Written by Bruce Walker on July 6, 2011

Rand Paul Works to Protect State Gold Money From Taxation

Constitutionally minded members of Congress Senator Jim DeMint of South Carolina, Senator Rand Paul of Kentucky, and Representative Mike Lee of Utah have introduced federal legislation that would exempt gold and silver coins issued by state governments as legal tender from federal taxation. This bill, called the Sound Money Protection Act, is intended to protect efforts by states to create a stable, inflation-free form of money. In particular, it would protect from federal gains taxation transactions between legal money in states which are species (e.g. gold or silver) and paper.

Utah has already passed a state law that recognizes these gold and silver coins as legal tender in Utah. A dozen other states, such as Senator DeMint's South Carolina, are considering similar laws. Senator DeMint expressed the need for such state laws:

> Thanks to the government's reckless overspending, continued bailouts, and the Federal Reserve's easy money policy, this year the purchasing power of the dollar hit an all-time low in the several decades since we went off the gold standard. In order to rebuild strength and confidence in our economy, we need both the fiscal discipline to cut wasteful spending and the monetary discipline to restrain further destructive monetizing of our debt. This legislation would encourage wider adoption of sound money measures, and that's a step in the right direction.

Congressman Lee reminded us that since 1913, the dollar (which originally meant nothing more than the measurement of a precise amount of gold) has lost an incredible 98 percent of its value. The "liberation" of the American dollar from those restraints that redemption in gold or in sliver created has encouraged Washington insiders to use the money supply to buy power. "Banknotes," which once meant notes issued by private banks, have become essentially extinct in modern American commerce, replaced instead by the fiat "money" issued by the federal government. Senator Paul, in his support for the new federal bill, said that it would show that "states are serious about an alternative to a weakening dollar."

The Constitution never allows, or even contemplates, the "fiat money" used today by Americans. The dangers of allowing politicians to simply determine what money is worth was understood thousands of years ago, when gold and silver coins in the minting process were slyly "clipped" — part of the gold and silver on the outer perimeter of the coins was shaved off, and so the coins, quite literally, grew smaller. Another form of government larceny was to replace the metallic content of gold and silver coins with baser metals.

Ordinary, moral people grasp the immorality of this debasing of coins. Yet when the Federal Reserve creates out of thin air hundreds of billions of dollars, too many Americans have simply accepted this as part of a Frankenstein version of the United States Constitution, in which Presidents can go to war without Congress declaring war, in which “necessary and proper” in Article I, Clause 8 means whatever a federal legislator wishes it to be, in which “interstate commerce” means anything which has even a notional connection to any part of our economy.

The federal law comes none too soon. As Jeffrey Bell, a constitutionally faithful former Senate candidate in New Jersey decades ago and policy director at American Principles in Action and head of its Gold Standard 2012 project said, the bill shows that faith in the paper dollar is waning. He elaborated: "By encouraging gold and silver coins to be used as money by the states, they are allowing them to send Washington a strong message of no confidence in the paper dollar system."

The reduction in bond rating by Standard & Poor of United States government debt securities ought to be a chilling warning to anyone who cares about the future of our country. The idea that a grand central government fiat money is safe is also debunked by what is happening to the PIGS (Portugal, Ireland, Greece and Spain) today, whose debt ratings are nose-diving and whose connection with the Euro is threatening chaos throughout Europe.

Ironically, what DeMint, Paul, and Lee are proposing is, in some ways, the antithesis of what the European Union has done. By allowing (and so, tacitly encouraging) the creation of sound currency at the state level, they are moving responsibility for debt and monetary value back to a more decentralized level.

The bill is also intended, no doubt, to protect those dealers in gold from being hamstrung by federal moves to effectively debilitate small-scale private sales of gold, and Americans, increasingly, are moving toward trust in gold and not in the vacuous promises of Washington politicians who want to “kick down the road” problems that can no longer be pushed off by statist theoreticians.