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A NATIONAL INVESTMENT AUTHORITY: FINANCING AMERICA'S FUTURE

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EXECUTIVE SUMMARY

The coronavirus pandemic has exposed deep structural flaws in the design and operation of the U.S. economic and political systems. At the same time, it presents a rare opportunity for innovative rethinking and remaking of both our private markets and our public institutions, so that they better serve the needs of the American people.

A National Investment Authority (NIA) could be the institutional platform for pursuing this goal. The NIA would mobilize private capital to rebuild America's obsolete public infrastructure. It would do this by acting directly inside financial markets—through a lending subsidiary and a separate venture capital arm. The NIA would identify infrastructure projects important to the country's long-term stability and growth, and create mechanisms to align the individual incentives of private investors with the social imperatives of inclusive and sustainable long-term development.

The NIA proposal draws on the long-standing American tradition of hybrid public-private finance. It is the 21st-century update of the Reconstruction Finance Corporation (RFC), created by Herbert Hoover and later successfully used by Franklin Roosevelt to finance the nation's epic recovery from the Great Depression.

During economic crises, such as the current one, the NIA would perform an additional function as the entity responsible for managing federal bailouts of private businesses. In this role, the NIA would act in the best interests of the American people and ensure that emergency relief funds are distributed efficiently, fairly, and transparently.

Voters recognize the NIA's potential to improve our physical and social infrastructure and help local and state governments in a time of financial need. A majority of respondents (54%) support the creation of a National Investment Authority. Less than a quarter of respondents (22%) oppose it.

THE PROBLEM: THE FINANCING "GAP"

The coronavirus pandemic has exposed some of the deepest economic, political, and social problems in America. It laid bare the extent to which our healthcare system was not ready to handle a major public health emergency, our industrial giants could not ramp up production of urgently needed protective equipment, and our state and local governments lacked financial means to keep our communities afloat when disaster hit. With businesses across the country struggling to survive the lockdown and skyrocketing unemployment, the pandemic has turned into an economic crisis. To avoid a total economic collapse, Congress appropriated trillions of dollars in emergency relief for individuals, companies, and municipalities. The process of distributing federal relief funds, however, has been plagued with inefficiency and misallocation, with no effective public oversight in place. With stock markets rallying despite continuing economic woes, the coronavirus crisis led to a massive transfer of wealth from ordinary Americans to big corporations and high-rolling investors. If left uncorrected, these dynamics threaten to push the country into the second Great Depression.

To avoid this calamity, the United States urgently needs a strong program of post-pandemic economic recovery, which would create jobs, restore our domestic industrial capacity, and strengthen our communities. Rebuilding and modernizing our public infrastructure, the very foundation of the national economy, must be at the center of such a recovery program. For decades, America's basic physical infrastructure—roads, bridges, power grids, water cleaning facilities—has been in a chronic state of disrepair, mainly because of the lack of sufficient financing. And if there is not enough money to fix what we already have, there is even less hope for finding money to build new, environmentally clean and technologically "smart," infrastructure necessary for a sustainable and inclusive 21st-century economy.

It is no secret why financing for a much needed overhaul of America's infrastructure has been difficult to come by. On the one hand, a national project of this scale requires funding far in excess of what over-stretched public budgets can provide, especially now. On the other hand, while there is plenty of private capital eager to invest in "hard" infrastructure assets, private investors are inherently averse to funding big-ticket projects that take a long time to become commercially profitable. They prefer instead to invest only in those infrastructure projects that are certain to generate healthy cash flows within a short period of time. The result is that lucrative projects like modernizing busy toll roads and power plants in major metropolitan areas attract plenty of private capital, while things like construction of fast broadband or energy-efficient public transportation networks in underserved rural areas do not get funded in private markets.

In essence, the current financing gap is a structural problem: There is too much private capital looking for infrastructure investment opportunities, while at the same time too many urgently needed public infrastructure projects never get off the ground. Closing this gap in infrastructure finance accordingly requires a structural solution: the creation of a National Investment Authority (NIA).

