

The interest rate applicable to the share of the tax cut benefiting wage and salary earners can be derived from the distribution of this form of income by income classes and our earlier estimates of interest rates. Similarly, the part of the tax cut passed on to consumers can be allocated to income classes in accordance with the distribution of consumption, and then be combined with our interest rates. The rates derived from these computations, summarized in Table 16, are 5.81 per cent for wage and salary earners and 5.68 per cent for consumers.

TABLE 16. *Derivation of Interest Rates Applicable to the Shares for Wages and Salaries and Consumption of a Reduction in the Corporation Income Tax*

Income class (\$ thousand)	Per cent distribution of wages and salaries ^a	Per cent distribution of consumption ^b	Applicable in- terest rates ^c (per cent)
0 to 3	15	12	7.0
3 to 5	33	24	5.8
5 to 7.5	29	29	5.8
7.5 to 10	11	15	5.4
10 to 15	5	9	5.0
Over 15	7	11	4.6
Average applicable interest rate (per cent)	5.81	5.68	

^a *Statistics of Income for 1952, op. cit.*, adjusted for 1955 conditions by applying the pattern of change of the distribution of personal income as reported in Goldsmith, *op. cit.*

^b Assumes average propensities to consume in the respective income brackets as follows: 1.1, .96, .90, .82, .75, and .60. These propensities are taken from M. Bronfenbrenner, *et al.*, *op. cit.*; values for the four lower income classes are based on Federal Reserve Board data for 1950; values of the two upper income classes are from National Resources Committee data for 1935-6, adjusted upward in accordance with the drift of the known portions of the consumption function.

^c See Tables 7 and 15.

Part of the unshifted portion of the tax cut is passed on to dividend recipients. We use the relationships between dividends and earnings established by Lintner to discover the share going to dividends. He found that an increase in earnings will lead to a gradual increase in dividends until the traditional payout ratio of