



# Agricultural Economics and the American Revolution

**Michael Ellerbrock**

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A case study fully illustrating economic principles -- principles which sowed the seeds of revolution, and which perhaps remain important today. The relationships between politics, law, and economics are examined.



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**Document**

# AGRICULTURAL ECONOMICS AND THE AMERICAN REVOLUTION

## *A Case Study In Critical Thinking For Middle & High School Economics Students*

Michael J. Ellerbrock<sup>1</sup>

### Economic History

Since hindsight usually offers a clearer picture than foresight, an effective and exciting approach to economics education can sometimes occur for teachers and students through the study of history. Our Mid-Atlantic states, in particular, "provide a background for the discussion of both barter systems and the development of money in the United States."<sup>2</sup> The early career of Patrick Henry provides a case study fully illustrating economic principles -- principles which sowed the seeds of revolution, and which perhaps remain important today. After I highlight the epic events, I will identify those aspects of economics which were germane then, and then consider whether these aspects remain valid today. In doing so, I will examine the relationships between politics, law, and economics.

### Roots of Revolt

In the founding of the 13 colonies, religion was closely sanctioned by the local government. For example, the Anglican Church was officially designated the "Established Church" in Virginia, ministers' wages were regulated, and Virginians were required by law to receive communion at least twice per year in an Anglican church. During the late 17th and early 18th centuries, clergy of the Established Church were paid their salary in tobacco, set in 1748 at a fixed amount of 16,000 lbs/year, which could be exchanged for everyday goods. The tobacco salary was paid by each town's vestry (local government officials), who were usually wealthy plantation owners. However, when tobacco harvests fell in the 1750's, the General Assembly in Williamsburg passed the Two Penny Act in 1755, which was repealed ten months later, but reinstated in 1758. The Act allowed payment of parsons' salaries in money, due to the shortage of tobacco, at a rate of two pence/lb (for the 16,000 lbs clergy would have otherwise received).

Clergy quickly protested. They objected to the rate of two pence/lb, while the market rate for tobacco was rising to over four pence/lb. Paid cash at a rate of two pence/lb, clergy received a salary of about 133 pound sterling/year, versus an annual income of 266 pound sterling if paid four pence/lb.<sup>3</sup> Clergy also resented the Act because it reminded them of their status as wards of the state. Tobacco-growing vestry liked the Act because their profits were greater, even though they had less crop to sell.

The clergy protested by sending one member with a letter of complaint to the authorities in Britain. Among the signers of the letter was the Rev. Patrick Henry, uncle of the famous

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<sup>1</sup> Associate Professor and Director, Center for Economics Education, Virginia Cooperative Extension, Virginia Polytechnic Institute & State University, Blacksburg, VA 24061-0401.

<sup>2</sup> Murphy, M.M., et al., "*History*," **FOCUS ON 5** (Richmond: Federal Reserve Bank, Fall 1991), 3-4.

<sup>3</sup> In British currency: 1 lb = 20 shillings = 240 pence = 960 farthing. Pence is plural for penny.

revolutionist. The method of protest was controversial at home, for it was viewed by some as going "over the head" of the colony's General Assembly.<sup>4</sup>

### Parson's Cause

King George II overturned the Two Penny Act. The Rev. James Maury in Fredericksburg in Louisa County was one of several clergy who then sued their vestrymen for lost salary. As a weekday schoolteacher, Maury had befriended one of his brightest students, Thomas Jefferson from Albemarle County. Having received his deceased father's sizeable estate at age 15, Jefferson felt sorry for his financially-struggling teacher, who frequently complained about the Two Penny Act. The case, "Parson's Cause," came to trial in 1763, in the court of Judge John Henry, father of the revolutionist. The young and curious Jefferson was a spectator in the audience.

Defending the vestry's tax collectors was a little-known 27 year old Hanover lawyer named Patrick Henry, who reluctantly accepted the case after Judge Henry had already ruled the Two Penny Act invalid. The remaining legal issue was for a jury to set the amount of damages due Rev. Maury. The prosecutor, Peter Lyons, objected to the choice of jurors (which included a cousin of Patrick Henry) as illiterate and unsophisticated individuals recruited from a local tavern.

