

REDUCING SELECTED EXCISE TAXES

In addition to the increase in personal exemption, amounting to 80 per cent of the tax cut, our Model A calls for a cut in excise taxes sufficient to make up 20 per cent of the decline in government revenue. We assume a reduction for only those commodities which seem likely to be affected by an actual move to cut excises. Thus, all road-user taxes are excluded because they have been set aside to finance the expanding federal highway program. Taxes on alcoholic beverages and tobacco are ruled out because they are imposed, in part, for noneconomic reasons and have a long-accepted place in the federal revenue structure. We treat the remaining excises as if they were cut proportionately, and assume that the price elasticity of consumer demand is such that the relative increase in sales will be the same for all commodities in question. These two assumptions imply that the proportionate cut in tax rates leads to a proportionate fall in the revenues from the various excises.

The incidence of excise taxes is usually assumed to fall on the consumer.¹⁶ The incidence by income classes, then, depends on the distribution of the tax cut among commodities and on their income elasticity. Table 8 sheds some light on this question. It lists the major federal excises, shows the revenues derived from them and their percentage distribution, and gives estimates of the income elasticities of the commodities which have been made by the U. S. Department of Commerce. Using the distribution of taxes as weights, an average income elasticity is computed for the entire excise tax cut. Both the prewar and postwar figures produce an

would be made available, a task we shall not assay. Were we to assume that the return above borrowing cost is 3 per cent—a liberal figure in view of the low- and middle-income sources of these savings and the channels into which their savings usually flow—and were we to apply marginal propensities to save by income classes (see footnotes to Table 14) to estimate the share of the tax cut that would be saved, we would increase our estimate by .12 percentage points, resulting in a figure of 5.99 per cent.

¹⁶ Musgrave and Tucker followed this assumption in their studies of tax incidence. (See R. A. Musgrave, J. J. Carroll, L. D. Cook, and L. Frane, "Distribution of Tax Payments by Income Groups: A Case Study for 1948," *National Tax Journal*, March 1951; and R. S. Tucker, "Distribution of Tax Burdens in 1948," *ibid.*, September 1951.) This assumption is only a first approximation and overlooks the effects of product substitution.