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## Government Destroying Free Markets With Public-Private Partnerships

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We are hearing more and more lately about Public-Private Partnerships (PPPs) as the ideal way to administer the areas of healthcare, transportation, public buildings, water and the environment. President Obama and other politicians are proudly announcing the launch of new partnerships with the private sector. What are PPPs? They are contracts between government and private entities where both share in providing a good or service to the public, while divvying up assets, risks and profits. The average American city now [employs](#)<sup>1</sup> PPPs in 23 out of 65 municipal services. In some countries, the [majority](#)<sup>2</sup> of civil infrastructure projects are contracted as PPPs. Sounds good, right, for government to assign more areas to the private sector? In theory it seems like less government. In reality it works out to be government granting monopolies to favored corporations which no longer act like free market entities and are controlled substantially by government.

Cash-strapped governments maxed out on taxes and spending have figured out that PPPs are a sneaky way around being forced to cut costs. Government officials deceptively describe PPPs as a way to “overcome budgetary constraints,” using the promise of more private sector involvement to make their junk science ideas of “[sustainability](#)”<sup>3</sup> projects more acceptable. PPPs allow governments to continue launching large ambitious expensive projects by using a private entity to put up the initial cost in exchange for guaranteed returns. Unfortunately, government ends up in more debt in the long-term because the private entity no longer acts like a private entity in a PPP.

There are a myriad of problems with PPPs. Some or all of the risk is transferred from the private sector to taxpayers, diminishing the incentive for the private entity to perform well. Optimally, the risk should instead be on private financiers who have a direct stake in the outcome. With government guaranteeing payment, there is less motivation for the private entity to cut costs. The private partner has little risk of going under since government will bail it out. Of PPPs that reach the implementation

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<sup>1</sup> <http://ncppp.org/presskit/topten.shtml>

<sup>2</sup> [http://www.honolulutraffic.com/PPP\\_panos.pdf](http://www.honolulutraffic.com/PPP_panos.pdf)

<sup>3</sup> [http://townhall.com/columnists/rachelalexander/2011/07/02/agenda\\_21\\_conspiracy\\_theory\\_or\\_real\\_threat/page/full/](http://townhall.com/columnists/rachelalexander/2011/07/02/agenda_21_conspiracy_theory_or_real_threat/page/full/)

stage, [at least 50%](#)<sup>4</sup> end up in renegotiations of the contract due to unexpected circumstances such as less revenue than projected.

One disturbing characteristic of PPPs is the government's ability to seize private property through eminent domain and transfer it to another private entity. Government can pick and choose favorites, giving its preferred private partner privileges over other private entities, even eliminating competition entirely by granting monopolies. Furthermore, it is no secret that government can tailor bid specifications in such a way that only one private entity qualifies.

With government as a partner, private companies lose some of their decision-making authority. Their actions are less likely to be based upon free market considerations. Another problem with PPPs is the lack of transparency. Private companies are not subject to public records laws. PPPs provide a way for government to hide its actions.

Even when a PPP is set up so more of the risk is allocated to the private entity, if the entity fails leaving private investors in the lurch, government often ends up buying back the service or infrastructure. In England, government is taking over more of the risk in PPPs as the debt markets dry up for private companies.

The number of failed PPPs is piling up. A Norwegian study of 258 large PPP projects in 20 countries found that 90% had [cost overruns](#) of over 20-45%. Boston's [Big Dig](#)<sup>5</sup> transportation project ballooned from an estimated cost of \$2.2 billion to \$14.6 billion. The Connector 2000 toll road project in South Carolina [defaulted](#)<sup>6</sup> on debt service and filed for bankruptcy. A toll road project in Indiana is [in trouble](#)<sup>7</sup>, with a reported \$209 million deficit in 2010. A toll road for trucks in Texas, [Camino Columbia](#)<sup>8</sup>, produced only 10% of the traffic forecasted, forcing the private entity to default on the debt and file bankruptcy after lenders foreclosed. The city of Chicago was caught [leasing](#)<sup>9</sup> its parking meters to a private entity for nearly \$1 billion less than they were worth in a hastily accepted deal. Four PPPs for water [failed](#)<sup>10</sup> in Puerto Rico, Trinidad, Argentina and Bolivia. The [Cross-City Tunnel](#) in Sydney, Australia attracted only one-third of the expected traffic, resulting in the private entity filing bankruptcy.

