PRIVATIZING THE PUBLIC SECTOR:

Two books expose the defects of Public-Private Partnerships

Review by Keith Reynolds

***Public Service, Private Profits:** The Political Economy of Public Private Partnerships in Canada*, by John Loxley with Salim Loxley, Fernwood Publishing, 232 pages, $24.95, available from local bookstores or directly from the publisher at http://www.fernwoodpublishing.ca/

***Global Auction of Public Assets:** Public sector alternatives to the infrastructure market and Public-Private Partnerships*, by Dexter Whitfield, Spokesman Books, 380 pages, available from Amazon Books for $56.16 or directly from Spokesman Books for £18 plus shipping and handling. (http://www.spokesmanbooks.com/)

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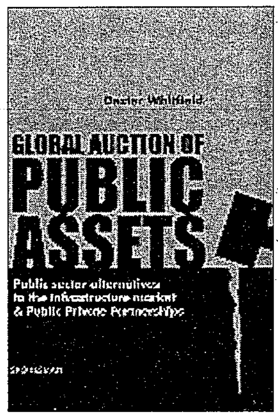
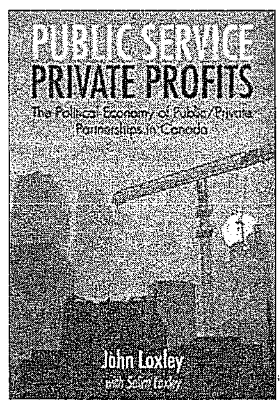
In the last 20 years, Canada has moved billions of dollars worth of public infrastructure and services into private hands. Nationally, and in a number of provinces, public-private partnerships (P3s) have become the preferred option for governments to do business. Roads, bridges, schools, hospitals, water and wastewater services, and even some social services have all been turned over to private companies in multi-decade P3s.



How has this worked out for us? The problem is that the same people who put these deals together also write their own evaluations of the projects. Not surprisingly, when privatization agencies like Partnerships B.C. evaluate their own work, they conclude in value for money reports that they have done a pretty swell job.

Happily, two important new books have been published recently that take a more critical view of the impact of privatization and public-private partnerships.



In *The Global Auction of Public Assets*, Dexter Whitfield provides an enormous compilation of information examining P3s, both historically and around the world.

Whitfield outlines how Western countries slashed their spending on infrastructure, thus creating an "infrastructure crisis." Neoliberal governments then looked to private investment to solve the crisis through public-private partnerships. "Infrastructure spending," says Whitfield, "didn't just fall; it was a result of public and fiscal decisions on taxation, user fees, and spending priorities."

The decision to promote private management of public services developed in the context of a new free trade environment. Over the last 12 years, Whitfield says, we have seen 1,500 different multilateral and bilateral trade agreements create new international guarantees for private investors.

He describes the multiple ways that private firms profit from providing public services. First, unlike almost any other government action, P3 firms are guaranteed inflation protection. They profit from the development of projects, then profit again by re-financing their projects after the construction stage. Finally, they make even more money from selling their equity in the projects.

In effect, P3s have changed the nature of public services from meeting the needs of citizens to becoming a financial casino for international companies. Whitfield describes pension funds around the world getting involved with P3s, including Canadian pension funds buying into Chilean and U.K. projects.

The book outlines the high rate of failure for P3s, and the fact that these failures rarely damage the private companies, which are then able to renegotiate better deals for themselves.

Whitfield describes a process Canadians will recognize. "The process of financialization and individualization has affected important parts of daily life — tolls for roads, tunnels and bridges; tuition fees for college students; charges for television in hospitals; charges for home care; charges for music and other 'no-core' activities in schools."

Most important, the book describes how P3s undermine democracy. This is a private sector strategy to "systematically reduce the responsibility, capability, and power of state provisions and delivery of services. The object is to weaken democratic institutions by fragmenting collective, area-wide public authority provision into separate stand-alone companies and trusts running individual schools and hospitals, organized and operated with business structures and values, which, in turn, will be unable to resist further phases of privatization."

In Canada, CCPA research associate John Loxley has been studying P3s for more than 15 years. Similar to Whitfield's research, Loxley concludes that, "while P3s are commonly presented as having arisen out of the growing fiscal constraints faced by governments, one can trace their origin back to the pro-privatization policies of the late 1970s and 1980s, when governments in North America and the U.K. pushed heavily for deregulation, policy decentralization, cutting the size of government, outsourcing public services, and privatizing important utilities such as gas, electricity, and communications."

