SADEK Wahba

The Investor with the Plan to Fix America's Infrastructure

SADEK WAHBA'S new book examines the mounting costs of America's inertia and ideological gridlock on infrastructure.

DRY A SUBJECT AS IT MIGHT SEEM, infrastructure has in fact produced some memorable wisecracks. "You and I come by road or rail, but economists travel by infrastructure," Margaret Thatcher said while Prime Minister; MSNBC anchor Mika Brzezinski called it the "least sexy word in the English language." Easy to lampoon, infrastructure is also—at least for Americans—easy to ignore: A 2022 survey found that nearly four in 10 people in the US "aren't sure they know what politicians are talking about when they talk about infrastructure."

Yet the dire state of infrastructure in the US is no laughing matter, and it is becoming increasingly difficult to overlook. In 2022, 2 million Americans did not have access to safe drinking water, and the US trailed every other advanced economy in terms of water quality. Roughly 36% of the country's bridges—about 78,000—need to be replaced according to the American Road & Transportation Builders Association. The US has roughly double the road fatalities of most advanced economies, and

40% of its roads are in “poor or mediocre” condition. Across the country, 2,300 dams are at risk of failure. In 2020, 42 million Americans did not have broadband according to data aggregator BroadbandNow, while research from Microsoft projected that figure could be as high as 162 million.

How the US arrived at this point, and how it might chart a way forward—despite strained public budgets, despite political gridlock, and despite a resistance toward privatization—is the focus of Sadek Wahba’s new book, *Build: Investing in America’s Infrastructure*, published by Georgetown University Press.

Government spending alone is not sufficient to fund the United States’ ever-widening infrastructure investment gap, Wahba argues. A practical way forward, he says, will require a willingness to consider public-private partnerships, infrastructure banks, and other approaches familiar to most advanced economies—but ones that remain controversial in the United States.

That the book is coming out in a pivotal election year is “purely coincidental,” says Wahba—it has been two years in the making after all. Yet its timing seems fitting, as the passage of the 2021 Infrastructure Investment and Jobs Act demonstrated that infrastructure remains an issue capable of receiving bipartisan support. And Wahba’s book itself garnered bipartisan backing, earning glowing endorsements from President Bill Clinton and former Florida Governor and Republican presidential candidate Jeb Bush.

Among the book’s remarkable features is that Wahba found time to write it. He is the Founder, Chairman and Managing Partner of I Squared Capital, an infrastructure investment company managing more than $40 billion in assets with investments spanning 70-plus countries. Wahba is also a member of the President’s National Infrastructure Advisory Council, the Council on Foreign Relations and a fellow at both the University of Oxford and New York University.

Producing the manuscript for *Build* required Wahba to carve out time on weekends and holidays. “You wake up early and you give yourself two hours in the morning and then you have to stop. It forces you to be disciplined and to be efficient,” he says. “Fortunately, my Jesuit education and earning a PhD in economics instilled that discipline and organization—they force it on you, whether you like it or not!”

He recently spoke with Brunswick Partner Alex Yankus about the book that came from those weekends and holidays, and the “revolution” he hopes it might one day help spark.

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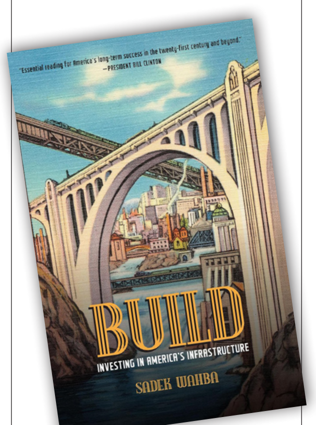


What’s the biggest misperception Americans have about their infrastructure?

That the way their infrastructure is owned, regulated, and managed today—i.e., by the government—is how it’s always been. It’s only been like that since the end of World War II, when we accepted that the government needed to play a larger role—ration food delivery, purchase privately run airports for military purposes, and so on. When you think of the boom of the 1950s, the roads, the suburbs, the electricity—a lot of that was built by public funds. That became the new normal.

But even a few decades earlier most of these investments were privately held. If you look even further back, roads, canals, trains, rail—it wasn’t the government’s job to run basic infrastructure. For most of our history, infrastructure was owned and/or operated by a blend of the private sector and public sector. Boston officials granted the first corporate charter for a water transportation company in 1652. Before the 20th century, most American roadways were privately constructed and owned. The methods to finance the transcontinental railroad in the 19th century wouldn’t be entertained in most debates today.

