British Mercantilism and Crop Controls in the Tobacco Colonies: A Study of Rent-Seeking Costs

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Tobacco played a prominent role in the development of the American colonies. The "stinking weed" dominated the economy of the Chesapeake Bay colonies and became the first colonial-produced commodity subjected to mercantilist restrictions. Although today tobacco is condemned and its consumption discouraged for its negative health consequences, it is after all an agricultural product, and the nature of tobacco production is similar to most other crops. The British mercantilist laws protected British merchants from foreign competitors by requiring all tobacco to be shipped to England, and the colonies sometimes imposed their own crop control measures to secure higher prices. Present-day agricultural programs throughout the developed world also protect domestic farmers from foreign competition and impose crop controls to reduce farm surpluses. There is much that can be learned from the study of mercantilism and the colonial crop controls to help us to appreciate some of the problems of present-day agricultural market regulation.

The sheer economic waste resulting from mercantilist trade barriers (including higher prices to consumers, dislocations of capital, and colonial warfare) has been well known since the time of Adam Smith. More recently, economists Robert Ekelund and Robert Tollison (1981) have analyzed British mercantilism as a rent-seeking society.[1]

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[1] Rent seeking occurs whenever government establishes an entitlement and potential recipients respond by expending resources in order to take advantage of the entitlement (Tullock 1967). In the case of a state-imposed license monopoly, the total social cost can far exceed the misallocation effects of higher prices to consumers. This is because the political costs (lobbying, bribery, etc.) needed to secure monopoly privileges tend to dissipate the

Protectionist favors were supplied by both the king and the Parliament and demanded by the domestic British merchants. There was brisk competition among the monopoly seekers and also competition between the two monopoly suppliers. A sort of perverse bidding for special, protectionist favors took place, and because resources had to be expended both to acquire and maintain these favors, most of the wealth transferred from the public to the monopolists was probably dissipated as well.

Ekelund and Tollison described the battle between the king and Parliament to secure the power to supply protectionist favors, but they ignored the impact of mercantilism and the role of rent seeking in the colonies. This article examines the effects of economic regulations on the chief crop grown in the colonies of Virginia and Maryland. Colonial tobacco became subject to both mercantilist laws emanating from Britain and homegrown crop-control measures. The British laws reserved the exclusive access to colonial tobacco to the British merchants and levied hefty customs duties on tobacco. Colonial crop-control schemes attempted to prop up the price of tobacco before it boarded British ships.

Both the British and the colonial cartel-like regulations proved to be very costly and ultimately unsustainable. From this study of history, we can draw some important lessons for agricultural policies today.

Birth of the Royal Tobacco Monopoly

Virginia was colonized in 1607 as a proprietary company for the purpose of making money. The original settlers expected to find gold, but that hope was abandoned by 1608. In 1612, John Rolfe discovered another kind of gold in the form of a green leaf. About the same time, settlers were allowed to privately own land and reap the rewards of their own efforts. Tobacco could be grown in Virginia and sold profitably in England. Tobacco soon became the major export. Most of the world production of the weed soon came from Virginia and Maryland. Tobacco even became the primary medium of exchange in the Chesapeake colonies. Taxes, debts, and wages were denominated in pounds of tobacco. Even artisans, innkeepers, and other nonfarmers often planted tobacco patches to raise extra cash (Bruce 1907: 20, 210, 220; Bethell 1998: 33–36; Middleton 1953: 112–21).

King James I personally detested tobacco declaring it to be "loath-

rents obtained by the monopolists themselves. Similarly, rent-seeking costs tend to dissipate the expected economic returns from predatory transfers (including theft and war for booty).

some to the eye, hateful to the nose, harmful to the brain" and "dangerous to the lungs." Nonetheless the tobacco experiment had proven profitable in Virginia, and in 1621 a bill was introduced in Parliament to prohibit planting tobacco in England and prohibit the importation of tobacco from anywhere except Virginia and the British Indies. The measure passed the House of Commons, but was defeated in the House of Lords. But the planned tobacco monopoly scheme did not end with parliamentary defeat. King James I granted the import monopoly by proclamation. The monarchy-parliamentary dispute over control of economic matters and the fruits of extending mercantilist privileges eventually erupted in the English Civil War (1642–51) (Middleton 1953: 83, Brooks 1952: 88).

