

allocation of expenditures over time, and particularly with regard to their decisions on how much to consume and how much to invest. It has been widely contended that consumers' sovereignty should be rejected for intertemporal choices because of the myopia of individuals,<sup>9</sup> which leads to inadequate amounts of saving and investment for society as a whole from a long-run point of view. It has also been contended that it is not the function of government slavishly to follow individual desires, but to act for unborn generations, to take the lead in providing for the future.

We do not reject these considerations and shall return to them later in this chapter. In some instances, they will be reflected in the higher social criteria which may supersede the efficiency criteria as we have defined them. But, throughout this study, we take the view that economic efficiency is one of the significant criteria and that it requires measurement of gains and costs in terms of the subjective valuations of the individuals who constitute our society. In the case of the cost of capital, we also look to individual preferences, and it is on this basis that we proceed.

#### *Model A: A Tax Cut Stimulating Consumption*

Our first tax model estimating the social cost of capital consists of reductions which are particularly favorable to low-income families. In Model A, 80 per cent of the tax cut is in the form of an increase in the personal exemption of the federal income tax. The other 20 per cent is assumed to go into a reduction of those federal excises which would, in fact, be most likely to take place. When our computations for each of these tax cuts are completed and the results combined, we arrive at the following applicable interest rates:

<sup>9</sup>M. Dobb, *On Economic Theory and Socialism* (New York: International Publishers, 1955), pp. 38-41, 73-77, 244-45, and 258-60; A. C. Pigou, *The Economics of Welfare* (4th ed.; London: Macmillan Company, 1932), pp. 22-30; W. J. Baumol, *Welfare Economics and the Theory of the State* (Cambridge: Harvard University Press, 1952), pp. 91-92; and R. H. Strotz, "Myopia and Inconsistency in Dynamic Utility Maximization," *Review of Economic Studies*, 1955-6, pp. 165-180.