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INTERNAL-REVENUE TAX

ON

DISTILLED SPIRITS, MALT LIQUORS, AND TOBACCO.

BY

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The tax of 20 cents continued in force until March 7, 1864, when the rate was advanced to 60 cents per gallon. The revenue accruing under these two rates for the year ending June 30, 1864, was \$28,431,797, and the number of gallons returned as having been assessed was 85,295,393. The striking discrepancy between the number of gallons taxed in 1864 at 20 and 60 cents and the number taxed the previous year (1863) at 20 cents again finds explanation in the fact, that when it became evident to the distillers that the fiscal necessities of the Government would soon compel an advance in the tax upon their product, and that such increase would not be made applicable to stocks on hand on which the lower rates had been assessed and paid, they pushed their production to the uttermost in order that they might take advantage of the great increase in the market price of all spirits after the advanced rates had taken effect; all of which anticipations were fully realized. Thus, of the 85,295,393 gallons on which the Internal Revenue Bureau assessed and collected the spirit tax for 1864—69,000,000 in excess of the product of the preceding year—at least, 70,000,000 of gallons were manufactured prior to the 7th of March and were released from Government control by the payment of the 20 cent tax only; and as after the 7th March, 1864, the market price of the greater part of this increased product, which had not been allowed to pass into consumption, was advanced in accordance with the advance in the tax—*i. e.*, 40 cents per gallon—it is clear that \$28,000,000 at least were thus at once legislated into the pockets of the distillers and speculators.

Again, immediately after the imposition of the 60 cent rate in March, 1864, nearly all the distilleries once more suspended operation; the country was acknowledged to be overstocked with tax-paid whisky, and the Government almost ceased to collect taxes upon its manufacture. In May, however, the project for a further increase in the rates began to be again agitated in Congress, and as soon as its realization became probable, all the distilleries speedily resumed operations. How great at that time was the capacity of the loyal States for production may be inferred from the circumstance that the number of distilleries in the country, which according to the census of 1860 was 1,138, had increased in 1864 to 2,415.

On the 1st of July, 1864, the tax was again advanced from 60 cents to \$1.50 per gallon; and during that month the entire product of the country of which the revenue officials could take cognizance was only 697,099 gallons. How great a "stock on hand," the result of manufacturing under the 20 and 60 cent rates of tax, was carried over the 1st of July and experienced the advance of 90 cents per gallon in market price in consequence of the advance in the tax from 60 cents to \$1.50, can not be accurately known; but 60,000,000 of gallons would certainly be a low estimate; and on this amount the profit that accrued to private interests was at least \$50,000,000.

On the 1st of January, 1865 (the succeeding year), the tax was further advanced to \$2 per proof gallon, when all the operations above

described were repeated, with all the benefits to private or speculative interests derived from former experiences, and a consequent very large extension of the sphere of participants in the resulting profits.

In short, all the available evidence indicates that the profits realized by distillers, dealers, and speculators, through Congressional legislation having reference to the taxation of distilled spirits from July 1, 1862, to January 1, 1865—a period of two and a half years—and exclusive of any gains accruing from evasions of taxes, and with every allowance for overestimates, must have approximated \$100,000,000.

After the establishment of the \$2 rate on the 1st of January, 1865, there was again a period of inactivity on the part of those interested in the manufacture of distilled spirits. The stocks on hand, manufactured in anticipation of the advances in rates, were very large, and, the markets being oversupplied, there was little legitimate inducement for activity on the part of distillers. The profits realized or made prospectively certain had been, moreover, enormous, and no further advance in the rate of tax could be anticipated. Under such circumstances there was an apparent disposition on the part of manufacturers and speculators to wait and see what developments in legislation and business would follow the termination of the war in favor of the Union, which was then everywhere recognized as approximately certain. These developments were not long in manifesting themselves.

The tax of \$2 per proof gallon (amounting to more than 1,000 per cent on the average cost of production) and the enormous profits contingent upon the evasion of the law, coupled with the abundant opportunity which the law through its imperfections, and the vast territorial area of the country, offered for evasion, created a temptation which it was impossible for human nature as ordinarily constituted to resist. This view was taken by the Revenue Commission in a report to Congress through the Secretary of the Treasury in February, 1866; and the chairman of the Commission, after a thorough investigation of the subject and the collection and presentation of a large amount of evidence, expressed the opinion that the attempt to collect a \$2 tax was utterly impracticable, and that the longer it was retained the less would be the revenue and the greater the corruption. He also coupled this opinion with a recommendation that a tax of 50 cents per proof gallon, with a judicious license system for rectifiers and dealers, be substituted as likely to be most productive of revenue and most efficient for the prevention of illicit distillation and other revenue evasions.

This report, although attracting much attention by reason of the singular revenue experiences of the preceding four years which it detailed, (and which the public, with its thought concentrated on the results of the war, had in a great degree overlooked), found little favor in respect to its recommendation of tax abatement; and the general sentiment both in and out of Congress was expressed by a leading member of the House of Representatives, who publicly declared "that he was not ready to ad-

mit that the nation which had put down such a great rebellion at the cost of so much blood and treasure could not collect a tax of \$2 a gallon on whisky.' The \$2 tax therefore was allowed to remain in force, and the tax experiences of the United States from 1865 to 1869 inclusive, in respect to spirits, viewed from the standpoint of finance, economics, and morals, constitute one of the most interesting, instructive, and disgraceful chapters in its history. Under the strong temptations of large and almost certain gains, men rushed into schemes for defrauding the revenue with the zeal of enthusiasts for new gold fields; and the ingenuity of the American people has never had more striking illustrations than was offered in their devices for evading the tax and providing for security against detection and punishment in so doing. The parties concerned in these transactions also showed throughout more ability than Congress and more shrewdness than the revenue department of the National Treasury; and at a later period a Secretary of the Treasury was obliged to resort to the use of a cipher for his telegraphic and written correspondence, in order to prevent the frustration of his plans for the enforcement of the laws by Treasury officials who were specially charged with their administration. The evidence in part confirmatory of these statements is as follows:

The revenue directly collected during the fiscal year 1866 (the first full year under the \$2 tax) from spirits distilled from other materials than fruits* was \$29,198,000, and in 1867 \$28,296,000, indicating an annual product respectively of 14,599,000 and 14,148,000 gallons. But during the succeeding year, 1868, with no apparent reason for any diminution in the national production and consumption of spirits, and with no increase, but rather a diminution in the volume of imported spirits, the total direct revenue from the same source was but \$13,419,092, indicating a production of only 6,709,546 gallons.

