

Texas Committee Passes Bill to Create 100% Reserve Gold and Silver-Backed Transactional Currencies



MAY 3, 2023 BY MICHAEL MAHARREY 0 17

On May 2, a Texas House committee passed a bill to create 100% reserve gold and silver-backed transactional currencies. Enactment of this legislation would create an option for people to conduct business in sound money, set the stage to undermine the Federal Reserve's monopoly on money, and possibly create a viable alternative to a central bank digital currency (CBDC).

Rep. Mark Dorazio (R) introduced [HB4903](#) on March 10 and it has since garnered a bipartisan coalition of 42 cosponsors. The legislation would require the state comptroller to establish and provide for the issuance of gold and silver specie and also establish digital currencies that are 100% backed by gold and silver, and 100% redeemable in cash, gold, or silver.

Specie is defined as “a precious metal stamped into coins of uniform shape, size, design, content, and purity, suitable for or customarily used as currency, as a medium of exchange, or as the medium for purchase, sale, storage, transfer, or delivery of precious metals in retail or wholesale transactions.”

In establishing gold and silver specie, the comptroller would be required to authorize the Texas Bullion Depository as issuer and ensure that the holder of the specie may use the specie as legal tender in payment of debt and readily transfer the specie to another person.

The comptroller would also be required to create a mechanism to use 100% backed gold and silver digital currencies in everyday transactions.

In establishing the digital currency under Subsection (a)(2), the comptroller shall provide a means to ensure that a person who holds the digital currency may:

- 1. Use the digital currency as legal tender in payment of debt; and*
- 2. By electronic means readily transfer or assign the digital currency to another person.*

Physical gold and silver backing the digital currency would be stored in a pooled account at the Texas State Bullion Depository.

“The trustee shall maintain enough gold and silver specie or bullion to provide for the redemption of all units of the digital currency issued but not redeemed.”

In practice, individuals would be able to purchase transactional currency representing the smallest fractions of physical gold or silver. The money would be used to purchase gold or silver that would be held in the already-open [Texas Bullion Depository](#). Individuals would be able to redeem their transactional currency for dollars, gold, or silver on demand.

On May 2, the House State Affairs Committee passed HB4903 by a 7-6 vote.

In an outpouring of strong support from the grassroots in Texas, a [78-page document](#) – representing hundreds of messages of support for the bill – was presented to the committee members during a hearing last month.

IMPACT

This is one of several bills introduced in the Texas legislature this year to promote sound money, including [legislation to establish state gold and silver reserves](#), and [a bill to make gold and silver legal tender](#) in the Lone Star State.

The creation of state-issued gold-backed and silver-backed digital currencies would create currency competition with Federal Reserve notes and undermine the Fed's monopoly on money. It would also provide a sound money-backed competitor if the Federal Reserve implements a central bank digital currency.

Broadly speaking, by making gold and silver conveniently available for regular, daily transactions by the general public, gold and silver-backed digital currency would create the potential for a wide-reaching effect. Professor William Greene, an expert on constitutional tender, said in [a paper for the Mises Institute](#) that when people in multiple states actually start using gold instead of Federal Reserve notes, it would effectively nullify the Federal Reserve and end the federal government's monopoly on money.

“Over time, as residents of the state use both Federal Reserve notes and silver and gold coins, the fact that the coins hold their value more than Federal Reserve notes do will lead to a ‘reverse Gresham’s Law’ effect, where good money (gold and silver coins) will drive out bad money (Federal Reserve notes).

“As this happens, a cascade of events can begin to occur, including the flow of real wealth toward the state’s treasury, an influx of banking business from outside of the state – as people in other states carry out their desire to bank with sound money – and an eventual outcry against the use of Federal Reserve notes for any transactions.”

Gresham's Law holds that “bad money drives out good.” For example, when the U.S. government replaced silver quarters and dimes with coins made primarily of less valuable copper, the cheap coins drove the silver out of circulation. People hoarded the more valuable silver coins and spent the less valuable copper money. So, [how do you reverse Gresham?](#)

The key is in making it easier to use gold in everyday transactions. The reason bad money drives out good is that governments put up barriers to using sound money in day-to-day life. That makes it more costly to spend gold and incentivizes hoarding. When you remove barriers, you level the playing field and allow gold and silver to compete head-to-head with Federal Reserve notes. On an even playing field, gold beats fiat money every time.

CENTRAL BANK DIGITAL CURRENCIES (CBDC)

A gold-backed digital currency would create an alternative and allow individuals and businesses to avoid a CBDC.

Digital currencies exist as virtual banknotes or coins held in a digital wallet on your computer or smartphone. The difference between a central bank (government) digital currency and peer-to-peer electronic cash such as bitcoin is that the value of the CBDC is backed and controlled by the government, just like traditional fiat currency.

At the root of the move toward a CBDC is “the war on cash.” The elimination of cash creates the potential for the government to track and even control consumer spending.

Imagine if there was no cash. It would be impossible to hide even the smallest transaction from the government’s eyes. Something as simple as your morning trip to Starbucks wouldn’t be a secret from government officials. As *Bloomberg* put it in an article published when China launched a digital yuan pilot program in 2020, digital currency “offers China’s authorities a degree of control never possible with physical money.”

The government could even “turn off” an individual’s ability to make purchases. Economist Thorsten Polleit outlined the potential for Big Brother-like government control with the advent of a digital euro in *an article published by the Mises Wire*. As he put it, “the path to becoming a surveillance state regime will accelerate considerably” if and when a digital currency is issued.

BACKGROUND

The United States Constitution states in Article I, Section 10, “No State shall...make any Thing but gold and silver Coin a Tender in Payment of Debts.” Currently, all debts and taxes in Kansas are either paid with Federal Reserve Notes (dollars) which were authorized as legal tender by Congress, or with coins issued by the U.S. Treasury — very few of which have gold or silver in them.

The Federal Reserve destroys this constitutional monetary system by creating a monopoly based on its fiat currency. Without the backing of gold or silver, the central bank can easily create money out of thin air. This not only devalues your purchasing power over time; it also allows the federal government to borrow and spend far beyond what would be possible in a sound money system. Without the Fed, the U.S. government wouldn’t be able to maintain all of its unconstitutional wars and programs. *The Federal Reserve is the engine that drives the most powerful government in the history of the world.*

Creating gold and silver-backed digital currencies would take another step in the process of abolishing the Federal Reserve system by attacking it from the bottom up – pulling the rug out from under it by working to make its functions irrelevant at the state and local levels, and setting the stage to undermine the Federal Reserve monopoly by introducing competition into the monetary system.

WHAT'S NEXT

HB4903 will now move to the Calendars Committee. This committee determines which bills move to the House floor for a vote. Supporters of the bill in Texas have created an online tool to register support for the bill moving to the House for a debate and vote. Residents of Texas can [submit their comments here](#).

Information from the [Tenth Amendment Center](#) contributed to this report.



Get Peter Schiff's key gold headlines in your inbox every week – [click here](#) – for a free subscription to his exclusive weekly email updates.

*Interested in learning [how to buy gold](#) and [buy silver](#)?
Call 1-888-GOLD-160 and speak with a Precious Metals Specialist today!*

[CBDC](#), [central bank digital currency](#), [gold](#), [HB4903](#), [silver](#), [sound money](#), [Texas](#)