The Basic Law of Contracts

Human freedom is constituted in freedom of contract and in a monetary economy fidelity of contract is based upon fidelity of the money contract. Since all contracts are expressed in terms of the money unit and the stability or meaning of the money unit depends upon the fidelity of the money contract, it is manifest that the whole superstructure of contracts and hence the whole social order rests upon the basic law of the money contract.

When a money exchange system is instituted the participants enter into it per force of the necessity of escaping whole barter. They have found that to split barter into two halves, namely, the process whereby one trader (the buyer) receives value and the other (the seller) receives an interchangeable credit instrument, exchange is facilitated and as exchange is facilitated, so production is promoted and wealth increased.

The participants in a money exchange do not explicitly enter into contract with each other but there is an implicit contract even though they be unconscious thereof. As stated, money exchange springs from the necessities of trade and thus an unscientific system is acceptable in the absence of a better one. That is why money exchange has proceeded by empiricism rather than by science. If we would end the method of trial and error and thus end the destabilization of the multifarious contracts upon which our life depends we must understand the money contract.

The Implied Compact

When the seller accepts money in exchange for a value he has surrendered to the buyer, he expects to be able to secure an equivalent value in turn when he tenders money. But he does not expect that return to come to him from the one who received value from him. Hence there is no contract between buyer and seller. What or who is it then that gives substance to the promise that the money holds? It is the NECESSITY, common to all competitive traders, which obliges each to enter the market with goods and services and bid for money, which is indispensable to each. This free competition stabilizes the power of the money and thus assures the holder of money a value equivalent to that which he surrendered. Two stipulations are necessary to accomplish this:

a) the buyer must have appropriate limitation of money issuing power.

b) he must be dependent upon his power to effect sales competitively.

The basic compact, then, exists between each of the traders and the central money administering authority that the above named stipulations will be respected. Such observance excludes the administering authority itself from the issue power and all institutions of government that depend upon the taxing power rather than upon the competitive selling power.

With governments controlling the issue power of money with indulgence by themselves it is obvious that the basic law of contracts is violated, thus threatening the entire social order.   .

E. C. Riegel