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PRIVATE FINANCE FOR PUBLIC INFRASTRUCTURE: THE CASE OF MACQUARIE BANK

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*Bankers are merchants of debt who strive to innovate in the
assets they acquire and the liabilities they market*

- Hyman Minsky

Macquarie Bank features ever more prominently on the list of large companies on the Australian Stock Exchange (ASX), and in the business pages of the broadsheet newspapers. It is engaged in processes of infrastructure provision, both locally and in a growing number of countries around the world. The list of the 150 largest companies on the Australian stock exchange, published in the *Australian Financial Review* every Monday, lists Macquarie Bank as the fifteenth largest business with a market capitalisation of approximately \$16 billion dollars (*AFR*, 11/9/06:22). Looking down the list, Macquarie Bank spin-offs, including its property and infrastructure funds, also feature prominently: when these are combined with the parent company, Macquarie Bank is the third largest corporation in Australia (behind NewsCorp if it were listed on the ASX and BHP Billiton), with a total market capitalisation of \$49.8 billion (MB-AGM, 2004-05).

Macquarie Bank has profited from being an early adopter of what Gary Sturges, a consultant on public-private partnerships (PPPs) and former senior policy advisor to NSW Premier Nick Greiner, described as 'a new market [for PPPs] which [has] been trying to happen' since the late 1980's (Sturges, 2005:1). The largest fraction of Macquarie Bank's physical assets (a diverse list of toll roads, radio towers, retirement

homes, marinas and property) are in Sydney, Australia's predominant global city and finance centre, where the bank has its headquarters. This has prompted one journalist to refer to Macquarie Bank as 'the bank that ate Sydney' (Rolfe, 2006).

Analysing the rise of Macquarie Bank can help an understanding of the new accumulation strategies of finance capital in the wake of financial deregulation. It also raises key questions about who should control credit creation and financing of public services. Should it be the public sector that creates credit on the basis of its formal political authority and taxing capacity (by issuing bonds for example) or the private financial institutions who act as rentiers, borrowing and creating capital in expectation of future profit? The tension is between two structures of credit creation that benefit different sectors and institutions.

Situating the role of Macquarie Bank in this context puts the emphasis on tracing the flow of finance and revealing the volatility and power relations involved in this aspect of modern capitalism. The aim of this paper is to elucidate the shift of control, from public to private, whereby Macquarie Bank found its 'license to print money'; and to assess its consequences for the stability of the economy.

The 'Holey Dollar' and Financial Volatility

Macquarie Bank uses the parable of the 'Holey Dollar' to explain the origin of its name. According to this story, in

1813 Governor Lachlan Macquarie overcame an acute currency shortage by purchasing Spanish silver dollars (then worth five shillings), punching the centres out and creating two new coins – the "Holey Dollar" (valued at five shillings) and the "Dump" (valued at one shilling and three pence)... This single move not only doubled the number of coins in circulation but increased their worth by 25 per cent and prevented the coins leaving the colony (Macquarie Bank, 2005a).

The irony is immediately apparent. For Macquarie Bank, a private sector investment bank, to adopt this parable as its operational motif thereby

draws attention to the shift in financial control from the public sector to a private institution.

The structure of Macquarie Bank is that of a 'solar system' where a number of smaller satellite funds orbit the central entity, feeding it streams of cash in the form of set-up and management and performance fees. The head of the bank's investment banking division, Nicholas Moore, has characterised it as a 'full-spectrum' investment bank (Moore, 2005). It proffers expertise in a range of areas, such as mergers and acquisitions, financial advisory services, capital raising and funds management.

Macquarie Bank has developed a new model for financing the purchase and development of public infrastructure, often through public private partnerships (PPPs) with a leveraged structure of debt and equity, where the infrastructure asset is used as a basis on which a public investment fund can be launched on the Australian Stock Exchange (ASX) to attract investment. The asset is sold to the fund upon its launch and the fund is managed by Macquarie Bank which collects management and performance fees from the new satellite fund. The range of transactions in this process, all performed in-house by the Bank for a fee to the fund, form the 'full-spectrum' to which Moore refers.

