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Testimony of Senator Eric Brakey

L.D. 1051, An Act to Protect Maine People from Inflation by Exempting Gold and Silver Coins and Bullion from the State Sales and Use Tax

Before the Maine Legislature's Joint Standing Committee on Taxation

Tuesday, March 28, 2023

Senator Grohoski, Representative Perry, and members of the Joint Standing Committee on Taxation, I am Senator Eric Brakey, representing the people of Auburn, New Gloucester, Poland, and Durham. Today, I am here to present L.D. 1051, "An Act to Protect Maine People from Inflation by Exempting Gold and Silver Coins and Bullion from the State Sales and Use Tax."

To illustrate the necessity of this legislation, please allow me to begin with a simple metaphor.

If a Category 5 hurricane was careening towards our coast, would it not be prudent to eliminate taxes on the sale of life rafts to empower Maine people to prepare for the potential disaster?

Whether or not this legislature perceives it yet, many economists do. There is a potential disaster on our horizon. It is not a natural disaster, but a man-made one: not generated by the forces of weather, but instead by the forces of monetary, fiscal, and foreign policy, through decisions made by elected and unelected officials at the federal and international levels. From Augusta, we have limited tools available to reduce the severity of this coming economic crisis. We do have, however, the ability to help our state prepare for a potential tsunami of inflation that could overshadow everything we've experienced in recent years.

To perceive where we are today and where we are going tomorrow, let's begin by looking back with a very brief overview of the history of money.

For thousands of years, civilizations across the world have chosen gold and silver as preferred forms of money for the convergence of qualities they possess — divisibility, portability, high value per unit of weight, durability, and uniform quality — establishing them as uniquely effective stores of value and mediums of exchange. Throughout this time, their value has remained remarkably stable. (It is often said that in the Roman Empire, an ounce of gold could buy you a well-tailored toga. Today in America, an ounce of gold can buy you a well-tailored suit.)

The temptation for central authorities, however, to debase the currency is ever present. As I am sure this committee is aware, raising taxes on the people can be unpopular. But when you control the currency, funds can be raised from the people without them even knowing it through monetary sleight of hand. By debasing the money supply, a sovereign can siphon value away from the people's savings for their own purposes, then blame other factors for rising prices. In Rome, modern historians look at the currency debasement that took place in the era from emperors Nero to Diocletian — in which precious metals within the coins were gradually replaced with junk metals — as one of the deciding factors in the collapse of the Roman Empire. (A lesson of history that is repeatedly ignored to a society's detriment.)

Just like many who came before us, our own country adopted gold and silver for use as money. Under Article I, Section 10 of the U.S. Constitution, states are actually prohibited from making "any Thing but gold and silver Coin a Tender in Payment of Debts." Like many provisions in the Constitution today, this too is disregarded today, but the U.S. Dollar itself was backed by one or both of these metals throughout its existence until fairly recently.

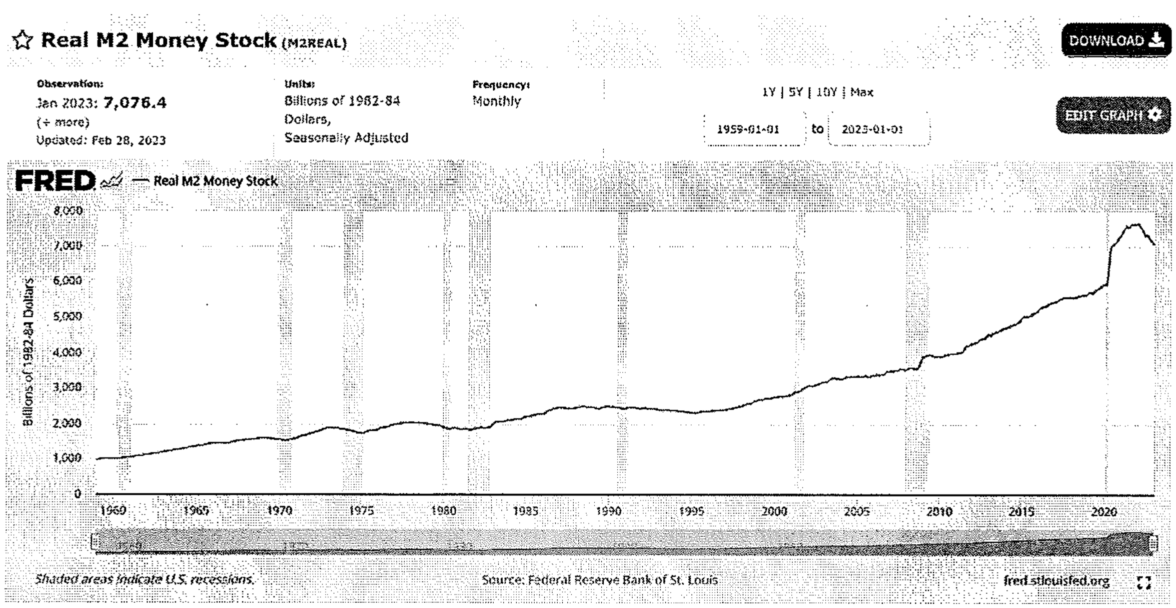
Leaving bimetallism behind, the Gold Standard was established in 1873 by President Ulysses S. Grant. Over the next half century, any person could redeem a $20 note for one ounce of gold. (It should be noted that this was one of the most prosperous times in our nation's history, seeing the fastest rise in the standard of living for the American people.)

