

Investing in America with the Treasury

We at New Consensus recently put out [a comprehensive plan](#) for how Biden could Build Back Better with or without Senate cooperation. Here, we dive deeper into two parts of the four-part plan to show how the Treasury can fund transformative investment in American industry and infrastructure. By providing business with capital to build electric car factories, clean steel plants, battery plants, electric charging infrastructure, and more we can build real, sustainable wealth for working families and businesses all over America.

Background: The Federal Financing Bank

The [Federal Financing Bank \(FFB\)](#) is a government corporation within the Treasury. It was established in 1973 to purchase any obligation issued, sold, or guaranteed by a Federal agency. It is the bank for the Federal government, providing basic banking functions to Federal agencies. That includes, among other things, helping agencies borrow money, lend money, and refinance loans. Examples of FFB activities in 2020 include (you can see more [here](#)):

- Lent \$4.2 billion to USPS at an interest rate of 0.227%
- Held \$135 million of assets for the Rural Utilities Service
- Continued guaranteeing approximately \$1.5 billion in loans to Historically Black Colleges and Universities

Our FFB/NRDC Proposal

During World War 2, America defied all expectations to mass-produce the planes, tanks, and ships that made Allied victory possible. We were able to succeed where other countries failed because we did not constrain ourselves to a strictly top-down or bottom-up approach to industrial mobilization. Instead, we combined the might of our market economy with guidance, coordination, problem solving, and financing from our federal government to create an 'arsenal of democracy' that dwarfed all others. This economic mobilization was led by two major institutions: the War Production Board (WPB), which developed the strategy for investment, and the Reconstruction Finance Corporation (RFC), which financed the WPB-planned mobilization.

If President Biden wishes to succeed at 'Building Back Better,' he will need similar institutions today to effectively direct investments into new and renewed industries that will mass-produce electric cars, batteries, wind farms, and other goods, building a high-tech, sustainable economy in which everyone thrives. To that end, President Biden should create a National Reconstruction and Development Council (NRDC),

the modern day War Production Board for peacetime, and convert the FFB into a modern day Reconstruction Finance Corporation. To enable this, Congress will need to do the following:

1. **Establish a National Reconstruction and Development Council** that is composed of all cabinet-level executive agencies with jurisdiction over the nation's infrastructure and major industries. The NRDC should be tasked with developing a regularly-updated, comprehensive **National Development Strategy (NDS)** comparable to the defense agencies' annually updated National Defense Strategy Statements.
2. **Authorize the FFB to purchase any obligation issued, sold, or guaranteed by sub-federal units of government**, including public banks like the Bank of North Dakota, cities, and states whose operations align with the NDS. This will be an easy way to finance the recovery of city and state governments that have been devastated by COVID-19, and will provide a continued source of low-interest, long-term funding for local public services like schools and roads.
3. **Authorize the FFB to invest, including by taking debt and/or equity stakes, in private sector or mixed public-private entities** that align with the NDS.
4. **Authorize the FFB to issue new classes of securities to private sector investors**, allowing private investors, pension funds, and others to invest directly in the FFB or in specific FFB-backed projects or funds.
5. **Authorize the FFB to leverage its deposits** to increase its funding potential.
6. **Fund the FFB** adequately, especially at the outset, so it has the capability to finance building the factories, plants, and infrastructure necessary to Build Back Better. In time, like the RFC before it, the FFB will earn enough on its investments to be effectively self-financed.

If Congress takes these steps, the FFB/NRDC could, for example:

- Offer loans or equity investments to automakers to build electric car factories in America -- much as the RFC did to build and convert plants to mass-produce battleships, B-29 bombers, and Sherman tanks, or as it did to jumpstart the synthetic rubber industry and other new industries.
- Establish a 'battery-tech fund' that private investors also invest in to make loans to or other investments in a diverse portfolio of companies working on new battery technologies.
- Arrange projects that contract the Army Corps of Engineers to build N95 mask factories that it then offers to lease to US companies to run, similar to the ['GOCO' model](#) used in WW2.
- Purchase distressed properties from small farmers in exchange for capital they use to develop regenerative agriculture farms, green-tech startups, and the like.