As the consumption of distilled spirits in this latter year was probably not less than 50,000,000 gallons, and as out of this the Government collected a tax upon less than 7,000,000, the sale of the difference at the current market rates of the year less the average cost of production (even if estimated as high as 30 cents) must have returned to the credit of corruption a sum approximating \$80,000,000. The number of licensed distillers, which in 1864 was 2,415, had increased, moreover, in 1868 to 4,721, or to nearly double the number in the short space of four years.

In view of such experiences Congress finally adopted the recommendations of the Special Commissioner of the Revenue, and in July, 1868, reduced the tax from \$2 to 50 cents per proof gallon. The results of such legislation were most remarkable.

Illicit distillation practically ceased the very hour the new law came into operation. Industry and the arts experienced a large measure of benefit from the reduction in the cost of spirits; while the Government

* The revenue derived from the taxation of spirits distilled from fruits has always been comparatively small: \$283,499 in 1866; \$868,145 in 1867.

collected during the second year of the continuance of the new rate and system, with comparatively little friction, *three* dollars for every one that was obtained during the last year of the \$2 tax.

For the first but incomplete fiscal year (1869) under the 50 cent tax the revenue increased to the extent of nearly \$20,000,000, or from \$14,290,000 in 1868 to \$33,735,000 in 1869; or, including all taxes on the manufacture and sale of distilled spirits, licenses, etc., from \$18,655,000 in 1868 to \$45,071,000 in 1869. During the next fiscal year (1870) there was a further increase in total revenue of \$10,534,864, or from \$45,071,000 in 1869 to \$55,606,094 in 1870.

The specific tax on distilled spirits of 50 cents per proof gallon remained in force from July, 1868, to August, 1872, a period of a little more than four years. During this period the tax was assessed and collected on an average production of 67,175,822 proof gallons per annum, yielding an average annual revenue of about \$34,000,000, and indicating an average annual consumption for all purposes of the country of about 1.65 proof gallons per capita. For the period of four years immediately preceding the fiscal year 1869, under a tax of \$2 per proof gallon for three years, and \$1.50 and \$2 for one year (1865), the tax was assessed and collected on an average annual production of only about 13,300,000 proof gallons per annum, yielding an average annual revenue of about \$21,727,000, and indicating an average annual consumption of only about 0.38 proof gallon per capita.

But, notwithstanding these satisfactory results, the law authorizing the reduction of the tax from \$2 to 50 cents per proof gallon had hardly become operative when agitation commenced for its repeal or modification. Speculators had the idea that the old scheme of increasing the tax after a little lapse of time, without making the increase applicable to stocks on hand, was, with its gainful prospects, again within the range of possibilities; while very many extreme advocates of temperance, untaught by and caring nothing for the record of recent experience, were inclined to regard the new and comparatively low tax as impolitic and in the light of the removal of a barrier against the spread of intemperance. These and other arguments proved sufficiently potent, and in June, 1872, Congress, by an act which took effect in the following August, increased the gallon tax to 70 cents, and subsequently, in March, 1875, further raised the rate to 90 cents per gallon, which tax since this last date has remained unaltered.

It is not necessary to recall that the experiences which were attendant upon every advance of the tax on spirits from its first imposition in 1862 to 1868 were repeated subsequently in 1872 and in 1875, when the increased rates of 70 and 90 cents were respectively enacted; those of the latter date being remarkable from the circumstance that the frauds upon the revenue, which were enormous, were more directly brought home to high officials of the Government than at any former period, and consti-

tute a chapter in the history of government by the people which the people may well wish to have forgotten.

The above review of the experiences of the United States prior to 1869, in attempting to enforce the collection of an excessively high tax on the production and consumption of distilled spirits, is mainly valuable in this connection from the economic and moral lessons deducible from it, which may in brief be summarized as follows:

Whenever a government imposes as a tax on any product of industry so high to sufficiently indemnify and reward an illicit or illegal production of the same, then such product will be illicitly or illegally manufactured; and when that point is reached, the losses and penalties consequent upon detection and conviction—no matter how great may be the one or how severe the other—will be counted in by the offenders as a part of the necessary expenses of their business; and the business, if forcibly suppressed in one locality, will inevitably be renewed and continued in some other. It is therefore matter of the first importance for every government in framing laws for the assessment and collection of taxes to endeavor to determine, not only for fiscal but also for moral purposes, when the maximum revenue point in the case of each tax is reached, and to recognize that in going beyond that point the government “overreaches” or cheats itself.

Obviously those who in the past have shaped the policy of the United States in respect to the taxation of distilled spirits for the purpose of revenue have, for the most part, never studied this aspect of the case, or cared to encourage any one to do so; but on the contrary, as has been somewhat humorously expressed, “they have held out to the citizen, on the one hand, a temptation to violate the law too great for human nature as ordinarily constituted to resist, and in the other writs for personal arrest and seizure of property, and, thus equipped, have announced themselves ready for business.”

TAX EXPERIENCES 1870-1893.

With such an unnatural experience in respect to the taxation of distilled spirits prior to 1869, the data for determining the incidence of the present tax (90 cents) are obviously limited to the results which have followed in subsequent years the imposition of lower rates; and for the purpose of making a clear exhibit of these, attention is asked to the following table (prepared from official data), showing—

1st. THE POPULATION OF THE COUNTRY FOR EACH SUCCESSIVE FISCAL YEAR FROM 1870 TO 1893, INCLUSIVE. 2d. THE QUANTITY OF GALLONS OF SPIRITS ANNUALLY TAXED. 3d. THE AVERAGE PER CAPITA CONSUMPTION FOR EACH SUCCESSIVE YEAR. 4th. THE AMOUNT OF REVENUE ANNUALLY COLLECTED. 5th. THE AVERAGE ANNUAL REVENUE, OR TAX PER CAPITA. 6th. THE ANNUAL TAX PER GALLON. 7th. THE AVERAGE TAX PER GALLON.

