setting effect is only partial because it does not offset the capital consumption but merely the additional spending by the holders of the inflationary money.

Creditors Also Lose

The "forced savings" clearly reveal that inflation inflicts losses on all fixed-income receivers. In addition, there is another important class of people that suffers losses: the creditors. They have claims on future money income which inflation reduces in purchasing power. For instance, a bondholder loses if the money he receives in the future is of lower value than that he himself paid for the purchase of the bond some time in the past. The same is true of all owners of money and claims to money, such as time and demand deposits, life insurance policies, mortgages, and so forth.

Many people don't feel concern about these losses of creditors because they erroneously believe that the rich are the creditors and therefore suffer the losses. This may have been true during the Middle Ages when the large majority of the people earned very little as compared with today and consequently also saved very little. In present-day America, however, the large majority of the people own some savings in the form of life insurance, savings accounts, government savings bonds, etcetera. Consequently, it is the masses of the people who are apt to suffer from policies of monetary depreciation. The rich in general are the owners of businesses, corporate stock, real estate, and other claims to real wealth.

The People Are Demoralized

The fact that the majority of the American public is suffering from the effects of monetary depreciation has far-reaching consequences.

The provident are penalized when their thrift and sacrifice come to naught. Deprived of the full worth of their savings and jeered at by the spendthrifts, they turn improvident themselves. They become desperate and receptive to radical ideas. Along with the spendthrifts they learn to throw themselves on the State for security and support. Thus self-reliance and independence become rare virtues and people are conditioned to life under the Welfare State. Our present trend towards socialism clearly feeds on inflation.

While monetary depreciation robs millions of people of their hard-earned savings, it enriches some people at the expense of all others. Who are these beneficiaries of inflation? There are the immediate recipients of the inflation-

created money. Let us assume that the federal government spends it on arms and ammunition. Then the armament producers and their workers have more money and purchasing power than they would have otherwise. Or, the government may increase the salaries of its army of employees, the handouts to its favored groups, or its payments to public works contractors, in which case these groups are the recipients and beneficiaries of the new money. Whoever first receives the money that is newly created gains from the money creation.

Temporary Beneficiaries

But these groups of people are not the only beneficiaries. There are two others. When the first recipients of the new money have spent it and consequently have caused the prices of some goods to rise, the sellers of these goods profit from higher prices. While the rest of the economy has not yet adjusted to the inflation, the sellers of the inflation-affected goods obtain higher prices although they may still be able to buy their goods and materials at pre-inflation prices. The difference is the inflation gain.

In other words, a person profits from inflation if his position in the economy is such that he can sell his products or services at higher prices and buy the products and services he needs at the old prices. On the other hand, a person loses if he must buy in the inflated market but sell in a market that remains temporarily unaffected by the inflation. It is obvious that these situations are only temporary. They come to an end when the new money supply has reached all sectors of the economy and the necessary economic adjustment has run its course.

Finally, there is the large class of debtors who gain from monetary depreciation. As the federal government is the greatest debtor in the country, it is also the greatest inflation profiteer. It gains billions of dollars through monetary depreciation of its debts. And the bondholders who have entrusted their savings to the government annually lose the very amount the government gains. Monetary depreciation in fact amounts to gradual repudiation of the government debt.

Business Cycles

Another disastrous effect of a policy of monetary depreciation is the recurrence of economic booms followed by sudden busts. The inflation at first makes for feverish economic activity. Prices rise and business profits are attractive. But soon also labor and other costs