began publishing about the same time, the publication of the Wine Advocate newsletter attempted to provide that, much in the spirit of consumer empowerment that was a movement of that era. Not surprisingly, the emergence of consumer-oriented journalism brought along the beginnings of the analysis of wine value: rather than simply discuss wine characteristics, we began to evaluate something akin to pleasure per dollar (like the “marginal utility per dollar” or additional enjoyment per dollar examined in the theory of the consumer). Rather than say simply that Wine A is good or Wine A is better than Wine B, we might say that Wine A is better value than Wine B in some sense: Wine B is not worth the extra money if what you want is enjoyment (versus status, rarity, etc.).

Technical material on wine production has existed for centuries, growing along with the fields of viticulture and enology—a literature on growing grapes and making wine that might parallel any horticultural literature on plant science and food processing. With their focus upon topics such as agronomy and production methods, these aspects of winemaking
are relatively scientific and amenable to rigorous analysis in the laboratory and field. One can argue that this technical expertise is generally necessary but not sufficient for producing the best wine—which might be closer to producing great art than the best strain of wheat. Studies of the wine market beyond that have, until recently, tended to be less academic because they were less amenable to rigorous analysis—sales, marketing, consumer psychology.

The early work in wine economics attempted to apply rigorous analysis to some of those later steps—although collecting data and applying sophisticated econometric techniques does not necessarily amount to rigorous analysis of the wine market. In order to accomplish that—and actually to define a field of wine economics distinct from consumer behavior or agricultural economics or the economics of monopolistic competition—requires that we identify unique characteristics of the market that set it apart (e.g., like labor economics or public economics).

The discussion attempts to push the edges of what we know into what we do not and would like to; later in the book, we concentrate upon topics that we are only beginning to appreciate. For example, we consider the question of whether it is possible to evaluate wine quality the way one might evaluate the relative quality and value of automobiles—a question related to neuroeconomics and philosophy. While the emergence of a market for consumer information about wine has likely led to an overall improvement in wine quality and value, it does not mean that consumers are able to understand fully what they are buying.

Also, if wine has cultural content beyond the pleasure enjoyed by the buyer, then markets might fail to value it appropriately and we ask what more is needed to assess that cultural value and preserve enough of it—something not thoroughly considered in the literature.

NOTE

1. The print shown on the cover of this book comes from Dell’ elixir vitae (“On the elixir of life” (1624)) whose subject is a beverage of distilled alcohol better known as “aqua vitae” (http://www.chemheritage.org/discover/collections/collection-items/rare-books/dell-elixir-vitae.aspx?image=2). Distilled beverages may have a longer life than many wines, but wine may be better for prolonging the good life—thus, the alteration found on the cover. Another more recent reference to wine as an elixir comes from the introductory narration to the “Vintage: Napa Valley 2012” television series from the Public Broadcasting Service (PBS) in the US: “It allows viewers to join the winemakers in the vineyards and on the crush pad as they coax from the earth one of life’s true elixirs” (http://vintagetvseries.com/about-vintage).