The king captured monopoly revenues in the form of customs duties imposed on the tobacco trade, and English merchants gained exclusive access to most of the world tobacco crop. All colonial tobacco was to be shipped to England, and after paying customs the English merchants acquired the exclusive use of the crop. The scheme also prohibited tobacco cultivation in England (to prevent tax-free chiseling). Small quantities of tobacco imported from the Spanish Indies faced prohibitive duties. After the 1630s, the Spanish Indies shifted most of their plantations from tobacco to sugar planting (Gray 1927, 1928).

Despite royal proclamations, as early as 1620, prohibiting the cultivation of tobacco in England, Englishmen widely evaded the ban. Many considered the prohibition of raising tobacco to be an unwarranted restriction on personal liberty, and the crown lacked the administrative machinery to enforce the tobacco-growing ban in England. By 1653, it was believed that the British tobacco crop exceeded the normal imports from Virginia. Raising illicit, homespun tobacco in England helped to erode the king's revenue. The duty on colonial tobacco imports fell from one shilling per pound in 1620 to nine pence in 1623, four pence in 1632, and two pence by 1640 (Beer 1908: 408, Gray 1927: 238–39).

The requirement that all colonial tobacco be shipped to England was enforced by a preemptory order in 1621 that prohibited foreign ships from carrying colonial tobacco. Tobacco became the first colonial commodity set aside for exclusive English mercantile use. The exclusive use of English ships and the extensive system of tobacco inspection and colonial warehousing discussed below limited the demand for Chesapeake tobacco during normal times. During wars, however, the enforcement of trade restrictions weakened, and it was not uncommon for tobacco to be loaded duty-free on foreign ships (Gray 1927: 238).

In many ways, tobacco seemed to provide the ideal commodity from the standpoint of British mercantilists. Heavy taxes on tobacco produced substantial revenues for the crown, and yet price increases did not seem to significantly reduce consumption. The export of tobacco products helped Britain run trade surpluses, and exclusive trade promoted British shipping. Finally, the Chesapeake colonies provided a haven for malcontents and the unemployed. Most of the economic costs of mercantilist policies were hidden in various forms of rent-seeking activities (Menard 1984: 74).

Nature of the Colonial Tobacco Market

The 17th century tobacco market exhibited many of the characteristics of the demand and supply for typical agricultural commodities. For example, the short-run demand for colonial tobacco was price inelastic. Small changes in supply induced comparatively large changes in tobacco prices. Moreover the supply of tobacco, like most crops, could be altered by unpredictable weather conditions. For example, a dry spell shortened the planting season while too much rain ruined the crop. Bad growing years sometimes produced shortfalls of two-thirds below normal output, but 20 percent short crops were more common, although the increase in commodity prices sometimes offset the reduction in quantity to produce greater revenues. Thus, reductions in output did not necessarily result in reductions in farm income (Gray 1928: 4–5; Middleton 1953: 100–103; Menard 1980: 128).

In addition to the price/income instability of tobacco, the mean tobacco prices followed cyclical patterns of expansion and decline. The tugs of demand and supply altered the price of tobacco and produced the "trade cycle" of the Chesapeake Bay colonies. As new markets were opened and new uses of tobacco were discovered, the demand for tobacco increased and so did the price. But such booms were short-lived because there were no legal entry barriers to tobacco planting in the colonies. Higher prices and profits attracted new entrants. The subsequent increase in tobacco supply eventually reduced prices and profits for the tobacco planters (Menard 1980: 107–77).

Economic historian Russell Menard has summarized the impact of tobacco prices on the Chesapeake economy:

> Since the staple dominated the regional economy, the impact of price movements went well beyond planter income. A cyclical pat-

> tern of prosperity and depression, with peaks and troughs at remarkably regular intervals determined largely by the price of tobacco, reverberated through the entire economy and affected the volume and pace of immigration, the growth of population, the spread of settlement, the extent of opportunity, government policy, experimentation with other resource-intensive staples, the rise of manufacturing and the level of material well-being in the colonies. Tobacco prices provide a reliable indicator of booms and busts in Maryland and Virginia [Menard 1980: 121].

