Describing Markets:

A backward glance at the market for wine

Paul Duguid

In 1983, Ronald Coase dismissed his atheoretical predecessors in institutional economics, asserting that '[w]ithout theory they had nothing to pass on except a mass of descriptive material waiting for a theory, or a fire'.[1] Much of economics shares Coase's dismissal of description. Yet, as we endure another major economic collapse and are bemused by the clashing theories of "salt" and "fresh" water economists attempting to explain why, it can seem that economists only remember that theory is extracted from historical description when, despite the prevailing theoretical wisdom, history begins to repeat itself. Amid a welter of confident and yet conflicting theory, Hervé Dumez has rightly urged scholars to turn once more to the sort empirical description that Coase committed to the flames.[2] To that end, Dumez invited a group of participants at a conference to consider how to describe a market, suggesting that such descriptions could and should unsettle conventional economic

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[1] Ronald Coase, "The New Institutional Economics", *Journal of Institutional and Theoretical Economics* 140(1983): 229-231, quoted in W. Richard Scott, *Institutions and Organizations* (Thousand Oaks: Sage, 1995), 5.

[2] Hervé Dumez, *Méthodologie de la Recherche Qualitative* (Paris: Vuibert, 2013). For the 'fresh water' and 'salt water' distinctions, see Peter T. Kilborn, '"Fresh Water" Economists Gain, *New York Times* (1983) July 28. Available online at http://www.nytimes.com/1988/07/23/business/fresh-water-economists-gain.html (visited Jan 10, 2014)

theory.[3] Responding to that invitation, I approached the challenge historically and attempted to describe the market for wine in the eighteenth century. Here, I reflect on that description, its challenges, and its implications for theories of the market. As will quickly become clear, my attempt met with only limited success. The 'reflection' that follows is thus less a historical description of a market than an account of why it can be hard to isolate, let alone describe such a phenomenon historically.

The market for wine

One of the most profound theorisers of the market is, of course, Adam Smith. Thus, for my eighteenth-century investigation, I imagined Smith himself as a wine consumer in London around the time that he wrote the *Wealth of Nations* (1776), using that place and time to try to locate Smith within a specific market. I have no evidence of how Smith actually bought wine. We know that he drank it. His contemporary, the great lexicographer Samuel Johnson, complained that not only did Smith become disagreeable after drinking, but while drinking, wine 'bubbled'

[3] 'Describing Markets,' 40 And de Recherche en Gestion à l'École Polytechnique, École Polytechnique, 4 October, 2013. In fairness to Coase, he certainly unsettled conventional economic theory by holding it accountable to his description of the U.S. car industry. See Ronald H. Coase, 'The Nature of the Firm: Origin', in Oliver Williamson & Sidney Winter (eds.), *The Nature of the Firm: Origins, Evolution, and Development* (New York, NY: Oxford University Press, 1993), pp: 34-47. However, Having surveyed the oddities of the car company's supply chains, Coase then retreated into a simplified model that was theoretically tractable but overlooked the range of complex structures that in fact make 'markets'. See Paul Duguid, 'Untidy or Untractable? G.B. Richardson's View of Economics', *Aegis le Libellio* 2(6) (2005).

unpleasantly in Smith's mouth.[4] Johnson's remark perhaps indicates that Smith drank Champagne. Certainly, Smith seems to have preferred French wine, and when discussing wine matters, generally used France for his examples. He probably had France in mind when, in an often quoted piece, he discussed the effects of location on the quality of wine.[5] Smith also evidently regarded the wine market as a suitable example for his general account of markets tending to equilibrium. Thus, for example, he wrote how the 'fashionableness and scarcity of the wine render the competition of the buyers more or less eager' almost suggesting that those determinants were enough to explain the market.[6] Yet, as we shall see, in the matter of wine, then and now, fashionableness, scarcity, competition, and eagerness present particular challenges and either include too little to be explanatory or inadvertently open doors to much larger, complex, and historically located questions that resist theorising. Thus, even where the following account does manage to describe a market, it rarely looks much like the theoretical concept associated with Smith. I shall try to explain why not.

While I have apparently specified a market to describe, the first challenge a historian faces is not so much *how* to describe a market, on which Dumez rightly focuses discussion, but rather

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[4] Ian Simpson Ross, *The Life of Adam Smith* (Oxford: Clarendon Press, 1995) 251. As his London landlord, a Mr. Mills, was a wine merchant in the City of Westminster, Smith had good sources both for wine and for advice. Ross, *Life*, 253. The Landord is presumably William Mills, who is listed as a vintner doing business in Titchfield Street. See Thomas Tomlins, *List of the Livery of London, with their Places of Abode and Business* [London, 1775]. David Hume, who will appear later, also lived next-door to a wine merchant.

[5] Adam Smith,*Inquiry into the Nature and Causes of the Wealth of Nations* (London: Methuen, 1904) I.10.42. [All references to the *Wealth of Nations* are to the digital version of this edition <http://www.econlib.org/library/Smith/smWN.html>, which is marked by book, chapter, and page number respectively.)

