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Closed-Loop Demand For Government Bonds.

With the whipsawing in the markets over the last month, a concern *du jour* has arisen. What if the United States cannot sell its bonds to the old reliable ready purchasers, to the same always game counterparties? The Chinese appear to be disgorging themselves of their vast stash of treasuries. (Emphasis on "appear"—China badly needs to maintain the impression that its currency is convertible in the dollar.) The stodgy economies of Japan and the UK have become the major holders. The United States is supposed to float its massive debt reissues to yesterdays-news buyers such as these? Duck and cover. "Maybe the Fed will buy it!" he said risibly.

How illuminating history can be on these issues. Let us cast our minds back not to the history of federal debt, but to that of the gigantic newcomer in the twentieth century, municipal debt, particularly of the school-bond variety. Readers will recall the column I wrote on the work of recent economics Nobelist Claudia Goldin, work that absolutely lionizes the tremendous boom in school, particularly high school construction over 1910-1940. The Nobelist forgot to tell us what it cost and what were the consequences of the financing model, namely unbelievably jacked-up property and new state-level income taxation. There is quite a case that financing this school-building caused, yes caused, the Great Depression. Thanks a lot, good government types.

Continue reading.

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