The Bait and Switch of Public-Private Partnerships

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This being the age of public relations, the genteel term "public-private partnership" is used instead of corporate plunder. A "partnership" such deals may be, but it isn't the public who gets the benefits.

We'll be hearing more about so-called "public-private partnerships" in coming weeks because the new U.S. president, Donald Trump, is promoting these as the basis for a promised $1 trillion in new infrastructure investments. But the new administration has also promised cuts to public spending. How to square this circle? It's not difficult to discern when we recall the main policy of the Trump administration is to hand out massive tax cuts to big business and the wealthy, and provide them with subsidies.

Public-private partnerships are one of the surest ways of shoveling money into the gaping maws of corporate wallets, used, with varying names, by neoliberal governments around the world, particularly in Europe and North America. The result has been disastrous — public services and infrastructure maintenance is consistently more expensive after privatization. Cuts to wages for workers who remain on the job and increased use of low-wage subcontractors are additional features of these privatizations.

The rationale for these partnerships is, similar to other neoliberal prescriptions, ideological — the private sector is supposedly always more efficient than government. A private company's profit incentive will supposedly see to it that costs are kept under control, thereby saving money for taxpayers and transferring risk to the contractor. In the real world, however, this works much differently. A government signs a long-term contract with a private enterprise to build and/or maintain infrastructure, under which the costs are borne by the contractor but the revenue goes to the contractor as well.

The contractor, of course, expects a profit from the arrangement. The government doesn't — and thus corporate expectation of profits requires that revenues be increased and expenses must be cut. Less services and fewer employees means more profit for the contractor, and because the contractor is a private enterprise there's no longer public accountability.

Public-private partnerships are nothing more than a variation on straightforward schemes to sell off public assets below cost, with working people having to pay more for reduced quality of service. A survey of these partnerships across Europe and North America will demonstrate this clearly, but first a quick look at the Trump administration's plans.

Corporate subsidies, not $1 trillion in new spending

The use of the word "plans" is rather loose here. No more than the barest outline of a plan has been articulated. The only direct mention of his intentions to jump-start investment in infrastructure is found in President Trump's campaign web site. In full, it states the plan "Leverages public-private partnerships, and private investments through tax incentives, to spur $1 trillion in infrastructure investment over ten years. It is revenue neutral." The administration's official White House web site's sole mention of infrastructure is an announcement approving the Keystone XL and Dakota Access pipelines without environmental reviews, and an intention to expedite environmental reviews for "high priority infrastructure projects."

Wilbur Ross, an investment banker who buys companies and then takes away pensions and medical benefits so he can flip his companies for a big short-term profit, and who is President Trump's pick for commerce secretary, along with a conservative economics professor, Peter Navarro, have recommended the Trump administration allocate $137 billion in tax credits for private investors who underwrite infrastructure projects. The two estimate that over 10 years the credits could spur $1 trillion in investment. So the new administration won’t actually spend $1 trillion to fix the country’s badly decaying infrastructure; it hopes to encourage private capital to do so through tax cuts.

There is a catch here — private capital is only going to invest if a steady profit can be extracted. Writing in the New Republic, David Dayen put this plainly:

“Private operators will only undertake projects if they promise a revenue stream. You may end up with another bridge in New York City or another road in Los Angeles, which can be monetized. But someplace that actually needs infrastructure investment is more dicey without user fees. So the only way to entice private-sector actors into rebuilding Flint, Michigan’s water system, for example, is to give them a cut of the profits in perpetuity. That’s what Chicago did when it sold off 36,000 parking meters to a Wall Street-led investor group. Users now pay exorbitant fees to park in Chicago, and city government is helpless to alter the rates.”

The Trump plan appears to go beyond even the ordinary terms of public-private partnerships because it would transfer money to developers with no guarantee at all that net new investments are made, according to an Economic Policy Institute analysis. The EPI report asks several questions:

“[I]t appears to be a plan to give tax credits to private financiers and developers, period. The lack of details here are daunting and incredibly important. For starters, we don’t know if the tax credit would be restricted to new investment, or if investors in already existing [public-private partnerships] are eligible for the credit. If private investors in already existing PPP arrangements are eligible, how do we ensure these tax credits actually induce net new investments rather than just transferring taxpayer largesse on operators of already-existing projects? Who decides which projects need to be built? How will the Trump administration provide needed infrastructure investments that are unlikely to be profitable for private providers (such as building lead-free water pipes in Flint, MI)? If we assume tax credits will be restricted (on paper, anyhow) to just new investment, how do we know the money is not just providing a windfall to already planned projects rather than inducing a net increase in how much infrastructure investment occurs?”

Critiques of this scheme can readily be found on the Right as well. For example, Douglas Holtz-Eakin, a former head of the Congressional Budget Office and economic adviser to John McCain’s 2008 presidential campaign, told The Associated Press, “I don’t think that is a model that is going be viewed as successful or that you can use it for all of the infrastructure needs that the U.S. has.”

