Felix Rohatyn's PPP Swindles: The Mussolini Model for Infrastructure

by Marcia Merry Baker

In early November, the latest big-deal PPP (public-private partnership) in the United States was announced: Morgan Stanley won the bid for a 99-year lease, with full fee collection rights, on four Chicago municipal parking garages, in exchange for an up-front payment of $563 million to the city. In Pennsylvania, home to the nation's first turnpike system, Gov. Ed Rendell (D) and others are floating the idea of gaining $10-30 billion by granting a private concession to their public highways. New Jersey and Delaware have similar proposals. On Nov. 15, Indiana Gov. Mitch Daniels (R) was given an award by the National Council for Public Private Partnerships, for his leadership in selling off state assets, such as the $3.85 billion sale of a 75-year private lease for the northern Indiana toll road, in June 2006.

These recent events headline the fact that a swarm of financial deal-makers are right now fanned out across the United States, making the pitch to local and state officials, and especially sub-agencies of all kinds (transportation, water, museums, parks, and social services facilities), that the only salvation for revenue-short governments, is to sell off public works to private interests. The momentum for this campaign, comes from the fact that the financial system is in an end-phase of speculative blowout. Powerful interests are in a search-and-grab mode for ready loot and political control.

Why would any lawmaker dare to fall for such an obvious flim-flam as the "PPP"? Apart from corruption and stupidity—Sen. George Allen (R-Va.) went so far as to create a Congressional PPP Caucus in 2005—most officeholders, like ordinary citizens, have not thought through how an economy works. They have not conceptualized that government has power to *create credit,* build infrastructure, foster economic activity, and *create a tax-revenue base* in the process.

Plus, most Boomer-age leaders are not even aware of the FDR precedents for how to handle a breakdown crisis. So they are vulnerable to the PPP pitch, that "private sourcing is the only way you can get the funds to have your infrastructure and keep your government functions going."

In direct opposition, the LaRouche Political Action Committee is circulating draft Federal legislation for an economic recovery. (See accompanying article; also available at www.larouchepac.com.) As for succumbing to the inducement to sell public assets on the PPP flea market, Lyndon LaRouche reminds officeholders: "These projects were built with public funds. They can not be privatized. And anyone who does it, is going to be accused of theft. . . ."

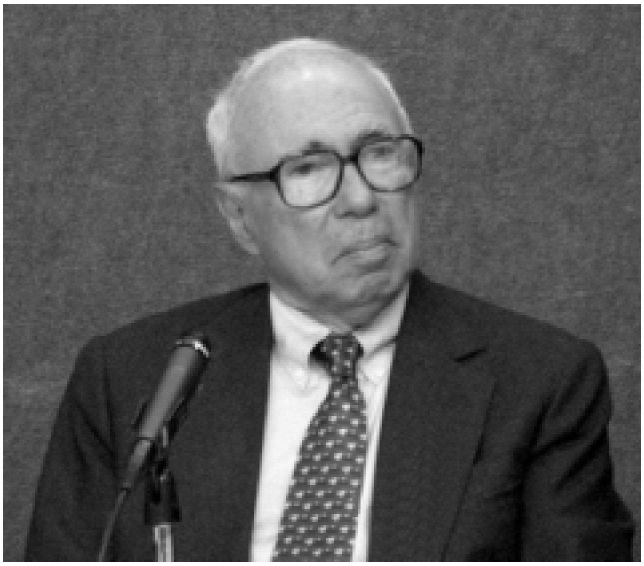
In reviewing the Midwest highway sell-offs this Summer, he added, "No one should pay tolls on privatized public highways. They shouldn't pay them. They should defy the tolls! This was paid for by the public. It's public property. You can not sell public property in this way. It is immoral. It is illegal. No one should pay a toll on a privatized public highway."

Several cases of such theft show up in the last 20 years of PPP episodes: especially, the 1990s "highway robbery" in Mexico; the current Cross City Tunnel scandal in Sydney, Australia; and the Dulles-Greenway toll road in Northern Virginia. Nonetheless, the United States itself is now a focus of financial predators, since it has been slower to go the PPP route than Europe, Australia, New Zealand, and certain other locations. As of Summer 2006, about half the 50 states have changed their laws, to permit private sell-offs of public assets. The rush is on.

