

John V. C. Nye (ed): War, Wine, and Taxes: The Political Economy of Anglo-French Trade, 1689–1900

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Received historical wisdom has it that Adam Smith changed the ideological climate in England leading to a wave of reforms that established classical liberalism and saw England replace France as the world's economic powerhouse. Ekelund and Tollison have shown that this wisdom was really driven by self-interest within the confines of a dynamic vs. stagnant political regime. They were concerned only with domestic regulation. John Nye, an economic historian at George Mason University presents an interesting "modification" to this view by examining the trade policies of Britain and France during this crucial period in Western economic development—the Industrial Revolution of the 18th century.

In terms of the domestic economy, the established history of English liberation and French stagnations still holds, but *War, Wine, and Taxes: The Political Economy of Anglo-French Trade, 1689–1900* shows that England was a late comer to free trade while France was a relative trail blazer. This modification does not change the overall historical story, but it does explain some important points (e.g., who paid for the expansion of the British Empire?). More importantly for the general reader is that it solves the puzzle of how the English could be so close geographically to France and be so economically successful and yet be so relatively backward in the areas of fine foods and beverages. At the same time the French were relatively stagnant economically yet building their reputation for the finest gourmet foods and beverages, among other things. Nye's answer is a prohibitive tariff on French wine.

In the 17th century, England and France were leading trading partners when they were not at war with one another. During this time French wine was a significant import into England. The two nations were in almost continuous military and/or trade conflict between the Glorious Revolution of 1689 and the Treaty of Utrecht in 1713 which almost stopped all trade between the two states. Lord Bolingbroke of Britain attempted to establish normal trade relations in the treaty negotiations at

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Utrecht, only to be rebuffed by Parliament. Instead Britain imposed heavy tariff rates on the importation of French wines and brandy while imposing preferential rates on products from Spain and Portugal. Because the tariff was based on volume rather than alcohol content or value, it succeeded in hampering the importation of French products in general and insured that only the highest quality French products could be imported legally into Britain. The French were thus encouraged to be innovative and produce even higher quality wines for export.

David Hume in his “Of the Balance of Trade” attacked this mercantilistic approach to the alcohol trade with the Cantillon-style argument that if France turned an acre into growing grapes they must then import the production of another area in order to feed and cloth those who work in the vineyard. Adam Smith also attacked this wine mercantilism in 1776, by which time French wines had been effectively kept out of the British market for more than three quarters of a century and would continue for another three quarters of a century more.

During this long wine drought the English turned to poor quality domestic beer and spirits as substitutes for the better French wine. Instead of a revenue-maximizing tariff on wine, Britain turned to a wholesale tax on beer and spirits. Domestic beer and spirits could be taxed at high rates because they were protected from competing with French wine. Collecting the taxes was made relatively easy and efficient because there were only a small number of wholesale brewers and distillers. Meanwhile, urbanization and industrialization meant that home brew was less of a viable substitute for many consumers. All of these factors caused excise tax revenues to grow throughout the 18th century so that revenues from the alcohol taxes accounted for nearly 40% of the treasury. Thus, the English people paid for their empire at their local pubs.

What did the empire do for the English people? Besides instituting low quality alcohol products, Nye is rightly skeptical that they could derive any net benefits from these overseas adventures and wars. He does note, but does not elaborate upon the fact, that the growth of the centralized state also resulted in the centralization of corruption. Here an anecdote might illuminate the English “bargain.” Richard Cantillon’s first employer, James Brydges, was the paymaster general for Britain during the War of Spanish Succession. Brydges is described by his biographers as the most successful war profiteer of the times. He provided resources for overseas troops, but he made purchases at one price and then charged the government a much higher price—not unlike modern day contractors in Iraq. Britain had troops around the globe, creating an enormous opportunity for government insiders and contractors to reap incredible wealth, in effect skimming off the macroeconomic profits of the Industrial Revolution.

Nye also goes against the historical grain and finds that France was relatively more free trade-oriented than Britain. French tariff rates were consistently lower than British tariffs from 1820 to the 1870s. He is unimpressed by the repeal of the Corn Laws, noting that France also repealed them about the same time. Beginning in the late 1840s and continuing over the next decade, France cut their average tariff rate (as a percentage of market value) from 20% to 10% and these rates would remain lower throughout the rest of the century. Real wage rates for the working class grew significantly throughout the rest of the 19th Century. As an aside, I would have thought that Nye, who is the Frédéric Bastiat Chair in Political Economy, would

have made some note of Bastiat's possible role (as an author, organizer, and legislator during the late 1840s) in this historic reduction in tariff, but Bastiat who campaigned vigorously for free trade is hardly mentioned in the book.

The Anglo-French Treaty of 1860 was an important event and Nye thinks it is more important than the repeal of the Corn Laws. Ironically this treaty was dubbed the “Cobden Treaty” although Cobden himself preferred unilateral free trade policies and was largely against negotiated agreements. The Treaty sparked a flurry of bilateral treaties which effectively brought tariff levels down and established a “free trade” bloc across Europe. This negotiated free trade was reversed at the end of the 19th century by protectionism in France and Germany helping to set the stage for World War I.

The theme of tax structure and tax reform is one that continues to dominate economic news. Nye finds that the restructuring of taxes toward excise taxes and away from land, property, and customs permitted Britain to liberalize its economy while greatly expanding the state. British drinkers and French wine makers were clearly worse-off for it. In contrast, Cantillon had earlier suggested (circa 1730) that government should be financed by a uniform tax on land rents. Not only does the uniform rent tax cause fewer economic distortions, it also establishes a powerful property-owning class as an effective check on an expanding government and unnecessary wars. If he was right, then the implications regarding both the rise of the British Empire and the French Revolution become interesting indeed. One might further speculate that in the absence of the prohibitive wine tariff during the colonial era that alcohol consumption patterns might now be different in the English-speaking world.