Appendix A

DATA FOR *PROGRESS*

The Climate Case for a National Investment Authority

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Introduction

The economic devastation caused by the coronavirus pandemic creates a crucial opening for a speedy and deliberate move to a massive infrastructure-led rebuilding and "greening" of the U.S. economy. In the wake of the worst health crisis in over a century, potentially followed by the worst economic depression in nearly as long a time, the political mood in the U.S. is increasingly open to big and bold solutions. As polls show, demand for comprehensive strategic solutions is especially strong in the context of addressing global climate change.[1]

This is no coincidence. The pandemic has exposed the degree of our global interconnectedness and collective vulnerability to health and environmental crises that spread with an unprecedented speed and disproportionally harm disadvantaged segments of the population. The fact that the oil and gas sector is experiencing significant economic turmoil amidst consistently falling oil prices further strengthens the case for an immediate structural shift to sustainable, clean energy-based economy.[2]

This economy-wide shift must be conceived, planned, and implemented in a way that produces tangible and equitably distributed public benefits, instead of underwriting further socio-economic and racial disparities and concentrating economic power in private hands. The Green New Deal (GND) movement has successfully propelled this programmatic vision of an environmentally clean, just, and equitable future to the top of the national policy agenda. The Democratic Party is responding to this enthusiasm accordingly. Thus, both the recent report of the House Select Committee on the Climate Crisis and the House's Moving Forward Act explicitly endorsed the idea of a clean economy based on justice and equity.[3] In July 2020, Joe Biden publicly unveiled new climate and environmental justice plans that far surpass any prior Democratic campaign platform in scope and ambition—and further signal his intention to advance an FDR-style presidency.[4]

To carry out these ambitious plans, the United States needs an equally ambitious program for augmenting and aligning the nation's financial resources with the long-term goals of sustainability and decarbonization. This complex undertaking, in turn, requires an organizational focal point: a federal-level institutional platform for coordinating and amplifying climate-targeting action on multiple fronts. This White Paper discusses the creation of a National Investment Authority (NIA) as precisely this kind of a federal institution: a public entity that would design, execute, and finance a comprehensive nationwide program of environmentally sustainable and socially inclusive growth and revival.[5]

Drawing on the experience of the New Deal era's Reconstruction Finance Corporation (RFC), the NIA offers a novel institutional solution to multiple organizational, financial, and operational challenges associated with an ambitious national project to combat climate change. Strategically, the NIA will focus on a comprehensive overhaul of America's critical public infrastructure, the foundation of a clean economy. The woeful inadequacy of our country's existing physical infrastructure, still fundamentally dependent on fossil fuels, is as familiar as it is unjustifiable. Political rhetoric notwithstanding, the U.S. continues to suffer from persistent under-investment in technologically advanced, environmentally efficient and resilient public infrastructure.[6]

In recent years, total U.S. investment in clean energy has been hovering around $56 billion annually.[7] This is at least an order of magnitude below what is needed for the United States to shoulder its share of the decarbonization load, and far below any reasonable notion of what global leadership might look like. Estimates of the amount of global investment in clean energy required to meet climate targets between now and 2050 range from about $1 trillion to over $3 trillion annually.[8]

The NIA will step into this gap and use innovative financing tools to mobilize and boost the flow of public and private capital into socially beneficial "green" infrastructures. In doing so, the NIA will help to solve the climate crisis, create well-paying domestic jobs, enhance the resiliency and productivity of the American economy, and systematically translate the vision of a clean future into tangible socio-economic and political change.

I.

Infrastructure Finance in Institutional Context: Why We Need A Better Solution

Combating climate change is the biggest economic, political, and social challenge of our time. The ongoing environmental damage is causing rising temperatures and sea levels, intensified hurricanes, and epic droughts. To slow down, remedy, or reverse the devastating effects of these climate phenomena, the United States urgently needs to rebuild its entire economy around new, environmentally safe methods of production, distribution, and consumption of goods and services.

Technologically advanced "clean" infrastructure—including electric- and hydrogen-fueled public transportation, energy-efficient and affordable housing, "smart" power grids and broadband internet networks—is the key to this effort. Building this new public infrastructure on a massive scale requires a programmatic vision and a coordinated nation-wide approach that combines local action with federal financing. The United States is currently lacking along all three of these dimensions. Despite the obviously pressing need, we still have no unified official program of infrastructural overhaul. There is no mechanism for coordinating the reconstruction process on a national scale, nor is there an institutional platform for federal financing of such efforts.

The usual approach to infrastructure finance in the U.S. is dysfunctionally bipolar. The default preference is to allow private markets to decide which projects are worthy of funding. Thus, the United States has effectively empowered individual investors, presumably enjoying superior access to information on the ground, to pick the most efficient outlets for their capital. Anything that does not get funded in private markets, and is deemed to constitute a "public good," becomes an expense item on fiscal policy agenda. Federal, state, and local governments are expected to use their tax revenues to pay for the construction of such publicly beneficial infrastructures.

While plausible in theory, this system has not been working well in practice, even with respect to the traditional physical infrastructure: roads, bridges, and so forth. When it comes to the kinds of new, technologically advanced, and truly transformative infrastructure needed for the transition to a clean economy, however, these standard "solutions" are even more obviously limited and inefficient.[9]

Private investors are unwilling to foot the bill for new infrastructure, because these projects tend to be highly capital-intensive and risky undertakings. From the private investors' perspective, these projects are exceptionally risky because of their long timeframes as well as the inherent uncertainty of their commercial viability, which may depend on larger structural changes in the economy. Individual investors fundamentally lack the capacity to control the broader macro-environment, and their risk-return calculations are driven by their expectations of private profit. Their short-termism is, therefore, fundamentally individually rational. Yet, the cumulative result is collectively irrational and tragically ironic: many potentially beneficial infrastructure projects simply do not get funded in private markets, while abundant private capital is desperately searching for profitable deployment.

Public authorities, in turn, have been notoriously strained in their practical ability to finance large-scale infrastructure projects. Highly politicized budget decisions have led to an effective hollowing out of federal fiscal policy. Congressional paralysis and partisan battles over federal budget deficits render the U.S. Treasury incapable of leading a real infrastructure reconstruction program. The Federal Reserve has not been able to step into the resulting institutional gap, primarily because of its limited legal mandate focused on conducting monetary policy as well as the lack of an institutional apparatus to direct capital.

The establishment of a dedicated public investment authority—the National Investment Authority (the NIA)—is a pragmatic structural solution to this seemingly intractable policy dilemma. The two institutional pillars of treasury and central bank are simply insufficient to support sustained and inclusive economic development. There is a critical policy gap between their two mandates, and neither existing institution can fill this gap without compromising its core mission. An NIA can step into this void, publicly marshalling private funds to supply systemically important infrastructural goods that are not supplied by private actors.

A successful NIA will accordingly relieve current pressures on the Federal Reserve and the Treasury, making their jobs significantly easier. It will enable the Federal Reserve to engage in traditional monetary policy without risking an under- or over-issuance of credit-money economy-wide. It will also enable the Treasury to sidestep needlessly contentious budgetary decisions by making and executing these decisions itself with assistance from private investors.

The NIA will also help to recharge and amplify state- and local efforts to combat climate change. In the absence of a concerted federal leadership strategy and support, cash-strapped state and local governments are struggling to fund clean infrastructure projects. Many states have “balanced budget” requirements; and the currently existing municipal bond market is notoriously fragmented and illiquid. Despite these challenges, several states have established “green banks” to help finance various projects within their jurisdictions. Putting the full faith and credit of the United States behind state green banks, as well as other state and local climate-related initiatives, will dramatically scale up their financial footprint and unlock their full potential to catalyze real change in their communities.

While some might deem it radical, the concept of an NIA draws on important precedent in the U.S. history. In times of major national crises, the U.S. federal government has repeatedly taken an active role in directly allocating capital to where it was most urgently needed. During the World War I, for example, President Wilson’s War Finance Corporation (WFC) was instrumental in mobilizing and funding the nation’s war effort.[10] In 1932, in the midst of the Great Depression, President Hoover used the WFC blueprint to create the Reconstruction Finance Corporation (RFC), which later became the “capital bank” for President Roosevelt’s New Deal.[11]

The RFC acted directly in financial markets, organizing and managing massive flows of capital into every sector of America’s ailing economy. It extended loans to banks, railroads, utilities, commercial and agricultural enterprises, municipalities, and other federal agencies at a time when private credit was scarce. It also took direct equity stakes in financial institutions and commercial firms in need of capital—and used its power as stockholder to shape these firms’ management and dividend policies.

One of the most powerful New Deal institutions, the RFC operated multiple specialized subsidiaries and had 33 regional offices spread across the country. At its peak, the RFC’s assets dwarfed the combined balance sheets of all Wall Street banks.[12] Consistently profitable, it recycled its profits back into productive investment. In effect, Roosevelt’s RFC functioned as an active public-private development-finance institution.[13]

The NIA proposal expands and updates the RFC model, adapting it to the challenges and conditions of the 21st century. Just like the RFC financed and guided America’s recovery from the Great Depression, so will the NIA finance and lead the nation's war against climate change, pandemics, de-industrialization, poverty, and inequality. The NIA will operate as a permanent "capital bank" for the GND.

