Wine as a “Cultural Good” in Central and Eastern Europe

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Abstract

**Purpose**: Global wine production’s shifting center reflects the impact of New World wines. These newcomers have eclipsed a region which, oenologically, had an historic and traditional advantage over them—the Central/Eastern European countries (CEEC). This paper considers recent history of the global market and the success of New World producers and reconsiders the economic typology of “goods”, seeking insights into the prospects for CEEC wines.

**Approach**: The recent experience and criticisms of the successful New World exporters (e.g., Australia) suggest that following that example in seeking a more significant role in the market presents difficulties: in the face of abundant New World beverage wine, pursuing that market is unlikely to create a distinctive niche. Given the CEEC’s historical importance, an alternative draws upon an emerging concept in economics, namely, Throsby’s idea of “Cultural Goods”, imagining wine more as art than beverage. Beyond the idea that culture influences wine production and consumption, recognizing wine as a Cultural Good creates a distinctive place for CEEC wine in the marketplace.

**Findings**: Wine production tends toward two market structures: as an essentially agricultural product, mass-market production resembles perfect competition. Artisanal production is closer to monopolistic competition. Neither model predicts stable and profitable equilibrium, but the latter is more consistent with production of Cultural Goods whose social value goes beyond profits. As with more familiar Cultural Goods (e.g., art, music), state support is warranted in light of the CEEC’s historic importance and natural advantages.

**Practical implications**: The state’s historic role in the CEEC shaped its wine’s lagging position; supportive public policies (e.g., land reform, subsidies) can advance it.

Key words: Culture, cultural economics, transition economies, wine
1- INTRODUCTION

The distribution of international wine production has shifted dramatically over the last three decades. Rapid growth in production and popularity of wines from the “New World”—primarily the Southern Hemisphere and the United States—now shares prominence with the traditional production center of Western Europe. Advances in agriculture, winemaking technology, and packaging and transportation along with aggressive marketing have allowed them to become significant producers in the global market. Observant wine buyers know that the expansion of New World wine production and exports has changed dramatically the appeal and affordability of drinking wine. Seemingly left behind has been the European “neighbor” consisting of the primary wine-producing Central and Eastern European countries (CEEC[1])—bounded by “Western Europe” on the west (specifically, Germany, Austria, and Italy) and Poland, Ukraine, and Turkey on the east. Ironically, this is the birthplace of wine, but it suffered multiple challenges during the 20th Century. Though lacking the deep history and tradition of European winemaking, the New World has established itself as an important part of the global wine market [2]: one hopes that non-Western Europe can find its way as well. A promising approach to finding its niche may come from the concept of “Cultural Goods”. Rather than follow the New World strategy of dominating the market for beverage wine—whose lack of distinction now tarnishes the image of much New World production—exploiting its winemaking history and diversity could be its entrée into the international market. It also seems natural that this region’s wines should have greater prominence in the global market for fine wine which currently seems to stop—unnaturally, like the Cold War split between West and East—at the German, Austrian, and Italian borders.

Methodologically, the discussion follows the framework of competitive market economics with a supply-side focus and a re-consideration of the nature of wine as a good. The objectives of the discussion are (1) to review recent global market trends with a detailed review of CEEC production and reputation, especially relative to Austria; (2) in light of CEEC wine’s limited market, to suggest an alternative conception for wine—as a Cultural Good rather than simply a commodity; and (3) after reviewing the concept of Cultural Goods and discussing its application to wine, to understand the implications of Cultural Good status for public support of the wine industry. As a Cultural Good which, historically, has been an important part of the region and whose production at a competitive level requires significant investment, the CEEC wine industry may deserve increased public support.

2- WHY FOCUS UPON THE WINE MARKET?

If we are interested in the economic development of the CEEC, then why focus upon the wine market? Since the fundamental shift in the economic and political systems of the CEEC toward the end of the last century, the evolution of these economies has received continuing and careful scrutiny. Interest in particular sectors and industries has reflected the characteristics of the region—for example, changes in the role and efficiency of government, changes in the development and uses of technology, rising and falling fortunes of particular industries (e.g., education, heavy and light manufacturing), and the impact of accession to the European Union (EU) for some countries.

If wine were simply another agricultural product, then it would be more difficult to recommend unless this region promised a comparative advantage in its production. Therein lies one appeal of wine. The region has a long history of wine production, and the proximity of many of its current viticultural areas to established and distinguished areas nearby suggests the potential to play a significant role in international wine production. Large parts of the region have climate and topography suitable for a wide variety of grapes (Gunyon, 1971)—and the cultural background. Unlike, say, China, this region shares the
European tradition of wine appreciation. The very different roles of Western and Eastern Europe in the global wine market do indeed seem unnatural.