Menard sketched out the significant "booms and busts" of the tobacco colonies. The initial boom that resulted from the introduction of tobacco in 1612 was followed by an increase in immigration and a tobacco depression by 1629–33. Tobacco prices briefly recovered, but by late 1637 a second depression began and lasted until the mid-forties during the English Civil War when trade with the Dutch provided an increase in demand. Following the war and the reimposition of trade restrictions, the colonies sank into another depression by the mid-fifties. After recovering to enjoy prosperity by the early sixties, the colonies suffered another bust by the late sixties. Prices again became so low that indentured servants could not earn enough for their masters to replace them. The Chesapeake economy boomed again during the middle to late seventies and the rate of immigration increased, but in 1681 Governor Culpepper of Virginia reported that tobacco surpluses had become "so fatal and desperate that there is no remedy; the market is overstocked and every crop overstocks it more. It is commonly said that there is tobacco enough in London now to last all England for five years. Our thriving is our undoing, and our purchase of negroes, by increasing the supply of tobacco, has greatly contributed thereto" (Menard 1980: 121–44; Brooks 1952: 112–13).

The royal tobacco monopoly was at least partly responsible for the degree of tobacco price inelasticity and the related extremes of booms and busts. In restricting the options of both tobacco growers and manufacturers, the mercantilist protections made the demand for tobacco less elastic and reduced the potential sources of agricultural supply. Weather conditions in the Chesapeake influenced supply more than they might have if tobacco production had been more geographically diversified. And if foreign buyers had been allowed to purchase tobacco, the demand might have been more elastic. Free trade stabilizes world market prices by integrating many diverse markets into one market with greater price elasticity of both demand and supply. Expanding the opportunities for both buyers and sellers should also have reduced the power of regional and national monopolies.

Tobacco prices and planter incomes fluctuated due to short-term weather conditions and cyclical trends, but over the long run tobacco prices trended downward. Tobacco cultivation severely exhausted the soil; typically, the fertility of the soil was lost after about three years of tobacco farming. Nonetheless, the colonial planters overcame the problem of soil exhaustion by relocating and improving farming techniques. Table 1 illustrates the increasing productivity of tobacco farming during the 17th century. In turn, the increased productivity at the farm caused a secular decline in tobacco prices until the 1680s (Schaun and Schaun 1959: 70–71; Menard and Carr 1989: 407–18).

TABLE 1

Increased Tobacco Productivity and Falling Prices

Year	Output per Farm Worker (Pounds of Tobacco)	Tobacco Prices[a] (Pennies [d] per Pound)
1619–29	712	27.00d–6.50d
1630–39	735	5.30d–3.00d
1640–49	921	2.50d–2.70d
1650–59	1,296	2.55d–1.65d
1660–69	1,553	1.50d–1.15d
1670–79	1,653	1.15d–1.05d
1680–99	1,710	1.00d–0.80d

[a]Tobacco commodity prices at Chesapeake Bay.
Source: Menard (1985: 448–50, 462).

Colonial Attempts to Capture Mercantilist Rents

Royal proclamations imposing prohibitive taxes on Spanish tobacco and the lightly enforced ban against homegrown tobacco enabled the Crown to realized realize monopoly rents through import duties on Virginia tobacco. British merchants also reaped monopsony privileges from their exclusive right to purchase colonial tobacco. Throughout the colonial period, governors and colonial assemblies attempted to capture part of these mercantilist rents for themselves. The changing nature of the political struggle in Britain influenced colonial rent-capturing schemes. From 1620 to 1641, the monarchy held the power over mercantilist regulation. The king appointed the Virginia governor, who dominated the assembly.

The king, however, paid the salaries of the Virginia governor and other royal officials in bills of exchange in London based on the exchange rate against colonial tobacco. A higher price of Virginian tobacco meant the governor would enjoy a more favorable exchange rate and a higher salary. The Virginia governor therefore had a strong incentive to prop up the Chesapeake tobacco prices. Since the members of the assembly and most Virginians obtained their income from tobacco, they also favored higher tobacco prices (Ripley 1893: 119).

The governor and assembly sought higher Chesapeake tobacco prices although the king would have certainly objected to outright attempts to directly reduce customs duties. As the secular price of tobacco declined, the rent-maximizing customs duties required numerous adjustments. If the price of tobacco could be maintained, rather than allowed to decline, the colonists might capture a portion of the mercantilist rents. Thus, the apparent attempts to effect countercyclical price increases also provided political cover for the governor and colonial assembly to support tobacco prices, farm incomes, and official salaries.

During the 1630s, Virginia's governor and assembly attempted to support tobacco prices by various subtle measures: (1) crop control laws; (2) acceptance of tobacco for public dues and taxes and its promotion as medium of exchange, which established a monetary demand for the crop; (3) numerous encouragements and requirements to diversify farm production; and (4) the imposition in 1633 of a 64-lb duty on all newcomers who planted tobacco within one year after their arrival. (This duty was repealed in 1634.) (Ripley 1893: 78, 120).

