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PROTECTION AGAINST INFLATION

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THE SUMMARY

This paper deals with the ways in which individuals may protect themselves against inflation. The *possibility* of further inflation is taken for granted, but it is also argued that inflation will probably come to an end within the next 5 years.

The burden of inflation can be divided into redistribution, which appears to be quantitatively less important than is usually believed, and the results of uncertainty concerning the value of money. A proposal is made for an extension of the national accounts and flow-of-funds statistics to permit better measurement of the redistributive impact of inflation.

From then on the emphasis is on the demand for assets as it is affected by inflation. The increased demand for equities on the part of the public is seen as a response to full employment, which has reduced corporate risks. The resulting rise in share prices is held to be a transition phenomenon and a further fall in yields on stocks is considered unlikely.

Under "creeping" inflation the rise in the general price level tends to be discounted in the yield of bonds, but not in that of shares, because profits are believed to be a more or less constant fraction of national income; also cash balances are reduced relative to other assets. These conclusions agree with current experience.

The present inflation is transitional, being a consequence of the increase in demand for risky assets and in the willingness to incur debts. It is not due to Federal extravagance, and in practice cannot be cured by a tight money policy. Barring unforeseen contingencies the end of inflation is foreseen within 5 years.

At present there are no generally satisfactory arrangements whereby people of modest means can protect themselves against inflation. Insurance policies whose payout is linked to share prices have disadvantages similar to those of shares themselves. Individuals need assets primarily for three reasons: (1) as a reserve, (2) to smooth out anticipated fluctuations in income and consumption, such as those due to old age, and (3) as a source of revenue to build up an estate. Of these three goals achievement of the second is made most difficult by inflation.

Two measures are proposed to facilitate saving for old age and similar purposes. The first is the introduction of index bonds whose

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