The Voluntaryist

Digital Issue 198 *"If one takes care of the means, the end will take care of itself."* September 2020

Chapter 4: The Enforcers: The Police, The Law, and The Courts
By Carl Watner (1990)

(Continued from Digital Issue 197)

Large numbers of us believe that the main function of government is to provide "police, courts, and armed forces." The police protect us from domestic criminals and the armed forces protect us from our foreign enemies. The court system and statist legal code allow for the peaceful settlement of disputes. How true are these assertions? Do we really need the State to coercively monopolize the provision of these services? What would happen if these services were competitively provided on the free market?

Note carefully what these questions imply. Though we think that the State need not furnish us protection, we are not saying there is no need for such services. Quite the contrary. We believe that "freeing" up the competitive situation would improve the quality and lower the cost of such services. We have no objection if people wish to protect their property by employing armed guards or purchasing sophisticated protection systems. What we do object to is that some group of people in government require others to pay for types of protection that they do not want and prevent others from providing the types of protection they desire and can arrange to provide.

What service does the State provide? Although we all seek protection, what we really want is safety. The State rarely provides us with such security. The police are seldom present when a crime or altercation occurs. That being the case, all they can do is try to locate the criminal, attempt to have him prosecuted, and in some few instances return stolen property. Basically they provide some measure of after-the-fact retaliation. As recent crime statistics in the United States prove, the police rarely ever "protect" us. Invariably, when police protection has failed, the courts attempt to take up where the police leave off, and even then this leaves much to be desired. They seldom impose restitution as part of a criminal sentence. If governments provided the protection services we all desire (crime prevention), few crimes would ever occur and there would be much less need for the services of a judicial system.

If providing for the safety of person and property is so important, why do we leave it to the State? Why do we reject the process that we use to provide the other necessities of life, such as food, clothing, and shelter? What would happen if we threw open the doors of competition and permitted every person to arrange for the type of protection he desired and was willing to pay for? We rely on the laws of competition to provide us with the other vital necessaries of life - why don't we give the laws of economics free rein in the field of defense? [1]

The field of defense and protection is certainly not exempt from the law of supply and demand. Whenever the laws of economics are abrogated by government intervention, we will have low quality service, higher prices, or long delays. The way we provide police and court services is essentially a socialistic method (even in the so-called free enterprise economies, like the United States) because such services are funded directly out of tax revenues. One does not have a contract with the police nor is one required to pay each time the police are called or the courts used for a criminal prosecution. Consequently, since there is no relation between usage and payment, we find overcrowded court dockets, poor response time by the police, overworked prosecutors, and other signs of poor management. All of the problems inherent in a coercive monopoly and socialism show up.

The truth of the matter is that protection is a service in every way comparable to insurance. If it is wrong to compel a person to pay for a form of insurance he does not want, at a price he cannot bargain for; then it is clearly wrong to use a person's taxes to provide him with protection without his say so. Nevertheless, we have achieved this very situation with respect to government provided police forces. Police protection and the courts should be not exempted from the market process. If we can trust to the market to provide us other life-sustaining services, then there is no reason why we should reject the free market and rely on the State to provide us with protection and defense.

Since the State has so long monopolized these services, it is difficult to envision how the private production of security would operate. It is also impossible to know exactly what the market place would provide us with today if the State had not preempted it. It is obvious, however, that people want effective protection service and are willing to pay twice-over to get it. Some examples of private protection are: insurance company inspectors, private

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guards, night watchmen, railroad police, private detectives, armored cars and trucks for the safe movement of valuables, burglar and fire alarm systems, private vaults, locksmiths, body guards, arbitration services, private mini-trials, and private courts. The one thing we can be sure of is that government monopolization has acted to stifle new innovations. What wonders of protection might have been invented if government had not established itself in these areas?

