POM Feedback Loops

I think everyone has heard of the "law of supply and demand" from economics. This article is a discussion related to that law but is *not* a treatise on traditional economics.

The law of supply and demand has as a prerequisite: that the context be a competitive free market. That is, the price of items is free to change at the whim of the buyer and seller and that there are many buyers and many sellers of equivalent items. Such a free market is impossible with a POM (physical object money) but we won't let that hinder our analysis, nor will we explain in *this* article why the tradional concept of a "free market" is impossible.

So you are a seller in the competitive free market and you have a number of items to sell. You don't know what prices others are asking nor do you know what prices the buyers are offering to other sellers. But you know what prices your buyers are willing to pay.

One week you notice that you have fewer buyers than usual. Your income is reduced. Your supply of items is more than sufficient to meet the buyer demand at the price you are asking. But you want more income. What can you do, given that you wish to continue selling the same items? You can advertise more. You can be more courteous. You can be open for business longer. But let us suppose that all of these means fail to increase the number of sales. Therefore you lower your asking price, figuring that if you sell more items it will more than make up for a smaller profit on each item. That *does* increase your sales.

Later, you notice that you have more buyers than you have items to sell to them. You can't produce items any faster and you want more profit, so you increase your asking price until the buyers exactly match your supply of items. This increases your profit.

Thus the supply-and-demand works when all other elements in the economy are stable. But we know that all other things in an economy are never stable. Factors outside the economy, factors outside the control of the participants in the economy can also influence supply and demand. Therefore any competitive free market will be in a constant State of adjustment to those many changes. Now in theory and to a considerable degree in practice the free market does a remarkably good job of adjusting to those changes. But sometimes we get a kind of feedback loop which destabilizes the economy.

Let's take a hypothetical example. You have a number of competitors in your free market. One of them reduces prices more than the rest to the

point that the others cannot remain in business and you and the others have your businesses fail. Your income is cut off. You must fire your employees. Their income is cut off. Some of your employees are employed by the dominant competitor. But since that competitor now has no competition, he has raised his prices for items to much higher levels which has reduced sales of those items so that not as many need to be made nor distributed nor sold. The unemployment rate goes up which reduces the amount of money people have to spend. This reduces sales and profits so even those *with* jobs are buying less. Lower prices mean lower profits since sales do not increase by enough to keep profits up. As more people become unemployed there is less demand for items which results in more item makers being laid off.

Note the feedback loop. As demand drops, employment drops which reduces demand which reduces employment and so on. The reason for this negative feedback loop is that "demand" refers to *money-backed* demand. It does not refer to actual need or desire. Since the supply of money with a POM is independent of the supply of items for sale (See "The Supply of POM"), such a negative feedback loop can occur quite easily.

Similar destabilizing feedback loops are made possible and even inevitable by the use of a POM. In a two party interaction, an advantage can be used to gain still further advantages. (Try playing a two-person game of Monopoly.) As we have seen in "POM Causes Instability," two-party interaction is the essence of POM transactions.

Contrast the POM condition with our hypothetical new kind of money (Non-POM) which comes into existence when earned and ceases to exist when spent. The new money will be earned by actions the consequences of which result in net benefit to others. A shop owner will not earn more money by providing fewer items at a higher price. That would not increase net benefit. In fact, the shop owner doesn't care what the price is because the price will not determine *his* income. Therefore, the price will remain constant. The shop owner can get more buyers by providing *better service* and by providing *higher-quality items*. If the shop owner goes out of business the producers of the items can simply give them to some other shop(s) to sell. The "demand" will always have just enough of the new money to buy all the items produced because it is the supply of items that determines the supply of the new money. Items which provide no net benefit (cigarettes?) will not be produced or will have a very high price. There will never be a shortage of the new money to pay for producing. Therefore there will never be unemployment.