

is some evidence that in those industries where production rises greatly real wages would also rise substantially. But the longrun trends do not carry similar implications.

We should mention one other aspect of the inflationary process, namely, the tendency to set aside funds for replacement of equipment and capital and inventories on the basis of costs of acquisition. This practice, which is generally the one required by Government for tax purposes, does mean that as prices rise the amounts allocated for depreciation and replacement of inventories become inadequate. Therefore, profits seem to be larger than they really are and this stimulates output and investment. One estimate put replacement costs of construction and equipment in manufacturing industries at 158 of acquisition costs in 1948, and 138 in 1955.

There can be little doubt in general that the wages are much more likely to exceed the rise of productivity, corrected for the price movements than was true in earlier years. Senator Douglas' study on the movement of real wages from 1899 until 1926 showed this earlier trend very clearly. There seemed to be some lag in the upward movement of real wages, though there were very serious differences among different industries. For example, in this period teachers' real income went up very much as did real income in manufacturing, but in many of the service industries and Government real wages tended to fall. Of course, an explanation of these movements is partly the change in demand for the products of the various groups. Education was on the rise during this period, and State and local governments did not have the grave financial problems they have today and therefore teachers' salaries rose. At that time, also, there seems to have been less of a tendency for the general gains of productivity to be spread more evenly over the economy as currently.

ATTEMPTS TO BEAT INFLATION

In various ways, groups of our society tend to protect themselves against inflation. For example, many pension contracts are now made with an escalator clause. Again, institutional investors of pension funds tend to put a larger proportion of their assets in common stock. The recent tendency to desert the bond market and invest in common stock has been reflected in the very large rise in security prices. But there are limits to the extent to which this can be done. As the bond market is deserted and people increasingly invest in equities, the tendency will be for equities to rise in price and the yield to fall. With current tax advantages in financing through the issue of bonds and the desertion of the bond market, the result tends to be an increased yield on Government and other bonds. Hence, we can explain a 5 percent yield on bonds by 1959 and of considerably less than 3 percent on equities. In an economy that is growing steadily, the gains of growth, as well as the increasing profits associated with inflation, go especially to the holders of equities. Therefore, an investor in choosing between bonds and stocks will expect to be compensated in the purchase of bonds by a few percent for any possible rise of prices and also an additional few percent for growth. But this movement into the stock market does result in much higher yields on bonds, and the protection through the purchase of equities is gradually reduced as the yield on these securities is greatly reduced.