But federal spending grew out of control, printing too many notes for the gold they had in reserves. As such, the promises could not be maintained. That's why, in 1933, President Franklin Roosevelt ended the full gold standard and established a partial gold standard, known as the "Bretton-Woods Agreement." For the next half century, only foreign governments could redeem their dollars for gold, and the rate was now $35 for an ounce.

But federal spending continued growing out of control, printing too many notes for what they had in reserves. That's why, in 1971, President Richard Nixon ended the dollar's convertibility into gold completely. In the half century since, with nothing limiting the federal government's ability to print money, the dollar's value relative to gold has fallen from $35 to approximately $2,000 an ounce. In other words, in the span of the century since FDR, the dollar has lost 99% of its value relative to gold.

In the immortal words of Murray Rothbard, "What has the government done to our money?"

It helps to see it for yourself. That is why I have included a graph (from the Federal Reserve Bank of St. Louis) accounting for the M2 money supply over the last seventy years. In 1971, there were $650 billion dollars in circulation. Today, that's $21.3 trillion dollars — a 3,277% increase in the money supply within the span of 52 years.



The money printing began ramping up significantly during the George W. Bush administration (to fund wars of choice across the Middle East). It ramped up further with the 2008 bank bailouts, leading to a decade and a half of so-called "quantitative easing." But nothing comes close to the spike we saw in 2020 (with the onset of the COVID era) as over $1.6 trillion dollars was generated from thin air at the Federal Reserve Bank and passed off to Congress to spend in an attempt to bailout the entire economy.

All of this monetary debasement results in the price inflation we feel whenever we fill up our gas tanks or our grocery carts. To put it simply, when the amount of dollars in circulation increases faster than the productivity of an economy, all those extra dollars bid up the prices of scarce goods and services available for purchase.

I should acknowledge, however, that it could have been (and still could be) a lot worse. Many predicted the purchasing power of the dollar would sink much faster than it has since 2008 with these levels of monetary debasement, but it was buoyed by international demand for the dollar due to its status as the global reserve currency. There is a growing sense of alarm among economists, however, as major economies (including China, Russia, India, and Saudi Arabia) move away from reliance on the U.S. dollar that its global reserve status is in jeopardy. If that status is lost, we will no longer be able to export our inflation to the world and those chickens will come home to roost. The result will be the rapidly declining value of the dollar and the destruction of the dollar-based savings of the Maine people. Think of the wheelbarrows of paper money it took to buy a loaf of bread in post-World War I Germany.

For the common man or woman, owning gold and silver coinage and bullion is one of the most accessible, proven, and safe methods for protecting savings from inflation. By removing the sales taxes on gold and silver, this legislature will be removing a significant barrier that prevents Maine people from protecting their savings.

It is also worth noting that Maine is an outlier with our current policy — only one of eight states in the nation to impose sales taxes on gold and silver. And if the worst should happen to the U.S. dollar, for the economic security of our state, it is vital that Maine people possess forms of money that will retain value and not have all our eggs in one basket.

One final point I will make is that the passage of this legislation will help alleviate pressure on the ongoing shortage of affordable housing — something I know everyone in this legislation is thinking about. On the surface, I know that may seem like a puzzling claim, but very briefly I will make the case.

With the constantly depreciating dollar since the end of the Gold Standard, the American middle class has increasingly relied on home equity as a store of value for their savings. This reliance has driven government policies to maintain high housing prices (like restrictive zoning policies and bailouts in the aftermath of the 2008 housing crisis), which places affordable housing increasingly out of reach for others. Increased access to precious metals will not be a silver (or gold) bullet for the housing crisis, but increasing access to alternative stores of value will relieve one of the pressures on home prices.

Thank you to the committee for your time and consideration. I will note that several policy experts are scheduled to follow me — including J.P. Cortez of the Sound Money Defense League, as well as two economists, Richard Stern and Keith Weiner. I would encourage you to ask them questions. I am also happy to answer any questions you have to the best of my ability.