Written Statement of

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"BUILD BACK BETTER: INVESTING IN EQUITABLE AND AFFORDABLE HOUSING INFRASTRUCTURE"

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Dear Chairwoman Waters, Ranking Member McHenry, Members of the Committee:

Thank you for inviting me to testify at this hearing. My name is Saule Omarova. I am the Beth and Marc Goldberg Professor of Law and Director of the Jack Clarke Program on the Law and Regulation of Financial Institutions and Markets at Cornell University, where I teach subjects related to corporate finance and regulation of financial services. Since entering the legal academy in 2007, I have written numerous articles examining various aspects of U.S. financial sector regulation, with a special focus on systemic risk and dynamics in the U.S. financial sector and the practical interaction between finance and the broader economy. Prior to becoming a law professor, I practiced law in the Financial Institutions Group of Davis Polk & Wardwell. I also served in the George W. Bush Administration as a Special Advisor on Regulatory Policy to the U.S. Treasury's Under Secretary for Domestic Finance. I am here today solely in my academic capacity and am not testifying on behalf of any entity. I have not received any federal grants or any compensation in connection with my testimony, and the views expressed here are entirely my own.

The purpose of my testimony is to describe a proposal for the creation of a National Investment Authority (NIA), a new federal entity tasked with designing, financing, and implementing a cohesive program of the U.S. economic growth and development. The proposed NIA will fill the crucial institutional space between fiscal policy, conducted by the U.S. Treasury, and monetary policy, conducted by the Federal Reserve. Acting directly inside financial markets, the NIA will mobilize and channel the flow of public and private capital to rebuild our nation's deeply inadequate physical and social infrastructure, which includes affordable and environmentally sustainable housing. Updating the successful Reconstruction Finance Corporation (RFC) model to meet the unique challenges of the 21st century, the NIA will restore the healthy functioning of the U.S. financial system, so it more effectively serves the long-term interests of the American people.

More comprehensive summaries of the NIA proposal are provided in (1) the report entitled "The Climate Case for a National Investment Authority," attached as **Appendix A**; (2) the memorandum entitled "A National Investment Authority: Financing America's Future," attached as **Appendix B**; and (3) the issue brief entitled "Why We Need a National Investment Authority," attached as **Appendix C** hereto.

In this written statement, I will take a broader look at a few overarching themes that deserve the Committee's special attention. For reasons presented below, I urge the Committee to take the lead in establishing the NIA as the core institutional tool for guiding and managing the process of post-pandemic economic recovery and transformation.

I. WHY WE NEED A NATIONAL INVESTMENT AUTHORITY: THE MISSING ELEMENT IN THE U.S. FINANCIAL INFRASTRUCTURE

Affordable housing is a vital, indeed indispensable, component of the national infrastructure.[1] Investment in affordable housing is therefore a key component of the nationwide infrastructure investment program. This is particularly evident and urgent in the context of the post-pandemic economic recovery and reconstruction challenges we are facing today. The COVID pandemic has aptly demonstrated both how critical housing access and conditions are to human health and safety and how deeply these issues are intertwined with the broader problems of racial and socioeconomic inequality in the United States.[2] Unsurprisingly, the most vulnerable segments of the U.S. population—especially low-income racial and ethnic minority households—shouldered the disproportionately high share of crisis-induced evictions, foreclosures, and other housing hardships.[3] As the country is beginning its post-COVID rebuilding process, remedying these long-standing structural problems in the housing sector must be one of our core political and economic priorities.

Financing is at the core of these problems. Recognizing this fact, the Biden Administration called on Congress to invest $213 billion to build, preserve, and retrofit more than a million affordable, accessible, and energy-efficient housing units.[4] As part of a sweeping package of infrastructure-finance measures, proposed in "The American Jobs Plan," this type of investment commitment would be a powerful start of a much-needed program of economic recovery and growth.[5]

It is critically important, however, to supplement this broad commitment with a concrete plan to build an institutional platform for implementing the program on an ongoing basis and in a manner that truly serves the interests of the American people. Without such a dedicated public platform, there is a very real danger that large financial intermediaries—Wall Street banks, private equity funds, investment consultants, etc.—would hijack the process, subverting the federal resources toward uses disproportionally benefitting them and their powerful clients.[6] Given the unprecedented cluster of challenges facing the United States today—global pandemics, climate change, extreme socio-economic and racial inequality, erosion of domestic industrial capacity and global competitiveness, to name a few—allowing this to happen is simply not an option.

