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America Needs an Infrastructure Bank.

As Republicans and Democrats argue over the size and funding of an infrastructure bill, the idea of a national infrastructure bank is back on the table—and not a moment too soon. It is the right way to fund our infrastructure by bringing private investment to bear, and to break the partisan standoff that threatens our ability to solve our infrastructure crisis. The dire condition of our roads, bridges, public transport, water supply, and power grid threatens our economic growth.

What is the infrastructure bank? It has taken different forms in proposals since 2007. But simply put, the proposal is to create a government-sponsored institution, such as Fannie Mae, alongside private money that consolidates funds and distributes them to public projects in the form of loans or direct equity investments.

The bank needs to be of a size and scope to provide for long-term strategic infrastructure investment on a national scale and with a long-term time horizon. It should have $100 billion in equity capital and a $1 trillion balance sheet, sufficient to galvanize the capital markets and generate funding on a sustainable long-term basis. It can also play additional critical roles: Removing structural barriers to infrastructure funding—there are a surprising number—and providing expertise in planning and project management that exceeds what existing state and municipal resources can accomplish.

There are several compelling reasons for committing to the infrastructure bank. The first has simply to do with the scale of the infrastructure emergency. The $2.3 trillion proposed for infrastructure investment under President Biden's first American Jobs Plan sounds enormous, as does the $1.7 trillion in the administration's later proposal and the $1.2 trillion in the bipartisan deal under discussion today. Unfortunately, these figures are not as big as they seem. While the initial plan is bold, necessary and ambitious—it aims for nothing less than to transform infrastructure for the 21st century and revitalize American productivity for decades to come—the proposed expenditure is not nearly adequate. The latest bipartisan deal would add only $600 billion in new spending over five years. The American Society of Civil Engineers has called for $2.59 trillion in infrastructure spending just to bring our existing infrastructure into a state of adequate repair—that is, without starting any new projects. A true modernization and revitalization would cost dramatically more.

Public funding options are limited by political reality. The current stalemate over the Biden infrastructure plan is driven partly by how infrastructure should be defined, but primarily by how it should be paid for. The proposed mechanisms—higher taxes or a bigger deficit—are politically unpopular. One can argue that taxation is an appropriate way to pay for public projects, but it is a hard sell for politicians. There are other disadvantages to public funding. Government budgets are short-term and subject to political whims. Infrastructure needs a long-term planning horizon.

The alternative is to turn to private investment. The good news is that ample private funding is available. U.S. pension funds had over $18 trillion in assets under management at the end of 2019. Add in overseas pension funds and that total climbs to over $40 trillion. Private equity funds and overseas sovereign wealth funds bring the total still higher. There might even at some future point be a dedicated Infrastructure IRA as I have proposed. All of these investors would benefit greatly from exposure to infrastructure, which is highly predictable and generates stable, predictable cash flows that are maintained over the decades-long life of the investment.

Still, raising dedicated private funds and channeling them to infrastructure projects is no easy matter. That’s where the infrastructure bank comes in.

The hard but surprising truth is that there is currently no direct path for private investment in infrastructure. Many pension funds and other private investors want to invest in infrastructure. But they have a hard time finding projects in the labyrinth of federal, state, and local entities that control the nation’s infrastructure. Even when projects can be found, they are often not designed for private investment. They are largely funded by federal grants and state and municipal bond issues. There is limited equity opportunity through public-private partnerships, but not nearly enough.

The bank’s first task is simply to take in both federal and private funds—at massive scale—and direct them to state and local infrastructure projects. And, working in the other direction, it brings the most promising projects to the attention of investors. Like Fannie Mae, it brings liquidity and transparency to an illiquid, opaque market.

An infrastructure bank can do more. It can provide project management and oversight. Developing projects via public-private partnerships is complex and time-consuming—beyond the capacity of many state and local agencies. The bank can recruit and deploy experts and staff. It can help local agencies with the strategic and day-to-day demands of project management: permitting and contracting, helping define and then oversee major technical elements, determining concession timeframes that structure public-private partnerships, and monitoring contractor performance.

The bank can support the underserved, by investing in regions such as inner cities or low population density towns that because of acute needs and weak revenues are unable to fund infrastructure on their own. As a government-sponsored bank, it can plow back profits to subsidize projects in less wealthy areas at lower returns. Think of this U.S. infrastructure bank as the equivalent of the World Bank but for the 50 states and thousands of municipalities that need the help to devise and execute on long-term infrastructure plans.

In the face of the infrastructure crisis—and of our political paralysis—innovative and bipartisan solutions are needed. The bank is one such innovation. The idea has been in circulation long enough. It is time to act to make it a reality.

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