Loxley has conducted individual studies into many P3 projects, several of which were the earliest and worst examples. Projects were pushed through in schools and infrastructure without even a pretense of evidence they had any advantage over public procurement.

In some cases, the situation with P3s is actually getting

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Governments slash public spending so as to give P3s spurious benefit

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worse. Loxley describes the history of the P3-built Confederation Bridge crossing between New Brunswick and Prince Edward Island. He observes that, in this project, which opened in 1997, "the federal government's stipulation that about 90% of the project's labour force and materials come from the region was, by all accounts, achieved." Today, however, thanks to the rules of internal and international trade agreements, giving preference in a P3 to local workers and businesses would be prohibited.

For many governments in Canada, the motive for P3s (as with the U.K.) was to get the projects "off book" and to give the appearance of lower debt levels. Loxley relates how, time after time, these governments were "mugged" by a gang of tough accountants who told them that debt was debt, regardless of whether you borrowed the money or signed a long-term contract with a private company.

Loxley challenges the key justifications for P3s. He questions whether risk is really being transferred in these projects. He quotes a report from the rating agency Standard and Poors, which found that investors in P3s face "a relatively benign risk" and that penalty clauses for non-delivery by private partners are "less than rigorous."

The situation is not getting any better, and Loxley concludes that the risk analysis for these projects "will most likely continue to be a virtually impenetrable black box..." In case after case, he outlines that governments pay more for P3s than they would if they had borrowed the money and done the job themselves.

Helpfully, Loxley tackles the complex issue of how privatization agencies justify P3s with value-for-money reports and public sector comparators. This is a useful chapter for anyone interested in these technical issues. Loxley describes a biased methodology that almost inevitably leads to privatization. He concludes with a section outlining questions to ask in appraising and opposing P3s.

Looking back over the years, Loxley concludes: "The introduction of P3s in Canada has been marked by three distinctive phases since the early 1990s: 1) a neoliberal effort to reduce the size of the public sector; 2) a rationale based on the supposed economic and financial superiority of P3s over conventional approaches; and 3) the re-emergence of a purely political rationale."

Both writers raise the likelihood that the recent economic crisis may actually promote the use of P3s as governments cut back their stimulus spending in a misguided attempt to balance their budgets. Whitfield quotes the head of one international conglomerate as saying that the next three years could turn out to be "a golden age for private equity."

Whitfield and Loxley agree that it is critical to make these projects more transparent to allow citizens to understand what is actually happening to their public services and infrastructure.

Both writers make clear that the struggle to keep public services public is political. Loxley believes the fight for public services "can be achieved by the election of governments not ideologically driven to expand the private sector at public expense, or by an educated and politically mobilized citizenry putting pressure on elected governments to avoid wasteful P3s."

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Dexter Whitfield is Director of European Services Strategy Unit and Adjunct Associate Professor, Australian Institute for Social Research, University of Adelaide.

John Loxley is a Professor in the Department of Economics at the University of Manitoba, where he specializes in international finance and development and community economic development. He is a CCPA Research Associate and has published on topics such as alternative budgets, economic development, and social justice, as well as P3s.

(Keith Reynolds is a CCPA Research Associate living in British Columbia. He works for the Canadian Union of Public Employees as a National Research Representative.)

The 10 Commandments of our Corporate Rulers

For Citizens

Thou shalt have no rights to food, shelter, water, or a safe environment.

Thou shalt have no right to gainful work or to economic security.

Thou shalt have no purpose other than to be dutiful employees and consumers in the global marketplace.

Thou shalt elect governments whose primary role shall be to serve and protect transnational corporations.

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For Governments

Thou shalt give up all responsibility to serve and protect your citizens and all other such duties and obligations required by your country's Constitution.

Thou shalt consider your first duty and obligation to promote the freedom of transnational corporations and accordingly to limit the freedom of your citizens.

Thou shalt open up the natural resources of your country to the transnational corporations for their exploitation and profit.

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For Corporations

If thou are small and local, thou shalt allow your business to be taken over by a transnational corporation.

If thou art global, thou shalt demand the absolute right in every country to enter and leave whenever it is profitable for you to do so.

Thou shalt feel free to ravage the environment and eliminate jobs when required by the need to maximize profits and enrich your shareholders — the overriding goal towards which all governments and citizens must assist you as their highest moral duty.

—Vandana Shiva,
The Ecological Cost of Economic Globalization