Another problem inherent in government provision of these services is the fact that there is really no one single commodity known as police protection, any more than there is an absolute single commodity called an automobile. Just as on the free market there is a wide array of cars and options, so there are almost an infinite number of degrees of protection. The police can provide anything from a single man on the beat, to two men in a patrol car, to one or more personal body guards. Since police departments are not subject to the profit and loss mechanism they have no rational way to allocate the resources at their command. How much should be spent on new police cars, on weapons, or on sophisticated computer systems? The budgeting of funds is subject to the full sway of politics, boondoggling, and bureaucratic inefficiency, just like any other government department. There is no real market feedback to determine if the police are serving the consumers in a way that is responsive to their desires or in a way that is economically efficient.

Free market firms, including free market police, are always subject to the law of supply and demand and consumer sovereignty. They must please their customers or else go out of business. Consumers of security services would pay for whatever degree of protection they desired, just as they select the car and extras that they want when they go shopping for an automobile. People who wanted to see a policeman only once in a while, would pay less than those who desired guards on constant patrol. "On the free market, protection would be supplied in proportion and in whatever way the consumers wished to pay for it. A drive for efficiency would be insured, as it always is on the market, by the compulsion to make profits and avoid losses, and thereby to keep costs low and to serve the most wanted demands of the consumers. Any police firm that suffers from gross inefficiency would soon go bankrupt and disappear." [2]

> For a variety of reasons gold holds its intrinsic value better than anything else. It's like a measuring rod. It no more restricts the money supply than the 12 inches in a foot restricts the size of a building you might wish to construct.
>
> - Steve Forbes in an "Open Letter to Mark Zuckerberg" June 25, 2019 on www.forbes.com

What Does History Tell Us About the Possibility of Private Agencies Supplying Security Services?

Most people are in need of some sort of protection. If the State does not provide it, then they must make provision for it themselves. Whenever this occurs, we see that possibilities exist for people to voluntarily create their own solutions. Let us therefore examine several earlier historical periods where the State did not intervene in the production of security or dispute settlement.

There was no modern State as we know it today in medieval Ireland. Beginning as early as the 8th Century, a system of law and judicial enforcement, known as the 'brehon' law, started to evolve. The 'brehons' were private individuals who made a professional study of the law. The main features of the 'brehon' law were:

1. the complete absence of any legislative or judicial power - no trace of State administered justice;
2. the law was purely customary;
3. all judicial authority was purely consensual and judgments were essentially arbitration awards where the chief sanction was public opinion;
4. all criminal acts were considered torts, i.e., as crimes against individuals, rather than against the State;
5. all judgments were in the form of assessment for damages;
6. and the role of the 'brehon' was that of an employee hired to do a specific job - namely arrive at a decision in accord with the customary law. The 'brehon' was subject to damages for announcing a false judgment.

The social and political unit of ancient Ireland was

the ‘tuath,’ a voluntary assembly of landowners, professionals, and craftsmen bound together for socially beneficial purposes. The ‘tuath’ exercised no territorial sovereignty because members were free to leave at will. Law and order were maintained through an elaborate system of insurance. Men were linked together through their ‘tuath’ and an elaborate series of surety relationships, in which one man or group of men vouched for the satisfactory behavior of another.

The ‘brehons’ did not get involved in the enforcement of their decisions. Rather, this was the job of the sureties. For example, a surety would insure payment of a debt by pledging his own property. If the debtor failed to pay, the surety would be responsible for the original debt. The ultimate sanction against one who failed to abide by the decision of the ‘brehons’ was outlawry from the ‘tuath’ and the larger community.

There were occasional disputes which could not be settled peacefully, but during the thousand year history of Celtic Ireland, there were no devastating wars, like those in the rest of Europe. Without the coercive apparatus of the State, no Irish army could long maintain itself in the field. The comparison is a stark one. Over the centuries, the State monopolization of the police and armed forces has led to many more butcheries and slaughter then any private agencies could have inflicted. As Irish history, in contrast to rest of European history shows, private agencies have not only proven themselves more efficient, but far less prone to violence and war than statist armies and police.