Patrick Henry saw the opportunity to make a name for himself and seized the moment with a one hour closing discourse in which he blasted both the clergy and the king. The clergy were "greedy and *'rapacious harpies'* who would *'snatch from the hearth of their honest parishioner his last hoe-cake, from the widow and her orphan children her last milch cow! The last bed - nay, the last blanket - from the lying-in woman'* (in labor), but who would seldom *'feed the hungry and clothe the naked'*"<sup>5</sup> By breaking his commitment to "care for the people, King George ceased *'being the father of his people'* and *'degenerates into a tyrant and forfeits all rights to his subject's obedience.'* Shocked by Henry's boldness, there were murmurs of *'treason, treason'* in the spellbound courtroom."<sup>4</sup> However, there were nods of agreement among the jury!

Since the king and judge had already declared the Two Penny Act invalid, Henry shrewdly admitted that Rev. Maury was due some recompense, but recommended that the jury award a grand total of one farthing (one-fourth of a penny). After deliberating for only five minutes, the jury returned and awarded damages of one penny! "There was uproar in the court. As the sheriff demanded order, and Lyons called for a retrial, spectators lifted Patrick Henry to their shoulders and carried him out to the courtyard."<sup>5</sup>

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<sup>4</sup> Dabney, V., **Virginia: The New Dominion** (Charlottesville: University Press of Virginia, 1989), 110-125, 128.

<sup>5</sup> Langguth, A.J., **Patriots: The Men Who Started The American Revolution** (New York: Simon & Schuster, Inc., 1988), 38-51.

## Tongue of the Revolution

In a legal sense, Parson's Cause was a minor case. Politically, the affair was significant, for it "catapulted Patrick Henry to public notice ... propelled Henry to prominence and put him in a position to exercise his astounding oratorical powers in a wider theatre ... with consequences ... international in their repercussions ... and launched him upon the career which made him one of the great figures of the American Revolution. Jefferson listened to Henry's '*torrents of sublime eloquence*,' likened him to Homer, and called Henry '*the greatest orator who ever lived*.'"<sup>4</sup>

Within one year of his stunning victory, Henry added 164 new clients, many wealthy, to his fledgling law practice. Within two years, he was elected to the Virginia House of Burgesses, where, ten years later on March 23, 1775, Henry delivered his immortal "*give me liberty, or give me death*" speech, solidifying his role as "Tongue of the Revolution."<sup>4</sup> And the rest ... is history!

## Economic Lessons

Perhaps Parson's Cause offers a high school class an opportunity to think about principles of economics, past and present, and their connection with history, law, politics, religion, and culture. Using critical thinking skills, various economic aspects of Parson's Cause can be identified and briefly discussed.

### Microeconomics

It is clear that the clergy understood the **Laws of Supply and Demand**. When the tobacco harvest fell, supply decreased. Since the **market price** in fact rose from two pence/lb to over four pence/lb, we know that the demand for tobacco probably remained unchanged ... hence the price increase, as **consumers competed** for a **scarce** good.

Economists describe the situation with a Latin phrase, "***ceteris paribus***," which means "all other things unchanged." If supply decreases, price will rise, *ceteris paribus*, that is "all other things equal."

Was tobacco in the 18th century considered a luxury or necessity? Langguth<sup>5</sup> reports that the **profits** of tobacco growers rose under the Two Penny Act. If production **costs** remained stable, this rise in profits tells us that the growers had more tobacco **revenue** than before the poor harvest with which to pay the clergy their two pence/lb. Economists would therefore describe tobacco in the 1750's as an **inelastic** good -- items for which the quantity demanded is fairly insensitive to price changes -- a "necessity" in the eyes of consumers. When the price of an inelastic good rises, consumers do not significantly reduce their quantity purchased.<sup>6</sup> Thus, the seller (farmer) can actually generate more sales revenue, in spite of selling fewer units of produce.

We also know that an item's price is not the only determinant of demand. Consumers are influenced by their own **income**, the prices of **related goods (substitutes** of other brands and models and/or **complements** which enhance an item's **perceived utility**), and their personal **tastes/preferences**, which can change over **time**. For example, information about health concerns today has caused some smokers to reduce or cease consumption of high-nicotine products, and possibly shift to substitute items or pleasures. The tobacco **industry** has responded with a variety of new products and consumer oriented **advertising**, in an attempt to increase demand.

