The Workings and Benefits of the AIB

INTRODUCTION

A once in a lifetime opportunity is coming into view for America. The American Infrastructure Bank (AIB), which is the quintessential populist measure, becomes feasible if the GOP takes the White House, US Senate and US House, this November.

The AIB implements a creative, proven financial concept (see below) and extends $5 trillion (or more) of below-market-rate loans to *worthy* (pro-fossil-fuel, commercially viable) infrastructure projects, over 10 years.[1] Moreover, the AIB would lend directly to most projects and lend indirectly to some projects via a revived "Main-Street banking network," consisting of private credit unions, community banks and medium-size banks. (Such banks hold $10 billion or less in assets.) As a result, the nation's infrastructure would be greatly improved, which, in turn, would stimulate the entire economy to an incredible degree. More than 25 million good paying jobs would result. Trusted Main-Street banks would be revived and multiply, too.[2]

> Presidential candidate Donald Trump has recently addressed problems in the banking system and has raised the issue of bitcoin. The AIB would be a good tool, if he wins and Republicans secure majorities in both Senate and House.

The American Society of Civil Engineers has identified about $2.5 trillion in unfunded, infrastructure repair projects and sizeable portions (perhaps $500 billion) of partially funded, infrastructure repair projects. These projects take in roads, bridges, seaports, airports, standard rail, waste removal, lead pipe remediation and so forth. Upwards of another $2 trillion could be used for new infrastructure, such as high-speed rail, affordable housing and water projects. (It will be important to double check the estimates of the American Society of Civil Engineers and of all other estimates for infrastructure projects.)

America's infrastructure needs are severe, yet the needed funds have not been forthcoming. Belt tightening is the order of the day for federal, state and local governments. The municipal bond market has not picked up the pace. Presently, the US spends on infrastructure, as a share of GDP, about half what Europe spends and a third of what Communist China spends. Further privatization of infrastructure would help lower some but not all of the immense infrastructure bill.

If Congress would establish the American Infrastructure Bank, instructing the Treasury Department to take on the management of the AIB, America's situation would be transformed. For one thing, the AIB would easily supply the prodigious sum of $5 trillion in loans, at a significantly below market rate; Congress would neither have to raise taxes nor borrow the money in order for the AIB to have the money to lend. See below.

With a $5 trillion AIB in place, manufacturing and other production would soar. This is one of the keys to taming inflation and solving a host of other problems. The Gross Domestic Product

(GDP) would boom, jumping from a projected, substandard growth rate of about 1.8%, up to, as high as, 5%, or a level not experienced for a sustained period of time since the 1950s and 1960s.[3] Highly credible estimates foresee the addition of 25 million good paying jobs, as a matter of course.[4] The public debt load (debt as a share of GDP) would decline sharply.[5] Federal and state fiscal integrity would be much easier to achieve. The dollar would regain its strength on the world market. Most importantly, the AIB is one of those vital programs that would buy the country time—time to sort out the deepest issues that we face.

HOW THE AIB WOULD WORK

Where would the AIB get the money to lend and operate? Not by raising taxes and not by borrowing. Instead, it would "capitalize" already existing government securities ("treasuries") held by the private sector (e.g, in pension funds), and engage in the lawful practice of fractional reserve banking. Capitalization is about attracting preexisting capital. The AIB would swap out securities for bank stock and the bank stock would pay above and beyond what the security was already paying. Fractional reserve banking would allow the Treasury to lend up to $10 for every $1 it held in capital.

Here is an illustration of the operations of the AIB. A holder of $1 million in treasuries exchanges them for bank stock. He or she would continue to receive their annual dividend, perhaps,$50,000. An additional $20,000 would be received per year. (The AIB would pay out 2% annually, above and beyond what the security was already paying.)

Having attracted $500 billion in capital, the AIB would have upwards of $5 trillion to lend. The main office of the AIB could receive 86% of this sum, or $4.3 trillion, and would lend that amount to qualified infrastructure projects. The remaining 14%, or $700 billion, could be lent among 435 satellite (congressional district) infrastructure banks: each congressional district would receive $1.6 billion. And these satellites, sharing some of their newly received capital with local "Main-Street banks" (private credit unions, community banks and medium-size banks), would see to it that an amount equal to or greater than $700 billion is lent to qualified infrastructure projects. (The aforementioned ratio of 86/14 going to main office versus satellites is subject to change and perusal of more information. See below, including footnote number 8.)

