Battle for Infrastructure

British Bank's Buying of Turnpikes Is Exposed as a Giant Ponzi Scheme

by Paul Gallagher

Governor Ed Rendell's drive to "privatize"—sell off—the Pennsylvania Turnpike, supposedly to build or maintain other state transportation infrastructure with the proceeds, is a product of desperation, as he admits, at the 40-year lack of a Federal capital budget for infrastructure. The governor put out a final call for bids on April 15, trying to accelerate the privatization and get the legislature to approve it by June 10. The top bidders to grab the turnpike's tolls are led by the Macquarie Bank/Cintra Group combine that has already taken both the Indiana Toll Road and Chicago Skyway private; and as with those deals, Pennsylvania drivers would pay a 25% toll hike starting next year. The deal has brought Rendell into a closer alliance with the Mussolini-corporatist "soulmates," fascist banker Felix Rohatyn, New York Mayor Mike Bloomberg, and California Gov. Arnie Schwarzenegger, in their Rebuild America's Future Coalition for public-private partnership (PPP) swindles.

Macquarie Bank itself, which is the world model and leader in such infrastructure privatizations, is being exposed in new financial analysis reports, as running nothing more than a worldwide group of "public-private Ponzi shemes," funds whose 25%-a-year "profits" depend on looting new investors, overvaluing ventures, and dramatically jacking up tolls and other user fees on the public infrastructure they grab. So obvious is the Macquarie swindling, that one can foresee signs at the Pennsylvania toll boths, "You must each sell toll-cards to ten of your friends, to keep the turnpike going."

Macquarie has begun to be referred to as "the Bear Stearns of Australia," where it is headquartered, with the markets and the press anticipating that the Macquarie house of PPP cards is about to come down. The share values of its infrastructure funds have lost about one-third in 2008, and stocks of the bank itself, 42%.

More accurately, an early-March mass leaflet of the Citizens Electoral Council—the movement of Lyndon LaRouche in Australia—called Macquarie "the Enron of Australia"—a weapon of the British financial oligarchy deployed to shatter and loot the means of public infrastructure investment and regulation in many countries, and then to be allowed to collapse when that wrecking job is done. Macquarie Bank is a 35-year outgrowth of the London imperial crown bank Hill and Samuel Co.

The London *Economist* jumped to Macquarie Bank's defense in its April 17 issue. In so doing, *The Economist* confirmed LaRouche's point, admitting that "If Macquarie fails, many people will say that it should never have existed," and that it "persists only with a rising value of the [infrastructure] assets"—which any economist knows must be depreciating in real economic terms—but insisting that Macquarie has created a "new model of locking in investors and extracting value from assets"—i.e., looting.

Report Is a 'Haymaker Punch'

Under the heading, "Macquarie Model Blowtorched," the *Sydney Morning Herald* on April 4 reported that a leading financial think-tank, RiskMetrics, Inc., had exposed the Macquarie PPP method "for infrastructure" as a combination of Ponzi schemes and looting binges against investors, taxpayers, and the public.

In 15 years, Macquarie has set up dozens of "investor infrastructure funds," which have privatized a hundred airports, bridges, tunnels, and turnpikes worldwide. Macquarie manages these funds with tight control and extraordinary fees; leverages them with debt (often borrowed from Macquarie Bank) at a ratio of anywhere from 2:1 to 5:1; and pays a "return" which has *averaged* 20% a year since 1996. This return, as *The Economist* had to agree with RiskMetrics' report, is completely unbelievable for investments in the staid toll collections of a bridge, tunnel, or turnpike, or the user fees of an airport.

Macquarie Bank's PPPs—together with other funds of its "group" such as the Spanish Cintra Group and the Brown and Babcock group—are the model pushed by Felix Rohatyn and other fascist bankers whenever "infrastructure" is raised, especially in U.S. Democratic Party circles. What the *Sydney Herald* called this "haymaker" exposé by RiskMetrics, gives that model a stink which will spread from the Chicago Skyway to the Loudoun County, Virginia "Greenway," the robber-baron private toll road constructed in the 1980s and now owned by Macquarie.

