STRATEGIC OUTLOOK

Strategic Frontier Management

June 2021

America's Infrastructure Boondoggle

Revitalizing US strategic infrastructure should improve national economic productivity and efficiency of essential services, transportation, communication, as well as power generation and distribution. Lower operating costs and encouraging innovation, including research and development, increases potential growth and promotes prosperity. America's need for targeted infrastructure investment of $500-900 billion was under consideration well before the 2016 US election.

President Joe Biden recently outlined his massive $2.3 trillion plan, plus $400 billion in presumed "paid for" environmental tax credits—mythical fiscal multipliers are political wishful thinking that has never materialized. The *American Jobs Plan* includes only about $600 billion or 30% of spending to build or upgrade infrastructure. In addition, the *American Families Plan* proposes another $1.8 trillion for *caring infrastructure*, which is a grab-bag of entitlements and welfare programs, at least in part to justify raising taxes on capital gains and dividends, plus eliminating the stepped-up inherited property tax basis.

There is no need for another $4.5 trillion in fiscal stimulus with the strong economic recovery toward full recovery that began in mid-2020, let alone a FY2022 ask of $6 trillion. There is no remaining output gap as US GDP of $22.1 trillion in Q1/2021 has surpassed Q4/2019. Unemployment plunged from 14.8% a year ago to 5.8% in May. Our debt burden exceeds 100% Debt/GDP after $5 trillion in fiscal stimulus and fiscal deficits over $1 trillion. Interest burdens will soar when interest rates normalize with US Debt/GDP already exceeding 100%. If infrastructure need was so critical, why didn't Congress include it in prior fiscal stimulus bills?

More fiscal spending can extend financial imbalances and boost inflation expectations, which already jumped to 4.6% (ref: Univ. of Michigan survey). CPI inflation accelerated to 5% in May, up from 0.2% a year ago. We anticipated rising inflation, but it exceeded expectations with US policies that drove soaring energy and basic resource prices, on the heels of rising wages (inc., min. wage increases), a tightening labor market, and strong housing demand. A lower US dollar reinforces import price inflation, as tax hikes boost inflation expectations. We don't believe rising US inflation is *transitory.* Higher interest rates will follow inflation, further boosting fiscal deficit's interest burden. Debt-fueled inflation risks a new era of stagflation fostered by poor economic policies.

We also should consider alternative means of financing an infrastructure plan incorporating stronger oversight. The US Government can privatize vast holdings of land and property, including underutilized real estate, to finance development. Private-Public Partnerships are more successful achieving their objectives given private sector accountability--*Operation Warp Speed* delivered multiple effective COVID-19 vaccines to the world. Thirdly, government loan guarantees for qualified projects would encourage infrastructure development opportunities at a lower cost of capital. We discuss this novel approach further below.

Excessive benevolent spending is a solution of political convenience in search of a problem—calling this plan *infrastructure* is a convenient need, but lacks meaningful initiative and well-specified plan scope. Crisis-fostered stimulus permitted chronic fraud, corruption, and theft with insufficient oversight and mismanagement. Fraud in unemployment claims exceeded $400 billion during the pandemic, and new programs from PPP loans to EIDL grants and stimulus assistance were unchecked, lacking oversight. Americans should be troubled such inherent flaws persist when government spends other peoples' money. Infrastructure revitalization will suffer from similar issues of adverse misappropriation and fraud that dilutes effectiveness unless better controls are adopted. This *Infrastructure Boondoggle* needs to be downsized, accountably financed, and reprogrammed with better objective alignment for the greater good.

The pathway for infrastructure legislation is becoming increasingly difficult without bipartisan support. Senate Parliamentarian McDonough ruled budget reconciliation cannot be used for the *Jobs Plan or Families Plan,* or beyond one fiscal budget per year. Senate Democrats don't have a majority in their caucus to suspend the filibuster rule or significantly raise taxes. The *American Families* initiatives should be reprogramed for *regular order* within an annual federal budget, if the initiative can even stand on its own merit. Thus, we expect a smaller and more targeted infrastructure plan of about $1 trillion with no need for tax increases, as well as considering alternative financing approaches we suggest herein.

