

TABLE 17. *Derivation of Interest Rate Applicable to the Share of Corporation Income Tax Cut Benefiting Dividend Recipients*

Income class (\$ thousand)	Per cent distribution of dividends ^a	Interest rate ^b (per cent)
0 to 3	4	7.0
3 to 5	6	5.8
5 to 7.5	8	5.8
7.5 to 10	7	5.4
10 to 15	11	5.0
15 to 20	7	4.6
20 to 30	11	4.6
30 to 50	13	4.6
50 to 100	14	4.6
Over 100	19	4.6
Average applicable interest rate ...		4.96

^a *Statistics of Income for 1952, op. cit.*

^b See Table 15.

for believing that the effect on real investment will be small.³² Most corporations are forced to maintain a certain level of investment. Failure to expand capacity or to maintain a steady rate of reduction of costs, by jeopardizing the firm's competitive position in the industry, would pose a serious threat to its long-run future. Investment for diversification, which is usually motivated by a desire to reduce the variability of production levels and earnings, would also be relatively immune to changes in tax rates. If internally generated funds are inadequate for these purposes, the firm borrows. The effect on investment incentives caused by a tax rate which takes away part of a firm's profits on successful ventures, is, to a large extent, offset by the government's bearing part of the losses through reduced tax liability in the event of failure. Finally,

³² J. Lintner, "Effects of Corporate Taxation on Real Investment," *American Economic Review*, May 1954, pp. 520-34. For an analysis of the effect of taxation on the conditions of supply of capital see J. K. Butters, "Federal Income Taxation and External vs. Internal Financing," *Journal of Finance*, September 1949, pp. 197-205. In times of very tight money, the effect on internal investment will be larger, of course. For a somewhat stronger emphasis on liquidity as an investment-determining variable, particularly in recessions, see J. Meyer and E. Kuh, "Acceleration and Related Theories of Investment: An Empirical Inquiry," *Review of Economics and Statistics*, August 1955, pp. 217-30.