Parts of the CEEC have a struggling but continuing tradition of winemaking—for example, Hungary, Bulgaria, Moldova, Romania, Slovenia, and Croatia. Production from both classic and recent vintages reminds us of the quality achievable in these historically important areas. While small, bottlings from Rieslings to Bordeaux blends are competitive with some of the best products from neighboring countries such as Austria, Germany, and Italy. Hungary’s Tokaj is among the best known products from the region, and its innovative winemakers like Ferenc Takler and Attila Gere produce limited quantities of well-crafted wines—often indigenous grapes (e.g., Kekfrankos, Kadarka) added to traditional blends (e.g., Bordeaux)—that are sought around the world. Slovenian wines from the Brda Valley (e.g., Simčič, Movia) are competitive with some of the best wines from the Friuli-Venezia-Giulia regions of northeastern Italy. Some Czech “archivni vino” from the 1980s and earlier are delicious.

Importantly, certain products bring disproportionate status to a region. Consumers care little that the cotton in their shirts comes from China or India, but knowing that fine rugs come from Turkey or interesting wines come from Slovenia attracts consumer interest in the country and promotes related products such as tourism and cultural education (e.g., literature, history). Examples such as Chateau Musar and Kefraya from Lebanon’s Bekaa Valley remind us that production of exceptional wine—perhaps an eponymous wine that becomes an “icon” (e.g., Penfold’s Grange Hermitage in Australia) (Anderson and Wood, 2006)—can bring favor and repute out of all proportion to the investment required.

The CEEC faces the current shifts in global wine production with at least two profound disadvantages: (1) exclusion from the global market until recently which denied producers access to the rewards for quality winemaking and (2) a guaranteed market within the Soviet sphere which absorbed all production but rewarded quantity, not quality. The incentive to compete and excel was lost. Exceptional winemaking seems to require generations to achieve: Madame Philippine Rothschild noted that it is easy once you know how—“it is just the first 200 years that are difficult” (Anderson, 2004, p. 12). That continuity of tradition has suffered; and the transition to market-based wine production, while continuing, has been difficult (e.g., Noev, 2006).

The analysis that follows does not establish the potential profitability of the CEEC wine industry relative to other investment opportunities available there. It considers instead a perspective that increases the appeal of public sector support for the wine industry.

3- WINE PRODUCTION IN THE CEEC

In an early Wine Buyer’s Guide (1989), critic Robert M. Parker, Jr., used 10 of the Guide’s 944 pages for Argentina, Chile, Greece, Switzerland, the UK, Lebanon, New Zealand, Bulgaria, and Yugoslavia—devoting less than a page to the last two. In his latest edition (7th—2008) with 1513 pages, Argentina (15 pages), Chile (11 pages), and New Zealand (9 pages) have their own chapters; and Greece, Lebanon, and the UK have dropped from a combined 2 pages to none. “Central Europe” now has its own chapter of 11 pages, but 8 cover Hungary (4 pages on Tokaj, 3 on other wines) and Slovenia (1 page). He opens the chapter with a 3-page section entitled “A Sleeping Giant?” discussing Slovakia and the Czech Republic, Croatia, Macedonia, Romania, Montenegro, Bulgaria, Moldova, and Georgia—their history, proximity to prime grape growing regions, considerable output (for the CEEC, 5-9 percent of global production—about two-thirds of the production of Argentina, Chile, Australia, and New Zealand combined), glimmers of interesting production here and there (e.g., Napa’s Mike Grgich’s Croatian vineyards), and remarkably undistinguished role in today’s wine market.

Parker’s chapter title is a hidden truth: this is not far from the region—west and south of the Black Sea—where grape winemaking probably began (Johnson, 1989). This region was a giant in wine
production historically (e.g., Romania’s industry dates back about 4,000 years and is now one of Europe’s largest (Johnson, 2009, p. 218), Bohemia’s production dates since the 9th Century (Johnson, 2003, p. 205)) but has been sleeping since early in the last century. In acknowledging the importance of the region in the history of wine, Parker states that “…a considerable number of important Central European wine-growing countries…straddle borders with Austria, Germany, Italy, or one another, in what was once practically a sea of vines running from the Alps and the foothills of the Carpathians to the Black Sea.” (Parker, 2008, p. 1421) Moreover, some of the luminaries of modern winemaking have come from this region (Grgich from Croatia, Russian Andre‘ Tchelistcheff trained in Czechoslovakia and France, Curin and Kupljen Jozhe from Slovenia). However, events of the last century effectively extinguished the premium winemaking tradition in much of the CEE after World War II. As the data cited earlier indicate (Endnote 2), this region has traditionally produced a significant share of global wine output; but its distinguished wines are a tiny share of its total production as demonstrated below.

If the CEEC were bound by current constraints on wine production and marketing, then it would remain undistinguished: the global supply of beverage wine is abundant, and other regions have production advantages (e.g., low labor costs in Latin America and even China, scale economies in Australia and Western Europe). The CEEC’s comparative advantage probably lies in producing the wines that reflect its culture and its indigenous varietals (e.g., Gunyon 1971). However, those hoping to produce distinguished wines at competitive prices face significant obstacles such as difficulties in contract enforcement and limits on scale economies due to fragmented land ownership (on Bulgaria, Zaharieva et al., 2003, 2004, and Noev, 2006; on Romania, Noev, 2007). Only glimpses of excellence have emerged.

