Trade, Taxes, and Terroir: The Rise of the French Regulatory State During the Third Republic

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How did regional taxes affect the production and consumption of wine in France? As early as the Hundred Years War cities in France were authorized to collect taxes known as octrois on goods intended for consumption within their boundaries. High octrois rates potentially generated Alchian-Allen effects that biased consumption and production towards smaller scale producers and higher quality wine. We take advantage of exogenous variation in local octrois tax rates generated by a 1901-1905 policy experiment to test this hypothesis. We create a department level panel data set on octrois tax rates, wine consumption, and the scale of wine production between 1895 and 1906. Using a differences-in-differences framework we show that when local octrois taxes were forcibly reduced by the National government large scale producers of lower quality wine entered the market, whereas small scale producers exited. Furthermore, these newly unemployed small scale viticulteurs formed the core of the political movement to introduce “modern” French wine regulation. Our research illustrates how a long history of high internal taxes on the wine trade in France created the interest groups that eventually lobbied for protectionist measures that are still with us today.

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