Understanding that history not only sheds light on today’s challenges but also gives a sense of how we got here. Reminding people it hasn’t always been this way can help them consider new ways of trying to fix what’s clearly broken.

For many Americans, the alternative—private companies involved in infrastructure—doesn’t sound appealing. They might think of Texas, where a market-based energy grid produced headline-grabbing failures, or the Skyway in Chicago, which you acknowledge in the book hasn’t been popular with many residents.

We’ve conducted surveys about Americans’ attitudes on infrastructure, where we ask questions like, “Do you care who provides your infrastructure service?” Most people said they didn’t care, which I think is logical. I think people have a negative perception of the private sector’s involvement in infrastructure because they associate it with higher costs. Government services tend to be subsidized.

Consider the cost of building, operating and maintaining toll roads. No government provides that service and says, “I’m going to maximize the rate on that toll so that I can make a profit”—never mind the fact that that profit could be reinvested in the road.

PHOTOGRAPH: PREVIOUS SPREAD, F. CARTER SMITH/BLOOMBERG VIA GETTY IMAGES

The problem is that the real cost of running that road includes covering your expenses and your capital expenditures—and it is too high because toll rates never caught up with increased capital expenditure and inflation. It’s not politically expedient for the government to charge a price that actually covers the costs of running that road effectively let alone make a “profit” that the state can use to reinvest

Then the consumer only complains when the service completely collapses, or if rates go up substantially. That’s when people say: “I’m paying a huge price and the service is terrible; if I’m going to pay that price, let the private sector manage it.”

But whether you price a service to actually cover the costs of running it efficiently has nothing to do with ideology, or the nature of the private sector. Subsidizing a particular toll road is a tax on everyone else not using it. If a state wishes to target certain users, it can do it more efficiently than charging a below market rate. It also raises the question whether government should be in the business of managing infrastructure assets or regulating them.

People only seem to pay attention to infrastructure when it breaks. And yet meaningful solutions will require a kind of sustained focus and attention. Is that likely?

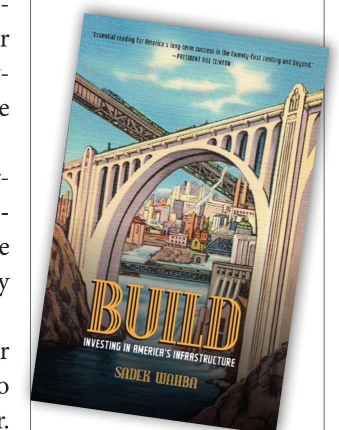
It’s very difficult to convince people to pay attention to services that, for the most part, they take for granted. In economies where the prices reflect the actual cost, people pay much more attention. For example, the cost of water in some European economies is high, as it is here in Miami. People are aware of it. Like everything else, the price of goods and services should be an efficient indicator of scarcity value and allocation of capital.

You see it in countries that subsidize water, gas, electricity—people take it for granted. And once they get used to it being basically free, it’s hard to change their behavior.

People’s wallets are the most likely route to get them to pay attention?

Yes. Because a bridge falls, there’s a commission, a President gets involved, Congress gets involved, and then everyone forgets about it. But if tomorrow, your toll on the road you use goes from $10 to $50, you’ll pay attention. But what government wants to raise prices on voters?

As long as you don’t have that pain, that conversation is not going to happen.



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For whom did you write *Build*?

Policymakers and public policy schools as well as a broader public interested in understanding, hopefully in an accessible way, the state of US infrastructure. Think the head of the Department of Transportation at a city or state; staffers in a congressional office; the member of Congress; public policy schools …

There are plenty of great academic books on infrastructure out there; they have economic models, are much more math-oriented. I wanted to write something in plain English that is accessible to a broader set of readers interested and involved in policy. I felt my experience as an investor, as someone who’s been involved in policy, and as someone with an academic background, meant I might be able to say something new and interesting that will help policymakers make informed decisions about infrastructure.

Interestingly here in the US, you have the far-left and the far-right united against the idea of involving the private sector in infrastructure. The far-right thinks that the private sector is controlled by multinationals and conglomerates with grand designs on domination. And then people on the left believe that the government should and must provide those services, that it’s not for the private sector. I wanted to steer the conversation toward pragmatism rather than dogmatism.

What gives you hope—especially given today’s political climate—that pragmatism will prevail?

