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Obama's Peculiar Obsession with Infrastructure Banks Will Not Aid Economic Revival

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In response to the credit downgrade by Standard & Poor's in August, the grim reports on the state of the economy, and the collapse of the stock and financial markets in the week after the downgrade, President Barack Obama has re-engaged with the issue of America's faltering economy and the human misery left in its wake. While it is possible he may propose a serious and detailed plan during his much-anticipated jobs speech next week, so far his response has included policies that both Democrats and Republicans have rejected in the past.

The President's proposal for an infrastructure bank is one idea that he and other progressives have been flogging for the past few years.[1] Although several infrastructure bank proposals have been introduced in Congress,[2] all involve the creation of a new federal bureaucracy that would provide federally funded loans and grants to approved infrastructure proposals submitted to the bank by eligible entities. Funds to provide these loans would either be borrowed by the bank or provided by appropriations, depending on the proposal. But an infrastructure bank would do little to spur the economic recovery—and nothing to create new jobs.

Misplaced Humor. In reviewing these infrastructure plans it is apparent that, as a proposal to jump-start the economy, these banks possess all the liabilities of (but are even more ineffective than) the failed American Revitalization and Investment Act of 2009 (ARRA), which committed $800 billion to stimulus spending, including $48.1 billion for transportation infrastructure. As the President has recently acknowledged, and The Heritage Foundation predicted,[3] the funded projects have been very slow to get underway and have had a limited impact on economic activity.

In a recent meeting with his Jobs Council, Obama noted that "Shovel-ready was not as…uh…shovel-ready as we expected." The media reported that the "Council [Council on Jobs and Competitiveness], led by GE's Jeffrey Immelt, erupted in laughter."[4] That the President and his business community advisers found this waste of $800 billion and the subsequent loss of hundreds of thousands of jobs a source of humor is emblematic of the Administration's failed approach to the economy.

Banks Make Loans, Not Grants. Take for example the President's national infrastructure bank proposal, which was included in his February 2011 highway reauthorization proposal. His bank would be part of the Department of Transportation and would be funded by an appropriation of $5 billion per year in each of the next six years. Obama's "bank" would be permitted to provide loans, loan guarantees, and *grants* to eligible transportation infrastructure projects.[5]

As Heritage and others have noted, the common meaning of a "bank" describes a *financial inter-*

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mediary 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. In this regard, the Obama proposal is not a bank, and it relies entirely on congressional appropriations—thus, on deficit finance and taxpayer bailouts.

Grants 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.'"[6] Senator James Inhofe (R–OK), the ranking member of the Senate Environment and Public Works Committee, further noted that:

> 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.[7]

Bureaucratic Delays. Although Obama has yet to offer any legislation to implement his "bank," infrastructure bank bills introduced by Senator John Kerry (D–MA) and Representative Rosa DeLauro (D–CT) illustrate the time-consuming nature of creating such a bank, suggesting more than a year or two will pass before the first dollar of a grant or loan is dispersed to finance a project.[8] Both the DeLauro and Kerry bills are—appropriately—concerned with their banks' bureaucracy, fussing over such things as detailed job descriptions for the new executive team, how board members will be appointed, duties of the board, duties of staff, space to be rented, creating an orderly project solicitation process, an internal process to evaluate, negotiate, and award grants and loans, and so on. Indicative of just how bureaucracy-intensive these "banks" would be, the Obama plan proposes that $270 million be allocated to conduct studies, administer his new bank, and pay the 100 new employees hired to run it.

By way of contrast, the transportation component of the ARRA worked through existing and knowledgeable bureaucracies at the state, local, and federal levels. Yet despite the staff expertise and familiarity with the process, as of July 2011—two and a half years after the enactment of ARRA—38 percent of the transportation funds authorized have yet to be spent and are still sitting in the U.S. Treasury, thereby partly explaining ARRA's lack of impact.

Infrastructure "Banks" No Source of Economic Growth. The President's ongoing obsession with

1. See, for example, Ed Rendell and Scott Smith, "Transportation Spending Is the Right Stimulus," *The Wall Street Journal*, August 11, 2011, p. A13.
2. For a review and analysis of the most current infrastructure bank proposals, see Ronald D. Utt, "Infrastructure Bank Proposal Would Concentrate Transportation Policy in Washington," Heritage Foundation *WebMemo* No. 3235, April 26, 2011, at *http://www.heritage.org/research/reports/2011/04/Infrastructure-Bank-Proposals-and-Transportation-Policy*.
3. Ronald D. Utt, "Infrastructure Stimulus Spending: Pandering to Organized Labor," Heritage Foundation *WebMemo* No. 3003, September 8, 2010, at *http://www.heritage.org/research/reports/2010/09/infrastructure-stimulus-spending-pandering-to-organized-labor*.
4. "Obama Jokes at Jobs Council: 'Shovel-Ready Was Not as Shovel-Ready as We Expected,'" FoxNews.com, June 13, 2011, at *http://nation.foxnews.com/president-obama/2011/06/13/obama-jokes-jobs-council-shovel-ready-was-not-shovel-ready-we-expected* (August 30, 2011).
5. 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* (August 30, 2011).
6. Ken Orski, "The Transportation Community Braces for Continued Uncertainty and Improvisation," *Innovation NewsBriefs*, Vol. 21, No. 3, February 1, 2010, p. 2.
7. James Inhofe (R–OK), "Innovative Project Finance," 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* (August 30, 2011).
8. See Utt, "Infrastructure Bank Proposal Would Concentrate Transportation Policy in Washington."

an infrastructure bank as a source of salvation from the economic crisis at hand is—to be polite about it—a dangerous distraction and a waste of his time. It is also a proposal that has consistently been rejected by bipartisan majorities in the House and Senate transportation and appropriations committees, and for good reason. Based on the ARRA's dismal and remarkably untimely performance, Obama's infrastructure bank would likely yield only modest amounts of infrastructure spending by the end of 2017 while having no measurable impact on job growth or economic activity—a prospect woefully at odds with the economic challenges confronting the nation.

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