What is Infrastructure

The definition of infrastructure is well-defined. Building or repairing roads, highways, tunnels, bridges, and railways are probably the first infrastructure needs to come to mind. Infrastructure also spans essential services such as: water supply, sanitation (landfill, water treatment, and sewers), dams, power generation (inc.: nuclear, coal, gas, wind, solar, hydro, etc.), power transmission, pipelines, and telecommunication (inc., telephone, cellular, and internet/broadband). It also includes mass transit, airports, shipping ports, and desalinization. Government agencies can also manage public institutions, such as schools, libraries, emergency services, post offices, recreation, and other agency facilities. Engineering, construction, maintenance and operating costs of valuable services are recovered from user fees for critical everyday services. Lately, some politicians have a different idea about what qualifies as infrastructure or strategic essential services and the limited role for public services of municipalities or states.

The challenge for investing in infrastructure is the limited capacity of the asset class. New development projects and other infrastructure companies are hotly pursued by global pension and sovereign wealth funds, as well as private market funds needing to deploy capital. Resulting high valuations drive lower expected project returns, but also lower cost of capital for development. There are not enough investment opportunities since governments prefer to retain ownership. Consider the bidding for Australian port leasing deals since 2013. As Chair of the Investment Committee for Alberta Investment Management, many such private direct infrastructure deals slipped through our fingers because we were unwilling to chase high prices for insufficient 3-4% returns (i.e., 1-2% real return) for investment risk of 8-9% and private market illiquidity. However, private funds, global pension plans, and sovereign wealth funds were willing to do these deals.

It is well accepted that America's infrastructure needs targeted investment in particular areas. We all know of local infrastructure issues we'd like to see addressed, but needs vary across America due to municipal priorities for funding. The US Government alone can't fund all that is needed, and that was never the intent by design of our federal republic. Increasing automation during our *fourth industrial revolution* highlight new priorities, such as cybersecurity for critical strategic infrastructure. America is actually doing pretty good job by comparison to other countries, but it is not surprising certain areas need attention. Involvement of states and local municipalities, which collect state income, sales, real estate, and fuel taxes, as well as license fees for such purposes, are critical. We know well the general disappointing performance of government-owned infrastructure, so should we double down on government control of the means-of-production as this plan would do?

Most US infrastructure is privately owned and managed by utilities or government agencies that recover building, maintenance, and operating costs plus margin through user and consumption fees. Most utilities are publicly traded companies in the US, regulated to manage their market monopoly, whereas basic resources and industrial (inc., construction) companies facilitate project development. So, it begs the question, do we need this infrastructure revitalization or can we make headway with federal policies that incentivize private development that is economically viable and commercially compelling for *asset owners,* (i.e., pension funds, endowments, foundations, sovereign wealth funds, family offices, and individual investors)? Free market capitalist solutions are more efficient and productive than government services. We believe the effect of tax increases in the *American Jobs Plan* will limit economic activity. Why not reprogram $700-800 billion appropriated in unspent fiscal stimulus?

US highway, road, tunnel, and bridge construction are mostly financed by federal and state fuel and tire taxes. The US government funds only about 26% of total highway construction and maintenance by taxing fuel, tires, and heavy vehicles. The shift toward increasing natural gas and electric-powered vehicles combined with much higher gas mileage slowed growth in fuel consumption, but also in tailpipe emissions. Over 80% of the Highway Trust Fund comes from federal fuel taxes per gallon, which last increased in 1993. Raising federal fuel taxes can increase transportation funding, but any gas tax increase is politically toxic, even if it encourages conversion to environmentally desirable technologies and greater fuel efficiency. State and local fuel taxes plus tolls average nearly double federal taxes and fund most of the other 74% of highway, bridge, tunnel, and road construction at the local level. A federal fuel tax increase is needed to pay for transportation infrastructure.

