

# Fiat Money: Why it works and how to manage it

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Conservative Enthusiasts, 2011-10-27

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## ◆ Context: currency bills, feelings about fiat money

## ◆ History of money

- ◇ Commodity exchange — inconvenient
- ◇ Commodity money — serrated edge, ruler image
- ◇ Commodity certificates (nominal fiat money) — value is subject to changing value of commodity
- ◇ IOU for any product — real fiat money
- ◇ Fiat money advantages: convenience in storage, transport, handling; security against theft

## ◆ Theoretical paradigm

- ◇ There's no government, every business issues its own fiat money
- ◇ Central computer system keeps track per business of the following:  
Amount of outstanding money (money supply), product supply rate, product demand rate, management history, risk of failure, etc.
- ◇ Software parameters for subjective factors
- ◇ Does this make intuitive sense? Do any businesses issue fiat money today?
- ◇ Example: barber

## ◆ Applied to real life

- ◇ Central bank (Federal Reserve Bank) is placed into competition with, say, three well-managed banks
- ◇ On the wholesale market, banks choose the best managed money
- ◇ On the wholesale market, federal money can be devalued
- ◇ Federal government must accept money of any of the three designated banks

## ◆ Summary

- ◇ Fiat money is necessary for convenience and security
- ◇ Fiat money should not be commodity certificates
- ◇ Fiat money supply should be managed according to the competitive market
- ◇ Note on debt

Fiat money entails a different kind of debt — IOUs to be satisfied at the rate desired by the customers, and to be maintained in a stable quantity in order to maintain a stable value of the IOUs