interest and redemption value are linked to a retail price index. A rate of interest of 2¾ percent is suggested to fit in with current yields on existing bonds. Objections that this step might destroy confidence in the dollar, or that it would itself be inflationary, are refuted.

The second measure is stimulation of the supply of shares by making it less attractive for corporations to issue bonds. This would be achieved by limiting the deductibility of interest paid for corporate tax purposes to the amount of interest received. The net cost of interest and dividends to the corporation would thus be equalized. The tax rate on corporate income would simultaneously be reduced to keep the total tax yield unchanged. Transition rules would prevent sudden changes in tax liability.

These two measures would also have a favorable effect on the market in Federal bonds.

The Analysis: Protection Against Inflation

This paper is concerned with the ways in which individuals may protect themselves against inflation. It does not deal, except by implication, with the prevention of inflation, nor does it heap more sin on any of the several scapegoats that have so far been singled out. For the purpose of this paper inflation is regarded, if not quite as a fact of life, at least as a real possibility. I do not mean to suggest that the prevention of inflation is impossible or necessarily inconsistent with full employment and economic growth, but it appears that the combined achievement of these goals in the short run would call for a degree of economic statesmanship that is not available in any country at the present time.

It is quite conceivable that inflation comes to an end without any deliberate policy to that effect; some reasons for expecting such a course of events are discussed below. Indeed, we still cannot completely rule out the possibility that deflation may become a more serious menace, though the postwar record has been encouraging. However that may be, the fear of inflation now exercises so large an influence on the behavior of so many people that it is appropriate to give some thought to methods of protection.

THE BURDEN OF INFLATION

Let us first consider what it is that individuals and society need to protect themselves against. The burden of inflation can be divided into two parts: A redistribution of income and wealth among those who lose and those who gain, and the unfavorable consequences of uncertainty as to the future course of prices.

REDISTRIBUTIVE EFFECTS

Of these two groups of factors, the first can be further divided into two components: The gains or losses in terms of real purchasing power arising from the holding of assets (or the owing of debts) whose amount is fixed in money terms, and the gains and losses experienced by various individuals because their incomes rise (or fall) faster (or more slowly) than the prices of the goods which they consume.