[6] Smith, *Wealth of Nations*, I.11.41.

what to describe. What do we mean by *market* and what did Smith mean? Since Smith, economists have laid claim to a notion of 'the market' that is fundamentally above historical particulars, thereby presenting multiple challenges to the historian. As Coase suggests, economists take the market as a theoretical concept, one that Milton Friedman thought should in turn lead to informed prediction.[7] The historian, by contrast, looks backward and at specific cases that often resist theorisation. Equally, economists favour parsimonious description, asking in effect how little we need to know and and celebrating how much we can ignore as superfluous or epiphenomenal. Given the limitations of their sources, historians, usually prefer to see how much they can find out, proceeding by Ryle's tactic of 'thick description', where possible, and as a result to be suspicious of artificial conceptual boundaries.[8]

Economists also focus primarily on individual choice, casting the social as epiphenomenal, whereas historians (more self-consciously since the latter half of the twentieth century) tend to focus on the social as a critical and unavoidable concept that cannot be accounted for as the epiphenomena of individual action.[9] Out of these contrasts come further difficulties. An

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[7] See Marion Fourcade, *Economists & Societies: Discipline and Profession in the United States, Britain, and France, 1890s to 1990s* (Princeton: Princeton University Press, 2009) 72.

[8] Gilbert Ryle, *Collected Papers: Collected Essays, 1929-1968* (New York: Barnes & Noble, 1971). Economists are not alone in disdain for description. The anthropologist Clifford Geertz, though often cited as favouring 'thick description', when writing for economists, dismissed 'market studies in anthropology' as little more than 'merely market descriptive-inductivism gone berserk'. Clifford Geertz, 'The Bazaar Economy: Information and Search in Peasant Marketing' *American Economic Review* 68(2)(1978): 28-32.

[9] See Mark Granovetter, 'Economic Action and Social Structure: The Problem of Embeddedness,' *American Journal of Sociology* 91(3)(1985): 481-510 and Neil Fligstein & Luke Dauter, 'The Sociology of Markets,' *Annual Review of Sociology* 33(2007): 105-128.

approach that rests on individual preference tends to take preferences and tastes as given, whereas an approach that embraces the social is more likely to ask how individual preferences are formed, and what role social factors played in their formation. This then raises the problematic question of whether markets shape tastes rather than merely reflect them.[10] The latter assumption presents a more tractable target for theory. The former enmeshes us in problems of reflexivity and feedback as tastes shape markets and vice versa.[11] Furthermore, an approach that defines the market in terms of individual preference matching will tend to see that market as a natural outcome of the interactions of individuals and thus look with suspicion on any institutional (and particularly) state role. Hence, economics often takes such roles as almost by definition problematic interference or at best a symptom of 'market failure', whereas historians generally find them worth more attention and yet more description.

Overall, the struggle between economic and historical approaches turns around the problem that it is hard to locate and describe historically what is for some an ideal, transhistorical type. Of course, many people who used the term *market* in the eighteenth century, including Smith, had something

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[10] For a related argument, see Donald Mackenzie, *An Engine, Not a Camera: How Financial Models Shape Markets* (Cambridge, MA: MIT Press, 2006).

[11] Nye's argument about 'free-trade Britain and fortress France' shows the challenges of theory and the challenges of challenging theory. Nye, an economic historian, looked at the economic assumptions of Britain as a free trader and France as highly protectionist. He showed that both 'models' were wrong and points out how these assumptions have affected economic theory. He pays less attention, however, to how the claims affected the governments and citizens of each country at the relevant time, a step that a historian, rather than an economic historian might have felt more compelled to take. John Vincent Nye, 'The Myth of Free-Trade Britain and Fortress France: Tariffs and Trade in the Nineteenth Century' *Journal of Economic History* 51(1)(1991): 23-46.

quite specific in mind, and it is that which I shall try to excavate, knowing all the while that such an account must be what economist often describe as 'merely anecdotal'.

The wealth of *markets*

Rather than wrestle with what the concept of market has become for economists, it seems wiser to begin by considering what Smith and his contemporaries might have meant when they used the term. There are a range of meanings—*market* embraces less a well-defined concept than an extended Wittgenstinian family. In the eighteenth century, as now, the term *market* often designated a location (from this we get the English terms 'Market Place' and 'Market Town'). Smith used the term this way when he wrote of the market being 'a great distance from … those who supply it' or of the 'nearest public market'. Markets were also associated with a particular time (the 'fair day' or 'market day') or with a particular product. And clearly all three were often entailed. Thus, when Smith wrote about the 'market for butcher's meat' it might have captured a rather abstract notion concerning the ability of farmers or butchers to sell their product. But then as now, in London it could also denote Smithfield, a particular place, open at particular times and bringing together buyers and sellers of a particular product. These boundaries of place, time, and product could also include a restricted group of buyers and sellers. In Smith's time (as today) Smithfield was hedged around with restrictions on who could buy and sell, where and on what days.[12] Such markets might also operate under certain rules. Smith wrote with enthusiasm