Political changes in Britain affected the colonial attempts to capture mercantilist rents. During the English Civil War (1642–51), the mercantilist system broke down. Colonial tobacco was loaded duty-free on foreign ships. Chesapeake tobacco prices rose as they became subject to the world market. There were no mercantilist rents to capture.

Following the parliamentary victory, the Navigation Acts (1651–73) reestablished mercantilist controls on tobacco. Nonetheless, the colonial customs officials were appointed by and responsible to the assembly, not London, during the Cromwell period. Without the watchful eye of the king, the colonial assemblies held unprecedented latitude in self-government. In 1657–58, the Virginia Assembly levied an export duty on tobacco in direct challenge to the British import duty. The two shillings per hogshead export duty was reenacted in 1662 and used as an occasional source of Virginia revenue until the restoration of the monarchy (Flippin 1915: 9, 22–23).

In 1680, the new king-appointed governor made the export duty permanent, but took control over the proceeds from the assembly. The tobacco export duty became royal revenue to be used at the discretion of the governor, not the assembly. For the duration of the colonial period, the colonial export and British import continued to be collected. The crown had recaptured the tax collections on the tobacco trade, but this rent-seeking battle between the crown and colonial assembly was not costless. The double taxation on the tobacco trade involved the unnecessary duplication of tax-collecting bureaucracy. The collection costs of the export duty absorbed 27 percent of the revenues that it collected (Flippin 1915: 9–10).

Another colonial attempt to capture mercantilist rents involved the slave trade. By the end of the 17th century, the British crown acquired the Royal African Company (RAC) from a successful war against the Dutch. The RAC directly profited from the slave trade with the colonies. The importation of slaves tended to reduce tobacco prices and Virginia incomes. The colonial assembly began to tax slave imports by the 1670s and by the early 1700s increased these duties to prohibitive levels. But the crown disallowed the excessive taxation on slaves in 1705 and thereafter kept a watchful eye on any colonial attempts to capture the mercantilist rents intended to benefit British politicians and merchants (Ripley 1893: 71–73).

Crop Controls and Indian Raids, 1629–42

The colonial authorities imposed crop restrictions on tobacco farmers, much like the modern-day agricultural programs. Such crop regulations generally have served two separate, but related, goals: one was to stabilize tobacco prices due to uncontrollable swings in supply, and the other objective was to capture the rents created by the English mercantilist trade restrictions.

Since the cyclical price decline in 1629–30 inspired the Virginia Assembly to institute crop control measures, price stability appears to be the chief objective. But the crop controls also attempted to subtly capture a portion of the mercantilist rents. Basic economics, however, shows that commodity price supports tend to produce increasing commodity surpluses, and the regulations designed to contain these surpluses invariably increase production costs due to rent-seeking behavior among the farmers.

In 1629, the Virginia Assembly imposed a maximum number of tobacco plants that each planter was allowed to cultivate. Initially, the limit allowed each family to cultivate 3,000 plants per farm worker with an additional allowance for 1,000 per nonlaboring woman and child. The Inspection Act of 1629–30 reduced this limit to 2,000 plants and provided for inspection. The tobacco planters were to select "two or three men of sound judgment" to inspect the quality and quantity of the green leaf. Sub-par tobacco was to be destroyed. If an official count revealed that a planter exceeded the statutory limit of tobacco plants, his entire crop was to be destroyed. But lax quality control could be expected when each man graded the fineness of his neighbor's crop (Brooks 1952: 96; Bruce 1915: 304–11).

Following these measures, the price of tobacco continued to fall from 6.50 pence/lb in 1629 to 2.90 pence/lb in 1632. The assembly responded by restricting production further and making the inspectors more independent. Family members not engaged in tobacco production were no longer counted. To prevent the farmers from harvesting the lower quality ground leaves on their plants, the law was also amended to limit the farmers to only nine leaves per plant. In 1633, the assembly reduced the allowable plants cultivated per poll to 1,500 (Menard 1980: 157; Bruce 1907: 307–8).

