

# **Bond Case Briefs**

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## **Biden Needs to Fix Mnuchin's Big Mistake.**

**The president-elect must safeguard the Fed's lifeline for companies and municipalities.**

U.S. Treasury Secretary Steven Mnuchin has just put the country's financial stability at unnecessary risk, by refusing to extend programs that've kept credit flowing to companies and municipalities amid a severe economic crisis. It's now up to President-elect Joe Biden and the Federal Reserve to correct what could prove to be a costly mistake.

At issue are several emergency lending facilities, set up to address a severe credit freeze that accompanied the onset of the coronavirus pandemic in March and April. With \$195 billion in backing from the Treasury, the Federal Reserve made about \$2 trillion available to small businesses, corporations, and state and local governments, ensuring that they'd have access to the funds they needed to meet their obligations. The mere presence of such a formidable backstop emboldened lenders, making private credit widely available on excellent terms. As a result, the Fed's facilities have gone largely unused. For the most part, this is a sign that they're doing their job, providing the confidence needed for markets to operate on their own.

Now, however, Mnuchin wants to shut them down. In a letter to Fed Chairman Jerome Powell, he said he intends to withhold the approval needed to extend the programs beyond Dec. 31, and asked the Fed to return the capital that the Treasury has committed. His rationale is that he's acting according to the requirements of the Cares Act, that markets' thorough recovery makes removing the backstop completely safe, and that the money could better be used for direct grants.

He's wrong on all counts. When the programs were created, the clear intent was to extend them as long as necessary, just as the Fed did with its emergency lending facilities during the 2008 financial crisis. They remain necessary: With Covid-19 resurgent across the country, the economic outlook darkening, and Congress making no progress on added fiscal relief, it would be profoundly irresponsible to remove the one remaining lifeline that companies and municipalities have. And while direct grants are undoubtedly needed, that's a separate subject: The Treasury's capital is a commitment that it will eventually recoup, and it in no way prevents Congress from allocating funds for grants. It's hard not to see Mnuchin's decision as politically motivated, designed to undermine the incoming administration.

Together, Biden and the Fed can set things straight. The president-elect should affirm that after taking office in January, he'll direct his Treasury secretary to grant the approval that Mnuchin has refused. As long as the central bank doesn't return the Treasury's capital, the Fed should be able to revive the facilities. It's less than ideal, but the knowledge that help is on the way should be enough to get markets through what's turning out to be a difficult presidential transition.

### **Bloomberg Opinion**

By Editorial Board

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