Rohatyn: Chief Thief

The chief thief is Felix Rohatyn, longtime Lazard, and now Lehman Brothers banker. He is personally culpable for deindustrialization and government-asset looting schemes, while at the same time, he presents himself as "Mr. Infrastructure." Heading up a sub-group of the Center for Strategic and International Studies, called the Commission on Public Infrastructure, founded in 2004, Rohatyn works a circuit of mayors and officials, proclaiming the glories of infrastructure, but stipulating that the only means governments have to finance projects must come from new, privatized arrangements—i.e., private investments and the *sine qua non:* private control.

Rohatyn wrote the book on PPPs—the infamous case of the Municipal Assistance Corporation in New York City. In 1975, Big MAC, as it was called, was authored by Rohatyn, on behalf of globalized private banking interests, and rammed through the City Council and Albany legislature over June to September, under threat of the City going bankrupt. The gist of the PPP was this: In the name of dealing with the City budget and revenue problems (caused by the national economic downshift to de-industrialization), Big MAC arranged



EIRNS/Dan Sturman

Felix Rohatyn, now with Lehman Brothers, and formerly of Lazard investment bank, is leading the charge for the sell-off of public infrastructure to private interests. Highways are the most prominent target, but public works of all kinds are in line.

new funding from bond sales, in exchange for the government agreeing to turn over all decisions on infrastructure and budget expenditures to a Big MAC private Financial Control Board. The Board immediately drastically downsized infrastructure of all kinds: hospitals, fire houses, water maintenance, etc., and remained in charge for years.

On March 27 of this year, Rohatyn announced a national Big MAC-style plan for U.S. infrastructure, at a National Press Club briefing for his Public Infrastructure Commission, which included his co-chairman, Warren Rudman.

On April 25-26, Rohatyn again promoted this at an "Infrastructure Crisis Conference" held in Washington, D.C., by the American Society of Civil Engineers. The ASCE *News* (May, Vol. 31, No. 5) wrote up his appearance with extreme understatement: "As chairman of the Municipal Assistance Corporation in the late 1970s, Rohatyn managed the negotiations that enabled New York City to weather a financial crisis. In his remarks he described a legislative proposal he has been developing that would create a national investment corporation for infrastructure. 'We can certainly finance it if we have the political will and it's properly constructed,' said Rohatyn, who is the president of Rohatyn Associates, LLC, of New York City. . . ."

In party politics terms, Rohatyn pushes his anti-nation plans on the Democratic side, and his Republican counterpart is George Shultz, former Secretary of State. For example, the two of them appeared together in 2004, at an Oct. 9 conference on, "The Privatization of National Security," held at Middlebury College, and sponsored by Shultz's Princeton Project on National Security. The two plugged the desirability of privatizing government defense functions. Their common trait is that they are both against the very system of sovereign nation-states. They are the "Economic Hit Men" of the popular book of that title, by John Perkins (*Confessions of an Economic Hit Man*).

With the newly elected Congress, and similar shifts on the state level, the battle is now joined for how citizens and their representatives will act to reject the Rohatyn-Shultz menace, and instead act to preserve government sovereignty, by facing the economic-breakdown crisis head-on, and taking emergency measures to restore economic functioning and needed infrastructure growth.

This very issue showed up in the November Ohio gubernatorial race, for example. The hands-down winner, Ted Strickland (D), trounced incumbent Ken Blackwell (R)—not simply from voter revulsion at Bush-Cheney Republican Party local corruption—but expressly on the issue of Strickland opposing Blackwell's call for selling off the Ohio Turnpike. Blackwell spoke of gaining billions for the state budget. Strickland likened it to, "selling your birthright for a bowl of potage." There are others sounding the alarm.

We here summarize the scope of the PPP assault against nations, and give highlights of the opposition; plus provide a few of the most spectacular scandals. First however, look briefly at the nature of the threat and those behind it.