This is not an ideological issue; it is a practical imperative. A massive nationwide shift towards a sustainable, inclusive, and dynamic 21st-century economy requires not only tremendous commitment of public resources but, just as importantly, public leadership and coordination.[7] It is a fundamentally political undertaking, which involves making explicit distributional choices and using governmental powers to turn them into reality. To do it right, we need a well-designed institutional base: a federal entity with democratic accountability, broad legal authority, and in-house capacity to identify long-term economic development goals, translate them into specific investment priorities, and finance and actively implement these priorities in practice.[8]

We currently don't have such an institution. The last entity of this kind in the last hundred years of American history was the New Deal era's Reconstruction Finance Corporation (RFC).[9] Established in 1932, the RFC played a pivotal role in leading the country out of the Great Depression. As the federal government's principal financing arm, the RFC systematically supplied massive amounts of credit and equity capital to banks, big and small businesses, and public agencies at a time when private credit was scarce. Among other things, the RFC was the parent-institution that established the Federal National Mortgage Association (Fannie Mae), effectively creating the national market for home mortgage loans we have to this day.[10] During World War II, the RFC also operated multiple subsidiary-corporations that funded the development and production of strategic materials and military goods essential to the war effort. The RFC was terminated in 1953, but many of its former subsidiaries—including Fannie Mae, the Small Business Administration, the Export-Import Bank, and the Commodity Credit Corporation—continue to play an important role in the U.S. economy.[11]

For many decades, the RFC legacy was largely forgotten, as American policy discourse grew increasingly myopic in its denial of public actors' catalytic role in ostensibly private financial markets. The traumatic experience of the COVID-19 pandemic, however, has led various scholars and public intellectuals to call for the creation of a "modern RFC."[12] The National Investment Authority (NIA) proposal I have been working on for the past several years is by far the most advanced institutional proposal that answers this call.[13]

The NIA is envisioned as a revised and updated version of the RFC, a permanent federal financial institution with an explicit mandate to mobilize and channel public and private capital into a coordinated program of America's economic recovery and growth. Like the RFC, the NIA would act directly within financial markets—only, this time, it would deliberately and systematically seek to correct the deep structural roots of racial, economic, and environmental injustice and inequality.

Neither the U.S. Department of the Treasury (the Treasury) nor the Federal Reserve System (the Federal Reserve, or the Fed)—the two principal pillars of our country's public finance system—are properly equipped or able to perform this task.[14] This void in our federal institutional structure is particularly visible during systemic financial or economic crises, when the Treasury and the Fed are forced to take actions that are either inconsistent with their legal mandates or exceed their institutional capabilities, or both.[15] An abrupt, emergency-driven obliteration of established policy boundaries and agency roles, in turn, fundamentally undermines the efficacy and political legitimacy of the federal crisis response. Thus, both in the financial crisis of 2008 and during the recent COVID-19 pandemic, the Treasury and the Fed, charged with administering emergency financial assistance programs (often colloquially referred to as "bailouts"), outsourced the actual management of federal funds to large private asset managers like Blackrock and State Street.[16] This deeply problematic pattern, with its built-in conflicts of interest, creates ample opportunities for the systematic misallocation of public funds to the disproportionate benefit of certain special interests.[17] In the long run, the recurring use of this "solution" is bound to undermine public trust in the federal government.

Having an independent but democratically accountable public agency with the technical expertise to perform these core investment management functions would help to avoid these problems. The NIA is proposed as precisely this kind of an expert public investment manager, with a broad range of tools for mobilizing and directing financial resources into the real, i.e., non-financial, economy. The NIA would be the strong institutional "muscle" that the U.S. government needs not only to respond to crises, but also to support the balanced growth and structural resiliency of the national economy on an ongoing basis. The NIA's financial-market operations would supplement both the Treasury's and the Fed's policies and actions, thus critically enhancing the efficiency of the federal system of public finance. Accordingly, the NIA's operations would fall directly within the oversight jurisdiction of the U.S. House of Representatives Committee on Financial Services.

