Collapse of the Douro region's wine industry in 1756?

Work in progress
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Problems early 1750s

• Dishonest practices:
  • Use of raisins, grapes of regions and countries to produce wine “as if” from the Douro region.

• Complaints/practices:
  • Complaints by English buyers,
  • Shippers and growers involved
  • Disputes between wine shippers and growers.

• Regulation by state monopoly on 10 September 1756
  Companhia Geral de Agricultura das Vinhas do Alto Douro
  • Quality control
  • Price control
  • Demarcation area

Near collapse in 1756?

• Akerlof (1970) - Lemons principle
  • Asymmetry in information about quality between sellers and buyers
  • Market could disappear or supply low quality goods only if no institutions arise to reduce the asymmetry.

• What could have happened in the absence of regulation in 1756 during the period 1757-1776?

• Forecasting - 12 statistical/econometric time series models

• Choose “best” in terms of ability to forecast

• “Best” → lowest prediction error

Wine exports from Oporto: 1678-1756
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Near collapse in 1756?

What happened actually after 1756?

Discussion

- Results show lower exports in the absence of regulation → consistent with prediction of Lemon's principle.

- Remedies other than (strong) regulation?
  - Certification
  - Labels on bottles
  - Wine experts (courses, public tastings)

- Likely given government's incentives in 1756?
  - Decreasing income from Brazil (gold, minerals)
  - Lisbon earthquake in 1755
  - Change of government in August 1756
Data

- 1714-1776 (63 observations)

- Checked with other sources:
  i. Guerner (1814)
  ii. Forrester (1848)

- Out of 63 observations:
  - 60 identical
  - 2 → small difference (0.01% and 0.6%)
  - 1 → apparent typo → use Forrester/Guerner

Data

- Sample period: 1714 – 1776

- Why?

  - Likely measurement error → Evidence of fraud (end 1600s,start 1700s)

  - Embargoes of 1678-1685, 1690-1696 prohibited imports of wine from France to England → export of French wine as if it were Portuguese.

Data

- In 1706 municipality authorities of Bordeaux (France) decided to carry out inspections in order to prevent such fraud (Ludington (2013)).

- After 1706? Likely according to Nye (2007).

- 1714: Treaty of Utrecht – War of the Spanish Succession