The Merchant Courts

A later English parallel to the ‘brehon’ law, was the legal sytem developed by European merchants during the 14th to 16th Centuries. Merchant courts settled most of the important trading disputes of England and much of Europe for several hundred years. Through custom and usage the international community of merchants developed a body of institutions and laws which applied specially to them, wherever they were trading in Europe. What became known as “the law merchant” (as opposed to the common law in England or statist law in other parts of Europe) was the basis for resolving their disputes.

There was no supra-national authority to enforce these decisions of the merchant courts. None was needed because the merchants themselves possessed the final sanction in the event wrongdoers would not honor the decisions of their courts. If a man ignored the decision he would not be sent to jail. Nevertheless, the decision was usually respected because he would be ostracized and blackballed out of his trade. The refusal to trade with an offender was a far greater penalty than physical coercion. The loss of a man’s livelihood meant all.

The merchant courts present a very interesting question about the need for coercion in the State’s judicial system and about what people really want in the way of justice. The long history of merchant courts certainly proves that people are more interested in speedy settlement of disputes according to the informal procedures and practices to which they are accustomed rather than in seeking punishment and revenge against offenders. Mercantile undertakings were considered binding because they were intended to be binding, not because there was any outside authority, such as the State, to compel performance. The threat of non-violent group reprisal was ordinarily sufficient to insure compliance.

For as long as there has been legal history, there has been a parallel history of recourse to voluntary extralegal forums to settle disputes. ‘Brehon’ law and the merchant courts are just two such examples. In some countries they have influenced the development of statist systems, but as both the ‘brehon’ law and merchant courts demonstrate, the State will not long suffer serious rivals. In the case of the merchant courts, they were absorbed into the common law and civil law systems of the European countries. The resort to ‘brehon’ law was outlawed after the English conquered Ireland. Extralegal settlement of disputes allows the parties to “make their own law and their own procedure directly, rather than mediately, through the State. They can avoid the expense of procedural protection they do not need, and the inconvenience of laws they do not like. So in Athens five and a half centuries before the birth of Christ arbitration was favored; Maimonides urged it on his followers; George Washington insisted” on it. [3]

> “Never argue with an idiot; they’ll drag you down to their level and beat you with experience.”
>
> - Charlie Ritchie of the BACKWOODSMAN Magazine

Arbitration

The history of modern arbitration began with the American Civil War when English merchants inserted arbitration clauses in their contracts, at the time of the Northern blockade. This avoided the necessity of resorting to the courts in the event of disputes arising out of cessation of the cotton trade. Arbitration was so successful that it spread from the Liverpool Cotton Association to other commercial associations, such as the Corn Trade Association and the General Brokers Association in England. Arbitration worked for the English merchants for the same reasons that it was

successful for the earlier merchants. The process was entirely voluntary and non-State, right down to the choice of judge and procedures. Arbitration of this type was an arrangement for taking, and abiding by, the judgment of a selected person in some disputed matter, instead of carrying it to the established courts of justice.

In the United States, interest in business arbitration was sparked by its success in England. "Before 1920, nowhere in the United States could an arbitrator's award be taken into court and enforced; ... . Yet it was in those same years before 1920 that arbitration caught on. ... Its popularity, gained at a time when abiding by an agreement to arbitrate had to be as voluntary as the agreement itself, casts doubt on whether legal coercion was an essential adjunct to the settlement of most legal disputes. ... Like their medieval forerunners, merchants in the Americas did not have to rely on sanctions other than those they could collectively impose on each other." [4]

One who refused to pay up might find his access to the association's arbitral tribunal cut off in the future, or his name released to the membership of his trade association. These penalties were far more fearsome than the cost of the award with which he disagreed. The most compelling sanction was not legal or in some cases, economic. Rather business people were concerned with maintaining their reputations and good name. They need not want to undergo the private moral censure which would accompany their refusal to arbitrate or abide by an arbiter's decision.

