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Fed's $500B Municipal Bond Buying Could Leave Out Cities with Large Black Populations.

KEY POINTS

- The Fed will spend $500B purchasing municipal bonds
- 35 cities with the highest black population do not qualify for this program
- Brookings notes this is an unintended consequence, not a racist intent

In an attempt to aid an economy rapidly collapsing under the weight of the COVID-19 pandemic, the Federal Reserve announced a move last week to purchase $500 billion worth of short-term bonds issued by states or counties with more than two million people, or cities with a population above one million. A Brookings Institution study of the plan reveals that it leaves out most cities with large black populations.

Researchers Aaron Klein and Camille Busette wrote that "None of the 35 most African American cities in America meets the Fed's criteria for direct assistance."

The researchers note that this seems to be unintentional, as the population requirements mean that just 10 cities and 15 counties in the United States have access to the Municipal Liquidity Facility (MLF). This would force those 35 cities to try to receive aid through their state government, injecting a dose of politicking into a situation that demands rapid broad-based assistance.

There is a very strong correlation between cities with large black populations and their inability to access the MLF, as Brookings finds that for "every 10 percent more Black the city's population, it is 10 percent less likely to qualify for the Fed's program." Additionally, the Fed is actually increasing the risk it is taking on with this municipal bond program, as the 10 largest cities in America have a lower average credit rating than the next largest 20 cities.

Brookings notes that the genesis for this dynamic lies in the Fed's admirable desire to push aid to cities and states as quickly as possible, not any clear racist intent. Large metropolitan areas like Boston, Pittsburgh, Atlanta, Baltimore, and Detroit do not qualify for this program, and zero cities or counties in Ohio, Florida or New Jersey (America's densest state) reach the very high population bar set to qualify for access to the MLF.

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