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<sup>6</sup> By definition, when the price of an inelastic good rises X%, the quantity demanded falls, but by less than X%. Conversely, when the price of an elastic good rises by X%, the quantity demanded falls by more than X%, generating less revenue for the seller.

## Macroeconomics

From what does **value** derive? As early as Aristotle (4th century B.C.), philosophers made a key economic distinction between **use** value and **exchange** value. Aristotle felt it was improper to use an item for anything other than its primary purpose.<sup>7</sup> He would have argued against the use of tobacco by the colonists as a medium of exchange. Why? Aristotle felt that wealth should be self-produced, i.e., that it was "unnatural" to acquire wealth by exchange: "The same may be said of all possessions ... retail trade is not a natural part of the art of getting wealth."<sup>7</sup> **Barter** was seen as a means of obtaining someone else's wealth.

Today, we have a more sophisticated appreciation of the benefits to individuals and society of the **specialization of labor** and **trade** of one's **products** and/or **services**. To simplify matters, we insert **money** into the economic system as a **medium of exchange**<sup>8</sup> (easier than carrying around tobacco or cattle), **unit of account** (greater precision in pricing), and **store of value** (does not have to be immediately spent). In most voluntary economic transactions (be it the sale of products or labor), each party is better off.

## Resource Economics

Aristotle's distinction between the use and exchange value of a commodity like tobacco remains relevant. Rare coins or "priceless" artwork may have little use, but great exchange value. Conversely, an obsolete stereo or old car may have high use, but little exchange value. Adam Smith (18th century founder of the Classical School of economics) wrestled with the differences in use and exchange value between water and diamonds. Though water is essential to human life, Smith explained diamonds' greater exchange value by his school's controversial **labor theory of value** -- that the value of a commodity is determined by the amount of labor necessary to obtain it. Karl Marx subscribed to the labor theory of value in his concern over workers' **wages**. Modern theory explains the paradox by focussing on the relative scarcity of diamonds and the low **marginal utility** of one glass of water.

Environmental amenities can offer complex valuation challenges, e.g., there can be an intriguing difference between our **willingness to pay** to visit a public park or wildlife refuge, versus how much we would be **willing to accept** to lose the resource. Some people place a value on having the **option** for themselves or their descendants to visit historic sites and natural wonders, whether or not they choose or get to exercise the option. The value of a natural resource can also be reflected in its **replacement value** -- how much it would cost to return a resource to its original state, or replace it by creating a similar habitat somewhere else.

## Institutional Economics

Parson's Cause involved controversy in the close relationship between government and religion, both of which constitute clusters of **institutions**, in the non-technical sense. Economists would call the practice of paying clergy with tobacco an "institution" -- a set of economic rules which affect value and guide behavior. The clergy resented the institution because they felt owned by the vestry who paid their salary via local tax collectors. Today, government **tax breaks** on church **property** and **eleemosynary** (charitable) contributions form significant economic institutions.

A current issue is whether government should **subsidize** private education by offering tuition vouchers to students at church-affiliated schools? It is a complex issue because public educational institutions are tax-supported by numerous non-users, i.e., adults without children, and parents of children attending private schools. If private schools are qualitatively better than

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<sup>7</sup> Lekachman, R., **A History of Economic Ideas** (New York: McGraw-Hill, 1976), 11-12.

<sup>8</sup> Since cattle were used by the early Romans for money, our term "pecuniary" derives from the Latin word for cow, "*pecus*."

public schools, is it in **society's best interest** to offer **incentives** for students to **choose** a private education?

### Public Choice Economics

**Public Choice Theory**, which includes economists from all persuasions, emphasizes the role of politics, not just the market, in the allocation of scarce resources. In Parson's Cause, a scarce resource (tobacco) was distributed by the vestry -- wealthy landowners most able to influence the General Assembly's drafting and adoption of the Two Penny Act. Note also that the clergy appealed to a political authority (the British monarch) higher than the General Assembly.

King George overturned the Two Penny Act. Why? We cannot say for sure, but it is clear that he chose to favor the clergy over the vestry. We can infer that the king felt the clergy were being abused economically and/or that he stood to gain more politically by siding with the clergy. Perhaps, King George was already feeling a growing sense of independence among the colonies' powerful landowners.