Today, in the United States, arbitration is a widespread commercial practice. The American Arbitration Association (founded 1926), whose motto is "The Handclasp Is Mightier than the Fist," has 30 regional branches and settles nearly 50,000 cases yearly. Insurance companies, stock exchanges, coin dealers, new car dealers and their manufacturers, all use arbitration to settle disputes among themselves and between their members and customers. This procedure offers economy, speed, privacy, and expertise, which is usually not available in the statist legal system. Anyone who provides for arbitration, as a method of settling disputes, may free an important part of their activities from the shackles of the State. "Arbitration can be viewed as a practically revolutionary instrument for self-liberation from the law." [5] The high cost of going to court, the delays, and even the injustices of the system are all the inevitable outcome of trying to socialize the judicial process.

A recent, well-publicized arbitration award between International Business Machines Corp. (I.B.M.) and its chief Japanese rival, Fujitsu Ltd. illustrates how this procedure has broken new ground in settling complex corporate conflicts. "Their resort to arbitration to resolve a long-running, bitter fight over computer software also illustrates how poorly suited is the traditional legal system to handle complex disputes over new technology." Copyright law, both in Japan and the United States, because it was not intended to apply to machines as complex as computers, has not kept up with new developments in the software field. What the two companies have said is that they cannot wait for the copyright law to get straightened out. They have permitted the two arbitrators, one a well-respected computer executive in a third company, and the other, a Stanford University law professor who specializes in dispute resolution, to "constitute the intellectual property law between their two companies." [6]

Since business must continue and constantly develops new technology that outdistances the statist law, arbitration and other systems of voluntary dispute settlement provide a very acceptable method for resolving commercial disputes. Another recent development in the judicial area is the organization of private firms, such as Judicate, "the National Private Court System," of Philadelphia, and EnDispute, Inc. of Washington, D.C. Judicate is designed to provide the same basic service as the public courts, except that its process is faster, cheaper, and confidential. Insurance companies, such as CIGNA Property and Casualty Companies, and the labor unions and casino management at Atlantic City, New Jersey, are major clients of Judicate, Inc. EnDispute specializes in alternative dispute resolutions, such as the mini-trial from which lawyers are barred. Aetna Life Insurance has patronized EnDispute to avoid spending more on litigation than it might collect in court-awarded damages. It tries to avoid the adversarial atmosphere of the court room and often lets company executives and operating officers settle disputes among themselves.

> The second mouse gets the cheese.

In a free society, all judicial services would be private. There would likely be several competing judicial agencies and police firms in the same geographic area. None would have a monopoly in determining who was a criminal or a contract violator. Judges would be selected by the same process as other professional people. Who appoints doctors or engineers or musicians? The people who employ them, their colleagues, and their clients. Competition would soon determine who provided the most reliable service at the least cost. Company owners and management would be extremely careful whom they employed.

Judicial entrepreneurs would compete among themselves to see which agency could develop and

adopt the most reasonable, and yet least costly legal procedures. There need not be only one standard procedure used by the police or the courts, any more than there is one set procedure that all steel companies use to produce steel. Each company in the protection industry would develop its own special expertise and its own procedures. There would be no necessity for having a single monopolistic agency decreeing that only certain judicial procedures could be applied. If there was a dispute about the use of a certain legal procedure or a conflict about which court system to use, it could be worked out as it is today, under the body of law known as the 'conflict of law.' Given time, a body of customs and procedures would be hammered out among the private firms. It would never be in their interest to resort to violence to settle such disputes. Violence is costly, destructive, and drives off customers. Violence is not conducive to the pursuit of profits.

Disagreements among courts would be handled in the same manner as disagreements among businessmen who have agreed to arbitrate. All would recognize that the resort to violence to solve their problems would be unprofitable and looked upon as an illegitimate, criminal activity. Violence would present a threat to peace and productivity and would normally be shunned. Since private judges and judicial entrepreneurs would be subject to the same sanctions as other businessmen, they would have every incentive to guard their reputations for honest decisions. Customer goodwill and a reputation for honesty and efficiency would be one of the most valuable assets to any firm on the market.

Always keep your words soft and sweet, just in case you have to eat them.

