

inflationary situation is quite favourable to investing groups in the country. But this is for all the categories of investors. The middle class investors are likely to be benefited because they put their savings in interest-bearing securities, insurance and bank accounts. Fixed interest incomes and the depreciating value of money reduce all the value of saving. The debenture-holders also are benefited because of the reasons given above. Among the investing groups, only the equity-holders stand to gain, since the return on equities increases with the rising prices. More and more funds become available to them with a rise in the price level.

Agricultural community : The farming community is divided into three broad categories - non-cultivating landlords, peasant farmers and the farm workers. So far as the landlords are concerned, they are adversely affected during the periods of inflation, since their incomes are fixed by contracts over a long period of time. Consequently, as the other incomes rise, rental incomes remaining fixed, the landlords are the losers in the farming community. The peasant proprietors gain during a period of rising prices, since their incomes rise with the prices of food products as well as of raw materials move continuously in the same direction. But the beneficial effect of rising prices, to a certain extent, is offset by the accompanying rise in the prices of inputs. The farmers, however, are benefited by inflation because the costs of inputs rise less than the output prices. The farm labourers are adversely affected by the inflationary rise in the prices of inputs. These people receive very low wages and inflation causes more and more hardship among them. Another adverse effect of inflation upon the farming community is the absence of trade unions among them. Finally, they find it impossible to

negotiate higher wages. The overall effects of inflation may, however, be diminished in intensity by the extent to which wage-payments are made in terms of farm products. In brief, the farming community, by and large, suffers when the price level gallops up.

The above discussion shows that inflation has a *differential impact* upon different economic and social groups. There are primarily two reasons why the redistributive effects of inflation are uneven. *Firstly*, the different groups have varying ability to foresee inflation. *Secondly*, there are differences in the abilities of various groups to adjust their economic behaviour to inflation. If every individual or group had equal ability to predict and adjust to inflation, it would have no redistributive effects. The entrepreneurs and producers have a great capability to foresee inflation and adjust their economic behaviour to it as compared with the lower and fixed income groups. Consequently, the latter are much more adversely affected by the vicious rise in prices than the former. The most unfortunate aspect of inflation is that it redistributes incomes and wealth in a most arbitrary way throwing the maxim of social equity to winds. Inflation is nothing short of a subtle robbery but it is perfectly legal and the community has to subsist with it so long as it is not effectively controlled. C.N. Vakil in this context remarks, "Inflation may be compared to a robber. Both deprive the victim of some possession with the difference that the robber's victim is visible, inflation is invisible ; the robber's victim may be one or a few at a time, the victim of inflation is the whole nation; the robber may be dragged to a court of law, inflation is legal."

(c) Social, Political and Moral Effects

Inflation not only affects adversely the economic activity in a country, it disrupts also the social, political and moral fabric of the

society. Inflation, as we have studied above, redistributes incomes in favour of the businessmen—traders, producers and entrepreneurs. Inflation amounts to a steeply regressive taxation upon the poor and the middle class. The inequalities in incomes and wealth thus continue to increase. This prepares the grounds for the cleavage of the society into two conflicting groups of haves and have-nots. Inflation, in this way, does away with the social harmony in the society.

The existence of mounting inflationary pressures has grave repercussions upon the peaceful and orderly political life of the country. The process of rising prices provokes the genuine anger of the lower and middle income groups, who constitute the majority in every country. The political agitations and protests are launched by the public. The growing frustration makes the people resort to violent actions and the law and order conditions deteriorate most seriously. Many governments fail altogether to withstand the public resentment and collapse down.

Inflation also causes a breakdown of public morals. The conservative and thrifty people are penalised, whereas the crafty manipulators make enormous gains. Everybody is inclined to make quick profits and in the process all the moral standards are thrown over-board. The evils of gambling, hoarding, black marketing,

smuggling, speculation, tax evasion, thefts and violence raise their ugly heads. All shades of people including the businessmen, government officials, public men and many others become corrupt. This eats up the vitals of the economic, social, political and moral fabric of a country. Andrew White says that people during inflationary periods become "luxurious, reckless, cynical and finally corrupt."

The breakdown of public morals and decay of ethical standards crossed all limits during the hyper-inflation in Germany, when thousands of men dressed as women and women dressed as men danced in the pervert ball rooms of Berlin in the presence of the city police. To quote S.K. Muranjan, "Young girls bragged proudly of their perversion ; to be sixteen and under the suspicion of virginity would have been considered a disgrace in any school of Berlin at that time ; every girl wanted to be able to tell of her adventures, and the more exotic the better."

The dangers of inflation are indeed so many and so malicious that an attitude of complacency towards it will totally disrupt the economic, social, moral and political life of the people in a country. It is essential, therefore, to contain effectively the rising prices. Otherwise, these will inflict a very grievous injury upon the community.

Questions

Multiple Choice Questions

1. Inflation occurs when there is
 - (a) Too much money
 - (b) Too few goods
 - (c) Both of them.
2. Excess demand inflation is an account of
 - (a) Increase in money
 - (b) Increase in consumption
 - (c) Increase in investment
 - (d) Increase in government spending
 - (e) All of them.