II. THE NATIONAL INVESTMENT AUTHORITY: AN OVERVIEW OF THE PROPOSAL

The NIA proposal is described in greater detail in the materials attached to this written statement as Appendices A-C. Below is a brief summary highlighting the NIA's key design features.

A. Core Mandate

The NIA's core mandate would be to formulate and implement a cohesive national strategy of long-term economic reconstruction and development. As stated above, there is currently no federal entity with the legal mandate, expertise, and resources to carry out this crucial task.

The NIA would operate directly in financial markets. Functionally situated between the Treasury and the Federal Reserve, the NIA would 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 would serve as a separate institutional base from which to conduct a more targeted allocation of "patient" public and private capital toward specific economic activities and projects likely to strengthen the U.S. domestic manufacturing base and technological capacity, create well-paying and stable American jobs, accelerate the economy-wide shift to clean energy, revitalize and rebuild disadvantaged communities and neighborhoods, and produce many other public benefits that are not currently produced at the scale America needs.

B. Organizational Structure

The NIA would be structured as a 3-tier ecosystem (structurally somewhat similar to the Federal Reserve System), comprising—

1) NIA Governing Board;
2) NIA operating subsidiaries (the NIB and the NCMC); and
3) NIA regional offices.

The NIA Governing Board (the NIA Board) would be an independent federal agency, whose members are appointed by the President with Congressional approval for sufficiently long terms and guaranteed a high degree of decision-making autonomy. The NIA Board members would be selected based on their experience and expertise in finance, environmental science, engineering, urban planning, labor relations, law, community organizing, and so forth. The NIA Board would be the democratically accountable body in charge of (i) identifying and continuously updating key national economic priorities; and (ii) formulating a cohesive economy-wide investment strategy—the National Investment Strategy—in line with those priorities.

The NIA Board would oversee and supervise the NIA operating subsidiaries—the National Infrastructure Bank (NIB) and the National Capital Management Corporation (NCMC, or "Nicky Mac")—federally-chartered government-owned corporations, through which the NIA would conduct all of its financial market operations.

Initially financed through Congressional appropriation, these NIA operating subsidiaries would implement the National Investment Strategy, by mobilizing and channeling public and private finance into large-scale critical public infrastructure projects. These would include not only traditional physical infrastructure (like roads and bridges) but also affordable housing, public transit and broadband systems, cutting-edge clean energy and manufacturing facilities, climate change mitigation solutions, and so on.

The NIA's regional offices would function as local hubs of the NIA system. They would 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 would work closely with local communities, businesses, and public authorities on region-specific infrastructural needs and plans. They would 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.

It would be important to ensure that the NIA's regional offices are established in such numbers and in such locations as necessary and appropriate in order to connect the NIA's decisions and actions to every community across America, in a direct and meaningful way. To fulfill its mandate, the NIA would need to be structured and run as a truly democratic, broadly representative, publicly accessible and accountable body. The NIA's regional offices would be the direct embodiments of these principles.

C. Principal Functions

The NIA is not meant to replace direct fiscal spending on public infrastructure; nor is it intended to compete in private markets for investment opportunities that already attract sufficient private funding. The NIA would target investments in publicly beneficial projects that do not typically get funded at the necessary scale, either in private markets or through the existing fiscal channels. While there is plenty of private capital eager to invest in "hard" assets like toll roads in heavily trafficked areas, private investors are rationally averse to funding inherently risky transformative projects that take a long time to become profitable in any commercial sense. Public investment, in turn, is often constrained as a result of political and budgetary limitations, jurisdictional conflicts, and lack of internal coordination.

The NIB and Nicky Mac—the NIA's operating subsidiaries—would step into this persistent funding gap. The NIB will focus on traditional credit financing, while Nicky Mac will supply more risk-tolerant equity capital necessary for many transformative and innovative public infrastructure projects.

1. Credit Mobilization

The NIB would be the NIA's lender arm. Its primary mission will be to amplify and optimize the currently sub-optimal system of public-private cooperation in the arena of infrastructure finance.

