

Bond Case Briefs

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American Suburbs Have a Financial Secret.

Municipal bonds have become an unavoidable part of local governance—and their costs divide rich towns from poor ones.

One Sunday morning in March 1949, a group of nearly 300 people, clutching deck chairs and sleeping bags, lined up to buy new homes in what had, until recently, been a stretch of potato fields in central Long Island. They hoped to move to “fabulous Levittown,” as its developer, William J. Levitt, had branded his creation: more than 17,000 gleaming houses in an all-white community with freshly dug wells and newly paved roads. But that was the extent of the neighborhood—Levitt’s profits were in home sales, not city planning. In fact, his namesake had hardly any public infrastructure, and Levittown’s new political leaders needed to come up with money for maintenance, trash, and schools. So they took a gamble and decided to enter the municipal-bond market.

Selling bonds—essentially issuing buyers an IOU, plus interest—is a quick way for a government to raise funds. You, or someone you know, probably own a U.S. Treasury bond. But institutional investors—a mix of insurance companies, mutual funds, and private-equity firms—buy bonds too, including from local governments and school districts. Cities get money up front, and buyers are assured that they’ll turn a profit; this win-win proposition made many postwar suburbs take the plunge into the bond market. Throughout the 1950s, as private developers rapidly constructed new suburbs, school districts in Nassau County, where Levittown is located, increased their debt load by sixfold to meet the needs of their new residents. The problem was: Not every town and city was treated the same. Credit-rating agencies saw richer locales as very likely to repay their debts and gave them sweet deals on interest rates, which meant that these towns owed less to those who’d bought their bonds. The poorer places got shortchanged.

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The Atlantic

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