There is no guarantee that a completely private system would not generate some dishonest arbitrators or judges, but there is no guarantee that dishonest judges are not seated on the bench in a statist system. The competitive incentives in the private system help insure honesty and integrity. A monopolistic system nearly guarantees the playing of political favorites, and corruption and bribery. Any private judicial agency that was purposefully errant would lose its income and customers. Only a monopolistic system is guaranteed patronage regardless of how dissatisfied its customers become.

The same safeguards that apply to venal judicial agencies would also apply to police services. Entrepreneurs who run police services are selected for their ability to run an efficient business and please their customers. They are not power seekers or politicians playing political games. (In how many cities is the chief of police a political pawn or appointment?) Competition among companies providing police services in the same geographical areas would tend to keep each company honest. Competition insures the best quality service at the lowest price in all fields.

Private Police

There is no reason to envision a single police agency in any given locality. The claim of "natural monopoly" is a red herring by which the State attempts to justify its own monopoly. The simplest answer is, "let the market decide." If police and judicial services were a natural monopoly, there would still be no justification for outlawing competition in these areas. The marketplace itself would whittle down the number of firms. Even if one firm exercised a natural monopoly, it should not be free of the threat of competition. Competition, even if it only potential or phantom (as we saw in the case of Alcoa Aluminum), is what keeps it on its toes. Without the possibility of competition, there is no standard by which the customer can determine if he is getting his money's worth.

"Wouldn't one police agency go to war with another?" One of the vital checks on the so-called problem of "warring defense agencies" would be the role played by insurance companies in a free society. Since insurance companies are so vitally interested in the safety of their clients and their property, they would probably form close ties with the major providers of security. They would choose those that they found reliable and efficient. It would become difficult for a police or defense agency to survive if the major insurance companies refused to underwrite their activities or those of their clients. The refusal to write property and liability insurance would be a drastic loss to private operations. Such a boycott would speedily lose customers for the offending police or court company.

History offers us two examples of major private police forces in this country and there are no indications that either ever abused the trust of its customers. The Pinkerton National Detective Agency was founded by Allan Pinkerton in Chicago during the early 1850's. It was responsible for many of the investigative methods used by the public police, such as the rogue's gallery. Pinkerton employed the first professional woman detective in this country and pioneered in establishing cooperation among various police forces. Although Pinkerton's has a bad name in labor circles (for participating in the breakup of the Homestead Strike in 1892), it and its competitors today offer an outstanding example of how private police operate.

As early as 1855, the Illinois Central and other railroads retained the Pinkerton agency to provide protection of its rolling stock. Many late-19th Century American railroads found it more profitable to establish their own police forces to prevent car pilferage, thievery from passengers, and embezzlement by employees, than to hire outside agencies. These organizations, collectively, became known as the railroad police and each railroad organized its own force. They are the best model we have of a system of truly private police forces. They have compiled a remarkable record of effectiveness, reducing railroad losses from theft to almost nil. Most of their employees are armed with revolvers, are trained in their use, and may arrest suspects on railroad property. Nevertheless, their history is filled with little, if any, record of abuse.

> The contradiction of hiring an agency of institutional violence to protect us from violence is even more foolhardy than buying a cat to protect one's parakeet.
>
> - Attributed to Linda and Morris Tannehill

The focus of these private police is prevention - to prevent crimes from occurring. This would be the emphasis of nearly all private agencies, although some would undoubtedly specialize in crime solving. "They would furnish guards for factories and stores, and install burglar alarms with direct connection to their office. ... They would maintain telephone switchboards and roving patrol cars and perhaps even helicopters to answer calls for help. They would advise customers who felt themselves in danger on the most efficient and safest protective devices to carry. ... [E]ach company would strive to develop new protective devices that were better than anything its competitor had ... which would lead to tremendous frustration for would-be crooks." [7]

No one believes that all crime will be eliminated. That is a utopian dream. This chapter argues that the free market will provide the most efficient methods of crime prevention, protection, and dispute settlement in the most moral manner. Whatever is done in these fields will be done on a voluntary basis. As we will see in the next chapter, there is a significant difference between a political government which makes "law" and the naturally and customarily evolving law of the free market. If the market can provide standards for weights and measures, time zones, private coinage, private weather-forecasting, private trash collection, and a host of other services now provided by the State, then there is no reason why it should not be able to provide police protection and court services just as well.