Year ending June 30.	Population.*	Quantity taxed.	Quantity per capita.	Revenue.	Revenue per capita.	Tax per gallon.	Average tax per gallon.
		<i>Gallons.</i>	<i>Gallons.</i>	<i>Dollars.</i>	<i>Dollars</i>	<i>Cents.</i>	<i>Cents.</i>
1870	38,558,371	78,490,198	2.03	39,245,099	1.02	50	50
1871	39,555,000	62,314,628	1.58	31,157,314	.79	50	50
1872	40,596,000	66,235,578	1.63	33,117,788	.82	50	50
1873	41,677,000	65,911,141	1.58	43,131,064	1.03	50 } 70 }	65.44
1874	42,796,000	62,581,562	1.46	43,807,093	1.02	70 }	70
1875	43,951,000	64,425,911	1.47	46,877,938	1.07	70 } 90 }	72.76
1876	45,137,000	58,512,693	1.30	51,390,490	1.14	70 } 90 }	88.58
1877	46,353,000	58,043,389	1.25	52,671,291	1.14	70 } 90 }	89.97
1878	47,598,000	50,704,189	1.07	45,626,533	.96	70 } 90 }	89.99
1879	48,866,000	53,025,175	1.09	47,709,464	.98	50 } 70 } 90 }	89.98
1880	50,155,783	62,132,415	1.23	55,919,119	1.11	70 } 90 }	90
1881	51,316,000	69,127,206	1.34	62,214,127	1.24	70 } 90 }	90
1882	52,495,000	71,976,398	1.37	64,778,756	1.23	70 } 90 }	90
1883	53,693,000	76,762,063	1.43	69,085,856	1.22	90	90
1884	54,911,000	79,616,901	1.45	71,655,211	1.30	90	90
1885	56,148,000	69,158,025	1.23	62,242,221	1.23	70 } 90 }	90
1886	57,404,000	70,851,355	1.23	63,766,219	1.11	90	90
1887	58,680,000	67,380,391	1.15	60,642,351	1.03	90	90
1888	59,974,000	71,565,486	1.19	64,408,937	1.07	90	90
1889	61,289,000	77,163,529	1.25	69,447,175	1.13	90	90
1890	62,622,250	85,043,336	1.35	76,539,002	1.22	90	90
1891	63,975,000	88,473,437	1.38	79,626,093	1.24	90	90
1892	65,520,000	95,045,787	1.45	85,541,209	1.31	90	90
1893	66,826,000	99,145,889	1.48	89,231,300	1.34	90	90

* Population for 1870, 1880, and 1890 from census; others years calculated by the actuary of the Treasury Department.

DISTILLED SPIRITS EXPORTED FROM THE UNITED STATES AND RETURNED, ON WHICH A DUTY EQUAL TO THE INTERNAL TAX WAS COLLECTED WHEN IMPORTED.*

Year ending June 30—†	Gallons.	Duty collected.
		<i>Dollars.</i>
1885	816,617	756,995
1886	967,500	876,779
1887	2,224,706	1,995,558
1888	2,636,756	2,377,823
1889	1,933,812	1,755,014
1890	1,225,095	1,110,325
1891	1,081,482	980,695
1892	1,076,382	971,219

* This curious movement of spirits of domestic origin finds explanation in the circumstance that the period for which they can remain in bond without payment of tax is limited to three years, and owners who desire to extend this limit, and avoid confiscation of their property, effect it by exportation of it, or, what is the same thing, bonding it abroad. On a return of such spirits to the United States they pay to the customs department of the Treasury a duty equal to the internal-revenue tax to which they would have been subjected had they not been exported.

† The quantity and value of domestic spirits exported and brought back was not separately shown in collectors' returns prior to 1885. The duty collected is accounted for as customs revenue.

The first point of interest which an examination of the above table reveals is, that the average per-capita consumption of tax-paid distilled

spirits by the people of the United States during the years 1870, 1871, 1872, and 1873, under the tax of 50 cents per gallon, was greater than it has been at any subsequent period under a 70 and 90 cent rate. Such a result is undoubtedly referable in the main to the economic law, that a reduction in the price of a commodity encourages its consumption, and in a degree to the fact that a 50-cent tax, with its accompaniment of stringent penalties, greatly diminished the incentive for illicit production. A wonderfully striking illustration of the strength of temptation for the evasion of the revenue created by the previous high taxation which had little other reason than mere sentiment for its imposition, is also afforded by the fact that while the Government in 1872, under a tax of 50 cents per proof gallon, took cognizance of an average annual tax-paid consumption on the part of the people of the United States of 1.63 gallons per capita, it was only able to recognize in 1868, under a \$2 tax, a similar average annual consumption of about 0.38 per proof gallon.

The second point of interest in connection with the foregoing tabular exhibit is, the demonstration it affords of the very curious variations which occurred in the successive years from 1870 to 1893, inclusive, in the quantity of spirits that annually paid taxes to the Government, and which thus made free for use, may be regarded as constituting an approximately accurate measure of the average annual per capita consumption of this commodity by the entire population of the country. The explanation of such changes is not difficult. They are in general unquestionably referable to immediately antecedent or contemporary changes in the business condition of the country, which in turn are determinative in a high degree of the popular ability to consume an article—like distilled spirits—of comparatively high cost and largely a luxury, popular tastes and habits and restrictive moral influences remaining constant. Thus, passing by the year 1870, in which there was a great increase (from altogether abnormal causes) in the number of gallons produced and made subject to taxation, the increase in the tax-paid product and in the average per capita consumption during the succeeding fiscal years 1872 and 1873, when the business of the country was fairly prosperous, was regular and not inconsiderable. The commencement of the next fiscal year, 1874, was signalized by one of the most memorable financial panics in American history and a general prostration of business; from which last there was no decided recovery until 1879.