Appendix A: A Sample Project in Detail

As an example, imagine the NRDC decides that mass-producing electric vehicles (EVs), along with developing the full relevant supply chain, is a national development priority. It accordingly directs the FFB to open a \$10 billion EV manufacturing fund to be used towards this purpose and opens the fund up to private investors to add private capital to public capital. The NRDC then welcomes cities and manufacturers to present plans for building EVs in specific locations. These plans might vary widely in scale and scope. A battery manufacturer may submit an application for a loan simply to create a battery plant, while Detroit might submit something like this:

- \$150 million loan to Ford to convert a main assembly plant to produce electric Mustangs
- \$20 million loan to local vocational schools and community colleges to train up to 10,000 workers to work in the plant
- \$20 million loan to build additional housing for incoming workers
- \$50 million loan to upgrade local infrastructure to handle new factories and population

The NRDC will then collect and evaluate all of these plans and decide how best to organize a full suite of projects to fund, taking account both of efficiency considerations and of the need for even cross-regional development and economic opportunity across the nation. The project suite might simply follow the submitted plans, or the NRDC might find ways to modify some of them to deploy its resources more effectively. For example, the NRDC might contract with the Army Corps of Engineers to do the infrastructure upgrades in Detroit rather than extending a loan to a private sector firm if it finds that this would be more publicly beneficial or cost-effective. Meanwhile, while collecting and evaluating plans, the NRDC would also actively be seeking electric vehicle manufacturers to offer expansion-financing to.

Once the NRDC approves a project, it will contract with the cities and/or manufacturers and the FFB, and potentially private financiers too on the understanding that the NRDC and FFB are the sole occupants of 'the drivers' seat.' For example, the FFB would extend a loan to Detroit to build the housing, infrastructure, and local community college, structuring these so that they only need to be paid back if the Ford plant ends up being a success and leads to local growth and hence local revenue. And the FFB might partner with private investors to provide some of the funds for the loan of \$150 million to Ford with production targets and milestones, setting returns on these investments in sync with the risks they involve.

Appendix B: How Much Money is Needed

Insofar as the money the FFB would be extending is investment in productive activity, hence counter-inflationary activity, the only real limits to how much money the FFB should deploy are the limits on productivity itself. But for preliminary guidance on how much money would be impactful, we can look at building costs for electric vehicle factories now. These numbers are rough, but we know, for example, that Tesla bought its Fremont plant for \$42 million, and has since invested tens of millions in upgrades.

For the sake of simplicity, imagine that \$200 million has gone into Tesla's factory. According to the latest data, Tesla produces about 500,000 cars a year in this factory. Americans purchase about 15 million cars a year, so some rough arithmetic gets us to producing 15 million cars a year if we build 30 Tesla Fremont factories, costing about \$6 billion if we ignore the declining average costs that accompany the scaling up of production. On top of this, if we wanted to build enough EVs to replace the 280 million non-electric vehicles Americans currently own within 10 years, we would need to produce an additional 28 million cars a year, which would, by the same calculation, cost another \$11 billion in factory building.

Of course, this doesn't include additional costs (workforce training, infrastructure upgrades, building a ubiquitous charging network, etc.), but you can see from this that \$20 billion in the FFB would make a significant dent in a strategy focused only on converting America's massive vehicle fleet to electric.

But of course, building EVs is only one small part of an economy-wide upgrade plan. One way to get a feel for the requisite investment necessary to do economy-wide transformation is to look at the World War 2 mobilization again. In executing the War Production Board's mobilization plans, the RFC lent out close to \$2 billion a year in the first years of mobilization. If we scale this up to fit the size of our economy today, it would be equivalent to the FFB lending out \$300 billion a year. Given this, we believe starting the FFB off with somewhere between \$500 billion - \$1 trillion in capital could empower it to get started on an economy-wide upgrade program. For again, as in the RFC case, so here, the growth that NRDC/FFB investments bring will bring profitability too, enabling FFB self-financing quite quickly.