The NIB would focus on credit-based financing of large-scale public infrastructure through loans, guarantees, insurance, securitization, and secondary market-making. It would purchase and pool revenue bonds and project bonds issued by municipalities, public utilities, state "green" banks, and other government instrumentalities, as well as qualifying private-sector bonds supporting publicly beneficial projects.

The NIB would finance its operations by issuing its own bonds, backed by their pooled assets and eligible for the Federal Reserve's purchases (much like Treasury and Agency securities are today). As discussed below, the Fed's provision of secondary-market liquidity for the NIB bonds would play a crucial role in making them an attractive "safe asset" for large swaths of institutional investors.

In essence, the NIB would operate along the historically familiar lines of the RFC and its surviving offspring, the home finance government-sponsored enterprises (GSEs). Currently, many infrastructure projects are deemed not economically viable mainly because private creditors are not willing to take on the 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 local and state governments to access affordable financing for these much-needed projects. The NIB would specifically target these scale inefficiencies by creating and maintaining a nationwide market for these traditional forms of infrastructure finance.

2. Public Equity Investment and Asset Management

Nicky Mac would be the NIA's equity investment and asset management arm. It would focus on equity-based finance, more appropriate for truly transformative public and social infrastructure that bond investors consider too risky.

Nicky Mac would set up a series of investment funds and solicit pension funds, endowments, and similar institutional investors to purchase passive equity stakes ("limited partner" interests) in its funds. Wall Street banks, private equity, and hedge funds would not be eligible participants. As the sole manager (or "general partner"), Nicky Mac would control each fund's investment decisions. Its in-house professional teams would select and manage, with appropriate public input and oversight, individual funds' portfolios of assets: nationwide clean energy and high-speed rail networks, regional air and water cleaning and preservation programs, new affordable housing developments, community healthcare facilities, and so on.

By taking equity stakes in multiple operating companies, Nicky Mac's funds would be able to finance a wide range of innovative projects that can potentially leapfrog the U.S. economy, in accordance with the NIA's long-term developmental goals. Creating this permanent base for large-scale financing of forward-looking, technologically innovative enterprise would also critically strengthen the United States' global competitiveness and leadership, especially vis-à-vis China.[18] From this perspective, Nicky Mac's ability to build new domestic manufacturing capacity and supply chains has an added strategic significance.

Importantly, these projects need not all be commercially profitable in the conventional market sense or within a conventional timeframe. Unlike private fund managers, Nicky Mac would not have to squeeze cash revenues out of its portfolio assets to repay investors in its individual funds at the end of the typical 10-year term. This is because (1) its investments are driven not by short-term profits but by long-term public policy considerations, and (2) if and when necessary, it can leverage its direct access to the federal government's financial resources (discussed below).

Both of these factors are fundamental to Nicky Mac's ability to fulfill its core mission. To attract significant inflows of private capital into its infrastructure funds, Nicky Mac would need to be able to reward fund investors for their participation in financing long-term publicly beneficial projects, even where such projects may not generate revenues that are easily captured by private interests.

Thus, Nicky Mac could guarantee return of the principal investment to those investing in funds prioritizing commercially unprofitable projects like toll-free roads, adult education centers, or various urgently needed improvements in low-income minority neighborhoods. Nicky Mac could also offer equity-like additional returns that reflect the current estimates of long-term local, regional, or national macroeconomic impacts of these funds' projects. If, for example, experts calculate that a particular fund's investments would generate an additional 5% in regional or national 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.

Of course, Nicky Mac would not manage all of its funds in a way necessitating the use of this option. The scale and diversification of the portfolio of assets under Nicky Mac's management are the key to its ability to generate sufficiently attractive returns through traditional means (operating revenues, profitable "exit" sales, etc.). Having this option, however, would critically augment Nicky Mac's freedom to channel large amounts of currently abundant private capital where the need for it is particularly urgent or its impact is particularly meaningful.

