POM Needs Backup

So you're selling goods in a shop and this guy comes in and says he wants to buy one of the items. He offers you a bill that looks nothing like the currency you are used to. Will you accept that bill in payment? The customer assures you that the bill is worth even more than the price the two of you have agreed upon. Can you trust this guy?

You are clearly dealing with a physical object money (POM) in this case. You are trading an item of value from your shop for an item whose value you are having trouble determining. What is the value of that piece of paper? It is obvious that the paper, despite its beautiful engraving, is not, in and of itself, worth more to you than the item. So why would you accept the bill? Well, what if a banker from down the street entered your shop at that time, looked at the bill, and told you that the bill could be exchanged at his bank for five ounces of gold? Given that the item in your shop was worth to you only three ounces of gold would you make the exchange? Of course you would, because the paper bill was backed by gold. The bill had a backup.

But what if the bill had no such backup? What if it was backed up only by the assurance of the government of some nation that it was really money? Well, then you might refer to the exchange rates for your familiar national currency and the currency of the nation from which this bill came. If the rate was good enough you *might* accept the bill (and then hurry to the bank to exchange it for dollars).

This situation is quite normal for POM economies. That is because at the point of sale, one is exchanging one thing of some value for some other thing of some value. The transfer of value takes place in both directions at the same time. (Or at least the agreement or contract to give value takes place at the same time.) This is the traditional barter or trade relationship, a two-party interaction.

Now picture a different kind of money. A money which is *not* a POM. This new kind of money has no physical representation, so at the point of sale no value is being transferred from the buyer to the seller. This is not at all what we think about when we contemplate buying something. We always think of a transfer of value at the point of sale when a purchase comes to mind. But this transfer of value is not a necessary characteristic of a sale. Let's try to imagine a different kind of sale.

Joe has worked for Sam for two weeks. Sam is happy with Joe's work and tells Joe that Joe may have up to $100 worth of the items in Sam's shop. Joe enters the shop, and selects an item. Ownership of the item is transferred from Sam to Joe. Joe has given his work, something which is

considered by all to have value. Sam is giving Joe something of value, the item from the shop. But the value Joe gave was not given at the point of sale. In fact, at the time when Joe was working, Joe didn't even know how much value Sam would place on Joe's work. Joe did not know how much his compensation would be. Yet Joe's work was traded for Sam's item. Now the credit that Joe earned with Sam was expressed in dollars but there was no actual physical object that had the value of $100 which Joe exchanged for the item. There was no physical object money. This new money that Sam employed was backed by all the items in Sam's shop. So long as there were items there whose collective price exceeded $100, the "money" Sam employed was worth $100 of items. So from Joe's point of view he was being fairly compensated. From Sam's point of view he had received full value for the item Sam gave to Joe. It was not a barter trade since there was no agreement beforehand as to Joe's compensation or that it would come from Sam's stock in the store.

Therefore it is not *necessary* for a money to be backed by metal or a promise to pay in some currency. The money need not have a physical representation. The money can be backed by the goods it can be used to buy.

There are those who would deny that the $100 that Sam referred to was actually money. But it *was* a medium of exchange. It made it possible for Joe to trade his labor and Sam to trade the items in his shop. It was the medium by which an economic trade took place. Certainly this money would not scale well. Certainly it would be totally inadequate for an industrial society as a whole or even, probably, for a small village. But that is not my point or intention. My point is that it *is* a money and it is a money *backed by the goods that can be bought rather than by a metal or a government*. Such a money is possible though I have not yet specified any means by which such a concept could be expanded to a money suitable for an industrial society. Keep reading.