In the financial year 2004-05, this model allowed Macquarie Bank to increase profits by 67%, resulting in a profit of \$823 million after tax (MB-AR, 2004-05). In the financial year 2005-06 profits increased 13% to \$916 million after tax (MB-AR, 2005-06). In 2004-5, funds under management, from which Macquarie bank earns a constant stream of management fees, increased to \$49 billion, and total assets under management increased by 42% to \$89 billion (MB-AR, 2004-05). Over the past 5 years the sector of the bank related to the financing and management of infrastructure assets has been responsible for 46-61% of the bank's profits (MR-AR, 99-06). The rest of the profits are split between equities investments, banking and property, funds management, treasuries and commodities and financial services. Through their separation from infrastructure financing, these activities provide a degree of diversification from the bank's main profit making activity of brokering infrastructure deals between private capital and Australian and overseas governments.

Two trends contribute to a structure of asset price inflation and credit creation that underpins Macquarie Bank's growth and profitability. One of these is the increasing prevalence of companies and banks issuing securities and corporate bonds to create credit. This trend towards 'securitisation' was enabled by financial deregulation, which de-linked the creation of credit from traditional retail bank deposits (Perkins, 1989:85-91).

The other trend is the relatively recent influx of superannuation money into the Australian stock market (Frankel 2004:70). These trends have fostered the Macquarie model and have generated a structure of credit creation based on asset price inflation that has important distributional effects in society.

The Macquarie Bank model has evidently proved highly profitable during a period of steadily rising asset prices and rapid growth in the volumes and values of superannuation investments. The corresponding political economic concerns relate to how the gains of infrastructure provision have been privatised, and whether the degree of instability in the financial system has been exacerbated. These concerns relate not just to Macquarie Bank but, internationally, to the underlying assumptions about the relationships between finance and the 'real' economy. As financial economists Michael Hudson (2001, 2005) and Jan Toporowski (1999, 1999a) have argued, the danger is that this structure of finance is premised on overcapitalised and highly leveraged companies, which have introduced more fragility into the economic system (Toporowski, 1999:1), not to mention uncertainty regarding service delivery and infrastructure provision.

To probe the stability and sustainability of the Macquarie model it is useful to draw on the work of Hyman Minsky, whose analysis of financial markets provided a great stimulus to modern post-Keynesian political economy. Minsky argues that an understanding of finance must be based on a grasp of three types of finance models – called *hedge*, *speculative* or *ponzi* finance. He explains the differences as follows:

Hedge financing units are those which can fulfil all of their contractual payment obligations by their cash flows: the greater the weight of equity financing in the liability structure, the greater

the likelihood that the unit is a hedge-financing unit. Speculative finance units are those that can meet their payment commitments on 'income account' on their liabilities even though they cannot repay the principal out of income cash flows. Such units need to 'roll over' their liabilities; i.e. issue new debt to meet commitments on maturing debts. Governments with floating debts, corporations with floating issues of commercial paper and banks are typical speculative units. For Ponzi units the cash flows from operations are not sufficient to fulfil either the repayment of principal or the interest due on outstanding debts. Such units can sell assets or borrow in order to pay interest; dividends on common stock lower the equity of a unit even as they increase liabilities and the prior commitment of future incomes. Each unit that Ponzi finances lowers the margin of safety that it offers the holders of its debts (Minsky 2003:203).

Ponzi finance involves debt financing debt: such structures develop because changes in market conditions mean that speculative borrowers can no longer make the repayments of interest on the principal of their loans. When this happens the financial system becomes unstable as the *ponzi* units threaten to collapse, compounding the liquidity shortage in the economy as a whole and amplifying volatility.

The Macquarie Model, REITs and Instability

To highlight the inherent instability of the Macquarie model of financing, it is useful to compare the Macquarie Bank model of infrastructure provision with Real Estate Investment Trusts (REITs) that have a longer history. REITs emerged in the USA in the 1970s and were the new innovative product of investment banks creating an investment boom in real estate. Although initially profitable the boom eventually collapsed; and the REITs were rescued by the larger banks and by the US Federal Reserve which acted as lender of last resort to the REITs (Minsky, 1986:60-65).

REITs in Australia have experienced a turbulent history similar to that in the USA. They were pioneered in the 1970s by Lend Lease as a means of avoiding the risks involved in using the assets of the parent company against borrowings to finance expansive major office complexes (ASX,

2005:19). They suffered a liquidity crisis in the late 1980s that drove many REITs to list on the stock exchange in the 1990s, thereby seeking to generate liquidity through share offerings. Listed property trusts are now being called a success amongst the financial community after many years of strong growth and capital gains in a favourable economic environment that has not been tested by a downturn or by any big increases in interest rates (ASX, 2005:19). The weighting of the Australian market towards REITs is such that Australia has 12% of the world's listed property trusts (by value), compared with only 2% of the world's share market capitalisation (ASX, 2006).

