

short as 2 or 3 years. When that period is over, the pattern of yields and of prices will gradually become more stable (barring, of course, wars and other unforeseen calamities).

Economists with more knowledge of the monetary sphere than I can claim will have to decide on the validity of my diagnosis; the verdict may even have to be left to history. In a sense this diagnosis is only incidental to my subject, though it does have an indirect bearing on the validity of some of my proposals. Let us now return to the main argument.

DIFFERENCES IN EXPECTATIONS

So far the discussion has proceeded mainly on the assumption that inflation is generally recognized and more or less accurately expected. This was only a simplified assumption, needed as a foundation for statements about the long run. It is now time to remove the assumption.

As soon as we do so we have to face the fact that people may have different expectations as to the rate of inflation that is going to prevail in the future. Moreover, the mere uncertainty of the rate of inflation has important consequences. These two complications interact and need not be discussed separately.

A divergence concerning the expected rate of inflation is nothing unusual in security and commodity markets. Indeed divergent opinions are the essence of such markets. Among the many motives which make people buy and sell securities, the anticipated rate of inflation is already one. Nevertheless it is important to realize that there is at the moment no market which is exclusively devoted to reconciling different opinions concerning the course of prices in general. There are markets (the commodity futures markets) in which opinions on the course of individual prices, especially of raw materials and foodstuffs, are brought into balance with each other and with production, consumption, and inventories. The total coverage of these markets, however, is too small to provide a hedge against the movement of the general price level; moreover, the large size of individual transactions, and their restriction to periods of 12 or 18 months ahead, preclude their use by those who are not specifically interested in the commodities traded. The basic purpose of these markets, furthermore, is protection against price falls for holders of inventories, rather than protection against price rises for prospective buyers. The latter kind of protection can also be provided by futures contracts, but only at considerable cost; it is usually achieved more economically by holding inventories. A futures market concerned with the general price level would therefore meet insuperable technical difficulties. As we shall see below, a more workable substitute can be devised.

On the stock market, where fear of inflation is one of the factors determining stock prices, many other factors exercise an even greater influence on the price of individual securities. In fact, this is one of the reasons why common stocks do not provide an altogether satisfactory protection against inflation, even if the premise mentioned earlier (that profits will continue to claim an approximately constant share in national income) is granted. There is a wide dispersion in the results obtained from different securities.⁹ It is true that even

⁹ Cf. Appendix.