MAKE OUR INFRASTRUCTURE GREAT AGAIN

If there is one topic where I believe there is near complete unanimity, it is that the infrastructure in America is in disrepair and “something needs to be done.” Exactly what is covered under the definition of infrastructure can vary according to who you are talking to and perhaps by political party affiliation. Some see it limited to more traditional things like roads, bridges, water and sewer systems, airports and other public transportation systems. Others are more expansive and include newer technologies like broadband, clean energy and high speed rail or other such things. Whether you see it in the more limited, traditional scope or in a more expansive vein, the needs are unquestionably significant and the costs, monumental. My objective here is not to try to define what it is or should be, or to determine exactly what needs to be done. I would like to propose a possible source of funding for, at least some part of the massive capital needs.

As Willy Sutton said, when asked why he robbed banks, “because that’s where the money is.” One of the often-talked about large pools of money is the non-repatriated foreign earnings of U.S. corporations. No one knows for sure exactly how much is there, but most estimates range between $2.25 and $2.75 trillion. If you want to start a debate, ask two politicians what should be done to bring that money home. Of course, some political figures forget that it’s money earned by private corporations and that they are under no legal or moral obligation to bring it home and pay more in taxes than they would absolutely have to. I believe most corporations would like to have access to, and complete flexibility with those funds for any corporate purpose. As long as the money stays overseas, it can only be used overseas. So how can we induce corporations to “bring it home” and use some of it for the public purpose of infrastructure improvement?

Suppose corporate America were given the opportunity to re-patriate their foreign cash hoard with only two stipulations: One, that all funds brought home would be subject to a flat five per cent U.S. income tax, and second, half of the money would have to be used to purchase fifty-year, four per cent government-guaranteed bonds, issued by a newly chartered Infrastructure Bank. I see it as something similar to the Government National Mortgage Association (GNMA). Ginnie Mae is a government agency that issues government-guaranteed debt. Unlike Ginnie Mae, my Infrastructure Bank would have a finite life of fifty years, to coincide with its fifty-year maturity bonds.

Within limits, it could issue additional series of the original fifty-year bonds to other groups that might be looking to invest in four per cent U.S. Government bonds. Given that the Japanese government recently issued forty-year bonds with a 0.4 % coupon, demand from endowments, pension funds, insurance companies and other governments could be significant. With intermediate interest rates in the U.S. currently hovering around two per cent, the original corporate purchasers could use the bonds to collateralize new loans at little or no cost.

Obviously, there are more details to work out, but I believe the Bank could fund trillions of dollars of infrastructure improvements. An efficient, modern infrastructure would raise long-term U.S. productivity and GDP growth that would more than offset the cost of the debt service. Keeping the purpose of the Bank pure may be more of a political than a financial challenge.

Respectfully,

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