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Book Review

The Great Wave: Price Revolutions and the Rhythm of History
by David Hackett Fischer

reviewed by Calvin Olano

Why review a 1996-vintage history book for the World Future Society now? By our standards, the book is "old." Yet, recent worldwide economic developments have made Fischer's observations even more relevant today than they were in 1996. This review is intended to inspire thoughts and discussions about where we are now and where we might be in ten or one hundred years, based on Fischer's observations about monetary trends and the underlying dynamics of human society.

The book is evenly divided between the main text and appendices. In the two hundred plus pages of the main text, the author tracks evidence of price and currency valuations in the Western world from the twelfth century to the present and correlates these valuations with concurrent historical trends. His findings are that there have been four inflationary waves of variable but considerable duration. Each of these waves, except for the current one, has been followed by similarly long periods of price stability. Fischer makes a point of saying that it is a mistake to think of these waves as cyclic. They vary in duration, in the underlying societal stresses, in the forces that drive the alternating periods of inflation and stability, and in the severity of the events that invariably accompany the transition from inflation to stability.

The first wave, which he entitles the medieval price revolution, 1180 – 1350, starts with an inflationary period, mild by modern standards, with price increases averaging only about ½ percent per annum. Prior to this wave, there was a period of price stability, accompanied by a general feeling of optimism and development. Strong kingdoms characterized this period, termed the renaissance of the twelfth century. The great Gothic cathedrals were begun. Universities were established. Settlements that would eventually become the great European cities began to grow. This progressive period continued through the start of the inflationary period. Starting in the late twelfth century, records show a steady increase in population and a concurrent increase in the price of agricultural commodities, especially wheat. Records also show that at the same time, the rich and powerful became wealthier while the common person became poorer. Rents went up, monopolies developed, government debt increased, and rewards for labor diminished. The resulting stresses began to show in the early fourteenth century, when the climate deteriorated for several years, bringing about crop shortages and widespread famine. By mid-century, the spread of bubonic plague brought about a final, great collapse of both the population and the economic system.

With the decimation of the European population, inflation ceased. Considerable chaos with wild swings in commodity prices accompanied these horrific changes. Although there was considerable variation, throughout the fourteenth century average prices did not rise. Gradually, starting approximately 1400, production and prices stabilized. With wages rising wealth became more equally distributed and Europe entered an extended period of political stability. This period, the Renaissance equilibrium, continued through the first third of the sixteenth century.

The second wave, the price revolution of the sixteenth century, was remarkably similar to the first wave. It began gradually, actually in the last quarter of the fifteenth century, when the population of Europe began to rise noticeably. Once again, prices of agricultural products rose while real wages for workers fell. Energy prices climbed as forests were heavily exploited. This time, price rises were twice that of the previous inflationary era, averaging about one percent per annum. As the inflationary period progressed, famine, plague and other diseases began to take a toll. Again, there was a period of political and social unrest; but this time it was less intense. Diseases were not as severe and population did not decline as dramatically. This is not to minimize the hardships of the period. Grain was in sufficiently short supply that people substituted sawdust in bread for flour. Interest rates soared. Currencies were debased. Rents increased nine fold while wages fell. Governments were faced with large deficits and the people with regressive taxation. This was a period of "stagflation", with inflating prices and economic depression.

Eventually, just after the middle of the seventeenth century, Europe pulled out of this slump. Fischer calls the era of stability that followed the Enlightenment equilibrium. As usual in periods such as these, stability was a long-term description with considerable short-term variation. At first, prices rose, only to fall later. Wages increased and the ordinary person felt that the times were good. Rents decreased and the disparity between the wealthy and average person declined. The great cities blossomed.

This prosperity continued until the first third of the eighteenth century, when prices began to rise concurrently with large increases in population. In mid-century the third inflationary wave began, but this wave was different from the earlier waves. It spawned civil unrest, a number of revolutions and considerable warfare between economically hard-pressed states. However, European populations did not fall and the famines were not as serious as earlier. The rate of inflation was higher during this wave than in the previous waves, averaging 1.7 percent per annum. Once again, the inflationary surge was led by rises in the cost of agricultural products.