"The RiskMetrics research, the most thorough yet done on the model," continued the *Sydney Herald*, "is likely to send shockwaves through the sector, and give both state and federal governments cause for concern, as governments have mostly privatized public assets through this [Macquarie Group PPP] model."

RiskMetrics says, "The infrastructure model raises investment-related concerns: overpaying for [infrastructure] assets; widely overestimating toll and other revenue flows; high debt levels, high fees, paying distributions out of capital rather than cash-flow … booking profits from mere revaluations," etc.

PPP = Pick-Pocket Ponzi

Here are leading examples of the RiskMetrics findings on the Ponzi-scheme character of the Macquarie PPPs:

- Most of the Macquarie and Brown-Babcock infrastructure funds are incorporated in Bermuda, because under its law, funds are allowed to pay out annual returns to investors, and performance fees, *without making any profit*, or even while losing money—something not allowed by Australian, or even City of London regulations;
- The yield to investors for many of the funds was sourced both from cash flow *and from new capital invested*—the classic marker of a Ponzi scheme;
- Macquarie Infrastructure Group (MIG), the "model" PPP fund structure, in 2006, had only $306.9 million in operating cash flow, but paid out $512.9 million in stock distributions, and additional hundreds of millions in fees and executive salaries that year. The "profit" distributions alone were 116% of the total toll revenue for the year, driving the toll structure up;
- A smaller PPP in the group, Babcock and Brown Wind Partners, managed to distribute $48 million in fees, bonuses, and new stock during 2006, while having an operating cash flow of only $14.2 million;
- MIG in 2006 paid out "profits" from: 1) two securitizations of expected future cash flows; 2) a $600 million debt refinancing; and 3) $767 million in new investment capital raised!
- The Macquarie fund managers base their management fees, and performance fees, on percentages of the "enterprise value" of the assets of the fund, and they include in this enterprise value, the bank-debt borrowed by the fund, which may be two or three times the invested capital. A Macquarie document states, "The sustainable and growing long-term cash flows of infrastructure assets mean that [they] can typically support more debt than other businesses, which can increase returns. This indicates the importance of financial structuring and capital optimization in enhancing shareholder returns."
- For 18 Macquarie funds analyzed, management fees for 2006 alone ranged from 10% to 313% of total annual cash flow, and in one other fund which lost money, were 20,060% of cash flow;
- Macquarie systematically overvalues the infrastructure assets its funds buy, then periodically upvalues them further according to its own computer models. This results in "gains" to shareholders, and demands increases in tolls and other user fees;
- The fund entities have multiple boards, all of whose members get stock distributions and bonuses;

In an escalation of this Ponzi swindling, Macquarie on April 15 touted a new device, "listed protected lending," to potential new investors. Directly echoing the infamous "interest-only mortgage" of the subprime meltdown, this scheme lets investors "buy" new Macquarie fund shares entirely with loans at 12% or more, and collect the share "profit" distributions, without legally coming to own the shares unless they pay off their loan at the end of a year. This refinement was invented to raise new "investors" in Macquarie funds intended to go, for the first time, into privatizing infrastructure in China and India.

A 'Useful Stink'

"This is the British financial model, the monster out of the Australian 'pouch' of Felix Rohatyn and my other fascist enemies among the Democratic Party leadership," said LaRouche. "The PPP looks like it's leaking all over London. This is a most useful stink."

The most smelly example of what the fascist "soul brothers" Felix, Mike, and Arnie are trying to pull governors like Rendell into, is the Dulles Greenway in Northern Virginia, "America's first private toll road," and Macquarie-owned. It has tripled its tolls in less than two decades and in spite of two state bailouts, and is about to raise them again, to the point that drivers will be paying $5 to travel a 16-mile extension, of a public toll road of twice that length which costs $1.25 in tolls. The Greenway has been denounced by LaRouche and *EIR* since its first plans were announced.