Nicky Mac's unique ability to synthesize additional payouts would make the NIA funds a potentially highly attractive new "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.[19] Investing in NIA instruments, by contrast, would enable America's pension funds to generate healthy, reliable returns by investing in publicly beneficial, employment-boosting projects.[20]

D. Funding

Initially, the NIA's operations would need to be funded through Congressional appropriation. After an initial take-off period, the NIA would raise the bulk of its financing in capital markets, primarily through bond issuances and sales of passive equity interests in its investment funds, as described above. The expectation is that the NIA's total assets would be generating interest, dividends, and other revenues sufficient to cover its ongoing expenses. The larger and more diverse its project portfolio, the more flexibility the NIA will have in utilizing various streams of operating revenues to fulfil its current obligations.

To augment the NIA's practical capacity to finance what needs to be built, rather than what generates short-term profits, it is critical to grant the NIA operating subsidiaries direct access to liquidity support from the Federal Reserve. By maintaining a liquid secondary market for NIB bonds and a dedicated borrowing line for Nicky Mac, the Federal Reserve would effectively free the NIA from the debilitating constraints of "commercial viability." It would also give the NIA the flexibility to scale up its investments if and when necessary to sustain momentum in the economy.

In an emergency, the NIA's operating subsidiaries would have the right to borrow directly from the Treasury, at cost. As a practical matter, the NIA should not ever need to utilize this credit line: its own large portfolio of assets and the Federal Reserve liquidity facilities should obviate that need. It is nevertheless important to provide for this option, to signal to the market the Federal government's resolve to stand behind the NIA's obligations.

While the NIA issuances would not be direct obligations of the United States, the federal backstop would help to keep the NIA's cost of capital low.

E. Crisis Response and "Bailout" Management Functions

In a crisis, the NIA would manage federal funds appropriated by Congress to provide financial assistance to private and public entities in distress. It would allocate emergency credit to specific entities, negotiate and enforce applicable conditions, and take and manage the Federal government's equity stakes in firms receiving bailouts—in compliance with clear guidelines and strictly with a view to maximizing the public's overall welfare. The NIA's guidelines would explicitly mandate maximizing payroll retention and uninterrupted provision of social services to employees and communities as part of any emergency assistance package. For large corporations, they would also condition bailouts on specific changes to their dividend and stock buyback policies and executive compensation.[21] The NIA's policies and procedures would ban conflicts of interest, favoritism, and outside interference in the allocation process.

In effect, the NIA would be a designated public entity performing functions currently divided among the Treasury and the Federal Reserve—and outsourced to private asset managers like Blackrock and State Street. This would remove the need for complex arrangements and subsequent political frictions between the Treasury and the Federal Reserve, eliminate the inevitable conflicts of interest on the part of private asset managers, and increase the transparency of the bailout process. The NIA's institutional expertise and operational efficiency would also make future crisis responses much faster and more effective.

In the absence of a systemic crisis, the NIA could potentially perform the same functions with respect to financially distressed firms in specific sectors that (a) require large-scale financial support and restructuring while (b) preserving their workforce and their economic role in the community. Rather than compete with private distressed-debt investors, the NIA would assist only those companies that would otherwise not be able to access sufficiently plentiful and affordable financing for this type of a socially optimal corporate restructuring. Heavily indebted companies in the fossil fuel industry and commercial real estate (CRE) sectors might be potential beneficiaries of this approach. The NIA could help to recapitalize struggling oil and gas or coal companies, redeploy their resources for remediation of old wells and mines, and then gradually transition them either to renewable energy production or, in some cases, to a different line of business. With CRE entities, the NIA could repurpose the land to build affordable housing.

F. Public Accountability

<u>Portfolio Selection Process</u>. The NIB and Nicky Mac would be subject to robust procedural rules for making and vetting investment decisions, to ensure that their business activities are properly insulated from undue influence both by private sector interests and by political incumbents. The NIB and Nicky Mac would select the bulk of 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 NIA funding. The NIA's regional offices would 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.

<u>Public Interest Council</u>. To enhance the NIA's democratic accountability, it would be important to establish a special Public Interest Council (the Council). The Council would comprise academic experts and public interest advocates, all of whom are independent of both the industry and the government. It would perform 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, criticisms, and non-binding recommendations for improvement of the NIA's performance.

Establishing this new institutional channel for inserting public interest into the NIA's political accountability structure would serve as a powerful check against the strong pull of industry influence. More broadly, it would create a democratic forum for more transparent and inclusive discussions of the NIA's investment choices and their impact on communities and businesses.

