To Tax or not to Tax, that is the Question: Tax incidence and all that jazz

BACKGROUND: Students should have previously studied demand and supply analysis along with tax and subsidies.

GOAL: Students will apply their lessons on tax and tax incidence to the events leading up to the Boston Tea Party. They will determine whether or not taxing was good economic policy in the 1700s.

CONCEPT REVIEW:
1. Define tax incidence and graph it. Show how tax incidence directly influences the demand and supply of a firm.
3. Do you think raising the sales tax in Massachusetts would be the best way to generate more income for the state? Why or why not?

DOCUMENT ANALYSIS
Read over the following documents pertaining to the controversy over taxing of the American colonies.
1. On a separate piece of paper answer the “Consider” question that corresponds with each document.
2. Discuss your answers with your group and come to some consensus over the meaning of the documents.

TASK: Using your best graphs and presentation skills, argue in front of the British Parliament (that will be your class), whether it is wise to place a tax on trade. Make certain to address demand and supply elasticity (which you can surmise from the documents). Be sure to address the tax incidence.
**Document #1**  
*Boston Gazette* article, 14 May 1764

*CONSIDER* – The following newspaper article was signed “Nov ANGLICANUS.” It was written by one of the Patriots of the time – but most Patriots used code names (even though most knew the code names). What is the thesis of this writer? In his view, what role do taxes have in trade? Do you see this as an argument for free trade or something else? What is the connection between political representation and trade that the writer makes at the end of this excerpt?

WE have seen the report of the committee of the whole house of Commons, to whom it was refer’d to consider of ways and means for raising a supply granted to his Majesty; which is propos’d to be done by some pretty *extraordinary* taxes upon the trade of the colonies – I am my self remote from trade; but we all ought to consider that trade has its share of merit in enriching a people and making it happy, as well as the cultivation of its lands: they are the two grand springs of the industry and wealth of a community – *both* ought therefore to be nourish’d and protected by *all* – they have a mutual dependence upon each other, and one can not long subsist alone—their connection is so strong that whoever injures one, injures both; whoever is an enemy to one is an enemy to both – the man who uses his *interest* or *power* to destroy one, as effectually uses it to destroy both; and if he succeeds with regard to one, he must with regard to the other, and may justly be deem’d the enemy and destroyer of his country. I would just hint here, how very impolitick it is in some of our country towns, to return gentlemen to represent them in the general assembly who are *profess’d* enemies to trade – some such towns there have been and I fear still are in the province; I intreat them to consider, that whatever fulsome pretensions of friendship their representatives may make in order to gain their election, they are in *reality* enemies to their true interest – but my principal design is to awaken in my country men an important consideration, that whatever tends to curtail the just rights and immunities of trade, *immediately* becomes and object of their most serious attention; but more especially if the methods propos’d tend to deprive us of that civil liberty wherewith God and the King hath made us free. […]

Nov Anglicanus, “We have seen the report. . .” *Boston Gazette*, 14 May 1764.
CONSIDER – In a paper presented at the Tea Party Anniversary at the Massachusetts Historical Society in 1873, Richard Frothingham helps explain the role of the Tea Act in Revolutionary War history. What do you think the English Government thought about the Tea Act? Do you think it seems like a violation of rights to Americans? Why or why not? What economic theories were the English maintaining?

I cheerfully accept the part assigned to me in this commemoration, that of contributing a paper on the destruction of the tea in Boston on the 16th of December, 1773. In chapter ninth of the “Life and Times of Joseph Warren,” I endeavored to give at considerable length the details of that important event; and in chapter eighth of the “Rise of the Republic of the United States,” to assign the place which “The Tea Act,” as a proximate cause, occupies in the formative process of the country. I purpose to present a commentary on salient points of this transaction. It will show from contemporary materials the light in which Loyalists and Whigs regarded it.

Successive British administrations, during the whole period of the colonies that became the United States, regarded their local institutions as a development of republicanism. The ministry of the Earl of Bute adopted a policy designed to check this development.

