

TITLE

“All goods must therefore be measured by some one thing ... now this unit is in truth, demand, which holds all things together ...”

~ Aristotle 384-322 BC

The Essence of Money, a Medieval Tale

In medieval times, just like today, people had problems with money.

In those days, gold and silver coins were the universally accepted form of money. Precious metals were used as money because ***their scarcity made them valuable, even in small quantities***. Unfortunately, it also made them... scarce.

Two other qualities made precious metals useful as money: they didn't spoil and they did not get consumed. So they were ***ideal for saving***. ***Unfortunately, the same properties made them ideal for hoarding***.

Hoarding worsened the problem of scarcity. Those who had wealth beyond their needs could acquire the metal coins and hold on to them, thus depriving everyone else of the money they needed to enable the convenient trading of real goods and services.

As a result, though the weekly market always offered a ***wealth of goods and services*** to be traded, there was often very little coin available to make trade work efficiently.

So... what did medieval folks do to solve their coin shortage problem?

They invented market money. And this is how they did it.

Each seller had a pretty good idea of what his or her sales would be ***if*** sufficient coins were available. Thus sellers had a basis upon which to ***issue credit to themselves***. ***This self-issued credit could then be used as money*** to buy other sellers' wares.

People could do this because the participants at the weekly market were ***both*** producers and consumers. They went to the market to ***trade*** their products. Literally.

But what happened when the butcher wanted to buy something from the seamstress, but the seamstress wanted something from the shoemaker, not the butcher... and so on?

Trading goods and services for other goods and services required coordination of many trades. It often required several steps before a seller could acquire what he or she really wanted to buy. Bartering like this has always been a cumbersome process. That's why money was invented!

And sometimes money has to be re-invented... So, one day, during an economic slowdown caused by a serious shortage of precious metal coins, **that happened**.

Anton the Baker, whose bread was always in demand, could easily count up the people he knew would buy his bread, **if** they had money.

Anton could reliably expect to sell at least 20 silver pennies worth of bread at each market. Therefore, he reasoned he could safely issue 20 silver pennies worth of **Anton's Bread vouchers** and persuade his fellow sellers to accept this **virtual bread** in trade for their **actual wares**.

Anton was a good man trusted by all. So he had little trouble spending his 20 pennies worth of bread vouchers on the wares of other merchants. Most were able to understand the elegance of his idea right away. So, those who had traded their wares for Anton's vouchers were, in turn, successful in trading sellers' vouchers for other seller's goods and services.

Because the bread voucher's value was expressed in silver pennies, everyone knew what the voucher was worth, relative to everything else. And they knew that every voucher was backed by the abundant supply of Anton's delicious-smelling bread.

So Anton's bread vouchers were soon recognized by all as **reliable money**, based solely on **the proven demand for Anton's bread**.

Throughout the day, Anton's vouchers would be returned to him in exchange for bread. Each voucher had completed a unique journey through the market, some short, and some long. And, all along the way, the vouchers facilitated trades that had **nothing to do with Anton**.

It wasn't long before other producers began writing vouchers against **their** products and services. Soon the market was **flooded with money** in the form of **virtual goods & services**, all of it backed by the abundance of **actual goods and services** available at the market.

With no shortage of money, everyone had unrestricted opportunity to sell their products or special skills to whatever extent there was real demand for them. This led to general prosperity and happiness.

The only purpose silver served in this system was to provide a widely understood measure of value, in the same way that inches and feet, pounds and ounces were necessary for measuring lengths and weights.

Anton liked to explain to the amazed people from other markets, "No one is ever stopped from building a house due to a shortage of inches. And, similarly no one in this market is ever stopped from making a trade by a shortage of silver pennies."

At the end of each market, outstanding vouchers were reconciled amongst the market merchants, with payments made in three ways, in product, in vouchers for the next market or, as the final resort, in coin.

This system was very successful. That's because it fulfilled ***the essential purpose of money***. It ***guaranteed the existence of enough purchasing power*** to purchase all goods and services in demand.

Digital Coin

Today, the catastrophic state of the conventional banking system has once again shown just how necessary it is to re-examine and re-invent our money system.

There already are several alternative currency systems in use, such as the LETS systems and Time dollars. These systems are based on the same simple principle the medieval market used, interest-free, self-issued credit, backed by goods and services. Other advocates of monetary reform propose that governments should issue national currencies on the same basis, interest-free self-issued credit to be collected back in taxes.

And that same basic idea is the foundation of another proposal, the Digital Coin system which takes the concept of self-issued credit ***further than ever before***.