During all this period the domestic production of distilled spirits of which the Government took cognizance continued to decline, and the average per capita of consumption touched the exceedingly low proportions of 1.07 and 1.09 gallons in the fiscal years 1878 and 1879, respectively. With a renewal of active and profitable business throughout the country in 1880, the annual taxed production of spirits went up from 50,704,189 gallons in 1878, to 79,616,901 gallons in 1884; and the per capita consumption from 1.07 gallons to 1.45 gallons in the correspond-

ing years. During the period from 1871 to 1880 there was a decrease both in the quantity of spirits on which the Government was able to collect a tax and in the apparent per capita consumption of the people, and this, too, notwithstanding an increase during this same period of 30 per cent in the population of the country; 1871 showing a tax on 62½ millions (1.58 gallons per capita), while in 1879 the tax was collected on only 53 million gallons (1.09 gallons per capita).

The decade from 1870 to 1879 was further characterized by two periods of disturbance—which ought to be instructive in view of future legislation—occasioned by an advance in 1873 of the gallon tax from 50 to 70 cents, and again in 1875 from 70 to 90 cents. In both cases these advances in rates were followed by large annual reductions in the quantity of spirits taxed and in an apparent per capita consumption; which in turn indicated extensive revivals of illicit practices which the reduction of the tax to 50 cents in 1868 had nearly extinguished, and which indications were also made certainties by abundant direct evidence.

The decade of 1880 to 1889 shows, on the other hand, an increase in the aggregate amount paying taxes from 62½ million gallons in 1880 (1.23 gallons per capita) to 77½ million gallons in 1889 (1.25 gallons per capita) an aggregate increase approximating a concurrent increase of 22 per cent in the population of the country.

During the fiscal years from 1888 to 1893, inclusive, under a uniform and prospectively stable rate of tax, an apparently good and efficient administration of the law, and a fairly prosperous condition of the country, the results in this department of our national revenues have also been very exceptional and interesting. The continuous increase in production, in per capita consumption, and in revenue, has been remarkable; the average increase of the product paying taxes having been nearly 4,600,000 gallons per annum, or in a ratio greater than any concurrent increase in the population of the country; the average per capita consumption nearly one-third of a gallon; the average increase in revenue nearly \$5,000,000 (\$4,910,000) per annum; the whole culminating for the last fiscal year (1893) in a product of 99,000,000 gallons; an annual revenue of \$89,000,000, and a per capita consumption of 1.48 gallons of domestic spirits as compared with a per capita consumption in Great Britain in 1890 of *all* spirits, domestic and foreign, of 1.003 gallons. During these latter years, moreover, the financial troubles and business depressions in Europe and other countries do not appear to have exerted any influence in this particular in the United States.

An influence which has undoubtedly been potent to some extent in recent years in increasing the quantity of spirits which the Government is able to subject to taxation, has been due to the concentration, through the so-called "whisky trust," of the business of distilling in the hands of a comparatively small number of persons operating under conditions most favorable for economic production, and whose interest it is to co-

operate with the internal revenue (in preventing illicit distillation) rather than to antagonize it. Such parties also would naturally favor an increase in the existing tax, for the reason that it would advance the market price of the spirits they have in bond.

Concerning the quantity of domestic spirits paying taxes which are used for industrial purposes in the United States, nothing definite can be stated. An investigation made by the Internal Revenue Department in 1882, in accordance with a resolution of the Senate, indicated an actual consumption for that year for such purposes of 4,209,978 gallons of alcohol, equal to 7,604,000 gallons proof spirits. If these conclusions were approximately correct, a present industrial consumption of the country of 10,000,000 gallons would probably be an *over* rather than an *under* estimate.

WHAT SHALL BE THE TAX ON DISTILLED SPIRITS?

The question of next importance is, what, in view of past experiences and present revenue necessities, shall be the policy of the Government in respect to the taxation of distilled spirits? Shall the present rate of 90 cents per proof gallon be retained? Is any immediate change in rate, in the way either of reduction or advance, expedient?

The first or prime cost of spirits depends on the price of grain, especially corn, and is subject to extreme variations. On the average price of the proof gallon in Cincinnati for the year 1889-'90, a tax of 90 cents was at the rate of over 660 per cent. On the average cost in the same market for the year 1891-'92, the same tax was at the rate of over 340 per cent.* Illicit distillation, therefore, as might naturally be expected under the temptations offered by such a rate of taxation, constantly goes on and appears to be on the increase. Thus for the year ending June 30, 1892, the Internal Revenue Department reported a seizure of 852 illicit stills, a number 60 per cent greater than the annual average of the preceding eleven years, or since 1880. Of the 852 stills seized, ten were in the two northern States of New York and Pennsylvania; one in Michigan, and none reported in Pacific States or any of the Territories; while the remainder, 538 in number, were mainly in the thinly settled and mountainous districts of the States of Kentucky, North Carolina, Alabama, Tennessee, and Virginia. The number of illicit stills that existed during the same year and were successfully operated, doubtless exceeded the number of which the Federal officials were able to take cognizance.

The following statistics in connection with this subject are also suggestive. In 1860, when there was no Federal taxation of distilled spirits, the whole number of distilleries in the country reported by the census was 1,138. In 1892, with a tax ranging from 340 to 660 per cent on product, the number of distilleries reported as operated was 5,925. For this same year, the Internal Revenue Bureau reports an increase of

* These average annual prices represent the extreme variations in the cost of spirits in the Cincinnati market from 1880-'81, to 1890-'91.

2,105 in the number of distilleries operated, as compared with the number operated in 1891. A large majority of this increase was, however, represented by small distilleries producing spirits from fruits. The number of distilleries operated in 1892 in the single State of North Carolina was largely in excess of the number operated during the same time in the whole of Great Britain. The number of distilleries and distillery warehouses under the supervision of the Federal Government in 1892 in the five States of Kentucky, Tennessee, North Carolina, Virginia, and Ohio was also probably greater than are controlled by the Government of Great Britain and by all the leading States of continental Europe.

