

I've discussed just a few benefits of sound money in the last two weeks, and contrasted them to the perils of fiat currency. Sound money keeps government spending in check, keeps trade fair and honest, which reduces the temptations, and many underlying causes, for governments to wage wars. It also gives you the peace of mind of knowing that your savings will be able to sustain you in your retirement.

So if sound money is such a good thing, what is stopping people from simply trading with each other in gold and silver? Why are you still being paid in fiat dollars, and why can't you pay for gas in gold?

The answer is that the government has enacted policies that provide considerable stumbling blocks to such transactions.

One of the main stumbling blocks is Federal legal tender laws, which state that government-controlled fiat currency **MUST** be accepted for many kinds of monetary transactions. In light of this, Gresham's Law takes effect. Gresham's Law states that bad money drives out good money.

Meaning, if someone is forced to accept your bad money, it is to your advantage to pass it off, like a hot potato, in exchange for something of value.

Any good money you have, you will hoard.

Eventually, real money is driven out of circulation and under people's mattresses, so to speak.

In the absence of legal tender laws, people are free to accept the medium of exchange of their choice, and are likely to insist on payment in something of real value.

Related to legal tender laws, contracts in gold are not enforced. Meaning if two parties agree to exchange goods or services for gold, and end up in a dispute, the courts will simply settle the dispute in Federal Reserve notes.\*

Governments should do very little, in my estimation, but it should enforce contracts and property rights through the courts.

But in this instance it shirks this basic duty, when it comes to gold, as one way to keep control of our economy and the medium of exchange.

One is also expected to pay sales tax on the purchase of gold.

This is as ludicrous as if you paid sales tax at the bank when you converted dollars into quarters!

The IRS also expects you to pay capital gains tax on gold, which is so backwards, since gains on gold really represent decline in the value of the dollar!

Legal tender laws should be repealed at the Federal level. Congress has the Constitutional duty to protect the integrity of our money.

However, since it has passed this duty off, and the Federal Reserve has only debased our currency, Congress should no longer force Americans to do business in dollars if they would prefer to transact in gold, or silver, or cigarettes or seashells, for that matter.

Free people should be free to associate and do business in ways that benefit them.

Instead they are forced to use the unstable dollar to their own detriment, and the benefit the government.

**\*Clarification:** Some astute readers took issue with this sentence. Because of space limitations for the weekly column, I was not able to elaborate on this further. While gold clauses have been legally enforceable since the late 1970's the fact remains that disputes over gold clauses might well be resolved in court with a dollar figure calculated in terms of Federal Reserve Notes. In the recently decided case of 216 Jamaica Ave v. S&R Playhouse, which reversed a district court decision, the court upheld the enforceability of a gold clause, but sent the case back to the district court to decide what obligations the gold clause imposed on the defendant. It is not inconceivable that this will result in a decision that the value of the "gold coin" referred to could be valued by the court in terms of Federal Reserve Notes, not in terms of ounces of gold. Furthermore, given the federal government's actions against Robert Kahre (the Nevada businessman who paid his employees at the legal tender face value of gold bullion coins) it is obvious that the government is still waging a war on gold. Whether either of these cases establishes a precedent remains to be seen. Additionally, because 31 USC 5103 establishes Federal Reserve Notes

**as legal tender, it would likely take a court challenge to determine whether a gold clause or legal tender law takes precedence.**

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