Grand visions of infrastructure revitalization deceptively imply easing transportation or improving reliability of electric power and promise *new modern era jobs*, yet the Administration prioritized little actual infrastructure, as it seeks to derail or cancel large private infrastructure projects under construction. The Keystone XL pipeline can transport oil more safely and efficiently than by truck or train, and the North Houston Highway Improvement Project will ease traffic congestion, but such projects clash with their alternative *Build Back Better* agenda.

The Southern Broder Wall is also strategic infrastructure costing $5-33 million/mile. The US-Mexico border of 1954 miles traverses 1254 miles across Texas or 2/3rds of our southern border. Governor Abbot believes the cost of not finishing construction is too high for all concerned after a 150%-plus increasing surge in illegal crossings versus 2020, including 171,000 apprehensions in March alone. About 1/3 of 1200 miles needed has been built. An estimated $18-20 billion could finish the wall—a negligible cost after trillions of stimulus funding was misappropriated or wasted in the last year, yet politically

motivated cancelation of funded construction contracts will waste billions of dollars and lose many jobs.

The global pandemic accelerated changes in the *future of work,* so less commuting and more home-based workers raise questions about commercially-unviable or marginalized infrastructure needs. Improvement of roads, bridges, tunnels, and pipelines, even electricity transmission and generation promote productivity. We are skeptical about alternatively-defined infrastructure spending. These bills provide negligible investment.

Why then should we depart from our historical approach to infrastructure development that minimizes taxpayer cost, yet provides better accountability, governance, and service outcomes than other countries? Socialist regimes that pursued government control over means-of-production suffered from chronically unreliable and poor-quality infrastructure services—this should be enough to reject this alternatively defined infrastructure plan without significant reprogramming of targeted projects, greater spending oversight, and a financing solution other than raising tax rates or adding to debt. Government policies might focus instead on incentivizing private development by easing permitting and regulatory requirements. We need to reduce dependency on critical foreign-sourced technology components, energy, basic materials, and pharmaceuticals highlighted by supply scarcity over the last year. We should expand research and innovation spending without specific limitations—basic research discoveries directed by the Dept. of Defense in the 1990s still contribute to our daily lives.

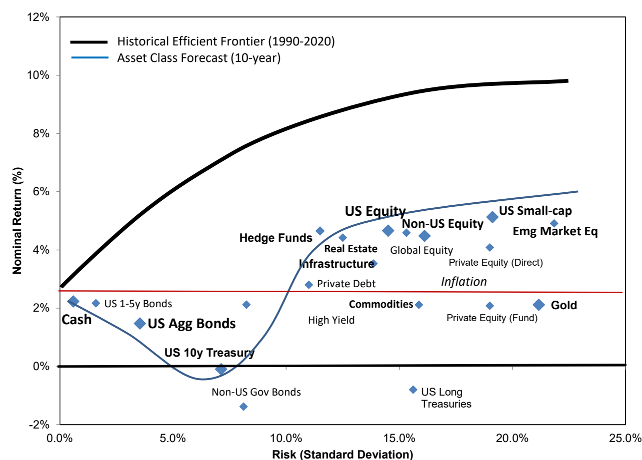
Investing in Infrastructure

Private capital is critical to financing entrepreneurial innovation, commercialization, and project development, including infrastructure needs that can bolster potential growth and lift living standards. Asset owners are well-positioned to provide needed capital, although available opportunities are limited today. Long horizon asset owners seeking to maximize return on invested capital tend to increase accountability and governance of project development and operational management resulting in better asset performance with less fraud, waste or misappropriation. As Chair of the investment committee for a Canadian asset manager of pension and sovereign wealth funds, I've seen how large institutional asset owners (pension and SWFs) effectively invest in private market deals both directly and in collaboration with each other. Fiscal necessity should encourage privatization and development projects with investment by private stakeholders that keep massive projects in check financially and on track operationally.