In the winter of 1632, the assembly established five different places throughout the colony to serve as public warehouses where all tobacco would be graded and stored.[2] All tobacco would be brought to the warehouse before December 31, and the lowest quality would be destroyed. Members of the Governor's Council and later commissioners of the Court served as tobacco inspectors. Inspectors had the authority to break down the doors and seize hidden tobacco without obtaining customary search warrants. In 1631, the assembly established the Office of Searchers, whose agents were to find secret places on ships in dock and seize concealed tobacco (Bruce 1907: 305, 325; Flippin 1915: 36).

The commercially fit tobacco was stored in public warehouses and the ownership recorded as a matter of public record. Colonists traded and paid debts among themselves by merely transferring book credits. In 1633, the assembly selected official storekeepers to oversee each warehouse and provided for their compensation at 1 percent of the amount of tobacco placed therein (Flippin 1915: 36; Ripley 1893: 145–47; Bruce 1907: 306).

Although the plant limits were discontinued after the 1630s, the tobacco warehouse system remained intact throughout the colonial period with some minor adaptations made for the sparsely settled districts. Tobacco continued to serve as the primary medium of exchange in the Chesapeake colonies. The inspectors helped to standardize the quality of the colonies' common medium of exchange, while the warehouses served as 100-percent reserve banks (Ripley 1893: 146; Royall 1877: 447–61).

[2] The establishment of public tobacco warehouses did not occur without debate. It was feared that the common storage of the crop at central locations along navigable streams might expose it to a variety of risks—such as floods, fires, and Indian attacks (Bruce 1907: 236).

The fertility of the plantations already under cultivation tended to decline with each successive planting season. This reduced the size of tobacco plants. The fertility of the ground could only be maintained with the application of cattle manure fertilizer. But it was difficult to procure sufficient amounts of cattle manure, and it was found that manure fertilizer tainted the flavor of the weed. Tobacco growers feared that crops grown on established estates might not pass the quality inspection and their entire year's crop might be ordered destroyed (Bruce 1907: 321–26).

It was also observed that tobacco grown on virgin lands, untilled lands along the streams, produced both larger and better tasting leaves, but these lands encroached on Indian territory. Bruce (1907: 322–23) argued, "It was not entirely the greed of land, or even the inordinate desire to raise tobacco, that led to the rapid extension of the settlements; it was largely the necessity imposed upon the tiller of the ground to secure in the restricted number of plants allowed him by the terms of the law, the heaviest weight which the soil under the most favorable conditions would impart that number."

Virginian planters hastily attempted to occupy these new lands before securing legal titles. They retained their old lands and homes, while cultivating the new grounds with their legal quotas of tobacco plants. The primary costs of securing frontier plantations included clearing the forests, constructing insubstantial living quarters for the workmen, and the increased risks of Indian attacks. Since the colonial militia could not easily defend the frontier, over one-third of the laborers had to be stationed on guard duty. The hastily built workman's living quarters were so frail and difficult to defend that the governor issued statements in a vain attempt to discourage frontier habitations, but his words lacked the force of law (Bruce 1907: 322–23).

The frontier farms of 1637–38 produced a bumper crop. Tobacco output for 1638 soared to almost 2.5 times the normal output during the late 1630s. By 1639, production from the new frontier plantations had depressed the price of tobacco below the subsistence level. Consequently, the population of Virginia and Maryland stopped growing and began to decline. In 1639, the colonial assembly responded with even more draconian measures. They required the destruction of "all of the mean crop and half of the good" of the 1640 crop. More than half the resources engaged in tobacco production that year were wasted. Moreover, the extra cost due to securing the frontier farms further reduced the increased returns from the crop controls (Gray 1927: 233; Menard 1980: 132, 157–58; Bruce 1907: 323–24).

In 1641, the English merchants convinced King Charles to prohibit the colonial assemblies from fixing tobacco prices, but the prospects for collusion among the tobacco-growing colonies were dim in any case. Virginia adopted other schemes of crop controls. In 1641 and 1642, the Virginia Assembly restricted planters to 170 pounds of tobacco per household member, but such crop restrictions could not be sustained for another important reason. The establishment of Maryland in 1634 placed another colony full of tobacco planters in direct competition with Virginia. Maryland soon became a major tobacco producer. Any restriction imposed by the Virginia Assembly could be replaced by increased production by its northern neighbor. By the 1640s, it became clear that the price of tobacco could not be controlled without cartel-cooperation between the two colonies. But Maryland had a much more diversified economy than Virginia. Since the public debts and taxes were denominated in pounds of tobacco, the many non-tobacco growers in Maryland constituted an obstacle in adopting severe crop restriction proposals designed to increase tobacco prices. Thus, the Maryland Assembly found it difficult to collude with the Virginia Assembly on tobacco crop controls (Gray 1928: 10; Menard 1980: 132; Thompson 1977: 59–77).