Footnotes

[1.] The answer to this question goes far afield of our inquiry in this chapter. Suffice it to say, the State has a vested interested in maintaining itself in the protection field, if for no other reason than this enables it to maintain a monopoly over the production of weapons and armaments.

[2.] Murray Rothbard, FOR A NEW LIBERTY, New York: The Macmillan Company, 1973, p. 220.

[3.] William Wooldridge, UNCLE SAM THE MONOPOLY MAN, New Rochelle, Arlington House, 1970, p. 98.

[4.] Ibid., pp. 100-101.

[5.] Ibid., p. 104. The number of American Arbitration Association branches and cases settled are cited in "Soothing Skills for Troubled Times," INSIGHT Magazine, November 16, 1987, p. 48.

[6.] Michael Miller, "High-Tech World Sees IBM Case as a Way Out Of the Copyright Maze," THE WALL STREET JOURNAL, September 18, 1987, p. 1.

[7.] Morris and Linda Tannehill, THE MARKET FOR LIBERTY, Lansing: by the authors, 1970, p. 83. V

(To be continued)

Bailout of the American Government

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> remembering that in the past the government has agreed to redeem nearly thirty billions of its debts and its currency in gold, and private corporations in this country have agreed to redeem another sixty or seventy billions of securities and mortgages in gold. The government and private corporations were making these agreements when they knew full well that all of the gold in the United States amounted to only between three and four billions and that all of the gold in all of the world amounted to only about eleven billions.
>
> If the holders of these promises to pay started in to demand gold, the first comers would get gold for a few days and they would amount to about one twenty-fifth of the holders of the securities and the currency. The other twenty-four people out of twenty-five, who did not happen to be at the top of the line, would be told politely that there was no more gold left. We have decided to treat all twenty-five in the same way in the interest of justice and the exercise of the constitutional powers of this government. We have placed every one on the same basis in order that the general good may be preserved. [https://millercenter. org/the-presidency/presidential-speeches/may-7-1933-fireside-chat-2-progress-during-first-two-

months. See audio for words in brackets. For "private corporations" read "banks."]

June 5, 1933 A Joint Congressional resolution confirmed Executive Order 6102.

August 28, 1933 Executive Order 6260 declared "that a period of national emergency exists" and confirmed all previous Presidential and Congressional orders "relating to the hoarding, export, and earmarking of gold coin, bullion, or currency and to transactions in foreign exchange."

January 30, 1934 Congress passed the Gold Reserve Act which authorized the President to declare a new gold equivalent of the dollar. Subsequently, the President decreed the gold content of the dollar to be the equivalent of 1/35 (13.71 grains) of an ounce of fine gold, whereas it had been approximately 1/20 of an ounce (23.33 grains of fine gold).

1935 In three decisions, the Supreme Court abrogated the effect of gold clauses both in private and government contracts.

In trying to find confirmation of this, I found an article written and posted on the internet by Daniel Carr which can be found at MoonlightMint.com/bailout.htm. It is titled "FDR's 1933 Gold Confiscation Was a Bailout of the Federal Reserve Bank." In short, Carr concludes that "At the very minimum, Federal Reserve notes to the tune of 20,000 metric tons of gold were 'circulating naked' in 1933. He begins his analysis by pointing out that at that time there were both United States Notes issued by the US Treasury which contained gold clauses, as well as paper notes issued by the Federal Reserve Banks (founded in 1913), which also contained promises to redeem in gold.

> Never put both feet in your mouth at the same time, because then you won't have a leg to stand on.

