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Infrastructure Bank Proposals Would Concentrate Transportation Policy in Washington

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Resistance to higher fuel taxes to fund state and federal transportation programs has prompted President Obama and some members of Congress to endorse a federal infrastructure "bank." The idea is to circumvent budgetary limits on federal spending to provide more money for highways, transit, and other infrastructure. Although each proposal differs in significant ways, all would lead to a concentration of infrastructure investment decisions in Washington, D.C., bypassing state departments of transportation and other government entities that are responsible for most such decisions under existing law.

Three Infrastructure "Bank" Proposals. In theory, a government infrastructure "bank" would be capitalized by federal appropriations, and this capital could leverage a greater volume of debt borrowed by governments or by private-sector partners. In some of the more recent proposals, these so-called banks would be funded entirely by appropriations and would have no authority to borrow money for loans or investments. As of early 2011, the three main infrastructure bank proposals were:

- ***The National Infrastructure Development Bank Act*** (H.R. 402) introduced by Representative Rose DeLauro (D–CT). The bank would be owned by the government, capitalized by annual appropriations of $5 billion per year for five years, and would be authorized to issue a variety of debt instruments that would *not* be guaranteed by the federal government. Funds would be used for loans and loan guarantees on eligible infrastructure projects.
- ***American Infrastructure Financing Authority*** (S. 652) introduced by Senator John Kerry (D–MA). The Authority would be a government entity funded by a one-time appropriation of $10 billion that would be used to provide loans and loan guarantees to eligible infrastructure projects. S. 652 does not authorize the Authority to borrow money. The Kerry and DeLauro plans allow for a wide range of infrastructure investments—water, transportation, and energy, etc.
- ***National Infrastructure Bank***, proposed by President Obama in his FY 2012 budget.[1] It would be part of the U.S. Department of Transportation (DOT) and would be funded by an appropriation of $5 billion per year in each of the next six years. It would be permitted to provide loans, loan guarantees, and grants to eligible infrastructure projects for transportation only.

There are a number of problems with these infrastructure bank approaches in general, as well as specific concerns with each of them.

What Is a Bank? These proposed entities—and similar ones that exist in the states from earlier legislation—are described as "banks"; however, two of them are no such thing. The common mean-

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ing of a "bank" describes a *financial intermediary* that borrows money at one interest rate and lends it to credit-worthy borrowers at a somewhat higher interest rate to cover the costs incurred in the act of financial intermediation. The Kerry and Obama proposals are not banks, because they rely entirely on congressional appropriations and thus indirectly on deficit finance and taxpayers.

Only the DeLauro proposal resembles a bank (her plan involves the act of financial intermediation), but therein lies another problem. The federal government has a miserable track record of operating financial entities. Fannie Mae and Freddie Mac are merely the most recent and most costly examples of a long and sorry history of federal financial incompetence. Supporters of the DeLauro bank might argue that the bill now explicitly denies this bank the "full faith and credit" of government, but that did not deter a $150 billion bailout of Fannie and Freddie, whose debt was likewise unguaranteed. Another reason for concern is that DeLauro claimed her bank would be "an innovative public-private partnership like Fannie Mae."[2]

The DeLauro and Kerry plans follow half the principles of banking—they provide loans that earn interest and are expected to be paid back—but Obama's bank "will provide grants and loans, and a blend of both." Grants, of course, are not paid back, prompting "one former member of the National Infrastructure Financing Commission to observe that 'institutions that give away money without requiring repayment are properly called 'foundations' not 'banks.'"[3] Senator James Inhofe (R–OK), the ranking member of the Senate Environmental and Public Works Committee, noted:

> Banks don't give out grants; they give out loans. There is also currently a mechanism for giving out federal transportation grants—it is called the highway bill. I don't believe an infrastructure bank will increase total transportation investment—it will only take money away from what would otherwise go through the existing highway and transit programs. The only thing you are going to do is move decision making from States to U.S. DOT officials in Washington—an outcome I do not support.[4]

Plans Create New Bureaucracy Instead of Building Infrastructure. Senator Inhofe correctly notes the bureaucratic and Washington-centric focus of each of these bank proposals. The current federal highway program was created by the Federal-Aid Highway Act in appreciation of the state's primacy in determining how trust fund resources would be allocated, but each of these banks would place those decisions in Washington and in the hands of newly created bureaucracies.

Both the DeLauro and Kerry bills are concerned about their banks' bureaucracies, fussing over such issues as detailed job descriptions for the new executive teams and the process by which board members will be appointed. The Obama plan proposes that $270 million be allocated to conducting studies and administering his new bank and 100 new employees be hired to run the program. Inquiring minds might ask why the $270 million could not be used to fill potholes on the crumbling interstate highways, and instead of hiring 100 new people, perhaps some of the existing 58,000 federal transportation employees might be available to manage that activity.

The DeLauro plan would focus investments on projects with social welfare objectives, requiring that "The Bank shall conduct an analysis that takes

1. U.S. Department of Transportation, *Department of Transportation Fiscal Year 2012 Budget Highlights*, February 2011, p. 22, at *http://www.dot.gov/budget/2012/fy2012budgethighlights.pdf* (April 22, 2011).
2. Press release, "Improving Transportation Creates Jobs," Office of Representative Rosa DeLauro (D–CT), June 10, 2008, at *http://delauro.house.gov/text_issues.cfm?id=1247* (April 22, 2011).
3. Ken Orski, "The Transportation Community Braces for Continued Uncertainty and Improvisation," *Innovation NewsBriefs*, Vol. 21, No. 3 (February 1, 2010), p. 2.
4. Senator James M. Inhofe, statement before the Committee on Environment and Public Works, U.S. Senate, September 28, 2010, at *http://epw.senate.gov/public/index.cfm?FuseAction=Hearings.Statement&Statement_ID=8cee4317-6930-454a-8ad4-39395bf7cb7e&IsPrint=True* (April 22, 2011).

into account the economic, environmental, social benefits, and costs of each project under consideration for financial assistance under this Act."[5] Specifically, DeLauro's legislation mandates job creation, responsible employment practices, use of renewable energy, reduction in carbon emissions, poverty and inequality reduction, pollution reductions, training for low-income workers, public health benefits, and improvement of the physical shape and layout of public housing projects.[6]

Deficit Spending by Another Name. While many advocates of such "banks" present their plans as responsible, business-like entities that will spur important investment and aid the economy, all evidence indicates that these plans are little more than a disguised repeat of Obama's failed American Recovery and Reinvestment Act of 2009. Indeed, sympathetic economists writing in the recent *New York Review of Books* argue that "the solution lies in the creation of a National Investment Bank that will produce more jobs while not seriously increasing the deficit. Behind this lies solid economic theory. The theory is Keynesian."[7] Enough said.

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5. National Infrastructure Development Bank Act of 2011, H.R. 402, Section 10 (b)(2)(A), at *http://hdl.loc.gov/loc.uscongress/legislation.112hr402* (April 25, 2011).
6. *Ibid.*, Section 10, (c)(1) through (4).
7. Robert Skidelsky and Felix Martin, "For a National Investment Bank," *The New York Review of Books*, April 28, 2011, p. 26.