

JOHAN F.M. SWINNEN (ed.): *The Economics of Beer*. Oxford University Press: Oxford and New York, 2011, 352 pp., ISBN 978-0199693801 (hardback), \$45.

The Economics of Beer, edited by Johan F.M. Swinnen, is a collection of some 18 essays on a range of topics in the economics of beer; from its long history to its current role in emerging markets, from its production to its consumption. In the Preface, the editor Johan F.M. Swinnen explains that many of these essays were outgrowths of a conference on *Beeronomics* in Leuven in 2009, while other essays were added to round out the volume. Both that conference and this book were reflections of interest in the economics of beer, inspired by the longstanding example of wine economics, by the fact that beer is the largest selling alcoholic beverage, and by a number of aspects of the industry that have long intrigued economists.

To take one example, in the U.S., the brewing industry has undergone the largest increase in national concentration of any major industry. From four firm concentration of less than 20 percent in 1947, the largest four brewers in the U.S. now account for more than 90 percent of domestic production. The reasons for this transformation lie in substantial changes in the economies associated with production, but perhaps more importantly, in advertising. The ability of advertising to increase demand altered the focus of competition, further increased economies of large scale, and led to the demise of unsuccessful advertisers and smaller brewers generally.

More recently, the product itself has undergone change, with the advent of imports and craft beers. While still modest in overall share, these have captured consumer tastes and preferences at odds with the more homogeneous product best produced (and advertised) by the large national brewers. Overall market growth in recent years has largely been in the import and craft segments, forcing the major brewers to confront taste and production issues different from those that gave rise to their dominance. That has not gone well for them. The major brewers have increasingly resorted to mergers and acquisitions among themselves, across national boundaries, and with some smaller labels, actions that have triggered an array of interesting public policy questions.

Such issues make the brewing industry endlessly fascinating, and this volume does not disappoint in its effort to capture that. It provides a truly panoramic view of major issues in the brewing industry—panoramic in the sense of covering a remarkably wide range of topics, panoramic in the sense of analyzing beer and brewing in a many countries with diverse experiences, and panoramic in the sense of providing a historic as well as contemporary perspective. This is an ambitious agenda for any book, and with this one, the editor and authors have succeeded.

The essays in this volume are mostly relatively short, befitting an agenda of many topics. They take different approaches to their respective questions, as the information allows and the authors see fit. The chapters themselves are written by a large number of different authors (although Swinnen himself is author or co-author of six

of the chapters). A number of the chapter authors have previously written on beer and brewing.

The book itself is divided into four main sections, each comprised of several chapters. In the first section, "History," five essays describe a rich history of beer in various societies, highlighting several themes that are repeated in later essays on the modern brewing industry. Poelmans and Swinnen lead off with "A Brief Economic History of Beer," beginning with ancient societies and extending up until the present. It emphasizes the crucial roles of technological change on the one hand and government regulation on the other, on the evolution of the industry. In chapter 2, "Beer Production, Profits, and Public Authorities in the Renaissance," Unger offers further insight into a important period characterized by the consolidation of brewers, the rise of concern over pollution from production, and the effect of input costs and uncertainty. German regulation of "quality and purity" beginning in the 1500s and extending into the 20<sup>th</sup> century is the focus of the next chapter. Entitled "Standards and International Trade Integration: A Historical Review of the German *Reinheitsgebot*," van Tongeren analyzes how this regulation served to restrict entry and raise prices. The next two chapters focus on the British and Belgian markets respectively, countries where beer has been unusually important. In "Brewing Nation: War, Taxes, and the Growth of the British Beer Industry in the Eighteenth and Nineteenth Centuries," Nye explains why beer became that country's drink of choice, and how and why the government facilitated the emergence of a brewing oligopoly. In chapter 5, entitled "Belgian Beers: Where History Meets Globalization," Persyn, Swinnen, and Vanormelingen describe both the plethora of Belgian beers and the emergence of InBev and Trappist as dominant producers.

Part II is devoted to issues of consumption. It begins with Freeman's "Cold Comfort in Hard Times: Do People Drink More Beer in Hard Times?" which offers a statistical analysis debunking the proposition that economic depression results in more beer consumption. In "Beer Drinking Nations: The Determinants of Global Beer Consumption," Colen and Swinnen provide data and discussion of major trends in beer drinking across countries and over time, including reasons why beer lost its dominant status in some important countries. The next chapter – "Recent Economic Developments in the Import and Craft Segments of the US Brewing Industry," by Tremblay and Tremblay, discuss these newly important brews, including the extent of substitution with mainstream beers and the advantages vs. disadvantages of their small size. McCluskey and Shrey discuss individuals' adaptation to different beers in "Culture and Beer Preferences," recounting in particular responses of international students in the US to domestic beers.