Mussolini Model

In essence, the PPP recourse is the "Mussolini Model" for public works. The 1920s-30s "Il Duce" Benito Mussolini period was characterized by the most extreme privateering of bridges, ports, housing, and every kind of public works. Today's form is simply cloaked in such code phrases as, "PPPs," PPIs (Public Private Initiatives), or other jargon terms, put into use because "privatization" got such a bad name since the 1980s Margaret Thatcher period. The very latest lingo, is "P3s."

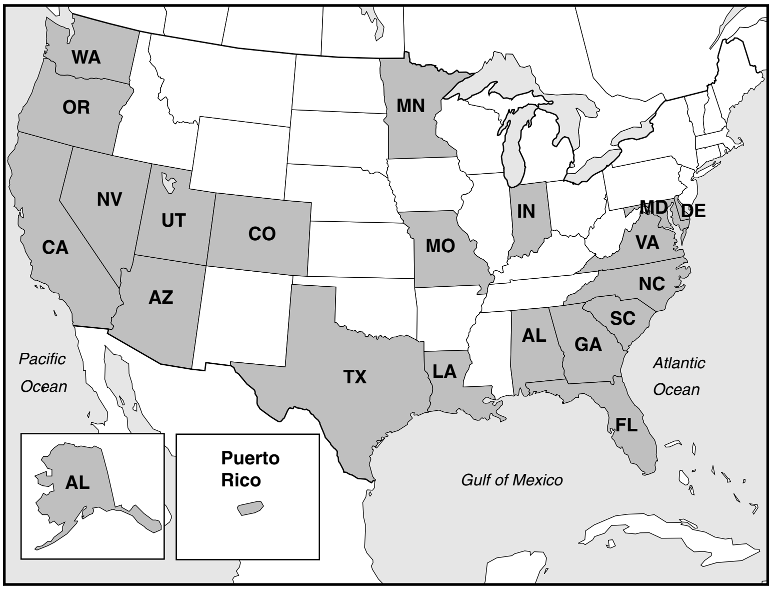
The major players in the buy-out schemes for government infrastructure internationally, are part of a small circle of banks, funds, and principal construction operations, including Morgan Stanley, Goldman Sachs, Lehman Bros., Lazard, and especially the leader of the pack, Macquarie Bank/Macquarie Infrastructure Group, based in Australia, but originating in London. Macquarie often partners with another big player, the Cintra Concesiones de Infraestructuras de Transporte S.A., of Spain. Macquarie/Cintra did this year's Indiana Toll Road PPP deal; also the 2005 Chicago Skyway; and Macquarie now has the Dulles Greenway in Northern Virginia, the third PPP owner in 11 years of the 15-mile private tollway.

In turn, the pedigree of this network goes back continuously, to some of the very same financial circles involved in the 1930s fascist "corporatist" economics in Europe behind Hitler and Mussolini, called at the time, "synarchist."

The asset-grab deals themselves, besides having different names, vary in particulars. But they are all thefts. The quickest

FIGURE 1

States With 'Mussolini Laws' for Private Takeovers of Public Infrastructure, May 2006



Source: State law review on National Council of Public-Private Partnerships, ncppp.org.

rip-off is for the PPP outfit to gain the rights to fees and tolls from already-built infrastructure such as highways, bridges, water systems, and the like. These PPPs are politely praised as "mature" investment opportunities. Example: the sell-off of the Chicago Skyway to Macquarie/Cintra, finalized in January 2005, was for a 99-year lease, in exchange for $1.82 billion. Goldman Sachs cadged $9 million for advising on the deal.

The allure to governments—even ones that aren't corrupt—is the prospect of ready cash for selling off "mature" public works. The Nov. 1 Chicago City Council vote was 37-to-8 to approve the Morgan Stanley parking garage buy-out deal. Alderman Ed Burke, chairman of the Finance Committee said, "We surely cannot hold up a transaction that will provide $563 million."