Massachusetts, when called upon to resist this policy, was giving such proofs of loyalty as to elicit from the royal governor in 1762 a memorable recognition. “Whatever,” he said, “may be the event of the war, it must be no small satisfaction to us that this province hath contributed its full share to the support of it. Every thing that has been required of it hath been most readily complied with; and the execution of the powers committed to me, for raising the provincial troops, hath been as full and complete as the grant of them was. Never before were the regiments so easily levied, so well composed, and so early in the field, as they been this year. The common people seemed to be animated with the spirit of the General Court, and to vie with them in their readiness to serve their king.” (Journals of the House of Representatives, 1762; Message of Francis Bernard.)

The new policy included the taxation of the colonies, and an alteration of their governments. The right to tax was asserted in the Stamp Act of 1765, and the right to govern in the famous Declaratory Act of 1766. Both were embodied in the Act of 1767, imposing duties on paper, painters’ colors, glass, and tea. These duties were imposed not on the ground of regulating trade, but with the view of supporting local government. Lord North, on proposing, March 5, 1770, a partial repeal of the Act of 1767, frankly said that he could not recommend a repeal of the whole act without giving up that just right which he should ever wish the mother country to possess, the right of taxing the Americans. “I am,” his words were, “for the retaining our right of taxing America.”

The colonists resisted this policy in a spirit of loyalty to the king. Their weapon was the non-importation scheme. This occasioned a great falling off in the trade from England. Large quantities of teas were received from Holland. The embarrassments of the East...
India Company were attributed to the loss of the American market. On the 2d of March, 1773, this company petitioned Parliament for a loan; also, for permission to export teas to British America free of duty. The latter request was looked upon as a wise suggestion. It was not, however, accepted. Lord North again declared that the existing tax on tea imported into America must be retained, in order to maintain the right.

On the 27th of April he submitted two resolutions in the House of Commons, proposing to allow the East India Company to export teas to the American colonies free of duty in England, but subject to the existing tax in America. These resolutions were agreed to. A bill embodying this measure received the royal assent on the 10th of May. This was the Tea Act. It was termed “an Act to allow a drawback of the duties of customs on the exportation of tea to any of His Majesty’s colonies or plantations in America; to increase the deposit on Bohea tea to be sold at the East India Company’s sales; and to empower the commissioners of the Treasury to grant licenses to the East India Company to export tea, duty free.” **

This act “appears to have passed without opposition, nay, almost without remark.” (Lord Mahon, Hist. Eng., v. 319.) It elicited little, if any, conversation in England, until measures under it were adopted to export the teas. Franklin, in a letter, dated June 4, 1773, addressed to Thomas Cushing, says: “It was thought at the beginning of the session that the American duty on tea would be taken off. But now the wise scheme is, to take off so much duty here, as will make tea cheaper in America than foreigners can supply us, and to confine the duty there to keep up the exercise of the right.” On the 12th of September Franklin advised Cushing that the East India Company had taken out licenses to export teas to America. Arthur Lee, in a postscript to a letter addressed to Samuel Adams, dated Oct. 13, 1773, says: “I had forgot to mention the scheme which is carrying into execution of insidiously obtaining from us the duty on tea, by the company, under an act of the last session…. Success may lead to a thousand other artful ways of enslaving us, by what alone can effect it, our own acquiescence. The introduction of the tea ought, I think, therefore to be opposed.” (Life of Arthur Lee, i. 237)

The Boston journals of the 19th of July contained the intelligence that the act received the royal assent. Little, however, was said of this scheme in the American press—in such files of newspapers as I have examined—for several weeks. The notices of it during August are confined to reports which came in letters from England, that the East India Company were preparing to export teas under the act. One of the letters was printed in a Philadelphia paper of the 12th, in which it is stated that perhaps in a month “a cargo would be sent to Boston (subject to a duty payable in America), to be sold in that place on their account.”

The Committee of Correspondence, chosen by the Town of Boston in 1772, was preparing matter for the press, distributing pamphlets, and corresponding with similar committees. On the 21st of September, 1773, it sent out the following circular, printed on a broadside. It is here printed from a copy in the Society’s archives:
Boston, September 21, 1773.