Some proposed partnerships are now being [scuttled](#)<sup>11</sup> as it becomes apparent they would be financial mistakes. The proposed NAFTA Superhighway crossing the U.S. from Mexico to Canada has been [mostly abandoned](#)<sup>12</sup>. European governments that embraced PPPs faster than other parts of the world are feeling the [effects](#)<sup>13</sup> now with debt crises. Several countries including Ireland are canceling existing PPPs. The World Bank has egg on its face; after promoting PPPs in developing countries for years, the projects have failed to deliver investments.

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<sup>4</sup> <http://www.scribd.com/doc/50773364/Public-Private-Partnerships-Risks-To-The-Public-and-Private-Sector>

<sup>5</sup> [http://reason.org/files/transportation\\_mega\\_projects\\_risk\\_big\\_dig.pdf](http://reason.org/files/transportation_mega_projects_risk_big_dig.pdf)

<sup>6</sup> <http://www.tollroadsnews.com/node/4808>

<sup>7</sup> <http://www.craigslist.com/article/20110801/STAFFBLOG03/110809993/indiana-toll-roads-209-million-shortfall-may-have-ramifications-for-detroit-river-bridge-project#>

<sup>8</sup> [http://www.ncppp.org/councilinstitutes/calif\\_presentations/poole.pdf](http://www.ncppp.org/councilinstitutes/calif_presentations/poole.pdf)

<sup>9</sup> [http://www.huffingtonpost.com/2009/06/02/inspector-general-rips-pa\\_n\\_210327.html](http://www.huffingtonpost.com/2009/06/02/inspector-general-rips-pa_n_210327.html)

<sup>10</sup> [http://www.eoearth.org/article/Support\\_and\\_opposition\\_of\\_public-private\\_partnerships#gen9](http://www.eoearth.org/article/Support_and_opposition_of_public-private_partnerships#gen9)

<sup>11</sup> <http://www.infrastructurist.com/2009/10/06/public-private-partnerships-another-one-bites-the-dust/>

<sup>12</sup> [http://townhall.com/columnists/rachelalexander/2011/08/12/rick\\_perrys\\_nafta\\_superhighway\\_problem/page/full/](http://townhall.com/columnists/rachelalexander/2011/08/12/rick_perrys_nafta_superhighway_problem/page/full/)

<sup>13</sup> <http://www.guardian.co.uk/business/2011/apr/24/portugal-greece-european-debt-crisis>

The General Accounting Office (GAO) issued a report [critical](#)<sup>14</sup> of PPPs in 2008. "There is no 'free' money in public-private partnerships," GAO's report stated. "They are potentially more costly to the public and it is likely that tolls on a privately operated highway will increase to a greater extent than they would on a publicly operated toll road." This is due to government's failure to thoroughly review the costs and benefits in advance, rashly entering PPPs in order to receive large payments upfront to solve short-term problems without properly considering the long-term implications.

Even the federal Department of Transportation (DOT), which GAO accused of rushing into PPPs, cannot hide the track record of PPPs. A recent DOT study acknowledged that PPPs in the area of transportation have a [higher cost](#)<sup>15</sup> of capital than public financing.

Do not be fooled by the rhetoric of politicians and bureaucrats claiming PPPs increase privatization. PPPs are nothing more than a new name slapped on the same old concepts of government-enabled monopolization and government control over business. Directing a few large corporations to dominate the market is not the same as a free market. Corporations want to keep out competition, not increase it. Some critics go so far as to accuse PPPs of being part fascist and part socialist due to the quasi-state ownership of the means of production. A real private sector solution would be to get government out of many of these areas entirely.

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<sup>14</sup> <http://www.gao.gov/new.items/d0844.pdf>

<sup>15</sup> <http://www.oig.dot.gov/sites/dot/files/PPP%20Final%20Report%207-28-2011%20508%20PDF.pdf>