Generally speaking, REITs enable capital markets to invest indirectly in urban and industrial property through purchasing the stapled securities of listed property trusts. A stapled security is a share of a trust that is linked and traded as ownership of property. REITs enjoy tax benefits that allow them to deduct dividends paid to shareholders from taxable income, if at least 90% of their ordinary taxable income is distributed to their shareholders. This means that REITs provide a means of financing real estate which is attractive to investors and shareholders because of tax free dividend distributions (Minsky, 1986:62).

Writing about the internal mechanics of the boom and bust in REITs in the 1970s in the USA, Minsky noted that an instrumental factor was that REITs seldom wholly owned and operated real estate. Instead REITs financed construction (e.g. of commercial properties, such as apartment complexes and shopping centres) through debt. REITs worked with other people's capital and depended for their profits on the difference between the return on assets and the cost of liabilities. REITs had to make payments to building contractors and make dividend distributions throughout the construction phase. As they became more popular they attracted an increasing amount of speculative capital. The increased capitalisation of REITs made the sector vulnerable to fluctuations in share price and to liquidity problems in the event of an interest rate increase (Minsky, 1986:60-62).

REITs borrowed short term to finance construction projects. Interest and dividends were paid by issuing corporate bonds. This meant that the REITs were borrowing in order to meet their liabilities, thereby assuming

a *ponzi* form of finance. In 1973-1974 a dangerous increase in interest rates, construction delays and excessive supply meant that the REITs could no longer issue corporate bonds that other institutions had the confidence to accept. This liquidity crunch meant that REIT bonds in the US capital market fell in value 'from \$4 billion in 1973 to less than \$1 billion in 1974' (Minsky, 1986:65). It was in that context that the Federal Reserve and the large institutional lenders refinanced the REITs, often by extending the loan repayment schedules of the REITs, to allow them to find capital to pay their liabilities, thereby avoiding a more general financial crash. The financial regulators kept quiet about the *ponzi* structure of the REIT to facilitate this rescue refinancing (Minsky, 1986:63).

The legal structure of REITs and the lag time between investment, construction and sale means that REITs do not generate significant income that can be reinvested or used to pay down debt during the construction period. Instead, their profits must be distributed to shareholders throughout the construction period and at the point of sale. The income that they do generate upon sale and operation of the final product determines whether or not the accumulated debt used to finance construction can be paid off. In turn, this depends on conditions of liquidity and resulting property prices and interest rates. This is what makes REITs a speculative financial instrument.

REITs therefore tend to be highly leveraged financial structures where income is not initially drawn from internal sources during the construction phase, but from borrowing and then a mix of capital gains and rents after construction. If the assets are already constructed before being put into the REIT structure, only a speculative risk is present, because any short-term bridge financing makes the borrower vulnerable to 'market corrections' in property prices. However, where new construction is involved, there is the possibility of a shift from speculative financing to *ponzi* finance, where debt is used to pay off debt, thereby creating more debt. The likelihood of swings in broader market conditions and their inability to generate income and savings internally means that risk and instability is inherent.

Why is the experience with REITs relevant to an analysis of Macquarie Bank? Firstly, because the bank is directly involved in REITs such as

Prime REIT in Singapore¹, a REIT in Korea (Johnson, 2004), Ascendas Real Estate Investment Trust (A-REIT), Macquarie Prologis², Macquarie Leisure and the Macquarie Goodman Group.

Secondly, Macquarie Bank's other financial arrangements, especially its infrastructure funds, have REIT-like characteristics. These include reliance on dividend distributions and on debt refinancing to generate income.

For example, consider the Macquarie Infrastructure Group (MIG). Macquarie claims that its infrastructure funds, such as MIG, differ from REITs because the income comes from a monopolistic infrastructure product, which by its nature commands a stable income (Rakowski, 2004:41). The risk of excessive dependence on future market movements in prices and property rents is said to be thereby avoided. However, this argument about monopoly position is a red herring in relation to infrastructure funds. It is true that stable direct income from usage tolls on infrastructure goods may be used to pay interest on debt used for construction or procurement. However, like REITs, the income of infrastructure funds is determined indirectly by broader market conditions that facilitate refinancing. It is the activity of refinancing and financial engineering *per se* that generates ongoing income for the infrastructure funds.

