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Beyond COP26, Building Back Better for the Post-Covid Era... Part 1: Biden's $1.2 tr. Infra Bill

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Beyond Glasgow and Richmond: Why Biden Had to Focus on Infrastructure

The co-authors of this article, M. Nicolas J. Firzli, the Hon. Nick Sherry and Dr. Guan Seng Khoo, are amongst the original coiners of terms such as “infrastructure as a new asset class”[1], the “SDG driven world economy”, and “building back better”.[2] They were asked to comment on the passage of the long-awaited Infrastructure Plan by the **House of Representatives**. The following commentaries are simply a reflection of their personal analysis of the $1.2 trillion bipartisan infrastructure bill which was finally passed yesterday evening (EST).

Four days earlier, in Glasgow, President Biden had criticized some countries by name for not attending the **U.N. Climate Change Conference**, known as **COP26**: “China and **Russia** not showing up and **Saudi Arabia** not showing up is a problem,” the US president said.[3] But Biden himself had to cut short his foreign trip, flying back to Washington, D.C., to face a humiliating electoral defeat in Virginia’s gubernatorial race (3 Nov. 2021), where Terry McAuliffe, a longtime grandee at the national Democratic Party lost to Glenn Youngkin, a Republican novice, in a Democrat-leaning state Biden won by a +16% margin a year earlier. The next day, the national Democratic Party was forced to fast-track the passage of the Infrastructure Bill in the House of Representative to “salvage the Biden presidency.”

House Speaker **Nancy Pelosi** and the ‘progressive’ wing of the Biden administration had deliberately put the bill on the backburner in the past three months, intending to use it as a bargaining chip with centrist Democrats like Senator **Joe Manchin** (D-WV) and Rep. **Enrique Cuellar** (D-TX). In essence, their strategy failed, and they had no choice but to pass that bipartisan bill very rapidly: a twin victory for bipartisan centrism and infrastructure investment! But it would be a mistake to reduce the bill to internal squabbling between the different wings of the Democratic National Committee (DNC) or the fear of losing the House to the Republican party next year etc.

“Folks, If We Don’t Get Moving, China Will 'Eat our Lunch”!

In reality, it was a return to the more centrist (and some may say more nationalist) stance of the 2020 campaign trail and the early days of the Biden presidency, before that disastrous eight months stretch (March – October 2021) during which Congress and the White House seemed to focus more on distant lands (Afghanistan) and narrowly defined culture wars and hard left ‘lifestyle’ issues at home, to the detriment of the U.S. economy. Apart from the shocking electoral defeat in Virginia earlier this week, and the fear of a Republican tsunami in 2022, the passage of the Infrastructure Bill was, on a deeper plane, the reflection of the bipartisan if belated realisation in America that **China** is outpacing the United States on infrastructure after four decades of neoliberal neglect: “Infrastructure was once an apolitical, positively connoted, technocratic term shared by mainstream economists and policy makers from both sides of the ideological fence including President **Eisenhower**.” [4]

Dwight Eisenhower was "a praetorian Republic leader who had championed federal government investment in the **Interstate Highway System**, America's national road grid, and the **Verrazano-Narrows** bridge, once the world's largest suspension structure. But things changed abruptly with the advent of an extreme form of 'free market' ideology in the early 1980s", [which was championed for nearly 40 years by Democrats and Republicans alike]. In Washington and Wall Street, there was until recently, a "pronounced scepticism as to whether sustained government investment in transportation infrastructure is at all desirable." [4]

The rapid geoeconomic rise of China, as exemplified by the successful establishment of the **Asian Infrastructure Investment Bank** (AIIB) was actually the only factor strong enough to force a reassessment by U.S. policy thinkers, be they **Trump** Republicans or **Clinton** Democrats, the latter constituting the true center of gravity of the **Biden White House** : "The Chinese are investing a lot of money, they're investing billions of dollars and dealing with a whole range of issues that relate to transportation, the environment and a whole range of other things," […] "China is going to 'eat our lunch' if the U.S. doesn't get moving on infrastructure!" [5]

General Lucius Dubignon Clay (left), the illustrious French American civil engineer and military planner and chief Eisenhower confidante, with President Dwight D. Eisenhower (center), receiving members of the President's Advisory Committee on a National Highway Program (January 11, 1955). In the next 25 years, America built one of the best transportation infrastructure networks in the world…, before undergoing a slow decline (1981 – 2021).

The accelerating Sino-American rivalry, clearly a "non-domestic issue" *par excellence*, has finally ended 40 years of neoliberal orthodoxy on Capitol Hill: the $1.2 trillions Infrastructure Bill means that America is now serious about catching up with the **European Union** (EU), notably France, home of the TGV high speed rail (HSR) network, **China**, which possesses the world's largest and most extensively used high speed railway network, and **Japan**, home of the **Railway Technical Research Institute** (RTRI) of SCMaglev fame.