You’re starting to see a new crop of leaders, including some governors, willing to engage in that pragmatism. Consumers are also tiring of having bad infrastructure and so they’re willing to look at different solutions. That research on infrastructure I mentioned—it found that African Americans are more likely to support a private operator in infrastructure. Why? Because they’re the ones who have disproportionately suffered poor service. And they basically said: if you’re telling me the private sector can do a better job, great, go and do it.

So the optimistic side is I think the consumers are there. I think the deficits incurred since the Global Financial Crisis are such that there is really no money to be able to undertake the kind of investments infrastructure requires. Who’s going to invest in upgrading our infrastructure if you don’t tap the private sector?

People are smart. They’re willing to pay more for better service. But people are wary of the private sector because they associate the private sector with higher rates. You're fighting against the status quo, what people have gotten used to over 70 years. People have to get really fed up before they demand change. And then you need leadership willing to make those changes.

You write about wanting to unleash a "revolution" in how we think about infrastructure. Are you hopeful we'll see meaningful progress towards it?

It all depends. If my objective in this book is to convince people in the next congressional session, the answer is definitely not. But if you're thinking of a revolution where principles produce results later, then I believe that's possible.

In the book I reference a Joint Economic Committee meeting in 1996 where they are debating almost exactly the same stuff we're debating today. But you have to keep making the case. At some point it will happen, right?

In recounting that Committee, you include the arguments against privatization, including this from a labor leader: "Privatization can serve as a panacea only for the financially near-sighted and is a disguise for poor management of our infrastructure's assets. Its top priority is making money not serving the public." How do you respond to that?

Number one, not all assets should or can be privatized. Which ones should or should not be privatized is a longer conversation, but I will never advocate all of it should be privatized.

Number two, there's a fundamental distinction between the management of an asset, the regulation of the asset, and the ownership of the asset. Take water—it's possible for it to be privately operated but regulated by the state. The government might own the water company and remain a sizable shareholder.

Why is that distinction important?

Let's say I'm a municipality that owns and operates a water utility. I need to spend $50 million to $100 million in capital expenditure to upgrade the system, and I need to optimize the existing system and widen it to new communities.

I have two choices. I can continue to manage it like I have and not change the price, a price that guarantees I will have a continuous deficit such that I will need to issue bonds or go to the state and federal governments for support. Or I simply don't make any of the necessary upgrades. This is what you see 90% of the time. Because the price is a political issue and a politician doesn't want to be unpopular.

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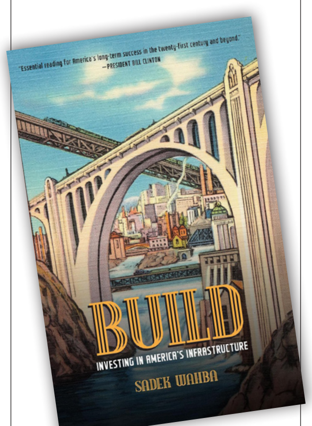

Now let's say you entertain the idea of bringing in the private sector. They can look for ways to operate more efficiently so the operating cost is lower and would run it more efficiently than otherwise. Yes, the operator will make a profit that can be shared with the government, who can then decide to use that profit for whatever policy objectives it may have. But at the same time, the profit made by the operator today allows you to maintain the water facility and avoid the kind of disasters we read about every other day: lead poisoning, complete failure of the water systems. These generally happen in the poorest states.

That's why it's seldom as simple as "the private sector maximizes returns, they always increase prices." Well, sometimes you increase the price because you have to cover 30-plus years of not investing in maintenance or improvements. Or because regulatory standards have changed because greater awareness of health risks or because of environmental degradation. Someone has to pay for all these expenditures.

If people took away one thing from your book, what would you want that to be?

The practical solutions to fix this are there. I dedicate an entire chapter to address the concerns many have about public private partnerships (PPP) and how we can structure those agreements to address governance questions, alignment of interest, and many other structural issues that have scared off policy makers.

We can see them in other countries—India, China, France, the UK … In Sweden, a haven of social democracy, two-thirds of its roads are privately owned. The technology around PPPs has evolved and data is available that allows you to structure those agreements to avoid asymmetric information issues.

The solutions are known. The challenge is finding ways to fund them, having the political will to make changes and see them through.

I think it's good news/bad news. Good news: It will happen. Bad news, it may take longer than we think. It took some 30 years for the US congress to finally pass an infrastructure bill thanks to President Biden and a bipartisan effort in Congress. But I'm not giving up. ◆

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