[12] For an account, when changes in these restrictions threatened, see Thomas M. Challis, *Free Trade in Food: Letter to the Right Hon. Lord John Russell, M.P. on the Proposed Removal of Smithfield Market* (London: Effingham Wilson, 1851).

about the market of Troyes and the standards of weights and coinage that the 'Counts of Champagne' had imposed on dealers.[13]

Restrictions and regulations, which in some of these cases would seem to make rather than break markets, nonetheless raise the question of institutional and state intervention, which in the case of Troyes seems to have been critical.[14] Certainly, Smith recognised that intervention in the market is inherently problematic. He argued, for example, that a true price is set by 'the free competition of the market' and talks of certain 'causes [that] hinder the market price … from coinciding from their natural price'. Here, though, the market is perhaps something of an idealisation—hypothetical rather than actual (as is the concept of 'natural price's well). Yet, despite this ideal type, Smith clearly recognised the market as an institution that is bound if not always by rules and regulations, then at least by norms and expectations, such as fashion. Moreover, in Smith's overall philosophy, unrestricted markets may not be quite so central to society as the *Wealth of Nations* would suggest. *Theory of Moral Sentiments* only mentions 'market' once, and there it is implicitly condemned in an account of selling war captives into slavery.[15] As Emma Rothschild argues, the sort of market fundamentalism that Smith is easily associated with came later, though not perhaps all that much later. Rothschild credits Edmund Burke, the

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[13] Smith, *Wealth of Nations*, I.IV.10.

[14] When, with integration under the monarchy, the rule of the Counts ended, the regulations were abandoned and the international significance of the market dwindled. Henri Pirenne, *Economic and Social History of Medieval Europe* (New York: Harcourt Brace, 1937).

[15] Adam Smith, *The Theory of Moral Sentiments* (London: Millar, 1790), VII. 11.32. Cited from the digital version of this edition, http://www.econlib.org/library/Smith/smMS.html.

politician and author and Smith's younger contemporary, with one of the earliest uses of the term in its 'most abstract sense' when he argued 'the moment that government appears at market, all the principles of market will be subverted'.[16]

As we have seen, Smith was quite capable of using the term abstractly. When, as he often did, he wrote of people bringing goods to market, he was not discussing a particular market so much as referring to the process (of manufacture as much as of transport) whereby goods were made available for sale. So, while sometimes using *market* to refer to particular places where particular goods are exchanged between particular buyers and sellers on particular occasions, he also stepped back to refer to a locus (conceptual or actual) where preferences are coordinated through prices, which rise and fall depending on, as he noted with wine, such things as fashionableness and scarcity. Burke was also among the first to render this at its most abstract, defining the market as 'the meeting and conference of the *consumer* and *producer*, when they mutually discover each other's wants'.[17] For Smith, such definitions did not necessarily exclude restrictions and regulations (as the example of Troyes indicates), nor of norms and conventions determined by place, as his more general references to the market of London, Paris, or, indeed, Europe.

The market for wine

With these various uses in mind, we can consider how Smith might have read the phrase 'Wines … most suitable for the English

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[16] Emma Rothschild, *Economic Sentiments: Adam Smith, Condorcet, and the Enlightenment* (Cambridge, MA: Cambridge University Press, 2002) 263n112; Edmund Burke, *Thoughts and Details on Scarcity, Originally Presented to the Right Hon. William Pitt, In the Month of November, 1795* (London, 1800) 29.

[17] Burke, *Thoughts*, 25.

Market' in the work of his contemporary, the wine merchant John Croft.[18] Wine calls attention to the fact that, despite common assumptions that markets were face-to-face until the industrial revolution, in fact certain goods had a long history of long-distance trade. In particular, once they had adopted a religion from the Levant, those Catholic countries that had little immediate access to either wine or fish forced themselves to engage in long-distance trade for both essentials (and often for the salt to cure and preserve the latter). Though they had abandoned Catholicism by Smith's day, the British did not give up their wine and the trade continued, not, however, without a great deal of difficulty created by the shift to Protestantism.

Difficulties arose from the problematic sources of wine, from the problems that distance introduced into markets for any goods; from the specific challenges that wine, ever an awkward commodity, presented; and from government tendencies to gain revenue by taxing goods whose demand was relatively inelastic. For an eighteenth-century wine market, all these issues complicated Burke's elegantly simple definition of a meeting of consumers and producers in a process of mutual discovery as well as Smith's casual discussion of fashion and common notion of 'bringing to market' as a relatively straightforward process.