II. The NIA's Institutional Design: An Overview

Establishing a new federal entity like the NIA will require an Act of Congress. The enabling statute will define the NIA's legal mandate and authority, its organizational and internal governance structure, the basic modes in which the NIA will conduct and finance its ongoing operations, and the mechanisms for ensuring sufficient transparency of and public accountability for its decisions.

A. MANDATE AND MISSION

The NIA will be a stand-alone federal entity with an explicit mandate to formulate and implement a cohesive national strategy of long-term economic reconstruction and development. Functionally situated between the Treasury and the Federal Reserve, the NIA will be the primary federal authority in charge of coordinating and overseeing ongoing investments in critical public infrastructure and socially inclusive and environmentally sustainable economic growth. It will serve as a separate institutional base from which to conduct a more targeted allocation of patient public and private capital toward specific economic activities likely to accelerate the structural shift to a clean-energy-powered economy.

Inspired by Roosevelt's RFC and drawing in part on modern-day sovereign wealth fund models, the NIA will act directly within markets as a lender, guarantor, market-maker, venture capital investor, and asset manager. At the same time, it will use these modalities of finance in a far more assertive and creative manner, as may be necessary to maximize the successful completion of its public policy objectives. The NIA will actively utilize the federal government's unique advantages as a market actor—its high risk tolerance, vast scale, lengthy investment horizons, and direct backing by the full faith and credit of the United States—to resolve presently pervasive structural inefficiencies that hinder both private and public investment in ambitious clean infrastructure projects.

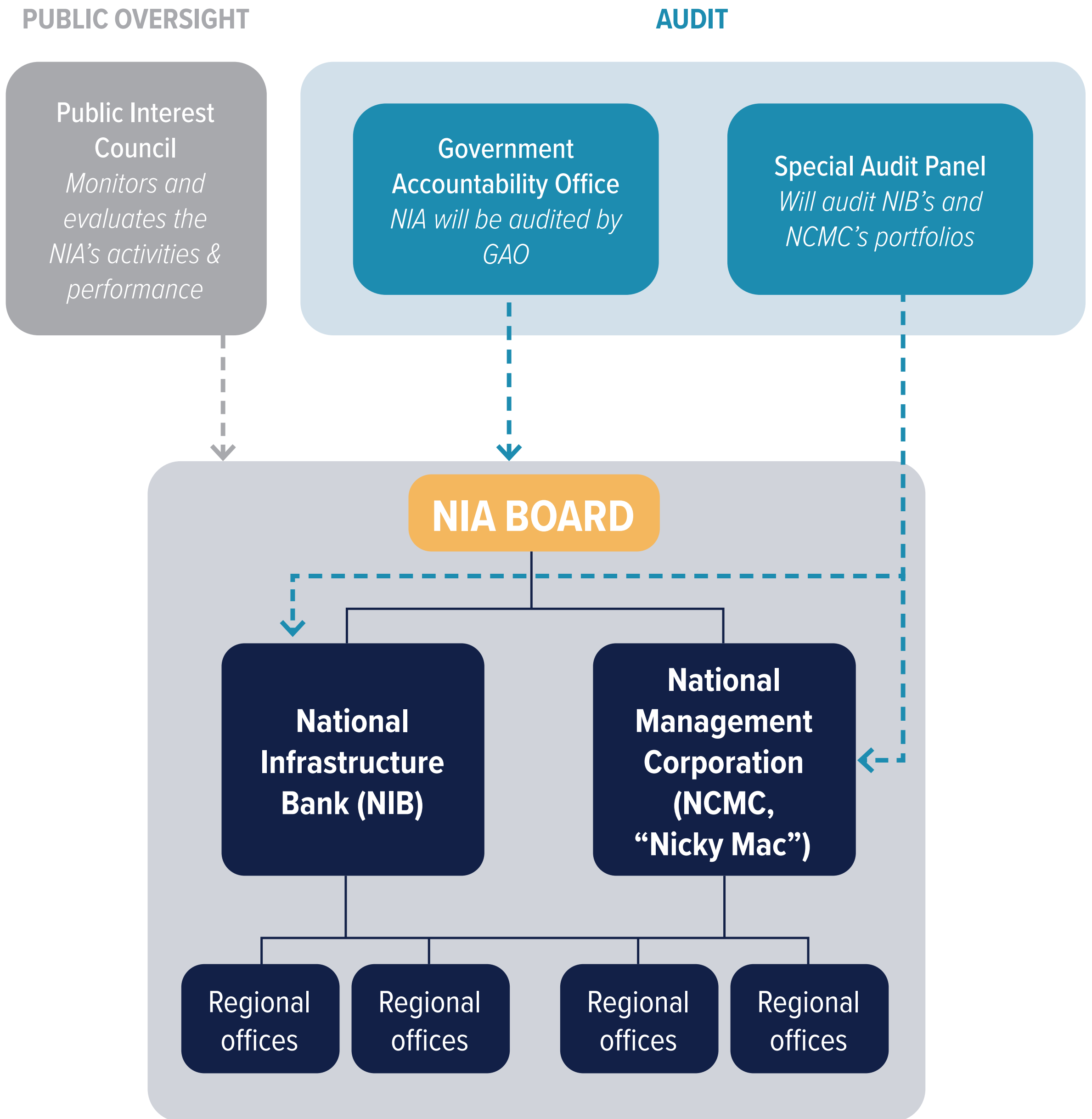
By channeling greater amounts of private capital into transformative public infrastructure projects, the NIA will significantly relieve the immediate pressures on the public and sidestep debilitating political battles over the federal budget. In effect, the NIA will operate as an economy-wide public-private partnership, with one critical difference. In contrast to the typical model of public-private partnerships, in which private actors manage (and frequently mismanage) public money, the NIA will reverse the levers of control and place freely invested private money under public management. This reversal of roles will avoid a dysfunctional pattern whereby the public bears disproportionately high implicit costs in financing projects without capturing their maximum long-term benefits.

The NIA's intentionally broad mandate will enable it to target a range of public infrastructure that will directly or indirectly facilitate a massive shift to clean economy and sustainable growth. It will also allow the NIA to deploy a wide variety of specific tools in pursuit of its overall strategy. Having flexibility along both of these dimensions is the key to the NIA's ability to fulfill its mission.

B. ORGANIZATIONAL STRUCTURE

Reflecting its hybrid nature as a government entity acting directly in private markets, the NIA's organizational structure will largely mimic that of the Federal Reserve System.[14] As a system, the NIA will have three functional layers: (1) an independent federal agency—the NIA Governing Board (the NIA Board) —at the top of the structure; (2) two special government corporations through which the NIA will conduct its actual operations; and (3) a broad network of regional NIA offices evenly spread around the United States.

The five or seven-member bi-partisan NIA Board will be appointed by the President, with the Chair and the Vice-Chair also confirmed by the Senate. All of the NIA Board members will have to meet certain statutory qualifications relating to their professional expertise in finance, law, economics, environmental sciences, civil engineering, and other areas relevant to the NIA's core mission. NIA Board members will be appointed for staggered 10- or 12-year terms, to ensure an important degree of autonomy and strategic continuity in their decision-making. The NIA Board members would be removable by the President only for good cause, which would further enhance the NIA's



operational independence from the incumbent administration.

The NIA Board will formulate a coherent strategy of national economic development and identify specific developmental priorities over various time horizons. The practical implementation of this strategy will be delegated to the NIA's principal operating arms: The National Infrastructure Bank (NIB) and the National Capital Management Corporation (NCMC, or "Nicky Mac").

The NIA Board would directly regulate and supervise the activities of both NIB and NCMC, organized as special federally-chartered, government-owned corporations. This organizational choice will give each of these entities a significant degree of financial flexibility and operational freedom.[15] Each of the NIB and NCMC would be governed by its own Executive Board in accordance with the specially tailored principles laid out in their respective corporation charters. They will be able to pay their employees salaries exceeding federal-employee compensation limits, which is key to their ability to attract and retain highly qualified personnel. And they will be better insulated from excessive bureaucratic interference and direct political pressure.

The final, third layer of the NIA system will comprise a vast network of regional offices. These offices will play a critical role in ensuring continuous community input in, and democratic bottom-up support for, the NIA's national investment strategy. The NIA's regional offices will work closely with local communities, businesses, and public authorities on region-specific infrastructural needs and plans. They will also coordinate their activities with the corresponding regional Federal Reserve Banks, in order to guarantee geographically balanced and equitable distribution of financial flows necessary to support clean economic growth throughout the country.

C. OPERATIONS AND FINANCING

The NIA's principal mode of operation will be the systematic channeling of public and private capital into long-term public infrastructure projects that are both (a) critical to the growth of a clean economy, and (b) currently under-funded by risk-averse private investors. The NIB will focus on traditional credit financing, while the NCMC will supply more risk-tolerant equity capital necessary for many transformational clean infrastructure projects. The differences in the strategic focus and core business models of the NIB and NCMC will determine important differences in how they organize and fund their operations.