Table 1 enumerates the number of noteworthy wine producers in the region as judged by Hugh Johnson, the prominent English wine critic. The data indicate the number of wine producers, by country, in the CEEC cited by Johnson in his annual Pocket Wine Book (formerly Pocket Encyclopedia of Wine)—now in its 34th Edition (2009)—as well as their quality according to his four-star rating system (four is best). Reflecting information from the year prior to the title year (e.g., 2008-9 data in the 2010 Pocket Wine Book), the data are taken from every sixth year, starting with 1990-1—a time when former Soviet satellites had established official independence but had not adapted their wine industries to the change in regimes.

Interesting results emerge. First, while Austria appeared with the CEEC and had to overcome its glycol additive scandal in 1985, its industry was prominent enough by 1997 to warrant its own chapter. Second, other CEE countries had noteworthy wine production soon after “the changes” of 1989-91, but Austria has moved well ahead of this peer group in both number and quality of production: it has about 60 percent as many producers as the rest of the region combined and considerably more top-rated producers. Moreover, its entries increased over 150 percent between 2003 and 2009 while the rest of the region increased by a little over 50 percent. Third, the other CEE countries have a growing number of important producers, but development has been uneven and relatively slow. Bulgaria, Croatia, Hungary, and Slovenia have shown
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steady improvement: their noteworthy production is small but leaves behind their CEEC neighbors. Finally, the data confirm that the region produces world-class wine and its industry is growing and improving. However, given its size and history, it seems underdeveloped—a “sleeping giant” indeed.

The contrast in their development between the Austrian industry and the rest of the CEEC reflects, in part, the combined legacy of the years of economic depression, war, and Soviet domination. The Austrian industry has thrived because of the country’s relative prosperity over the period as well as its freedom from the institutional upheavals of communism (e.g., land ownership, control of the size and composition of production by a central authority) and the virtual extinction of rewards for quality instead of quantity (e.g., Zahariev et al., (2004) on Bulgaria). Some notable CEE producers illustrate what can be accomplished when those burdens are overcome. Visionaries like Aleš Kristančič (Movia) and Attila Gere have learned from their more established neighbors, studied the global market—and marketing—and produced wines that embody established styles while often including local varietals, using current technology. If one wonders whether the region could become a leading producer of distinctive wines, a perspective that might stimulate its development draws upon wine’s cultural importance.

4- WHICH MARKET FOR WINE?

For many, wine is simply an agricultural commodity whose market differs little from other beverages except for controls as a narcotic by government. However, those who appreciate wine know that the experiences of drinking it can be significantly different from other beverages. Moreover, the primary distinction is not the presence of alcohol’s narcotic effect. Wine appreciation has many dimensions—from history, art, and culture to science and management. The market for wine can touch a number of other markets such as tourism and education. For example, Aylward (2009) has argued that wine is essentially a Cultural Good that embodies more than the sensory characteristics of other consumables.

Wine as a Cultural Good

A recent development in economic thinking is the appreciation of Cultural Goods and the distinction between economic value and “cultural value”. We know the concept of economic value that is a foundation of microeconomics—the market-determined value of something as reflected in someone’s willingness to pay (WTP) for it. We also know of the cultural content of goods—cultural influences upon design, marketing, use (e.g., Douglas and Isherwood, 1996) In light of this familiar concept, what can we mean by a distinct cultural value? Why does the distinction matter, especially in our valuation of goods? Why does the standard economic model not allow for proper valuation of Cultural Goods?

David Throsby has pioneered this idea over the last three decades. While a thorough discussion is beyond the scope of this paper, we can outline it. Throsby means, by culture, “certain activities that are undertaken by people, and the products of those activities, which have to do with the intellectual, moral and artistic aspects of human life...drawing upon the enlightenment and education of the mind rather than

| Romania | 18 | 7 | 3 | 2 | 3 | 3 | 0 |

Notes to Table 1: *Number of producers with their own entries in each country’s section of the book. If a country has no such entries, Johnson provides an overview of the country’s industry, noting producers, estates, and growers worth watching. The “Cited” column indicates the number of such citations. **If given a range of stars (e.g., “*-**”), its star designation is the mean of the endpoints. ***The number of market supply participants cited who do not warrant their own entry. ****Austria was formerly included in the chapter “Central and Southeast Europe”; it had its own chapter in the 1998 edition (1996-7 data) and following.

the acquisition of purely technical or vocational skills” (2001, p. 4). He cites five defining characteristics: They (1) reflect creativity when produced; (2) embody intellectual property; (3) convey symbolic meaning; (4) involve the accumulation of taste and reflect previous consumption when demanded; and (5) embody both cultural and economic value (p.160). Also, the creation of economic value is necessarily not the only motivation of producers: “Processes of production and consumption in the arts and culture, and the broader role of culture in articulating essential values by which human beings express their identity and work out ways of living together, have a crucial content of cultural value, defined against different yardsticks from those we use to measure economic success.” (p. 134)