Then there are the PPP and PPI arrangements calling for joint funding of new projects, in which the privateer company puts up funds, and has control, but the government partner takes on debt for bond issuance, to fulfill its share of new funding. Example: The Trans-Texas Corridor Toll Road, announced by Gov. Rick Perry (R) in 2002. This June, the first contract was signed to construct a designated stretch of the highway, by a consortium that is 65% owned by Cintra, and 35% by a Texas firm, Zachry. The consortium gets a 50-year concession on the tolls for putting up $1.3 billion to the first segment of the project.

The supposed allure of these deals, is that governments do not have to come up with the entire up-front funding for a project. As for the fact that they won't control the project, the government is supposed to regard this restriction as "freedom from risk" if anything goes wrong.

However, back in the real world, it's clear that all the PPP-style projects—whether "mature," new, or any other type—firstly, undercut government sovereignty. And secondly, when anything does go wrong, e.g., the revenue stream is low; the debt can't be paid; the construction is faulty, the design needs to be changed, or some other clinker occurs; then the fallback is to dump the whole mess back onto the government anyway. There are notorious cases of governments being bilked repeatedly in PPP swindles.

PPP Record: Highway Robbery

Mexico. In the 1990s, Mexico was subjected to the highway robbery treatment. *EIR*'s Mexico City correspondent Carlos Cota Meza reported in December 1997: "On Aug. 22, 1997, the government of Ernesto Zedillo announced that it was putting together a $7.5 billion bailout fund, in order to re-nationalize 23 private highways and two bridges which were going belly-up. This is about half of the 43 private highways and nine toll bridges built between 1987 and 1994, which, with great pomp and fanfare, the government had authorized and licensed as part of its sweeping privatization program.

"With its new bail-out move, the government bailed out not only the private construction and management companies involved, but also the national and international bond-holders on the money loaned to build these new toll roads—which is more significant. As the *New York Times* noted at the time: 'The government is under direct pressure from banks which want their debts serviced and from companies which are losing money.' "

Australia. In Sydney Harbor, the new Cross City Tunnel has been "the most controversial infrastructure project in the world," in the words of its own chief executive, Graham Mulligan, in September 2006. A PPP endeavor, the tunnel was built and operated privately, on a 40-year lease, to serve as a key link to the public roadway system. However, almost from the start, the high tolls have deterred motorists from using it. Then the high tolls were reinforced by government closures of alternative routes, designed to force motorists onto the tollway. In the ensuing scandal, these routes have been reopened. In response, the tunnel operator is demanding millions of dollars of government compensation for its lowered toll revenue. The dispute is now headed for the courts.

Next door, in the state of Victoria, where 16 PPP projects have been undertaken since 1999, a scandal erupted over a newly released national parliamentary report critical of PPPs, when it was revealed that 30 pages had been secretly deleted

www.dot.state.pa.us

The Pennsylvania Turnpike is a 537-mile system. the longest in the nation, 100 miles longer than its nearest counterpart in Florida. In search of covering a $1.7 billion shortfall in highway funding, Gov. Ed Rendell (D), State Rep. John Perzel (R), and others have raised the prospect of getting $30 billion for selling a long-term Turnpike lease to Macquarie Infrastructure Fund, headquartered in Australia, but operating for an Anglo-Dutch financial network now engaged in sweeping privatizations.

to make it less damning. The suppressed pages showed that the pattern in Victoria, is that the big PPP projects have been over-budget, completed late, and done without proper scrutiny. The deleted pages warned of the increasing state debt arising from PPPs. In particular, the Victoria government was paying dearly for transferring project risks to the private sector, when "experience has shown large components of this risk have reverted back to the Government" anyway.

Today's PPP Push

Despite the scandals, there is a mad dash underway for PPP deals of all kinds.

In North America, highways and roadway links are in the forefront. There is talk of a new PPP cross-border link between Detroit and Windsor, Canada. On Nov. 19, Canadian Transport Minister Lawrence Cannon told a Toronto conference on public-private partnerships, "We are working closely with our partners to examine possible models for private sector involvement on both sides of the border" for a crossing over the Detroit River.

