Old World versus New World: the origins of organizational diversity in the international wine industry, 1850-1914

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Wine production in Europe today is dominated by small family vineyards and cooperative wineries, while in the New World viticulture and viniculture is highly concentrated and vertically integrated. As a result, 70 per cent of the nation’s wine in the United States and Australia is produced by the top five wine companies, 50 per cent in Argentina and Chile, compared to figures of only 10 per cent in countries such as France, Italy, or Spain. This paper argues that these fundamental organizational differences have historical explanations that date from the turmoil in wine markets at the turn of the twentieth century. Technological change radically altered the nature of the industry before 1914, in particular creating economies of scale in wine making and allowing the commercial production of drinkable table wines in geographical regions where previously they had been considered too difficult. As technological change endangered existing rents, growers, wine-makers, and merchants lobbied governments to introduce laws and create new institutions that regulated markets in their favor. The political elite responded, supporting the creation of new institutions which helped preserve their own political power in the future. The political voice and bargaining power of the economic agents varied greatly both within, and between, countries, leading to the introduction of very different policies. First in France, and then in other European countries, the political influence of the hundreds of thousands of small growers forced their governments to support producer cooperatives that allowed growers to benefit from both the transaction cost-economizing effect of the family farm in grape production and the economies of scale found in wine-making, while regional appellations (later appellation controlee) created collective regional brands for small producers, thereby restricting the economic power of merchants and the tendency towards vertical integration. By contrast in the New World, there were few small family wine producers when the new wine making technologies appeared, and consequently their electoral influence limited. Instead, new investment in modern wineries was accompanied by the appearance of specialist grape producers, and a handful of merchants who created hierarchical organizations, integrating vertically and horizontally and investing heavily in advertising and brands to sell to consumers.
generally unaccustomed to wine in distant markets. By the turn of the twentieth century the California Wine Association controlled about 80 per cent of the region’s wine sales and the importer Peter Burgoyne accounted for two thirds of Australian exports to the British. The creation of these hierarchical organizations reinforced in these markets the trend towards fortified dessert wines as oppose to table wines after 1900, which as late the 1960s accounted for at least half of national wine production.

This paper compares the response to technological change and the demands for state intervention and institutional innovation in a number of very different wine producing nations: France, Portugal and Spain in the Old World, and Algeria, Australia and the United States, three countries that only began commercial wine production during the period in question. Section one argues that traditional grape and wine production favored small scale integrated production. From the mid nineteenth century producers had to adapt to three major exogenous events: the integration of national and international markets, the appearance of new vine diseases and production shortages that these provoked, and the major advances in the knowledge of fermentation and the development of wine making equipment that produced economies of scale and which allowed cheap table wines to be produced in hot climates. These changes encouraged an expansion of production in hot climates in the New World and a shift in the locus of production of cheap table wines from Europe’s centre to the periphery. Thus while the four Midi departments and Algeria produced the equivalent of less than 15 per cent of France’s domestic wine consumption in the 1820s, this figure had reached 50 per cent by 1910. Other regions, such as La Mancha in Spain or Puglia in Italy experienced similar changes, although at later dates. By the turn of the twentieth century, a combination of higher yields and increase in adulteration flooded wine markets and led to a collapse in prices while improved wine-making technologies threaten the viability of thousands of small producers. The rest of the paper examines the repose to these two problems, and in particular the creation of cooperatives and regional appellations in parts of Europe, and vertical integration in California and Australia.