Today, a state or local government or a private firm, wanting to finance an infrastructure project, often has to pay, perhaps, 9 or 10% or higher in interest on a loan. By contrast, the AIB could set the interest rate at the treasury rate or about 4.5%.[6] Assuming that the AIB has lent out $5 trillion, it follows that the Treasury could take in, as profit, $450 billion per year. $450 billion compares handsomely to the $10 billion that the AIB would be obligated to pay in dividends to the holders of AIB stock. (2% of $500 billion is $10 billion. Remember, that this 2% is above and beyond the preexisting dividends or other payouts that the government has already budgeted for.) This profit defers operating expenses of the AIB and serves as a rainy-day fund, in case the economy slows or a loan or loans go bad. (A certain portion of the profit might be used to lower taxes or for other purposes.)

CERTAIN CONDITIONS MUST BE MET

There is the all-important matter of ensuring that the $5 trillion in loans goes to worthy, that is, commercially viable, projects, not to boondoggles, nor to satisfying political ambitions. Towards the end of underwriting worthy projects, a great deal depends upon a comprehensive victory of pro-market forces in the November federal elections. Congress—both House and Senate—should put forward the pertinent legislation; the President should be on board with it. Such forces would need to pass legislation that met certain conditions. At the state, county, municipal and local party levels, pro-market forces could lend important support, as well, and could pass supportive resolutions.

The first condition that must be met to ensure that the AIB, including its 435 satellite banks, underwrite worthy projects, is that loans must be pro-fossil-fuel. There should be no underwriting of the fraudulent "climate-change" agenda, as per the foolhardy, misnamed Inflation Reduction Act of 2022. Excluded would be loans for projects meant to lower carbon emissions, e.g., the rollout of solar and wind farms and of EV fueling installations. Speaking of carbon emissions, high-speed rail merits underwriting *not* because it lowers emission along train routes but because it would fill a major gap in the US transportation system—medium range transport (routes of about 150 miles or more), especially between big cities.

Those of us who are promoting the AIB will expound upon the climate-change hoax as our educational and lobbying efforts unfold. In the meantime, there is my 62-page report, *How the Climate-Change Agenda Is Destroying America: A Case Study*.

A second big condition to ensure that loans go to worthy projects is to give the AIB, including its satellites, full authority and capacity to carry out its mission. The AIB should be independent of Congress and staffed exclusively with relevant experts, especially in finance, banking and engineering; those on staff should be granted lengthy (6 year) terms, and instructed to pursue commercially viable projects (those passing rigorous cost-benefit analysis). The state-owned Bank of North Dakota furnishes an excellent model, for most of its history.[7] From the onset, the North Dakota government granted the officers of the bank, most of whom were top experts in relevant fields, a wide leeway in choosing what projects to support. The bank's mandate has been to uphold the common good, remain solvent and yet not make the pursuit of profit a top priority.

> The history of North Dakota's brilliant banking system is very instructive. The AIB would approximate to a nationwide version of the Bank of North Dakota (BND). And the AIB would backstop "Main-Street banks" across the country, just as the BND backstops "Main-Street banks" in North Dakota. As a result, the AIB would help usher in a second American century.

There should be a healthy division of labor among the main office of the AIB and its satellites. The main office should prefer to underwrite multi-state, mega, complex infrastructure projects. Furthermore, it should only underwrite revenue-generating (e.g. user fee) infrastructure projects and endeavor not to underwrite projects that the private sector could underwrite itself. Meanwhile, the satellites should underwrite a mix of revenue-generating and non-revenue generating (e.g., schools and affordable housing) infrastructure projects.

The establishment of satellite banks of the AIB permits an important layering of infrastructure lending. If 14% of the AIB's $5 trillion of loans is earmarked to the satellite layer, then approximately $1.6 billion of loans would be at the disposal of each congressional-district infrastructure bank. These banks could divide their lending still further. Some of it would go directly to infrastructure projects. Some of it would be lent out indirectly, that is, go to "Main-Street banks," which, in turn, would loan directly to infrastructure projects. At all times and in all places, there would be coordination of the lending of the main office of the AIB and its satellite network.

> Robert Poole of the Reason Foundation and Christopher Edwards of the Cato Institute, say that something like the AIB might work, if such an institution operated independently of Congress and faithfully supported commercially viable projects.

To bring into the equation private credit unions, community banks and medium-size banks would have four powerful positive results. First of all, it would lever or multiply some of the lending power divided among the satellites. (For every dollar that a satellite bank lends to a "Main-Street bank," the latter is allowed pursuant to the law to lend out up to $10.) Secondly, it would revive the beaten down "Main-Street bank" market (blending private-sector and AIB money). Thirdly, it would increase the chances that loans are matched to worthy projects, for who knows the local business scene and its needs better than the "Main-Street bankers" who live and work there. Matching loans to worthy projects is especially challenging when it comes to non-revenue-generating projects, such as schools and affordable housing. Such projects require subsidies. The more efficient the project, the less the subsidy.