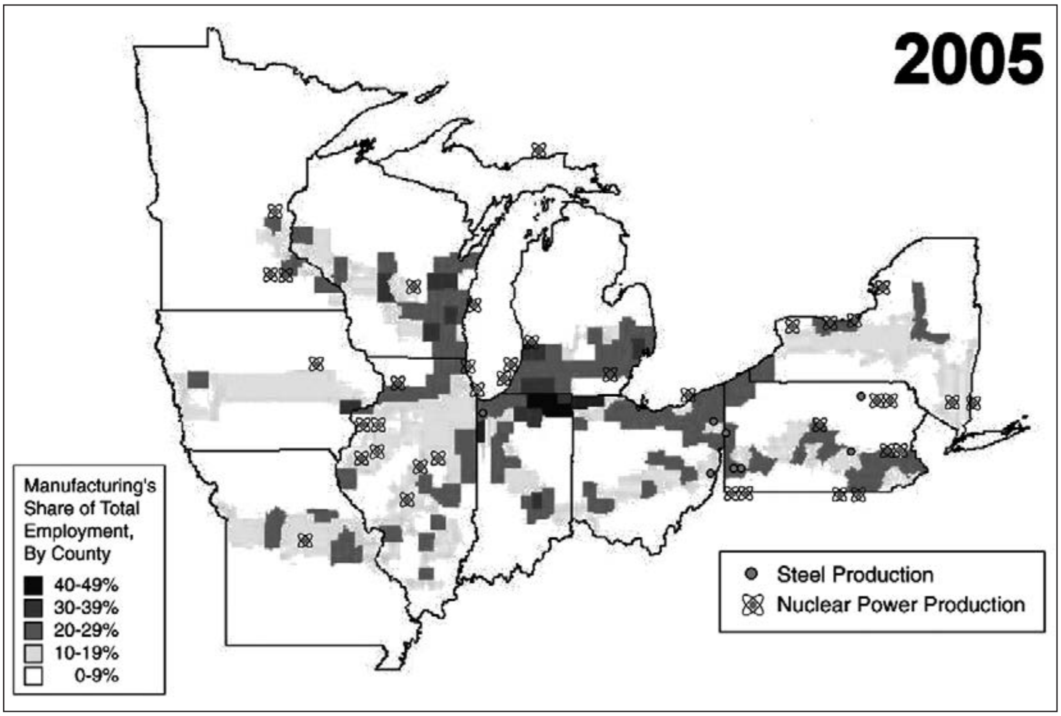
But recently, private financial interests have claimed that if they can buy the public toll road (raising tolls and slapping on new "congestion tolling"), they will extend Washington, D.C.'s metrorail service along its line, to the Dulles International Airport.

The Pennsylvania legislature's Democrats have produced a report, "For Whom the Road Tolls: Corporate Asset or Public Good," which shows that selling the turnpike to Macquarie is the most costly, least effective way to use its toll revenue for infrastructure, and that the state, over the span of 50 years, would be forfeiting to Macquarie 45% of the revenue of the current tolls, even before Macquarie sets about raising them for its own Ponzi profits.

Build a Maglev, Don't Sell a Road

But Pennsylvania has had a plan for new magnetic levitation (maglev) and high-speed rail (HSR) corridors across the state, which would be part of a new rail corridor from New York State to Illinois and Missouri. Governor Rendell said at a Washington, D.C. conference on April 30, shortly after helping Sen. Hillary Clinton carry his state, "We have no high-speed rail. We should not be flying to cities that are less than 500 miles apart. I would love to build a high-speed rail from Philadelphia to Pittsburgh."

