
Review by Jonathan J. Liebowitz, University of Massachusetts Lowell.

Recently economic historians have turned their scholarly attention to answering persistent questions about the creation and expansion of markets. When were markets invented or have they always existed? How can a market economy be defined? Do markets come about naturally or are they created? Are certain institutions necessary for markets to function efficiently? Do markets make people better off? Some of those who have been answering those questions include Jeffrey Williamson, who, with several collaborators, has explored the creation of global markets. Winifred Rothenberg has studied the creation of a market economy in New England between 1750 and 1850. Closest to the concerns of the book under review, Judith Miller has written about the officials who slowly developed a practical understanding of the French and international grain markets and brought a functioning free market into existence by the late nineteenth century.\[1\] These scholars examine the technological, institutional and ideological causes for the expansion and integration of markets and consequences of that integration. They all conclude that by the late nineteenth century, if not earlier, markets in the Atlantic world were integrated.

Karl Gunnar Persson adds his corroboration as he ranges over much of Europe, from Scandinavia to Italy, to demonstrate the processes and explain the causes of market integration over the course of four centuries. In addition to the remarkable geographical scope, the author manages to cram into 155 pages of closely-reasoned text a myriad of approaches ranging from Amartya Sen’s idea of "compatibility to function" to the ideas of Enlightenment economists and modern statistical tests for cointegration. Many varieties of historians and economists will appreciate the concepts and information they find here, even if they may not grasp fully all the parts of the book. Readers may find the text a bit jumpy and the separate chapters not always arranged so that the progression from one to the other flows smoothly. Yet perseverance will be rewarded because the author’s judicious conclusions have a lot to tell us about the development of French and European society. Probably too specialized and difficult for an undergraduate audience, *Grain Markets in Europe* is highly recommended for graduate students and scholars.

Persson begins with a discussion of how those he calls *les economistes* argued in eighteenth-century France against centralized government control of food provisioning. They believed that only free trade could produce price stability. Instability was damaging to agriculture because it discouraged farmers from improvements by reducing their returns. Price declines in years of good harvest would not be balanced by increases in years of crop shortage because demand would then decline. Persson then translates these ideas into modern economics and uses graphs and numerical examples to show that for the majority of peasants “the decisive advantages of integrated markets were that they could benefit from a good harvest” (p. 17).
If it is true that integrated markets produce greater price stability because abundant harvests and shortfalls in different locations cancel each other out, then the question is how different segments of society would be affected by price stability. Persson continues his theoretical discussion by arguing that with the possible exception of large landowners, all would benefit from integration. Small holders in a segmented market, notably "faced the worst of both worlds" (p. 28). They received less for their surplus in times of abundance and could not benefit from a rise in price by selling their scarce crops during a bad harvest because substitute goods would rise in price too. Persson concludes that, as Cormac Ó Grada shows for the Irish Famine, because “a poor harvest is a real output decline” (p. 31) no one benefited; even landlords found they couldn't collect their rent. On the most basic level of health and survival, stability was superior to fluctuation around the mean.

After his analysis of theory, Persson looks at what actually happened. By how much did quantities fall short to produce the recorded price increases? Is it true, as often alleged, that demand was highly inelastic and that a small drop in the amount produced would yield a large rise in price (and thus markets exacerbated price instability)? Using yield data (Aside from broad contemporary estimates of shortfalls, output data are not available), Persson concludes that “price variations were responses to large, rather than small, variations in supply” (pp. 62-63). For technological and other reasons, neither space nor time constraints to market integration could be overcome. In simpler terms, transporting grain from one place to another was expensive and storing it from one harvest year to another was rare. So the market rules and price management adopted by early modern governments were rational responses to market failures. Persson agrees with Miller that by the eighteenth century market regulators had become sophisticated enough to know that limited intervention would produce the best results.

The next element in Persson's tightly reasoned argument is that “changes in transport and information technology increased opportunities for trade and arbitrage and stimulated integration of markets” (p. 91). To establish the truth of this hypothesis, there must be a way of measuring the extent of market integration. While at first glance it would seem that the obvious indication of integration would be identical prices for the same commodity in two places, transport costs and quality differences make the “constant-price ratio” (p. 93) the more useful measure. The rapidity with which prices in different markets returned to this ratio is the measure that Persson uses to determine the extent of market integration. He finds that between the seventeenth and nineteenth century the speed of adjustment fell from years to two to three months. A decline in price volatility over the same period may also be taken as a sign of increasing market integration. Rothenberg and O'Rourke and Williamson use the simpler measure of price convergence in different markets.

In his conclusion, Persson returns to political questions: How did governments remove themselves from grain market regulation between 1760 and 1860? He believes that the inertia favoring regulation was overcome first by the authoritarianism of enlightened despotism and then by a change in public sentiment “from grain market regulation to entitlement protection” (p. 135), that is, income support for those hurt by bad times. Examples of different approaches may be found in the hesitations of Swedish policy, the more radical reforms by the Tuscan Habsburgs (helped by good market performance), and the latecomers in the Austrian Empire and Prussia.

In France the ideological shift appears in a comparison of policies toward the food crises of 1812 and 1816-17. Whereas in the first the Napoleonic government resorted to controls—though the prefects were often hostile to this return to the old order—by the time of Louis XVIII the government had adopted the ideology of “the primacy of the market” (p. 149) and would not tolerate deviations on the part of local officials.

Markets were deregulated but only after the junction of a diverse set of causes ranging from liberal ideology to improvement in living standards and transportation and communication technology and
“new ways for governments to rectify market outcomes” (p. 155). The strengths of Grain Markets in Europe lie in its introduction of these many elements and explanation of the connections between them. If it is true that globalization in the twenty-first century is a return to the integration of markets for goods, labor, and capital that peaked in the late nineteenth century, then Persson may have something to tell us about current globalization and its discontents.

NOTES


[2] I have arrived at the same conclusion for French landlords during the agricultural crisis of the 1880s. Despite leases providing for fixed rents, they had to accept less during the crisis.


[4] Miller (pp. 198-235) believes that Napoleon’s policy was a reversion to one that was already being discarded. Its failure was the last nail in the coffin of government control of markets.

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