THE SOLUTION: A NATIONAL INVESTMENT AUTHORITY

The NIA would be a federal entity created by an Act of Congress. It would design, finance, and implement a national strategy of economic development with an emphasis on long-term sustainability and social inclusion. It would act as a direct financial market participant, channeling both public and private money into large-scale infrastructure projects that typically do not get funded in private capital markets. Such projects would include both physical infrastructure (such as energy, transport, broadband internet, water management) and critical social infrastructure (such as public education, affordable housing, and healthcare). The NIA would utilize the federal government's unique advantages—its size, resources, long-term investment horizons, and focus on public interest—to make it less risky and more attractive for private investors to participate in financing these publicly beneficial projects.

The NIA would be governed by a Governing Board (the NIA Board), with 5-7 members appointed by the President with Congressional approval for staggered 10- or 12-year terms and guaranteed a high degree of decision-making autonomy. The NIA Board would identify key national economic priorities and formulate a public investment strategy in line with those priorities. It would then oversee the implementation of this strategy by the NIA's two principal operating arms, chartered as government-owned corporations: the National Infrastructure Bank and the National Capital Management Corporation.

National Infrastructure Bank (NIB). The NIB would be the NIA's lender arm. It would focus on credit-based infrastructure finance, along the lines of the established "government-sponsored enterprise" (GSE) model. It would support and amplify the flow of credit into infrastructure projects through a combination of direct federal grants, loans, guarantees, insurance, securitization, and secondary market-making. For example, the NIB would purchase and pool revenue bonds and project bonds issued by municipalities, public utilities, and other government instrumentalities, as well as qualifying bonds issued by private entities for the purposes of financing publicly beneficial infrastructure projects.

National Capital Management Corporation (NCMC, or "Nicky Mac"). Nicky Mac would be the NIA's venture capital arm. It would focus on equity-based infrastructure finance, more appropriate for truly transformative projects. Following the business model of a traditional Wall Street asset manager, Nicky Mac would set up a series of "infrastructure investment funds" and actively solicit pension funds, insurance companies, university endowments, foreign sovereign wealth funds, and other institutional investors to purchase passive equity stakes in its funds. Nicky Mac will act as the sole manager of each fund, making all investment decisions in accordance with the NIA's strategic objectives. Nicky Mac's in-house professional teams would select and manage diversified portfolios of public infrastructure assets: nationwide clean energy and transportation networks, regional air and water cleaning and preservation programs, systems of ongoing adult education and technical training, networks of mixed public-private "startup" finance funds, and so on.

Nicky Mac's role as an active asset manager would enable it to finance high-impact innovative projects that can potentially leapfrog the U.S. economy. For example, instead of building new or improved oil and gas pipelines, Nicky Mac would systematically convert the national energy system from petroleum-based to renewable- and hydrogen-based. And instead of merely repairing existing roads, it would build new high-speed rail networks connecting and integrating multiple small towns and cities into thriving regional economic zones.

To reward private investors for their participation in financing these long-term publicly beneficial projects—even where such projects do not generate easily privately "capturable" revenues—Nicky Mac would use advanced financial engineering, backed by the full faith and credit of the United States. For example, it could guarantee the return of the principal investment to passive investors in funds that prioritize commercially unprofitable projects like toll-free roads, adult education centers, or public parks. It would also offer equity-like additional returns that reflect the current estimates of future local, regional, or national macroeconomic impacts of the individual funds' projects. If, for example, experts calculate that, upon completion, a particular fund's investments would generate an additional 5% in local or regional economic growth over a certain period of time, Nicky Mac would translate that projected public gain into a corresponding added return for the investors in the fund.

In short, the NIA would operate as a principally new form of public-private partnership, in which the public leads and private capital follows. To keep it from potential abuse and corruption by political incumbents and powerful private interests, the NIA would be subject to multiple layers of public oversight. Most importantly, its project selection process would be conducted via transparent public auctions, following strict procedural rules and investment guidelines. The NIA would be regularly audited by the Government Accountability Office, and its top leadership would regularly report to Congress on all of its activities. Congress should also establish a new Public Interest Council to strengthen oversight of the NIA's performance.

