

Consequence of Taxes: The Whiskey Rebellion

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The revolutionary war resulted in a hugely positive outcome for America, but it didn't come without its costs. In this case we're concerned the most with the financial debt that the federal government, and the states had incurred fighting for independence. Approximately 54 million dollars was owed by the government, and 25 million by the states.(The Whiskey Rebellion, HistoricalSpotlight). In an effort to increase America's ability to borrow money they sought to eliminate this old debt. The United States Secretary of Finance at the time was Alexander Hamilton, and his idea was to consolidate both debts in order for the federal government to pay it down through the issuance of new bonds. To pay for the interest from this newly incurred debt he urged congress to enact tariffs, and more importantly an excise tax on whiskey. I do not believe that the tax was justified if we are concerned at all with the benefits principle.

The general idea behind the benefits principle is that if you're in some way receiving a benefit from a government program the burden of paying the tax that supports that program should fall on you. So ideally the people that would benefit from this the most would be the farmers themselves If we examine the motivations behind the tax it shows us that the government and people with wealth benefited by far the most. The government had recently taken on a new

debt to pay off old debt and this new debt needed to have its interest paid for so that they could continue to spend while having a large deficit. Before the plan to release new bonds for purchase speculators and some people in the government went around buying up the bonds of people that weren't in the know, and therefore they stood to make a massive profit. To me this shows that the principles of the benefits of tax were not adhered to when the tax was being drawn up, and the real motivation of the tax was to uphold Hamilton's economic vision of the united states.

Hamilton also was not concerned with the ability to pay the tax when he was drawing it up. The burden of paying the tax fell disproportionately on smaller distilleries versus larger ones as a function of how much volume they are able to produce and sell. Smaller distilleries could not sell enough whiskey to pay the flat fee (which cost on average 6 cents a gallon), and were forced to pay the per gallon amount of 9 cents. This means that this tax had neither horizontal, nor vertical equity. Distilleries that produced the same good, but at different volumes were being treated differently (horizontal equity). Larger distilleries had much greater ability to pay therefore should bear the greatest burden of the tax (vertical equity), but in reality this gave them the ability to sidestep a good portion of the tax.

Frontier farmers were extremely unhappy with this tax as the incidence of the tax fell on them, and they protested by simply not paying it. Who pays the largest share of a tax, also known as the incidence of the tax, depends on who has the ability to avoid the tax by changing what market you're selling to or buying from. Small distilleries were usually found out on the frontier because the farmers out there had a much more difficult time transporting their crops to the markets on the east coast. This meant that their supply was inelastic as they had few, if any, substitute markets to sell their wheat so they turned

to distilling whiskey. On the other hand buyers had plenty of options as there were many more firms distilling spirits which provided many substitute goods and therefore demand was elastic. This meant that the burden of the tax fell mostly on the sellers, and because the tax itself burdened smaller distilleries more they justifiably protested the tax which led to government intervention.

Clearly Hamilton was not concerned with the actual consequences of the tax on the frontier farmers, and instead focused on what he saw as the best outcome for the country. This means that the benefits principle can not be used to justify enacting the whiskey tax.

References

[The Whiskey Rebellion - HistoricalSpotlight] <https://www.youtube.com/watch?v=hX9gKS7uMZY>