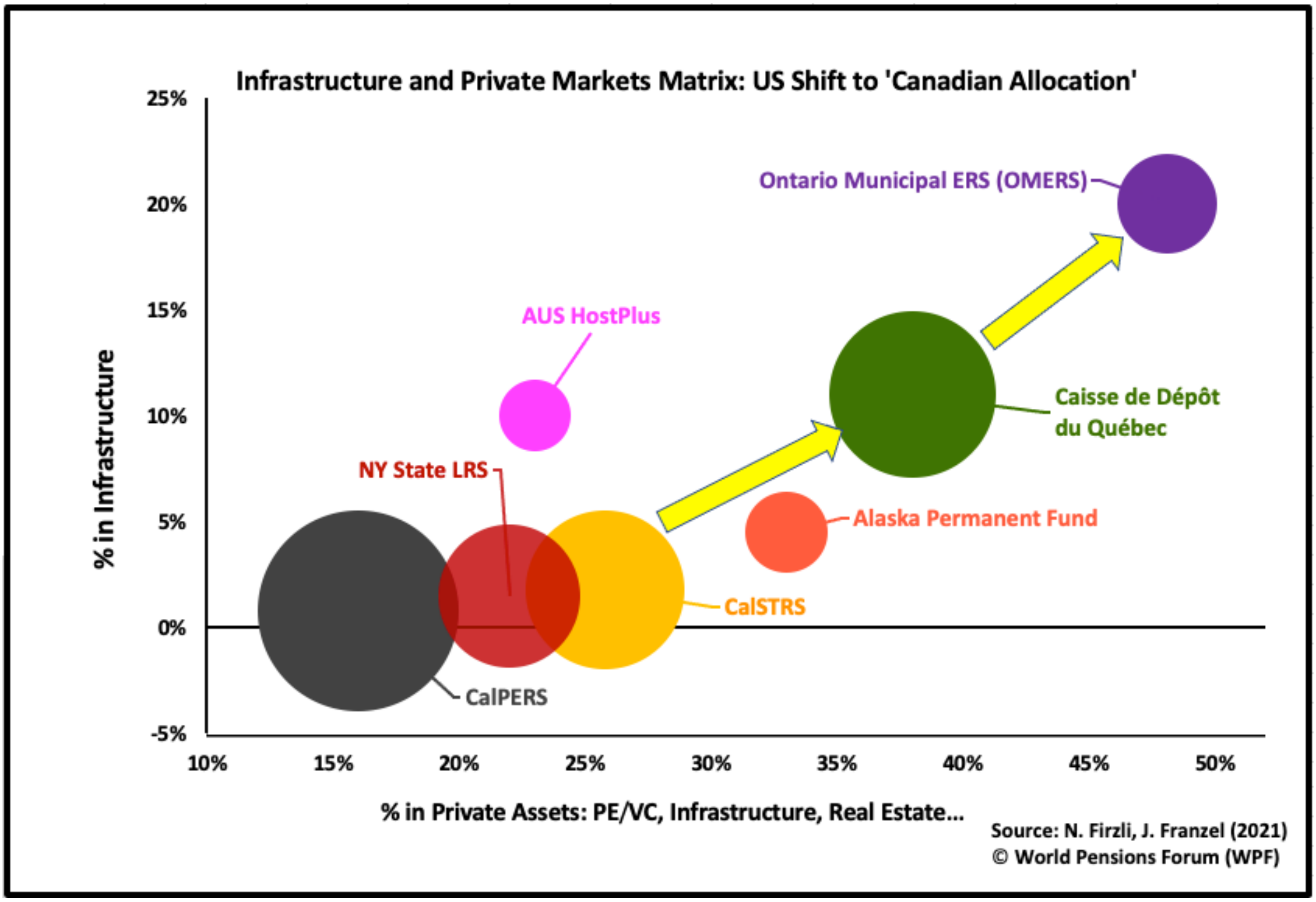
High Speed Transportation, Digital Infrastructure and Climate Change

A look at the bill's main items confirms that the focus is on rebuilding American excellence in sensitive "dual use" infrastructures, which are critical to both US corporations and **Pentagon** military planners: "$550 billion in new investments, for the nation's **bridges**, **airports**, **waterways**, **public transit**"; $65 billion for **electric grid** modernization, "to protect against the power outages that have become more frequent in recent years" […] and "boost carbon capture technologies and more environmentally friendly electricity sources like **clean hydrogen**"; $25 billion on **airports** modernization "to improve runways, gates and taxiways at airports and to upgrade terminal equipment and air traffic control towers." But there isn't much in the bill for US **ports and maritime** infrastructure, "the Gordian knot of the current global supply chain crisis and a highly strategic asset class to have, as successful nations such as **Singapore**, **Israel**, the **UAE** and the **Netherlands** well know", Dr. GS Khoo argued at our recent **G20 Pensions** Infrastructure Roundtable (Paris Forum & ESG Summit, 28 Oct. 2021).