(What I have in mind at the level of congressional districts is inspired by yet another aspect of the experience of North Dakota.[8] The Bank of North Dakota (BND) backstops the private credit union, community bank and medium-size banks of the state. The BND does not compete with these other banks; it lends to them and backs up their lending; they, in turn, deal directly with North Dakotans and North-Dakotan businesses. The upshot are less expensive loans than the big banks back East can offer and often lending that the big banks couldn't be bothered to do.)

By adding the "satellite layer" to the AIB, the risk of bank loans are diminished, thanks to the blending of private-sector, Main-Street money with AIB money. Moreover, the ultimate lending capacity of the AIB could easily be increased above and beyond $5 trillion. Best of all, the main office of the AIB could be more conservative, not having to lend out the full possible amount of $4.3 trillion and allowing the satellite network to take on (easily) in excess of $700 billion.

THE FATALLY FLAWED NIB

Some on the Left have been promoting the "National Infrastructure Bank" (NIB), which suffers from several fatal flaws.[9] A clear colossal flaw of the NIB is its promotion of the fraudulent climate-change agenda. Like the AIB, the NIB would rely upon the very same financial concept, including having the US Treasury manage the bank, issue bank stock, and lend out $5 trillion, most of which would supposedly go to worthy projects. Unlike the AIB, the NIB would boost socalled renewable energy (solar and wind farms) at the expense of fossil fuel. Worse, advocates of the NIB, by the value that they assign to certain projects, massively reinforce the climate-change hoax.

In January 2022, the Delaware Senate, including Democrat State Senator Sarah McBride, foolishly passed a resolution urging Congress to adopt the NIB.

NIB advocates help legitimize climate-change boondoggles, such as electric vehicles (EVs). Although they dare not presently propose that the NIB underwrite the conversion to EVs, NIB advocates trot out an estimate of $3 trillion for the conversion as if such a conversion were a dire necessity. Is their plan to win approval for a "palatable" NIB today, and to push for colossal NIB underwriting of destructive, radical environmental projects tomorrow?

Another fatal flaw of the NIB is the high risk that the government would greatly expand its control of the economy. Because the NIB promotes the climate-change agenda, which, by definition, is not commercially viable, and which is an obvious boondoggle, it cannot be trusted to pursue *any* commercially viable projects. There would be the high risk that the NIB would prefer not only government sponsors of a project but also complete or major government control of a project, even if a private firm or firms could better manage all or part of a project. For instance, federal and state governments spend about $100 billion per year on highways and rail. The NIB could easily double its control over highways and rail, by lending $1 trillion over ten years to government building and operating of high-speed rail.

CONCLUSION

The unfolding of the AIB promises very broad appeal. It would benefit liberal, independents and conservatives; it would lift poor and middle class and rich. There is the lucrative bank stock for investors. There is even a benefit for Wall Street; and although Wall Street would not participate in the lending of the aforementioned $5 trillion, it would find ample opportunity, as before, to invest in the rest of the economy. Moreover, this is an economy that would grow a tremendous amount! The very rich would continue to be able to enjoy life in the tremendously revived United States.

In 2023, bipartisan sponsors put forth HR 490, which calls for the establishment of something like the AIB, including no mention of underwriting "environmental projects."

Toward the end of standing up the AIB, I propose the formation of The Coalition for the American Infrastructure Bank. See aibnow.org. Our political goal is to build support for the AIB across party lines.

Comments addressing any of the subjects raised in this article are welcome. Please convey comments via aibnow.org.

One of the keys to reviving America, moreover, to taking the country to yet greater heights, is to establish a truly populist AIB. I ask that Americans support the AIB.

FOOTNOTES

1. The AIB takes its cue from 4 national programs—the first and second central banks of the United States, spanning the years 1792 to 1812 and 1816 to 1836, and Lincoln's National Banking system and the Reconstruction Finance Corporation, in operation from 1932 to 1957. Also, the AIB is informed by the state-owned Bank of North Dakota, which has been in operation since 1919. These five institutions contributed impressively to our prosperity. The four national programs were not without their problems, as well. Very recently, the Bank of North Dakota may be letting down the common good, thanks to dubious policies of the state's governor. Lessons abound. Financial concepts may be good but vigilant oversight is also required.

2. In 1995, the megabanks ($100 billion or more in assets in 2010 dollars) controlled 17% of the banking market. By 2015, their share had increased to 59%! See "One in Four Local Banks Has Vanished since 2008. Here's What's Causing the Decline and Why We Should Treat It as a National Crisis," by Stacy Mitchel, *Institute for Local Self-Reliance*, May 15, 2015.

