Trump and the Debate on America's Infrastructure: How to Cut Infrastructure Costs in Half

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Americans could save $1 trillion over 10 years by financing infrastructure through publicly-owned banks like the one that has long been operating in North Dakota.

President Donald Trump has promised to rebuild America's airports, bridges, tunnels, roads and other infrastructure, something both Democrats and Republicans agree should be done. The country needs a full $3 trillion in infrastructure over the next decade. The $1 trillion plan revealed by Trump's economic advisers relies heavily on public-private partnerships, and private equity firms are lining up for these plumbing investments. In the typical private equity water deal, for example, higher user rates help the firms earn annual returns of anywhere from 8 to 18 percent – more even than a regular for-profit water company might expect. But the price tag can come as a rude surprise for local ratepayers.

Private equity investment now generates an average return of about 11.8% annually on a 10-year basis. For infrastructure investment, those profits are made on tolls and fees paid by the public. Even at simple interest, that puts the cost to the public of financing $1 trillion in infrastructure projects at $1.18 trillion, more than doubling the cost. Cities often make these desperate deals because they are heavily in debt and the arrangement can give them cash up front. But as a 2008 Government Accountability Office report warned, "there is no 'free' money in public-private partnerships." Local residents wind up picking up the tab.

There is a more cost-effective alternative. The conservative state of North Dakota is funding infrastructure through the state-owned Bank of North Dakota (BND) at *2%* annually. In 2015, the North Dakota legislature established a BND Infrastructure Loan Fund program that made $50 million in funds available to communities with a population of less than 2,000, and $100 million available to communities with a population greater than 2,000. These loans have a 2% fixed interest rate and a term of up to 30 years. The proceeds can be used for the new construction of water and treatment plants, sewer and water lines, transportation infrastructure and other infrastructure needs to support new growth in a community.

If the Trump $1 trillion infrastructure plan were funded at 2% over 10 years, the interest tab would come to only $200 billion, nearly $1 trillion less than the $1.18 trillion expected by private equity investors. Not only could residents save $1 trillion over 10 years on tolls and fees, but they could save on taxes, since the interest would return to the government, which owned the bank. In effect, the loans would be nearly interest-free to the government.

New Money for Local Economies

Legislators in cash-strapped communities are likely to object, "We can't afford to lend our revenues. We need them for our budget." But banks do not lend their deposits. They actually create new money in the form of bank credit when they make loans. That means borrowing from its own bank is not just interest-free to the local government but actually creates new money for the local economy.

As economists at the Bank of England acknowledged in a March 2014 report titled "Money Creation in the Modern Economy", the vast majority of the money supply is now created by banks when they make loans. The authors wrote:

> The reality of how money is created today differs from the description found in some economics textbooks: Rather than banks receiving deposits when households save and then lending them out, bank lending creates deposits. . . . Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money. [Emphasis added.]

Money is not fixed and scarce. It is "elastic": it is created when loans are made and extinguished when they are paid off. The BOE report said that private banks now create nearly 97 percent of the money supply in this way.

Richard Werner, Chair of International Banking at the University of Southampton in the UK, argues that to get much-needed new money into local economies, rather than borrowing from private investors who cannot create the money they lend, governments should borrow from banks, which create money in the form of deposits when they make loans. And to get that money interest-free, a government should borrow from its own bank, which returns the interest to the government.

Besides North Dakota, many other states and cities are now exploring the public bank option. Feasibility studies done at both state and local levels show that small businesses, employment, low-cost student loans, affordable housing and greater economic stability will result from keeping local public dollars out of the global banking casinos and in the local community. Legislation for public banks is actively being pursued in Washington State, Michigan, Arizona, Philadelphia, Santa Fe, and elsewhere. Phil Murphy, the front-running Democratic candidate for New Jersey governor, is basing his platform on a state-owned bank, which he says could fund much-needed infrastructure and other projects.

New Money for a Federal Infrastructure Program

What about funding a federal infrastructure program with interest-free money? Tim Canova, Professor of Law and Public Finance at Nova Southeastern University, argues that the Federal Reserve could capitalize a national infrastructure bank with money generated on its books as "quantitative easing." (Canova calls it "qualitative easing" – central bank-generated money that actually gets into the real economy.) The Federal Reserve could purchase shares, whether as common stock, preferred stock or debt, either in a national infrastructure bank or in a system of state-owned banks that funded infrastructure in their states. This could be done, says Canova, without increasing taxes, adding to the federal debt or hyperinflating prices.

Another alternative was proposed in 2013 by US Sen. Bernie Sanders and US Rep. Peter DeFazio. They called for a national infrastructure bank funded by the US Postal Service (which did provide basic banking services from 1911 to 1967). With post offices in nearly every community, the USPS has the physical infrastructure for a system of national public banks. In the Sanders/DeFazio plan, deposits would be invested in government securities used to finance infrastructure projects. Besides financing infrastructure without raising taxes, the plan could save the embattled USPS itself, while providing banking services for the one in four households that are unbanked or under-banked.

Reliance on costly private capital for financing public needs has limited municipal growth and reduced public services, while strapping future generations with unsustainable debt. By eliminating the unnecessary expense of turning public dollars into profits for private equity interests, publicly-owned banks can allow the public to retain ownership of its infrastructure while cutting costs nearly in half.

Ellen Brown *is the founder of the Public Banking Institute and a Fellow at the Democracy Collaborative. She is the author of a dozen books including the best-selling Web of Debt, on how the power to create money was usurped by a private banking cartel, and The Public Bank Solution, on how the people can reclaim that power through a network of publicly-owned banks.*

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