FIGURE 1
Low Levels of Industry in the Bush Years



EIRNS, 2006

High-speed rail (200 km/hr) and maglev (350 km/hr and more for passsenger travel) corridors are not only the sane alternative to Ponzi schemes to gin up "private investment" by increasing toll looting on congested roads. They are also the means of "bringing the good jobs back" to formerly industrialized areas across this entire region, because they demand the steel, the electrical power, and the industrial and construction skills which are at the center of debate in the Presidential primaries in those states.

In 2006, *EIR*'s economics staff "animated" the impact on the 1,000-mile-plus stretch from New York and Philadelphia to Chicago, of the development of high-speed rail corridors *already* planned by those states, individually and in rail-plan coalitions. Two "stills" from that animation (**Figures 1** and **2**) give one cut of the result of making the thousands of tons of steel per rail-mile, and all of the machinery, control equipment, power and transmission capacity, etc. which high-speed rail demands.

This cut was done by showing the impact, *in productive jobs*, on the hundreds of counties in the envelopes of these high-speed rail corridors. Figure 1 shows how far down productive, well-paid employment had sunk in these counties as of 2005, especially after the sickeningly accelerated "deindustrialization" of the Bush years 2001-05. Look at Figure 2 by comparison—the impact of more than a decade of high-speed rail-building along all of these state-planned corridors, from New York to Wisconsin and Missouri. (These rail developments would be likely to spread northwest into Canada, Alaska, and toward a Bering Strait Tunnel that would link the rail grids of the Americas, with those of China, India, Russia, and Europe.)

The accompanying box shows the means of this industrial turn-around in detail: The "bill of materials" required in the construction of electrified high-speed, and/or more advanced maglev rail corridors.

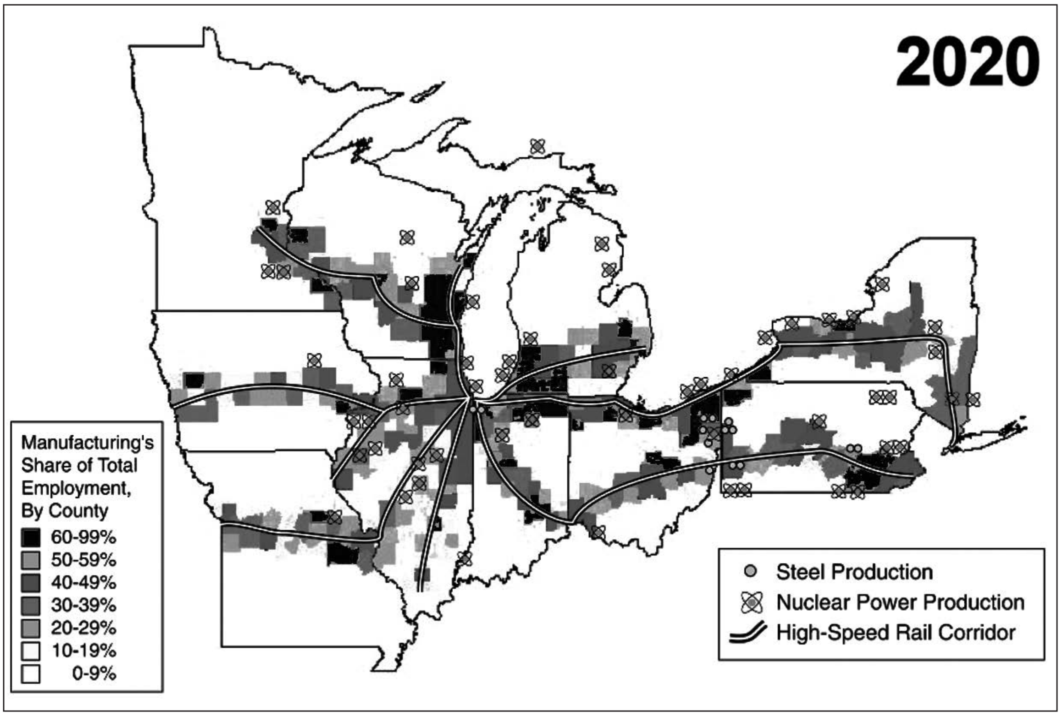
It would "bring the jobs back" across the United States' once-industrial belt, in integrated steel complexes, rail building, and nuclear power plants.