THE NIA'S ROLE IN A CRISIS

The NIA's investment expertise and public accountability make it an ideal institution to take on the task of mobilizing the nation's financial resources in response to economic crises. During a crisis, the NIA would manage the distribution and allocation of the federal emergency relief ("bailout") or economic stimulus funds to qualifying private businesses. This would ensure far greater transparency, efficiency, and democratic oversight of the process than is possible under the current system of outsourcing bailout management tasks to giant private asset managers like BlackRock**.** Unlike BlackRock, the NIA would not have any conflicts of interest. It would follow clear guidelines and use its in-house expertise to direct emergency funds to productive enterprises that need it most. Because this would be a natural extension of its non-crisis functions, the NIA would be able to run this process far more effectively and fairly than it is done today.

THE CONTEXT: PAST AND PRESENT

Currently, there is no federal agency similar to the NIA. The two pillars of public finance are the Treasury Department and the Federal Reserve. The Treasury is in charge of the federal fiscal policy, while the Federal Reserve conducts monetary policy. Neither agency is explicitly charged with, or has in-house expertise in, direct financing of economic reconstruction and development. Functionally situated between the Treasury and the Federal Reserve, the NIA would fill this institutional gap and supplement both of these agencies' activities.

Since 2008, multiple legislative proposals have called for establishing some type of a federal "infrastructure bank" that would provide government-backed credit financing mainly for traditional physical infrastructure projects. While specific proposals may differ, the basic "infrastructure bank" model is significantly limited in the scope and scale of its activities. A typical federal "infrastructure bank" would be funded by Congress up to a certain amount, and use these funds to make low-cost loans to public and private entities with revenue-generating infrastructure projects. In contrast to the NIA, it would not be able to manage a huge diversified portfolio of both credit and equity investments in various physical and social infrastructure projects, including those that do not generate cash flows through toll and other user charges.

The coronavirus crisis has reignited the interest in the New Deal-era's Reconstruction Finance Corporation (RFC). Established in 1932 and initially funded by Congress, the RFC played the central role in leading the nation out of the Great Depression. It extended loans to banks, railroads, utilities, commercial and agricultural enterprises, municipalities, and other federal agencies at a time when private credit was scarce. It also took direct equity stakes in banks, insurance companies, and commercial firms in need of capital. Hugely powerful, the RFC effectively functioned as the New Deal's "capital bank."

The NIA builds on, updates, and expands the RFC's business model. Much like the RFC, the NIA would be a hybrid public-private entity. It would create publicly beneficial investment opportunities for private capital, which simply do not exist in today's market, and "crowd in" (rather than "crowd out") private investors currently reluctant to finance long-term public infrastructure projects. This is especially easy to see in the NIA's role as a venture capital fund manager. In effect, the NIA may be thought of as an "RFC meet BlackRock" type of market actor.

Of course, some might object to the NIA proposal as an unnecessary "subsidy" for private investors. This criticism reflects justified mistrust and fear of effective privatization of public infrastructure. However, these objections miss the critical public benefits of using private capital for rebuilding America's infrastructure:

