CENTER ON LAW & PUBLIC FINANCE

REINVESTING IN AMERICA FEATURE
An Interview with Bernard Schwartz

Bernard Schwartz is Chairman and CEO of BLS Investments, LLC, a private investment firm. He also manages the investments of the Bernard and Irene Schwartz Foundation, which promotes the development of US economic policy initiatives through investment in think tanks, universities and advocacy organizations and also supports higher education, medical research and New York City-based cultural organizations. Mr. Schwartz is also an active supporter of the Democratic Party. Prior to establishing BLS investments in March 2006, Mr. Schwartz served for 34 years as Chairman of the Board and CEO of Loral Space & Communications and its predecessor, Loral Corporation. Mr. Schwartz is a long-time leader in urging public/private investments in infrastructure and the creation of a National Infrastructure Bank.

Senator John Kerry today announced his American Infrastructure Bank with bipartisan support. Michael Likosky, author of Obama's Bank: Financing a Durable New Deal, sat down with Bernard Schwartz to discuss the challenges facing US infrastructure investments. This interview was conducted prior to today's announcement by Senator Kerry.

When it comes to infrastructure, do we have a deficit of long-term thinking?

We haven't had leadership in this country since the Second World War that looks to long-term economic development. Most of our infrastructure solutions are short term. We used to make railroads in this country. We used to make all sorts of things that are now built elsewhere. We built the steel industry in Japan after the Second World War. You can write volumes of books on America's generosity in rebuilding post-War Germany and Japan which we rebuilt from destitution.

Made possible by the generous support of
FORDFOUNDATION
Working with Visionaries on the Frontlines of Social Change Worldwide

REINVESTING IN AMERICA FEATURE
An Interview with Bernard Schwartz

In thinking about those investments though, we should have had some sort of compensation and enrichment for ourselves. Instead, we don't have a steel industry in this country practically. So long-term thinking in this country is not one of our strengths. It would have been better if we had long-term thinkers during the post-War period. We need long-term thinkers now.

Part of that long-term thinking is investing in infrastructure.

It is interesting that in America we are one of the few countries without a capital budget. No business in America runs without a capital budget. Most states and cities have capital budgets.

When it comes to infrastructure investment, we have a weak federal government and over 100 state and local markets. Do you see this as an impediment?

I'm not sure it is all bad. It brings with it innovation and mobility of capital and labor that makes this country so extraordinary and brings us such wealth. But it carries with it the burden of how to get things done. We really have 51 governments of the United States. If you add the city governments you have many more.

So if you have a regional problem such as high-speed rail, for example, you have to work with New York and New Jersey and other contiguous states for one project. And each one of those governments brings to it a special viewpoint. So the coordination and the amount of investment in making a regional project with more unified purpose is not so easy.

For instance, there are projects that I know of in the United States for which private enterprise has walked away because it takes too long to manage the issue of how to bring the various states and cities together to make the investments happen. It discourages private investment.

However, when we have had strong national leadership from Jefferson's day to Lincoln's and to Roosevelt's, we've been able to do things. Eisenhower built a national road system in three years. He got all the governors to stand up and say that's what we're going to do. So, if we have strong national leadership, we are able to manage the inefficiency and ineffectiveness of a multi-political structure. If we have weak national leadership we suffer from it.

People are afraid of strong national leadership because we are Americans, but sometimes we need it and it works well.

Like the second stage of Obama's presidency, the second phase of FDR's New Deal shifted away from government vehicles and toward quasi-public entities that leveraged federal, state, local and private sources. I have just written a book about this, Obama's Bank (Cambridge University Press). Is this what you have in mind with the National Infrastructure Bank?

We are working toward a National Infrastructure Bank as a way of coalescing these very interests so that the financial contribution comes from various sources: 30 percent federal, 30 percent from states and local governments, and then with the balance coming from the private sector. That is hard to do. But I think that's a lot easier to do than to build a national grid for the northeast from solely federal sources.

Do you believe that an Infrastructure Bank should use different tools for different tasks?

I really believe that a National Infrastructure Bank should not just support one way of carrying out a project. It should employ a multitude of banking tools, including leverage, guarantees, loans, etc., depending on the project's merit and on whether it will generate revenue through user fees.

We are a broad enough country in the United States that we are going to need to look to different kinds of solutions for what seems to be similar kinds of programs and projects. What we need to recognize is that the United States now spends about 2 percent of our GDP - which is approximately 280 billion dollars every year – on infrastructure. This money is largely raised in capital from public markets with the remainder coming from government expenditures. We used to spend 3 percent on infrastructure. Starting in 1976, this level of infrastructure investment dropped to two percent and we have kept it there.

If you add up that 1 percent over this period, it comes to the 2 trillion dollars in needs identified by the American Society of Civil Engineers as our infrastructure investment deficit.

The underfunding has had its effect. But, we nonetheless have an extraordinary amount of investment in municipal bonds managed in private markets and sold to private investors. Some have public advantages bestowed by tax-free municipal bonds.

Public-private-partnerships are one way for local and state governments to harness the capacity of their collective resources and tie them into private businesses. This is a model that has worked. It is not used as much as we'd like and should be.