Infrastructure is often characterized as a real asset or inflation hedge, but it tends to behave like cyclical higher dividend stocks, which are more interest rate sensitive. This is not surprising given the cash flow lifecycle of commercially viable initiatives. MSCI World and S&P Global Infrastructure benchmark indices provide the longest broad performance track-records available, which include listed utilities, basic materials, industrial, telecommunication, and energy companies. Indices returned 6.8% and 6.5% A.R. respectively over the last decade with 13.8-15.4% risk. MSCI World Infrastructure returned 5.3% over the last 20 years. The increase in Price/Earnings valuation has exaggerated past returns, thereby must also limit upside in the future as valuations eventually normalize. We expect profit margins will decline if corporate tax rates rise, interest rates increase, or regulation tightens.

Generally, asset allocation studies use overly optimistic forecasted performance, return volatility, and correlation of private market latent pricing with limited mark-to-market valuations. We forecast about 4% infrastructure net return over the next decade with risk of ~13%. This is lower than the forecasted 8-12% return with 10-14% risk observed in other asset allocation studies. Earnings growth will struggle to exceed 4-5% for these lower growth companies that tend to monopolize their markets already. Infrastructure return correlation of 78% versus equity also should remain higher than presumed, suggesting less portfolio risk diversification. Fund investors are more diversified, but private funds incur higher fees that can exceed 1%, plus performance fees. Private market infrastructure companies are implicitly riskier than benchmarks suggest with small company, illiquidity and unlisted risk factor exposures.

Global Strategic Policy Forecasts (10-year annualized)



Source: Strategic Frontier Management

We know what infrastructure looks like, but private market investors tend to adopt overly optimistic return, risk, and portfolio diversification assumptions. Infrastructure returns tend to vary depending on the type of project, leverage, and financing, as well as country and currency. Direct investments in private deals favored by pension and sovereign wealth funds can manage illiquidity and longer holding periods required. Investors need a better understanding of the portfolio risks of infrastructure, and differences between private direct holdings, fund investments, and benchmark indices.

Strategic policy allocation studies presume that private market investments benefit from an illiquidity premium in excess of high management fees, plus performance incentives on total return. Private fund management fees are higher than liquid listed benchmarks observed above, and private infrastructure can exceed 1%, plus performance fees. Efficient markets provide no excess risk premium to cover fees. I believe the private market illiquidity premium may be much less than assumed, if not actually an illiquidity discount. Decades of evidence tracking endowment and pension fund performance suggest complex multi-asset funds with increasing private market exposures lagged global balanced portfolios of listed stocks and bonds. Private equity and venture capital funds also lagged US and global equity index returns, before discounting survivorship bias.

Private market strategies dependent on active security election with long holding periods of 5-10 years—success exceeding the hurdle of fees is a cute trick, if you also believe active management is a *losers' game* in more liquid listed markets. Management cost of private direct investing can be much lower, but there are still scarce infrastructure opportunities of sufficient size to meet current institutional demand due to government reluctance to privatize assets. High cost of private market alternatives for little portfolio risk diversification with limited capacity that drives high valuations begs the question: have we gone too far?

Unlisted private market securities are illiquid, and thus difficult to price given infrequent mark-to-market valuations typically inferred semi-annually or even annually, but often clustered around year-end. Thus, calculating performance, risk, and attribution are more difficult without observable daily or monthly prices. Inability to mark-to-market such securities obscure dirty little secrets about investment performance and risk of private markets. Lack of transparency or limited mark-to-market pricing does not increase portfolio diversification, as some mistakenly suggest. Composite performance of private market funds tends to smooth out breathtaking stock market drawdowns such as Q4/2018 or Q1/2020, and suffer from survivorship bias. Thus, overly optimistic return and risk expectations can mislead naïve investors assuming lower contributions to portfolio risk.

Private funds struggle to invest record-setting allocations of committed but uninvested capital [dry powder] year after year. This uninvested capital can be a drag on performance of both investors and private funds, if not well managed. According to Preqin as of year-end, uncalled capital commitments of private market funds increased to $3.1 trillion with $7.5 trillion in private funds under management globally, including almost $700 billion in infrastructure funds. It is inefficient for project development or infrastructure companies to deal with thousands of individual investors with less than $30 million to invest or shorter-horizons needing monthly or quarterly liquidity. Smaller investors prefer funds without scale for sufficient diversification or expertise to manage direct investments, tending to steer clear of lock-ups.

