



The Boston Tea Party and . . . Targeted Tax Credits?

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I don't think any American schoolchild escaped [this lesson from civics class](#) : On the night of December 16, 1773, in response to Parliament imposing new taxes on tea, a group of colonists from Boston boarded a number of ships in the harbor and threw the newly-taxed tea overboard in protest against "taxation without representation." This is a great lesson for children to learn, after all — as [Daniel Webster](#) and [John Marshall agreed](#) — [the power to tax involves the power to destroy](#) . It's also an easy lesson with which to sympathize. If taxes make things we buy more expensive, we lose out. According to Wikipedia:

The protest movement that culminated with the Boston Tea Party was not a dispute about high taxes. The price of legally imported tea was actually reduced by the Tea Act of 1773.

Wait, what?

Let's go back a bit. For years, the British East India Company enjoyed a monopoly — granted by the British crown — on importing tea to Britain. Because the American colonies were under British rule, this also meant that all their tea had to come from the East India

Company — first imported to London, then shipped to America by a third party. At the time, Britain had high import tariffs, which raised the price of all East India Company tea. Colonists could buy Dutch tea smuggled into the colonies much more cheaply because it never touched a port with high tariffs. In 1773, Parliament passed the Tea Act, which allowed the East India Company to import tea to the colonies duty-free. Suddenly, all the people who imported tea to the colonies, legally and illegally, were priced out of the market by a competitor that received special government favors. Some of the people on the boats in Boston Harbor the night of December 16 were concerned about overreaching government authority and a pattern of abuse, but lots of them were smugglers or legal shippers who were rebelling against the loss of their livelihood to a government policy that favored one business at the expense of others.

Here's another quote from Wikipedia:

In 1772, legally imported [Bohea](#) , the most common variety of tea, sold for about 3 [shillings](#) (3s) per pound.^[33] After the Tea Act, colonial consignees would be able to sell it for 2 shillings per pound (2s), just under the smugglers' price of 2 shillings and 1 penny (2s 1d).^[34]

So the colonists got their tea cheaper than before. Where's the problem? Well, in addition to the problem of [taxation without representation](#) , competing businessmen lost out under the new tariff regime. There were other losers as well — namely every British citizen who paid higher taxes because the East India Company had this duty-free dispensation.

My co-workers at the Show-Me Institute have [talked about targeted tax credits before](#) . Targeted tax credits are just one way that governments pick winners and losers in the marketplace. When this happens, the logic of the market is overturned and almost everyone suffers — except those the government selects to receive its largess. It's easy to point to these people and conclude that the tax credit was a success, but maybe that's because the injured parties so seldom throw a [historic party](#) to make their plight known to the world.

About the Author



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