G20 financial engineers aim to commoditise infrastructure

By Richard Bardon

The G20 bureaucracy that gave the world "bank bail-ins", to save financial speculators from the consequences of their criminal greed and stupidity by looting bondholders and depositors, is now hard at work on a system to turn infrastructure projects into a financial "asset class" that will ensure those same speculators can leech off the public for decades to come. Spearheading the operation is the Sydney-based G20 Global Infrastructure Hub (GIH) which, with a former Macquarie Bank director at the helm, is looking to establish the public-private partnership (PPP) scam that Macquarie pioneered in Australia—which "incentivises" private investors with high profits guaranteed by the public purse—as the preferred model for infrastructure financing the world over.

The G20 (short for "Group of 20") is on its surface merely a forum for economic consultation among the world's 19 largest national economies—Argentina, Australia, Brazil, Canada, China, Germany, France, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the UK and the USA—plus the European Union. Its bureaucratic structures and procedures, however, were established under Anglo-American control in the late 1990s and are overseen by the Financial Stability Board and Bank for International Settlements, both based in Basel, Switzerland. As the Citizens Electoral Council, publisher of the *AAS*, elaborated in a 2016 pamphlet,[1] these institutions provide a veneer of neutrality behind which the Bank of England-City of London-Wall Street nexus seeks to impose its own financial rules upon the world.

As for the GIH, it was established by Australia's then Treasurer Joe Hockey in 2014, in parallel with the push for bail-in laws in all G20 jurisdictions, as a matchmaking service for private investors and infrastructure PPPs around the world. As GIH Chief executive officer Chris Heathcote wrote in a 26 February 2018 blog post, "Simply put, there is a strong desire in the private sector for product pipelines and projects to invest in. … We want to commoditise infrastructure and make it an attractive asset class for the asset-hungry private sector."

That Hockey reportedly hand-picked Heathcote to run the GIH (he took office in June 2015) speaks volumes. As noted above, Heathcote is a former director of Macquarie Bank—specifically, the UK branch of its infrastructure division, Macquarie Infrastructure and Real Assets (MIRA). He was previously head of project finance at Partnerships UK, a joint privately- and UK Treasury-owned company set up to promote the Private Finance Initiative (PFI), under which the private sector borrows money to build public infrastructure which is then leased back to government on hire-purchase terms. As UK Labour Party policy advisor Prof. Prem Sikka wrote in a 4 September 2015 article for online publication *Left Foot Forward*,[2] "PFI has been a financial disaster. Currently there are 728 projects, of which 671 are operational, with a capital value of £57 billion. In return, the government is committed to paying £232 billion by 2049-50, effectively guaranteeing a profit of about £175 billon to corporations. … PFI operators are also allowed to boost their profits by charging hundreds of pounds just to change light fittings and perform other mundane tasks." Macquarie ran an identical scam in Australia since the early 1990s called Build, Own, Operate and Transfer (BOOT), focused on toll roads.

GIH Senior Director Brer Adams is another Macquarie alumnus who worked in project finance for "renewable" energy and electricity transmission, prior to which he was an energy policy advisor to the government of South Australia—which now has the highest power prices on earth and the least reliable grid outside Africa.

One would hope that the G20 Finance Ministers would listen to such people's advice only so they could do the exact opposite. Sadly, their 23 March *Roadmap to Infrastructure as an Asset Class* shows this is not the case. "Given the magnitude of the infrastructure gap", the *Roadmap* states, "the G20 must adopt a new collaborative approach … to harness the large pool of private savings looking for long-term investment." It is therefore considered "essential" to "foster the development of infrastructure as an asset class"—i.e. a set of securities, bonds or other debt instruments which investors can trade (and speculate on) through the usual market mechanisms.