Benchmarking performance of private illiquid securities is difficult, other than self-reported and survivorship-biased peer performance surveys. Some asset owners may invest committed but uninvested capital in funds. We have had some success with *Public Market Equivalent* (PME) benchmark proxies, blending public market indices to explain or regress against private market returns. Such indices can provide a performance benchmark, better understanding of risk, and investable liquid proxy tracking alternative to equitize residual cash.

Our research suggests private market returns are at least as volatile as public market assets (i.e., small-cap vs. venture capital, corporate debt vs. private debt, hedge fund vs. active return volatility, etc.). Misleading portfolio characteristics attempt to sway opinions of decision makers, but several large public pension fund audits required restating performance affecting compensation and excessive management fee issues challenging private market investment decisions. Alternative asset classes tend to be riskier than assumed and provide less portfolio risk diversification, nor can they make up for lagging returns, illiquidity, or high management fees and transaction costs.

What is the Alternative to Government Funding?

We believe alternative funding paths are still likely that few seem to appreciate yet. There are better ways to achieve infrastructure development goals at 1/10th the cost (~$250B) with better outcomes and less spending that we can't afford after $5 trillion of debt-financed pandemic stimulus. Asset owners' hunger to invest in infrastructure and Public-Private Partnerships can increase accountability and better outcomes, yet lowering the cost-of-capital, with alignment seeking commercially competitive returns.

The US Government has amassed buildings, land, property, and other assets at an astonishing rate unlike any other country by increasing our national debt. We tend to focus on the government's budget or annual income statement—its key feature being our fiscal deficit, but a focus instead on optimizing our balance sheet of assets and liabilities reveals underutilized and non-strategic assets that can be privatized or sold to fund project development, or even reduce US debt. Federal ownership has limited commercial development and natural resource extraction, which limited prosperity—expanding usefulness by privatizing assets does the reverse, while freeing up capital for investment.

The U.S. Government currently owns half of the Western United States and 28% of all land area, including 85% of Nevada, 64% of Utah and Idaho, and 60% of Alaska. There, the State of Alaska also retains 28%. Our National Parks are magnificent assets, but surprisingly are just 13% of 609 million acres the U.S. Government

holds. The U.S. Land & Conservation Fund still budgets $900 million/year for new acquisition, yet struggles to maintain existing land, buildings, parks, monuments, and forests. Privatizations were popular in the 1990s, particularly among developing economies, but stalled with governments' reluctance to relinquish control.

The US Government faces many challenges managing, maintaining, and operating existing holdings, including land and real estate—if not renting underutilized property to private tenants or leasing land for grazing and resource extraction. Agencies contest property disposal to maintain control, but this can reduce debt and operating expenses. Increased privatization also can satisfy growing investor demand, but few large infrastructure assets ever change hands to date.

Asset owners are a significant source of private investment capital, and have been successful partnering to take advantage of their scale, financing flexibility, and longer time horizon in private direct investments from infrastructure to real estate and private equity. We've observed first-hand that investor accountability improves project efficiency and reduces cost, and should be more popular out of fiscal necessity. Government can focus on financing and tax credit incentives that enhance investor returns, thereby improving project valuation and lower the cost of capital, while limiting taxpayers' burden.

Facilitating private direct investment, including "clubbing" of private direct deals or public-private partnership (P3) projects would minimize taxpayer cost, but increase investment opportunities and likely normalize valuations with more balanced supply-demand. Those of us that have managed assets for Canadian and Australian asset owners know this to be true. US pension funds have trailed their peers in direct investing capabilities given their inability to competitively attract and retain investing professionals, as well as coinciding with increased asset management or CIO outsourcing.

