

[Inflation for the rich](#) [1]

Written by [Sam Bowman](#) [2] | Wednesday 12 December 2012

Sheldon Richman, sadly no longer the editor of *The Freeman*, has an intriguing piece for *the American Conservativethis* month. In "[How the Rich Rule](#) [3]", he points the finger at the nexus of the state-protected financial industry and the state-run central bank:

In short, financial intervention on behalf of well-heeled, well-connected groups begets recessions, depressions, and long-term unemployment, which in turn beget vulnerable working and middle classes who, ignorant of economics, are willing to accept more powerful government, which begets more intervention on behalf of the wealthy, and so on? a vicious circle indeed.

Worst of all is inflation, a massive transfer of wealth from the poor to the rich:

Government debt makes inflation of the money supply an attractive policy for the state and its central bank?not to mention major parts of the financial system. In the United States, the Treasury borrows money by selling interest-bearing bonds. When the Federal Reserve System wants to expand the money supply to, say, juice the economy, it buys those bonds from banks and security dealers with money created out of thin air. Now the Fed is the bondholder, but by law it must remit most of the interest to the Treasury, thus giving the government a virtually interest-free loan. With its interest costs reduced in this way, the government is in a position to borrow and spend still more money?on militarism and war, for example?and the process can begin again. (These days the Fed has a new role as central allocator of credit to specific firms and industries, as well.)

Meanwhile the banking system has the newly created money, and therein lies another way in which the well-off gain advantage at the expense of the rest of us. Money inflation under the right conditions produces price inflation, as banks pyramid loans on top of fiat reserves. (This can be offset, as it largely is today, if the Fed pays banks to keep the new money in their interest-bearing Fed accounts rather than lending it out.) ...

Price inflation, of course, is notorious for favoring debtors over creditors because loans are repaid in money with less purchasing power. This at first benefits lower income people as well as other debtors, at least until credit card interest rates rise. But big businesses are also big borrowers?especially in this day of highly leveraged activities?so they too benefit in this way from inflation. Though banks as creditors lose out in this respect, big banks more than make up for it by selling government securities at a premium and by pyramiding loans on top of security dealers? deposits.

When people realize their purchasing power is falling because of the implicit inflation tax, they will want to undertake strategies to preserve their wealth. Who?s in a better position to hire consultants to guide them through esoteric strategies, the wealthy or people of modest means?

[Read the whole piece](#) [3]. It's a provocative and worthy reframing of the traditional Austrian story about inflation causing business cycles. I'm becoming increasingly frustrated by macro-level focuses on deficits

and the like; they may be important, but only because they end up having an impact on individuals' lives on a 'micro' level.

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