level, though there are many other contributing factors. Foreign currency, on the other hand, has become less attractive because after World War II inflation has become a worldwide phenomenon, varying only in degree; moreover, the prevailing system of international payments makes exchange rates almost completely rigid.

EQUITIES

Perhaps the most striking feature of the contemporary search for protection against inflation has been the shift toward equities. Long regarded as close to the bottom of the ladder of financial respectability, common stocks are now the foundation of even the most conservatively managed portfolios. The resulting increase in demand for shares has in many cases depressed yields on dividends to a point below that of virtually risk-free bonds, though the yield on earnings is still frequently considerable. Most buyers of shares, however, look nowadays not only at current earnings, but perhaps even more at prospective capital appreciation resulting from "growth." The underlying theory, reiterated in hundreds of brokers' advertisements and similar media, appears to be that returns to equity will, in the long run, be a more or less constant fraction of national output, so that by investing in those equities the investor can assure himself of a return that, in real terms, is more or less independent of monetary factors. Crude though it is, this theory is certainly not without its plausibility, nor does it contradict the historical evidence.

The spectacular rise in share prices during the last two decades or so, however, can only partly be associated with the theory just mentioned. As the increase in price-earnings ratios shows, an increase in corporate profits cannot be the only explanation of the stock market boom. What has happened, rather, is an increased awareness of the attractions of equity holdings in a period of full employment and inflation, and a consequent increase in the number of people who are willing to bid for existing securities. Those who bought stocks before the present boom are not only reaping the rewards of better profits, but also of their early realization of the merits of equities as a form of holding wealth.

This explanation of the boom is not correct unless we also look at the supply of shares. The increased demand for shares on the part of the public has been matched by an increased reluctance on the part of corporations (that is to say on the part of those large shareholders who control corporate finances) to issue new shares. The corporate profits tax, especially, makes it advantageous for corporations to finance their capital expenditures by means of bonds and long-term loans rather than equities.[4]

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[4] During the years 1947–58 the total funds obtained by corporations (excluding banks and insurance companies) were divided as follows:

Source of funds	*Amount (billions)*
Stocks (including preferred)	$29
Bonds	52
Other external long-term sources	15
Internal sources (depreciation and retained profits)	255
External short-term sources (bank loans, etc.)	61
Total	412

Thus only 7 percent of investment was financed from equities.
Data from U.S. Income and Output (1959) and Survey of Current Business (July 1959), table V–10.