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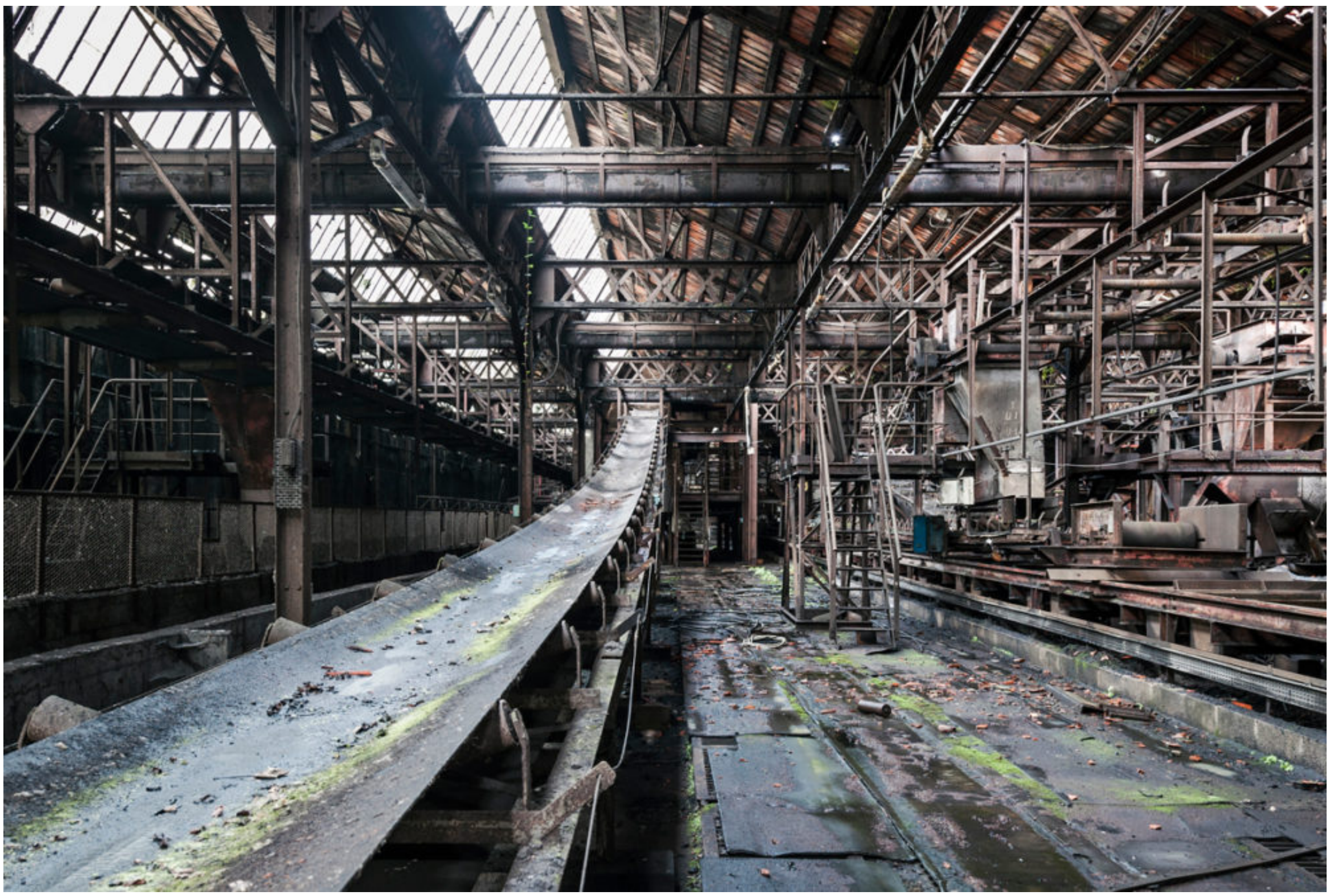
Magical thinking means partnerships can't live up to the hype

Serious people in public service can't afford not to be realistic



While President Donald Trump would like to invest $1 trillion in new infrastructure, **John Ryan** argues public-private partnerships are no magic solution. The current social and political climate couldn't be worse for any argument that relies on trust.

