troduction of index bonds with larger denominations and longer maturities might enable insurance companies to offer policies whose return is based on the Consumer Price Index.[18] Such policies would probably be preferable to the stock market linked policies that are now coming into existence. (See the discussion above.)

It is sometimes argued that indexing cannot be introduced by any government without destroying confidence in its own currency. This view, I think, is based on an unrealistic conception of contemporary monetary management. As I have argued earlier, the role of the Government in fostering inflation is relatively small, except to the extent that the increased demand for certain assets by the public and the increased circulation velocity of money are due to a full employment policy. In history there have been many instances in which the Government budget was a prime contributor to inflation, but this does not seem to be the case in the United States at the present time. No doubt the Government and its instrumentalities have an obligation to keep the value of money as stable as possible, but this obligation has to be reconciled with other objectives of Government policy. The introduction of indexing would be no more than the recognition of a fact. This is not to deny that a certain amount of public education would be necessary before such a step could be taken.

As far as the domestic economy is concerned it must be doubted, therefore, whether confidence in the dollar would be further reduced by the introduction of index bonds. The official attempts to exorcize inflation by professions of abhorrence have failed, and at the moment no policy with greater promise of results appears to be available; the time for realism seems to have arrived. On the international scene the situation is not basically different. It is true that public recognition of the possibility of inflation might cause international financiers, who are a nervous crowd, to withdraw some "hot money" from New York. But this would be only a temporary reaction; it is even conceivable that index bonds, which at the moment are not available in any major country, would attract foreign long-term capital to the United States.

Another possible objection to index bonds is that they represent more "escalation," and thereby promote price rises. This objection is based on the now fashionable cost-push theory of inflation which I need not refute here.[19] From the viewpoint adopted in this paper escalation is not itself a cause of inflation but at best one of the factors determining the speed at (rather than the degree to) which the underlying causes of inflation affect the different sectors of the economy. By slowing down the adjustment to these causes one only creates disparities; hence escalation need not be feared.

INCREASING THE SUPPLY OF SHARES

The second measure to improve the possibility of providing for old age in an inflationary period which I would recommend is an increase in the supply of shares. Although equities are not a suitable invest-

[18] There are some technical problems concerning the choice of a suitable price index, but they are not serious. Any reasonably comprehensive index number would do for practical purposes.

[19] See, for instance, the valuable article by Richard T. Selden in the Journal of Political Economy of February 1959.