

Document Section 4

The East India Company: When Monopoly is not just a game...

BACKGROUND: Students will have studied the economic models for monopoly that would include marginal revenue analysis, profit making and price discrimination. We also would have studied the effect of taxes and subsidies on average costs curves and profits.

CONCEPT REVIEW:

1. Define a monopoly. What constitutes a monopoly and what differentiates it from other markets?
2. Draw a groovy graph to show a monopoly. Include all the necessary features (ATC, AVC, MC, MR, D, etc)
3. Draw a graph of perfect competition. Show a comparison of the allocative efficiency for the competitive market and the monopoly.

FOCUS:

1. Ask students – Should the government intervene when a big company like an airline or computer company (give some real examples) is having financial difficulty? When if ever would it be appropriate?
2. Have students discuss this question and then present to them the economic woes of the East India Company by 1772. The East India Company was losing money and was asking for a loan from the British government. The government insisted that the company do some internal changes with their dividend structure. Many members of Parliament were very upset with Prime Minister North for trying to tinker with the charter of a private company. Review the Tea Act (most of this background is on the power point presentation).

DOCUMENT ANALYSIS: Read the following documents pertaining to the controversy about the East India Company and the Tea Act of 1773.

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.
3. GRAPH IT – Make two graphs. First draw a graph that shows how the Patriots view the market for tea in Boston and then draw a graph that shows the market for tea from the East India Company’s point of view.

TASK. You are now advisors to the East India Company. Split into two groups, and use graphs, proof from the documents, and your understanding of economics to sell your point.

Group A – You need to show the East India Company that it would not be wise to sell tea to the Americans.

Group B – You need to encourage the East India Company to sell tea.

Monopoly: Documents

PART I: GOVERNMENT INTERVENTION? (Documents #1 and #2)

CONSIDER: *Is Government intervention warranted here? What do you think would be the “modern” approach to the East India Company’s troubles? Can you think of current situations where our government has rushed to the aid of ailing companies – why do we do it? When? What importance did the East India Company have to Great Britain in the 18th Century?*

Document #1

Article from the *Boston Post Boy*, 12 April 1773 [excerpt]

BOSTON April 12

[. . .] The Public Prints contain very long Debates in Parliament relative to the East-India Affairs, and the Expedition to St. Vincent’s which had undergone a Parliamentary enquiry, but was not finished the 20th of February; the Expedition was greatly disapproved of by many of the Members of that august Assembly – The East-India Affairs was not finish’d in Parliament the 20th February, but it is pretty certain it will be in the following Manner, viz. That Government will lend the Company one Million five Hundred Thousand Pounds Sterling at 4 per Cent. that two Fifths of the Duty on Tea exported to America, be taken off; and that the Company will be permitted to send Annually two Ships directly from China to America, laden with Teas, clear of all Duties. [. . .]

“Capt. Cales sail’d from the Downs . . .” *Boston Post Boy*, 12 April 1773.

Document #2

Article from the *Boston Gazette*, 23 August 1773 [excerpt]

August 23, 1773

Parliamentary Proceedings: Speech by Lord North

[...] “He said, that, as to the India company, every one must know, that a petition was preparing to be presented, to say that they would not at any rate receive the loan of 1,400,000£ but he looked upon it the interest of parliament to secure that company in case the loan should be refused. He then stated the debts which they owed, which he made to amount, with interest as due to the public, to 954,000£ that he should be sorry and loth for the public to proceed by Exchequer process to pay themselves, but that they could not wait for their money; and if necessity demanded it, they must do it; that they owed a very capital sum to the bank of 500,000£ which they could not stay for; and though they wished to give every assistance to their sister company, yet it could not be expected that they would wait any longer with patience, and injure themselves. He then stated the bills of exchange due from them, amounting to 600,000£ and observed, that the situation of the public and bank was dreadful; for as they must have their money, the only effectual means to prevent the process against the company, would be for the house to proceed with the loan bill of 1,400,000£ to be lent on the India company security, and pay themselves with part of the money, even without the consent of the company.— Proposed borrowing on Exchequer bills to be issued out upon next year’s aid 1,400,000£ chargeable upon the produce of the India company, and the aids of 1779; that this year there might be a surplus of 254,000£ which he wished to keep as a reserve, least any alteration should happen from the present general tranquility; not that there was any likelihood of the late troubles being revived. [...]

“Parliamentary Proceedings: Speech by Lord North,” *Boston Gazette*, 23 August 1773.

Part II: THE EAST INDIA COMPANY (Documents #3a-d)

CONSIDER – How does the Dutch market for tea compare with East India market? Which market has greater costs? Which market has greater profit margins according to these documents? What is the East India Company's and the British government's tactics to make the East India Company more competitive? Does this make sense to you as an economist? Why or why not?

