The Supply Of POM

John has three baseballs. Does this tell us anything about how many oranges Fred has? Now that's a silly question. The number of baseballs John has bears no relationship to the number of oranges Fred has. That is because baseballs and oranges are separate physical objects. We can grow more oranges or there can be a freeze in Florida which destroys most of the orange crop without there being any change at all in the number of baseballs or in the number being produced.

It is obvious that the supply of one physical object is independent of the supply of other physical objects. This is particularly true of physical objects which are considered money. Since we also have money in accounts which are not actually physical objects, we just treat them as if they were, it is even easier for physical object money (POM) to be created or destroyed than most other physical objects.

It is obvious that the government of a nation can increase the supply of money in that country by printing more bills, or bills with larger numbers printed on them. This is a source of inflation. Though it is less common these days... it is also possible for the government to destroy currency.

It is also possible for the supply of money in an economy to increase or decrease in other ways. When a bank loans money that action creates money. For example, if you deposit $100 in your savings account and the bank loans $80 of that money to someone else, you still have your original $100 and that someone else (Fred?) now has $80 which he did not have before. That means that the supply of money just increased by $80. So now what happens if Fred pays back the loan to the bank? Well, the supply of money just went down by $80.

Note that in both these cases, the government printing more bills and Fred borrowing money, there is no necessary increase (or decrease) in the supply of goods and/or services for sale. The supply of a POM and the supply of goods and services for sale are independent of each other. There is no necessary connection. It is true that in some cases a change in the supply of money has effects on the supply of goods and services for sale. But it is also true that sometimes the relationship is one way and sometimes the other way. That is, sometimes an increase in the supply of money results in an increase in production and sometimes it results in a decrease in production. Economists tell me that there is an optimum money supply for each set of economic conditions and that the government, through judicious actions having to do with banking and such, can maintain that supply near the optimum. Somehow, this doesn't seem to happen all the time. You may have noticed that there has been a persistent inflation over most of our lifetimes in the United States, yet our

economy has done rather well since the late 1930s. Other nations have not been so lucky.

But bank loans and government printing are not the only influences which can affect the supply of money in an economy. Money can be sent out of the nation. Physical objects can be moved from one location to another. If money is sent to some other nation via loan or investment or simple transfer from one bank to another, it is no longer in the first nation. This changes the supply of money. If the U.S. borrows trillions of dollars from other nations, that removes that money from those nations and changes the money supply in each of those nations.

Therefore a POM economy is always subject to erratic, destabilizing changes in the supply of its money. If a money is not a POM then the supply of money can be maintained in balance with the supply of goods and services for sale. It does not *have* to be in balance but that balance is *possible* unlike with a POM.

Governments exercise power by the use of money. Those people who control governments want to control the spending of money. Therefore they want the government to have more money. Governments can get money by taking (such as taxes or confiscation) but that is often unpopular with those from whom they take the money. Another alternative is to borrow the money. This is more popular because the lender thinks there is a chance that they will get the money back and, perhaps, even some interest. But there is a third way open to governments and that is to increase the money supply by printing more bills or larger bills. You will note that the last two ways increase the supply of money and thus increase the chances of inflation. Therefore, most nations will have inflation to one degree or another most of the time until the economy is destabilized from one influence or another. This is a direct result of the money being a POM. Due to human nature, any POM government will have to act this way. The temptations are simply too strong for a government to resist for any length of time.