GENTLEMEN,—The State of publick Affairs undoubtedly still demands the greatest Wisdom, Vigilance, and Fortitude. Our Enemies, who are alarmed at the Union which they see is already established in this Province, and the Confederacy into which they expect the whole Continent of America will soon be drawn, for the Recovery of their violated Rights, are now aiming to perswade us of their earnest Desire that our Grievances should be redress'd, and are insinuating that, if we will waive our Claim of Rights, Relief will be readily granted to us.

We well remember how greatly the British Ministry were alarmed at the Combination of the Americans against the Importation of British Manufactures. Their Artifice was then to pretend to meet us half Way, and by this Shew of Candor and Integrity to spread Divisions among us. Upon this principle, the Duties on Painter's Colors, Oil, and Glass, were repealed. The Merchants were thereby disunited in Sentiments, the Councils of the Americans confused, and the Non-Importation Agreement (which, had it been a little longer continued, wou'd have brought our Oppressors to Terms of Reason) was entirely broken up. The Moment this was known, the Necessity of attending to our Complaints vanished.

When it is considered how much that rich and powerful Body, the East-India Company, resent the Act that was passed in the last Session of Parliament, by which their sacred Charter Rights were arbitrarily taken from them; and how much the City of London and other great Corporations are alarmed thereby, it would not seem strange if Administration should at this Time be desirous of silencing every Opposition to their Measures in general; and especially such an Opposition as this extensive Continent, when united, is able to make.

Ought we not, also, to bear in our Minds that the Time for a new Election of the House of Commons in Great Britain is drawing near? And will it not be highly pleasing to our Enemies if, by a strange Kind of Policy, recommended by some, we should lead our Friends in England to think that we are at Length brought to place a Confidence in the good Intentions of Administration, although the most [ominous] Measures are still continued against repeated Petitions, and thereby should become ourselves instrumental in giving them the Aid of our Friends, for the obtaining an Election of such Members as will be agreeable to their Wishes? And if, which Heaven avert! a House of Commons determined to subvert the Liberties of America should be elected, what Oppressions may we not expect in another seven years, if through a weak Credulity, while the most arbitrary Measures still persisted in, we should be prevail'd upon to submit our Rights, as the patriotic Farmer expresses it, "to the tender mercies of the Ministry."

We mean not to agitate the Minds of our Brethren with groundless Apprehensions, but to excite in them that Watchfulness which alone will be a Guard against a false Security, forever dangerous to our Rights and Liberties; and to entreat that the Eye of Jealousy may be still attentively fixed on the Movements of our Enemies, in Britain and America. We trust you will always communicate to us any Discoveries or just Suspicions of their
sinister Designs; and, also, that you will never be wanting in encouraging that Unity and Harmony in Councils, so essentially necessary to the obtaining the great End we have in View, the Salvation of Ourselves and Posterity from Tyranny & Bondage.

And we have still an animating Confidence in the Supreme Disposer of Events, that he will never suffer a sensible, brave, and virtuous People to be enslaved.
We are
Your Friends and humble Servants.

Signed by the Direction of the Committee of Correspondence, for the Town of Boston.

WILLIAM COOPER, Clerk.

To the Committee of Correspondence for the Town of _________

The following is in the handwriting of William Cooper:

Sr. — There being no Committee of Correspondence in the Town of Barnstable, I am directed to transmit the foregoing to you, to be communicated to such of your Friends as you shall think proper.

Your humble Servant,

WILLIAM COOPER, Clerk.

**Note located at the bottom of page 157:
Report submitted to the House of Lords, April 20, 1774, by a committee appointed “to inquire into the several proceedings in the colony of the Massachusetts Bay, in opposition to the sovereignty of His Majesty, in his Parliament of Great Britain, over that Province.” (Journals of the House of Lords.) This report is in Force’s American Archives. The Tea Act is in the “Boston Evening Post” of Oct. 25, 1773, and fills about two columns.

CONSIDER – One of the most contested aspects of the Tea Act of 1773 centered on the paying of salaries for government officials in the colonies with the taxes from tea and other goods. No taxation without representation may have been part of the problem, but consider the problems or issues that arose when the Crown determined the salaries of officials. Who or what until this time determined these salaries? How does this change impact the colonists?