Contrasting them with ordinary goods, Cultural Goods would certainly include those that many expect: music, literature, poetry, visual art. Throsby would also include more plainly commercial activities such as films, journalism, television, and probably graphic art. While it involves creativity and intellectual property, he excludes scientific innovation because it does not seek the communication of meaning. Road signs communicate symbolic meaning but are weak on the other criteria. Organized sports occupy an ambiguous position—in particular, whether it embodies creativity or, instead, technical skill (p. 5). His discussion leaves the clear impression that, like the identification of public goods and “publicness”, goods have more or less degrees of culture. Some goods are clearly cultural, and some are clearly not; but many goods contain elements of culture (see Appendix 1).

Why do we care about the distinction? Essentially, failing to recognize a distinct idea of cultural value distorts our valuation of Cultural Goods and thereby their production and preservation: “it is in the elaboration of notions of value, and the transformation of value either into economic price or into some assessment of cultural worth, where the two fields diverge” (p. 41). A central theme in the discussion is globalization and concerns that dedication to the apparently narrow economic model promoting efficiency, competition, market growth, and consumer sovereignty will undervalue Cultural Goods so that they are under-produced or lost.

Can economic value encompass cultural value? Throsby argues that it cannot—
“willingness to pay is an inadequate or inappropriate indicator of cultural value…”:

1. Cultural value may exist apart from an individual’s valuation: even if we cannot find someone willing to pay, does that mean no cultural value, even for future generations?
2. People may know too little to form a reliable WTP judgment about a cultural good; if this is widespread, we may doubt the reliability of individual preferences for the good.
3. For some characteristics, individuals may be unable to express a preference, only recognition of a difference (e.g., style of a painting).
4. The cultural value of some characteristics may not be measurable in either monetary or relative prices: the individual values them but cannot declare her WTP.
5. Valuation may be difficult when value arises through group membership (e.g., benefits of national identity, member of a theater audience): the benefit exists only in a collective sense, aggregated individual WTP understates the aggregate value to the group (pp.31-2).

Also, WTP reflects the distribution of purchasing power. We may lack a market for some good because those who value it lack the purchasing power to support it. However, that does not mean that the good does not deserve to be produced—especially if the good’s value is primarily or even entirely cultural. How many Cultural Goods have been lost because those valuing them could not afford them? How many have been preserved only because devotees other than private consumers asserted that the community should preserve them—largely through public sector expenditures? Throsby concludes that, while we may find a direct correlation between economic value and cultural value—which might tempt us to use economic value as a proxy—there are numerous counterexamples “where high cultural value is associated with low economic value and vice versa” (p. 34). More recently (2008), he distinguishes cultural value and its measurement: “…[that reflect] assessments of the significance or worth of the work judged against aesthetic and other artistic or cultural criteria that may transcend individual valuation and/or may not be
expressible in financial terms...individual judgments...cannot be fully reflected in financial assessments and indeed may lie beyond the scope of measurement altogether” (p. 76). How does wine gain cultural content?

As an imperfect analogy, cooking and cuisine are the subjects of seemingly endless books, media programs, and classes. For many who wish to nurture the roots of their culture—the one in which they live, the one from which they came—a reliable and regular means of doing that is in the kitchen and at the table: “As Italians have done forever, we remembered who we were through food” (Esposito, 2008, p. 39). Beyond its role in nutrition, a group’s cuisine reflects the natural and economic conditions from which it sprang. Its cuisine is woven into its religious life and its politics. Most of us would include cuisine in any description of a culture that we could identify. The website for “Food History News” lists over 1,400 food and beverage museums around the world. Books on food and culture abound: Amazon (USA) lists 2,418 titles containing the words “food” and “culture” (e.g., 826 titles considered “history”, 407 considered “cooking, food, and wine”, 39 considered “travel”, 26 considered “religion and spirituality”, etc.). Many books discussing food and culture have neither word in their titles—for example, Visser’s Much Depends on Dinner (1986).

Just as cultures have cuisines reflecting their climates, natural products, and rituals, wines reflect the cultures that originated them. Cultural conditions such as climate, terrain, soil, comparative advantage, technology, and spirituality shape the kind—even the existence—of wine arising from a culture. A wine geographer (Sommers, 2008) has stated it well: “For me, the appreciation and love of wine goes beyond the wine itself...Wine is an expression of places and people....Through the heritage of the [southern Rhone’s] wines and the architecture of its cities you can feel a tangible connection to history (pp. 264-6)”—and similarly for the CEEC.