Leveraging Public Spending: Bringing Pension Superpowers on Board

But $1.2 trillions won't be enough to bring back the United States in the global infrastructure race, let alone "restore American supremacy". What is to be done then? A smart policy avenue would be to leverage the U.S. federal government balance sheet by bringing additional trillions from institutional **asset owners**, starting with US **pension funds**. According to research conducted by Nicolas Firzli, based on discussions with policy thinkers, investment executives and trustees in North America, including Norm Anderson, **CG-LA**[6], large institutional asset owners could double their allocation to private market assets in the next four years, shifting hundreds of billions of dollars annually towards infrastructure assets domestically and accelerating the investment flows coming into the United States from cash-rich **Canadian**, Northern **EU**, Singaporean, **Gulf Arab** and **Australian** pension and sovereign wealth funds. Private market assets under management (PM-AuM) should grow by up to 20% per annum in the coming years (2021 – 2025), more than double the current rate.

The huge, pent-up investment potential of US asset owners, such as public pensions and sovereign wealth funds (SWFs) can be visualized through the **Private Market Assets** Matrix (PMAM), also called Infrastructure and Private Markets Investment Matrix (PMIM), an original strategic assessment tool developed by M. Nicolas Firzli, **World Pensions Council** (WPC), and Dr. Joshua Franzel, **MissionSquare Research** Institute (MSRI), formerly known as the **Center for State & Local Government Excellence** (see chart).



The yellow arrows show the expected asset allocation evolution for the next four to five years, with a marked increase in the allocation to infrastructure (Y axis) and, also, private assets across the board: infra, private equity, venture capital, real estate forestry and farmlands (X axis), moving towards the **"Australian-Canadian model"** (see chart). Australia and Canada are perfect examples of global leadership in infrastructure investment. Interestingly , both are **middle ranking economic powers**, with Canada at No 10 with US $1.83 trillion GDP and Australia at No 14 with US $1.48 trillion GDP. They have one other shared characteristic however which places them in the **pension superpower category**: large, independent, arms' length from government, pension systems. Whilst the US is easily the largest by far in $ value of overall pension assets, Australia and Canada have the 4th and 5th largest pension systems in the world by size, and are second and third, respectively, as a percentage of GDP. Put simply, their pension systems constitute a very large part of the investment landscape. Further, they share other important characteristics – large funds now dominate both systems – and significant investment in infrastructure – both domestically and internationally.

That financial clout allows them to invest massively in ports, airports, rail transportation, electricity and tollways, even social housing, and hospitals via Public Private Partnerships (PPPs). In Australia's case, some 20% of the US $ 2.7 trillion pension system is invested , both directly and indirectly, in infrastructure. This has happened for a range of reasons: large pension system relative to the size of the national economy, big pension funds ('superannuation funds') which have developed strong technical expertise (including legal, regulatory and civil engineering skills), broad political support from mainstream parties of both left and right, proactive, favorable tax treatment via their pension systems, strong, equity-like returns without much volatility, which makes these assets perfectly suitable for long-term savings, combined with an intelligently managed privatization programme for transportation and energy assets to quench the thirst of pension investors: we call it the infrastructure virtuous circle!

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ENDNOTES & RESOURCES

[1] see e.g., "Infrastructure as a 'New Asset Class' for Pensions and SWFs" roundtable chaired by the authors at the start of the previous decade (9 Feb. 2012), Word Pensions Council – OECD conference (Paris Forum) https://www.oecd.org/finance/private-pensions/49720977.pdf

[2] Firzli, M. Nicolas J. "G20 Nations Shifting the Trillions: Impact Investing, Green Infrastructure and Inclusive Growth." *Revue Analyse Financière* 64 (2017): Q3.

[3] Biden: China Made 'A Big Mistake' by 'Not showing up' at U.N. Climate Change Conference, Yahoo! News November 2, 2021, 9:5

[4] Firzli, M. Nicolas, and Vincent Bazi. "Transportation Infrastructure and Country Attractiveness." *Revue Analyse Financière* no. 48, Q2 (2013): 67-69.

[5] Biden Warns China Is Going to 'Eat Our Lunch' if U.S. Doesn't Get Moving on Infrastructure, CNBC, 11 Feb. 2021 https://www.cnbc.com/2021/02/11/biden-says-china-will-eat-our-lunch-on-infrastructure.html

[6] see Norman Anderson, Forbes, 21 Jun. 2021 "*This doubling is going to happen — it should be a key objective of the Biden Administration that U.S. pension funds participate, helping us achieve otherwise unachievable domestic investment levels.*" https://www.forbes.com/sites/normananderson/2021/06/21/the-infrastructure-bill--pension-fundsa-3-trillion-action-item/?sh=22d046e649b1