

See text.

^c The following marginal tax rates are applied to the respective income classes: .25, .29, .36, .47, .59, .65, .76, and .89. These rates represent the marginal rate in each income class as indicated by the average tax liability reported for the class. In applying the rates, half of the income from stock is considered long-term capital gain. Also 25 per cent of the interest income in the top two brackets is considered to be from tax-exempt bonds yielding an average of 2.6 per cent; this assumption is based on the findings of Butters, Thompson, and Bollinger, *op. cit.*, p. 468.

^d These rates are derived as follows: We assume the following marginal propensities to save: 0, 12, 26, and 26 per cent respectively on the first four brackets, and 40 per cent on all brackets over \$20,000. (Source: Survey of the Bureau of Labor Statistics to revise the Consumer Price Index, 1950, as reported in *Business Week*, June 16, 1956, p. 104; the figure for the top bracket is based on the 1936 survey of the National Resources Committee, reported in M. Bronfenbrenner, *et al.*, "A Study in Redistribution and Consumption," *Review of Economics and Statistics*, May 1955, p. 153, adjusted downward in accordance with the shift of the known portions of the consumption function.) We apply the rates after tax to the portion of the tax cut that would be consumed and the rates before tax to the share that would be invested, and then compute a weighted average.

These rates can be given an alternative interpretation to that of the text. Where the government is considered a "partner" in the ownership of the assets, the return in excess of the after-tax rate can be considered to be the return earned by the government on the assets. The rate at which taxes are paid on the part of the tax cut which is invested measures the government's share of the returns.

14 first gives the rates of return after taxes, and then shows the adjusted rates of return allowing for the higher rates that must be applied to the portion of the tax cut which is actually invested. Taking these adjusted rates in combination with the distribution of various kinds of property income of Table 13, we derive the average rates of return applicable to the property holders in each income class (final column of Table 14). Combining the resulting rates with the rates given for debtors in Table 11, we derive the average interest rate for the entire income class (column 3, Table 15). Finally, bringing in the rates for low-income classes from Model A, and the distribution of the tax cut from Table 10, we compute the over-all interest rate for this form of tax cut. These computations, summarized in Table 15, show an over-all rate of 5.29 per cent.²⁶

²⁶ If we assume that an additional return of 3 per cent above borrowing cost accrues to the investors to whom the additional savings are made available, our