

CURRENT SCHOLARSHIP

The Federal Reserve Public Education Emergency Finance Facility (PEEFF): A Proposal

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State and local finances, including for public education, have been hit hard by the COVID-19 crisis, leaving more than a \$500 billion hole in their budgets. Grants from the federal government would be the best solution for these temporary fiscal problems, but, even in the best-case scenario, it is unlikely that sufficient government funds will be forthcoming. Fortunately, additional resources could be made available through the Federal Reserve System (the Fed). This paper describes how the Fed's newly created *Municipal Liquidity Facility (MLF)* can be used to provide substantial emergency assistance to the public education systems of states and cities. Although the MLF has a \$500 billion lending capacity, public education would have to compete with many other institutions for this funding. This paper proposes a new special Fed facility, **The Public Education Emergency Funding Facility (PEEFF)**, which would be dedicated specifically to funding public education. To fund education, as a new innovation, this facility could buy long-term **human capital bonds** from the states at very low interest rates. By buying these bonds, the Federal Reserve could help states maintain the crucial public job of educating our children and young adults during the pandemic, rather than only bailing out Wall Street.

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