The conditions under which illicit distillation at the present time is mainly prosecuted in the United States is as follows: In extensive regions of the States above specified, the small farmers, who constitute the bulk of their population, grow little beside corn, and in the absence of railways, and also to a great extent of roads, there is no way for them to bring their surplus grain to any market except in the form of whisky, and, except what may be paid them in cash for the same, handle but very little ready money at any time. The result is that the inhabitants of these sections of the country feel that they have the right (enjoyed by their fathers) to transform their corn into whisky, and that Government acts in a most unjust and tyrannical manner in seeking to prevent it. Hence the multiplicity of "moonshiners," as illicit distillers are termed, the little rude stills among the mountains, and the murderous assaults on revenue officials who attempt to make arrests and break up the forbidden business.

Happily all the evidence is to the effect, that the territorial area of the United States in which natural conditions may be almost said to render illicit distillation expedient, is comparatively limited; while the regular increase in recent years of the tax-paying product of distilled spirits in a ratio equal to or in excess of the increase of population, is conclusive proof that whatever may be the quantity of illicit product in the entire country it does not materially affect the general aggregate of consumption productive of revenue.

It ought not, however, to require any argument to convince, that a minimum tax of 330 per cent on spirits is dangerously near or in excess of the maximum revenue point, and that any increase in the existing rate will favor a recurrence of the disastrous and disgraceful results that characterized the period of experimental taxation in the years immediately succeeding the termination of the war. Certain it is, also, that an anticipation of participation in an increase of the tax would lead to such a production of spirits as to postpone for one or two years any increase of revenue to the Government.* The present stability of conditions is,

* It is admitted that the cause of recent financial embarrassments of the "whisky trust" was overproduction, and that this overproduction in turn was due to an expectation that Congress would increase the tax on spirits.

moreover, a strong argument against any change in the existing tax. For not only is it possible to now tell with approximate accuracy what the revenue from distilled spirits will be in the future, but we may feel sure that it will be more each year than it was the year previous, and this certainty in respect to the productiveness of the one most important source of the national revenue constitutes a great factor of safety in determining what shall be the national expenditure. Thus, taking the per capita consumption of 1892 as the basis for estimate, the revenue that may be anticipated from this source for 1899 with the existing tax will be \$102,000,000, or more than one-half of the present ordinary expenses of the Government.

The following table shows the comparative results of the taxation of the domestic product of distilled spirits in the United States and United Kingdom :

	Population.	Quantity taxed.	Tax per gallon.	Revenue.	Consumption per capita.
United States, 1892.....	65,403,000	95,045,787	\$0.90	\$85,541,209	1.450
United Kingdom, 1892.....	38,109,329	31,469,392	2.43	76,373,055	0.825

CONCLUSION.

In view of above exhibit of past experiences and the existing situation, can there be a better answer to the question, "Is any change in the present rate of tax on distilled spirits desirable," than that expressed by the old proverb, "Let well enough alone?"

FERMENTED LIQUORS AND TOBACCO.

The following table exhibits in detail the results of the taxation of fermented liquors and tobacco, under the internal-revenue system of the United States, for each fiscal year since the inception of taxes on the same in 1863 down to and including the year ending June 30, 1893 :

TABLE SHOWING THE INTERNAL REVENUE COLLECTED FROM FERMENTED LIQUORS AND TOBACCO.

[From official sources.]

Years.	Popula- tion.	Beer.				Tobacco.		
		Quantity taxed.	Quantity per capita.	Revenue collected from barrel tax.	Revenue per capita.	Tax per barrel of 31 galls.	Revenue collected from all sources.	Revenue per capita.
		Gallons.	Gallons.	Dollars.	Dollars.	Dollars.	Dollars.	Dollars.
1863.....	33,365,000	62,205,375	1.86	1,558,083	.05	{ 1.00 .60 }	3,097,620	.09
1864.....	34,046,000	97,382,811	2.86	2,223,719	.07	{ .60 1.00 }	8,592,099	.25
1865.....	34,748,000	113,372,611	3.26	3,657,181	.11	1.00	11,401,373	.33
1866.....	35,469,000	158,569,340	4.47	5,115,140	.14	1.00	16,531,008	.41
1867.....	36,211,000	192,429,462	5.31	5,819,345	.16	1.00	19,765,148	.55
1868.....	36,973,000	190,546,553	5.15	5,685,663	.15	1.00	18,730,095	.51
1869.....	37,756,000	196,603,705	5.21	5,866,400	.16	1.00	23,430,708	.62
1870.....	38,558,371	203,813,127	5.29	6,081,520	.16	1.00	31,350,708	.81
1871.....	39,555,000	239,948,060	6.06	7,159,740	.18	1.00	33,578,967	.85
1872.....	40,596,000	268,442,237	6.61	8,009,969	.20	1.00	33,736,171	.83
1873.....	41,677,000	298,633,013	7.16	8,910,823	.21	1.00	34,386,303	.83
1874.....	42,796,000	297,627,807	6.95	8,880,829	.21	1.00	33,242,876	.78
1875.....	43,951,000	293,033,607	6.66	8,743,744	.20	1.00	37,303,462	.85
1876.....	45,137,000	306,972,912	6.80	9,159,675	.23	1.00	39,795,340	.88
1877.....	46,353,000	304,111,860	6.56	9,074,305	.20	1.00	41,106,547	.89
1878.....	47,598,000	317,485,601	6.67	9,473,360	.20	1.00	40,091,755	.85
1879.....	48,866,000	344,195,604	7.04	10,270,352	.21	1.00	40,135,003	.82
1880.....	50,155,783	413,760,441	8.25	12,346,077	.25	1.00	38,870,140	.77
1881.....	51,316,000	443,641,868	8.65	13,237,700	.26	1.00	42,854,992	.84
1882.....	52,495,000	525,514,635	10.01	15,680,678	.30	1.00	47,391,989	.90
1883.....	53,693,000	550,494,652	10.25	16,426,050	.31	1.00	42,104,250	.78
1884.....	54,911,000	588,957,189	10.73	17,573,722	.32	1.00	26,062,400	.48
1885.....	56,148,000	594,764,543	10.59	17,747,006	.32	1.00	26,407,088	.47
1886.....	57,404,000	642,038,923	11.18	19,157,612	.33	1.00	27,997,363	.49
1887.....	58,680,000	716,767,306	12.21	21,387,411	.36	1.00	30,108,067	.51
1888.....	59,974,000	765,086,789	12.77	22,829,202	.38	1.00	30,662,432	.53
1889.....	61,289,000	778,715,443	12.71	23,235,863	.38	1.00	31,866,861	.52
1890.....	62,622,250	854,420,264	13.64	25,494,798	.41	1.00	33,958,991	.54
1891.....	63,975,000	944,823,952	14.77	28,192,327	.44	1.00	32,796,271	.51
1892.....	65,320,000	986,352,916	15.05	29,431,498	.45	1.00	31,000,493	.47
1893.....	66,826,000	1,071,183,827	16.03	31,962,743	.48	1.00	31,889,712	.48

FERMENTED LIQUORS.

