

Combining this estimate with the interest rate of 5.29 per cent for the proportionate reduction of personal income taxes, we derive an over-all estimate for Model B of 5.44 per cent.

Interpretation of Our Results

The estimates of opportunity costs derived from our two models were quite similar, although the assumed changes in taxation were very different. This suggests that a value of the order of magnitude of our derived results could serve as a measure of the social cost of capital for federal investment. But before accepting this conclusion, it is necessary to examine possible errors in the assumptions and in the data of our quantitative analysis.

ACCURACY AND LIMITATIONS

A possible source of error is our analysis of the incidence and effects of taxation. Insofar as possible, we have tried to follow the views generally held by experts in this field. Changes in most of our assumptions would have only a moderate effect on the results. Experiments with somewhat different assumptions of incidence produced estimates similar to those obtained. Two exceptions, however, would upset our results. First, if it is assumed that a reduction in the corporation income tax will lead to an upsurge of investment by large corporations, then more of the tax cut would earn the high rates of profit which are prevalent. We have tried to show, however, that this effect is unlikely under the assumed economic condition of high employment. Second, it can be argued that the high levels of federal taxation lead to a large waste of economic resources caused both by the managerial efforts devoted to the tax problem and the distortions in economic decisions of firms and households resulting from a desire to avoid taxes. These considerations are not likely to have much relevance to the problem under study here because the magnitudes of the possible tax reduction are so small compared to the taxes which are needed to finance

the total estimate would rise to 6.59 per cent. In times of moderate monetary policy, the condition postulated for our analysis, these effects would not be of the magnitude indicated here.