Subsequent crop control schemes proved to be ineffective. By the mid-1650s, the tobacco colonies gradually slid into another price depression. This time, the Virginia and Maryland assemblies prohibited the cultivation of ground leaves and "seconds," but they wisely refrained from more severe crop restrictions, such as limiting the number of plants or poundage grown. During the next bust, the assemblies of Virginia, Maryland, and the Carolinas agreed to prohibit the planting of tobacco altogether from February 1667 to February 1668. But this measure proved to be less effective than the severe winds of 1667, which almost destroyed the Virginia crop (grown in violation of the collusive agreement) at harvest time. The colonial assemblies failed to restrict tobacco production during the bust of the early 1680s, but in 1682 mobs of farmers rioted and burned tobacco crops and plants in the field. Subsequent anti-riot legislation made the destruction of the tobacco crop a criminal offense, subject to the death penalty (Menard 1980: 133; Tobacco Institute 1977: 19; Robert 1949: 11; Brooks 1952: 12).

Tobacco Currency and Quality Controls during the 18th Century

Tobacco money left much to be desired. Tobacco became too cheap, hence too bulky to be used directly in exchange. Most exchanges involved bookkeeping entries in the public warehouses introduced to Virginia in 1633. The inspection and grading of tobacco helped to overcome the lack of homogeneity of the crop. In Maryland, which did not establish a warehouse system until the 18th century, special laws prohibited false packing and required debt payments to be made between November and August to account for seasonal fluctuations in supply (Gould 1915: 55–60).

Landowners were obligated to pay a special tax called the quit-rent. The quit-rent belonged to the king based upon the alleged royal ownership claim upon all land. The colonial assemblies did not control these proceeds and resented the royal officials' access to these funds. During the Civil War and Parliamentary periods, these quit-rents often went uncollected. The restoration of the monarchy restored the crown's claim upon quit-rents. In Virginia, quit-rents were originally payable in coin, but the colonists solicited for the right to pay them at a fixed rate in tobacco. The royal authorities granted this request without specifying the quality for tax receivable tobacco. Thereafter, Virginians paid quit-rents with the lowest quality of "trash tobacco," including seconds and ground leaves (Ripley 1893: 46–56, 147–49).

By the 18th century, the colonial governors began to discuss the problem of the quality of the tobacco crop. Finally, in 1730 the Virginia Assembly enacted a law prohibiting any tobacco from being exported or used to pay *any* public or private debts until public officials appointed by the governor had inspected it. The quality enhancement of tobacco money augmented government revenue and helped to standardize the currency. During the 1730s, warehouses began to issue transferable tobacco notes denominated and convertible into pounds of tobacco, much like the silver certificates issued by the U.S. Treasury during the 20th century. The transfer notes assured the holders of a certain quality as well as quantity of money.[3] Maryland enacted a similar system (Ripley 1893: 149–50).[4]

Finally from 1730 through 1740, Maryland and Virginia managed to collude in restricting the tobacco output. Virginia law required the destruction of 150 pounds of tobacco per person subject to poll taxes. The 18th century laws again tightened the inspection and grading of tobacco in order to help standardize the currency and augment tax collections. Moreover, by restricting quality, quantity could also be

[3] If an individual preferred to retain the specific crop that he tendered to the inspectors, he could obtain a "crop note" that entitled him to a specific deposit of tobacco (Ripley 1893: 150).

[4] For a description of paper money in Maryland, see Gould (1915) and Behrens (1921).

reduced and prices maintained, which enabled Virginia and Maryland to jointly capture a portion of the mercantilist rents that may otherwise have been absorbed by British customs duties and English tobacco merchants (Gray 1928: 11).

Parliamentary Tobacco Monopoly, 1651–1776

Beginning in the 1620s, the Parliament began to dispute the authority of the king over economic matters. As Ekelund and Tollison have written, "The debate over monopolies was not a debate over free trade versus crown grants of patents, but rather over who would have the power to supply regulations." Over time, Parliament wrested control over the monarchy's power to extend monopoly grants and in 1641 the Parliament seized the right to set customs duties from King Charles I. The monarchy-parliamentary dispute over control of mercantile rent seeking erupted in the costly English Civil War (Ekelund and Tollison 1981: 66, 70).

