

How's your summer reading list?  
Here's something to get you started.

## Wilhide & Company

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# OBSERVATIONS

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A Journal Of Things We Find Interesting

## Rain, Cold and Price Tsunamis

Tired of rainy weather? Think you've got it tough? Imagine for a moment you were living in Europe 700 years ago. In 1314 it rained almost all spring and summer and destroyed most of the crops. Same thing happened in 1315. In 1316 it rained harder and longer.

The worst famine in European history became widespread. People dug up buried corpses, boiled and ate them. Criminals were cut down from the gallows, cut up and thrown to the crowds. Parents killed their children (and vice versa) and ate them. There were civil wars and rebellions from Sweden and England to Italy and Greece, wars between states throughout Europe and Crusades -- both planned and impromptu. Crime and suffering increased while the wealthy (especially the nobility and the clergy) spent extravagantly. Population declined by over 10%.

Then the Black Plague arrived.

These cheery accounts open David Hackett-Fischer's book, "The Great Wave: Price Revolutions and the Rhythm of History," a study of four cycles of price inflation that have punctuated modern history. It's an interesting read for two reasons: it convincingly details the inner workings of economic cycles across broad historical periods in a way that sheds light on our current situation; and it's full of little bits of information that are fun to know.

Hackett-Fischer describes these cycles as "Great Waves" because they all have similar, wavelike structures, causes and effects. They start with a period of "equilibrium" when real wages rise

and rents, interest rates and returns to capital are stable or decline. Military conflicts are limited in scope. These periods produce remarkable advances in the arts, culture, architecture and political systems.

Then prices slowly begin to rise, usually as a result of population increases, but also driven by monetary policy and shortages of key commodities, especially fuel and food. General prosperity still rules, but people become nervous. In the next stage price increases become "secular" -- they break through the levels of what people have come to accept as normal fluctuations. This is often caused by wars, widespread imperial or colonial ambitions, extreme weather patterns and epidemics. Social and political disorder increase.

In the third stage, inflation becomes "institutionalized" as governments and individuals make decisions that exacerbate rising prices. Short term cycles become more extreme, wages fall, returns to capital rise and the gap between the wealthy and the poorer and middle classes increases.

In the final stage prices become highly unstable as does the money supply and the supply of key commodities. Governments go into debt, financial markets have large peaks and valleys and social and political disorder reach crisis proportions. The wave breaks.

The Medieval price revolution began in the latter part of the 12th century during a period of extraordinary accomplishment. The French built more than 80 cathedrals, 500 abbeys and 10,000 parish churches. Universities were founded in Oxford, Paris, Bologna and

Salerno. Great kings ruled but the foundations of modern popular government were also laid. Many of the seminal works of European literature were written. But population increases caused prices to rise and things built to the catastrophe of the 14th century.

Then things got better. In the fifteenth century commodity prices stabilized, weather patterns evened out, the plagues gradually lessened and political stability became more prevalent. We call this period the Renaissance and it was not just a "rebirth" of classical learning and values. It was also a rebirth from a period of economic and social disaster.

The Renaissance was followed by rising prices in the 16th century and wars and social unrest in the 17th. Things didn't get quite as bad because political institutions, financial systems and international trade helped dampen them. But it was still no fun to be around Europe in the 1600s.

This wave was followed by the period of equilibrium in the 18th century we call the Enlightenment. Then the process began again, leading to the wars and unrest of the 18th century -- including the French and American revolutions. By the 1820s, things began to stabilize and the 19th century -- the Victorian era -- was a time of accomplishment in arts, sciences, exploration, architecture and political systems.

The price revolution of the 20th century began slowly, but increased with two world wars and continues to today. We've seen inflation become institutionalized, increasing gaps between the wealthy and others, demo-

graphically-driven demand, wide swings in interest rates and shortages of key commodities, especially energy.

In all these waves there are patterns within patterns. The poor and middle classes suffer the most at the end of the wave cycle. The rich manipulate taxes, spending and public policy to their benefit. (May West was right: "I've been rich and I've been poor. Believe me, rich is better.") Fuel and energy costs drive price increases. Government policy -- especially monetary policy -- almost always makes things worse. So do collective individual choices, whether it's having larger families or driving SUVs. In the final stages, there's an increase of fundamentalism and religious conflict.