Congressional Reports and Audits. The NIA Board would be required to submit annual reports to Congress, outlining the basic principles of the NIA's National Investment Strategy, explaining significant changes in its objectives over various time horizons, and discussing the NIA's actions in the process of accomplishing these objectives. The Chair of the NIA Board, along with the heads of the NIB and Nicky Mac, would also provide annual Congressional testimony on these matters.

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

III. THE BENEFITS OF THE NIA MODEL: SCALE, FLEXIBILITY, SYSTEMIC IMPACT

As this overview shows, the NIA proposal seeks to establish a core platform for coordinating and amplifying the flow of public and private capital into the nationwide construction and modernization of critical physical and social infrastructure. The NIA is designed as an ambitious but flexible institution of public finance, a market actor with the technical expertise and policy tools necessary to lead the process of rebuilding the U.S. economy. In this sense, the NIA would be a more robust version of the old RFC.

The scale and scope of the NIA's mission and operations, built into its design, also distinguish the NIA model from most typical "infrastructure bank" proposals.[22] The NIA proposal includes a more flexible and capacious version of an infrastructure bank—the NIB, focused on lending and making markets in infrastructure bonds—and adds to it a separate public platform for equity-based infrastructure finance and asset management. This is a crucial addition. By actively participating in both credit and equity markets, the NIA would be able to mobilize far greater quantities of private capital with a broader range of risk appetites and, accordingly, finance more ambitious and transformative public infrastructure projects on a much larger scale.

Bringing more private investment into clean energy and transit, affordable housing, domestic manufacturing, and other types of public infrastructure—especially in low-income areas and disadvantaged communities—is a fundamentally efficient public policy. It would amplify the impact of, and reduce the pressure on, direct federal spending. It would also allow the NIA to pursue a bolder and more assertive agenda, without being hamstrung by jurisdictional constraints and bureaucratic red tape.

It is critical to emphasize, however, that the NIA model is the exact opposite of traditional "public-private partnerships" (PPPs). In contrast to the largely discredited PPP model, in which private actors manage public funds, the NIA would manage the deployment of private money in the public interest. Private investors would not have control over the NIA's investment decisions, which would be driven by the goals and priorities defined in the National Investment Strategy.

In short, as a public market actor, the NIA would be able to build more of what America needs. It would strategically and continuously channel capital toward critical infrastructure projects that advance multiple public policy goals: decarbonization and sustainability, racial and economic justice, domestic job-creation, and many others. The NIA's extensive and flexible toolkit would allow it to tackle these overlapping problems in an integrated manner.

For example, many low-income rural communities and racially segregated urban areas, where the demand for affordable housing is especially high, also urgently need clean water and air, public transit, better schools, broadband services, street lighting, and other basic public infrastructure goods. The NIA would be well-situated to address these multiple needs, either on its own or in partnership with other federal, state, or local authorities. The NIA would not only help to finance the construction of high-quality, climate-resilient housing units—it would also provide credit for, or make equity investments in, specific infrastructural improvements supporting the new housing growth. Moreover, the NIA's investments in new manufacturing facilities, inter-city or regional public transit systems, environmental cleanup, and other projects in the greater geographic area around new housing developments would likely spur local economic growth and, ultimately, reduce the overall level of poverty in the target communities.

This is, of course, only a general sketch of how the NIA can "build back better" by taking an integrated approach to complex socio-economic problems that require coordinated large-scale solutions. The existing patchwork of public entities and private actors, operating under different institutional and financial constraints, are often unable to provide such systemic solutions. The NIA's broad mandate and flexible financing tools are key to its ability to step into these structural gaps, coordinate multiple capital streams, and effectively manage the collective effort to generate catalytic change.