For example, in a country that had fallen away from Catholicism, and in part as a result was in an almost constant state of war with its nearest, wine-producing neighbour, it is hard to restrict the wants and fashions of the consumer as an unanalysable, market-independent given. Even (or perhaps, particularly) with wine, taste was not simply a matter of the

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[18] John Croft, *A Treatise on the Wines of Portugal*: *And a Dissertation on the Nature and Use of Wines in General Imported into Great Britain* (London: Ward for Todd, 1788) 11.

palate but of national honour and related concerns. Equally, when long-distance trade necessarily inserts numerous intervening interests, the wants of consumer and producer are hard to bring to direct, mutual discovery. Indeed, while enthusiastic for increasing the 'extent of the market', Smith himself is cautious about the transparency of long distance-trade for those who stand at either end. He notes that 'if the market is at a great distance from the residence of those who supply it, [price-making suppliers] may sometimes be able to keep their secret'. Conditions which make it easy to keep secrets also make it difficult to discover wants. In such conditions, information asymmetry, as such imbalances are rather facilely described today, are endemic.[19] Above all, as the 'interests' inserted in between consumer and producer in long-distance trade include by default those of the state, the distinction Burkeans readily assume between market and government become highly problematic. Hence, the market for wine in the eighteenth century was inevitably likely to depart from the ideal type readily imputed to that century.

Construction of the market

In trying to outline how the market was constructed in practice, rather than in theory, I shall elaborate all the points introduced above by considering consumers—those buying wine in Britain; at the good or commodity itself, wine; and at the way it was, in Smith's phrase 'brought to market', both in terms of production and distribution. While market structures of one

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[19] George A. Akerlof, 'The Market for Lemons: Quality, Uncertainty, and the Market Mechanism' *Quarterly Journal of Economics* 84(1970): 488-500. Akerlof's argument is undeniably powerful, but I think of the notion of information asymmetry as facile because it seems to assume that information symmetry is a coherent and unproblematic concept.

sort or another are certainly visible, empirically, these are always hedged around with complications that it is hard to generalise away.

Consumers

Taste might appear unproblematic for a commodity that very directly comes into contact with the taste buds of consumers. Smith himself is often seen as recognising distinctiveness of taste in wine. An article from the *Economist* on how the 'British middle classes … shaped the wine industry' and particularly the taste for 'claret', reported Smith arguing that the

> vine is more affected by the difference of soils than any other fruit tree. From some it derives a flavour which no culture or management can equal.[20]

The *Economist*, however, cuts Smith off at a critical point. He continued, 'This flavour, real or imaginary, is sometimes peculiar to the produce of a few vineyards'.[21] While the truncated remark seems to validate the palate, Smith's qualification asks to what extent we can take the palate for granted. If taste can be 'real or imaginary', what are the

[20] 'Hedonism and Claret', *The Economist* (2009) Dec 17. Online at http://www.economist.com/node/15108718 (visited Jan 10, 2014).

[21] Smith, *Wealth of Nations*, I.11.41.

forces that affect either the senses or the imagination, and how do these two interact?[22]

As I noted above, one of the factors Smith considered for wine is fashionableness. Another might be politics—or fashions in politics. Smith appears to have preferred French wine to Portuguese, claret to port. We no doubt might applaud the sophistication of his palate, but we should first consider other factors. The Scots drank claret (Bordeaux wine) in part because traditionally they had been on good terms with the French and in equal part because the English had not. Claret-drinking was a mark of not only of a sophisticated palate, but also of not being—or sympathising with the—English. Moreover, as the novelist Daniel Defoe, sent to spy on the Scots at the time of the political union between England and Scotland (1707), noted, Scottish disapproval of the Union was exacerbated by the ensuing attempt at a 'Stop of *French* wines', which caused an 'Out-cry'.[23] The stoppage—or restriction—was one result of the Methuen Treaty, signed between England and Portugal in 1703, after Portugal joined England in an anti-French alliance during the War of the Spanish Succession. The trade treaty gave preferential taxation to Portuguese wine, which would always be taxed at two-thirds the rate for French wine in return for

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[22] David Hume, Smith's contemporary and friend, wrestling with matters related to what he distinguished as 'mental and bodily taste' in one of his essays on taste. He explores the question direct perception with the story of Sancho Panza claiming his ability to detect flavour is hereditary. David Hume, 'Of the Standard of Taste' pp. 226-249 in *Essays Moral, Political, and Literary* (Indianapolis: Liberty Fund, 1987) 234-5. In this section, Hume is in part arguing against assumptions of direct and indubitable perception put forward by the 'Common Sense' philosophers, and in particular Thomas Reid by arguing that 'beauty and deformity, more than sweet and bitter, are not qualities in objects' (235).

[23] Daniel Defoe, *The Trade of Britain Stated: Being the Substance of Two Papers Published in London on Occasion of the Importation of Wine and Brandy from North Britain* ([Edinburgh], 1707) 3.