The internal-revenue tax on fermented liquors (beer) has been practically uniform since its first authorization in 1863, namely, one dollar per barrel, holding theoretically 31 gallons. This tax is made payable in stamps, one of which, "denoting the amount of the tax," shall be affixed upon the spigot hole or tap (of which there shall be but one) in such a way that the stamp shall be destroyed upon the withdrawal of the liquor from the barrel or other receptacle.* A deduction of 7½ per cent is allowed to brewers on the purchase of stamps, which is assumed to represent the difference between the theoretical barrel unit of 31 gallons, and the quantity contained in the commercial or trade supply barrel, which, owing to redriving of hoops and repitching, averages from 28 to 28½ gallons. It is obvious, if this deduction is not excessive, that the rate of tax, namely, \$1 for 31 gallons, remains unchanged, and on this basis attention is asked to the following deductions:

A tax of \$1 per 31 gallons is equivalent to 3.225 cents per gallon.

* Revised Statutes, section 3342, p. 655.

On a basis of \$5.25 per barrel, the price at which beer of good quality could be bought in quantity or at wholesale during the past year in the city of New York or vicinity, the present tax is about 20 per cent ad valorem. One barrel of 31 gallons equals 248 pints or 496 half-pints, the present tax is, therefore, one-fifth of a cent per half-pint, or per glass as usually sold in saloons for 5 cents; or two-fifths of a cent per pint.

In recent years some of the large industrial establishments of the country have made a practice of furnishing their employés with beer of a good quality at a price but little in excess of the cost of production and distribution. In such cases the beer is sold by weight, a pint being regarded as equal to a pound, and a pound as equal to two glasses such as are usually sold in the saloons. From 26 to 30 tickets, each representing 1 pound of beer, are usually sold for \$1. which makes the average cost to the local consumers of from $1\frac{2}{3}$ to $1\frac{3}{4}$ cents for a full glass or half pound of beer, and which charge is represented by those competent to express an opinion, as sufficient to cover the wholesale price and entire cost of distribution, labor, ice, rent, and light, and leave a fair profit.

The points of interest made apparent in the foregoing tabular exhibit, and to which attention is especially asked, are as follows :

(1) The regular and great increase in the quantity of fermented liquors annually made subject to internal revenue taxation, *i. e.*, from 62,205,375 gallons in 1863 to 1,071,183,827 gallons in 1893, and an increase in per capita consumption very far in excess of the rate of increase in population, *i. e.*, from 1.86 gallons in 1863 to over 16 gallons in 1893.

(2) The concurrent regular increase in revenue from this source, *i. e.*, from \$1,558,000 in 1863 to nearly \$32,000,000 in 1893.

(3) As large and costly plants are essential for the manufacture of fermented liquors on a large scale and at the lowest cost, illicit production is thereby rendered difficult, if not impossible, and whatever of fraud upon the revenue exists in this business is undoubtedly referable to the non-use or noncancellation and re-use of the stamps which represent the prepayment of the tax as a condition of sale and consumption.

(4) The variations in the product of fermented liquors which the Government has been able to annually subject to taxation since 1863 has been inconsiderable and in remarkable contrast to those occurring in the case of distilled spirits. Business depression from 1874 to 1879 and for the year 1884 appears to have been influential in checking per capita consumption, though in a small degree, and to have exerted little or no influence in the other years of the three decades that are subject to analysis; results indicating that similar larger and contemporaneous decrements in consumption and revenue in the case of distilled spirits were due to fraudulent practices, rather than to an impairment of ability to consume on the part of the masses.

(5) The average annual increase in the receipt of internal revenue from fermented liquors for the ten years from 1883 to 1892 was \$1,306,057,

and for the four years ending with the fiscal year 1893, about \$1,617,000. That this latter ratio of annual increase under the present rate of tax is likely to indefinitely continue is almost demonstrated by the fact that the popularity of fermented or "malt" liquors as beverage among the American people is unquestionably increasing; and also, that large, seemingly, as is their present average per capita consumption—namely, 16 gallons—the present per capita consumption of the people of several other nationalities is much greater; that of the United Kingdom being estimated at 30 gallons; of England and Wales, 36; of Belgium, 40; and of Germany, 45.

Attention here is also asked, to another point of fiscal importance. If it becomes desirable at this or any other time for the United States to materially increase its annual revenue by additional taxation, such a result can not be attained more certainly and with so little of expense, effort, or industrial friction, as by a moderate increase of the tax on fermented liquors. The existing tax (20 per cent ad valorem) is lower than upon almost any other industrial product entering largely into domestic consumption. Spirits, paying, for example, from 340 to 660 per cent internal tax; manufactured tobacco, 129 per cent, customs duty; pig iron, 30 per cent; steel, 25 to 50 per cent; wool, 24 to 100 per cent, and the like.