1. National Infrastructure Bank (NIB): The Credit Mobilizer

As the credit-mobilization arm of the NIA, the NIB would seek to leverage private capital by pledging the public's superior risk-absorbing capacity to support investment in critical public infrastructure goods. Currently, many clean infrastructure projects are deemed not economically viable mainly because private creditors are not willing to take on the inherently complex task of valuing, tracking, and managing risks of multiple geographically dispersed and relatively small-scale projects. The illiquid and fragmented nature of the existing market for municipal bonds, in turn, hinders the ability of

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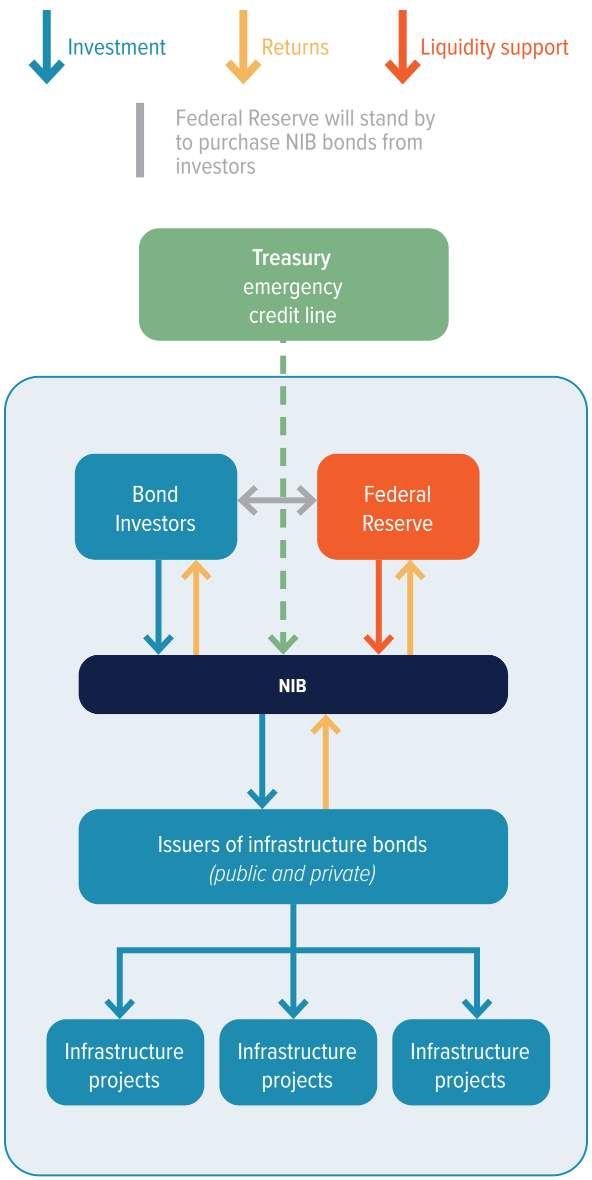

local and state governments to access affordable financing for these much-needed projects.

The NIB will specifically target these scale inefficiencies by creating and maintaining a nation-wide market for infrastructure finance, backed by the full faith and credit of the United States. It will do so through a combination of well-established means, including direct federal grants, loans, guarantees, insurance, securitization, and secondary market-making. For example, the NIB will continuously purchase and pool municipal bonds, state-level "green" banks' bonds, and other qualifying public and private debt instruments issued to fund clean infrastructure projects. To finance these portfolios, the NIB will issue its own medium to long-term bonds backed by (1) user fees and dedicated revenues; (2) dedicated pools of collateral, and (3) the ultimate full faith and credit of the United States.

The federal government's full faith and credit backup is a particularly potent factor in this connection. Explicitly backed by the U.S. government, the NIB will be a much larger and more powerful market actor than any private municipal-bond-pooling entity could be. NIB bonds will attract great interest from large institutional investors—including pension funds, investment companies, insurance companies, foreign central banks—who will

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view them as close substitutes for U.S. Treasury securities. Explicitly granting NIB bonds preferential tax and regulatory treatment (for example, under U.S. bank regulations) will further enhance the appeal of this new asset class to institutional investors. In particular, committing the Federal Reserve to purchasing NIB bonds, in the same way it currently purchases U.S. Treasury bonds and other federally-backed debt, will crucially augment the liquidity and perceived safety—and thus market value—of these bonds.

As a credit-mobilization vehicle, the NIB will operate along the historically familiar lines of the RFC and its surviving offspring, the home finance government-sponsored enterprises

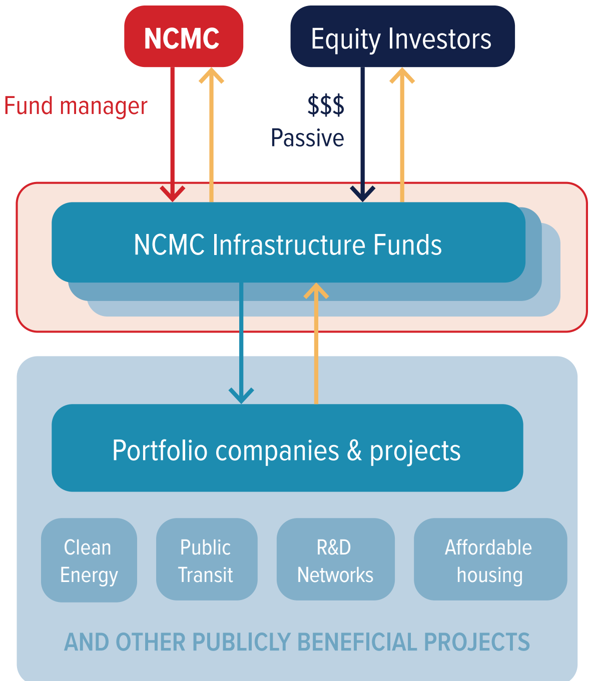
(GSEs). Its primary mission will be to amplify and optimize the currently sub-optimal system of public-private cooperation in the arena of infrastructure finance. In this sense, the NIB may be viewed as a scaled-up federal-level version of the existing "green bank" model.[16] By creating a federally-backed national market for state or regional green banks' bond issuances, the NIB will dramatically amplify these important institutions' balance sheet capacities and economic impact.[17]

2. National Capital Management Corporation (NCMC): The Asset Manager

An even more ambitious operating arm of the NIA, the NCMC will operate as a hybrid between a sovereign wealth fund (SWF) and a large private equity or venture capital firm. Just like a typical SWF, the NCMC will be a very large and high-profile publicly-owned asset manager. Unlike a SWF, however, it would not simply invest public money in stocks and bonds traded in secondary markets in search of capital appreciation. Instead, the NCMC will follow the business model of a typical Wall Street asset management firm by setting up a series of investment funds (structured similarly to traditional private equity funds) and actively soliciting private investors—pension funds, insurance companies, university endowments, foreign sovereign wealth funds, and so on—to purchase passive equity stakes in its funds.

Unlike a typical private equity or venture capital firm, however, the NCMC's fund management strategy will focus not on short- to medium-term turn-around profits, but on taking long-term equity stakes in environmentally safe, socially beneficial public and private projects. The NCMC's dedicated professional teams will select and manage diversified portfolios of public infrastructure assets: nationwide clean energy networks, high-speed railroads and broadband, regional air and water cleaning and preservation programs, environmentally smart and affordable housing programs, systems of job-retraining, networks of public-private R&D hubs, and so on. By financing and managing these transformative projects, the NIA would be effectively coordinating and overseeing the process of implementing the nationwide structural shift to a clean, smart 21st century economy.

NCMC would employ advanced financial engineering methods to reward private investors for their participation in financing these long-term publicly beneficial projects, even where such projects would not generate revenues that are easily captured by private interests. To entice particularly risk-averse investors to finance riskier types of long-term infrastructure, the



NCMC could guarantee return of their principal investment at the end of the fund's term. In addition, it would offer its private partners "synthetic"—that is, legally constructed—equity-like returns that vary depending on the estimates of local, regional, or national macroeconomic impacts of the individual funds' projects. If, for example, experts calculate that a particular fund's investments would generate an additional 5% in local or regional economic growth over a specified period of time, the NCMC would translate that projected gain into a corresponding added return for the investors in the fund.[18]

This unique ability to synthesize additional payouts, combined with direct access to the full faith and credit of the United States, will make NCMC funds a potentially highly attractive "safe asset" class for large institutional investors—especially, public pension funds and mission-driven green-economy investors searching for yield that is also compatible with their core missions. Currently, public pension funds are among the largest investors in private equity funds, which means they are indirectly financing the industry known for breaking up American companies and laying off workers in the name of maximizing short-term shareholder returns. Investing in NIA instruments, by contrast, will enable pension funds to generate healthy, reliable returns by investing in publicly beneficial, employment-boosting projects.

