

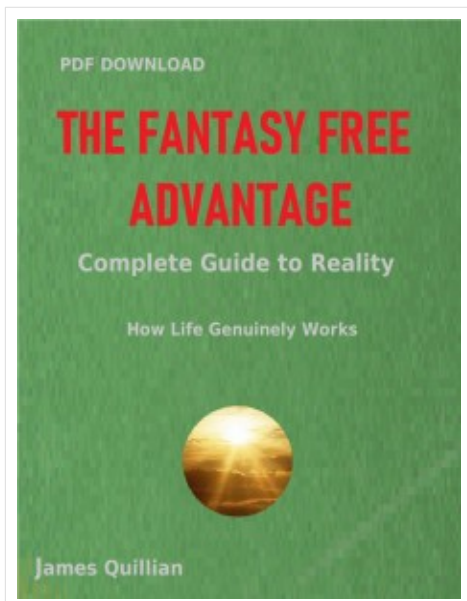
# Fantasy Free Economics

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## Modern Money Explained

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Money has always been around. At the time barter was used, whatever was produced in excess of what the producer used, served as money. It was traded directly for something else another person produced, that was deemed worth a trade.

All kinds of commodities have been used for money. Six characteristics of money are:

**durability, portability, acceptability, scarcity, divisibility and uniformity.**

Gold served as money for eons because it posses all of these six characteristics. Interfere with any of these six attributes and whatever serves as money functions less efficiently as money.

I use the term natural money supply to describe the optimum amount of money in an economy. The natural money supply

consists of money earned by means of work or production plus what can be borrowed based on the credit of borrowers and reserve requirements. But, is that enough money in circulation? It is in a free market economy and constitutes an optimum.

One way to dismantle a free market economy is to increase the money supply by means of introducing political money. Quantitative easing and other such practices amount to political money. Add that money that and the good money attribute of scarcity is diminished. Drop the reserve requirement close to zero and the scarcity of money is eliminated.

All who work possess natural money. That is based on work done and whatever can borrowed and logically be expected to be repaid. Few who work have access to political money.

Access to political money is obtained by way of political power. How do we end up with political money? Suppose there is a basically a free market economy and things are going along as well as

possible. The economy is growing but deemed not to be growing fast enough. Never mind that given technology, productivity of labor and resources, everything is being put to its highest and best use. Gee, but given the prowess of our intellectuals, government can stimulate the economy and we can out do the tired old free market system.”

By increasing the money supply, it is assumed that we can have more of everything faster and on a win win basis. So, the Federal Reserve is commissioned to create political money in order accomplish this. Wow, it works, lets do even more of it.

When I was driving a taxi, I picked up an air force pilot at the San Antonio International Airport. I took him to Randolph Air Force Base. We had a pleasant half hour long conversation. He was here to fly a jet back to Colorado Springs. He wasn't looking forward to it. It would be a boring four hour flight. I naively asked him why it would take him so long since the jet he was picking up could easily make the trip in 45 minutes. He said that his mission required him to optimize fuel usage and if he went at maximum speed, there might not even be enough fuel to finish the trip.

Stimulating the economy works in a similar fashion. Initial results may be stellar but that is not going to last. First, the stimulus goes to those with enough political power to demand and receive it. Second, the money is used by the receivers to make the most money in the shortest period of time. Expectations are that the money will be unselfishly used to promote a national interest. Instead, resources become inefficiently allocated because the out with the, old and in with the new aspect, of free markets eliminated. Wealth is transferred from the bottom of the economy to the top. A severe recession or depression ensues to correct the imbalances created by the stimulus. GDP numbers can look good for years, but like the jet plane, the economy runs out of fuel. In the end the economy would have been better off at the end of economic hard times, had stimulus never been used.

Mindless stimulus, both monetary and fiscal stimulus. have been used constantly since the Reagan Administration. Keynes, the father of economic stimulus, was clear in insisting that his theory should seldom be used and that complete objectivity must be used when it is. Since government, can only make political decisions and Keynes methods require economic decisions. His theories are guaranteed not to work as intended anyway.

There is no objectivity in government decisions. Constant stimulus has destroyed our free market system. Political power has replaced price in its rationing role. Our economy has been destroyed. So, the economy will crash, just like the pilot's jet would have crashed had he flown full speed on his flight from San Antonio to Denver.