Corporations plunder, people pay in Britain

Britain’s version of public-private partnerships are called “private finance initiatives.” A scheme concocted by the Conservative Party and enthusiastically adopted by the New Labour of Tony Blair and Gordon Brown, the results are disastrous. A 2015 report in *The Independent* reveals that the British government owes more than £222 billion to banks and businesses as a result of private finance initiatives. Jonathan Owen reports:

“The startling figure – described by experts as a ‘financial disaster’ – has been calculated as part of an Independent on Sunday analysis of Treasury data on more than 720 PFIs. The analysis has been verified by the National Audit Office. The headline debt is based on ‘unitary charges’ which start this month and will continue for 35 years. They include fees for services rendered, such as maintenance and cleaning, as well as the repayment of loans underwritten by banks and investment companies.

Responding to the findings, [British Trades Union Congress] General Secretary Frances O’Grady said: ‘Crippling PFI debts are exacerbating the funding crisis across our public services, most obviously in our National Health Service.’ ”

Under private finance initiatives, a consortium of private-sector banks and construction firms finance, own, operate and leasethe formerly public property back to the U.K. taxpayer over a period of 30 to 35 years. By no means do taxpayers receive value for these deals — and the total cost will likely rise far above the initial £222 billion cost. According to *The Independent*:

“The system has yielded assets valued at £56.5bn. But Britain will pay more than five times that amount under the terms of the PFIs used to create them, and in some cases be left with nothing to show for it, because the PFI agreed to is effectively a leasing agreement. Some £88bn has already been spent, and even if the projected cost between now and 2049/50 does not change, the total PFI bill will be in excess of £310bn. This is more than four times the budget deficit used to justify austerity cuts to government budgets and local services.”

The private firms can even flip their contracts for a faster payday. Four companies given 25-year contracts to build and maintain schools doubled their money by selling their shares in the schemes less than five years into the deals for a composite profit of £300 million. Clearly, these contracts were given at well below reasonable cost.

One of the most prominent privatization disasters was a £30 billion deal for Metronet to upgrade and maintain London’s subway system. The company failed, leaving taxpayers with a £2 billion bill because Transport for London, the government entity responsible for overseeing the subway, guaranteed 95 percent of the debt the private companies had taken out. Then there is the example of England’s water systems, directly sold off. The largest, Thames Water, was acquired by a consortium led by the Australian bank Macquarie Group. This has been disastrous for rate payers but most profitable to the bank. An Open University study found that, in four of the five years studied, the consortium took out more money from the company than it made in post-tax profits, while fees increased and service declined.

As for the original sale itself, the water companies were sold on the cheap. Although details of the business can be discussed by “stakeholders,” the authors conclude, the privatization itself remains outside political debate, placing a “ring-fence” around the issues surrounding the privatization, such as the “politics of packaging and selling households as a captive revenue stream.” The public has no choice when the water provider is a monopoly and thus no say in rates.

Incredibly, Prime Minister Theresa May and the Tories intend to sell off more public services to Macquarie-led consortiums.

Corporations plunder, people pay across Europe

Privatization of water systems has not gone better in continental Europe. Cities in Germany and France, including Paris, have taken back their water after selling systems to corporations. The city of Paris’ contracts with Veolia Environment and Suez Environment, expired in 2010; during the preceding 25 years water prices there had doubled, after accounting for inflation, according to a paper prepared by David Hall, a University of Greenwich researcher. Despite the costs of taking back the water system, the city saved €35 million in the first year and was able to reduce water charges by eight percent. Higher prices and reduced services have been the norm for privatized systems across France, according to Professor Hall’s study.

German cities have also “re-municipalized” basic utilities. One example is the German city of Bergkamen (population about 50,000), which reversed its privatization of energy, water and other services. As a result of returning those to the public sector, the city now earns €3 million a year from the municipal companies set up to provide services, while reducing costs by as much as 30 percent.

Water is big business. Suez and Veolia both reported profits of more than €400 million for 2015. Not unrelated to this is the increasing prominence of bottled water. Bottled water is dominated by three of the world’s biggest companies: Coca-Cola (Dasani), PepsiCo (Aquafina) and Nestlé (Poland Springs, Deer Park, Arrowhead and others). So it’s perhaps not surprising that Nestlé Chairman Peter Brabeck-Letmathe infamously issued a video in which he declared the idea that water is a human right “extreme” and that water should instead have a “market value.”

One privatization that has not been reversed, however, is Goldman Sachs’ takeover of Denmark’s state-owned energy company Dong Energy. Despite strong popular opposition, the Danish government sold an 18 percent share in Dong Energy to Goldman Sachs in 2014 while giving the investment bank a veto over strategic decisions, essentially handing it control. The bank was also given the right to sell back its shares for a guaranteed profit. Goldman Sachs has turned a huge profit already — two years after buying its share, Dong began selling shares on the stock market, and initial trading established a value for the company twice as high as it was valued for purposes of selling the shares to Goldman. In other words, Goldman's shares doubled in value in just two years — a $1.7 billion gain.