Portugal removing all resistance to the imports of English wool.[24] The treaty not only raised the price of wine for claret lovers, but opened a lucrative smuggling market for the Scots, which the Act of Union sought to close down. Where claret was already the preference of the Scots, the Union made it more so, but Smith, a great Scotsman himself, suggests that it was, perhaps, not a preference of palate alone, or if it was, it might have more 'imaginary' than real, or in Hume's terms, more 'mental' than 'bodily' where the Scottish imagination played a key part.[25]

If politics complicated the taste and fashion of the Scots, it did much the same for the taste of the English. They fought perennially with the French and suspected anything that came from France. Indeed, one of the first citations for the word *port* to mean wine from Portugal in the *Oxford English Dictionary* comes in an account of a shipment of Bordeaux wine taken to Portugal in 1692 (well before the preferential taxation of Methuen) in hope that it might be taken for Portuguese wine (or port) on entering England.[26] Some no doubt preferred port for its strength (it is 'fortified' with distilled alcohol). Thus Johnson insisted that Bordeaux wines were 'poor stuff! No, Sir, claret is the liquor for boys; port for men'.[27] But others saw drinking port, much as many Scots no doubt saw French wine, as a

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[24] Paul Duguid, 'The Methuen Treaty in the English Imagination', *Historia* 3(4) (2004): 9–36.

[25] For Hume's remarks, see note 21.

[26] *Oxford English Dictionary*, 'port' n7.2. Defoe, who had worked in the wine trade, argued that 'even when the Portugal Duties were higher than the French' Portuguese wine had remained popular. [Daniel Defoe], *A Letter from a Member of the House of Commons to His Friends in the Country* (London, 1713) 21.

[27] James Boswell, *The Life of Samuel Johnson L.L.D* (New York: Modern Library, n.d.) 961.

signalling mechanism. In a similar vein, later in the eighteenth century with highly suspect German installed on the British throne, thorough Tories, like the author Jonathan Swift, encouraged the English to

> Bravely despise Champagne at Court
> And chuse to dine at home with Port.[28]

Of course, if taste is indeed susceptible to political shaping, the possibility throws into doubt not only Johnson's judgement. But then it does the same on Smith's and Hume's. Both inveighed against the Methuen treaty on grounds that combined taste to economic theory, although, as Smith conceded, the treaty 'has been so much commended'. In Smith's view,

> The restraints upon the wine trade in Great Britain, besides, do not so much seem calculated to hinder the people from going, if I may say so, to the alehouse, as from going where they can buy the best and cheapest liquor. They favour the wine trade of Portugal, and discourage that of France.

Similarly, Hume argued that as a result of Methuen, 'we buy much worse liquor at a much higher price'.[29] In eighteenth century, post-Methuen and post-Union Scotland, Hume's own recognition of how sentiment can trump claims of scientific rationality should bring us to question the individualism and objectivity of such judgements about the 'best' and the 'worse'.

Here we should consider, too, the interests of the state. Though Hume mocked the notion of the balance of payments as an

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[28] Jonathan Swift, *The Poems of Jonathan Swift* (Oxford: Oxford University Press, 1937). Port was a mobile signal, usually deployed by the opposition parties to oppose any rapprochement with France by the government. Thus in 1710, it was the Whigs who used it against the incumbent parties. See Paul Duguid, 'The Making of Methuen'.

[29] Smith, *Wealth of Nations* IV.3.37. David Hume, *Political Discourses* (Edinburgh, [1753]) 88. Hume here suggests that the Englishman's taste and political-economic judgement is distorted by 'prejudice', and it only seems reasonable to suggest that the same might be true of the Scotsman.

objective measure of trade, the state had little desire to see English gold go to French producers.[30] As the protests arising when the Methuen Treaty was threatened in 1713 revealed, neither did a significant portion of the country. Protestors persuaded Parliament to vote against the government and the prospect of free trade with France, and in consequence put the governing Tory party out of office for more than half a century.[31] If Hume and Smith were right in their judgements of 'best' and 'worse', then the English were 'bravely' (as Swift put it) going against their personal interest to promote the public interest. They were also promoting the interests of many compatriots, who by the 1770s were deeply involved in the Portuguese wine trade. By this preferences they present an intriguing commentary on perhaps the most famous part of Smith's argument—the moment when he invoked the 'invisible hand' in directly addressing the question of the clash between personal and public interest in the matter of foreign trade:

> [E]very individual … neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.[32]

In acquiring a taste for port, real or imaginary, or in overcoming their partiality to claret, again real or imaginary, many Englishmen evidently 'preferr[ed] the support of domestic to that of foreign industry' but to have sought such support

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[30] David Hume, 'On the Balance of Trade,' pp. 308-326 in *Essays Moral, Political, and Literary.*

[31] Duguid, 'The Methuen Treaty in the English Imagination'.

[32] Smith, *Wealth of Nations* IV.2.9.

quite directly rather than indirectly and without 'intention'. But if such decisions, while apparently individual are social not only in their effects (as Smith readily conceded) but in the causes, as his work and this view of the wine trade suggests, then the Burkean view of the market as reducible to individual and autonomous preference seems unsustainable, and descriptions and theorisations of a market for wine cannot be founded on the individualised tastes of consumers as easily as economists might hope.

