

possible. They are borrowing all they can and trying to buy each other out. This is the very stuff of booms and if long continued could lead to major depression. Fortunately, however, our Government is already putting on the brakes.

Now, therefore, I will make one more optimistic assumption: the brakes will be applied in time, this boom will not go to great excess, and it will, therefore, be followed (whenever there is peace) not by a major depression but rather by a recession. If so, the decade ahead will be marked by several more small cycles and no great boom and bust. This is optimistic because it may already be too late to check this boom without serious trouble.

With the benefit of these cheerful assumptions, I think we can draw some conclusion on interest rate trends. The present bear bond market is already 20 years old. It has carried yields up to a very high level: they have averaged higher than at present in only two years since 1880. For the time being nevertheless they are trending higher and money is getting even tighter. My assumptions suggest that the great forces behind this bear bond market (the aftereffects of World War II, the effects of the Viet Nam War, and the effects of this superboom) will weaken or vanish in the years ahead. If so, a trend towards more moderate yields could set in. Present pressures and tensions seem too acute to last indefinitely.

It is argued, however, that mere peacetime prosperity and economic growth, will promote high yields. I do not think so. Peacetime growth is in a sense self-financing. This is a heavy saving economy with vast and growing productivity, an abundance of labor, and a high degree of political stability. We can see today that our productivity is not enough to sustain a boom on top of a war, but according to my assumptions this coincidence of forces is not to be typical of the economy over the next decade. If my assumptions are wrong, if this is to be a mobilized decade, then interest rates may be held down by capital market rationing. If it is to be a decade of increasing peace, interest rates should return to more moderate levels.