A large proportion of income is derived from refinancing assets to capture an increase in value from asset price inflation or to secure lower interest rates on loans (MIG, 2006:16). This process of credit creation is akin to a homeowner increasing her/his mortgage on a home, based on an increase in the value of the house. As reported in the Macquarie Infrastructure Group's 2005 interim report, in the 6 months to 31 December 2005, over \$304 million of MIG's income came from equity ownership, rental, construction and toll income, while \$714 million of the income came from refinancing and financial engineering (MIG, 2005:16).

1 See http://www.macquarie.com.au/au/about_macquarie/acrobat/2006_interim_release.pdf

2 See <http://personal.macquarie.com.au/au/property/trust/news/20050221.htm>

As financial journalists have observed about Macquarie funds, the additional debt that is taken on when a loan is refinanced is often channelled to shareholders through distributions and to Macquarie Bank itself via management and performance fees (Hemming 2006:36). The infrastructure fund therefore acts as a financial version of drift net fishing, leveraging asset price inflation in the broader market to channel income to private investors. Investors in Macquarie Bank funds are not deriving profit from 'value management' or innovation in a particular industry but from the broader conditions of the market i.e. creation of credit from asset price inflation *via* the infrastructure fund³.

This shows how income for the infrastructure funds is based on constantly improving conditions of liquidity. Macquarie funds sometimes use debt to pay shareholder distributions. This may appear all well and good in a period of rising asset values and low interest rates. However, there is an inherent element of speculative finance here because a reversal of liquidity conditions may make refinancing of the inflated principal increasingly difficult. The infrastructure funds therefore share the central feature of a REIT that makes them unstable. Income is not derived from an internal source but from speculation and refinancing against future market conditions.

It is worth noting here that the 'genius' of the Macquarie Bank model is that the parent bank hides risk and generates its own revenue and client base through the provision of management and advisory services to the various funds with which it is linked. The financial characteristics of the parent organisation of Macquarie Bank always look solid because a substantial amount of the debt and risk is outsourced to the satellite funds. This does not mean that the risk is avoided; rather, a clever accounting and financing structure hides the risk so that it does not appear on Macquarie Bank's principal balance sheet. The satellite funds cannot have direct recourse to the bank's assets if they get into difficulty, so the more modest risk for the bank is just the loss of fee income. The systemic risk remains, however.

3 In this sense they are similar to indexed funds, but charge much higher fees because of the 'smoke screen' effect that the presence of the infrastructure fund has on determining the actual source of value.

Asset Price Inflation, Securitisation and Superannuation

Having considered the matter of instability in the Macquarie Bank model due to its reliance on refinancing to capture income from asset price inflation, we now look in greater detail at why this may be a potentially unstable model. This requires consideration of the conditions which have led to asset price inflation and volatility, building on the analysis of how securities have been replacing bank debt as a cheaper source of credit (Hudson 2001 & 2005; Toporowski 1999 & 1999a). Securitisation and the growth of superannuation have been particularly important factors in increasing liquidity and creating asset price inflation, upon which the Macquarie Bank model relies.

Stapled securities in Macquarie Bank's various funds have been eagerly acquired by superannuation fund managers. Indeed, as Macquarie Bank's CEO Alan Moss has stated, one of the central innovations of Macquarie Bank has been its recognition of increased demand for retail fund investments that the growth of the superannuation industry represents, designing a new product that can be packaged in the form of a retail fund to fit this new demand (Askew & Murray, 2004).

The Association for Superannuation Funds of Australia (ASFA) has noted that the growth in superannuation funds since the inception of compulsory employer superannuation under the Keating Government in 1994 means that there is an increased pool of capital available for infrastructure investment through PPPs. ASFA states that:

Importantly for the economy superannuation funds have a longer-term perspective than many other investors and may invest in some areas where the full investment return may take some time to be delivered. Accordingly superannuation funds are some of the largest investors in the private provision of infrastructure in the economy (ASFA, 2004).

Approximately 7% of Australia's superannuation pool of \$666 billion is placed in Australian infrastructure funds (Macquarie Bank, Babcock and Brown, Transurban), with the Motor Trades Association of Australia (MTAA) superannuation fund investing 25% of its money in infrastructure funds (ASFA, 2006:15-17).