During the Civil War, the royal tobacco monopoly could not be enforced, and the Chesapeake colonies openly traded with the Dutch. In 1643, thirty English ships and four Dutch ships were counted in the Chesapeake harbor, but five years later the Dutch ships equaled the number of English trading ships reaching the Bay. The Civil War restored prosperity to the tobacco colonies, and, in 1651, Governor Berkeley remarked that the Dutch "found and relieved us" from poverty (Menard 1980: 132–33).

The parliamentary victory effectively consolidated control over the tobacco trade. Prior to the war, the king required that only tobacco had to be shipped directly to England. Under uncontested parliamentary direction, British mercantilism expanded. English merchants lobbied and secured the adoption of a series of Navigation Acts (1651, 1660, 1672, and 1673). Those laws, not only restored the trade protections on colonial tobacco but also added a long list of commodities called "enumerated articles" that the colonies were supposed to directly export to England. Foreign ships were also banned from the colonial trade. The British fought three aggressive wars against the Dutch between 1652 and 1675 and forcibly barred the more efficient Dutch ships from the Chesapeake trade. The Navigation Act of 1673 tightened the noose on the tobacco trade even further by ending the duty-free shipments of tobacco between the colonies. A prohibitive tax was imposed on such shipments and new customs officials were appointed to collect the tax (Gray 1927: 238; Rothbard 1975: 89). The Parliament also clamped down on those raising tobacco in England.

By the 1700s, only a negligible amount of tobacco was grown in England (Gray 1927: 138).

Crown revenues from tobacco soared. By the 1670s, the crown raised slightly more from customs duties on tobacco than the value of the crop sold by the farmers. More than 50 percent of the purchase price by English merchants consisted of hidden taxes to the crown. By 1700, tobacco taxes increased to between two to three times the selling price in Virginia and Maryland. In 1710, Governor Spotswood of Virginia argued that the only restraint to the heavy customs rates set by British officials came from the fact that the colonists might choose to plant other crops (Menard 1980: 151; Ripley 1893: 66).

Political rent-seeking schemes can hardly be confined to one industry. If it appears that the government can reap large returns from monopolizing the trade of one commodity, mercantilist lobbies will press for trade monopolies for other goods as well. Just as the Virginia crop-control scheme induced the planters to establish frontier tobacco farms, increasing the threat from Indian attacks, the political success of the British tobacco merchants induced other mercantile lobbyists to seek the same privileges from Parliament. Among the commodities earmarked for shipment to England were cotton, indigo, sugar, ginger, and certain wood products. But the apparent economic gains made by the treasury and a few British merchants could not offset the hidden costs incurred by consumers, taxpayers, and the merchants abroad who were barred from competition (Hughes 1987: 49).

But mercantilism itself was a high-maintaince program—even for the beneficiaries themselves. In the long run, nobody really "wins" from protectionist trade barriers. The British merchants incurred lobbying expenses to obtain and protect their monopoly privileges. The British government likewise established a tax-collecting bureaucracy and fought many colonial wars to secure the customs receipts. Adam Smith argued that the various taxes and duties from British mercantilism could not pay for the cost of the many colonial wars. Britain fought and won several colonial wars, but each victory required higher taxes and heavy government borrowing. The public debt stood at 21,515,742 pounds sterling (£) in 1697, and, after about £5 million of the debt had been retired, another war and the South Sea bubble left the debt at £55,681,076 by 1722. The debt increased to £78,293,313 following the Spanish war in 1739. The French and Indian war increased the debt to £139,561,807 by 1764. If the cost of maintaining mercantilist regulations proved to be too great for the victor of colonial wars, the losers also suffered financially (Smith 1937: 863–900).

In order to finance the debt, the Parliament during the 1760s began to levy direct taxes (the Stamp tax) on the American colonies. And the rest is history. Soon even England had little to show for its massive war debts.