In all of these inflationary waves, as well as in the periods of monetary stability, there was always considerable short-term variance. In the longer inflationary periods there were short periods of depression. In stable times, brief inflationary periods made it difficult for the contemporary person to judge whether the current trend was going to prevail for an extended period. This was true of this third wave, as well. However, in the early nineteenth century, after the reign of Napoleon in France, coinciding with the beginning of Mary's reign in England, a period of stability began that was to last all of the nineteenth century.

The factors that cause these secular changes are not always clear, even after the fact. It can be noted that the Western world saw a number of significant developments in the nineteenth century. Europe aggressively colonized much of the rest of the world. The industrial revolution had a major impact. The westward expansion of the United States led to considerable development. Thus, the factors that produced the Victorian equilibrium were, undoubtedly, different from those of earlier centuries.

Fischer dates the beginning of the fourth inflationary period to 1895-1897. These years were marked by a barely discernable inflation rate on the order of one percent per annum.

After a number of years, when the trend did not reverse itself, observers began to suspect a secular change. This change came as a relief to many. Prior to the mid-1890s the lack of upward movement in agricultural prices combined with declines in prices of some commodities had created problems. Farmers suffered from declines in wheat prices, for instance. Some argued that the change was caused by expansion of the gold supply, others that the monetary policies contributed. The author argues that both of these explanations do not hold up. He maintains that, as before, population growth along with increases in "material expectations" were dominant.

There were periods of variation. Between the world wars there were dramatic shifts. Lack of monetary discipline caused hyperinflation in Germany. The great depression of the 1930s was a worldwide phenomenon. On the whole, for the first two thirds of the twentieth century inflation continued a moderate rate. The wealthy accumulated more than their share of the wealth, but real wages increased as well, assisted by strong union movements.

In the United States in the 1960s, even before the Vietnamese war, inflation increased, driven higher by excessive government spending. More tension was created by the oil embargo of the early 1970s. Later that decade, two acts by President Carter, the beginning of deregulation and the appointment of Paul Volcker as chairman of the Federal Reserve Board, helped bring this inflation under control, thereby contributing to the era of prosperity during the Reagan administration. However, in the last third of the twentieth century, real wages began to decline. There were crises brought about by the overextension of some of the world banking systems and the rapid expansion of currencies in some nations. Political unrest brought about the fall of the Eastern bloc communist governments.

Since these developments are characteristic of the tensions that occurred in the earlier inflationary waves, it is interesting to look for other similarities or dissimilarities. Population growth has declined in some parts of the world, but notably increased in other parts. Birth rates in the third world and in the Islamic countries have been strong. One common attribute of the three previous inflationary waves is an increase in religiosity of the general population. It is the reviewer's perception that religious beliefs are more strongly held now than in the recent past. Fischer points out that other political changes have occurred. In particular, third world countries have been allowed to democratize, either after revolutions or peacefully.

The appendices treat a number of topics in more detail, two of which I will touch on here. The first is that theses waves are neither new nor unique to the Western world. Records indicate that similar inflationary periods existed in the Assyrian, Greek, Roman and Chinese civilizations. Another appendix discusses synchronization of these inflationary waves worldwide, even in very loosely coupled civilizations, such as medieval European and Chinese civilizations.

Fischer's book raises several questions. A number of economists believe that we are at the beginning of an extended deflationary period. Are we now in an era of extended price stability, or must the modern global economic system experience more stress before the transition to stability occurs? Are these monetary and social waves merely part of a chaotic system, characterized by fractal-like patterns? If so, does this mean that it is even harder than one might expect to anticipate social and monetary changes? What are the implications of modern, tightly coupled global systems? Is it a useful exercise to attempt to list the factors that cause tension within our worldwide social and economic system and the factors that mitigate those tensions? Would some future historian benefit from these speculations or find them mere folly?