which are considered marginal in comparison to the opportunities that are undertaken without the tax cut. On the other, new investment opportunities may yield generally higher returns than the reported average for old and new capital. Also, business will not undertake any investment unless the expected rate of return meets minimum standards that are sufficiently high actually to yield an adequate return for the particular kind of investment. Finally it should be stressed that most of Model A and a large part of Model B do not use this approximation.

Our results are not meant to apply in periods of serious inflation or depression. In an inflationary period, monetary policy is likely to be pursued with such vigor that the supply of investible funds to firms will be severely restricted, while the attractiveness of high returns on investments will exercise strong pressure to invest any funds that become available. Under these conditions, the increase in retained earnings made possible by a reduction in the corporation income tax would, in large part, lead to investment within the firm. Since large corporations tend to earn high rates of return on internal investments, the interest rate applicable to such a tax cut would be considerably higher than our estimates. Even the reductions in personal taxes are quite likely to have significant investment effects. For in periods of money shortage, when there is sharp competition among borrowers for funds, more personal savings are likely to find their way into business uses in which high rates of return prevail.

In years of depression, when government expenditures are designed to raise the total level of effective demand in order to employ idle resources, the social cost of capital is extremely low. Tax policy, in such periods, would endeavor to tax idle hoards of funds rather than money which would be spent for consumption or investment; and much of public expenditures would be financed by government loans designed to avoid competition with private demands for investible funds. In real terms, many of the resources absorbed by public investment would have been idle and, hence, would have an opportunity cost close to zero. Expressed as an interest rate, it is not at all inconceivable that the social cost of public capital would be negative in such circumstances.

The year 1955, for which our estimate was derived, can be considered typical of long-term conditions, however. Employment was high, though not to a point where inflation had set in. Fiscal and