The sources of repayment to private investors in NCMC funds will differ, depending on the composition of individual funds' portfolios of projects. For example, many start-up companies that use NCMC funding to develop new commercially viable clean technologies or products could, in time, either repurchase the NCMC fund's stake, or be sold off in initial public offerings (IPOs) or via negotiated sales to private venture capital funds. Where an IPO or private buy-out are either impractical or undesirable from a public policy viewpoint, the relevant projects could be spun off into separate public authorities, like the RFC-era Tennessee Valley Authority, or into regulated privately-owned utilities.[19] Yet another option would be to roll some investments over into successor NCMC funds, thus allowing initial private investors to exit them and new ones to enter. This roll-over option would be particularly effective in connection with projects whose timeframe for generating steady returns exceeds the normal lifespan of a single fund.

3. Backup Funding Sources

Both the NIB's and NCMC's business models, described above, explicitly utilize these entities' unique advantages as sovereign-backed market actors to channel vast amounts of private capital into public infrastructure projects. In some cases, however, the NIA's current payment obligations may require additional public funding.

Initially, the NIA will be funded through one-time Congressional appropriation. Once the NIA builds a portfolio of assets generating interest, dividend, and fee revenues, it should earn sufficient profits to cover its ongoing expenses. The scale and scope of the NIA's investment operations are key in this respect. The larger and more diverse its overall project portfolio, the more flexibility the NIA will have in utilizing various streams of operating revenues to fulfil its obligations to private investors. Accordingly, a larger and more visionary NIA is also more likely to be self-funding.

Consolidating some of the existing federal agencies performing specialized market-actor functions—including the Small Business Administration (SBA) and housing finance GSEs—under the NIA's umbrella would further enhance its self-funding capacity. These entities' well-established revenue streams would then be levered to finance systemically important public goods.[20]

It is nevertheless critical to provide federal backup funding for the NIA's operations, either as a temporary bridge-gap measure or as a recurring variable supplement to the institution's own resources. This will increase the NIA's capacity to invest in important infrastructure projects whose full public benefits cannot be reduced to, and therefore expressed as, pure monetary value. In that sense, it will critically augment the NIA's ability to perform its core public mission.

Committing the Federal Reserve to provide continuous liquidity support to the NIA is the most readily available and important source of public backup funding. As discussed above, the Federal Reserve would stand by to purchase NIB bonds, both from the NIB upon issuance and from private investors in secondary trading, much like it presently does with Treasury bonds and GSE securities. The NCMC, for its part, would be able to borrow directly (and on favorable terms) from the Federal Reserve, in a manner similar to present "discount window" borrowing privileges of private banks. In effect, putting the Federal Reserve's balance sheet behind the NIA instruments will make them highly desirable "safe" assets for institutional investors.[21]

Designating a certain portion of the Federal Reserve's annual profits for contribution to the NIA's budget would be another effective backstop to the NIA's self-funding. Currently, the Federal Reserve turns over significant amounts of its annual profits to the Treasury. Diverting a portion of these regular remittances to the NIA would serve both to smooth potential fluctuations in the NIA's internally generated returns and to amplify its ability to continue financing publicly beneficial ventures even during times of economic slowdown.

To further bolster liquidity support for the NIA, it may be desirable to grant it the right to borrow directly from the Treasury, if necessary. Finally, federal appropriations or earmarking of specific tax revenues should be reserved as last-resort measures, with the expectation that these would not be needed after the initial period of the NIA's operation. The real goal here is to shape market expectations: by effectively signaling to the market its commitment to backstop the NIA's obligations, the federal government will significantly reduce the likelihood of ever having to honor that commitment in practice.

D. TRANSPARENCY AND ACCOUNTABILITY

The NIA's hybrid mode of operation heightens the risk of it being captured by powerful private industry interests. It also makes the NIA potentially vulnerable to overreach and abuse of political power by incumbent government officials. Both of these ever-present possibilities of corruption endanger the NIA's public mission. Accordingly, democratic accountability is a critical factor in ensuring the NIA's political legitimacy and long-term success. Clear lines of internal and external communication, reporting, and auditing are key to accountability and transparency of the NIA's operations.

CONGRESSIONAL REPORTS. The NIA Board will be required to submit annual reports to Congress, outlining the basic principles of its developmental program, explaining any changes in or adjustments to its objectives over various time horizons, and describing and analyzing specific actions the NIA was taking to implement its strategic objectives. The Chair of the NIA Board, along with the Chairs of the NIB's and NCMC's respective Executive Boards, will also provide annual Congressional testimony on the national development policy.

AUDITS. The NIA Board would be subject to annual audit by the Government Accountability Office (GAO), which conducts audits of federal agencies.[22] The NIB and the NCMC would be subject to annual independent audits of their financial performance and operations by a special audit panel comprising representatives of the GAO and of all major public accounting firms.

PORTFOLIO SELECTION PROCESS. It is critical that both NIB and NCMC have robust procedural rules for making and vetting investment decisions along the entire organizational chain of command. These rules would help to ensure that these entities' business activities are properly insulated from undue influence both by private sector interests and by political incumbents. To this end, the NIB and especially the NCMC will be required to select individual projects for inclusion in their asset portfolios through public auctions. Any public or private entity with an economically viable plan for providing currently under-provided collective goods would have a fair and equal opportunity to apply for the NIA funding. Regional NIA offices will play a particularly important role in this process. A specially designated committee of the NCMC or the NIB, as appropriate, would conduct a thorough analysis of each proposed project and choose the ones that meet their—formalized and transparent—internal requirements.

PUBLIC INTEREST COUNCIL. To enhance the NIA's democratic accountability, Congress should establish a special Public Interest Council (the Council). The Council will comprise academic experts and public interest advocates, all of whom are independent of both the industry and the government.[23] It will perform primarily an advisory and evaluative role, by providing an independent intellectual perspective on substantive policy issues faced, and strategic decisions made, by the NIA in the course of fulfilling its mandate. The Council would submit mandatory annual reports to Congress, containing its assessments and criticisms—and non-binding recommendations for improvement—of the NIA's performance. Importantly, establishing this type of an institutional channel for inserting public interest into the NIA's political accountability and decision-making structure would serve as a powerful check against the strong pull of industry influence.

E. SUMMARY: THE NIA AS AN INSTITUTIONAL LEVER FOR CHANGE

The proposed NIA is envisioned as a highly capacious federal instrumentality, operating alongside the Treasury and the Federal Reserve, and directly allocating both public and private capital to enable the economy-wide shift to clean energy and sustainable growth. It will serve as a permanent institutional platform for mobilizing and directing the nation's financial, technological, and human resources to where they are needed the most in our battle against global climate change.

In fulfilling this mandate, the NIA will act directly in private markets, not only as a public lender and guarantor, but also as a public asset manager and venture capital fund. In that latter capacity, the NIA will systematically channel private investors' money into public infrastructure projects that currently do not get financed in private markets.

Bringing private investment into clean energy and environmentally safer public infrastructure is a fundamentally efficient public policy. It will dramatically amplify the impact of federal funding and reduce the cost to the public of financing the massive shift to a clean economy.[24]

From the public policy perspective, moreover, this hybrid business model of "public management / private funds" offers several additional benefits:

1) A hybrid, market-actor NIA will not be directly subject to politically determined federal budget constraints. Not having its activities hamstrung by Congressional politics is a critical advantage in light of the NIA's ambitious mandate.

2) By offering an attractive new "safe" asset class to institutional investors, the NIA will help to solve presently intractable problems with persistent misallocation of capital and excessive accumulation of risk and leverage in the financial system. By draining large institutional investors' demand away from speculative short-term or riskier private equity assets, the NIA would function as an important market mechanism for creating currently scarce "patient" capital and enhancing systemic financial stability.

3) Raising money from pension funds, insurance companies, and other institutional investors will provide the NIA with an important market feedback and signaling mechanism. If the NIA's performance is consistently poor or inefficient, private firms will either refuse to invest in NIA

issuances or price these inefficiencies into their investment decisions. These dynamics of market competition will serve as an important safeguard against cronyism and excessive political interference in the NIA's operations.

4) By inviting public pension funds, "green" funds, and other mission-driven institutions to partner with the NIA, the NIA will strengthen these entities' abilities to pursue their financial strategies more successfully and assertively. Having a ready source of patient capital dedicated to environmental and social justice may also encourage the emergence of new forms of mutual and employee-owned investment vehicles, thus democratizing ownership of financial assets.

5) Finally, the NIA will offer many Americans a chance to invest more of their personal savings in clean infrastructure and economic revitalization, combining the financial benefit of adding a "safe" asset to their portfolios with the sense of moral satisfaction and individual empowerment. This will give a concrete expression to a new understanding of finance as a fundamentally public resource and a legitimate arena of direct public action—a critical step toward a deeper democratization of finance.

Conclusion

The coronavirus pandemic presents a rare window of opportunity for a nationwide shift to a clean economy. Large-scale rebuilding and "greening" of America's public infrastructure is the core element of this shift. Over the past few months, Democrats in Congress have been working on an infrastructure-based stimulus package that would address the compounding effects of climate change and the pandemic-induced economic crisis. An increasingly strong emphasis on clean infrastructure building is also indicative of the broader climate policy priorities that the next Democratic Administration and Congress are likely to pursue in the coming years. As shown in a recent report published by the House Select Committee on the Climate Crisis and Joe Biden's new climate plans, there is significant political momentum behind an economic recovery program that would bring together domestic job creation, infrastructure development, and clean energy.