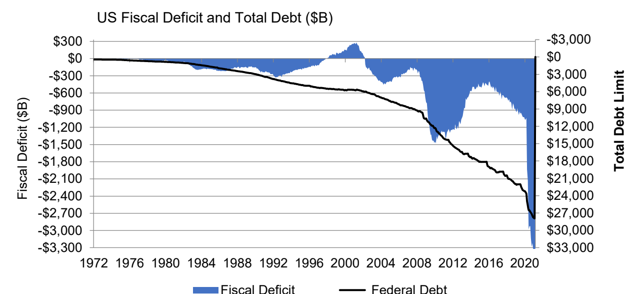
With so many ways to finance infrastructure, a targeted program tapping into institutional investment demand for commercially compelling projects is a better approach. Most utility and essential services are privately developed and locally financed by states and municipalities recouping costs in service fees to pay down municipal bonds. Their tax-advantaged coupon rates are less than Treasuries, further lowering the cost of capital. Politicians favoring central planning and government ownership of infrastructure never appreciate the capital efficiency and governance accountability of private sector development rooted in free market capitalism and commercialization. The best way forward to achieve our infrastructure objectives is in plain sight.

Government Debt and Fiscal Deficits

Our US debt and structural fiscal deficit is unsustainable, including massive nondiscretionary spending growing faster than inflation. This will limit flexibility to address future economic crises as Europe has struggled during the pandemic and the European sovereign debt crisis previously. Total US FY2020 budget outlays were forecasted to be $4.8 trillion versus just $3.7 trillion in tax revenue with a fiscal deficit exceeding $1 trillion. Growth in mandatory spending has increased to 75% of budget in 2020, including Social Security, Medicare, Medicaid, federal employee retirement, unemployment insurance, Obamacare, and other nondiscretionary programs, plus interest on our debt.

Meanwhile, Congress also appropriated more than $5 trillion in fiscal stimulus over the last year, which drove US Debt/GDP well over 100%. Debt service on $5 trillion will exceed $150 billion/year assuming just 3% interest. Yet, about 80% of the latest $1.9 trillion stimulus was unrelated to COVID-19 relief, including: state and local government grants, public school funding, increasing Obamacare subsidies, low-income housing, and federal employee paid leave. We can't afford another blank check for a modest token investment in infrastructure.

Budget deficits will continue to exceed $1 trillion (4.8% of GDP), which is about equal to US discretionary spending. The President's recent 2022 budget proposes increasing spending to $6.0 trillion vs. $4.45 trillion in 2019 (pre-pandemic). With tax revenues of $3.6 trillion likely in 2021, which might heroically rise 4% in 2022, this budget will more than double our budget deficit next year to $2.3 trillion or about 10.2% of GDP. How can we add another $4.5 trillion just to finance infrastructure plans, so we need to find a better way to address our critical needs and prudently finance the budget?



Source: Refinitiv DataStream & Strategic Frontier Management

Fiscal deficits and debt burdens do matter in the long-run, certainly more so when interest rates approach normal levels, as we expect. The suggestion according to Modern Monetary Theory is that the US can finance unlimited debt without consequence has become more pervasive among progressive economic thought, but politicians should resist the urge to recklessly spend other people's money without regard to prudent fiscal discipline or productive return, as witnessed too often in the past (ex: 2009 ARRA Stimulus) and likely for last two COVID-19 stimulus bills totaling $2.8 trillion. We need budget reform to cut our structural fiscal deficit, particularly when economic conditions are good

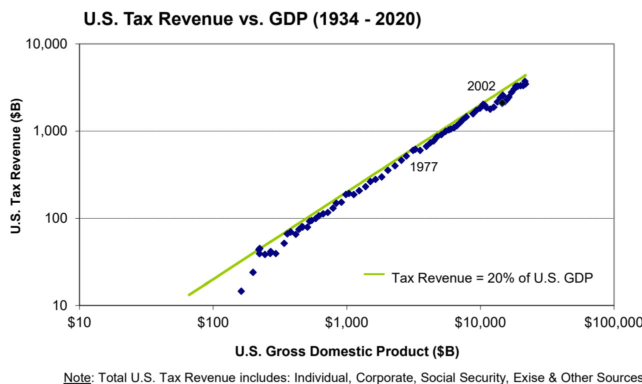
exceeding real potential growth. Maybe we should have considered infrastructure investment as Congress rammed through $1.9 trillion fiscal stimulus in 2021?