In Pennsylvania, following the Nov. 7 elections, Gov. Ed Rendell raised the possibility of selling a long-term lease to the 537-mile Pennsylvania Turnpike. First in line is the Macquarie Group. State Rep. Rick Geist (R) from Altoona, wants a PPP sale—for a 75-year lease—to be "House Bill 1" in January. The same discussion is proceeding in New Jersey, the second-oldest turnpike system in the nation.

In Delaware, the state faces a $2.7 billion shortfall in its transportation funding. PPP proposals are popping up, for example to lease Interstate 95 to private operators. In November, the Delaware Secretary of Transportation, Ralph Reeb, was still resisting the notion: "It's not clear to me that what they did in Chicago [the Skyway lease sale] would automatically work here."

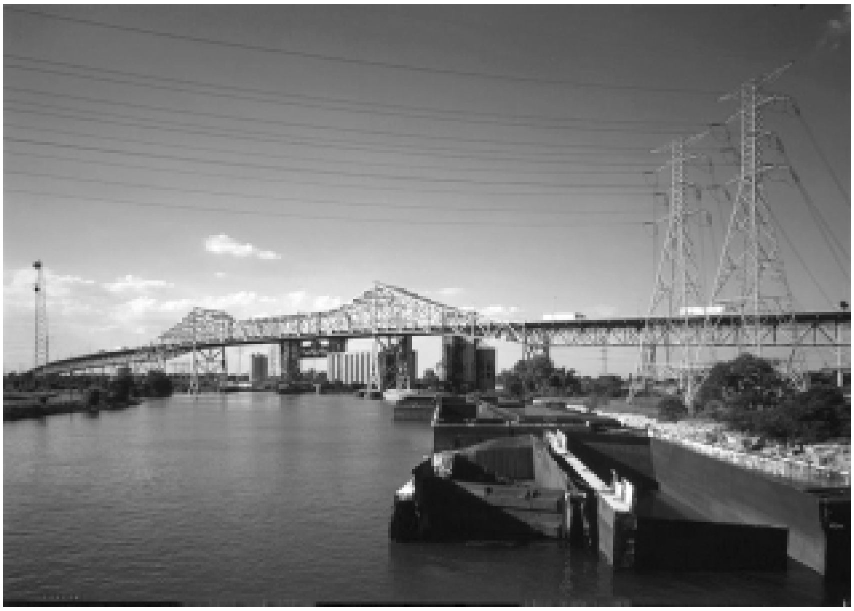
Internationally, there are major privatization drives. Water was the focus of a joint OECD and World Bank event on Nov. 30, titled "Global Forum on Sustainable Development," at which developing-nation officials attended, alongside the leading synarchist privateer water companies Suez, Veolia, and Thames Water, in order to examine, as the OECD press notice said, "examples of countries such as Argentina, the Philippines, Russia, and China, where the number of public-private parnerships and projects in the water sector is increasing."

In India, the Chamber of Commerce in Calcutta on Nov. 25 hosted Ian McCartney, British Minister for Trade, Investment and Foreign Affairs, who talked up the glories of PPPs at a conference session titled, "Developing 21st Century Infrastructure." McCartney said that the U.K. has led the world in the number of PPP projects; and that 70 nations are now seeking Britain's advice on how to set up PPPs. The three main sectors for PPP ventures in Britain are transport, water, and environment and regeneration. In 2005, some 780 PPP projects worth 53 billion pounds sterling had been signed in the U.K., with another 26 billion pounds' worth of projects in the pipeline. McCartney told reporters that there is a mood in West Bengal that is favorable to globalization, and that he saw auto components, agro-business, and ICT as ripe for pursuit.

'Pawnbroker Mentality'

In opposition, many voices are sounding the alarm. On Nov. 20 in Mexico, when Andrés Manuel López Obrador gave a speech on being sworn in as the "legitimate" President of the nation, he announced that a new Truth Commission will be established, to document and expose how private global networks have robbed the nation, in privatizing raids on its banking sector and transportation systems.

