tend to rise. They soar until business becomes unprofitable at which point the recession begins.

If the government through its monetary agency, the Federal Reserve System, accelerates the inflation, the downturn can be avoided temporarily. For as long as product prices rise faster than business costs, business will stay profitable. Of course, the ultimate outcome of such a policy of accelerated inflation must be the total destruction of the currency. If, however, the money is stabilized and the Federal Reserve refrains from further inflation, the currency is saved but a recession sooner or later sets in.

The Time Lag of Recession

The recession usually develops one to two years after the inflationary policy has been abandoned. There are two reasons for this delay. First, business costs are slow in catching up with product prices. Wages and salaries, for instance, react to inflation more slowly than the prices of consumers' goods. If business costs rose simultaneously and to the same extent as product prices, if for instance, all wages were immediately adjusted to the cost of living, the recession would follow the inflation immediately.

The second reason for the delay is what in bad economic terminology is called "the rising velocity of money." During the period of active inflation people realize that prices are rising. They now begin to reduce their cash holdings. They buy readily and quickly in anticipation of higher prices. They may even go into the red in order to take advantage of present prices before they rise again. Consumers' indebtedness increases by leaps and bounds, and billions of dollars of savings accumulated by banks and other savings institutions are channeled toward consumption.

It is obvious that consumers' prices must rise because of such an inflationary sentiment which constitutes a natural reaction to the actual inflation. And it is also understandable that this reaction may even continue after the Federal Reserve inflation has come to a halt. Thus we can witness a short period in which our monetary authorities refrain from inflation but prices continue to rise and the economy evidences all symptoms of inflation. The inevitable recession and readjustment finally sets in as soon as more and more people realize that the inflation has temporarily come to a halt.

This slow reaction to a policy of monetary stabilization, which constitutes the source of many economic errors and fallacies, could actually be witnessed in the years

1956 and 1957. The active Federal Reserve inflation was abandoned in 1955, and yet, prices continued to rise on account of people's reduction of cash holdings and increase in consumers' indebtedness. When, during the latter part of 1957, it became clear to more and more people that the inflationary policies had been abandoned, cash holdings began to increase again and the increase in consumers' indebtedness began to slow down. This development together with the other recession reasons mentioned above then led to the recent business downtrend.

Variations in Impact of Inflation

Some people erroneously believe that inflation affects the economy simultaneously and uniformly. The notion prevails that inflation increases prices like rainfall raises the water level of a pond. This notion is as fallacious at it is popular. In reality inflation causes price upheavals. It affects prices and wages differently and at different times. As has been pointed out, some industries and their workers may actually benefit from inflation if their money income increases before other prices have risen. Other industries are bound to suffer losses if they must continue to sell their products and services in markets still unaffected by inflation but buy products whose prices have already risen on account of the inflation.

People often don't realize this. Especially are our labor leaders prone to forget it when they clamor for wage increases regardless of inflationary effects. They observe wage improvements in other industries that benefit from inflation and consequently feel obliged to obtain the same improvements for their own members. If this happens in an industry that actually suffers from inflation, the ensuing union demands merely add to the woes and troubles of the industry. And labor dissatisfaction and unrest usually result.

The product prices of some industries such as railroads and public utilities are controlled by various government regulatory bodies. Experience shows that these industries suffer greatly from inflation. While their costs of operation, especially labor and material, rise on account of inflation or union pressure, their own prices are subject to government supervision. The regulatory bodies, however, like to keep prices stable often in order to "counteract" inflation. Consequently, such an industry is squeezed between rising operating costs and stable prices of its own products or services, which of course results in losses and consumption of capital.