### Cultural Economics

Virginia's clergy protested when they were not allowed to share in the rise of tobacco prices during a harvest **shortage**. Conversely, would they have volunteered to take a **pay cut** in years when bumper crops caused market prices to fall? Probably not. Can we call them hypocrites for demanding protection when they are harmed, but remaining silent when others suffer?

Economists would suggest that we avoid passing judgment on the morals of the clergy and instead describe their action as **rational**. The desire for one's income to move like a **ratchet** (rising, but never falling) is such an accepted part of Western culture that we question the motives and/or logic of anyone who thinks otherwise. Some economists argue that there is no such thing as true **altruism** (selfless concern for the welfare of others) -- that such actions are nonetheless motivated by a desire to promote or feel better about oneself.

Parson's Cause also involved the notion of objectivity -- the lack of **bias** in one's decisions. The case involved four relatives: Patrick Henry as defense attorney, his father as judge, an uncle as an aggrieved cleric, and a cousin as juror. Today, we prohibit such situations in order to avoid prejudice or the appearance of prejudice. Does our strategy for fairness reflect an actual inability in humans to be objective, especially regarding family members, or does it reflect the belief that **perception is reality** -- a key idea in understanding *homo economus* (economic man)?

Subscribers to the notion of **economic man** (a sexist term today), opposed by Alfred Marshall and William Thompson as too simplistic, described humans as "simple seekers of gain,"<sup>9</sup> always and everywhere predictable. Proponents of economic man would predict that Rev. Maury, and anyone else, would perceive automatic bias in Judge Henry and the cousin juror, in that they would seek to gain (or avoid loss) in their relationship with Patrick, and that Rev. Maury would object in order to maximize his potential gain in the case. Interestingly, Maury apparently did not object to the judge and cousin juror, but rather to the whole jury as a "'vulgar herd' who were not loyal Anglicans."<sup>10</sup>

Another cultural aspect of the Two Penny Act involves the symbolism of currency. Tobacco was an acceptable form of money to Virginians, for it was a product of their culture. Today, paper currency holds a symbolic value, yet the nations of Western Europe plan to adopt a common currency, the European Currency Unit, as part of their economic unification plan.<sup>10</sup> Analogously,

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<sup>9</sup> Lekachman, R., **A History of Economic Ideas** (New York: McGraw-Hill, 1976), 173.

<sup>10</sup> Murphy, M.M., et al., "Is There A Eurofed In The Future?" **FOCUS ON 5** (Richmond: Federal Reserve Bank, Spring 1992), 1-4.

would citizens of the United States be willing to share a common currency with Canada and Mexico in order to promote trade?

### Legal Economics

Who won Parson's Cause? Legally, Rev. Maury was declared a victim deserving of compensation. Economically, the vestry, thanks to Patrick Henry, had to pay a total of one penny in damages. This anomaly presents an historic example of a legal approach to resolving conflict.

The courts could have taken an economic approach to the conflict, and achieved a more mutually agreeable resolution, by assigning **property rights** to the tobacco crop and letting the clergy and vestry **negotiate** the clergy's salary during times of low harvest. In his classic article, Coase<sup>11</sup> asserts that economic **efficiency** is usually enhanced by allowing parties to negotiate after the court establishes property rights, rather than legally imposing a set of damages on one party.

### Economics Education

Economic thought is both an art and a science ... an art in terms of establishing context and recognizing more than is at first apparent ... a science in searching for principles and offering solutions. Parson's Cause, one of the first sparks in the American Revolution, involved a basic economic problem of scarcity recurring today in many forms and situations.<sup>12</sup> Our ability to think as economists is vital to resolving conflicts and thus warrants practice at all ages and levels of education; otherwise, we forfeit understanding the world around us.

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<sup>11</sup> Coase, R., "*The Problem of Social Cost*," **Economics of the Environment** (New York: W.W. Norton & Co., Dorfman & Dorfman, ed., 1972), 142-171.

<sup>12</sup> It seems somewhat fitting that a direct descendent of Patrick Henry, Elizabeth Volard, currently serves as President of the Virginia Council on Economic Education.