The business of brewing malt liquors is acknowledged to be one of the most successful of domestic industries, and financial participation in it has in recent years been regarded by foreign capitalists as one of the most attractive of American investments. It is also reasonably certain that in the distribution of industrial products for consumption, there is no branch of business that returns a larger profit on the labor and capital employed than the retailing of malt liquors; a small retail store often supporting a large family, besides paying high Federal and State licences. The data already submitted, and which are believed to be reliable, show that beer can be retailed at a profit for $1\frac{3}{4}$ cents per glass of a half pint, on which the present tax is one-fifth of a cent, yielding a present revenue of about \$32,000,000 per annum. An increase on present rate of tax, *i. e.*, from \$1 to \$2 per barrel of 31 gallons, or from one-fifth to two-fifths of a cent per half pint glass, might be reasonably expected to at once yield \$32,000,000 additional per annum, bringing up the present annual revenue from this source to \$64,000,000, with a prospective annual increase of \$3,000,000; and this without increasing the cost of his beer to the individual consumer or materially diminishing the profits of the brewer or the wholesale or retail dealer.

TOBACCO.

The tabular exhibit of the tax experiences of the internal revenue in respect to tobacco, shows the annual receipts and their per capita apportionment on the population of the country from the inception of the

taxation on this commodity in 1863, down to and including the fiscal year 1893.

The consumption of tobacco in all its forms by the people of the United States, taking the data collected by the Internal Revenue Department as the basis of estimate, was for the year 1892 about 4 pounds per capita. The number of cigars and cheroots taxed for this same year was returned at 4,548,799,417.

As a basis for the obtaining of revenue, the comparative per capita consumption of tobacco in other countries is especially worthy of attention in this connection. For the United Kingdom, the amount for 1891, officially reported, was 1.61 pounds; France (estimated) $1\frac{4}{5}$ pounds; for the population of the city of Paris, $3\frac{1}{2}$ pounds; Germany, $4\frac{1}{2}$ pounds; Belgium and Holland, $3\frac{1}{2}$ pounds. The annual consumption of tobacco in the United States is therefore certainly much greater than in most other countries, and is equaled in not more than one or two. This result may be referred to several agencies; to the greater cheapness of the taxed commodity; to greater ability on the part of the masses to consume it, and to a larger use of tobacco for chewing,* the quantity manufactured for this purpose in 1891 being returned at 183,147,000 pounds as compared with 76,708,000 manufactured for smoking.

From 1863 to 1869 the variations in the annual internal-revenue receipts from tobacco (always in the way of increase) were very great, and, as it were, spasmodic, and were due mainly to frequent changes in the rate of tax on the different forms of tobacco. During this same period occurred one of the most remarkable illustrations to be found in fiscal history of the influence of a tax reduction in increasing the taxed consumption of a comparatively cheap commodity in general use. Thus, in 1866, with a uniform tax of \$10 per thousand on cigars, only 347,443,894 were returned by manufacturers for taxation, while in 1869, under a uniform tax of \$5 per thousand, 991,335,934 were returned, or nearly three times the quantity.

The business depression from 1874 to 1879 appears to have had an influence in checking the popular consumption of tobacco, though in a lesser degree than in the case of distilled spirits or fermented liquors. From 1870 to 1882 the ratio of annual increase in the taxed product of domestic tobacco was greater on the average than the corresponding ratio of increase in the population of the country (which was not the case with distilled spirits), and the total internal revenue collected from this source attained the large aggregate in 1882 of \$47,391,989.

In 1883 the rates of tax on all forms of domestic tobacco and the special taxes on dealers and manufacturers of the same were reduced fully 50 per cent. This reduction of tax caused an immediate reduction of revenue, comparing the receipts of 1882 with those of 1884 the first full year of reduced rates, to the extent of \$21,329,589. This reduction

* In France the sales of tobacco in 1885 were returned at 700,000 kilograms for "chewing," and at 15,400,000 for smoking.

of over 50 per cent in rate of tax, resulted in a smaller proportional reduction of revenue—*i. e.* of about 45 per cent. In 1886 the tax on cigars was reduced 50 per cent, and in 1890 the taxes on snuff, chewing and smoking tobacco 25 per cent. At this latter date all special taxes relating to tobacco—*i. e.* licenses to manufacturers, dealers, etc., were also entirely repealed. The annual reduction in revenue in consequence of these last abatements, comparing the receipts for 1890 with those for 1892, was near \$3,000,000, notwithstanding an increase in population during the same period of 2,897,750. The internal revenue from tobacco for the fiscal year 1893 was about \$31,890,000. Had the taxes on tobacco existing in 1882 been allowed to remain unchanged, the annual revenue from this source (the increase of population being taken into account) for the fiscal year 1894 would not be less than \$60,000,000.

The United States internal revenue taxes on tobacco are smaller than those imposed by any other country that seeks to make this commodity a leading source of revenue. In the year 1892 they amounted to 49 cents per capita as compared with 90 cents in 1882. The duties collected on imports of tobacco for 1892 were \$10,265,067 (as compared with \$16,172,277 for 1891), and the total customs and internal revenue yielded by tobacco during the fiscal year 1892 was about \$42,000,000, or 63 cents per capita.

In 1891 the taxes on tobacco in the United Kingdom, excise and customs, were \$1.30 per capita on a population of 37,795,283, and yielded a revenue of \$49,015,000.

In France the taxes on tobacco are reported at \$1.71 per capita on a population of 38,283,000, yielding an annual revenue about \$65,000,000. In other European countries the per capita taxes on tobacco are reported as follows: Austria, \$1.31; Germany, \$1.30; Italy, 94 cents; Hungary, 79 cents.

Were the same ratio of taxation on tobacco as exists to-day in the United Kingdom established in the United States, the annual revenue accruing to the Federal Treasury at the present time would be \$85,000,000. If the rates existing in France were adopted, the annual revenue from this source would be \$112,000,000.

Whatever may have been the considerations that prompted in recent years the abatement of this important source of national revenue in the United States, it is certain that they were not based on any sound financial policy or on any lesson of past experience in respect to the best methods of raising revenue. Taxes on tobacco are taxes on a typical luxury. Their payment is not obligatory, as are the taxes on the essentials of living, on any citizen, but are in the nature of a voluntary assessment on the part of the consumer, on whom the entire burden of the tax ultimately rests, and which payments may be properly regarded as representing his surplus income. They are not obstructive to the development of any other industrial product, and there is no evidence that the highest rate ever assessed under the internal revenue has ever been productive of general discontent on the part of the masses of the American people.

