

Re: Inflation and Deflation

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From: oops (human_at_planet.earth)

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demokratix@yahoo.com (demokratix) wrote:

>Evening, There is a lot of trolling on this topic and I would like to
>first assure anyone reading that I do not believe fiat currencies are
>an evil conspiracy. I am, however, trying to get my head around what
>keeps one working.
>
>It seems that what it needs to start and what it needs to continue are
>two very different things. To start it needs to represent a guarantee
>of real goods or services. But because that establishes it so strongly
>as a convenient and reliable medium of trade, there are several things
>that detach its worth from the original goods, so far that it can
>remain valuable regardless of what its backed by, if anything.
>
>The more trusted the currency becomes, the less need there is to go to
>the source to trade it back in for the goods it represents, such as
>gold. Money becomes so ingrained in your habits and desires that you'd
>need a pretty good reason to give it up for something that is less
>easy to divide and carry. That "it's always worked for me so far" is
>one of many reasons why currencies retain value even when they're
>backed by nothing.
>
>Even if you would try to live without money if you thought your
>quality of life could be as good; it's rare that this is the case so
>another reason is people couldn't be bothered resisting the social
>acceptance of money. Even if they don't like the idea that it's not
>backed by anything, other people don't seem to mind so it still has
>trade value, and it's quite efficient and it's nice to have. Powerful,
>even.
>
>Also when currencies do collapse it will need to become backed by
>something again, and in this case there's always the chance that
>people will elect a dictator who will promise to save the economy by
>equal obligation of all to work. This, or other extreme measures that
>are taken when money crumbles is another reason you can decide it's
>not even worth trying to leave it.
>
>So even if it loses its material backing, once it's sufficiently
>established in society, you may need a better reason than that to give

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>it up. Some people do it, but it's not enough to bring it down
>quickly. Although it does constantly drag slowly downwards so in 10
>years we'll be paying \$100 for a movie ticket.
>
>The reason the money doesn't run out even though it goes constantly
>down and people need more and more of it, is because more can be
>invented (printed or just recorded electronically with no material
>existence) by a central authority and lent out at interest. In other
>words it's so trusted that, as long as you're the only one that's
>allowed to do it, you can rent out money that didn't exist before you
>invented it out of thin air to rent it to people.
>
>Not only does this make you a profit, but because people need to earn
>more money than you lent them to use in order to give back what they
>borrowed, plus the rent, plus have some for themselves; they are under
>pressure to create or steal. For all those that turn to creation, this
>is how wealth is created out of thin air, by someone inventing money,
>and that being valuable enough that people will create wealth for
>themselves and in the process, others, in return for the privilege of
>borrowing that money.
>
>Brilliant.
>
>A central authority can even decide at what price the money is rented
>out, they therefore have a monopoly on the price of money, and since
>in many countries it's the single money that's almost everyone uses,
>that gives them a pretty powerful monopoly. Ironically, because there
>are enough reasons for enough people to want it even after it stopped
>representing real material worth, the service of renting money, *is* a
>material backing that the government can guarantee.
>
>As long as the people who try to live on no money are a small minority
>it will work, and of course if that changes too much it will collapse.
>One way it could happen I guess is if there was a company big enough
>to start its own, and they backed it with more real material worth.
>Like "movie money", the same number of movies is cheaper but you have
>to buy a minimum amount of tickets. This concept could be applied to
>any store really, I wonder why people don't seem interested in doing
>so. Maybe it's illegal to start a competing currency. Either way it's
>not an evil conspiracy it's what we vote for, or don't vote against.
>
>Although it does pump more money into the market and keep its value
>going down. Do governments destroy money to manipulate its price?

First of all, sorry for the late response.

Money is backed by something very real and very powerful. Taxes.
Money is not "worthless paper" at all, as some would have it. A note
of money is a card to stay out of prison for a lot of people and
businesses. There are a lot of taxes for a lot of things, from petrol,
to income-tax, tax for using sewage systems, tax for owning a home

(at least here). These taxes cannot be payed for by bags of rice, by singing a good song, or giving the government a free tarot-card reading. The governments wants /money/, not just any money but the local official money. Not movie-money. As a result, there is a steady demand for money, to pay the government and to escape the sanctions the government puts on someone who is not paying its taxes. These sanctions include breaking into your home and confiscating all goods there, and throwing you on the street.

Think of a dollar as a "1 credit point for staying out of jail" card.

Because many and enough people need such cards, they have intrinsic value to all, even though you may not need to pay taxes. If a company creating bread must pay taxes, that company will ask at least some money for its bread to get the government off its back. And because other companies will do the same (ask some money), the bread-company will have a use for the "stay out of jail" cards, because it could swap them for the goods/services these other companies provide.

That is my theory anyway, nobody yet has been able to reason me out of it.

So, the money system will not implode simply because money has intrinsic value. The money system could implode when government stops asking for taxes and leaves the system a fiat system.

This has a funny side effect: very wealthy people will always chose the side of government because without it their wealth evaporates. At least if they know what they're doing. In the days of gold that was different. Another side-effect is that if money threatens to collaps for whatever reason, the government could try to impose harsher sanctions on not paying taxes to prop up its value. If you know you're going to get shot if you don't pay your taxes, your demand for money would naturally grow, and the value of money increases. But that is just theoretical speculation. The value of money seems to be tied to the strength of the police. From that follows that once the government disintegrates, the first thing you do is put all your money in your pockets and shop till you got nothing left, the "suckers" who don't understand how it works get stuck with unbacked unstable money, and you with valuable comodities having intrinsic value.

This kind of economic system seems to be an old one. Land lords used it against the people they exploited. Gold may have intrinsic value but as long as it is bottled up in gold coins it is no different from our "fiat" money until it gets sold to someone who is going to use the gold itself. Farmers have hardly a use for gold. So, the farmers were forced to sell their products for money, in order to mass the quantity of money the land-lords demanded in rent for ""their"" land. Then ingeniously, the land-lords (and their servants, wives etc), could spend this stolen gold back to the farmers, who needed it to avoid punishment from the royalty-gang. In return the royalty

gang protected their little slave-camp from attacks from their fellow parasites (if you excuse the word). In effect, this is roughly a fiat system like we have now. When the monarch needed more money he simply ordered troops to steal it, now the central bank can simply create more using some mystifying process that essentially amounts to creating money from nothing, saves the physical hassle of stealing though it isn't that different because all money people have loses value (the central bank "steals" its value).

All the best.

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