Lucius J. Riccio
Columbia University

Public–Private Partnerships: Pitfalls and Possibilities

“Public Values in Public–Private Partnerships” by Anne-Marie Reynaers is a must-read for all government officials using or contemplating the use of this “new” infrastructure development/management vehicle. Not only does the name, public–private partnership (PPP), have a phonetic ring to it, but also it captures an inspiring “best of both worlds” objective—blending the public purpose of creating needed, socially and economically beneficial infrastructure with the efficiency and cost-conscientious management capability and financing power of profit-driven private sector corporations.

Of course, such promise often does not materialize. On the public purpose side, not all projects accomplish what was projected or please the public they were intended to serve, often because of the great stress that such projects impose on the communities...
as they are built. On the efficiency side, cost overruns, change orders, and other problems plague virtually all infrastructure projects, making it almost impossible to calculate true “savings,” often leading to the taxpayer picking up the “extras” tab. There is little evidence that the private sector always delivers similar product for less cost or higher quality than what similarly equipped and properly funded public employees could produce. E. S. Savas, author of the 1982 classic *Privatizing the Public Sector*, who is sometimes called “the father of privatization,” found that an environment of public–private competition is likely the best combination to achieve significant savings.

If that is the case, why even consider PPPs? First, they usually involve more than the typical project for which the contractor builds, gets paid, and then turns the asset back to government ownership/operation and maintenance. Most often, these arrangements are long term, with far more private involvement in functions well beyond initial construction.

Second, and more importantly, the most significant justification is that in many PPPs, private money, not taxpayer money, is used up front. All or much of the initial investment usually comes from a private, risk-driven source. As such, in the public debate regarding the cost–benefit ratio of critically needed projects, approval is often “easier” because they do not require “public money.” In times of budget crises (when is it not?), PPPs provide political and bureaucratic coverage (particularly with the media) and make projects more palatable, almost “steam-rollable.” This makes PPPs more attractive to virtually all parties, except, of course, those who want to know what is going on—the public.

Thus emerges the discussion of public values. PPPs are significantly different from regular contracts. They are financially and administratively more complex, leading to obvious transparency obstacles. Where exactly does the funding come from, and where does it go? Who makes the ultimate decisions regarding scheduling, neighborhood encroachment, and pricing in the case of toll facilities? Could changes to the contract (especially those favoring the contractor) have been anticipated and avoided? And if not, how is it known that the costs are the minimum amount possible?

These questions and others need to be raised because the typical infrastructure construction environment is, to begin with, insular. Engineers are less prone to listen to public input. Contractors resist any effort that will slow them down and cost them profit margins or question their methods. Bureaucrats ignore any suggestions (no matter how good or valid they are) that may jeopardize project completion. And, of course, these three are all fighting with each other, as well as with the politicians and media, playing the blame game to a tee. Given all of these conditions, the question of public values is generally more significant in PPPs than in regular contracting. And, unfortunately, all of these conflicting situations cause many of the participants to feel that public issues are just not as important as their own concerns and therefore can be ignored.

Reynaers’s article offers worthwhile guidance for practitioners. It signals implicitly that there is no substitute for experience. It presents a case about an entity trying the PPP approach for the first time. I hear Reynaers saying, “before you try this, go talk with others like you who have done this at least once.” If you are contemplating doing a PPP for the first time, “embed” one or more of your employees in an organization that has been successful at it to see it in action.

Second, if you do not have that luxury, draw on your own experience with contracting. The complaints by the government employees that the contractor was hard to control are a function of the contracting language and experience. The government employees may be left in the dark as much as the public, which only leads to more frustration and the appearance of not being cooperative with public value concerns. In general, contracting employees, over time, learn to design contracts and establish relationships with known contractors to minimize any dissonance in the expectations as to how work should be done.

My experience has been that the more the contracting employees feel in control, the more likely they will represent the public interest well. Contractor arrogance, particularly among those who hold the PPP contract, will cause extra levels of stress and lack of cooperation. Many government agencies prefer to see contractors with former (retired) government employees on their payroll, as they understand what is being said on both sides of the table, increasing the chance that there will be a meeting of the minds as to how to conduct the work in the most professional manner possible.

I look forward to sequels by Professor Reynaers, providing additional insight into what works and what does not, reviewing some successes and some failures, by agencies with and without prior PPP experience. But Reynaers has already offered practitioners a useful lesson.