The Digital Coin... is really two Coins. The first kind is the Perpetual Coin, which is ***permanent and created in limited supply***.

Perpetual Coin is designed to be the value unit of the whole system, like the silver penny in the medieval example. Everything is always priced in Perpetual Coin. However, its actual presence in trade isn't required because commerce is conducted in the second type of Digital Coin, the Credit Coin.

Credit Coin is an ***online electronic trading medium***, issued by producers as ***virtual goods and services*** just like the vouchers issued by producers in the medieval market.

Credit Coin is spent by the Issuer, in the process of creating or supplying the Issuer's goods and services.

For instance, an Issuer that was a corporation or government would spend most of its Credit Coin on the wages of employees. The employees would spend the Credit Coin at their local stores, who would in turn buy from local or distant suppliers who would in turn, pay their suppliers and employees with it, and they would then spend the same Credit Coin in their local stores and so on.

Circulated and spent via Internet, any given Credit Coin could travel ***anywhere***, enabling any number of transactions having nothing to do with the Issuer, just as Anton's bread vouchers could be used to allow the seamstress to buy from the shoemaker, the shoemaker to buy from the butcher and so on.

However, **unlike** the medieval market, there would be no end-of-market meeting at which all outstanding credits are brought together to be exchanged and redeemed by the Issuer.

Therefore, the first refinement the system needs is a built-in incentive to **ensure that every Credit Coin ultimately returns to its Issuer.**

This is accomplished by offering a **bonus on redemption.** The Issuer offers **more product** if the product is bought with the Issuer's **own** Credit Coin. Or, put another way, the Issuer **honours its OWN Coin at a higher value** than any other.

This bonus redemption can be designed so that it is **limited to a time period** of the Issuer's choosing. This sets **a target period for maximum redemption**, thus making it much more likely that the Credit Coin will be spent on the Issuer's products and services, **when** the Issuer **wants** it to be spent.

Of course, there would also be differences in demand for the products and services of individual Issuers, and different degrees of Issuer reliability. Therefore, Credit Coins would vary in value over time and go up and down relative to each other just as national currencies and corporate stocks do today.

So the second refinement has to be a means of **determining the relative worth** of different Credit Coins as expressed in Perpetual Coin.

This can be accomplished by **an automated online marketplace** that tracks the value of each Issuer's Coin by comparing the offers to sell to the offers to buy for that Coin.

At each transaction, the Credit Coins involved automatically access this online marketplace and revalue themselves according to the real-time demand for that Coin, which corresponds directly to the current demand for the Issuer's actual products and services.

As a basic formula this is extremely simple. At any given moment, any given Credit Coin is worth its current Buy/Sell ratio times 1 Perpetual Coin.

A perfect balance of trade always results in parity with Perpetual Coin.

To clarify:

If buy orders exceed sell orders, the Coin will be worth proportionately **more** than one Perpetual Coin.

And, if sell orders exceed buy orders, the coin will be worth **less.**

The **value** of the Coin **automatically adjusts to the supply and demand** for that Coin. As all pricing is expressed in Perpetual Coin, the Issuer will unavoidably take in more of its Credit Coin per unit of product if the Coin is below parity with Perpetual Coin and less per unit if it is above.

Therefore, as the Issuer's products are sold, any excess or shortage in the supply of that Issuer's Credit Coin is ***automatically corrected***, pushing that Credit Coin back towards parity with Perpetual Coin.

This is just one of several powerful features of the proposed Digital Coin System.

In this proposed new system, there is no borrowing from future generations.

Money is not abstract, nor is it some item of precious scarcity.

It is ***virtual "goods and services"*** backed by ***actual goods and services***.

Spending power is ***inescapably linked*** to earning power, and earning power is tied ***directly*** to the production of ***real goods and services***.

With this system, no one with productive capacity and the confidence of potential customers could ever be held back by a lack of "money".

And, on the other hand, no one would ever be able to issue this Credit Coin money without offering some product or service in demand to back it up.

Digital Coin is a proposal for a ***radically free*** way to structure an economy, ending the monopoly of fraudulent credit and irredeemable fiat money currently imposed upon us by banks and governments.

In so doing, Digital Coin entrusts the creation of our money to the ***productive people*** who create the ***real wealth*** that ***OUR*** money actually represents.

Digital Coin is a blend of high technology, simple arithmetic, and a common sense idea of money that was well understood and successfully practiced long ago.

To further investigate the possibilities of digital money, please visit digitalcoin.info.