To seize this momentum, we need an effective institutional mechanism for scaling up and directing massive amounts of public and private investments into an environmentally sustainable, equitable, and inclusive economic growth and recovery. The NIA is proposed as precisely this kind of an institution. The NIA would take on the critical task of coordinating and financing a wide range of climate-related infrastructure projects. It would invest in the nationwide construction, modernization, and expansion of clean water and wastewater management systems, offshore wind and solar energy farms, high-speed rail and broadband networks, power transmission lines, and clean car manufacturing. These are only a few examples of vitally important clean infrastructure projects that U.S. capital markets do not currently fund at the levels necessary to meet science-based demands. The NIA would fill this funding gap and put the necessary financial resources behind the strategic "greening" of the U.S. economy.

The need for the NIA is especially urgent today. In the wake of a major public health crisis, we are standing on the brink of another Great Depression, with millions of Americans out of work, businesses out of cash, and stock markets out of touch with reality. So far, our existing financial ecosystem has failed to respond to these pressures effectively. It is even less prepared to meet the far greater challenge of averting the looming climate catastrophe. Now, as the political tides turn toward post-pandemic recovery and clean energy-based economy, we need to keep a razor-like focus and think creatively about what kind of institutions would sustain the fundamental transformation we seek. Creating an NIA would give us an invaluable tool in our fight against climate change and for a better, more prosperous and just, future. It has to be a part of our political agenda.

ENDNOTES

1. Data for Progress, Green New Deal, https://www.dataforprogress.org/green-new-deal
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Appendix B

DATA FOR *PROGRESS*

THE JUSTICE COLLABORATIVE INSTITUTE

A NATIONAL INVESTMENT AUTHORITY: FINANCING AMERICA'S FUTURE

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EXECUTIVE SUMMARY

The coronavirus pandemic has exposed deep structural flaws in the design and operation of the U.S. economic and political systems. At the same time, it presents a rare opportunity for innovative rethinking and remaking of both our private markets and our public institutions, so that they better serve the needs of the American people.

A National Investment Authority (NIA) could be the institutional platform for pursuing this goal. The NIA would mobilize private capital to rebuild America's obsolete public infrastructure. It would do this by acting directly inside financial markets—through a lending subsidiary and a separate venture capital arm. The NIA would identify infrastructure projects important to the country's long-term stability and growth, and create mechanisms to align the individual incentives of private investors with the social imperatives of inclusive and sustainable long-term development.

The NIA proposal draws on the long-standing American tradition of hybrid public-private finance. It is the 21st-century update of the Reconstruction Finance Corporation (RFC), created by Herbert Hoover and later successfully used by Franklin Roosevelt to finance the nation's epic recovery from the Great Depression.

During economic crises, such as the current one, the NIA would perform an additional function as the entity responsible for managing federal bailouts of private businesses. In this role, the NIA would act in the best interests of the American people and ensure that emergency relief funds are distributed efficiently, fairly, and transparently.

Voters recognize the NIA's potential to improve our physical and social infrastructure and help local and state governments in a time of financial need. A majority of respondents (54%) support the creation of a National Investment Authority. Less than a quarter of respondents (22%) oppose it.

THE PROBLEM: THE FINANCING "GAP"

The coronavirus pandemic has exposed some of the deepest economic, political, and social problems in America. It laid bare the extent to which our healthcare system was not ready to handle a major public health emergency, our industrial giants could not ramp up production of urgently needed protective equipment, and our state and local governments lacked financial means to keep our communities afloat when disaster hit. With businesses across the country struggling to survive the lockdown and skyrocketing unemployment, the pandemic has turned into an economic crisis. To avoid a total economic collapse, Congress appropriated trillions of dollars in emergency relief for individuals, companies, and municipalities. The process of distributing federal relief funds, however, has been plagued with inefficiency and misallocation, with no effective public oversight in place. With stock markets rallying despite continuing economic woes, the coronavirus crisis led to a massive transfer of wealth from ordinary Americans to big corporations and high-rolling investors. If left uncorrected, these dynamics threaten to push the country into the second Great Depression.

To avoid this calamity, the United States urgently needs a strong program of post-pandemic economic recovery, which would create jobs, restore our domestic industrial capacity, and strengthen our communities. Rebuilding and modernizing our public infrastructure, the very foundation of the national economy, must be at the center of such a recovery program. For decades, America's basic physical infrastructure—roads, bridges, power grids, water cleaning facilities—has been in a chronic state of disrepair, mainly because of the lack of sufficient financing. And if there is not enough money to fix what we already have, there is even less hope for finding money to build new, environmentally clean and technologically "smart," infrastructure necessary for a sustainable and inclusive 21st-century economy.

It is no secret why financing for a much needed overhaul of America's infrastructure has been difficult to come by. On the one hand, a national project of this scale requires funding far in excess of what over-stretched public budgets can provide, especially now. On the other hand, while there is plenty of private capital eager to invest in "hard" infrastructure assets, private investors are inherently averse to funding big-ticket projects that take a long time to become commercially profitable. They prefer instead to invest only in those infrastructure projects that are certain to generate healthy cash flows within a short period of time. The result is that lucrative projects like modernizing busy toll roads and power plants in major metropolitan areas attract plenty of private capital, while things like construction of fast broadband or energy-efficient public transportation networks in underserved rural areas do not get funded in private markets.

In essence, the current financing gap is a structural problem: There is too much private capital looking for infrastructure investment opportunities, while at the same time too many urgently needed public infrastructure projects never get off the ground. Closing this gap in infrastructure finance accordingly requires a structural solution: the creation of a National Investment Authority (NIA).

THE SOLUTION: A NATIONAL INVESTMENT AUTHORITY

The NIA would be a federal entity created by an Act of Congress. It would design, finance, and implement a national strategy of economic development with an emphasis on long-term sustainability and social inclusion. It would act as a direct financial market participant, channeling both public and private money into large-scale infrastructure projects that typically do not get funded in private capital markets. Such projects would include both physical infrastructure (such as energy, transport, broadband internet, water management) and critical social infrastructure (such as public education, affordable housing, and healthcare). The NIA would utilize the federal government's unique advantages—its size, resources, long-term investment horizons, and focus on public interest—to make it less risky and more attractive for private investors to participate in financing these publicly beneficial projects.

The NIA would be governed by a Governing Board (the NIA Board), with 5-7 members appointed by the President with Congressional approval for staggered 10- or 12-year terms and guaranteed a high degree of decision-making autonomy. The NIA Board would identify key national economic priorities and formulate a public investment strategy in line with those priorities. It would then oversee the implementation of this strategy by the NIA's two principal operating arms, chartered as government-owned corporations: the National Infrastructure Bank and the National Capital Management Corporation.

National Infrastructure Bank (NIB). The NIB would be the NIA's lender arm. It would focus on credit-based infrastructure finance, along the lines of the established "government-sponsored enterprise" (GSE) model. It would support and amplify the flow of credit into infrastructure projects through a combination of direct federal grants, loans, guarantees, insurance, securitization, and secondary market-making. For example, the NIB would purchase and pool revenue bonds and project bonds issued by municipalities, public utilities, and other government instrumentalities, as well as qualifying bonds issued by private entities for the purposes of financing publicly beneficial infrastructure projects.

National Capital Management Corporation (NCMC, or "Nicky Mac"). Nicky Mac would be the NIA's venture capital arm. It would focus on equity-based infrastructure finance, more appropriate for truly transformative projects. Following the business model of a traditional Wall Street asset manager, Nicky Mac would set up a series of "infrastructure investment funds" and actively solicit pension funds, insurance companies, university endowments, foreign sovereign wealth funds, and other institutional investors to purchase passive equity stakes in its funds. Nicky Mac will act as the sole manager of each fund, making all investment decisions in accordance with the NIA's strategic objectives. Nicky Mac's in-house professional teams would select and manage diversified portfolios of public infrastructure assets: nationwide clean energy and transportation networks, regional air and water cleaning and preservation programs, systems of ongoing adult education and technical training, networks of mixed public-private "startup" finance funds, and so on.

Nicky Mac's role as an active asset manager would enable it to finance high-impact innovative projects that can potentially leapfrog the U.S. economy. For example, instead of building new or improved oil and gas pipelines, Nicky Mac would systematically convert the national energy system from petroleum-based to renewable- and hydrogen-based. And instead of merely repairing existing roads, it would build new high-speed rail networks connecting and integrating multiple small towns and cities into thriving regional economic zones.

To reward private investors for their participation in financing these long-term publicly beneficial projects—even where such projects do not generate easily privately "capturable" revenues—Nicky Mac would use advanced financial engineering, backed by the full faith and credit of the United States. For example, it could guarantee the return of the principal investment to passive investors in funds that prioritize commercially unprofitable projects like toll-free roads, adult education centers, or public parks. It would also offer equity-like additional returns that reflect the current estimates of future local, regional, or national macroeconomic impacts of the individual funds' projects. If, for example, experts calculate that, upon completion, a particular fund's investments would generate an additional 5% in local or regional economic growth over a certain period of time, Nicky Mac would translate that projected public gain into a corresponding added return for the investors in the fund.