After water, the only beverage that generates as much interest as food is wine—less the production than the understanding of it. The comparison is starker among alcoholic beverages (more on the role of alcohol below). Unlike most beverages, a central theme in the wine market is “appreciation”. Like food, interest in wine supports wine tasting and appreciation courses, winemaking courses, and thousands of publications. Amazon.com (US) lists more than twice as many “wine books” (68,625) as books on tea, coffee, beer, and alcoholic spirits combined (30,180) with almost 4,000 wine titles involving religion and spirituality, history, and travel.

While the analogy with food is instructive, we need not disregard Throsby’s criteria for either the identification or valuation of Cultural Goods—in particular, the role of creativity and symbolic meaning. Winemaking involves creativity (e.g., wines bearing the winemaker’s name). Like chefs creating cuisine from local ingredients, many winemakers want wine to embody its origins. One reason for restrictions on farming, processing, and labeling is that producers want the wine to represent the place—limited intervention in growing and producing to preserve the effects of weather and soil, limited or no introduction of foreign substances including non-local grapes, clear indication of the location of origin and production site.

Like food, wine carries meaning like few other goods. Such wines also have symbolic value as they have come to represent the place where they are produced. French winemakers want their wines to capture the terroir—the overall sense of place—where their wines are made (e.g., Kramer, 2008; also, Slovenia (e.g., Esposito, 2008, pp. 132-55)). The wine represents the place in the eyes of those who know it: when they drink its wine, they can see the place. For most of its history, the lack of effective storage and inexpensive shipping meant that wine was developed to complement the local cuisine. Many wines are most appreciated with their partner cuisines (e.g., Muscadet and Atlantic oysters). As shipping and storage have developed and producers have sought to please buyers farther afield, we have seen the emergence of more “international” wines less tied to a cuisine—or to food at all. They are to be enjoyed with a variety of cuisines or on their own. However, just as cuisine reflects a culture, so can wine.

Connecting wine with place, we see the ascent of Riesling achieving its “highest
expression in relatively cool regions like Germany and Austria. Different conditions led to the tempranillo-based wines of Rioja in Spain. Frankovka wine from Slovakia can be delicious but has not thrived in many other cultures. Thus, some grapes are associated with certain parts of the world. Those grapes that seem viable globally find different expressions in their different locations—the grapefruit and gooseberry character of New Zealand sauvignon blanc compared to the crisp, minerality of Sancerre. Similarly, regions that cannot grow wine grapes produce other beverages (e.g., tequila in Mexico).

Wine’s ageworthiness has symbolic value. Beaujolais Nouveau celebrates the French harvest and shares the fresh and transitory character of that annual event. First-growth Bordeaux rewards patience, embodying the rewards of long life. It can provide immediate gratification in some new-world versions, but that is not its distinction: its examples that are most highly valued for their flavor (as opposed to their pure rarity) are decades old.

More generally, we find a close connection between the discussion of wine and the search for meaning and purpose (e.g., Grahm, 2008). The discussion and description of wine often involves anthropomorphic language (e.g., Sua’rez-Toste, 2007). Numerous authors and artists have sought to capture the connection between the meaning of wine and the meaning of life (e.g., Lamb and Mittelberger, 1974).

Wine’s narcotic effect also has symbolic value. The alcohol in wine was historically what made it safer to drink (in moderation) than water. However, its popularity obviously continued and expanded after the introduction of safe drinking water, depending upon the role of narcotics in the culture. How does the culture evaluate alcohol’s “power to banish care”—the first chapter in Johnson’s classic history of wine (1989, pp. 10-13)? What does that option mean to a culture? To what extent does it tolerate such abdication of responsibility—if at all—especially in a product which, at its best, is designed to evoke memory of place? How do cultures that avoid or ban narcotics (e.g., Islamic) address the desire to “banish care”?

Two other characteristics of cultural value are also significant in understanding wine: “accumulation of taste and the dependence of present on previous consumption” and the individual’s capacity “to form a reliable WTP judgment about a cultural good”. One’s valuation and appreciation of wine depends upon one’s experience with it.

The asymmetric information between buyers and sellers of wine is significant: finding one’s WTP requires considerable research. Wine is an “experience good” (Nelson, 1970): the consumer cannot know the good without experiencing it, perhaps through purchase (p. 313); and, given the tens of thousands of wines available at any time, one often depends upon experts’ advice and uses their experience vicariously. Like consumers of many Cultural Goods, wine aficionados often seek expert opinion to guide their thinking about quality and value. Like good wine, Cultural Goods are also inherently differentiated—perhaps no two units are exactly alike (e.g., performances of a symphony, paintings): consistency and uniformity are not particular virtues of Cultural Goods. When are differences significant and, perhaps more importantly, valuable? Only perceived differences matter and perhaps become the basis for differences in value. But how is this established with Cultural Goods? For even the most obvious examples of Cultural Goods such as art and music, how do we decide whether something is worth it? Lay-people—most of us—depend upon the opinion of “experts”. Which ones are reliable authorities?

