

Interest receipts, on the other hand, are taxable income, which again argues for the use of interest rates after taxes. But the amounts of interest received are relatively small for most households and frequently are not reported to the tax collectors. Only 7 per cent of returns with incomes below \$5,000, and 20 per cent with higher incomes, reported interest receipts.¹³ Therefore, we use the before-tax interest rates except for half of the interest recipients with top incomes.

Our set of categories for assigning interest rates to households does not properly describe one group in the debt-free households. The fact that the largest percentage of debt-free households is found among the lowest incomes does not mean that low-income families have less need for credit. Rather, many of these families are not sufficiently good credit risks to get any loans except small loans at very unattractive terms. It would be incorrect to assume that these families make their borrowing-saving decisions on a rate of 3 per cent. For a sizeable group of low-income families, the lack of the use of credit can be explained on other grounds. Unskilled workers are heavily represented; because their income reaches a peak relatively early in life, they have relatively little inducement to borrow. Still other low-income families consist of older people who are living on their capital; they also have no incentive to borrow. To take account of the group who wants credit but is too poor to obtain it, we assume that 20 per cent of the nonborrowers have a high time-preference and, if they were free to do so, would make use of short-term consumer credit at the usual rate of 12 per cent.

Table 6 gives the rates derived in the manner we have indicated, with adjustments for taxes incorporated in the figures. Table 7 gives the distribution of households by income class, asset-debt position, and by their marginal borrowing or lending rates. Those who owe both consumer debt and mortgages are considered to be paying the higher borrowing rate (that for consumer debt), which is the rate that must be considered marginal. Low-income families unable to borrow at reasonable rates are listed separately.

¹³U. S. Treasury Department, Internal Revenue Service, *Statistics of Income for 1952, Preliminary Report*. These figures include returns reporting miscellaneous income on the federal income tax form 1040a. We apply after-tax interest rates to one-half the interest recipients in the top class because that is the degree of compliance suggested by our asset-debt data.