Commodity

At the centre of the negotiation between Burke's producer and consumer lies the marketable good or commodity. In my imagined case, this is wine. Smith's account of fashion and scarcity in the wine market suggest that wine might be a little different from other commodities. Yet, even if we set aside the complex political baggage that wine brought with it in the eighteenth century, it remains an awkward commodity. In an influential argument from the school of 'law and economics', William Landes and Richard Posner suggest that trade marks are a key aspect of the market because they help consumers recognise an article for sale as 'the same' as one they enjoyed before.[33] Oddly, one of the most influential sectors in the development of trade marks is the wine trade (and in particular the French wine trade), yet with wine it is challenging both to define and to recognise what is 'the same'.[34] Whether the changes are 'real or imaginary', wine changes not only with *terroir*, as Smith suggested, but even

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[33] William M. Landes & Richard A. Posner, 'Trademark Law: An Economic Perspective' *Journal of Law & Economics* 30(2)(1987): 265-309.

[34] Paul Duguid, 'French Connections: The International Propagation of Trademarks in the Nineteenth Century' *Enterprise & Society* July(2009): 3-37.

within the same *terroir,* from year to year. While they might look for the same trade mark on different vintages, most consumers do not expect the wine to be the same in taste and colour. Thus, for the consumer, identifying the 'same' wine is a tricky challenge. Furthermore, if wine is thus not easily accommodated as 'search' good, it is also a problematic 'experience' good, for, because of the way in which wine ages, how it is experienced at the time of purchase may be quite different from the way in which it is likely to be at the time of consumption. The consumer often needs sophisticated predictive skill to know whether a wine that tastes rough when bought will taste smooth when eventually drunk. Such skill is more likely to be found in experienced dealers than consumers. This gives a curious and asymmetrical market power to producers and distributors. Thus towards the end of the eighteenth century, a wine distributor in Portugal was able to face down a purchaser in London who had complained about the poor taste of the wine, by arguing

> It almost needless for us to observe to you that port wines owing to the increase demand for these two or three years past have come over newer than formerly and of course it required longer keeping. The wines you mentioned could only at present be fit to put in the bottle not to use. We therefore persuade ourselves that the judgement found was premature ... We therefore request of you to suspend your opinion until they have had more time to mature.[35]

The opinion or taste of the consumer at the time of purchase is, in this regard, curiously irrelevant. Good wine is then what economists call a 'credence good', one for which the purchaser

[35] From the letter books of Offley & Co in the archive of Sandeman & Co, Oporto, Portugal. Offley & Co to Thomas Harridge, 6 May 1793.

is often heavily dependent on the expertise and good faith of the vendor.[36]

Credence goods, which assume an inherent asymmetry of information, present major challenges to ideas of markets built around notions of symmetrical information. In particular, they make fraud relatively easy. Historically, the wine trade has been a site of continuous fraud as naive and credulous consumers have faced sophisticated and cunning producers and, as a result, markets have continuously threatened collapse. Laws to punish 'the sale of corrupted wine' in England go back to the thirteenth century, and by the seventeenth they were finely adjusted to reflect whether the source of fraud was the wholesaler or the retailer, adjustments that reflect the complex 'supply chain' that brought wine to the English market.[37] As laws were promulgated, so were recipes for the adulteration or 'sophistication' of wine.[38]

Hume, like Smith, assumed that 'the freedom and extent of human commerce depend entirely on a fidelity with regard to promises'.[39] Such fidelity is particularly important for

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[36] Asher Wolinsky, 'Competition in Markets for Credence Goods,' *Journal of Institutional and Theoretical Economics* 151(1)(1995): 117-131.

[37] For early laws, see Blackstone, who notes 51 Henry III (1271) and 12 Car II (1660). William Blackstone, *Commentaries on the Laws of England*, 4 vols. (London, 1800), col 4, 161. For the supply chain, see Paul Duguid, 'Networks and Knowledge: The Beginning and End of the Port Commodity Chain, 1703-1860' *Business History Review* Autumn(2005): 493-526.

[38] See, for example, Tyron Thomas, *The Way to Get Wealth: 1. Directing How to Make 23 Sorts of English Wine, Equal to That of France with Their Virtues* (London, 1703); [Anon.], *The Vintner's Mystery Display'd* (London, [1705?') which, according to its title-page, included directions on the 'never-failing Method to restore all Sorts of other Liquors when Pall'd, Dead, or Souer, so as to make them Palatable, Bright, and Good'.

[39] David Hume, *A Treatise of Human Nature* (Oxford: Clarendon Press, 1968) 152. Although Hume is using *commerce* here in a more general sense, it applies equally to the narrow usage.

credence goods, and with wine it was often thrown into doubt, calling for significant regulation to allow the market to operate—even though this would be anathema to Burke. The eighteenth-century was rife with such crises of confidence in the wine market. One of the first, in 1710, was induced primarily by wine merchants. When fair trade between England and France threatened and peace allowed importation of French wine, albeit at a higher tax, an advertising war broke out, in which advertisers of port wine tried to suggest that the sellers of French wine were frauds, and vice versa.[40]

Fraud of this sort is in good part battled by reputation. The simple equation here assumes that those who trade on the reputation as honest merchants, who establish 'fidelity with regard to promises' will be loathe to lose that reputation for fidelity and thus can be counted on in the future to behave as they have done in the past. That equation requires that market participants have both a future and a past, a requirement that again challenges aspirations for a Smithian market. One of Smith's idealised figures in the search for 'great fortunes' is the 'speculative merchant' who overcomes the 'regular, established, and well-known branch of business'. Here Smith extolled the role of the 'entrepreneur' *avant la lettre*, that key figure of modern capitalism. The 'speculative merchant', Smith argued,

> exercises no one regular, established, or well known branch of business. He is a corn merchant this year, and a wine

[40] See, for example, Richard Steele, *Spectator* 362 (April 25, 1712).