Raising Tax Rates Won't Suffice

Increasing corporate tax rates increases inflation and reduces global competitiveness, which may increase corporate inversions and offshoring again. Hope that other countries will increase their corporate tax rates or adopt a global minimum tax to minimize adverse effects of US proposed tax increases is misguided. Liberal democracies should never accede sovereign interests, including fiscal or tax policy, to any supranational governing body. Constructive lingering benefits of 2017 Tax Reform can't be ignored. Reversing key reforms should have adverse consequences. Increasing corporate tax rates and additional regulation undermine entrepreneurism and global competitiveness, while boosting inflation and lowering productivity, thereby reducing real potential growth.

Small businesses benefiting from lower tax rates bolster innovation and competition versus larger competitors with complex tax avoidance schemes. Higher corporate tax rates result in adverse unintended consequences. Fiscal reform needed should instead continue flattening and simplifying the tax code, while reforming entitlement and nondiscretionary spending. Tax code complexity, special interest deductions, and tax credits only encourage tax avoidance strategies. Doing so might encourage higher tax rate states to simplify and improve fairness for all their taxpayers.

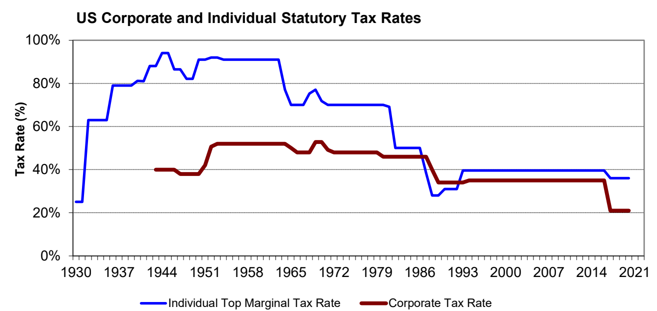
We have often written about *Hauser's Law*, which is an intuitive empirical observation attributed to Economist and former Chairman of Hoover Institute, W. Kurt Hauser (see WSJ - March 1993, May 2008, Dec 2010). Since the US established income taxes in 1934, government tax revenues hovered below 20% of GDP despite wide swings in individual and corporate tax rates. This historical relationship contradicts politicians' belief that raising tax rates increase federal revenues without adverse consequences.



Source: Office of Management and Budget, White House Budget

Resulting higher inflation and lower economic growth slow potential earnings and income growth, which drive tax revenues well below revenue realization expectations. Notable variations appear after the economy stumbles through recession, causing income to decline (ex: 1977, 2002, and 2009) for short periods lasting a year or two. Raising tax rates never boosted tax revenue above 20%, because raising taxes slows economic growth, which undermines income and company earnings, resulting in lower growth or even declines in tax revenue. Similarly, if tax rates are cut and real growth increases and tax revenue growth increases.

Tax rate increases repeatedly failed to raise revenues as expected, instead they slowed economic activity due to disincentives to work, produce, save, or invest. Of course, increasing corporate taxes everyone pays for through cost inflation passed on to consumers. Higher tax rates also encourage tax avoidance strategies, which given the tax code's complexity. Conversely, the economy tends to strengthen following tax rate reducing reforms, which often simplify rules or eliminate credits.



The *Laffer Curve* explaining this phenomenon theorized that taxation levels of 0% or 100% provide little to no tax revenue, but an optimal tax rate exists in between. Observing Hauser's Law supports this relationship to be centered around 20-25%. Raising tax rates to fund infrastructure spending will have the opposite effect desired on tax revenues, offsetting any good funding infrastructure. Hauser's Law reinforces why Regan, Bush, and Trump tax reforms were so economically successful, and why President Biden's policies are already undermining American prosperity.

