

## Robert Poole, president of U.S. think tank, examines global revolution in public-private partnerships

In a recent address to The Canadian Council for Public-Private Partnerships on May 18, 1999, Robert Poole, president of the Reason Foundation, demonstrated his exceptional knowledge of privatization initiatives and trends from around the world. He shared his views on why governments need to make the transition from being service providers to being policy makers and regulators. He contends that governments using public-private partnerships (P3s) can increase productivity, and ultimately, will be more competitive.

To support his view of “the global revolution” in P3s, he cited some recent statistics from around the world. In the past 15 years, privatization efforts have totalled over US\$900 billion, reaching near-record levels in 1998 with US\$141 billion in projects. In the last five years, he believes, there has been an increase in “more basic P3s” with infrastructure and utility projects topping the list. Most of these initiatives have been in electric utilities, water and wastewater, railways, airports, turnpikes and toll roads, and postal services.

Mr. Poole believes there are six reasons for the increased prevalence of P3s around the world:

1. **Governments are over-extended.** Just as the private sector began to divest non-core activities in the 1970’s, governments have realized that they are involved in too many service areas.
2. **Fiscal stress.** Governments are selling enterprises and assets to pay down debt – turning net losses into net gains.
3. **Improved productivity.** Governments have realized that improving economic performance locally will mean “gainers” for the national economy.

4. **Increased accountability.** Governments are more directly accountable to their customers. Performance measures and the Request for Proposal (RFP) process lead to a more precise definition of what needs to be provided.

5. **Spreading ownership.** P3s and initial public offerings make government accessible to ordinary middle-class people. The Thatcher government “tripled the shareholders” in British society. The World Bank has recognized the benefit through growth of the middle class and economic improvement.

6. **De-politicization of key portions of society.** This rests on the notion that too many services are driven by poor politics.

Mr. Poole offered a brief overview of activity in the U.S. to demonstrate areas of growth. At the federal government level, he noted, “there has been less than you might imagine.” Reagan produced only one real privatization – the sale of Conrail for \$1.6 billion, which has increased in value five times since then.

The most progress, Mr. Poole contends, has been under the Clinton administration. Much of the activity has been in the power generation market and satellite communications. The outsourcing of many military base functions has also been significant. Projects slated for privatization before the end of term include passenger rail, the U.S. Postal Service and electric utilities.

State and local governments are where the bulk of the “privatization revolution” has begun, Mr. Poole noted. He believes that the U.S. is the leading country in privatization at the municipal level. It has moved “from primarily a Republican phenomenon in small and medium sized cities to larger urban areas with a wide spectrum of political stripes.” The sharing of

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best practices, combined with more sophisticated techniques of costing and bidding, have made many municipal governments more comfortable with the process.

However, Mr. Poole noted that there have been few sales of government enterprises, due primarily to the tax-exempt status of bonds that make divestiture unattractive. The Reason Foundation estimates that over \$200 billion worth of municipal assets could be sold, if regulatory barriers were removed.

He offered some highlights in sectors that have been especially active in privatization efforts recently in the U.S. In 1998, for example, the prison industry grew by 27 percent, with over 132,000 beds now in private facilities throughout the country. The majority of these, surprisingly, are medium to high security prisons.

In water and wastewater, there are now 1,250 operation and maintenance (O&M) contracts in the U.S. They have spread beyond the Sunbelt, Mr. Poole noted, and have become larger and more complex. Indianapolis and Atlanta, for instance, have seen 40 percent savings in their water services. Mr. Poole believes that the tightening of environmental compliance regulations combined with the capital requirements to upgrade facilities and save energy, have necessitated outsourcing to the private sector.

Mr. Poole stated that airports are just at the beginning of the privatization trend. The Stuart Airport in New York was the first commercialization, with a 99-year lease won by National Express of the U.K. San Diego, CA and Hartford, CT are slated for next year.

In the healthcare sector, a large number of county hospitals have begun P3 initiatives, primarily geared to low income users. The Emergency Medical Services (EMS) sector has been characterized by what Mr. Poole calls "the paramedic wars," with fire departments and ambulance operators struggling over contracts. He believes that the private sector has made a sound case for improving efficiency in collecting bills and economies of scale.

As for Canada's prospects for P3s, Mr. Poole believes there is a lot of potential, especially in electricity, water, wastewater and infrastructure. To put into context his views of privatization in Canada, Mr. Poole cited the recent Pollara survey, which found that 52 percent of the public "strongly" or "somewhat" supported business delivering services. The areas of greatest worry (decreased quality, increased cost), Mr. Poole believes, "have been dealt with."

When asked about "private monopolies merely taking the place of public ones," Mr. Poole responded that differentiating services is the solution. In short-term contracts, there is competition every two years, resulting in better cost-effectiveness and service. In longer-term arrangements, Mr. Poole believes there is value in separating the regulatory from the delivery functions, similar to what the Thatcher government did.

On the issue of mandatory outsourcing statutes, he is undecided as to their effectiveness. However, he does consider a "political champion," such as a mayor or administrative leader, a key success factor for P3s. He also believes that removing union power is a successful technique. Longer-term contracts will often allow greater flexibility in meeting labour's concerns, such as no layoff guarantees.

Mr. Poole encouraged Canadian government and business leaders to "push harder and take better advantage of the body of knowledge already out there." He believes that P3s can be politically successful, pointing to Mayor Stephen Goldsmith of Indianapolis, who saw that "cities are likely to go downhill unless they increase their competitiveness." Mr. Poole emphasized that the same is true in Canada, where Ontario is competing with other provinces, and Toronto is competing with other cities and its own suburbs.

As for Canada's record of two decades with privatization, Mr. Poole hoped that "leaders will take those lessons to heart."