Documents #3a-d

Letters and Documents Relating to the Shipment of Tea to the American Colonies, 1773

Extract from a Letter from Boston, dated 29th April, 1771, in Answer to a Consignment made in February, 1771, at 3s. Id., with the whole drawback of 23£ 18s. 7 1/2d., percent¹

Were it not for the Holland tea, the vent of English would have answered your expectation here, but the profit is immense upon the Holland tea, which some say cost but 18d., and the 3d. duty here is saved. Many hundred chests have been imported. What is shipped may go off in time, without loss, for there must be buyers of English tea; the transportation of the Dutch by water being attended with much trouble and risk. (191)

Extract of a Letter from Boston, dated 11th September., 1772

We have delayed answering your last enquiries relative to the tea concern, in hopes of being able to form a better judgment, but to no great purpose; the great importation from Holland, principally through New York and Philadelphia, keeps down the price here, and consequently the sale of teas from England. We have set ours so low we shall have no profit from this years adventure, yet there are 50 chests still on hand. You ask our opinion whether the difference between English and Dutch teas, if it did not exceed the 3d. duty and 9 pr. cent., would be sufficient encouragement to the illicit trader? If the difference was not greater we think some of the smugglers would be discouraged, but the greater part would not. Nothing will be effectual short of reducing the price in England equal to the price in Holland. If no other burden than the 3d. duty in the Colonies, to save that alone would not be sufficient profit, and the New Yorkers, &c., would soon break thro' their solemn engagements not to import from England. (193)

¹ Drawback: refunds of duties paid in England on foreign goods imported there and thence exported to the colonies -- s=shilling d= pence £ = pound.

Extract from a Letter from Boston, dated 25th Feb., 1773, in Answer to a calculation sent of the supposed price at which the illicit trader can now import tea into America from Holland:

In your calculation of the profits on Dutch teas, 12 percent is too much to deduct for the risque of illicit trade. We are confident not one chest in five hundred has been seized in this Province for two or three years past, and the custom house officers seem unwilling to run any risk to make a seizure. At New York, we are told it is carted about at noon day. There is some expense in landing, which we believe the importers would give five percent to be freed from. (194)

SOME THOUGHTS UPON THE EAST INDIA COMPANY'S SENDING OUT TEAS TO AMERICA: Submitted to the consideration of Henry Crabb Boulton, Esq., Chariman of the East India Company.

The usual exports to America, consisting of calicoes, muslins, and other produce of India, (tea excepted,) have been seldom less than £600,000 pr. an., as such the consequence of that trade, and the interest of the merchants concerned therein, ought to be well considered before this measure of sending out teas to America should be adopted, lest it might defeat the one and prejudice the other.

The merchants are much alarmed at this step of the Company, fearing it will prevent, in a great degree, the remittances from their correspondents by so much or near it as the sales of the teas amount to; for it is beyond a doubt, that the people in America, if they admit the teas, (which I much doubt,) will be tempted to purchase them with the very money arising from the sales of muslins, calicoes, Persians, &c., bought of the Company instead of sending it to the merchants in England, and thereby tend to encrease the distress which is already too severely felt, for want of remittances. And I should not be surprised at the merchants forming a resolution similar to that of the dealers, viz., not to purchase anything from a Company who are interfering so essentially with their trade, and striking at the root of their interests. I am of opinion, if a proper application was made to the ministry, aided by a petition from the American merchants, it might produce a relaxation of that disagreeable and fatal duty of 3d.pr. lb., and in case of success I could almost promise that in the course of six months there would be exported not less than one million of pounds of tea, and further, that the usual annual export would be upon an average four millions of pounds of teas. This mode would relieve the Company from its present load, and place the correspondence and connection in its usual and natural channel. But admitting that the ministry would not comply with such a request, is it not too hasty a resolution before answers are come from America if they will receive the teas through the channel of the merchants, and particularly when they see the drawback is encreased from 14 to 24 pr.cent ad valorem, and thereby they are enabled to introduce that article cheaper from hence than from Holland.

It is well known to every gentleman conversant in trade, that on account of some disagreeable Acts of Parliament passed here, the people of America formed a resolution, which was too generally adhered to, not to import any goods from hence. This resolution continued for two years. However, the merchants of New York, (who are men of understanding and liberal principles,) foreseeing the fatal consequences that attend England & the Provinces by a continuance of dis-union with the mother-country, summoned a meeting of the principal inhabitants of the town, and then came to a compromise with the people, that in case they would agree to admit all other goods, they promised not to import any teas from England, under very severe penalties, until the Act imposing a duty of 3d. pr. lb. was repealed, and the several captains of ships in the trade were enjoined upon pain of forfeiting the good esteem of the inhabitants to comply therewith. The like resolutions were agreed to in Philadelphia & South Carolina.

