

Opinion **Coronavirus economic impact**

An investment bank to help the US prosper

A new Biden government will need an institution to support an equitable and sustainable economy

STEPHANY GRIFFITH-JONES



KfW, the second-largest German bank, is a source of domestic capital for small business, clean energy, exports, innovation and start-ups © Mauritz Antin/EPA-EFE

Stephany Griffith-Jones 4 HOURS AGO

The writer is a professor at Sussex University

US president-elect Joe Biden wants to massively increase investment in everything from clean energy to healthcare and housing. But his efforts will be hampered because the US lacks vital tools that its major competitors and allies rely on.

To address the challenges America is facing — Covid-19, recession, inequality and climate change — Mr Biden should create a public investment bank. Without one, the US is trying to respond with one arm tied behind its back.

Well-capitalised, vigorous public financial institutions can work with the private sector to soften the blows during downturns and extend prosperity in upturns. They support infrastructure investment and small and medium enterprises, especially in innovative sectors or serving vulnerable communities.

It is a paradox that while the US government, in an act of idealism after the second world war, provided [funds via the Marshall Plan](#) to create and capitalise the very successful German public bank KfW, it has not created a similar institution at home.

Today, KfW has turned the initial investment into more than [\\$500bn in assets](#), the second-largest German bank, and is a critical source of domestic capital for small business, clean energy, exports, innovation and start-ups. It was a driving force for reconstruction after the war, for integrating East Germany after reunification and for recovery from the 2008 financial crisis. During Covid-19, KfW and local public banks are [providing finance](#) to individuals and businesses, helping save companies and jobs more quickly than the inefficient US system.

The US government should create such an institution now.

A [National Climate Bank, based on green banks](#) in countries such as Australia as well as in the states of [New York and Michigan](#), passed the House of Representatives as part of the [Moving Forward Act](#). The proposal for a [national infrastructure authority](#) with a broader mission could expand, complement or even absorb that climate bank.

Such an American Investment Bank would be a lead investor in critical projects serving the public good, which many private institutions may not at first find attractive. Electricity grids suited to renewable energy, rural broadband and coastal high-speed railways are all candidates. Such investment creates key preconditions for private investment.

We propose that an AIB should be independent, non-partisan and subject to rigorous regulation and government audit. It should be capitalised initially with up to \$100bn to assure sufficient resources for its activities and aim at a high investment grade credit rating to access private capital markets at low cost.

It would be financially self-sustaining and profitmaking, but not profit-driven, aiming to maximise its contribution to create a more dynamic, sustainable and fairer economy. Because specific opportunities and challenges differ across the country, it should have regional branches and work with municipal bond issuers and local financial institutions, such as state green banks and commercial banks.

During a crisis, the bank would increase provision of low-cost, long-term credit to support essential services — like hospitals, the manufacturing of critical equipment and transport companies. It would also channel general working capital and payroll support to eligible companies and local governments, acting counter-cyclically to support recovery.

At all times, it would allow grant resources and technical assistance to reach vulnerable communities. Those with significant populations of black, brown, indigenous people and others, are often marginalised and face a lack of access to credit, and disinvestment because of loss of industry or transition to clean energy, for example.

The AIB would also accelerate the pace at which new low carbon technologies become bankable by investing in very innovative technologies. Working alongside commercial banks and institutional investors, it would share knowledge as a public not a proprietary good, so critical risk and performance data make it to market quickly. It would make loans, take equity stakes and mitigate risk via guarantees.

There is no time to lose and no reason to wait. Both for helping the recovery from Covid-19-induced recession and building back better, by providing finance for investment in the most dynamic, innovative, competitive and inclusive sectors and companies, an American Investment Bank is essential for the US economy to prosper in the 21st century.

Doug Sims, a senior adviser at the Natural Resources Defense Council, contributed to this article

[Copyright](#) The Financial Times Limited 2020. All rights reserved.