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How the Muni Bond Market Is Preventing Economic Recovery.

The role of Wall Street financiers in forcing austerity on state and local governments. This is The COVID-19 Daily Report for September 25, 2020.

Federal Reserve chair Jerome Powell and Treasury Secretary Steven Mnuchin spent the week fielding questions from Congress about the effect of their bailout rescue and whether it has delivered a broadly shared recovery. Even those who generally think the Fed has done a good job have criticized the orientation around the Municipal Liquidity Facility (MLF), which can offer direct loans to cities and states suffering through revenue shortfalls. Because of the counter-productive and unnecessary penalty rate and generally poor terms, the MLF has only been used twice, leaving close to $500 billion in borrowing authority unused.

According to the Brookings Institution, revenues will decline by between $467 billion and $544 billion between now and 2022. This compares favorably to the lending authority. And the Fed has tools to offer short-term, endlessly rolled-over loans under Section 14, outside the MLF, and give states and cities what they need to survive, and not completely stunt economic recovery.

“It’s driving me crazy, it’s almost like a fiduciary duty violation,” said Cornell University’s Robert Hockett, who has been pressuring the Fed to get more creative with its state and local lending authority. Given that the Fed has a mandate to maximize employment, and we know that state and local austerity was a lead weight on employment and economic growth during the Great Recession, it’s hard to argue his point. “It’s not even like a long time ago we have to look back, it’s within living memory for us,” Hockett said.

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