An insight that promoted 2017 Tax Reform legislation was that a 35% federal corporate rate (39.1% combined with average state tax rates) was the highest globally, exceeding a comparable 22% OECD average. Global corporate tax rates have declined since the 1980s following America's initial lead, so the new 21% federal tax rate has bolstered US competitiveness globally and reduced corporate inversions, as companies repatriated over half of accumulated foreign profits. It is shameful for America to try persuading other countries to adopt a global minimum tax so we can raise US corporate tax rates seemingly without consequence—it also reveals they recognize the danger of such policies. Ceding

taxing authority to international authority will never be in our interest, nor most other nations. Such directives in the European Union require a unanimous vote, which Ireland, Hungry, and the Czech Republic will oppose.

Parting Thoughts

Redefining *infrastructure* more broadly is a fools' errand that will be politically costly in the end. *Build Back Better* is a rallying cry to reset American culture and re-engineer the US economy, including reversing most of the last Administration's policies however justified and promoting a hypocritical alternative environmental agenda of political convenience. Raising taxes on households, estates, and businesses, as well as seeking new wealth taxes (Article 1, Section 2–such *direct taxes* are unconstitutional) is a solution in search of a problem, issue or need to justify it. Congressional hearings and press conferences continue to expose inept government leadership with woefully deficient and misguided policy intuition. Transportation Secretary Pete Buttigieg continues to be stumped when asked how he defines infrastructure, although his agency oversees our nation's greatest perceived needs from highways, tunnels, rails, and bridges to mass transit and airports.

Taxpayers should expect infrastructure projects will take years to ramp and contribute productive economic use. However, many projects may not require federal funds, although this idea may not be obvious to the public or Congress yet. We've observed first-hand that investor accountability of institutional investors improves project development, operating management, and maintenance cost with governance accountability and investor alignment of private market assets. Government can facilitate expanding research & development as well as smart regulatory relief in expediting permitting and administrative hurdles. Loan guarantees can bolster project returns and reduce financing cost to incentivize investors. Public-private partnerships tend to be better managed during development and operational life at substantially lower taxpayer cost. Transportation improvement and development should be managed and prioritized by state and local agencies, but federal grants from raising fuel taxes can be allocated accordingly. More creative financing will deliver better outcomes at much lower taxpayer cost. A skinny *Jobs Plan* that legislatively still depends on driving the rest of it, beyond real infrastructure, through budget reconciliation including tacking on tax increases, is still an *infrastructure boondoggle*, but hid within a trojan horse *whispered* as bipartisan compromise.

The most useful role for government is prioritizing national needs with fiscal and agency policies that marshal incentives (financing, regulatory relief, and tax credits), while working with the invisible hand of free market capitalism for the greater good and long-term national prosperity. The abysmal track record of chronic fraud, waste, abuse, imprudence, and inefficiency mismanaging spending programs must be overcome. All indications suggest misappropriation, scams, and fraud well exceed any government program in the past—this only dilutes actual needed benefits and needlessly increases debt. Maybe a bit more funding for the GAO and federal agents to pursue the worst of offenses would help—even legacy programs like unemployment are abused. We should avoid haste in driving ill-considered plans and new redundant entitlement programs. *Bait* of alluring infrastructure investment has been exposed as a political *Switch* to reset America's founding principles and fiscal values, rather than address critical needs of real infrastructure in a fiscally prudent manner.

Free market capitalist societies like America balance government roles and financing infrastructure development differently than other countries. US utilities are well capitalized and going concerns that are attractive to investors, particularly those seeking cash flow yield. Socialist countries with chronically poor service quality infrastructure seek to control the means of production by financing, developing, and managing public infrastructure services—terrible outcomes are the result of mismanagement, corruption, and capital inefficiency without investor accountability, despite greater operating cost, in general. Consider the relative quality of electric power, natural gas, water, sewer, pipelines, and even mass transit services globally.

America is a better place to do business where infrastructure is key to getting products to market, and does so across a wider geographic area. However, America's balance sheet holds within a marvelous opportunity in privatization of some massive holdings to reduce federal debt and fund strategic US infrastructure revitalization, even if the US Government's income statement remains debt laden without spending reform.

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