In short, the NIA would operate as a principally new form of public-private partnership, in which the public leads and private capital follows. To keep it from potential abuse and corruption by political incumbents and powerful private interests, the NIA would be subject to multiple layers of public oversight. Most importantly, its project selection process would be conducted via transparent public auctions, following strict procedural rules and investment guidelines. The NIA would be regularly audited by the Government Accountability Office, and its top leadership would regularly report to Congress on all of its activities. Congress should also establish a new Public Interest Council to strengthen oversight of the NIA's performance.

THE NIA'S ROLE IN A CRISIS

The NIA's investment expertise and public accountability make it an ideal institution to take on the task of mobilizing the nation's financial resources in response to economic crises. During a crisis, the NIA would manage the distribution and allocation of the federal emergency relief ("bailout") or economic stimulus funds to qualifying private businesses. This would ensure far greater transparency, efficiency, and democratic oversight of the process than is possible under the current system of outsourcing bailout management tasks to giant private asset managers like BlackRock**.** Unlike BlackRock, the NIA would not have any conflicts of interest. It would follow clear guidelines and use its in-house expertise to direct emergency funds to productive enterprises that need it most. Because this would be a natural extension of its non-crisis functions, the NIA would be able to run this process far more effectively and fairly than it is done today.

THE CONTEXT: PAST AND PRESENT

Currently, there is no federal agency similar to the NIA. The two pillars of public finance are the Treasury Department and the Federal Reserve. The Treasury is in charge of the federal fiscal policy, while the Federal Reserve conducts monetary policy. Neither agency is explicitly charged with, or has in-house expertise in, direct financing of economic reconstruction and development. Functionally situated between the Treasury and the Federal Reserve, the NIA would fill this institutional gap and supplement both of these agencies' activities.

Since 2008, multiple legislative proposals have called for establishing some type of a federal "infrastructure bank" that would provide government-backed credit financing mainly for traditional physical infrastructure projects. While specific proposals may differ, the basic "infrastructure bank" model is significantly limited in the scope and scale of its activities. A typical federal "infrastructure bank" would be funded by Congress up to a certain amount, and use these funds to make low-cost loans to public and private entities with revenue-generating infrastructure projects. In contrast to the NIA, it would not be able to manage a huge diversified portfolio of both credit and equity investments in various physical and social infrastructure projects, including those that do not generate cash flows through toll and other user charges.

The coronavirus crisis has reignited the interest in the New Deal-era's Reconstruction Finance Corporation (RFC). Established in 1932 and initially funded by Congress, the RFC played the central role in leading the nation out of the Great Depression. It extended loans to banks, railroads, utilities, commercial and agricultural enterprises, municipalities, and other federal agencies at a time when private credit was scarce. It also took direct equity stakes in banks, insurance companies, and commercial firms in need of capital. Hugely powerful, the RFC effectively functioned as the New Deal's "capital bank."

The NIA builds on, updates, and expands the RFC's business model. Much like the RFC, the NIA would be a hybrid public-private entity. It would create publicly beneficial investment opportunities for private capital, which simply do not exist in today's market, and "crowd in" (rather than "crowd out") private investors currently reluctant to finance long-term public infrastructure projects. This is especially easy to see in the NIA's role as a venture capital fund manager. In effect, the NIA may be thought of as an "RFC meet BlackRock" type of market actor.

Of course, some might object to the NIA proposal as an unnecessary "subsidy" for private investors. This criticism reflects justified mistrust and fear of effective privatization of public infrastructure. However, these objections miss the critical public benefits of using private capital for rebuilding America's infrastructure:

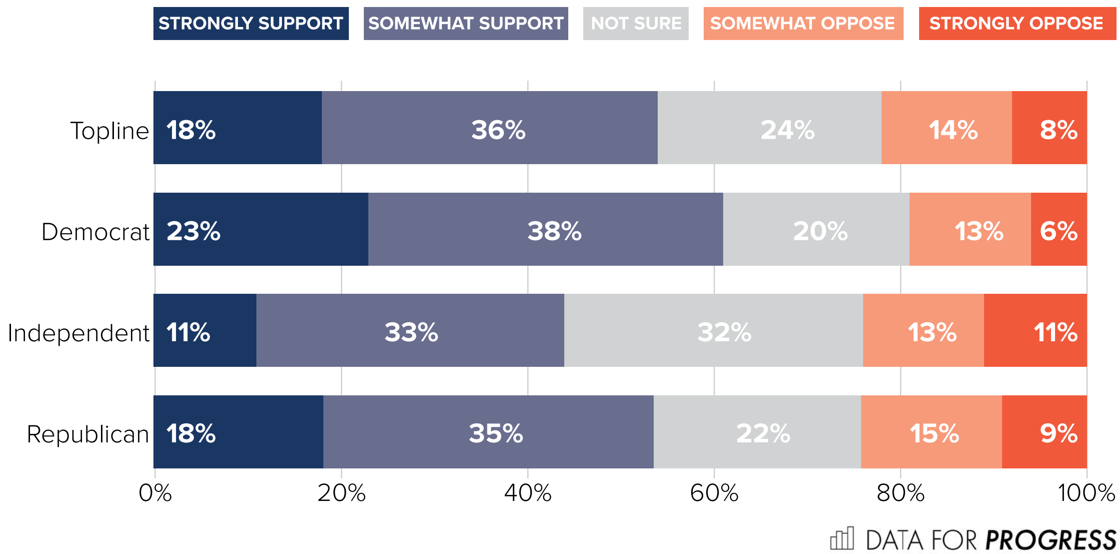
- It will allow the NIA to pursue a potentially bolder economic agenda. As a hybrid market actor, the NIA need not be hostage to annual Congressional infighting over the federal budget, and therefore would not be unnecessarily hamstrung in its activities.
- It will make the financial system more stable and reduce the risk of another major financial crisis. By partnering with private investors, the NIA will drain private capital away from speculative trading and other socially unproductive investments. Direct federal financing of infrastructure projects alone could not have this important effect on financial markets.
- It can safeguard against political cronyism and corruption of the NIA's investment decisions. Raising money from pension funds, insurance companies, and other institutional investors will create an important external signaling mechanism for the NIA. If the NIA is not doing a good job of selecting specific infrastructure projects, investors will either price this information in or take their money elsewhere.

Most importantly, the core element of the NIA model is public control over the flow of money into long-term projects of high public, as opposed to private commercial, value. The NIA is a public institution acting inside private markets and using market tools to generate massive public benefits.

PUBLIC SUPPORT

The National Investment Authority would be an innovative structural solution to a host of America's most persistent structural problems. Voters recognize this. A new national poll from Data for Progress and the Justice Collaborative Institute found that, when voters learn how the NIA would facilitate investment in vital infrastructure, 54% of likely voters support the creation of a National Investment Authority. This support crosses party lines: 53% of Republicans express support for the idea, along with 61% of Democrats. Only 22% of respondents, less than a quarter, express opposition and fewer than 1 in 10 (8%) express strong opposition.

Do you support or oppose the creation of a National Investment Authority that would identify publicly beneficial infrastructure projects that need financing, enable greater private and public investment in these projects, and lead the nationwide effort to rebuild America's infrastructure?



CONCLUSION

The United States urgently needs a well-defined national strategy of sustainable and inclusive long-term economic growth and development. Planning and implementing this strategy is an extraordinarily difficult task that requires strong but flexible public institutions to carry it out. The NIA is proposed as precisely that kind of an institution: a public entity acting directly in financial markets and mobilizing private capital to rebuild America's physical and social infrastructure. As a hybrid market actor, the NIA would use sophisticated tools of private finance to generate public benefits on the scale far greater than what we can imagine in today's world. While no government entity is currently equipped to perform this task, the NIA idea has deep roots in American history. The NIA would be the 21st-century version of the RFC. Just like the RFC helped to finance the nation's economic recovery from the Great Depression, the NIA will help us to prepare for and manage new challenges we face as a nation, both in crises and beyond.

POLLING METHODOLOGY

From 6/21/2020 to 6/22/2020 Data for Progress conducted a survey of 1,353 likely voters nationally using web panel respondents. The sample was weighted to be representative of likely voters by age, gender, education, race, and voting history. The survey was conducted in English. The margin of error is Â± 2.7 percent.

COVER PHOTO
Jules Marvin Eguilos/UNSPLASH

Appendix C

CORNELL LAW SCHOOL

LEGAL STUDIES RESEARCH PAPER SERIES

Why We Need a National Investment Authority

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Cornell Law School research paper No. 20-34

WHY WE NEED A NATIONAL INVESTMENT AUTHORITY

Saule T. Omarova (Cornell University)

In today's globalized world, the U.S. faces a broadening array of potentially increasingly severe physical, economic, and financial crises. An effective response to such crises requires the federal government to be able to mobilize economic resources on a fully national scale and in a well-coordinated manner. Currently, however, the U.S. lacks an institutional mechanism for large-scale economic mobilization of the type it undertook during the Great Depression and both World Wars of the last century. There is presently no institutional analogue to the New Deal-era Reconstruction Finance Corporation (RFC), which enabled U.S. government to organize and manage massive flows of much-needed public and private capital into every sector of America's economy.