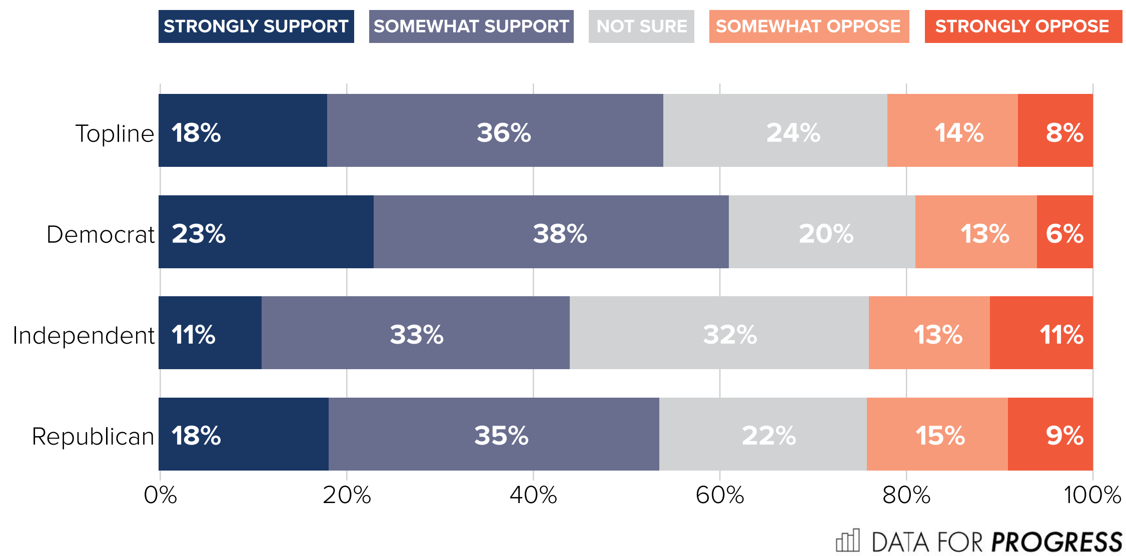
- It will allow the NIA to pursue a potentially bolder economic agenda. As a hybrid market actor, the NIA need not be hostage to annual Congressional infighting over the federal budget, and therefore would not be unnecessarily hamstrung in its activities.
- It will make the financial system more stable and reduce the risk of another major financial crisis. By partnering with private investors, the NIA will drain private capital away from speculative trading and other socially unproductive investments. Direct federal financing of infrastructure projects alone could not have this important effect on financial markets.
- It can safeguard against political cronyism and corruption of the NIA's investment decisions. Raising money from pension funds, insurance companies, and other institutional investors will create an important external signaling mechanism for the NIA. If the NIA is not doing a good job of selecting specific infrastructure projects, investors will either price this information in or take their money elsewhere.

Most importantly, the core element of the NIA model is public control over the flow of money into long-term projects of high public, as opposed to private commercial, value. The NIA is a public institution acting inside private markets and using market tools to generate massive public benefits.

PUBLIC SUPPORT

The National Investment Authority would be an innovative structural solution to a host of America's most persistent structural problems. Voters recognize this. A new national poll from Data for Progress and the Justice Collaborative Institute found that, when voters learn how the NIA would facilitate investment in vital infrastructure, 54% of likely voters support the creation of a National Investment Authority. This support crosses party lines: 53% of Republicans express support for the idea, along with 61% of Democrats. Only 22% of respondents, less than a quarter, express opposition and fewer than 1 in 10 (8%) express strong opposition.

Do you support or oppose the creation of a National Investment Authority that would identify publicly beneficial infrastructure projects that need financing, enable greater private and public investment in these projects, and lead the nationwide effort to rebuild America's infrastructure?



CONCLUSION

The United States urgently needs a well-defined national strategy of sustainable and inclusive long-term economic growth and development. Planning and implementing this strategy is an extraordinarily difficult task that requires strong but flexible public institutions to carry it out. The NIA is proposed as precisely that kind of an institution: a public entity acting directly in financial markets and mobilizing private capital to rebuild America's physical and social infrastructure. As a hybrid market actor, the NIA would use sophisticated tools of private finance to generate public benefits on the scale far greater than what we can imagine in today's world. While no government entity is currently equipped to perform this task, the NIA idea has deep roots in American history. The NIA would be the 21st-century version of the RFC. Just like the RFC helped to finance the nation's economic recovery from the Great Depression, the NIA will help us to prepare for and manage new challenges we face as a nation, both in crises and beyond.

POLLING METHODOLOGY

From 6/21/2020 to 6/22/2020 Data for Progress conducted a survey of 1,353 likely voters nationally using web panel respondents. The sample was weighted to be representative of likely voters by age, gender, education, race, and voting history. The survey was conducted in English. The margin of error is Â± 2.7 percent.

COVER PHOTO
Jules Marvin Eguilos/UNSPLASH