closer to their long-term equilibrium values than prices in general, and may already have pushed them beyond this level. Consequently, the stock market does not provide an ideal hedge for such inflation as is still to come. The stock market, in other words, has already discounted a good deal of future inflation. And, even apart from these necessarily speculative considerations, it is not at all clear that those who buy insurance policies to provide for their needs in old age are well served by having their fortunes linked to the vagaries of the stock exchange.

The Need for Assets

This brings us to the heart of the whole subject—protection against inflation. What types of assets do individuals really need? This is almost the same question as, Why do people save?

There are three main reasons why people save, and each of them is associated with particular kinds of assets:

1. *To have a reserve against unforeseen contingencies.*—This need can be met by having highly liquid and comparatively risk-free resources, especially cash and bank deposits, though an overdraft agreement with a bank (of the type that is now becoming popular) would be almost as suitable. For this type of asset, which is probably of minor quantitative importance, yield is not an important consideration.

2. *To smooth out anticipated fluctuations in income and consumption*, especially those associated with old age, but also with such things as a college education for children, or the building of a house. Here liquidity is of less significance, but freedom from risk is important, while yield is a close second. Now, "freedom from risk" needs to be carefully defined. It does not necessarily mean that a certain number of dollars will be available when anticipated, but rather that the individual is able to satisfy those needs for which he had saved. Sometimes, especially in the case of housing, this can be arranged by purchasing ahead of time, as it were, but there exist no facilities for the delivery of food or clothing 20 or 30 years from now. Hence, saving in some form is necessary. Here again we must recall that risk can never be avoided completely. By buying Government or prime corporate bonds, for instance, one can virtually avoid the risk of default, but the risk of changes in the price level remains. There is nothing in the history of the United States or of any other country that warrants the assumption of a stable price level in the long run. By buying equities one can probably achieve partial independence from changes in the price level, but other kinds of risk are thereby incurred; much the same applies to real estate as a form of wealth. The choice between those various kinds of risk depends on their evaluation by the individual, and on his ability to cope with them. People who know nothing about corporate finance may shy away from the stock market and put their faith in assets with a fixed money value, thus exposing themselves to the risk of inflation.[12] At the moment, there is no way out from this dilemma, although I shall discuss one later in this paper. The willingness to assume various types of risks also depends on the income and wealth of the individual concerned; people with large incomes or fortunes evidently can take greater risks than others. Until

[12] This, in fact, is the basic virtue of a stable price level: that it permits investors without special knowledge of any line business (rentiers) to earn a (necessarily modest) return on assets with a fixed money value.