

YPI & SU LIBRARY  
a1002640878/b

# THE AMERICAN ECONOMY

A HISTORICAL ENCYCLOPEDIA

VOLUME 1

EDITED BY CYNTHIA CLARK NORTHRUP

# **The American Economy: A Historical Encyclopedia**

Volume One: Short Entries

edited by

Cynthia Clark Northrup

A B C  C L I O

Santa Barbara, California Denver, Colorado Oxford, England

HC  
102  
A66  
2003  
v.1

Copyright © 2003 by Cynthia Clark Northrup

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, except for the inclusion of brief quotations in a review, without prior permission in writing from the publishers.

Library of Congress Cataloging-in-Publication Data  
The American economy : a historical encyclopedia / edited by Cynthia Clark Northrup.

p. cm.

Includes bibliographical references and index.

ISBN 1-57607-866-3 (2 vols. : hardcover : alk. paper)

ISBN 1-57607-867-1 (eBook)

1. United States--Economic policy--Encyclopedias. 2. United States--Economic conditions--Encyclopedias. 3. United States--Social policy--Encyclopedias. 4. United States--Social conditions--Encyclopedias. I. Northrup, Cynthia Clark, 1959-


HC102.A66 2003  
330.973'003--dc22

2003020334

07 06 05 04 03 10 9 8 7 6 5 4 3 2 1

This book is also available on the World Wide Web as an e-book. Visit [www.abc-clio.com](http://www.abc-clio.com) for details.

ABC-CLIO, Inc.  
130 Cremona Drive, P.O. Box 1911  
Santa Barbara, California 93116-1911

This book is printed on acid-free paper .  
Manufactured in the United States of America

## Bond Sales

Sales of treasury bonds, notes, and bills, which play an integral role in fiscal and monetary policy.

The conventional view assumes the government must sell securities to finance the difference between its spending and its tax revenues (deficit spending). However, this view overlooks the crucial role that bond sales play in managing aggregate bank reserves and in the administration of short-term (overnight interbank) interest rates.

When government spends, recipients of Department of the Treasury checks deposit them into banks, which adds reserves to the banking system. When government taxes, reserves decrease. The Federal Reserve does not pay interest on reserves, so if government deficit spending (spending that exceeds tax revenues) causes excess total bank reserves, the overnight interbank interest rate quickly falls to 0 percent. To maintain a positive overnight rate, the government can sell securities to drain the excess reserves from the system. Thus, logically, government spending precedes bond sales and functions to support interest rates, not to fund expenditures as generally assumed. In this sense, the imperative of treasury bond sales should not be thought of as borrowing, since the sales do not finance or fund government expenditure.

The national debt in this sense provides a record of government action to maintain a positive short-term interest rate and functions as an interest rate maintenance account.

Modern (state) money remains fiat currency (irredeemable paper currency that derives its purchasing power from the declaratory fiat of the issuing government), with the national government the monopoly issuer. Treasury bonds thus differ from other, nongovernment types of debt, because no financial constraint restricts the issuer of the currency. Government debt denominated in another currency or debt issued by parties not acting as currency monopolists constitute very different matters.

—Mathew Forstater

### References

Bell, Stephanie. "Can Taxes and Bonds Finance Government Spending?" *Journal of Economic Issues*, vol. 34, no. 3 (2000): 603–620.

Mosler, Warren. *Soft Currency Economics*. West Palm Beach, FL: AVM, 1995.

Wray, L. Randall. *Understanding Modern Money*. Cheltenham, England: Edward Elgar, 1998.

*See also* Volume 1: Deficit Spending.

## Bonus March (1932)

Depression-era protest.

In 1924, Congress approved a deferred \$1,000 bonus for veterans of the American Expeditionary Force as a reward for their service during World War I. The government scheduled payment of the money to begin in 1945, but financial hardships brought on by the Great Depression led many veterans to demand their payments early. In 1932, President Herbert Hoover, concerned with balancing the federal budget and overwhelmed by the nation's economic woes, refused to sup-

port the early disbursement of the bonus funds and effectively killed off the required legislation. In response, a group of unemployed veterans, led by ex-sergeant Walter Williams and calling itself the Bonus Expeditionary Force, marched on Washington in protest in May 1932. They built crude camps around the city and vowed to remain in the nation's capital until the government paid the bonuses. By June 1932, the "Bonus Army" numbered about 20,000 men, many of whom had their wives and children with them. After Congress refused to comply with their request, many of the veterans left the city, but several thousand remained to continue the lobbying effort.

By mid-July the veterans' camps had become a political embarrassment to Hoover, and he issued orders to have the protestors evicted from the capital. He first called in the Washington police, but their efforts only led to a riot during which two veterans died. Hoover then called in the U.S. Army. Hurling tear gas and brandishing bayonets, federal troops led by General Douglas MacArthur chased the over-matched protestors out of town, burning their camps and injuring more than 100 veterans. The idea of U.S. soldiers attacking U.S. war veterans appalled the general public, and the political consequences for Hoover were disastrous. Though MacArthur had exceeded the president's orders with regard to excessive use of force, many Americans blamed Hoover personally for the entire episode, further damaging his already tarnished political image.

—Ben Wynne

### References

Liebovich, Louis W. *Bylines in Despair: Herbert Hoover, the Great Depression, and the U.S. Media*. Westport, CT: Praeger, 1994.

*See also* Volume 1: Great Depression.

## Boston Tea Party (December 16, 1773)

Protest against English taxation that sparked the American Revolution.

The British East India Company, facing severe financial reverses, convinced the British Parliament to allow it to sell tea in the American colonies at a price that would undercut even smuggled Dutch tea and would raise revenue while clearing the company's warehouses of a huge surplus. Unfortunately, this tea would still carry the despised per-pound tax, which had remained as a token duty, and would be sold through only a handful of dealers in America. This high-handed policy united small merchants who were left out of the deal with patriot organizations that protested the tax. The arrival of the tea ships *Eleanor*, *Dartmouth*, and *Beaver* sparked public protest in Boston, including public meetings, distribution of fliers, and harassment of the consignees, who took shelter in Castle William (a fort on an island in Boston Harbor) to avoid the crowds.

The Sons of Liberty, led by Samuel Adams, decided on December 13, 1773, that no one could unload the tea, nor could it remain on board 20 days, at which time customs officials would seize the tea for sale. On December 16, the night