Hackett-Fischer includes a plethora of interesting data bits that illuminate his wave-cycle theory. Here are some of the more interesting ones:

\* While gold was the international currency in medieval times, there wasn't much of it. The total in Europe would have fit into a two-meter cube.

\* Many people believe that price increases of the 16th and 17th centuries were caused by an increase in the monetary supply as gold and silver were imported from the Americas. (As the supply of money increased, prices did too.) But the dates don't line up.

\* The Ottoman empire was both a unique mixture of cultures and very violent. While their scholars preserved rare Greek manuscripts, their armies used marble cannonballs made from ancient monuments.

\* In the 15th century, Venetians developed assembly processes and interchangeable parts that allowed them to manufacture and launch an entire galley in one day.

\* In the mid-16th century Spain was the strongest state in Europe. But it's leaders institutionalized deficit spending and the government went bankrupt six times between 1557 and 1647.

\* Wars raged throughout Europe for all but one year between 1551 and 1650. There were nearly 300 insurrections in France. A particularly narrow form of Calvinism -- Puritanism -- became the fastest growing religious sect.

\* The Enlightenment period was notable for long, stable reigns. In Prussia, just three Fredericks ruled from 1688

to 1786. Louis the 14th and 15th ruled from 1643 to 1774. Peter the Great ruled Russia from 1682 to 1725.

\* There was very little "hard" money in America in the early 1700s. Small farmers and businesses in Massachusetts maintained mutual charge account records known as "bookkeeping barter."

\* In the 18th century Swedish money was made of copper and the largest coin weighed 43 pounds. Paper money was introduced in America because so much specie was carried back to Europe.

\* Between 1789 and 1802 revolutions broke out in France, Belgium, Switzerland, the Netherlands, Poland and Ireland. Sweden's King and Russia's Czar were assassinated.

\* In 1861, the economy in the South was so undeveloped that there weren't enough engravers and lithographers to make money. You could tell a counterfeit note because it looked better than the real ones. The South issued nearly a billion dollars of "on faith" paper money during the Civil War.

\* The so-called Pax Britannica in the second half of the 19th century was anything but peaceful. The British fought 230 wars during Queen Victoria's reign.

\* Between 1830 and 1900 crime declined by 80% in London. Alcoholic consumption in America dropped nearly 70%.

\* The price wave of the twentieth century began in 1896 after nearly a century of stability. The cost of living in the U.S. had not increased since 1814.

\* An American dollar was worth 40 German marks in July 1920, 493 marks two years later and 4.2 trillion marks in November 1923. By the end of that year 1,783 presses were running day and night to print money.

\* More American farmers went bankrupt during the 1980s than during the Great Depression.

\* Real wages have fallen in the U.S. since the late 1960s, dropping almost 15% since 1970.

\* The Reagan administration increased the U.S. national debt more than all previous administrations combined. The current administration has exceeded that.

The Great Wave is not what you'd call a page-turner. It's 536 pages long and more than half of that is taken up by appendices and source notes. It's full of charts and graphs on esoteric subjects that often don't coincide with the conclusions in the narrative. And it was published in 1996, so it's not a straight shot to judge more recent events.

Hackett-Fischer is also a maddening writer. Sometimes he tells a good story and turns elegant phrases. But other times he sounds like a college student with a paper due and no time to review a first draft. The book is full of typos and small mistakes: *where HAVE all the good editors gone?*

But it is a thoughtful, encompassing study of how price "revolutions" begin, build and break. It's useful background for assessing our current situation and current policies. And it's just interesting enough to keep you going. Hackett-Fischer begins his (23-page) conclusion with the story of a nineteenth century Baptist minister, Samuel Miller, who predicted the world would end on December 31, 1843. When the day passed, he discovered an "error" in his calculations and re-scheduled doomsday for March 21, 1844.

His following grew and when the March date passed he recalculated for October 22. His following multiplied and whole parts of New England shut down on the appointed date. Nothing happened. Miller kept recalculating (for ever increasing numbers of followers) until he was proved right: He died suddenly (unexpectedly) in 1849.

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Doug and Jean Wilhide