Look to China

The obvious problem with this outlook, write Jesse Griffiths and Maria José Romero of the European Network on Debt and Development (Eurodad) in a refutation of the *Roadmap* published 3 August, is that "It ignores the uncomfortable fact that they [infrastructure projects] are physical, concrete buildings, bridges, clinics or water pipes which millions of people rely on in their everyday lives. … Perhaps most importantly, the infrastructure needed in order to 'leave no-one behind'—such as water, sanitation or rural roads—are the very projects which are least likely to attract private investors." If the G20 is serious about increasing and improving infrastructure investment, they write, it had better follow the example set by China, where "almost all infrastructure financing is undertaken by the public sector, with private financing as a proportion of GDP close to zero."

This is in fact the cornerstone of China's economic success. As CEC Research Director Robert Barwick explained in a 2015 conference presentation,[3] PPPs are an inherently inferior means of funding infrastructure. Infrastructure should be built for the future, and therefore its capacity (e.g. power output, traffic volume, water stored) should always exceed the demands of the "market" for years or even decades after its completion, an expense no profit-driven private investor will ever countenance. With a national banking system, long-term, low-interest credit is issued for the purpose of expanding the economy as a whole; no single infrastructure project need return a monetary profit at all, so long as the expense of building it is outweighed by the growth it generates simply by existing.

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1. *The British Empire's European Union: A monstrosity created by the City of London and Wall Street*, 20 May 2016.
2. "PFI is still crippling our public services", *AAS* 30 Sept. 2015.
3. See "The Hamiltonian revolution and FDR's Glass-Steagall" on p. 5 of the CEC's new banking handbook, *The Next Financial Crash is Certain! End the BoE-BIS-APRA Bankers' Dictatorship: Time for Glass-Steagall Banking Separation and a National Bank*.

Currency crisis can trigger chaos, or new system

By Elisa Barwick

14 Aug.—The sea of US dollar debt pumped out by a decade of quantitative easing, which had most recently been heading to the world's "emerging markets" for profit, is receding, leaving nations high and dry. The weakest links such as Turkey and Argentina are being exposed first, triggered by domestic economic and political issues, and worsening as speculators pile on to make a buck. The Turkish lira is down 43 per cent in the last 4 months (25 per cent in just three days of trading this week) and the Argentine peso 33 per cent in the past 4 months. Others, such as South Africa, Indonesia and Colombia are expected to take a hit. Market analysts are watching both the Russian and Chinese currencies, which have already been in decline against the US dollar, very closely. Steven Major, head of global fixed income at HSBC, has even warned of a structural shift away from the British pound and a collapse of long-term demand for UK assets from investors who "are leaving and not coming back", despite the Bank of England's latest interest rate rise.

The Turkish government has imposed partial capital controls on its banks, reduced banks' reserve requirements on loans by 0.25 per cent, banned stock short-selling, and opened lines of emergency US dollar funding, all with only a limited impact on steadying the lira.

"A whiff of contagion has spread to European banks", reported City of London scribe Ambrose Evans-Pritchard in the *Telegraph* on 13 August, "which together have US$180 billion of exposure to Turkey." Major European banks, particularly French and Spanish, are exposed, Spain's BBVA, Italy's UniCredit and France's BNP Paribas among them, as are major Gulf state banks.

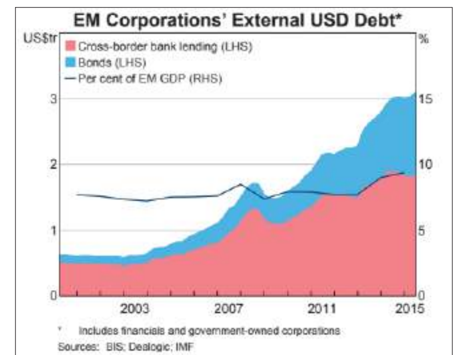
Turkey's fast-paced US dollar debt growth is of concern, and its foreign currency reserves are low, but this is only a small fraction of the global debt bubble built up since the 2007-08 global financial crisis. Just a year ago, as Wolf Richter pointed out in *Wolf Street* on 13 August, junk-rated Argentina—a nation which has defaulted six times in just over 60 years—sold US$2.75 billion worth of *100-year* dollar-denominated bonds. It is this type of phenomenon that is now unravelling.

