MEMORANDUM

TO: Federal Financial Analytics Clients

FROM: Karen Petrou

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The *Washington Post* columnist, Steven Pearlstein, yesterday said that the panoply of Fed facilities proves that socialism rules the markets even as capitalism exerts its relentless discipline on everyone else. Any doubt of this was erased yesterday when the Fed's ingeniously-named Main Street Facility became still more generous to troubled firms with revenues of as much as $5 billion a year. I've said before that the Fed's idea of Main Street looks a lot like Park Avenue, but now I think it's more like Park Avenue between, say, 72nd and 80th streets. In a consumption-based economy with more than thirty million newly unemployed Americans who had record amounts of unsustainable debt even before the crisis, the Fed's "vast water-hose supplies of money" to the market aren't going to trickle down. In this memo, I'll expand on ways the Fed can use a "Family Financial Facility" to water the economy from the ground up. Why it must do so is best spelled out in our most recent ***EconomicEquality*** blog post entitled "Inequality Rising."

When I first proposed the FFF on March 13, the Fed was still fastidious about its Section 13(3) obligations to provide only liquidity, not solvency, support. Since then, it's thrown caution to the winds, buying or making loans to large companies without even the nicety of requiring them first to demonstrate that they cannot find credit elsewhere. And, with Chairman Powell saying yesterday that the Fed will go still bigger if markets get still riskier, these opening salvos into solvency support may not be the last.

Given the Fed's liberality of spirit for at least the few, how might it best serve the many via a Family Financial Facility or other vehicles that, as the head of the Bank for International Settlements put it, recognize that economic resilience – like architectural soundness – starts at ground level. On a recent podcast, Texas billionaire Mark Cuban proposes that the Fed fund consumer overdrafts. The details of his idea are problematic, but the idea isn't. The Fed should fund bank extensions of credit for short-term payment insufficiencies, neutralizing the capital cost of these extensions of credit as done for loans supporting money-market funds and exposures pledged as collateral to the PPP secondary facility. To focus these loans on households needing liquidity, not solvency, support, eligible borrowers could be those with minimal overdrafts before the COVID crisis – the equivalent of the Fed's pre-crisis rating-eligibility standards.

The Fed can and should also establish a liquidity facility to fund the short-term small-dollar loans it and the other banking agencies recently encouraged, putting its money where its mouth is.

Under pressure from recent appraisal guidance and risk worries, many banks are curtailing home-equity lines of credit for all but the wealthiest. These loans are secured and, when carefully underwritten, sound household-liquidity vehicles at current interest rates. The Fed thinks its ultra-low rates ensure greater credit availability, but this isn't true for most households. Finding ways to make monetary policy work for the masses, not the markets, again puts the Fed's money where its mouth is.

What about small businesses? PPP pandemonium makes it indisputable that a lot of small businesses – the real ones, that is – need a lot of help. The Fed's PPP liquidity facility is the first of all of its facilities to support anyone other than the markets, big corporations, and selected municipal issuers, but it's only for PPP loans and thus limited to all but the lucky few.

The Fed should target funding for the most critical areas of truly-small business finance, for example supporting restaurant and hospitality start-back-ups after the crisis quickly to restore employment for the millions of low-wage workers now out of a job. As Justin Lahart made clear in yesterday's *Wall Street Journal*, this would make a major macroeconomic difference and, along the way, do something sensible in support of social justice.

These are just a few ideas, but households and small businesses aren't the only sectors that need the Fed's support. A new facility for non-profits is apparently in the works, and that's all to the good, but it isn't enough.

In the midst of the COVID crisis, there's another, silent medical disaster: a sudden halt to clinical trials essential to identify the treatments for the next pandemic, to tackle cancer, to cure blindness, and to make a difference across the spectrum of disease and disability that blight many lives and hobble the economy. COVID is indeed an urgent crisis, but it will take years to restart biomedical research forced suddenly to shutter due to increased risk and the sudden diversion of funding for COVID.

I've written before about the "valley of death" caused by the dearth of funding needed to take promising biomedical research into the clinic. Now, the valley of death is even deeper and wider. Funding biomedical research is traditionally a fiscal-policy responsibility, one met in legislation (H.R. 2620) to establish a pilot funding program backed by a limited federal guarantee. But, the difference these days between fiscal and monetary policy is non-existent and the damage done to biomedical research is going to be among the nation's most pressing problems when we emerge from our home offices. Surely this matters as much as getting Carnival Cruise Line a cheaper loan.