This growth in superannuation funds goes hand-in-hand with securitisation – the process whereby securities (shares or corporate bonds) are replacing conventional bank debt as a cheaper and more convenient source of finance (Toporowski, 2001:64). In an interview with David Love for the book *Straw Polls Paper Money* (2001), David Clarke, the Director of Macquarie Bank property division, described how Macquarie Bank acts as an intermediary in the process of securitisation. The mortgage trust pioneered by Macquarie Bank in the early 1990s increased the supply of cheap finance to homebuyers, providing a new financial product to offer to superannuation fund managers. The process is described as follows:

Macquarie acquires from a non-bank home lender such as Aussie Home Loans a thousand separate home mortgages yielding on average, let us say, 8 per cent. Macquarie's purchase of these immediately and profitably puts Aussie Home Loans back in funds to lend again, and it provides Macquarie with some \$50 million in assets. These Macquarie promptly insures and bundles into a homogenous whole, to create out of the disparate collection of home mortgages something equivalent to a semi-government bond. The gilt-edged paper thus created may sell to a major superannuation fund or other institutional investor at a yield to the institution of 7 per cent. This the institution is happy to have: its alternative would be to put its money in government bonds at, say, 6.5 per cent (Love, 2001:95-96).

In this way liquidity is channelled from superannuation savings to provide home loans. Clarke stated that 'with the securitisation of home loans we are bringing the finer rates of the bond markets to the homebuyer. In this way we have transformed the face of housing investment' (Love, 2001:97). Initially in 1992-93, the difference between the interest rate on home loans provided in this way compared to a major trading bank was 4.25%. By 1999 the retail banks had clawed back some of the ground and the differential dropped to 1.75% (Love, 2001:96-97).

With regard to infrastructure, Macquarie Bank acts in a similar way – as an intermediary between government and superannuation investment funds, channelling the liquidity from superannuation savings into infrastructure. This is symptomatic of a broader shift in the financial system following deregulation, particularly evident in the area of service

delivery. Services such as nursing homes, childcare facilities and hospitals that were formerly financed by government are increasingly being delivered using finance sector intermediation and securitisation.

Throughout the 1990s and 2000s there has also been a trend towards surpluses of both the government sector and the household sector being invested in financial institutions and the stock market. The Federal government has thrown its surpluses into the stock market via the creation of the Futures Fund to finance retirement pensions of government employees⁴. The State governments have begun to undertake similar arrangements (Davies & Wade, 2006). The Federal government's 2006-7 budget announcement of tax free superannuation gives those aged over 55 a way of increasing their consumption and standard of living by channelling their income through the stock market and superannuation funds, having paid only 15% tax on income designated as super contributions (instead of the usual rate of income tax), which they can then immediately re-draw as a super payout (Gittins, 2006). The Reserve Bank of Australia (RBA) has argued that when non-bank savings, such as property and superannuation savings, which are often linked with the creation of securities in the stock market, are taken into account, Australia has a high level of personal savings by international standards (RBA, 2006:52-54). These structural factors have enabled the finance sector to generate recent remarkable increases of credit in Australia, with a growth rate up to 20-30% per year (Bell, 2004:113).

This structure of credit creation helps to provide a cheap source of liquidity for refinancing infrastructure and property trusts, generating income and preventing speculative financing units from necessarily turning into *ponzi* structures. As Toporowski has noted, the increases in asset prices have historically been due to increases in the flow of money into markets creating a 'rising tide' effect (Toporowski, 1999:1). The increasing flow of superannuation funds into the capital market is now having a fundamental influence on the economic environment that makes PPPs and infrastructure funds profitable. Toporowski (1999) and Hudson (2005) observe that this inflow of funds into capital markets from superannuation is increasing liquidity and causing asset price inflation

4 See <http://www.futurefund.gov.au/>

and reduced interest rates (long-term bond rates, to be more precise, because short-term rates depend upon a host of other influences). Superannuation savings are a central component in the key financial process of securitisation, a result of financial deregulation, which facilitates credit creation and PPPs.

These changes are sometimes said to comprise a 'financialisation' of society (Frankel 2002; Blackburn, 2006). The argument has strong resonance in Australia. As shown above, the capital markets and the financial engineers have become the intermediaries in a number of areas of infrastructure and service provision, such as PPPs, privatisation of public enterprises and the growth of private provision of social services.

A number of political economic concerns arise. One involves how superannuation is effectively made to work as a tax to pay for infrastructure. There is no problem with that in principle: indeed it is appropriate that our savings be used to finance the provision of public goods. However, the absurdity of the current arrangement is that the superannuation is channelled through a private financial institution like Macquarie Bank which then charges a management and performance fee for the service of providing the infrastructure, above what the government would charge for providing the public good. Seen from this perspective, Macquarie Bank's profits represent a rent charged for channelling superannuation through the financial sector rather than using taxation to directly finance infrastructure provision.