Throsby notes the relevance of expert opinion to valuation (2001, p. 30): “The input of expertise in a variety of disciplines is likely to be an essential component of any cultural value assessment, especially in providing judgments on aesthetic, historical and authenticity value, where particular skills, training and experience can lead to a better informed evaluation.” The importance of such information for understanding wine is evident from the numerous wine buyer’s guides (AmazonUS lists 113 titles currently), the pervasiveness of wine critics and websites, and the inclusion of critics’ notes in wine auction catalogs (e.g., Sotheby’s, Christies).
If we can agree that wine and winemaking have significant cultural value and that the market tends to undervalue such goods, then we ask how to preserve this cultural good.

5- HOW TO PROCEED: IS THE CHOICE STRAIGHTFORWARD?

One can speculate that the CEEC could embrace an opportunity to follow Australia’s strategy for increasing its role in the global wine market. However, the Australian example provides a cautionary tale (see Appendix 2). Aylward (2008) argues that Australia has bought its rapid rise to prominence by sacrificing the development of distinctly Australian artisanal—more cultural—wines for “coca-cola” wines. Aylward’s analysis distinguishes two paths for Australian producers, recommending a move from a mass-market beverage to an artisanal orientation along with corresponding changes in commercial policy and institutions. The success of such a supply-side adjustment depends upon not only the appeal of the argument to suppliers but also demand conditions. An industry dominated by firms which are indifferent between producing wine and cola may not be receptive, but it is likely to be more receptive if market conditions are appealing.

Australia’s reputation includes efficient production, distribution, and marketing; and the export market has been willing to pay premium prices for premium Australian wines. A primary challenge is re-shaping consumer expectations and nurturing a reputation for “the greatness” of Australian wines in a country whose cultural reputation does not support that. Fortunately, houses such as Henschke, Penfolds, and Yarra Yering have produced outstanding wines for decades, creating a record of “icon” wines.

Similar questions arise when considering CEE wines as Cultural Goods. If one looks back far enough, one finds a greater tradition of winemaking in the CEEC than in Australia—but one must look far back. Icon wines like Tokaji have survived, but that market is limited. The region has a tradition of exporting—primarily to former Soviet and European markets—but only for entry-level, mass market wines of undistinguished quality. The best wines from the region represent such a small share of production, have appeared so recently, and generally resemble wines more associated with other places (e.g., northeastern Italy, Austria) that it will take time for them to carry the reputation of the “great wines of Central and Eastern Europe”. Moreover, the region’s standard of living is sufficiently low that, with exceptions like Tokaji (Szakál, 2009), local demand is unlikely to contribute significantly to sustaining the market.

Robert Parker (2008) speculates that Slovenia may be “on the cusp of reclaiming fame” because “it is turning out the most interesting wines and had advanced farthest in the direction of sophisticated methods of growing, vinification, and marketing” (p. 1424). However, he adds that even this most promising industry still operates with “the burdensome legacy of political turbulence and four decades of controlled, socialist economy.” Gorton, White, and Dumitrashko (2005) report the case of a Moldovan winery that implemented improvements in procurement, technology, and marketing; and increased its exports of premium wines to neighboring (former Soviet) markets significantly, but one cannot extrapolate from its limited experience. The success of a Cultural Good strategy is likely to rely upon significant support from the public sector.

A VIABLE WINE INDUSTRY

Heien and Martin describe the “second miracle” of winemaking (after Christ’s conversion of water to wine at Cana), namely, making a profit (2002, p. 36). The New World found a niche by producing flavorful, approachable, reliable wines that are easy to understand and often undistinguished and forgettable—like a glass of cola. Perhaps it is worth competing in that market, but—perhaps not surprisingly with its proximity to an agricultural market—the market is intensely competitive. It is
unlikely to lead to a reputation where aficionados are willing to pay premium prices for the distinctive products of the region. Aylward’s argument leads to two strategies for survival—or, in the case of the CEEC, for emergence. The first, based upon product differentiation, requires that producers have enough monopoly power to sustain profitability. In that they emphasize the differences among wines—for example, their reflection of place—they reduce the substitutability of goods. Goods from different producers are no longer perfect substitutes—demand for them becomes less price elastic, and therefore producers have some ability to choose price. They are not price takers whose only choice is what and when to sell as with beverage wine.

Producers of Cultural Goods have some degree of monopoly power because of the inherent differentiation of their products, but low barriers to entry mean that such industries are typically monopolistically competitive instead of simply monopolistic. Each product is different, but there are so many (like restaurants) among which buyers can choose that the demand for any one product may become, in the long run, only sufficient to allow the producer to break even—and at an inefficiently low level of production.