A strong and nimble NIA would also be a formidable competitor to private equity (PE) firms that continue to accumulate and concentrate ownership and control of American companies and real estate assets. The COVID pandemic could potentially accelerate this trend, with many distressed businesses presenting cheap investment opportunities for large PE funds.[23] This is a deeply troubling prospect, given PE's strategic focus on maximizing short-term profits through high leverage, asset stripping, massive layoffs at portfolio companies, and other exploitative actions.[24] In the aftermath of the 2008 financial crisis, for example, large PE firms reaped huge profits from buying up foreclosed residential properties at deeply discounted prices, increasing rents, evicting tenants, and ultimately destroying many working-class communities and communities of color. That is how Blackstone and other PE giants became the largest landlords in Atlanta, Chicago, Phoenix, Los Angeles, and other American cities.[25] There are reasons to be concerned that post-

COVID foreclosures and evictions could lead to yet another repeat of this pattern, with even more devastating consequences for the most vulnerable Americans.[26]

The NIA could prevent this outcome. Nicky Mac, for example, could purchase distressed real estate assets and manage them in ways that increase the well-being of affected communities. Depending on the circumstances, it could restore, rebuild, or repurpose various properties—again, in an integrated fashion, as part of its broader investment strategy. With good management, these assets could generate solid long-term returns for Nicky Mac funds, while also preserving and strengthening communities hit hard by the COVID crisis.

The NIA would also compete with PE firms by attracting pension funds and other institutional investors that currently supply the bulk of PE funds' capital.[27] This is an uneasy tradeoff for pension funds, struggling to generate sufficient returns to cover their long-term liabilities. The NIA would give pension funds a new productive (rather than extractive) outlet for their capital: low-risk debt and equity instruments issued by a large public entity and backed by long-term infrastructure assets.

In effect, by offering this attractive new "safe" asset class to institutional investors, the NIA would help to solve presently intractable problems with the 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 assets, the NIA would enhance systemic financial stability and create currently scarce "patient" capital dedicated to social, racial, and environmental justice. This would fundamentally change the core balance of public and private power in our finance and in our economy.

* * *

In the face of global pandemics, climate change, increasing inequality, and a host of other challenges, it is critical to recognize—explicitly and unequivocally—that economic recovery and renewal are not "one-off" projects but forward-looking, enduring processes in need of continuous coordination and financing. Rebuilding America's economic and political strength requires a deliberate effort to channel capital toward structurally balanced, inclusive, equitable, and sustainable growth and development of its real economy. The National Investment Authority is proposed as a permanent federal institution that would lead, coordinate, and manage that effort on an ongoing basis. It is critical that Congress establish such an institution and put it to work on behalf of the American people.

[1] *See* "Housing Is Infrastructure Act of 2020," H.R. 5187 (116th Congr.), *available at* https://www.congress.gov/116/crpt/hrpt686/CRPT-116hrpt686.pdf.
[2] Yung Chun and Michael Grinstein-Weiss, *Housing Inequality Gets Worse as the COVID-19 Pandemic Is Prolonged*, BROOKINGS INSTITUTION (Dec. 18, 2020), https://www.brookings.edu/blog/up-front/2020/12/18/housing-inequality-gets-worse-as-the-covid-19-pandemic-is-prolonged/.
[3] Emily Benfer et al., *The COVID-19 Eviction Crisis: An Estimated 30-40 Million People in America Are At Risk*, ASPEN INSTITUTE (Aug. 7, 2020), https://www.aspeninstitute.org/blog-posts/the-covid-19-eviction-crisis-an-estimated-30-40-million-people-in-america-are-at-risk/#comments.
[4] The White House, "Fact Sheet: The American Jobs Plan" (Mar. 31, 2021) , *available at* https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/.
[5] *Id.*
[6] David Dayen, *First 100: Public Investment Can't Be a Jackpot for Private Thieves*, THE AMERICAN PROSPECT (Apr. 6, 2021), https://prospect.org/first100/public-investment-jackpot-for-private-thieves-infrastructure-consultants-privatization/.
[7] *See* Saule T. Omarova, *Public Investment Reimagined: A National Investment Authority*, THE AMERICAN PROSPECT (Dec. 1, 2020), https://prospect.org/economy/public-investment-reimagined-a-national-investment-authority/.
[8] *Id.*
[9] *See* James Butkiewicz, *Reconstruction Finance Corporation*, EH.NET, https://eh.net/encyclopedia/reconstruction-finance-corporation/.
[10] *Id.*
[11] *Id.*
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