> merchant the next, and a sugar, tobacco, or tea merchant the year after.[41]

With its problematic, suspect commodity, the wine trade was inevitably dominated by well-established, long-term traders who used the reputations that they built to keep out 'speculative' invasions that repeatedly brought the trade into disrepute, fearing, as one merchant wrote at a time of speculative crisis, that the shoddy goods and bankruptcies of the speculators were giving all 'wine Houses' a reputation as 'the most rotten set in London'.[42]

While, beyond refusing to revoke the Methuen Treaty, the English government did little to intervene in these various crises, repeated challenges to the credibility of wine brought the means of production in Portugal repeatedly into question and determined a good deal of how they were ultimately organised, so it is to those that I now turn.

Production and distribution

As a long-distance commodity, wine rarely brought producer and consumer into the direct mutual discovery invoked by Burke. Rather it came to the London market through a complex supply chain. Port, the dominant wine of the eighteenth century, was produced from grapes grown in the valley of the Douro river, shipped down river to the city of Porto (called Oporto by the

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[41] Smith, *Wealth of Nations* 1.10.41. As Marx noted, this passage is curiously at odds with Smithian assumptions about the division of labour. Hence, Marx argued that it was only in a 'communist society' that a 'man' could 'hunt in the morning, fish in the afternoon, rear cattle in the evening, [and] criticise after dinner'. Karl Marx & Frederick Engels, *The German Ideology* (New York: International Publishers, 1978) 53.

[42] Paul Duguid, 'O Render da Guarda: Firmas Britânicas no Comércio do Vinho do Porto de 1777 à 1840' in G.M. Martins, ed., *História do Douro e do Vinho do Porto* vol. 4 *Crise e Reconstrução: O Douro e o Vinho do Porto no Século XIX* (Porto: Edições Afrontamento, 2010).

British), which gave its name to the wine. Here exporters blended the wine to suit British taste, and then shipped it to Britain. This chain involved several exchanges that in differing degrees do and do not look like markets, by institutions that similarly do and do not like firms.

After 1710, the next major crisis of confidence over wine came in the 1750s, when it was claimed that the reputation of port wine in the London market was falling because of extensive falsification. In Portugal, the exporters in the entrepôt of Porto blamed the farmers in the Douro and the farmers blamed the exporters. Threatened with the loss of reputation for their most valuable export, rather than arbitrate, the Portuguese government moved swiftly to control both. It created an oversight institution, the *Companhia Geral das Vinhas do Alto Douro*. It had remarkable, government-backed powers that included even the ability to exile or execute problematic Portuguese. One of its first moves was to demarcate a 'port wine region', as the only authentic source of the wine, and specified that the wine could only be exported through the entrepôt of Porto. All else was deemed false. This demarcation resulted in what was more or less the first wine *appellation* and as such reminds us that from that time on most conventional wine markets have failed and continue fail Burke's strict test because governments and their proxies have almost always involved in one way or another patrolling such borders of the trade.

The *Companhia*, however, as a critical initial experiment in this kind of intervention, was a particularly odd institution. In the Douro, it not only patrolled the borders but intervened strongly within them. Each year it indicated what wine could be exported to Britain, what could only go to the Brazils, what was

for use in the domestic market, and what had to be distilled to make the alcohol spirit used to fortify the wine. This allowed the *Companhia* to exercise a lot of power without resorting to exile or execution. If challenged, it could simply declassify the wine of those who opposed it. The *Companhia* thus controlled the 'market for wine', as that term might be used in the more abstract ways that Smith was prone to use. But it also controlled the more specific notion of market that we have seen was also common at the time, specifying not only what wine was permissible in the market, but also where and when and who could participate. These negotiations, in principle, between legitimated exporters and farmers took place in an annual fair organised by the *Companhia* in the city of Regua near the western boundary of the demarcated region. Further, the *Companhia* set a *taxa* or price, which again in principle, could not be exceeded. Of course, as with all markets, deals were struck that did not conform to rules or expectations. Yet another curious feature of the *Companhia* allowed it to impose some limits on illegal activity. For it was not only a regulator, but also trading company, one that bought wine in the Douro and exported it from Porto to England. As such, it was able to restrict the ability of the exporters to bargain for lower prices: if they waited too long, the *Companhia* might buy the wine for itself. If its competition helped keep prices up, its regulation helped to keep them down. The *Companhia* held the power to requisition wine that had already been bought, for which it would pay at the set *taxa*. Thus anyone who had paid over the *taxa* risked losing not only the premium wine they had negotiated for, but also any amount they had paid above the set rate to buy it. On large consignments, these could be large sums. In all, the *Companhia* was a curious hybrid. Getting beyond Burke's classical view of

markets, the institutional economist Douglas North makes a theoretically useful dichotomy between regulators and companies, using the metaphor of referees and players. But the division make for elegant theory, it overlooks the way that institutions like the *Companhia* can be both players and referees at the same time.[43]