We're talking about the situation that government would have a bank and it would work in partnership with private investors to identify and finance those projects through multiple ways such as taxes, bonds, and guarantees. The aim would be to get the private sector to be partners as managers in financing and execution along with the government. This is sound, but it is also only one way for managing infrastructure and job replacement.

We have two models on the table right now for an Infrastructure Bank, one transportation-based and the other multi-sectored. Why is this choice in front of us?

I see it as a problem that arises from our political structure. If we advocate for an Infrastructure Bank for transportation, then you're going to get the endorsement for that by everyone who's on the transportation committees. You're going to have a lot of problems getting support from those who champion our other infrastructure needs.

I understand the politics.

We're talking about politicians having a tremendous amount of power, and holding on to that power is part of humanity. They will only relinquish that power slowly and carefully.

Strong leadership here would mean that instead of having multiple "silos" – separate banks for our water systems, broadband, the electrical grid—we would have one multi-purpose bank that does more than just transportation.

This issue is going to have to be resolved within Congress. It's not a matter of what's better or worse, it's about giving up power.

But isn't there also a public policy, national competitiveness and job-producing issue here too? We suffer from our inability to make the types of cohesive infrastructure investment decisions that are a precondition to industrial, service-based and clean-tech growth strategies. Countries such as China that do this are pealing away our jobs and becoming competitors in innovation. Are we hamstringing ourselves with silo'd approaches?

Yes to everything you say. Although we can benefit enormously from a single bank, politically we have much more that we need to do.

A multipurpose bank would need to set the standard for what serves the national purpose. It would need enough oversight to make sure that we're meeting standards. If we had one national bank that is professional and who's job it is only to do that, that sounds like a very appropriate way to handle the kinds of things we are talking about.

We need long-term thinking which has been particularly absent for a very a long time. I don't think we've had long-term thinking about our nation's infrastructure since Eisenhower put through the national highway system.

A bridge goes down in Minneapolis killing several people and then suddenly there's a burst of energy to do something about that bridge - but not a bridge in Nashville or Sacramento.

How do we move toward nationally-oriented investment decisions?

Policy makers have to choose projects, and they often have different constituencies. We can't do all of them. How do we get a legislator in Madison to care about what happens in San Diego?

Governor Ed Rendell [Co-Chair of Building America's Future] recently used a terrific example in speaking to someone from Nebraska. He explained that, if we had good roads running from the farmlands to the west coast ports, it would help farmers. It's not just about roads within Nebraska. It's about roads to the port. We have to find ways of bringing together different constituencies, each driven by self-interest.

As has happened in the past, we have ways of managing it.

What we are proposing with a National Infrastructure Bank is not system of government-operated projects - not the Works Progress Administration. It is more a true bank in which private industry and capital are combining with state and local governments. The federal government is only there at the beginning.

Federal involvement is very important. It is what will attract investors here and abroad. So much money exists around the world, but investors are skeptical about putting money into anything less than a multi-year project. They also don't want to deal with 50 states. They don't want to have to look at whether New York State can pay its bonds. They want to look to the federal government

This model has worked before. It can be again.

Today, enormous amounts of money sit on the sidelines eager for US infrastructure investments which are widely perceived as the best in the world. Money sunk elsewhere will also likely be retracted and repurposed to America if a National Infrastructure Bank is created.

Right now, there's liquidity. If things tighten, then we're going to have to think about things differently. We need to use this six-year unique window—grab it and run with it.

Also, materials are cheap now, money raised through bonding is going further . . .

And, labor is cheaper too.

We should be the leader in making infrastructure projects happen. We'll get there.

##########

CENTER ONLAW & PUBLIC FINANCE

Cohesive infrastructure and energy policy is essential for ensuring that America invests in what is needed to promote competitiveness, security, and broad-based opportunity. However, responsibilities for making decisions are fragmented across the federal government and also the states and localities, often in sector-based silos. Many of our most innovative financing ideas and programs are rarely discussed in a holistic way. This balkanization impedes our ability to engage in the types of coordinated planning essential for sound forward-looking investment decisions. The Center on Law & Public Finance, a center of the Social Science Research Council, assesses policy programs, financing devices, contractual arrangements, specific projects, and industry trends. It also provides capacity-building to public officials and other key stakeholders on innovative financing mechanisms and contractual arrangements.

The Center on Law & Public Finance with New York University's Institute for Public Knowledge convenes the *Reinvesting in America Initiative*, with participation to-date from AECOM, BLS Investments, Brookings Institution, California State Business, Transportation & Housing Agency, California State Infrastructure and Economic Development Bank, California State Treasurer, Carlyle Group, Citi Infrastructure Investors, Columbia University Law School, Ernst & Young, Lazard, KPMG, Meridiam, Moody's, Morgan Stanley, New Jersey Schools Development Authority, New York State Asset Maximization Commission, New York State Empire Development Corporation, Nossaman , Orrick, SEIU, Standard & Poor's, US Department of Commerce, US Congress, University of Southern California, US Department of Defense, US Department of Transportation, US Department of the Treasury, US Public Interest Research Group, and Yale Law School. The work of the Center on Law & Public Finance is supported by the Ford Foundation and Rockefeller Foundation.

Michael Likosky, Director
Josh Ishimatsu, Senior Fellow
Joyce Miller, Senior Fellow

For more information, please contact: michael.likosky@nyu.edu