

Consequences of taxes: the whiskey rebellion essay sample

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Assignment 2

According to the benefits principle, those who receive more governmental benefits should meet the government's spending by paying more taxes. In theory, the benefits principle is advantageous for both the government and the people. Governmental services that people use the most receive sufficient financing, and the government compensates these expenses with taxes. Thus, the government gets additional resources to develop and improve the country's economic and overall well-being. The excise tax placed on whiskey during the U. S. Revolutionary war can hardly be justified by the benefits principle because production of whiskey was clearly not subsidized by the government. Moreover, the majority of whiskey was produced by small local manufacturers that invested their money into the establishment of production facilities. It is more likely that the excise tax was placed specifically on whiskey because it was a product in high demand and was sold in large quantities. Therefore this measure enabled the government to collect a massive amount of taxes to pay for the federal and state debt. Based on the economics of tax incidence, the intensity of protests over imposition of the excise tax on whiskey was highly related to the elasticity of supply and demand for whiskey. Considering the assumption that the demand for whiskey during the late 1700's was elastic, and the supply inelastic, the taxation burden would almost entirely fall on producers of whiskey. They were mainly represented by farmers who sold or traded whiskey because they could not transport the grain to the markets located too far away from the frontier regions. The producers were not able to simply

cover the tax cost by increasing the price because it would cause the demand to fall, given that the demand for whiskey was elastic.