[The following is a letter from Samuel Adams, using the pseudonym “Candidus,” published in the Boston Gazette on 20 January 1772. It was addressed to the editors of the Gazette, Edes & Gill. “Chronus” is a pseudonym for the defender of Parliament’s actions.]

Messieurs Edes and Gill,

In the Massachusetts-Gazette of the 9th instant, Chronus attempts to prove that “the Parliament’s laying duties upon trade, for the express purpose of raising a revenue, is not repugnant to and subversive of our constitution.” In defence of this proposition, he proceeds to consider the nation as commercial, and from thence to show the necessity of laws for the regulation of trade. --- In the nation he includes Great-Britain and all the Colonies, and infers that these acts for the regulation of trade, “should extend to all the British dominions, to prevent one part of the national body from injuring another.” And, says he, “If laws for the regulation of trade are necessary, who so proper to enact them, &c. as the British parliament, or to dispose of the fines & forfeitures arising from the breach of such acts?” And then he tells us, that as a number of preventive officers will hereupon become necessary, the parliament have thought proper to assign to his Majesty’s revenue “the profits arising on the duties of importation for the payment of those officers” This is Chronus’s “method of reasoning”, to prove that because it is necessary that the parliament should enact laws for the regulation of trade, about which there has as yet been no dispute that I know of, and because it is proper that such preventive officers as shall be found needful to carry those laws into execution, should be paid out of the fines and forfeitures arising from the breach of them, Therefore, the parliament hath a right to make laws imposing duties or taxes, for the express purpose of raising a revenue in the colonies without their consent; and that this is not (as is alleged’d by our “Patriots”) “repugnant to, or subversive of our constitution.” Every one may easily see how Chronus evades the matter in dispute, and aims at amusing his readers according to his usual manner, by endeavouring, and that without a shadow of argument, to prove one point, instead of another which is quite distinct from it, and which he ought to prove, but cannot. He is indeed sensible that his artifice is seen though; that it will be urged that “he has evaded the matter in dispute, and aims at amusing his readers according to his usual manner, by endeavouring, and that without a shadow of argument, to prove one point, instead of another which is quite distinct from it, and which he ought to prove, but cannot. He is indeed sensible that his artifice is seen though; that it will be urged that “he has evaded the chief difficulties,” and that “the objection doth not lie against the regulation of trade, but against the imposing duties for the express purpose of raising a revenue.” And he is full ready to remove this objection. But how? Why, by asking a question, which he often substitutes in the room of argument. Are we not, says he, “fellow-subjects with our brethren at home, and consequently bound to bear a part according to our ability, in supporting the honor & dignity of the crown?” It is allow’d that we are the subjects of the same prince with our brethren at home, and are in duty
bound, as far as we are able, to support the honor and dignity of our Sovereign, while he affords us his protection. But does Chronus from thence infer an obligation on us to yield obedience to the acts of the British parliament imposing taxes upon us with the express intention of raising a revenue, to be appropriated for such purposes as that legislative thinks proper, without our consent? O, says he, “there is good reason for this.” What is the good reason? Why “if we will not consent to do anything ourselves,” “our money will be taken from us without our consent.” This is conclusive argument indeed. And then he, as it were, imperceptibly glides into that which has ever appeared to be his favorite topic, however impertinent to the present point, viz. an independent support for the governor. He boldly affirms, what is a notorious untruth, that “we are unwilling to pay his Majesty’s substitute in such a manner as should leave him that freedom and independency which is necessary to his station, and with which he is vested by the constitution”; And therefore the parliament hath a right to enable his Majesty to pay his substitute, out of a revenue extorted from us against our consent. If his premises were well grounded, his conclusion would not follow: And the question would still remain, to which Chronus has not attempted to give any rational answer, namely, By what authority doth the parliament these things, and who gave them this authority? Thus we still continue to dispute the authority of the parliament to lay duties and taxes upon us, with the express purpose of raising a revenue, as “repugnant to, and subversive of our constitution”; and for a reason which I dare say Chronus will never get over, namely, because as he himself allows, “we are not represented in it.” –