There is another difficulty which occurs to me in this business, and that is, there is not so much specie in the country as would pay for the quantity said is intended to be exported. The Company should be very cautious who they appointed to receive the produce of the sales, for should the contractor for money have that power, who are the general drawers of bills, it would enable them to make a monopoly of the ready specie, and to make exchange advance 25 pr. ct., to the loss of the remitter.

Thus have I stated the principal objections to the measure, and in compliance with my promise, I shall give you my opinion relative to its introduction, & the proper modes of sale, admitting the Company persevere in their resolutions of exporting the teas on their own account [. . .] (218-220)

Francis S. Drake, *Tea Leaves: Being a Collection of Letters and Documents Relating to the Shipment of Tea to the American colonies in the Year 1773, by the East India Tea Company* (Boston, 1884), 191-194, 218-220.

PART III: A CONSPIRACY? (Documents #4 and #5)

CONSIDER –How do the Patriots see the East India Company? Why do you think this view is so harsh? Do you think it is accurate?

Document #4

Article from the *Massachusetts Spy*, 26 November 1773

[The following appeared in the newspaper as one article, including the letter extract.]

WEDNESDAY November 24 BOSTON

A letter from London of a late date, advises a gentleman here, not to purchase any of the tea now coming, as immense quantities lye rotting in the East-India Company's warehouse, which they will crowd in by ship loads in case this is taken off.

Another letter says, twelve million weight of tea, has been for seven years in the India Company's warehouses rotting, which on our receiving what is coming, will be also sent.

Americans! Defeat this last effort of a most pernicious, expiring faction, and you may sit down under your own vines and fig trees, and none shall hereafter DARE TO MAKE YOU AFRAID [. . .]

Extract of a letter from New-York, dated November 3, 1773

“I have this day been informed by good authority, that the East-India company, suspecting that the words in the act – *discharged them from the payment of any customs or duties whatever* – would extend to exempting their tea, in such cases, from the American duty, have taken the opinion of the Attorney and Solicitor-General, &c. and find, that the American duty being only chargeable on tea when imported into America, was by no means included in the duties, with which it is charged, when exported from England, or sold at their ware houses in London. This was a great disappointment to their hopes, as they suspected that the Americans would not buy it, even though they sent it to their very doors, on such terms. It is therefore affirmed, in several letters from gentlemen of credit in London, that Lord North has offered a gilding for the pill, by which we shall certainly find it very palatable, viz. He proposes that the company shall send their tea to America giving security for the payment of the duties, and that the teas are to be landed here, and the proper officers to return certificates of the quantity, &c. to England; on which the duties are to be paid there by the company, into the treasury, whence it is to be remitted, by an easy rotation, to the commissioners at Boston, to be paid out to their creatures, who are to suck the blood of the people, who are to drink this same undutied and yet dutied tea. It seems that the duty, in North-Carolina, has been paid, for some years past, in this very manner nearly, viz. by draughts attending proper certificates sent to England, because it was found that cash was not to be obtained in that province, to pay the duties there. –Thus the duty is absolutely to be paid in America, for the purpose of raising a revenue, to support improper officers in America, only the method of negotiating this business is a little different, from the usual one. Are the Americans such

blockheads as to care whether it be a hot red poker, or a red hot poker which they are to swallow, provided Lord North forces them to swallow one of the two. If the matter be duly explained, surely the people will unanimously agree to send the tea to the place from whence it came, or to a worse place.

“A letter from London. . . .,” *Massachusetts Spy*, 26 November 1773.

Document #5

Article from the *Boston Post-Boy* [excerpt], 13-20 December 1773

The following is Part of a Hand-Bill, lately distributed through this City.

The East-India Company, if once they get footing in this (once) happy country, will leave no stone unturned to become your masters. They are an opulent body, and money or credit is not wanting amongst them. They have a designing, depraved, and despotic ministry to assist and support them. They themselves are well versed in tyranny, plunder, oppression, and bloodshed. Whole provinces, labouring under the distresses of oppression, slavery, famine, and the sword, are familiar to them. Thus they have enriched themselves, -- thus they are become the most powerful trading company in the universe. Be, therefore, my dear fellow-tradesmen, prudent, -- be watchful, -- be determined to let no motive induce you to favour the accursed scheme. Reject every proposal, but a repealing act. Let not their baneful commodity enter your city. Treat every aider or abettor with ignominy, contempt, &c. and let your whole deportment prove to the world, "that we will be free indeed." [. . .]

Portsmouth, December 15, 1773

[. . .] United we Stand, but divided we fall.