In the absence of a permanent institution specializing in capital allocation and management, the American public is forced to rely on *ad hoc* crisis-containment measures that are notoriously politicized, messy, and prone to corrupt influence by private interests. The task of national economic mobilization falls mainly on the U.S. Treasury and the Federal Reserve, whose modus operandi relies heavily on direct injections of public funds into—i.e., bailouts of—financial institutions and other private firms. As the 2008 experience shows, however, bailouts are difficult to execute without reinforcing the economically and politically damaging pattern of "privatizing gains and socializing losses." Having a permanent federal agency with the authority and expertise to manage emergency bailouts would help to ensure that this process is handled in a transparent, democratically accountable, economically efficient, and distributionally just manner.

In short, to meet present and future challenges without repeating past mistakes, we need to create a new RFC-like institutional platform for coordinating and mobilizing the nation's financial, physical, technological, and human capital, to ensure the structural health and resilience of the U.S. economy—both in crisis times and beyond. We need a National Investment Authority (NIA).

This brief memorandum outlines the core elements of the NIA proposal. **Part I** provides a short overview of the NIA's general mandate and structure. **Part II** focuses on the NIA's role as the national crisis response coordinator. It describes the benefits of putting the NIA in charge of managing both (1) the emergency bailout process, and (2) post-bailout management of public stakes in bailed-out companies. **Part III** outlines the NIA's broader ongoing mission of financing long-term public infrastructure projects in order to facilitate structurally balanced, inclusive, and environmentally sustainable long-term growth of the American economy—a set of goals associated with the Green New Deal (GND) initiative. **Part IV** proposes creation of a special Public Interest Council as a mechanism of enhancing the NIA's democratic accountability, both during national crises and as part of its ongoing economic development mission.

I. WHAT IS NIA? BRIEF INTRODUCTION

The NIA would be a new federal instrumentality occupying the crucial (and currently empty) institutional space between the U.S. Treasury and the Federal Reserve. Its core mandate would be to formulate and implement a cohesive national strategy of long-term economic development, which encompasses:

- organizing and mobilizing the nation's economic resources in response to systemic crises; and
- coordinating and financing ongoing investment in critical public infrastructure and socially inclusive and sustainable economic growth.

The NIA's principal mode of action would be direct market participation. Depending on the circumstances, it would operate as a sovereign asset manager, venture capitalist, lender, insurer, equity holder, or business partner to private firms and public entities engaged in socially beneficial productive activities. The NIA would use traditional tools of modern finance to align private economic actors' goals with the public interest. It would utilize the federal government's unique advantages—its size, resources, long-term investment horizons, and direct backing by the full faith and credit of the United States—to solve currently insurmountable collective action problems that hinder both private investment in long-term public infrastructure and large-scale market-stabilization and production-mobilization efforts.

The NIA's organizational structure would reflect its hybrid role as a public instrumentality acting directly in private markets. Mimicking the structure of the Federal Reserve System, the NIA would constitute a "system" governed by an independent federal agency, the NIA Governing Board (the NIA Board). The five- or seven-member NIA Board would be appointed by the President for staggered 10- or 12-year terms, to ensure a nontrivial degree of autonomy and strategic continuity in decision-making.

The NIA Board would have the statutory authority and duty to identify key national development priorities and to formulate a public investment strategy in accordance with those priorities. It would then monitor the implementation of that strategy by its principal operating arms—National Infrastructure Bank (NIB) and National Capital Management Corporation (NCMC, or "Nicky Mac")—chartered as special government-owned corporations:

- NIB would follow the familiar GSE model and support private investment in public infrastructure through a combination of direct federal grants, loans, guarantees, insurance, securitization, and secondary market-making.
- Nicky Mac would function as an asset manager along the lines of a traditional private equity firm. It would use direct backing by the full faith and credit of the U.S. to attract yield-hungry private investors into infrastructure investment funds under its management.

To ensure a geographically balanced and inclusive deployment of economic and human resources, the NIA would run a network of regional offices, which would work closely with local communities, businesses, and public authorities on region-specific needs. They would also coordinate their activities with the corresponding regional Federal Reserve Banks.

The NIA's organizational capacity and flexibility should enable it to perform its critical economy-wide coordination functions and adjust its strategic focus in accordance with the nation's needs.

II. NIA AS A CRISIS RESPONSE AND BAILOUT COORDINATOR

If the NIA is established in response to the current COVID-19 or any future systemic crisis, its initial mission would be focused on coordinating and executing a nationwide strategy of emergency production mobilization and public capital assistance to private businesses (bailouts).

A. Production Mobilization

In crises, Congress would designate the NIA as the principal manager of federally appropriated funds for purposes of organizing the crisis response on the national scale. The NIA's dedicated asset-management teams would work with other federal, regional, and local authorities, professional experts, and other relevant parties to identify specific bottlenecks in the supply chain of critically needed products, prioritize and formulate concrete action items, and organize the requisite financial and other resources to scale up or repurpose individual facilities' productive capacity. In effect, this emergency production ramp-up would amount to a temporary and targeted mobilization by the NIA of individual business entities and utilities.

Putting the NIA at the center of this mobilization campaign would (1) facilitate and optimize an otherwise impossibly difficult process; and (2) concentrate key resources and decision-making powers in the hands of an agency specifically designed to conduct business in a manner approximating that of a private equity firm. Neither the U.S. Treasury nor Federal Reserve are able to act *inside* private firms and markets in a similarly direct way—a critically important ability in this context.

B. Bailout Process and Oversight

While direct public financing of private business entities is often a necessary part of crisis response, neither the Federal Reserve nor the Treasury are equipped to manage that process directly and effectively. Outsourcing management of the Treasury's and Federal Reserve's bailout-related assets to Blackrock, the world's largest private asset manager, is a stark reminder of that institutional gap.

The NIA would be a publicly-owned Blackrock equivalent. Working with the Treasury and the Federal Reserve, it would coordinate emergency public assistance to, and then manage public investments in, private companies. The NIA's professional asset-management teams would allocate funds to individual recipients, negotiate the terms of assistance, and run the portfolio of public assets—strictly with a view toward maximizing the public's overall welfare.

To avoid the pernicious pattern of socializing private firms' extraordinary losses while allowing privatization of their extraordinary gains, the process of allocating emergency assistance to individual firms must be fair, transparent, and conducted in accordance with clearly articulated policy priorities.

A few key elements of the NIA's bailout management regime would include the following:

- The NIA would leverage its regional offices and sectoral expert teams to work closely with the authorities, businesses, and communities on the ground to conduct simultaneous emergency public investment auctions across the country (though the aggregate amounts of assistance awarded through these auctions may differ depending on the degree to which any particular locality is affected by the emergency at hand).

- The NIA Board would set transparent and uniform guidelines for choosing individual recipients of public investment, determining the amount and structure of each such investment (including future profit participation), and imposing specific conditions on each recipient. The NIA's overarching goal would be to provide support to businesses and organizations of all sizes and types, specifically to stimulate economic activity and to prevent/minimize loss of jobs and income in all communities.

- To this end, the NIA guidelines would explicitly mandate maximizing payroll retention and uninterrupted provision of social services to employees and communities as part of any capital assistance package. With respect to large corporations, the NIA would also condition emergency assistance on specific changes to their dividend and stock buyback policies, executive compensation structure, and corporate governance—all with a view toward correcting systemically destabilizing structural imbalances in the U.S. economy.

- The NIA's auction policies and procedures would specifically seek to eliminate any potential conflicts of interest, favoritism, outside interference, etc. Congress can impose additional procedural and substantive requirements on the NIA's decision-making process.

- The NIA teams would work closely with the Treasury and the Federal Reserve, to coordinate their public assistance program with the broader financial and monetary stability goals. This would also provide a helpful checks-and-balances mechanism.

- The NIA's assistance award decisions would be fully documented and subject to audit by the Government Accountability Office (GAO) or specially designated federal audit panels.

- The NIA Board would be under statutory duty to provide regular public reports to Congress and the Treasury on the status of its public capital support programs. If necessary, Congress can mandate additional public oversight the NIA's bailout management process.

In theory, the Treasury or the Federal Reserve can structure their emergency bailout efforts in a similar fashion. In practice, however, it is extremely difficult to ensure the necessary degree of uniformity, transparency, and integrity across multiple bespoke bailout facilities, managed by multiple public and private agents with different mandates and motivations. The NIA's strong statutory mandate, specialized expertise, and organizational accountability would render the entire process inherently more transparent, fair, and susceptible to effective public oversight and input (see Part IV below).

C. Managing Public Equity Stakes: The "Golden Share" Option

The specific form of emergency public investment—whether it is an outright grant, a loan, guarantee, or purchase of a particular type of preferred or common stock—will likely vary on a case-by-case basis.