While it can lead to a viable though volatile industry, the monopolistically competitive outcome is problematic because of the persistent challenge to profitability. As a second strategy, a Cultural Good can justify public sector support based upon market failure with Cultural Goods: left to the marketplace, Cultural Good production is inefficiently low because consumers undervalue it. While also intended to encourage rationalization of the industry, EU subsidies to the wine industry—relevant for members Hungary, Bulgaria, Romania, Slovenia, Czech Republic, and Slovakia (http://ec.europa.eu/agriculture/capreform/wine/index_en.htm)—can be understood in this light. Eventually, EU candidates Croatia, Macedonia, and Montenegro may qualify for such support with membership; but the industries in Bosnia/Herzegovina and Serbia—among the smallest and least distinguished in Appendix 1—must depend upon national resources, although they are on track for EU candidate status.

What is an outline of public sector support? A key to Austria’s recovery from the glycol scandal was the implementation of strict government controls over wine production and labeling (http://www.austrianwine.com/facts-figures/wine-law/). In addition, the industry has benefitted from cooperation among area growers and a strong domestic market of relatively affluent consumers (Parker, 2008, p. 43). Government oversight of the industry is an option in each country, but producer cooperation either with officials or with each other is more difficult to expect. Also, the lower CEEC standards of living relative to Western Europe weaken support from the domestic consumer market.

As a Cultural Good, we expect that wine is undervalued, and we have no reliable means for capturing community WTP. Whenever economists question the reliability of consumer sovereignty, we lack an alternative mechanism for a rigorous determination of reliable valuation. As with public goods inviting free riding, we turn to government. A plan, some of which has been underway here and there for some time, would contain several elements:

1. Consolidate vineyards to efficient size.
2. Many of the distinctive, indigenous grapes are already under cultivation—for example, Kekfrankos (esp. Hungary), Saperavi (esp. Georgia, Ukraine, Moldova), St. Laurent, Furmint (esp. Hungary, Slovenia), Traminer, Gruner Veltliner, and some varieties of Riesling. If they have not been introduced already, other international varietals may warrant cultivation because of their established popularity and value in blending (e.g., Riesling, Cabernet Sauvignon, Merlot).
3. Expecting that domestic agricultural expertise exists already, import international technical expertise in oenology, production, and marketing. The strategies of other recent successful ventures in markets like Australia and—perhaps more enlightening in the region—Austria should be instructive.
4. The wine market is inherently fickle so be prepared for mixed success. No one produced and distributed Marlborough (NZ) sauvignon blanc until New Zealand producers did—and it has been a success that others hope to copy (e.g., Chile, Sicily). However, wines from others’ varietals are most likely to be, at best, good copies of others’ successes. Improving the quality of production with indigenous varietals—which may be indigenous and successful elsewhere (e.g., Riesling in Germany and Austria)—may be a promising route to a market niche.

5. Agriculture is inherently risky (e.g., weather, disease, “good news is bad news” (bumper crops depress prices)—though durable crops like ageworthy wine allow producers to manage supply more profitably) which increases the need for public sector “insurance”.

6. This industry requires considerable initial outlays for agricultural experimentation, oenological consulting, capital investment, and marketing. Given the cultural value of this product, one hopes that the public sector—either domestic or EU—will provide temporary support, realizing that the value in this sector lies not only in production itself but also in the larger cultural contribution and related industries such as tourism.

Perhaps a good example of a productive approach in this market has been the Slovenians. They produce internationally competitive wines from a combination of indigenous and international varietals; their greatest remaining challenge seems to be marketing. While one of the smallest countries in the region, Slovenia has one of the few successful wine industries. It is probably not a coincidence that Slovenia shares borders with the two prominent winemaking areas of Austria and northeastern Italy, the Soviet grip on Yugoslavia was relatively light, and Slovenia is among the most affluent countries in the CEEC.

While the distinctive value of CEEC wine is the focus here, nothing would prevent the consumer from associating the distinctive wines of the CEEC with beverage wine, thus giving the region some added appeal in that already competitive market.

6- CONCLUSION

Recent experience in the global wine industry demonstrates that regions can change their relative importance by serving underserved markets. However, the Australian experience warns against strategies that are short-sighted in a market where consumer tastes can mature more quickly than an industry’s ability to serve it. It may be tempting to follow the New World example in trying to return the CEEC wine industry to its former prominence, but the beverage wine market seems adequately served by current producers. Because of its historic role in the industry and the distinctive wines it can produce, the CEEC industry has cultural value that is undervalued but could be the basis for its re-emergence. Along with the inherent vulnerability of monopolistic competition, the nature of Cultural Goods and the public’s tendency to undervalue them argues for an increased role of the public sector in supporting the CEEC wine industry.

Endnotes: 1. We take the wine-producing CEEC to be the six former Soviet-dominated countries that have joined the European Union (EU) (Bulgaria, Czech Republic, Hungary, Slovakia, Slovenia, and Romania) and five Balkan countries (Bosnia-Herzegovina, Croatia, Macedonia, Serbia, Montenegro). Excluding Greece, Malta, and Cyprus, these are the countries included in Hugh Johnson’s coverage of “Central and Southeast Europe” in his annual Pocket Wine Book. In 2008, these countries accounted for about 5 percent of global wine production. However, Bosnia/Herzegovina, Serbia, and Montenegro had very small production; and, of the remaining countries, only Slovenia had increased production (+17.2 percent) over the period 2004-8 (http://www.wineinstitute.org/resources/worldstatistics/article87).

