QUICK SUMMARY OF LEGISLATION – HR 6422 – TO CREATE A NATIONAL INFRASTRUCTURE BANK

By the Coalition for a National Infrastructure Bank

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Our nation's spending on infrastructure has fallen to its lowest level in 70 years, to 2.5% of our nation's GDP. That's half the comparable level in Europe, and 1/3 the level in China. As a result, productivity, investment, and manufacturing have collapsed, and we are losing our world-wide competitive edge.

The American Society of Civil Engineers (ASCE) estimates, in its 2021 report, that $6.1 trillion is needed just to repair our nation's infrastructure (see Table below). Of that, $2.6 trillion is currently NOT funded in the following areas: Roads, bridges, freight corridors, and mass transit; Electricity grids; Schools; Dams, levees, waterways, and ports; Airports; Rail; Drinking water and wastewater; Public parks and recreation; and Hazardous and solid waste. In addition, we need a High Speed Rail network linked to improved urban transit networks, Complete Broadband access, Affordable Housing, a Renewable Energy Super-Grid, and Major Water Management Projects to combat flooding and bring water to dry regions. All of these require smart technologies for optimal efficiency and minimum environmental impact.

Infrastructure development needs careful planning, and a reliable source of long-term funding, in order for it to succeed. That's just not possible under a system of uncertain annual appropriations (unreliable funding for The Eisenhower Highway Trust Fund is a case in point), and politicians' short–term horizons of from 2 to 4 years. Moreover, the Federal budget is in financial disarray – with total revenues available for discretionary spending having fallen from 65% in 1960, to 11% in 2019. Add to that, the COVID-19 Recession and Stimulus spending have led to huge budget deficits, and an unprecedented debt overhang that is putting pressure on interest rates. So it is most unlikely that adequate infrastructure financing to cover all of the financing gap will ever come from the Federal Budget.

Legislation (HR 6422) has been introduced in Congress to create a $4 trillion National Infrastructure Bank (soon to be raised to $5 trillion). This "NIB" will be a separate institution from the Budget, set up as a government-sponsored, lending, deposit-money bank, and capitalized with existing Treasuries held by the public sector. That's the same approach that was used four times before in our nation's history, starting with the First Bank of the United States created in 1791 by Treasury Secretary Alexander Hamilton, and ending with FDR's Reconstruction Finance Corporation (RFC). **Except for a very small appropriation from Congress to get started, the NIB will pay its own way. It will not create any new Federal debt, nor require any new Federal taxes. As such, it is configured to attract maximum political support from both Republicans and Democrats in Congress.**

This is how it would work (see attached Flowchart):

- **The NIB will be capitalized** by purchasing up to $500 billion in existing Treasury bonds held by the private sector (e.g., in pension and other savings funds), in exchange for an equivalent in shares of preferred stock in the NIB. The exchange would take place via a sales contract with the NIB/Federal Government that guarantees a preferred stock dividend of 2% more than private-holders currently earn on their Treasuries. That contract would form a binding obligation to provide the incremental 2%, or about $10 billion per year, from the Budget. While temporarily appearing as mandatory spending under the Budget, the $10 billion per year will be returned each year as a dividend paid to government, from the NIB's earnings stream (see next bullet).
- **The NIB will provide up to $5 trillion in infrastructure loans.** That's enough to cover all of the $2.6 trillion funding gap identified by ASCE, plus $2.4 trillion for other mega projects. Using standard commercial-bank accounting procedures, the NIB will create a deposit in the borrower's

name, equal to the loan amount, as each loan is approved and made. The NIB will charge interest on the loans equal to the benchmark Treasury bond rate (or a minimum of 1.6% per year) plus points to reflect the borrower's credit quality. At those interest rates, the NIB should be earning at least $80 billion per year, out of which it will pay: operating expenses, interest on deposits held at the NIB, and loan loss provision set-asides. What is left over should be more than enough to return $10 billion per year back to the Budget, as a dividend payment to government.

- It is expected that **borrowers from the NIB will be state and local governments**, because they own 90% of the nation's public infrastructure. No further privatization of public infrastructure – beyond what has already taken place (e.g., at ports, airports, and other places that normally collect user fees) – would result from NIB loan operations. State and local governments will be able to service their loans out of recovering revenues, especially as millions of workers are re-employed in great-paying jobs created by these large public investments.
- Infrastructure **projects will be vetted** according to their cost cost-benefit analysis, and a set of specific criteria set out in the Bill. Preliminary estimates suggest that, for every $1 spent on a public infrastructure project, anywhere from $3-7 is returned back to the economy. Careful planning – to maximize economic growth and "dig up the road only once" – would be facilitated by Regional Economic Accelerator Planning Groups with state and local government participation, and technical assistance coordinated by the NIB.

NIB operations are expected to have a profound, positive impact on the American economy. They will create up to 25 million new jobs, paying union-level "Davis-Bacon" wages, and grow the economy faster and make it more productive. That's what happened during the period of the last Infrastructure Bank, the RFC, from 1933-57, when growth averaged 5.5% per year, Total Factor Productivity maxed out at 3.4% per year during the 1940s, and unskilled wages and Federal income tax receipts rose dramatically. Similar results are replicable at near-full employment: a 2014 study by the University of Maryland estimated that, compared to stagnant economic growth averaging 1.8% per year, increased infrastructure spending would ultimately grow the economy faster by 2.9% per year, and real disposable income by 3.4% per year, than without such investments. As ASCE also stated in its 2021 Failure to Act Study (using the same U. Md. forecasting model), failing to close this infrastructure investment gap brings serious economic consequences. By 2039, a continued underinvestment in our infrastructure at current rates will cost:

- $10 trillion in cumulative lost GDP,
- More than 3 million jobs in year 2039, and
- $2.24 trillion in exports over the next 20 years.

Most importantly, the NIB is positioned to play a significant role in fighting the economic effects of the 2020 COVID-19-induced Recession. As of this writing, the economy is projected to recover to its pre-pandemic level by mid-2021. However, the pace of jobs recovery has slackened, and millions of jobs – particularly for workers with less than a college degree – are probably never coming back, setting up a massive need for career changes and retraining in the U.S. Meanwhile, the NIB can be in place to finance projects that create 25 million new, great paying jobs, and provide workers with certified training in those new professions. That will bolster economic recovery faster than just about any other public policy. Faster growth, in turn, will prompt a recovery in Federal, state, and local revenues, ensuring that infrastructure loans can be repaid. And the NIB can do this without the need to rely on new Federal deficits or taxes.

Therefore, we are asking every citizen to write or call your Congressman, and ask him/her to support HR 6422, the National Infrastructure Bank Act of 2020, to create great-paying jobs in your area.