However, in certain categories of cases—for example, where public capital injections are particularly substantial (either on an individual or an aggregate industry basis), or where the recipient-firms provide critical public goods or services (finance, transportation, energy, healthcare, etc.)—it may be desirable for Congress to mandate that the NIA receive and hold, on a permanent basis, a special "golden share" in each such firm.

In the 1980-90s, golden shares were widely used by governments around the world—including the UK government under Margaret Thatcher—to reserve exclusive rights to control key business decisions by the newly privatized companies that either operated in strategically significant industries or provided basic social services. This instrument's potency and malleability make it equally well-suited for purposes of structuring emergency public investment in private firms (especially, financial firms).

The proposed "golden share" would entitle the federal government, represented by the NIA, to receive a specified economic interest in the firm (under the terms negotiated by the NIA as part of the bailout). It would also grant the NIA, as the sole holder of the federal government's golden share, special, exclusive, and nontransferable corporate-governance rights in the relevant firms. The golden share could not be redeemed or eliminated other than by an Act of Congress.

As the designated golden share holder, the NIA would occupy a permanent seat on the firm's board of directors, with a unique set of duties and powers. Unlike other corporate directors, the NIA would owe fiduciary duty directly to the American public.

In this role, the NIA would have two distinct modes of operation:

- Under normal circumstances, the NIA would perform mainly observational and monitoring functions. While not interfering with the company's routine business operations, the NIA would actively monitor corporate actions with a view to preventing the company or its shareholders from circumventing the conditions of, or frustrating the public's expectations in connection with, the bailout funding. The NIA's affirmative vote would be required for corporate decisions authorizing significant stock buybacks or dividend distributions, outsourcing or elimination of jobs, setting executive compensation, adopting aggressive tax-planning strategies, and other actions potentially inconsistent with public capital support.

- Upon the occurrence of specified triggering events—including, e.g., corporate actions inconsistent with the conditions of public assistance, significant deterioration in the firm's financial condition, or signs of a systemic crisis—the golden share would be "activated," and the NIA would effectively assume the role of the firm's "manager of last resort." From this position of corporate control, it would be able to take fast and direct action necessary to protect public interest: make concrete operational changes, redeploy resources, and so forth. Once the systemic danger subsides, the golden share would revert to its (relatively) passive state.

In theory, it may be possible to structure the public stake in bailed-out firms as a special class of common or preferred shares that carries some of the rights and powers described above. That approach would be less "radical" and thus presumably easier to implement. In practice, however, individually negotiating the terms of public investment in each firm may be too unwieldy—especially in the context of a multi-trillion-dollar emergency relief program—and thus likely to follow the path of least resistance. It is easy to imagine the Treasury pragmatically focusing on negotiations with a handful of the largest corporations that would push hard against any "interference" in their internal governance. Meanwhile, the vast majority of corporate bailout beneficiaries would potentially be able to fly under the government's radar. Even if certain conditions—such as temporary limits on stock buybacks or executive compensation—are mandated by Congress as part of the crisis relief legislation, traditional financial instruments are simply not suited for effective monitoring and enforcement of corporations' compliance with these extraordinary, exogenously imposed conditions.

The proposed "golden share" mechanism would avoid these problems. It would offer the federal government a streamlined and flexible tool of corporate control, which can be quickly scaled up to enforce compliance with bailout conditions—and to ensure that private firms benefitting from public support do not abuse that advantage going forward.

Importantly, in a systemic crisis situation similar to the COVID-19 pandemic, the NIA would be able to use the golden share trigger to assume its production-mobilization role, discussed above.

III. NIA'S ROLE IN COORDINATING PUBLIC INFRASTRUCTURE / GND FINANCING

Outside of the national emergency context, the NIA would pursue its core mission of formulating, financing, and executing a coordinated strategy of sustainable and socially inclusive economic development. The core element of this strategy would be systematic channeling of public and private capital into long-term public infrastructure projects that currently do not get funded by risk-averse private investors.

As discussed above, the NIB would generally follow the traditional GSE business model to scale up and amplify existing infrastructure finance flows. It would use proceeds of its bond issuances to purchase and pool revenue bonds and project bonds issued by municipalities, public utilities, and other government instrumentalities seeking financing to fund infrastructure projects. The NIB can also purchase and pool qualifying bonds issued by private entities for the purposes of financing publicly beneficial infrastructure projects. To ensure the commercial viability of its core business model, the NIB would impose strict eligibility criteria on prospective securities.

Nicky Mac would function as a hybrid of a sovereign wealth fund and a private equity firm. Following the business model of a typical Wall Street asset manager, Nicky Mac would set up a series of investment funds (structured similarly to traditional private equity funds) and actively solicit private investors—pension funds, insurance companies, university endowments, foreign sovereign wealth funds, and so on—to purchase passive equity stakes in its funds.

Nicky Mac's dedicated professional teams would select and manage diversified portfolios of public infrastructure assets: nationwide clean energy networks and high-speed railroads, regional air and water cleaning and preservation programs, systems of ongoing adult education and technical training, networks of mixed public-private "startup" finance funds, and so on. By financing and managing these transformative projects, the NIA would be effectively coordinating and overseeing the process of nationwide implementation of the GND program.

Nicky Mac would employ advanced financial engineering methods to reward private investors for their participation in financing these long-term publicly beneficial projects—even where such projects do not generate easily privately "capturable" revenues. It would "synthesize" equity-like returns that vary depending on the estimates of local, regional, or national macroeconomic impacts of the individual funds' projects. If, for example, experts calculate that a particular fund's investments would generate an additional 3% in local or regional economic growth over a specified period of time, Nicky Mac would translate that projected gain into a corresponding added return for the investors in the fund.

This ability to synthesize additional payouts, combined with direct access to the full faith and credit of the U.S., render NIA issuances a potentially highly attractive "safe asset" class for large institutional investors—especially, public pension funds and "socially responsible"/"green" investors searching for yield compatible with their core missions. Thus, instead of financing private equity funds that offer higher yields by laying off workers and breaking up companies they acquire, pension funds would be able to generate healthy, reliable returns by investing in publicly beneficial, employment-boosting projects.

The availability of this new asset class can significantly alter the dynamics of contemporary financial markets. By draining large institutional investors' demand away from speculative short-term or riskier private equity assets, the NIA would function as an important market mechanism for creating currently woefully scarce "patient" capital and enhancing systemic financial stability.

IV. PUBLIC ACCOUNTABILITY AND TRANSPARENCY

Democratic accountability is a critical factor in ensuring the NIA's political legitimacy and long-term success. To ensure that the NIA is publicly accountable for its actions, it is important to establish clear lines of internal and external communication, reporting, and auditing. These measures would help to enhance the overall transparency of the NIA's operations.

A. Procedural Transparency

The NIA Board would be required to submit annual reports to Congress, outlining the basic principles of its developmental program, explaining any changes in or adjustments to its objectives over various time horizons, and describing and analyzing specific actions the NIA was taking to implement its strategic objectives. The Chair of the NIA Board would also be required to provide annual Congressional testimony on the national development policy.

The NIA Board would be subject to annual audit by the GAO. Nicky Mac and NIB would be subject to annual independent audits of their financial performance and operations by a special audit panel of representatives of the GAO and of all major public accounting firms.

To ensure the full transparency and integrity of investment decisions—and to avoid corruption, cronyism, and misuse of funds—both Nicky Mac and the NIB would be required to select individual projects for inclusion in their asset portfolios through public auctions. Any public or private entity with an economically viable plan for providing currently under-provided public goods would have a fair and equal opportunity to apply for NIA funding. A specially designated committee of Nicky Mac or NIB, as appropriate, would thoroughly analyze each proposed project and choose the ones that meet their—formalized and transparent—internal requirements.

These basic accountability mechanisms are easily scalable in times of national emergency, with additional procedural safeguards imposed on the NIA in its role as the bailout manager (see Part II above).

B. Public Interest Council

To strengthen the NIA's external accountability, Congress should establish a special Public Interest Council (the Council) charged with representing an explicitly public interest-oriented perspective in matters within the NIA's ambit.

The Council would comprise individuals who are (1) independent of both the financial services industry and regulators; and (2) possess relevant expertise. This group would include both academic/technical experts and public interest advocates. Members of the Council would be appointed by Congress for staggered terms, based on publicly solicited nominations.

The Council would play primarily an advisory and evaluative role, providing an independent perspective on substantive policy issues faced, and strategic decisions made, by the NIA in the course of fulfilling its mandate. The Council would submit mandatory quarterly and annual reports to Congress, containing its assessments and criticisms—and non-binding recommendations for improvement—of the NIA's articulation and performance of national development and/or crisis management policies.

* * * * *

The NIA outlined above is an urgently needed institutional mechanism for organizing and mobilizing the nation's economic resources in response to systemic challenges facing us in the 21st century. We need the NIA to ensure that the American public is protected both from direct existential threat posed by pandemics and climate change, and from continuing erosion of democratic control over allocation of the nation's economic resources.

FURTHER READINGS:

Robert C. Hockett & Saule T. Omarova**,** *Private Wealth and Public Goods: A Case for a National Investment Authority*, 43 J. CORP. L. 437 (2018), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2939309

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