CONCLUSION.

A consideration of the tax experiences and conditions as above presented ought to be in the highest degree instructive as to the elements of financial strength that at present characterize the Government of the United States. In all civilized nations at the present time the production and consumption of spirits, fermented liquors, and tobacco are recognized as the most legitimate and productive sources from which revenue can be obtained with the minimum of expense and industrial disturbance. The factors determinative of the productiveness and continued increase of revenue from these sources are mainly two; namely, continued increase of population and continued or increasing ability on the part of the masses to consume. These factors are more influential at the present time in the United States than in any other nation. We are increasing in population in a greater annual ratio than any other country of which we have any definite information. Our ability to consume, owing to the rapid accumulation and distribution of wealth among the masses, is far greater than that in any other nation. Commercial disturbances and business depressions, which are potent in all other countries in reducing the consumption of luxuries, appear to have comparatively little effect in the United States, and are not of long continuance.

The wisest fiscal policy for the Federal Government, certainly for the immediate future, would therefore seem to be to impose the maximum rates of taxation on distilled spirits, fermented liquors, and tobacco, that will not create, in face of efficient administration and severe penalties, undue temptations for revenue evasions. A government that disregards this line of wise expediency to a greater or less degree invariably cheats itself. In the case of distilled spirits, on which the existing rate under the most favorable conditions of production is always in excess of 300 per cent on their first cost, or taxable unit, this line seems to have been absolutely ignored; but as the experience of recent years shows that the revenue from this source is increasing in a ratio equal to or in excess of the increase of population, and the amount of illicit product comparatively small, any change in the present tax would seem clearly inexpedient. On the other hand, in the case of fermented liquors and tobacco the existing taxes are far below the safe line of expediency, and might be advanced—*i. e.*, to the extent of \$1 per 31 gallons, or one-fifth of a cent on the half pint—in respect to the former, and in the latter at least to the rates imposed in 1882, with great advantage to our national revenue and to a greater simplification of our whole fiscal system. Certainly if additional revenues to meet present existing and extraordinary requirements for expenditures are needed, it would be difficult to show where an immediate annual increment—with a certain large annual increase of the same in the future—could be obtained with less of expense and popular friction than by the tax modifications suggested.

The existing customs duties on the imports of spirits, fermented

liquors, and tobacco, are exceedingly high and absurdly disproportionate to the corresponding internal-revenue taxes on the same, and can undoubtedly be modified to some extent to the advantage of the revenue. Thus, on imported spirits, the duties are \$2 per proof gallon and the internal-revenue tax 90 cents; on fermented liquors the relative rates are 20 cents and $3\frac{1}{2}$ cents per gallon; and on snuff, chewing and smoking tobacco, 50 and 40 cents and 6 cents respectively. In the United Kingdom, where the productivty of taxes has been carefully studied, the customs duties exceed the excise (internal revenue) taxes upon beer by 6*d.* (12 cents) on 36 gallons, and upon spirits by 4*d.* (8 cents) per proof gallon. One effect of the maintenance of our excessively high duties on imported spirits is, that a greater opportunity is offered to combinations (trusts) of domestic producers to advance the price to domestic consumers; and another is, that they encourage the domestic manufacture from cheaper materials of imitations of foreign spirits, whereby the American consumer is induced to use a spurious in place of the genuine article, and the Government is defrauded of the difference in relative taxation, and this amount is believed to be very considerable.

WHAT THE NATIONAL REVENUE FROM SPIRITS, FERMENTED LIQUORS, AND TOBACCO ANNUALLY IS AND WHAT IT MIGHT BE WITH CERTAIN MODIFICATIONS OF EXISTING TAXES.

The following is an exhibit of the receipts of revenue from spirits, fermented liquors, and tobacco for the year ending June 30, 1893, and what might be anticipated from the same sources with the modifications of taxation thereon, as suggested:

	Existing taxes.	Proposed taxes.
INTERNAL REVENUE.*		
Distilled spirits.....	<i>Dollars.</i> 95,000,000	<i>Dollars.</i> 95,000,000
Fermented liquors.....	32,000,000	64,000,000
Tobacco.....	32,000,000	60,000,000
Total.....	159,000,000	219,000,000
CUSTOMS.		
Spirits, wines, and beer.....	†9,000,000	10,000,000
Tobacco.....	†13,000,000	116,000,000
Total.....	22,000,000	26,000,000
Aggregate, three commodities.....	181,000,000	245,000,000

*Owing to existing industrial and financial conditions, no material increase in the revenues from spirits, fermented liquors, and tobacco for the current fiscal year is anticipated.

† Partly estimated.

‡ The customs revenue from tobacco in 1891 was \$16,172,277.

The normal expenditures of the Federal Government for the fiscal year ending June 30, 1894, were estimated by Secretary Foster at \$169,049,571.* Including an estimate for interest on the public debt of \$26,771,293, the total aggregate expenditure for the year, exclusive of pensions, will approximate \$195,810,754.

* Civil service (less bounty on sugar).....	\$90,483,670
Army.....	43,394,192
Navy ..	25,083,498
Indians.....	10,083,211
Total.....	169,049,571

It is therefore obvious that from taxes judiciously imposed on only three commodities or branches of industry, the Federal Government can at the present time certainly, economically, and with less burden and disturbance to its people than by any other form of levy, collect an annual revenue sufficient to defray all of its ordinary expenditures, including interest on all its debts, and have in addition an annual surplus of near \$50,000,000, leaving its total revenue from other sources—*i. e.*, import duties, less those collected from spirits, beer, and tobacco, and receipts from permanent miscellaneous sources aggregating about \$9,000,000, available for the payment of pensions and for other purposes.

It is safe to assert that in all financial history no parallel can be found for such an exhibit of the finances of a great nation. The assertion is also warranted, that no greater degree of intelligence and honesty on the part of legislators and administrators is needed to free the financial policy of the United States from all possibilities of popular distrust or disturbance, than would be requisite for the successful management of the most ordinary manufacturing, banking, or commercial enterprises.

I am yours, most respectfully,

DAVID A. WELLS.