The industrial organization of the brewing industry occupies Part III of this volume. In chapter 10, "Competition Policy Towards Brewing: Rational Response to Market Power or Unwarranted Interference in Efficient Markets?," Slade surveys a range of issues but focuses on the UK's required divestiture of public houses in 1989, concluding that it was likely a misguided policy. Elzinga and Swisher discuss

reasons for beer industry consolidation and for policy approval for mergers in the US in their chapter “Developments in US Merger Policy: The Beer Industry as Lens.” The title of Chapter 12 is “The Growth of Television and the Decline of Local Beer.” In it, George utilizes historical variation in the availability of television across regions of the U.S. to help determine its importance in the decline of local brews, concluding that while television played a role, it was not a dominant one. In “Determinants of the Concentration in Beer Markets in Germany and the United States: 1950–2005,” Adams examines the reasons that the industries in those two countries evolved quite differently. And in chapter 14, “How the East Was Won: The Foreign Takeover of the Eastern European Brewing Industry,” Swinnen and Van Herck document the progressive encroachment of Western brewers into Eastern European markets, largely via acquisition.

The final substantive part of this book examines the new markets for beer in three of the four BRIC countries. In “Beer Battles in China: The Struggle over the World’s Largest Beer Market,” Bai, Huang, Rozelle, and Boswell recount the long history of beer in China, from its ancient beer culture, through its growth and consolidation, to the (sometimes problematic) joint ventures of the present time. Russia is the world’s third largest beer market, and its long history, recent explosive growth, and associated regulatory issues are all discussed in Chapter 15, “From Vodka to Baltika: A Perfect Storm in the Russian Beer Market,” by Deconinck and Swinnen. The effects of India’s ambivalent attitude toward alcohol, its regulatory environment, and traditional quality issues are discussed by Arora, Bhaskar, Minten, and Vandeplass in “Opening the Beer Gates: How Liberalization Caused Growth in India’s Beer Market.”

In their concluding section “Beeronomics: The Economics of Beer and Brewing,” Swinnen and Vandemoortele summarize and distill lessons from the seventeen chapters that preceded. They note the significant changes in the product and its consumption over time, changes in economies of scale, changes in concentration and integration in the industry, changes in regulations and taxes that impact brewers, among other significant issues.

While the authors and editors do not quite state it this way, it would seem that *change* might be a constant theme in the economics of beer and the industry that produces it. In country after country, the industry has undergone significant change. The product itself, while readily recognizable, has reflected changes in technology and tastes over time. And policy measures have changed over time, and often in turn they have changed the industry. Some tax and regulatory policies have favored the beer industry (the ban on vodka advertising in Russia), while others have adversely affected it (as when beer sales are viewed as a source of tax revenues). Some have blessed consolidation (merger policy in the US) while in other cases policy has forced deconcentration (vertical deintegration in the UK).

It is, of course, difficult to ensure that a collection of essays leaves no niches unfilled, and this volume is no different in that regard. Some might wish for a more

direct and comprehensive discussion of the power of advertising expenditures to transform this industry. Similarly, readers might benefit from further discussion of the business challenges and strategies that now face mainstream brewers. And a truly comprehensive analysis might include discussion of the adverse health and social effects associated with beer consumption. The omission of the latter seems particularly unfortunate, since one of the major changes of the last 30 years or so has been the movement to raise the drinking age in the U.S. and to hold drinkers more accountable for their actions (as in drunk driving laws); but despite all those, the problem remains a scourge in some countries.

But as noted, such caveats may not be entirely fair since the book does not claim to present a truly comprehensive picture of the beer industry. On the other hand, a volume entitled “The Economics of Beer” might suggest to some readers that they will come away with such a comprehensive portrayal, when, inevitably, that is not quite the case. While quibbling about such things, one might question the statement on the back cover of this book (more likely the product of the publisher’s enthusiasm) that reads “This book is the first economic analysis of the beer market and brewing industry.” This statement would not seem to recognize Tremblay and Tremblay’s excellent “The U.S. Brewing Industry: Data and Economic Analysis” (2004).

But quibbles over the title and jacket cover should not distract from the real point. This book has enormous strengths not found elsewhere. It covers a range of topics that is truly exceptional. It incorporates diverse approaches ranging from descriptive history to regression analysis of new data. Its fascinating histories of beer would be difficult to find elsewhere, much less to compile oneself. The same can be said for its country studies, each of which clearly took considerable time to compile. Its new research is often creative and provocative, suggesting opportunities for further study. All of the essays are well written and easy to grasp. Such a volume is a considerable contribution to the literature. It is both a pleasure to read and is well worth reading by students of industry and economics interested in one of an intriguing and important industry, both in history and at present.

## Reference

Tremblay, V.J. and Tremblay, C.H. (2004). *The US Brewing Industry: Data and Economic Analysis*. Cambridge, MA: The MIT Press.

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