The English constitution, says Baron Montesquieu, has Liberty for its direct object: And the constitution of this province, as our own historian, informs us, is an epitome of the British constitution; and it undoubtedly has the same end for its object: Whatever laws therefore are made for our government, either in a manner, or for purposes subversive of Liberty, must be subversive of the end of the constitution, and consequently of the constitution itself: – No free people, as the Pennsylvania Farmer has observed, ever existed, or ever can exist without, to use a common but strong expression, keeping the purse-strings in their hands: But the parliament’s laying taxes on the Colonies for the express purpose of raising a revenue, takes the purse strings out of their hands, and consequently it is “repugnant to, and subversive of (the end of) our constitution” – Liberty. Mr. Locke says, that the security of property is the end for which men enter into society; and I believe Chronus will not deny it: Whatever laws therefore are made in any society, tending to render property insecure, must be subversive of the end for which men prefer society to the state of nature; and consequently must be subversive of society itself: But the parliament in which the Colonies have no voice, taking as much of their money as it pleases, and appropriating it to such purposes as it pleases, even against their consent, and as they think repugnant to their safety, renders all their property precarious, and therefore it is subversive of the end for which men enter into society and repugnant to every free constitution. --- Mr. Hooker in his ecclesiastical polity, as quoted by Mr. Locke, affirms that “Laws they are not, which the public approbation hath not made so.” This seems to be the language of nature and common sense; for if the public are bound to yield obedience to the laws, to which they cannot give their approbation, they are slaves to those who make such laws and enforce them: But the acts of parliament imposing duties, with the express purpose of raising a revenue in the colonies, have received every mark of the public disapprobation in every colony;
and yet they are enforced in all, and in some with the utmost rigour. The British constitution having liberty for its object, is so framed, as that every man who is to be bound by any law about to be made, may be present by his representative in parliament, who may employ the whole force of his objections against it, if he cannot approve of it: If after fair debate, it is approv’d of by the majority of the whole representative body of the nation, the minority, by a rule essential in society, and without which it could not subsist, is bound to submit to it: But the colonies had no voice in parliament when the revenue acts were made; nay, though they had no representatives there, their petitions were rejected, because they were against duties to be laid on; and they have been called factious, for the objections they made, not only their being taxed without their consent, which was a sufficient objection, but against the appropriation of the money when rais’d to purposes which as the Farmer has made to appear, will supersede the authority in our respective assemblies, which is most essential to liberty. Representation and Legislation, as well as taxation, are inseparable, according to the spirit of our constitution; and of all others that are free. Human foresight is incapable of providing against every accident. A small part of the nation may be “at sea, as Chronus tells us, when writs are issued out for the election of members of parliament”; and to admit that they, after their return “should be exempt from any acts of parliament, the members of which were chosen in their absence”, would be attended with greater evil to the community, the safety and welfare of which is the end of all legislation, than the misfortune of their voluntary absence, if it should prove one, could be to them. I say, if it should prove a misfortune to them; for those acts being made by the consent of representatives chosen by all the rest of the nation, it is presum’d they are calculated for the good of the whole, of which they, as a part, must necessarily partake: But the supposed case of these persons is far different from that of the colonists; who are, not by a voluntary choice of their own, but through necessity, not by mere accident, but by means of the local distance of their constant residence, excluded from being present by representation in the British legislature. Chronus allows that by means of their distance, “they are become incapable of exercising their original right of choosing representatives for the British parliament.” If so, they cannot without subversion of the end of the British constitution, be bound to obedience, against their own consent, to such laws as are there made; especially such laws as tend to render precarious their property, the security of which is the end of men’s entering into society. If they are thus bound, they are slaves and not free men: But slavery must certainly be “repugnant to the constitution” which has liberty for its direct object. If the supreme legislative of Great Britain, cannot consistently with the British constitution or the essential liberty of the colonies, make laws binding upon them, and Chronus for ought I can see, has not attempted to make it rationally appear that it can, it is dangerous for the colonies to admit any of its laws. For however upright some may think the present parliament to be, in intention, they may ruin us through mistake arising from an incurable ignorance of our circumstances; and though Chronus may be so singular as to judge the present revenue acts of parliament binding upon the colonies, to be salutary, the time may perhaps come, when even he may be convinced, that future ones may be oppressive and tyrannical, not only in their execution, but in the very intention of those that may make them. […]