compared to other kinds of assets.[5] The velocity of circulation increases, and this is a crucial link in the chain of events leading to a rise in the general price level.

The theory just outlined, simple though it is, also seems to be consistent with the emerging pattern of yields on capital assets.[6] To put the matter briefly, a high enough rate of interest on bonds will offset the consequences of any steady rate of inflation.

From this point of view it might seem as if "creeping" inflation is nothing to worry about, since the yields on assets will adjust themselves more or less automatically to the changes in the general price level. True, those who favor large Government expenditures might be concerned if the nominal rate of interest on Government bonds reaches a level of 5 percent or 6 percent, but actually the burden is not as large as this figure might suggest, for the real value of the taxes from which the bonds have to be repaid falls by a considerable percentage every year, so that the net real cost of Government borrowing is much lower than it appears. There would consequently be no need to cut down on desirable Government expenditures, as is often believed. Indeed if inflation proceeds more or less as expected, which is what I am assuming at the moment, there will not even be any undue tendency to invest in real assets (such as houses, factories, etc.) rather than in monetary assets (such as bonds) because the cost of finance (such as mortgages) will adjust itself so as to provide as much of a deterrent as in times of unchanging prices.

---

[5] Recent experience supports this conclusion. The following table shows the percentage change in cash (more exactly: currency and demand deposits), total financial assets (more exactly: claims on other sectors) and in total expenditure, for the U.S. economy as a whole and for some important sectors. It refers to the period from 1949, when cash was at the lowest point since World War II (presumably because wartime excesses of liquidity had been worked off) through 1958.

Sector	Percent change in—		
	Cash	Total financial assets	Total expenditure
Consumers and nonprofit organizations	24	113	62
Noncorporate nonfinancial business	38	49	(a)
Corporate nonfinancial business	36	80	(a)
Nonbank financial (savings institutions, insurance, etc.)	69	130	(a)
State and local governments	45	122	126
Economy as a whole	27	(a)	71

[a] Not available.

Source: For "cash" and "total financial assets": Federal Reserve Bulletin, August 1959, pp. 1056–1061. For "total expenditure": Survey of Current Business, July 1959, pp. 6–7.

[6] Following are the (nominal) yields on some important types of assets in recent years:

Security	Yield in—		
	1950	1955	1959 (July)
U.S. Government long-term bonds	2.32	2.84	4.11
Tax-exempt municipal bonds	2.00	2.57	3.92
Corporate bonds	2.86	3.25	4.72
Common stocks (yield on dividends)	6.50	3.93	[a] 3.11

[a] Not entirely comparable with earlier years.

Source: Federal Reserve Bulletin and Statistical Abstract.