Carr pegs the total outstanding US Treasury Certificates to pay gold in dollars at about 10 billion, 750 million and about 35 billion 834 million paper notes payable in gold issued by the Federal Reserve. To prove that there was a dire shortage of gold to cover both US Treasury Gold Certificates and paper notes issued by the Federal Reserve one only need to look at the figures mentioned in FDR's May 7, 1933 fireside chat: "all of the gold in the United States amounted to only between three and four billions [measured in dollars] and that all of the gold in all of the world amounted to only about eleven billions." Against that we need to measure the total amount of gold (as represented in dollars) promised by the Treasury and the Federal Reserve which was in the neighborhood of over 46 billion dollars. In other words, calculating "that the gold reserves in the country in 1933 were 4 Billion dollars worth" there were more than 42 Billion dollars worth of Treasury and Federal Reserve notes which could not be redeemed.

No wonder that FDR had to close the banks and regain the confidence of the American people. Some Americans and some foreign governments sensed that something was drastically wrong and that there was no way the US government could fulfill its promises. Although US Treasury Gold Certificates were no longer legal tender and gold clause Federal Reserve notes remained in circulation, neither could be exchanged for gold coin. Had the Supreme Court upheld the gold clause in public and private contracts in 1935, FDR had prepared a script and planned to go before Congress to ask for the annulment of the decision. "To carry through the decision of the Court to its logical and inescapable end will so endanger the people of this Nation that I am compelled to look beyond the letter of the law … ."

In his book, THE PROMISES MEN LIVE BY (1938), Harry Scherman observes that over the long sweep of history there has been "a well-nigh universal welching on the part of governments in the deferred exchanges they had entered into with their own citizens and foreigners - both by direct repudiation and by monetary subterfuge." (p. 249) When the ancient Psalmist wrote, "Put not your trust in princes," he really gave us an expression implying that governments invariably break their promises. [Psalms 146:3]

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> You know, if government were a product, selling it would be illegal.
>
> Government is a health hazard. Governments have killed many more people than cigarettes or unbuckled seat belts ever have.
>
> - attributed to P. J. O'Rourke

Bailout of the American Government

By Carl Watner

Why throughout American history were banks in the United States exempt from laws that were applicable to most other businesses? The simple answer is that they were essentially part of the federal government. In 1933, the federal government protected the banks so as to protect itself from bankruptcy and whatever consequences that might have entailed. How did the US Treasury's gold reserves, then, compare to the amount of gold certificates it had in circulation? If gold ownership had not been prohibited could the government and banks have honored all their obligations? To buttress my argument that the government was sheltering itself from financial danger, here is a mini-chronology of special banking legislation during the early days of the New Deal. However. we must first remember that the Federal Reserve Act was signed by President Woodrow Wilson on December 23, 1913. The Act required 40% gold backing for all Federal Reserve Notes issued.

March 4, 1933 Franklin Roosevelt was inaugurated.

March 6, 1933 Presidential Proclamation 2039 closed all banks in the United States until March 9, 1933.

March 9, 1933 Emergency Banking Relief Act allowed the Federal Reserve to issue additional currency.

March 9, 1933 Presidential Proclamation 2040 continued bank holiday.

March 10, 1933 Executive Order 6073 authorized the Secretary of the Treasury to decide which of the nation's banks could open, and prohibited the export of gold except under Treasury permission.

March 13, 1933 Some, but not all, banks reopened.

April 5, 1933 President Roosevelt signed Executive Order 6102 "criminalizing possession of monetary gold" and mandating that all (subject to certain exceptions) gold coin, gold bullion, and gold certificates be delivered to Federal Reserve banks by May 1, 1933.

May 2, 1933 U S Treasury sold $500 million dollars of government bonds containing gold clauses, which were subsequently dishonored by decision of the Supreme Court in 1935.

When everything is coming your way, you're in the wrong lane.

May 7, 1933 FDR's Second Fireside Chat, in which he said the following:

> Behind government currency we have, in addition to the promise to pay, a reserve of gold and a small reserve of silver [neither of them anything like the total amount of the currency]. In this connection it is worth while

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