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Book Review

American Bonds: How Credit Markets Shaped a Nation

Sarah L. Quinn
Princeton, N.J.: Princeton University Press, 2019, 289 pp.

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This is a frustrating book. Quinn's *American Bonds* shows that the federal government's credit policies were important factors behind the particular evolution of securitization and credit markets in the United States. Quinn's historical narrative, from the country's founding to the present day, is intertwined with a brief overview of important business cycles and economic crises that affected credit markets, such as the Panic of 1819 and the 2008 financial crisis. Although Quinn investigates how federal legislation and institutions were important in facilitating the intermediation of credit in various markets, including in land, railroads, and mortgages, she completely omits an analysis of the policies' efficiency. She also fails to contribute to our understanding of whether the government was necessary for the formation and development of these particular

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markets or if private actors could have provided similar financial specialization in the absence of government involvement. In the end, *American Bonds* merely provides a historical overview of credit markets without seriously investigating whether the government's intervention was indispensable or weighing the costs and benefits of its involvement.

The main problem of the book is its theoretical framework. According to Quinn markets cannot function, let alone exist, without significant government assistance and intervention. Moreover, misguided government intervention does not promote inefficiency or economic recessions, because without government involvement the outcome would have been even worse. In fact, laissez-faire is "a utopian dream," and "attempts to move into a laissez-faire world would mean deregulation, which inevitably causes instability, crisis, and human suffering, leading people to demand protection from the government" (p. 203). Although Quinn argues that free markets are an illusion, quite astonishingly this does not stop her from describing various financial markets as "laissez-faire" because they lack (or purportedly lack) direct government oversight. Quinn naturally leaves out the indirect oversight of those financial markets, such as the Federal Reserve's regulation of the banking system and its ability to inject credit into financial markets. Although Quinn utilizes the theories of Hyman Minsky and recognizes that "all bubbles depend on credit expansion," expansionary monetary policy is surprisingly absent from the list of potential culprits in the start a boom (p. 27). Whenever the government does clearly contribute to a financial crisis, the escape hatch is that the unfettered market would have been much worse, so that in reality the government did nothing wrong. Quinn succinctly states her view when she discusses the recent 2008 financial crisis and the government's decades-long involvement in securitization of mortgages and cheap credit policies:

> Does this all mean that the federal government is to blame for the crisis? After all…the government played a central role in keeping credit cheap, and cheap credit fueled the crisis. While it is a fair question, I nevertheless worry that it is a misleading one. It is obviously bad policy for a government to hit the accelerator on financial markets while also removing the brakes. Aside from the issue of whether this question deflects responsibility from Wall Street…it carries the unspoken

> assumption of a world where advanced capitalist markets somehow exist without extensive government participation….the real problem was not regulation but overzealous deregulation. (p. 210)

Quinn's theory of markets and the indispensable nature of state assistance allows her to sidestep investigating the efficiency and possible adverse consequences of government policies. Thus, Quinn is able to write about the development of land sales on credit without questioning whether it was an important factor behind the land speculation that led to the Panic of 1819. More importantly, Quinn fails to discuss how the government's suspension of specie payments from 1814 through the post–War of 1812 era (with only nominal resumption in 1817) and the newly created Second Bank of the United States (established in 1816) were important factors in facilitating an increase in the money supply and a postwar boom. A similar lack of analysis is shown in Quinn's section on federal assistance to railroads in the post–Civil War era, because she does not link the generous loan and land assistance with the transportation companies' inefficiency and corruption (pp. 23–36).

Most aggravating are her overviews of the development of credit markets in the early twentieth century. Quinn champions the Federal Farm Loan Act of 1916, which established a system of land banks to lend to farmers. She documents the Treasury's subsequent assistance and describes how the banks had lent roughly $350 million by the end of 1920. However, she does not link these actions at all with the difficulties that farmers experienced in the post–World War I era (pp. 82, 86–87). Could the new legislation, in addition to the European demand for US agricultural products during the war, have encouraged an overexpansion of farming and then delayed recovery by subsidizing agriculture after it was no longer needed in such large amounts? Quinn provides no answer. Quinn also neglects how other misguided government regulation in the housing market around this time gave a superficial indispensability to federal assistance. She recognizes that during the Progressive Era housing reformers advocated new construction codes that were important factors in driving up building costs beyond the increase in consumer prices, as well as how the war increased the profitability of manufacturing relative to the real estate market and led to rent controls and prohibitions on the construction of houses. However, Quinn then documents the government's subsidization of home construction through the Army's Ordinance Department, the Emergency Fleet Corporation, and the United States Housing Corporation without ever raising the possibility that the government created the crisis that the public and intellectuals came to believe only it could solve (pp. 92–93, 99–103). Instead, "the defenders of laissez-faire had good reasons to be worried," because there was a clear need for the government to step into the breach (p. 103).

Overall, although this book provides important empirical information on the development of credit markets and various related government programs, it lacks a serious theoretical and interpretative framework.

The first Series A savings bond was issued a month later, with a face value of $25. They were marketed as a safe investment that was accessible to everyone. Series B, C, and D bonds followed over the next few years. Series E bonds, referred to as Defensive Bonds, were a major source of financing in the period just before U.S. entry into World War II. On April 30, 1941, Roosevelt purchased the first Series E bond from Treasury Secretary Henry Morgenthau, Jr.; the next day, they were made available to the public. After the attack on Pearl Harbor, Defensive Bonds became known as War Bonds.Â 2019. American Bonds: How Credit Markets Shaped a Nation. Princeton University Press. References[edit]. Learn how bond yields affect a nation's currency. A rising yield is currency bullish. A falling yield is currency bearish.Â Bond yields actually serve as an excellent indicator of the strength of a nationâ€™s stock market, which increases the demand for the nationâ€™s currency. For example, U.S. bond yields gauge the performance of the U.S. stock market, thereby reflecting the demand for the U.S. dollar. Letâ€™s look at one scenario: Demand for bonds usually increases when investors are concerned about the safety of their stock investments. This flight to safety drives bond prices higher and, by virtue of their inverse relationship, pushes bond yields down. American bonds: How credit markets shaped a nation, Quinn, Sarah L. Save to Library. Download.Â What is decisive is not so much what is contracted, but how it is contracted, and therefore the first part of this book deals with contracting through online intermediary platforms. The finance sector has not remained oblivious to this phenomenon: subjects who demand financing from a plurality of people through digital platforms. Treasuries are the Foundation of Bond Market Credit Spreads. Because US Treasuries are free of default risk, other bonds are compared to treasuries in order to get an idea of their credit risk. When this article was written GE Capital Bonds with a 5 year maturity, were yielding 1.80%. The equivalent US Treasury was yielding .61% so the credit spread was 119 basis points (1.19%). The bonds of JCPenney (which is not in great financial shape) on the other hand, were yielding 8.3%. As you can see the credit spread for JCPenney Bonds at 769 basis points is much â€œwiderâ€ than the spread for Exxon Mob