In the context of asset price inflation, the role of the capital markets as a source of credit also has significant implications for monetary policy. As Toporowski notes:

This then makes the expenditure of even indebted companies less immediately affected by changes in bank interest rates, because general changes in interest rates cannot affect the rate of discount or interest paid on securities already issued. Increases in short-term interest rate to reduce general price inflation can then be easily evaded by companies financing themselves by issuing longer-term securities, whose interest rates tend to be more stable... Their [interest rates] principal anti-inflationary effect [is] through the reduced expenditure of households... Hence, capital market inflation reduces anti-inflationary monetary policy to

squeezing the expenditure of households and smaller companies (Toporowski, 1999a:8-9).

Monetary policy has always tended to have its biggest impacts on the less powerful institutions in society, such as households with mortgage properties and indebted small businesses; but these are circumstances in which the relative immunity of bigger businesses and financial institutions is enhanced.

Other political economic effects relate to the effects of the baby boomer generation's imminent retirement. Demographically speaking, the baby-boomer generation has been described as 'a pig going through a python': the question is 'what happens when the pig gets to the end of the python?' (*The Economist* March 2006). In other words, what will happen when this generation begins to draw on its savings, creating an outflow of capital from the market, which is potentially disproportionate to the inflow of funds from the next generation's savings? This financial structure, based on the flow of liquidity into the stock market to create asset price inflation, has an inherent potential for implosion when the baby boomer generation draws on its retirement savings, creating a flow of capital out of the stock-market.

It is pertinent here to note that the 'ageing crisis' which the creation of compulsory superannuation was designed to counter, is not a problem of inadequate savings (King 1999, Bryan 2004). The transfer of income between the working population and the retired population can be made through ownership of shares and claims on profits, or it can be done through taxation. The mode of transfer of income is not the problem; rather it is an issue of productivity, which underpins output, consumption and the standard of living the retired can expect. If too much capital (whether it comes from savings or otherwise) is chasing too few goods, there may be general price inflation that devalues savings. The debate around state finance should therefore be based on formulating strategies to increase productive investment rather than on balancing budgets and saving for retirement.

Finally, it is also important to note that the state-aided structure of liquidity generation and PPP financing of which Macquarie Bank has taken advantage has powerful distributive affects. It benefits those who

own property and financial assets. It is a structure of credit creation where assets are leveraged to generate liquidity and income. It is a political economic structure that cedes power over the creation of credit to the private finance sector. This has the potential to create a situation where the young, those on insecure income, renters and wage earners in general experience a structural disadvantage relative to a rising class of asset owners and those controlling the major institutions in the finance sector. The institutions of finance capital have always tended to reinforce the concentration and centralisation of capital (as noted by Hilferding, 1981); but the distributional inequities that result are particularly pronounced in the current era.

Conclusion

Macquarie Bank is symptomatic of an emergent structure of credit creation that ties together the threads of securitisation, superannuation and asset price inflation to finance infrastructure. Identifying the flow of funds helps to elucidate this structure, highlighting its volatility, power relations and distributive effects. This holistic approach reveals what is at stake with the emergence of private finance as a dominant institution of credit creation and infrastructure provision. Apart from the redistribution of income, wealth and power that is involved, there are reasons for deep concern about the stability and sustainability of this model of finance capital.

Macquarie Bank's growth is indicative of a shift towards private sector infrastructure funding and towards speculative finance that has the potential to destabilise the financial system. This phenomenon may increase the likelihood and necessity of a 'lender of last resort' intervention from the central bank or from the parent bank to rescue the funds. The commitment by successive Australian governments to the doctrine of budget surpluses and minimal demands on the capital markets has led infrastructure financing to be privatised. Ironically, this has put service provision and the investment structure in Australia on a more unstable footing should there be any challenge to liquidity or a significant change in market conditions.

The copying of the Macquarie Bank model by other institutions adds to these concerns, particularly because of the substantial fee income they cream off the economic surplus. The perception of the Macquarie bankers as 'the smartest guys in the room' is leading other institutions to follow suit: even Queensland property developers are now basing their business models on Macquarie. What may 'work' for infrastructure (at least from a relatively stable yield perspective) could be more hazardous when applied to hotel and leisure industries, for example, with more inherent market uncertainties. It also intensifies the redistribution of income from productive investment to those institutions applying high and multiple fees for the management of capital.

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