3. The Coalition for the National Infrastructure Bank, found at nibcoalition.com, predicts, based on substantial data, that the NIB would yield annual GDP growth of 5%. Assuming that the NIB and AIB would invest in many similar infrastructure projects, it follows that the AIB could certainly match this growth. The AIB could probably stir even greater growth. The AIB would not waste loans on empty "climate-change" projects. Moreover, it is more favorably disposed to private enterprise and includes a "surge" factor, care of investing through "Main-Street banking" (private credit unions, community banks and medium-size banks.) For all that, here is the first step toward an estimate of GDP growth that is independent of what NIB proponents suggest. Three groups of experts—the White House Council of Economic Advisors, private-sector Moody's and the Congressional Budget Office—estimate that every $1 of infrastructure investment yields a return of about $1.50 or higher. If $5 trillion is invested in infrastructure over 10 years, this should yield at least $7.5 trillion. US GDP is $28 trillion in 2024. In the absence of the AIB, GDP growth is predicted to be 1.8%. It follows that the AIB would increase annual GDP growth to *at least* 3.1%.

4. The Coalition for the NIB predicts, based on substantial data, that the NIB would yield 25 million good paying jobs. Because the AIB is designed along sounder lines than the NIB (see footnote number 3), the AIB should be able to match the figure of 25 million and then some. Here is the first step toward an estimate of job growth that is independent of what NIB proponents suggest. The private firm Texas Central, which proposes to build high speed rail between Dallas and Houston, estimates that the project will cost $10 billion and yield nearly 50,000 good paying jobs. Texas Central expects to hire 10,000 jobs and predicts, drawing upon the data of the Bureau of Economic Analysis, that nearly another 40,000 "indirect" and "induced" jobs will result. It follows that $5 trillion in AIB infrastructure investment should yield 25 million (or more) direct, indirect and induced new good paying jobs.

5. Today, the public debt to GDP ratio is about 100%. GDP equals public debt of around $28 trillion. The CBO predicts that, without policy changes, the debt-GDP ratio will reach 116% by 2034. What follows is a crude, first attempt to quantify the effect that the AIB would have on this

ratio. If we assume that the AIB would elevate annual GDP growth to 5% by 2034, then the AIB would lower the ratio to 99%. Such an improvement in the debt to GDP ratio would sooth the nerves of US and foreign markets.

6. See J.P. Morgan Asset Management's "Guide to the Markets," slide number 39 of 71.

7. To learn more about the Bank of North Dakota and North Dakota's "Main-Street" banks, see my two ebooks – *Killing America: The Flawed Federal Reserve System and Marxist, Stakeholder Capitalism*, *and How To Turn Things Around*, and *A Plan To Bring About America's Resurgence*.

8. The allocation of $700 billion in lending authority to the AIB satellites is informed by the "Main-Street banking" situation in North Dakota. Let me explain. North Dakota consists of a single congressional district. Per capita, North Dakota boasts the highest Main-Street bank lending power in the nation. The Bank of North Dakota (BND) keeps, I believe, about $800 million in capital reserves. Working together, the BND and the state's private credit unions, community banks and medium-size banks lend out multiples of their combined capital reserves. Using North Dakota's superb situation as a model, each congressional-district or "satellite" infrastructure bank could divide its $1.6 billion loan allotment. Perhaps, half of it could be directly invested in infrastructure projects. The other half could be indirectly invested via its network of private credit unions, community banks and medium-size banks. It must be understood that it would take time for a particular satellite to build up to the "Main-Street banking" power (and prowess) of North Dakota. To learn more about the buildup of "Main-Street banking" care of the North Dakotan model, see my two eBooks - *Killing America: The Flawed Federal Reserve System and Marxist, Stakeholder Capitalism, and How To Turn Things Around,* and *A Plan To Bring About America's Resurgence*.

9. See HR 4052.

<u>Editor's Note</u>

Author, publisher, policy analyst and native Delawarean, Dr. Joe Arminio, is helping launch a multi-state educational and lobbying effort on behalf of the AIB. The Massachusetts Institute of Technology awarded him the Doctorate in Political Science, with a specialty in national defense policy. He worked in the foreign policy arena with the American Enterprise Institute, the Department of Defense and the Government Systems Division of telecommunications giant Sprint. He founded and chaired the advocacy group National Coalition for Defense, which included several sitting members of Congress and a number of high-ranking, retired officers of the Army, Navy, Air Force and intelligence community. His second book, *The Rise and Fall of the American Way* (2007), takes an in-depth look at U.S. domestic and foreign affairs. His award-winning tabloid, *The Citizens' Monitor*, covered mostly domestic policy.