Lessons for Present-Day Agricultural Policies

One would have been hard-pressed to predict that the crop limitations of the 1630s would increase the tensions with the nearby Indian tribes. But economic theory argues that incentives influence behavior in a predictable way. Whenever the government creates an artificial benefit for some activity or group in society, the potential recipients will expend resources to avail themselves of those benefits or "rents." Thus, the familiar "moral hazard" problem associated with public and private insurance predicts that whenever people are insured against the damages from flooding, they tend to build more homes and businesses in flood-prone areas. Likewise, welfare payments tend to discourage the poor from working and marriage. During the 1930s, the United States enacted comprehensive farm programs designed to "maintain adequate farm prices" for virtually all agricultural products (wheat, corn, soybeans, peanuts, etc.).[5] These programs typically subsidize farmers to reduce their acreage under production in order to restrict supply and keep prices from falling as agricultural productivity advances.

The basic economic principle of rent seeking applies to agricultural crop controls, past, present, and future. If the government attempts to support farm prices by imposing a price floor above the world market price, farmers plan to grow more crops. This produces a surplus because consumers will not buy the quantity produced. The government must stockpile the surplus produce, which may involve storage costs and eventual spoilage as the surpluses accumulate each year. If the government wishes to avoid the problems related to surpluses, it must restrict production. It can limit acreage as it does under modern-day farm programs, but this does not remove the profitability of growing more under the higher price floor. Therefore, farmers tend to farm the allowable acres more intensively. Increased fertilizer and pesticides are applied in order to grow more per acre. If the government instead limits the number of plants, as did the 17th century Virginia Assembly, the farmers increase their production

[5] The economics of the 20th-century farm programs have been examined in Pasour (1990). The tobacco program is specifically covered on pages 112–16.

costs in other ways designed to maximize the value of each plant, instead of cultivating many plants. These added costs might involve fertilization, relocation, and so on.

The basic economic principle is that, in the long run, additional costs arise to reduce the benefits of crop restrictions to the recipients. It worked that way in the 17th century, as it must today. Only the particular form of those costs will differ.

As costly as the crop restrictions were, they did not prevent the secular decline in tobacco prices. The profitability of tobacco farming encouraged immigration, much like the prospects of gold later attracted thousands of people during the California gold rush. The British mercantilist restrictions helped to make colonial crop controls attractive. Tobacco prices would have been more stable and less subject to monopoly pricing if tobacco could have freely crossed national borders and was supplied from a wider geographical area. Moreover, in a competitive marketplace, the misplaced efforts made by kings, parliaments, English merchants, and colonial assemblies to capture rents through political means would never have occurred. The rent-seeking efforts included lobbying, colonial wars, and misdirected farming and commercial efforts.

Adam Smith explained that even though restrictions on the tobacco trade gave English tobacco merchants a relative advantage over foreign competitors, that advantage came at the expense of consumers and other manufacturing interests in England:

> But had France, and all other European countries been, at all times allowed a free trade to Maryland and Virginia, the tobacco of those colonies might, by this time, have come cheaper than it actually does, not only to those other countries, but also to England. . . . So far as that weed, therefore can, by its cheapness and abundance, increase the enjoyments or augment the industry of either England or of any other country, it would, probably, in the case of a free trade have produced both these effects in a somewhat greater degree than it can do at present. England, indeed, in this case, would not have had any advantage over other countries. She might have bought the tobacco of her colonies somewhat cheaper, and, consequently have sold some of her own commodities somewhat dearer than she actually does. But she could have neither bought the one cheaper nor sold the other dearer than any other country might have done [Smith 1937: 561–62].

Smith further argued that the tobacco monopoly siphoned English capital from more productive industries and led to conflicts and debt accumulation (Smith 1937: 561–62, 874).

Present-day world agricultural markets are not free. The existing production and distribution systems for agricultural commodities have emerged following the Great Depression. Each developed nation jealously protects its own farmers from foreign competition; in much the same manner that British mercantilism once reserved the colonial tobacco trade for Britain. The Japanese and Europeans block the importation of many American food products, and the U.S. farm programs guarantee domestic farmers prices that normally exceed world market prices.

Despite the many technological advances since Adam Smith's day, the world has not advanced very far from many of the mercantilist practices of the 17th century. Modern-day advances in farm technology ought to result in falling long-term prices. But the current farm programs are designed to maintain "adequate prices" to retain the existing numbers of farmers. Modern crop control managers also pursue the elusive goal of price stabilization.

The wealth of nations can be advanced today by the removal of national barriers imposed on the movement of agricultural products. Linking diverse geographical regions into a unified world market would go a long way toward achieving price stabilization. Moreover, present-day farmers have access to commodities futures markets. It would be cheaper to teach them how to use those markets to insure against adverse price movements than to continue supporting costly agricultural bureaucracies.

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