Corporatist Scam in Dulles Corridor

How Not To Build a Commuter Railroad

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EIRNS/Stuart Lewis

The Washington and Old Dominion railroad (shown at top in 1960) could have served hundreds of thousands of commuters now living in the city's western suburbs in Virginia, but the rails were torn up in 1968 to create the W&OD bike path.

Late last month, without any warning, officials of the Bush Administration announced that they were pulling Federal support and money from a project to extend commuter rail from Washington,D.C. to Dulles International Airport, in the Northern Virginia suburbs. The action was even more surprising, since it came in the middle of election year in which Virginia was viewed as a key battleground state, and where the vast majority of voters support the project.

As the initial shock wears off, and as local politicians scramble to try to save the project, it would appear that the action by the Federal Transportation Administration is aimed at creating the optimal conditions for the privatization of the new rail link in a huge debt-farming boondoggle of the type supported by New York Mayor Michael Bloomberg, and his controllers, Felix Rohatyn and George Shultz.

For more than a decade, a plan to extend the D.C. metropolitan-area rail mass transit system, known as Metro, to the Northern Virginia suburbs has been a "no brainer." The few major highways into the District and close-in suburbs resemble huge parking lots during rush hours, as the real estate bubble has placed almost 500,000 new residents in the area over the last decade. The right-of-way, along the state-operated Dulles Toll Road, was already in the hands of government.

Nonetheless, the cost of the rail extension, now calculated to be more than $5 billion, was used as an argument to delay its construction. Various studies showed that fares charged to riders would never be able to support the cost of financing, while aspersions were also cast on the financial viability of the cash-strapped Metro to both pick up the slack and operate the new line. While Virginia could issue capital bonds to contribute its share of the project, it was also argued that taxpayers in other parts of the state would not support the use of their monies for transportation projects that did not benefit them.

Instead, the allies of Rohatyn and Shultz, initially in the Clinton Administration, and then the Bush Administration, began beating the drum for the idea that a "public-private partnership" (PPP) were better suited to build and operate the rail line. They pointed to the example of the Dulles Greenway—a 14-mile extension of the state-run Dulles Toll Road into Loudoun County—built and operated by private interests.

The Greenway Scam

The Greenway, much admired by Rohatyn and Wall Street, was set up as a debt-farming scam for the benefit of Wall Street and Middleburg, Virginia's Ohrstrom family; they made millions off tax breaks and financing deals, and then sold the road off to other privateers. Meanwhile, the state was forced, not once, but twice, to bail out the venture when it could not even meet its interest payments, renegotiating the terms of the deal with Maggie Ohrstrom and her partners.

As with Mussolini's corporatist infrastructure program, on which this scam was modelled, the financiers made the money, while the taxpayers and users of the infrastructure paid through the teeth. Despite laudatory press coverage for the first private toll road in the United States since the 18th Century, the facts speak for themselves: The road was completed nearly five years behind schedule, at more than double the estimated costs, and three times what it was projected to cost if the state had built it. Since it opened in 1995, the Greenway tolls have been jacked up more than 200%, to an astounding $3.20 for a one way toll, and they are projected to rise even further.

Clearly, some financiers thought they could do the same with the much-needed rail line.

And Now the Railway?

The first proposed plan to build the new rail line called for Metro to finance and build it. That was a non-starter for the PPP backers. Instead, under the eye of Wall Street, the Bush Administration eventually came up with the most screwball scheme possible. Rather than Metro, they substituted the Metropolitan Washington Airports Authority (MWAA), which operates Dulles, Washington National, and Baltimore-Washington airports, to finance, build, and operate the rail line. MWAA had no experience in running a railroad, but, with its ownership of the airports and adjacent land, it had numerous assets to secure the project's debt.

To pay for the financing, MWAA was to be given the authority to issue revenue bonds, financed by the proceeds of the state-run Dulles Toll Road, which would be turned over by the state to the MWAA. The MWAA would then hire Metro to actually run the rail line. Bechtel, which was to build the project, was given an ownership stake in it, as one of the private partners under the same "public-private partnership" act passed by the Virginia General Assembly to authorize the state's participation in the original Greenway scam.

It was this bizarre scheme that the Feds blew up last month, claiming that they were now skeptical of the MWAA's ability to build and operate a rail line. This opens the door for a totally private operation to take over the project.

On cue, a spokesman for the Carlyle Group, the Wall Street elite investment fund that includes former President George Bush among its functionaries, told the *Washington Post* that it would be interested in taking over total control of project—provided that the state would be willing to sell the Dulles Toll Road to them as part of the package, at a low bargain-basement price. They also wanted to have control of the fare rates on the new rail line, and the tolls on the roadway, to pay for their billions in bonds. (At least one source has estimated that, with the financing included, the total cost of the project would balloon to well over $12 billion.)

State and Federal elected officials, including Congressmen Jim Moran (D-Va.) and Frank Wolf (R-Va.), have been opposed to such a fire sale of public infrastructure, the latter because, sources report, he believes he was duped by the Greenway scam which he once supported. As of this writing, Wolf and others remain opposed to any sale of the Dulles Toll Road, but it is unclear whether their opposition could stand in the way of such a sale if it is the only way to work a deal with Carlyle or some other financier group to build the rail line.

There Is Another Way

The ongoing global financial crash, with its crash of real property titles, has collapsed tax revenues for state and local governments around the country. Although this has opened the door for the Mussolini-style corporatist financing and privatization of infrastructure, as supported by New York Mayor Bloomberg and his controllers, it also means that the usual methods through state or local-government bonding for large capital infrastructure are unavailable from a bankrupt banking system that can no longer even insure government bonding and offer "favorable" financing rates. The choice, however, is not between privatization scams and nothing, as privateers represent it.

Public infrastructure should never be funded on a "pay as you go basis," or from fee-generated revenues. If properly designed, such infrastructure pays for itself over time, through its ability to increase the levels of productive economic activity over its life cycle, usually in the span of a generation or more. It is operated for that purpose—increasing effective economic throughput in an economy—and must never be operated either for profit or to support financing costs, through increases in fares, fees, or tolls.

In the case of a high-speed commuter rail line, like the one under discussion for the Dulles Corridor, its costs are more than justified by the savings from reduced lost time caused by traffic congestion.

As long as such projects are financed through market-rate debt instruments, backed by fees or fares, they will tend to add burdensome and unncessary costs to projects. When they are operated as debt-farming scams, as is proposed by Bloomberg, California Gov. Arnold Schwarzenegger, and other coporatist fascists, as in the case of the Greenway, the building of the infrastructure (to the extent that it takes place), is secondary to the looting operations the projects facilitate.

The only way to get the job done right, is to use low-interest, directed credit for the purpose, just as Lyndon LaRouche has proposed, and as Franklin Roosevelt did in the 1930s. Only the Federal government can issue and properly distribute such credit, although state and local governments can, and must, administer the projects. The only way that a project, extending rail to Dulles and later, beyond, will actually be built in the interests of the citizens in the region, is through such FDR-LaRouche financing methods. As the Greenway shows, any other way is a corporatist scam of one form or another, for the benefit of wealthy financiers.