While the *Companhia* in principle stood between the exporters on the one side of Regua and the farmers on the other, and established a market in which, with certain restrictions, they could 'mutually discover each other's wants', as Burke put it, in fact, the relations between the two were yet more complex. The exporters, mostly British, in general had remarkably little knowledge of the wine growing region, and the farmers, mostly Portuguese, had equally little knowledge of the British market for wine. Mutual discovery was achieved not only through the *Companhia,* but through intermediaries called *comissários*, who moved between town and country, overseeing the production, purchase, and transportation of the wine. While such a role is familiar to the wine trade, the port *comissários* are distinct in that, while they dealt with numerous farmers, they tended work with only one exporter, yet they were not employees of the latter, receiving no salary but living primarily on commission. Much, then, as the *Companhia* refuses to be identified as either referee or player (institution or organisation in economic terms), so the *comissários* refuse to be typed in Coasean terms as either market or firm. They depended on one organisation, as

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[43] See Paul Duguid and Teresa da Silva Lopes, 'Ambiguous Company: Institutions and Organizations in the Port Wine Trade, 1814-1834', *Scandinavian Economic History Review* 47(1)(1999):90-111; 'The Company You Keep: The Port Trade and the Decline of the Wine Company' pp. 285-309 in A. Vieira, ed., *Os Vinhos Licorosos e a História* (Funchal, Madeira: Centro de Estudos de História, 1999).

if employees, yet they lived without salary, dependent on sales, as if in the market.[44]

Finally, and briefly, there were relations among the exporters in the entrepôt. The firms all competed for the British market and we might expect that here at least raw competition and a competitive market should emerge. Yet, of course, the firms shared a lot of interests, which explains why a hunt for such a market is again frustrating. Behind the competitive indicators—wine prices, export sales lists, attempts to enter or hold particularly lucrative clients, and the like—the business letters and account books of these companies show curious, cartel-like behaviour, with exporters working as often in harmony and synchronisation as in competition. Some of this behaviour reflects the shared interests of foreign firms in an entrepôt, and again there were signs that some of the cartel behaviour aimed primarily to limit competition from Portuguese exporters. Yet again a closer look shows long-term alliances between particular British and Portuguese firms.

Of course, it is tempting and no doubt plausible to dismiss all the descriptive details alluded to here (and laid out in more detail in the paper cited) and insist that underneath there was a pure market bursting to get out with entrepreneurs constricted only by a dysfunctional, asymmetric market and a corrupt, governmental institution. Certainly, in letters of protest of one sort or another, exporters made such a case, if not quite in these terms. Only remove the restrictions, they pleaded, and competition would flourish and the trade blossom. History occasionally called their bluff. In 1777, following the death

[44] See Duguid, 'Networks of Knowledge'.

of the Portuguese king, Dom José I, the Marquês de Pombal, prime minister and patron of the *Companhia* was dismissed and the *Companhia* in consequence seriously weakened. In 1784, after the Treaty of Paris, rapprochement between the British and the French raised anew the possibility of a free-trade treaty with France and the end of the Methuen restrictions. On both occasions, the reaction of the British speculative interests was curiously muted and nervous. When the trade is looked at overall, one key role of the *Companhia* seems to have been not simply to articulate relations between the Portuguese farmers and British exporters, but also to articulate those between Portuguese wine firms and the British exporters, leading to the alliances described above rather than to competition. Whether this was intentional, is unclear, but it was welcomed by the British, who relied on Portuguese capital to establish and consolidate the firms, and by some Portuguese, who relied on the British for the reputations that were so enduring and effective in the British market. Neither market nor firm but a series of in-between hybrids seemed adequate for this task.

Conclusion

Clearly, I have failed to describe how Adam Smith entered the 'market for wine' in London in 1776. But with that conceit in mind, I have tried to show why it can be extremely difficult to establish the boundaries of what would need investigation to succeed in such an investigation. It is hard to identify Adam Smith's taste for wine without entering into an account of his nationality and that takes us swiftly to Anglo-Scottish, Franco-Scottish, Anglo-French, and Anglo-Portuguese social, political, and commercial relation, all of which had potential to influence not only the taste for wine, but also the taste for political-

economic theory. It is of course possible to claim that such a description is ensnared in the sorts of particularistic detail that the generalisations behind market theory are designed to rise above. In response to which it is worth considering whether the particularistic details reflect the general truth that markets are always enmeshed in particularistic detail and, while there are advantages in overlooking these, there are also advantages to keeping them in mind.