Danes have paid for this partial privatization in other ways as well. Taking advantage of the control granted it, Goldman demanded lower payments to Danish subcontractors and replaced some subcontractors who refused to use lower-paid workers.

Corporations plunder, people pay in Canada

Canada's version of public-private partnerships has followed the same script. A report by the Canadian Centre for Policy Alternatives flatly declared that

"In every single project approved so far as a P3 in Ontario, the costs would have been lower through traditional procurement if they had not inflated by these calculations of the value of 'risk.' The calculations of risk could just as well have been pulled out of thin air — and they are not small amounts."

Not that Ontario is alone here. Among the examples the Centre provides are a hospital, Brampton Civic, that cost the public $200 million more than if it had been publicly financed and built directly by Ontario; the Sea-to-Sky Highway in British Columbia that will cost taxpayers $220 million more than if it had been financed and operated publicly; bailouts of the companies operating the city of Ottawa's recreational arenas; and a Université de Québec à Montréal project that doubled the cost to $400 million.

A separate study by University of Toronto researchers of 28 Ontario public-private partnerships found they cost an average of 16 percent more than conventional contracts.

Corporations plunder, people pay in the United States

In the United States, a long-time goal of the Republican Party has been to privatize the Postal Service. To facilitate this, a congressional bill signed into law in 2006 required the Postal Service to pre-fund its pension costs for the next 75 years in only 10 years. This is unheard of; certainly no private business would or could do such a thing. This preposterous requirement saddled the Postal Service with a $16 billion deficit. The goal here is to weaken the post office in order to manufacture a case that the government is incapable of running it.

The city of Chicago has found that there are many bad consequences of public-private partnerships beyond the monetary. In 2008, Chicago gave a 75-year lease on its parking meters to Morgan Stanley for $1 billion. Shortly afterward, the city's inspector general concluded the value of the meter lease was $2 billion. Parking rates skyrocketed, and the terms of the lease protecting Morgan Stanley's investment created new annual costs for the city, according to a *Next City* report.

That report noted that plans for express bus lanes, protected bike lanes and street changes to enhance pedestrian safety are complicated by the fact that each of these projects requires removing metered parking spaces. Removing meters requires the city to make penalty payments to Morgan Stanley. Even removals for street repairs requires compensation; the *Next City* report notes that the city lost a $61 million lawsuit filed by the investment bank because of street closures.

Nor have water systems been exempt from privatization schemes. A study by Food & Water Watch found that:

*Investor-owned utilities typically charge 33 percent more for water and 63 percent more for sewer service than local government utilities.

*After privatization, water rates increase at about three times the rate of inflation, with an average increase of 18 percent every other year.

*Corporate profits, dividends and income taxes can add 20 to 30 percent to operation and maintenance costs.

Pure ideology drives these privatization schemes. The Federal Reserve poured $4.1 trillion into buying bonds, which did little more than inflate a stock-market bubble, while the investment needs to rebuild U.S. water systems, schools and dams, plus cleaning up Superfund sites and eliminating student debt, are less at a combined $3.4 trillion. What if that Federal Reserve money had gone to those instead?

“Public investment to create private profit”

Given its billionaire leadership, the Trump administration’s plans for public-private partnerships will not lead to better results, and may well be even worse. Michael Hudson recently summarized what is likely coming in this way:

“Mr. Trump wants to turn the U.S. economy into the kind of real estate development that has made him so rich in New York. It will make his fellow developers rich, and it will make the banks that finance this infrastructure rich, but the people are going to have to pay for it in a much higher cost for transportation, much higher cost for all the infrastructure that he’s proposing. So I think you could call Trump’s plan ‘public investment to create private profit.’ That’s really his plan in a summary, it looks to me.”

This makes no sense as public policy. But it is consistent with the desire of capitalists to continually extract higher profits from any and all human activity. Similar to governments handing over their sovereignty to multi-national corporations in so-called “free trade” deals that facilitate the movement of production to locales with ever lower wages and weaker laws, public-private partnerships represent a plundering of the public sector for private profit, and government surrender of public goods. All this is a reflection of the imbalance of power in capitalist countries.

This is “the market” in action — and the market is nothing more than the aggregate interests of the most powerful industrialists and financiers. It also reflects that as capitalist markets mature and capital runs out of places into which to expand, ongoing competitive pressures will drive corporate leaderships to reduce expenses (particularly wages) and move into new lines of business. Taking over what had been the public sector is one way of achieving this, especially if public goods can be bought below fair market value and guarantees of profits extracted.

The ruthless logic of capitalism is that a commodity goes to those who can pay the most, regardless of whether it is something essential to human life.