One answer, notably espoused by the Trump Administration, is straightforward in its tweet-ready simplicity: Just let the private sector pay for it all through public-private partnerships (P3s). Job done!

There's a backstory to this magic. Private-sector companies are so efficient (the story goes) that they can deliver and operate public infrastructure at a fraction of the cost required by the lumbering public sector, and private-sector investors are so willing (the story continues) to write big checks for US infrastructure assets that the return on their investment is really just an afterthought. They're both anxious to deliver this value to the public through P3s. All that's wanted are some minor federal incentives in the form of tax credits or similar budget-friendly subsidies – and P3s will unleash a veritable tsunami of infrastructure spending.

Like most magical thinking, there are some elements of truth in this story, but not nearly to the degree that P3s can remotely be considered a general solution to the serious challenge of infrastructure renewal in the US. It is true that the private sector often can deliver construction and operating cost-savings, but further improvements are marginal for basic, low-tech infrastructure assets, where most of the work is needed. Institutional investors are indeed very interested in US infrastructure debt and equity investments, but they invariably require a risk-adjusted return which in most cases is higher than that of the public-sector's risk-free or tax-exempt alternatives.

When it comes down to brass tacks, the case for a P3 deal compared to a more-or-less traditional approach is rarely compelling enough to overcome inevitable political friction, much less offer a slam-dunk solution. This sober truth is reflected in the low volume of successful P3 transactions to date in the US. Minor subsidies won't change this fundamental picture.

Politicians can be expected to engage in magical thinking when given the slightest justification. But serious people on the front-lines of public-sector infrastructure decision-making and their private-sector counterparts seeking to develop realistic infrastructure businesses can't afford to. They're well aware of the real-world limitations of P3s as a solution. Yet despite their hands-on experience, many remain staunch advocates of a P3 approach. Why?

There are in fact rational and hard-headed reasons for a pro-P3 position. But these are not based on the misleading idea that P3s are intrinsically a solution, magical or otherwise.

traditional government administrative structures.

When P3s are viewed this way – as simply a *tool* that expands options for hard-pressed government officials to access infrastructure resources from very-interested private-sector companies and investors – it's much easier to see why serious people might continue to advocate the approach despite a lack of success to date. Both sides naturally want to continue looking for options that might work (there's a lot of money at stake, after all) and of course both want to encourage any subsidies or tax-credits for those options that might be in the offing (which likely explains Trump's position – he literally got the memo).

The view that P3s are a useful tool for people in the front-line of the infrastructure challenge might be an accurate description, but it's a tough story to sell. Unlike a "solution" (which by definition implies a positive result for all concerned) a "tool to expand options" does not suggest any pre-ordained outcome. A P3 transaction might have a good result: the infrastructure project is delivered faster and cheaper by avoiding a traditional procurement process, and its innovative capitalization absorbs risks that the public is ill-suited to deal with.

Or a P3 deal might have decidedly bad consequences, at least for the community as a whole: the project is awarded with padded contracts to private-sector cronies, and the capitalization is an expensive and complex mess that's ready to explode in the future. Both outcomes are equally facilitated by a P3 framework that removes traditional constraints, and both have occurred, along with everything else in between, in actual P3 transactions. So an honest story about P3s being a useful tool would really need to boil down to: "Expand our options – and trust us to do the right thing".

Unfortunately for P3 proponents, despite an economic environment where the public sector really could benefit from having more options, the current social and political environment in the US couldn't be worse for any argument that relies on trust. It's ironic that the "drain the swap" animus which helped elect Trump is fuelled by anger directed at government, corporations and Wall Street – a trifecta which happens to include the main participants in the type of P3 transaction he proposes.

Whether they know better or not, and regardless of sincere intentions for the public good, P3 proponents can't describe P3s as what they are currently are, an open-ended tool. Instead, they're forced to stick with the shallow P3-as-a-solution story, which politicians inevitably embellish into something that sounds like magic. A strategy to generate broad public support

John Ryan is principal of InRecap LLC in Washington, D.C., and a Visiting Fellow with the Global Projects Center at Stanford University.

