interest rate applicable to this form of tax cut.[18] This rate turns out to be 5.49 per cent.

Averaging the 5.87 per cent rate for the increased personal exemption and the 5.49 per cent for excise cuts, weighted by their relative importance, we get an over-all estimate of the applicable rate under the tax assumptions of Model A, which is equal to 5.79 per cent.

TABLE 9. *Reduction of Selected Excise Taxes: Distribution of Income and Applicable Interest Rates, 1955*

Family income class ($ thousand)	Family personal income [a] ($ billion)	Per cent distribution before tax	Per cent distribution after tax [b]	Applicable interest rate [c] (per cent)
0 to 3 ...	25.0	9	10	7.0
3 to 5 ...	59.1	21	22	5.8
5 to 7.5 ...	81.6	28	28	5.8
7.5 to 10 ...	47.1	16	16	5.4
10 to 15 ...	29.3	10	10	5.0
Over 15 ...	46.0	16	14	4.6
Average applicable interest rate				5.49

[a] S. F. Goldsmith, "Income Distribution in the United States, 1952-55," *Survey of Current Business*, *op. cit.*, June 1956, pp. 9-16. Our income classes have to be defined as income before tax because the *Survey* data on which our interest rates are based are given that way.

[b] Since the income elasticities were derived from regressions on disposable, or after-tax, income, it is the distribution of income after taxes which supplies the proper weights for our average interest rate. The distribution after taxes was computed by applying the average tax rate for each income class (given in the Goldsmith article cited above) to the before-tax income.

[c] The rates for the lower brackets are carried over from the preceding section. The breakdown in the upper brackets is derived in detail in the discussion of Model B.

[18] A reduction of excise taxes is less likely than a reduction of income taxes to result in accrual of additional returns to marginal investors to whom additional private savings are made available. This is because the tax cut leads to price reductions of consumer goods and hence induces some substitution of consumption for saving. While we cannot be sure that the substitution effect will exactly cancel the income effect on consumption, it is unlikely that the net result will be significant. The distribution of the tax cut among income classes, and particularly to high-consumption families, strengthens this conclusion.