

SOME RESERVATIONS

The state of affairs just described, in which the rate of inflation is discounted in all interest rates and other rates of return, is not completely realized at the present, nor will it be in the immediate future. It is useful to bear in mind that complete adjustment is conceivable, for public opinion on inflation is perhaps too much influenced by gloomy recollections of a few spectacular inflationary episodes in the past. Nevertheless we must consider in what respect this ideal differs from reality.

In the first place complete adjustment can only be expected in the long run, and especially in the case of inflation it is often doubted whether there will be a long run. Thus many people believe that inflation cannot go on at a steady rate year after year, but that it must necessarily become more and more rapid. As evidence they point to the spectacular inflations I just alluded to. I do not think this fear is well founded. The many instances of rises in the general price level that did not lead to an explosion largely outnumber those few episodes. Indeed the most famous of those episodes (the German experience up to 1923) would probably not have occurred without the active and deliberate intervention of the German Government. It is true that in its initial stages, which may last several years, an inflationary movement tends to gather momentum, especially if government policy is ignorant or perverse, but this acceleration is only a transitional phenomenon.

I would go further and argue that is unlikely that an inflation will be able to maintain a steady rate; after the transitional phase the net returns to different kinds of capital will once more have come into mutual equilibrium and the momentum will gradually be spent.

WILL INFLATION CONTINUE?

At the risk of departing from my main theme, I venture to add my opinion that the present inflationary period is also mainly of a transitional nature. Its mainspring, I think, is the adjustment on the part of the public to a policy of full employment. The increasingly widespread conviction, reinforced after every shortlived recession, that a major depression will not recur, calls for truly fundamental changes in the entire financial sector. Quite apart from any inflationary consideration it reduces the relative attraction of cash and other liquid assets. Liquidity is desired mainly as a precaution against disaster, and economic disaster has been made less likely for nearly everybody by Government policy. On the other hand, investment in productive enterprises, even rather risky ones, has become correspondingly more attractive. This means an upward shift in the demand for risky securities, of which the present stock market boom is a symptom.

Risk can never disappear completely, but it certainly has become less evident than it was up to the second World War. A policy of full employment, for instance, favors the capital goods industries, traditionally the victims of depression, relative to the consumer goods industries, even though the consumer goods industries themselves