

# It's Time To Play in the 3-I League

By Frank Islam - [Huffington Post](#) Posted: 9/2/11 11:02 AM ET

On Friday, August 26, as Hurricane Irene began to move up the East Coast to give Washington, DC a physical lashing, Federal Reserve Bank Chair Ben Bernanke spoke out, from across the country in Jackson Hole, Wyoming, to give our elected officials in the nation's capitol a tongue lashing.

Chair Bernanke asserted, "...the country would be well served by a better process for making fiscal decisions. The negotiations that took place over the summer disrupted financial markets and probably the economy as well..." He continued to recommend, "Although details would have to be negotiated, fiscal policymakers could consider developing a more effective process that sets clear and transparent budget goals, together with budget mechanisms to establish the credibility of those goals."

What Bernanke was saying, in not too subtle terms, is that it is time for our political leaders to up their game and to engage in productive problem-solving rather than bickering and blame placing. We agree with Bernanke's perspective but not his prescription.

In our opinion, reforming the entire fiscal policy process is too abstract and overly ambitious -- especially in these contentious times. Rather, we recommend that the initial focus be on passing one specific piece of legislation for which there might be bi-partisan support - establishment of a National Industry, Innovation and Infrastructure Bank (3-I Bank.)

Congresswoman Rosa DeLauro (D-CT) has introduced infrastructure bank legislation in the House. John Kerry (D-MA) and Kay Bailey Hutchison (R-TX) have co-sponsored infrastructure financing legislation in the Senate. The Kerry-Hutchinson "bank" would receive seed money of \$10 billion from the federal government and leverage private investments of as much as \$640 billion focused primarily on major transportation, water and energy projects.

We endorse the establishment of such a bank but recommend that its scope and mission be expanded to include:

- support of all forms of infrastructure upgrading
- financing capability for "scaling" of manufacturing concerns of all types; and
- "seed" funding for new ventures and innovative businesses in the early stages of their life cycles.

We are confident that a development bank of this nature can make a strategic difference because George Munoz headed a similar one, the Overseas Private Investment Corporation, for four years.

The need for the expansion to a 3-I Bank comes from the fact that traditional financial institutions are providing inadequate capital and credit to manufacturing firms and businesses in general at this point in time. Many banks are still carrying over-valued real estate assets on their books. Most banks are still primarily concerned about their own balance sheets and capitalization. This may be due to increased

governmental oversight, a natural retrenchment and return to doing banking business as usual, and/or other investment priorities.

Whatever the reason, a substantial vacuum exists and only the government has the reach to step in and fill it in a way that will magnify the impact and benefit the national economy. Andy Grove, former head of Intel, makes a persuasive case for the need for governmental intervention and involvement in an article that he wrote for Businessweek on July 1, 2010.

In that article, Grove called for "job-centric economics" and argued that based upon lessons learned from American history and studying East Asia that "job creation must be the No. 1 objective of state economic policy." Grove then advanced the following radical proposal, "We should develop a system of financial incentives. Levy an extra tax on the product of off-shored labor....Keep that money separate. Deposit it in the coffers of what we might call the Scaling Bank of the U.S. and make these sums available to companies that will scale their operations in America."

We don't embrace Grove's proposed approach for capitalizing the Bank. (We will provide our thoughts on capitalizing the 3-I Bank in a subsequent post.). But, we agree absolutely on the need for such a bank and taking it one step further to have the bank finance start ups and innovations. Nobel Prize winning economist, Edmund Phelps, concurs with this. Phelps says, "It makes sense to me that the U.S. government should voice support for innovation and throw its financial support into efforts to boost innovation in the economy." Phelps advocates that the state should make an initial capital contribution to a government sponsored enterprise and then create a system of new banks called the "Innovation Finance System" that could be loosely modeled after the U.S. Farm Credit System.

The SBA has pointed out the importance of small businesses and especially "gazelles" - fast growing, high impact firms - to job creation and the growth of the economy. The Kaufmann Foundation found that in the last generation the bulk of the net new jobs generated were created by firms that were five years old or less.

The key drivers for the future growth of the economy must be: Industry, Innovation, and Infrastructure. By creating the national 3-I bank, the government can put those drivers to work and in cooperation with the private sector put the United States back in play in the 3-I league and American workers back to work.