In the United States, truckers' associations have been the most outspoken. On Nov. 21, a representative of the Owner-Operator Independent Driver's Association scored the PPP raids on highways. Appearing on the MSNBC-TV Show, "For Whom the Profit Tolls," Rod Navsiger denounced the "pawnbroker mentality" that has gripped lawmakers who are falling for the PPP swindles. He pointed out that the consor-



The Chicago Skyway. This 7.8-mile city-owned roadway, built in 1958 as a critical connector between southeast Chicago and area steel mills, was sold off—in the form of a 99-year lease—in January 2005, for $1.82 billion, to Macquarie Infrastructure Group (based in Australia) and Cintra Concesiones de Infraestructuras de Transporte, S.A. (based in Spain), which operate on behalf of private Anglo-Dutch corporatist interests.

tium which bought the Chicago Skyway in 2005, and this year the Northern Indiana Toll Road, is the team "Macquarie and Cintra—the Australians and the Spaniards—[who] are not a benevolent bunch." Navsiger stressed that seeing to transportation is "inherently a government role." The PPP privatizers are seeking "mature" infrastructure—pre-existing systems—to loot. The White House has been a "cheerleader" for theft. But there is "skepticism on Capitol Hill." We can expect something decent from Rep. James Oberstar (D-Minn.), incoming head of the Transportation Committee.

In Canada, there is an outcry against the present wave of PPP public works schemes of all kinds. On Nov. 20, the Canadian Union of Public Employees issued a statement by their President Paul Moist, on a poll released that same day by the Canadian Council for Public-Private Partnerships (formed in 1993), claiming that nearly two-thirds of Canadians support private companies with government for public works and services. Moist said, "This poll leads Canadians down the garden path. It flags the infrastructure crisis and then promotes P3s as the 'solution.' . . . Canadians are being backed into a corner and told there's no alternative to private sector financing and delivery. Canadians don't want deals that are structured to prevent public scrutiny.

"It's no surprise P3 pushers want to huddle behind the cloak of commercial confidentiality. When the facts do get out, P3s are revealed for the bad deals they are."

The statement reports that, "In Ontario, health groups have gone to court to get basic financial information about a P3 hospital. In Vancouver, elected officials responsible for the final decision on a $2 billion rapid transit line were denied access to key documents underpinning the project."

Globalization: 'Awash in Money'

Overriding all of this evidence, Rohatyn's debater points are still repeated everywhere, though PPPs are clearly just a version of the old thug line, an "offer you can't refuse": 1) No other funding except private money is available to governments now, period; 2) Private control of infrastructure is beneficial, no matter what you may hear.

This was stressed, for example, at a big economics confab, "Back to the Economy: Confronting America's Growth Challenges," held in Washington, D.C. a week before the Nov. 7 elections, by the New America Foundation. Two reports were released on how to further growth, and a marathon list of 22 speakers addressed some 250 participants. The best part of the reports was a recap of the American Society of Civil Engineers list of categories of U.S. infrastructure that need massive construction—locks and dams, bridges, schools, water and sewage treatment, and so on. Unfortunately, the reports' proposals themselves devolved into the currently popular mish-mash of advocating ethanol projects and broadband availability.

However, on funding proposals, the straight Rohatyn line came out loud and clear. *EIR* asked the author of one of the reports—on "A Heartland Development Strategy"—why not use FDR-type Federal funding for large-scale infrastructure in the farmbelt? The reply from Sherle R. Schwenninger, Director of the Bernard L. Schwartz Fellows Program of the New America Foundation, was that there are new "financing packages" developed by Felix Rohatyn, that are a better way to take care of funding.

Bernard Schwartz, on the same panel, jumped in to underscore this. Former chairman and CEO of Loral Space & Communications, Ltd., he demurred that he is just a "mere businessman," but one thing he knows for certain, Schwartz said, is that the world is "awash in money." Because of the wonders of globalization, there is no problem with funding, as long as the right packaging is accepted.

Schwartz did the very same thing at the March Public Infrastructure Commission press conference by Felix Rohatyn, when *EIR* raised the question of FDR-style funding. Rohatyn replied that FDR methods are outmoded. Schwartz, again on the same panel, jumped in to stress that "new" methods for funding will take care of finance needs.