Cari sunt nobis Parentes, Propinqui, Familiares et Amici, sed omnes omnium Caritates Patria und est complexa, pro qua Quis Binus dubitet Mortem oppetere, si ei sit profuturus, et Res ita requiret? CICERO

THE foregoing Adage needs no comment, as union is the only cement of society, so a state divided against itself cannot stand: This union is now wanted to withstand the most daring insults and attacks that were ever offered to a civilized people; without this, the American trade will absolutely become a monopoly, and our merchants will too late feel the fatal effects thereof.

The East-India Company (a Company the most destructive that was ever instituted in any nation; consisting of a large number of rich men, who are either themselves members of the British Parliament, or by their pestilential influence, have a great sway in that Senate) have procured an act to ship their rotten and infected teas to America, which liberty they never could obtain before as a Company, nor would they now have done it, if it had not been by that means to support the British act of taxing America, which has been denied in the most solemn manner, by the united suffrages of every provincial Assembly on this GREAT CONTINENT. What avails such solemn determinations, if they are to have no other effect, than to remain on record, which are as easily to be erased by a ministerial mandate, as the records of the city of London has been lately [*illegible*] and the Mayor confined in the Tower, only for supporting the rights of the subject? Under the function of this act, that Company has shipped more than 2000 chests of teas, for the different colonies, most part of which is now arrived; but by a most noble stand, the American merchants have refused it admittance into their stores, or even to suffer it to be landed; but have insisted on its being returned back to that Company, to convince them and those in power, that when Americans unite, all the powers on earth cannot subdue them, or dare to make them afraid: If they no succeed where will they end? Will they not engross and monopolize every other article? And will the Ministry

stop their hand in taxing those articles, and that without our having a representation in such taxation? It is as evident, as that the sun shines in a clear day, that the American contest with Britain is now come to a crisis; we must openly and resolutely oppose this daring violation of our rights, which are invaded by a powerful, pernicious Company; who in concert with a designing Ministry will more effectually, though gradually, compleat our destruction, than the united powers of Europe could do: This last effort of administration to enslave us, if now prevented in its execution, will conduce more to establish the American glory, than all we have hitherto done. They will find that the virtue of these colonies, cannot be bought but with the price of blood; and will ever after treat us with that respect which is due to the brave and ALL WORTHY PEOPLE that inhabit them: -- Let us now unite with our brethren of the other provinces, and espouse the cause of all America; Let us glory in our constitution, and while we are ready to offer our lives and fortunes in defense of his sacred Majesty GEORGE our King, let us also, with the same firmness support the constitutional laws of the land we live in, which have obtained his solemn sanction, by which will be secured to his Majesty, and his posterity, the affections of several millions of brave subjects, who will ever protect him from the insults of his common enemies.

Vox Populi, Vox Dei

"The following is part of hand-bill. . ." *Boston Post-Boy*, 13-20 December 1773.

PART IV – WHAT MAKES THE EAST INDIA COMPANY A MONOPOLY?

***CONSIDER** –The East India Company does not seem like a monopoly at first – the Dutch smuggling routes certainly offered quite a bit of competition. However, the British government not only made the East India Company more competitive by reducing duties on the tea, but it also set up a system to make smuggling more difficult (thus creating a legal barrier to competition). What really made the East India Company so objectionable, however, was that it granted monopolies to certain merchants. Only a select few merchants who were termed “consignees” could sell East India Tea in the colonies. The following is a letter from Jonathan Clarke, who wanted to secure the right to sell the coveted royal tea for profit. Show how Clarke’s firm would change if it got the rights to sell tea.*

Document #6

Letter from Jonathan Clarke, 1 July 1773

London, 1st July, 1773

Gentlemen:

I intended to have made a purchase of teas at your present sale to have exported to America, but the candid intimation given by you of an intention to export them to the Colonies on account of the Company, renders it disadvantageous for a single house to engage in that article.

I now beg leave, gentlemen, to make a tender to you of the services of a house in which I am a partner, Richard Clarke and Sons, of Boston, New England, to conduct the sale of such teas as you may send to that part of America, in conjunction with any other houses you may think proper to entrust with this concern; altho’ I have not the honor of being personally known to many of you, I flatter myself our house is known to the principal merchants who deal to our Province, and are known to have always fulfilled our engagements with punctuality & honor, and trust I shall procure you ample security for our conducting this business, agreeable to the direction, we may from time to time receive from you.

In soliciting this favor, I beg leave to avail myself further of the circumstance of our having for a long time been concerned in the tea trade, and to greater extent than any house in our Province, with one exception. Of the disappointment I have met with in my intended adventure, by which we are deprived of a very valuable branch of our business, and on my being on the spot to take such instructions from you as may be requisite in disposing of what you may send. And give me leave to add my assurances that the interest of the East India Company will always be attended to by the house of Richard Clarke & Sons, if you think fit to repose this confidence in them.

I am, very respectfully, gentlemen,
Your most obed’t & humble servant,
Jonathan Clarke.