There are 11 nationally designated High-Speed Rail corridors. None of them, except the Northeast Corridor and a small section of the Keystone Corridor (see below), have trains running at high speed. The 28 states where the corridors lie, have mostly been left to fend for themselves to keep the corridors alive. These passenger rail corridors need rapidly to be built, expanded, and electrified to relieve congestion. They are the core of an infrastructure-led economic recovery.

In December 2007, the Passenger Rail Working Group issued a report, "Vision for the Future—U.S. Intercity Passenger Rail Network Through 2050," calling for an annual investment of $5 billion with an 80/20 Federal/state funding commitment. This "Vision" has been included in a national report to Congress that calls for an annual $225 billion level of investment for all modes of surface transportation. The rail "Vision" plan builds on the languishing state rail corridors. Here are two:

• The **Pennsylvania Keystone Corridor**, a 104-mile historic rail route, was renovated and electrified between Philadelphia and Harrisburg in 2006. Trains travel at 110 mph, re-

FIGURE 2
Projected Effects of High-Speed Rail Program



EIRNS, 2006

sulting in express service travel time of 90 minutes between the two cities. One-third of the state's population lives within the six counties serviced by this line. Future plans include electrifying the line from Harrisburg to Pittsburgh, but are on hold without funds.

This is a building block, but Pennsylvania has one of the more advanced maglev rail projects ready to go. In April 2007, Rep. Bill Shuster (R-Pa.) said, "Transrapid has just completed further work on the proposed Pittsburgh maglev project. We are ready to move if there is funding for it."

• The **Midwest Regional Rail System (MWRRS)** initiative is a nine-state, 3,000-mile Chicago-hubbed rail network project for faster, more frequent rail service. The plan will "create 57,450 new jobs, provide just over $1 billion in extra household income across the nine-state region, and provide $4.9 billion" in increased property values leading to "joint development potential for the 102 cities," its economic impact study states. It estimates that the MWRRS "could generate $23.1 billion" from various user benefits "during the first 40 years of the project." The nine states are Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin.

Millions of state dollars since 1996 have been spent to upgrade track, equipment, stations, and multi-modal connections, to ensure train speeds up to 110 mph. While not true high-speed routes, the project is a critical building block for near-term HSR development. These improvements will make the service competitive with air and car travel for trips of 500 miles or less, and will serve 90% of its nine-state population.

There is only one way of funding such national infrastructure: a Federal capital budget, putting hundreds of billions of dollars per year into it through Federal mechanisms for new credit; building the bill of materials by "retooling" auto and related machine-tool plants now closed, slated for shutdown, or underutilized.

No economic infrastructure will get *built* in the United States by Felix Rohatyn's selling the Macquarie model, which is only deployed to block LaRouche's policy of building a new 21st Century national infrastructure by Rooseveltian methods of Federal capital budgeting.

Mary Jane Freeman contributed research for this article. Contact the author at paulgallagher@larouchepub.com.

Rail Networks' Bill of Materials Equals Skilled Jobs

- **5000 Miles of High-Speed, Double Tracked Rail Corridors (shown)**
- **3,000 All-Electric Locomotives—A Job for the Auto Industry**
- **3 Million Tons of High-Strength Steel**
- **10-12,000 Megawatts of New Electric Power**
- **5,000 Miles of New Electricity Transmission Lines and Catenaries**
- **Hundreds of New Substations**
- **2.5 Million Tons of Cement**
- **100,000 New Skilled Jobs**
- **Multiply by 4-5 for a 26,000-Mile, National High-Speed Network**
- **For Mag-Lev Rail, 25,000,000 Tons of Steel**