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John Ryan

John Ryan is principal of InRecap LLC

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Washington
United States

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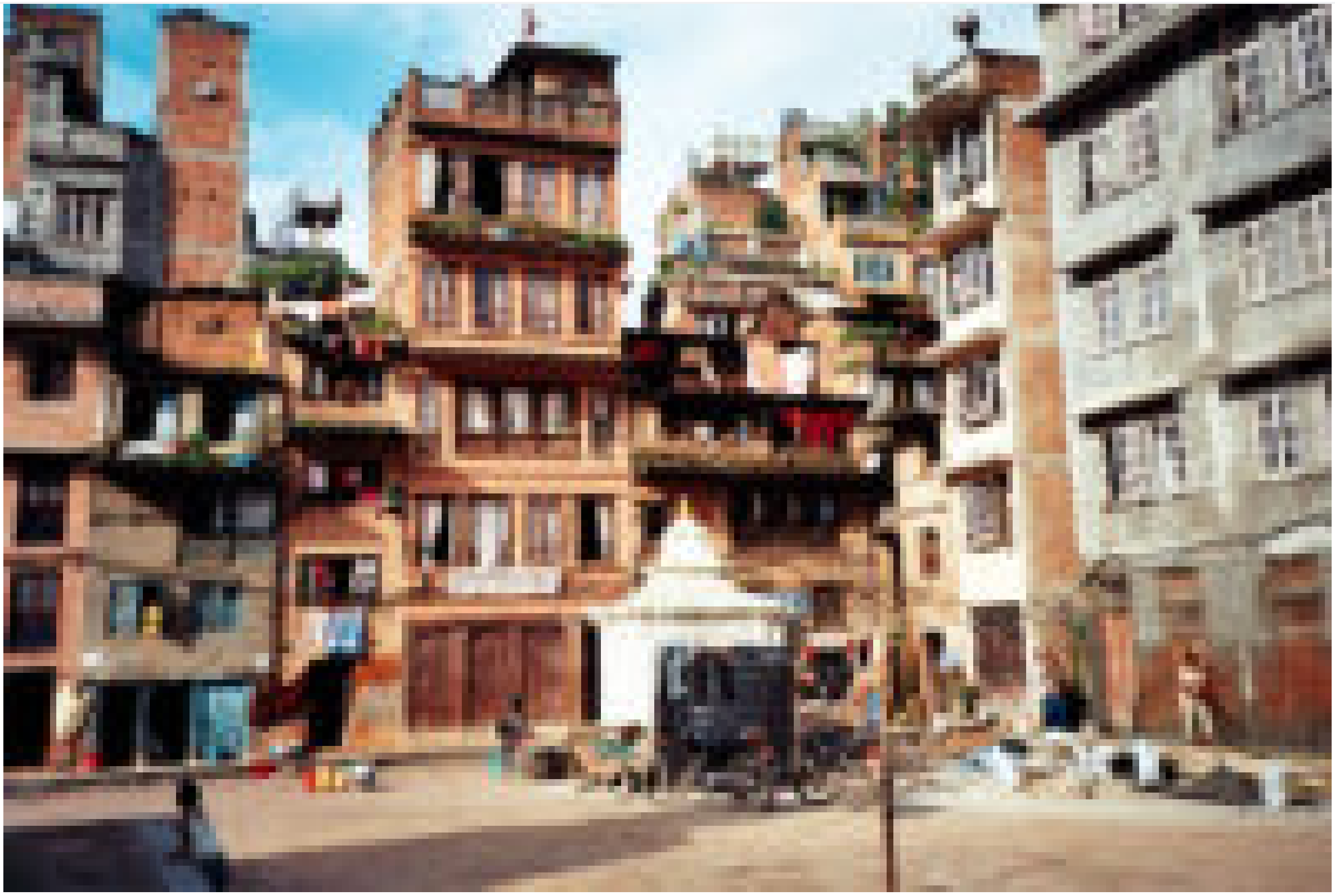

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