Global corporate debt, half of which is junk rated or one notch above, amounts to US$75 trillion. As currencies decline the cost of that debt rises and an increasing portion of it becomes unpayable, making waves of default likely. Turkey has $337 billion of corporate debt denominated in US dollars, US$180 billion due within less than a year, and there is more denominated in Euros.

Evans-Pritchard cites Lars Christensen of Markets & Money Advisory, however, advising that "This is not going to blow up the euro or go global. The real issue is not contagion: it is that any emerging market country with serious imbalances is going to get hit as the Fed tightens. That is what happened in 1998. This looks very similar." This discounts two realities: one, the 1998 crash, which hit Russia on the back of the Asia crisis, nearly brought down the entire global system, former IMF head Michel Camdessus admitting on 6 July 2000 that in 1998 the global financial system came "very, very close to the precipice"; and secondly, the world financial system is in a dramatically worse condition than in 1998. Nothing fundamental has changed since the 2007-08 crisis; rather, all the problems which caused that crash have been magnified.

Alternatives

Making matters worse, on 10 August US President Donald Trump announced the doubling of tariffs on Turkish steel and aluminium. The same day Turkish President Recep Tayyip Erdogan, in a guest column in the *New York Times*, said that Washington must "come to terms with the fact that Turkey has alternatives. Failure to reverse this trend of unilateralism and disrespect will require us to start looking for new friends and allies." This expresses the sentiment felt by many nations, including Russia, which want to be treated as equals, but in Turkey's case the stakes are greater as it is a NATO member.



The rise of US dollar debt to emerging market corporations, up to 2015. Source: RBA

On 8 August Erdogan announced Turkey would issue bonds in Chinese yuan to "diversify its sources of financing", a plan which has been in preparation for some time. Turkey has increased cooperation with China on projects linked to the Belt and Road Initiative; China has put up loans for Turkish infrastructure projects.

"We are gearing up for trade in national currencies with China, Russia, Iran, Ukraine, which account for the largest bilateral trade volume", said Erdogan on 11 August. "If European countries want to get rid of the dollar pressure, we are ready to create a similar system with them", he continued, according to the Anadolu press agency.

This coincides with a growing discussion of alternatives to the US dollar and the collapsing trans-Atlantic financial system, which was a major topic at the BRICS forum in South Africa on 25-27 July, and the Fourth China-Russia Economy Dialogue on 15-16 July at the Chongyang Institute in Beijing. ("Looking to learn from China's economic success", *AAS* 8 August.)

Executive Intelligence Review magazine's economics editor Paul Gallagher commented on the moves towards an alternative system: "The US dollar—actually long since the 'London dollar', since most dollars have been issued in the London eurodollar markets—has been the world's reserve currency, without gold reserve, since the 1970s. The move to use other currencies for trade settlements can be done by agreements among other major powers—i.e., the BRICS, which Turkey publicly wishes to join. But, without agreements to take steps to a new gold reserve system of *fixed* exchange rates, these settlement 'side agreements' will not stop the financial crisis. In fact, they can lead to further chaotic currency fluctuations and speculative attacks."

What is required is not a series of makeshift arrangements, but an entirely new architecture of relatively fixed, stable currencies, backed by national economies growing through public credit and investment, international collaboration on infrastructure construction, and new trade arrangements. The international Bretton Woods agreement initiated by US President Franklin Roosevelt in 1944, provides a model. The system never lived up to Roosevelt's expectations due to the dramatic shift in US policy after his death, but with the collapse of the agreement when the USA broke from the gold reserve price in 1971, ultimately floating the dollar, the doors were opened to a whole new speculative smorgasbord and we were put on the pathway to the crises of recent decades. Today's crisis provides an opportunity to correct our mistakes.