2. While global production has stayed about the same over this period, European wine’s share had fallen from 76.0 percent in 1988 to 71.2 percent in 2001 with the largest single drop in production share
occurring in the Central and Eastern European Countries (CEEC) and the former Soviet Union where its share fell from 16.5 to 10.9 percent. The regions experiencing growth in share were North America (6.7 to 8.8 percent), Australia and New Zealand (2.0 to 3.5 percent), and China and Japan (0.5 to 2.3 percent) with only Australia and New Zealand generating enough domestic surplus to be major exporters (Anderson 2004, p. 19). The only major decrease in its share of global consumption over the period occurred among the traditional wine producers France, Italy, Portugal, and Spain (43.0 to 34.7 percent); so they, along with Australia and New Zealand, were the two leading exporting regions. While a familiar trading position for the traditional exporters, this was a new role for New World producers, especially if we add to them the two Latin American countries of Argentina and Chile.
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Appendix 1: A Note on Cultural Goods and Public Goods

Questions about the market’s ability to elicit honest and informed expressions of willingness to pay—such as Throsby’s concern about paying for Cultural Goods—suggest issues associated with public goods. One may ask whether Cultural Goods are simply a form of public good—goods which have the two characteristics of non-rival consumption (consumers can enjoy the same unit of the good simultaneously) and costly or impossible exclusion—the only way to elicit sincere expressions of WTP is to threaten exclusion, which is impossible for pure public goods (the source of “free-riding” where consumers misrepresent WTP—for example, “$0”, whether true or not—because they cannot be excluded from use anyway).

While some Cultural Goods are public goods—for example, good architecture, sculpture—the two categories are different. Especially in the present discussion, consumption of a bottle of wine is not non-rival, and exclusion is straightforward. On the other hand, some features of the wine industry exhibit publicness: its meaning to the local community and wider society, the reputation of particular wines or appellations, perhaps the beauty of some vineyard or chateau. However, with either type of good, the market valuation problem is similar: we cannot rely upon private parties in private transactions to reveal accurately the value of the good. In the case of public goods, the problem is free-riding from non-exclusion; in the case of Cultural Goods, the problem is the failure of the individual to value cultural content reliably. Also, the challenge of identifying Cultural Goods is akin to that of identifying public goods—we do not see pure examples but instead degrees of proximity. However, in either case, we cannot expect efficient allocation from the market; and in both cases, we tend to turn to the community, usually represented by the government, to represent community valuation, however imperfectly.

Appendix 2: What If We Neglect Wine’s Cultural Content? A Lesson from Australia

Several years ago, Anderson (2004) described how the Australian wine industry had begun to realize the potential that some had foreseen for it throughout the Twentieth Century, having grown dramatically since 1990, trebling its share of global vine area and raising its share of global export sales fivefold. He went on to discuss “the ways in which Australia achieved that take-off despite the fact that national and global wine consumption per capita has not been growing at all” (p. 252). Four years later, Aylward (2008) warned about the stagnation of the Australian industry: “less sympathetic observers labeled it the ‘coca-colarisation’ of wine, claiming that short-term economic thinking had expunged the ‘art’ of winemaking and reduced the practice to little more than formulaic, assembly-line production” (p. 373). Aylward identifies several impediments to the adaptability of the Australian industry, including (1) a centralized and “homogenizing” structure of R&D, regulation, governance, and branding; (2) a lack of identification and preservation of local differences in production; and (3) the dominant influence of major owners (e.g., Constellation, Fosters).

The industry’s focus upon high volume and low margins and producing “coca-cola” wines is neglecting potential growth and profitability among more artisanal producers. In the beverage wine market, other New World countries are viable threats—able to match Australian quality at lower cost. Individual wine tastes follow a pattern that leads to demand for more varied wines, and consumers who began drinking wine with the soft and simple flavors of the Australian beverage wines now seek something more interesting and varied: “...their consumers’ palates have more educated and more discriminating...[they] no longer want a mass produced product that lacks terroir, character, or distinction in taste” (p. 377). Australian wines are still enjoying rising value per liter in nontraditional wine markets such as China and India (p. 378) but these markets will also mature with consumers becoming more discriminating.
The evidence supporting his analysis is primarily consumer and producer opinion surveys; he does not address the role of other recent threats to industry profitability such as weather. The relative strength of his argument is essentially logic, and he does not truly prove his case. However, commentary on the Australian industry by others provides ample evidence that its performance has weakened in recent years (e.g., Veseth 2009).

Australia has the land and the weather but no strong tradition, and it was not a traditional major wine exporter but became one. Despite its distance from major markets, Australia promoted its wine industry toward the end of the last century. Australian wine has certainly become a popular beverage wine, but the profitability of such wine is limited. It is a highly competitive market with limited profit margins.