Book Review

Joshua Newman
Governing Public-Private Partnerships
Montréal and Kingston, Canada: McGill-Queen's University Press, 2017

Reviewed by Howard A. Doughty

1.

The back-page publicist's blurb on Joshua Newman's commendable study of public-private partnerships (hereafter known as "P3s") emphasizes the present time. It says correctly that "governments around the world are clamouring to engage the private sector in order to build infrastructure and deliver public services." He also stresses that P3s are both relatively new and remarkably popular alternative means of public sector service delivery. He acknowledges, as well, that they are complex innovations that are not yet perfectly understood. They involve new forms of political, financial and legal entanglements that are not yet entirely worked out. No definitive model enjoys uncontested acceptance. P3s are plainly a work in progress, but the buzz is generally optimistic.

Governing Public-Private Partnerships is the book-bound version of Newman's 2013 doctoral dissertation (Newman, 2013), a document that won him a PhD from Simon Fraser University, Canada. He says the main reason for the popularity of P3s today is the belief that private sector involvement in public service delivery is apt to make the service provision cheaper and better. People in and out of government and business are inclined to think that P3 arrangements can achieve economic benefits without surrendering public sector oversight and accountability. Newman acknowledges, however, that there is an "inherent conflict." If Ronald W. Reagan's dictum (1981) that "government is not the solution to our problem; government *is* the problem" holds true and underlies the enthusiasm for P3s, then it follows that every P3 sustains within it at least a potential internal contradiction.

2.

While it is true that P3s are a by-product of neoliberal skepticism of (when not outright hostility to) the public sector, P3s may not be the fresh and frisky innovations that they are often said to be. In order to see P3s in proper historical perspective, we must recognize that governments and private sector entities have been cooperating, colluding, collaborating and conspiring at least since the Roman emperors started hiring "barbarian" mercenaries to protect their overextended borders from tribal/national insurrections—a phenomenon now known as "blowback" (Johnson, 2000). In fact, it may be that the *real* innovation in theory and practice was the *division* between public and private domains that came with the eighteenth-century European Enlightenment that recast the relationship between the individual and the state, pitting private interests against the community and the state for the first time in Western political theory.

As for the example of Emperors engaging troops for hire, that was also a practice adopted by King George III in his failed attempt to keep his American colonies—in thrall to John Locke's ideas about "inalienable rights" to "life, liberty and the pursuit of happiness [i.e., property]—in a state of submission to the Crown. And, of course, it arises again in the form of "defence contractors" who are now used by those former colonies as they both attempt to maintain their own quasi-colonial empire in parts of the Middle East and hire "private security" firms to protect their gate-guarded communities from domestic uprising. In short, in a sharp rebound from the era of the pervasive state, both military and law enforcement functions are becoming for-profit enterprises. None of it, I might add, is turning out spectacularly well.

> We now live not in an economic order or a political order, but in a political economy that is closely linked with military institutions and decisions. This is obvious in the repeated "oil crisis" in the Middle East
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> – C. Wright Mills, 1953: 456

Additional examples of proto-P3 arrangements might include the great mercantile "companies of adventurers" such as the British East India Company (1600-1874), the Dutch East India Company (1602-1799) and the still active, but much diminished Hudson's Bay Company (b. 1670), which now runs a chain or two of North American department stores. In such ventures, the commercial spirit was given sustenance, protection and the authority of the state to go about its business in the conjoined interests of the company and the government. Those efforts had some substantial successes. Still more recent instances can be found in Latin America's condescendingly labeled "banana republics," where religious, military and government" authorities, foreign enterprises such as Chiquita Brands International (formerly the United Fruit Company), assorted land owners and comprador capitalists, and the ever-present US Central Intelligence Agency maintained some semblance of political order to the advantage of private corporations, both local and imperial.

Many other relationships and arrangements that could, with only a little conceptual stretch, be called primitive P3s have been little more than cases of standard political corruption in which governing parties have sold off public assets, provided tax breaks, or given lucrative contracts to private firms in return for campaign funds, "kick-backs" or "payment in kind." Canada's great "Pacific Scandal" of 1873 is a notable case in point, particularly since it seemed to have done no permanent damage to the reputations of the country's founding prime minister, the Conservative Party or the Canadian Pacific Railway.

And, of course, we should not forget the complexities that caused General Eisenhower, in his farewell address to American citizens in 1960, to warn against "the military-industrial complex." In that (ongoing and extended) symbiotic relationship, the US armed forces and the major armaments industries were perceived to exert control over US Defense and Foreign Policy. Today, I suppose, we'd have to add the computer surveillance and data tracking instruments of national security and cyberspace.

And then, in the bowels of the other Cold War superpower, the former Soviet Union, much might be said about the vast privatization schemes that have allowed huge public assets to be sold cheaply to governmental leaders and their cronies who were or who quickly became economic oligarchs in their own right. The story is long and fraught and various and it touches virtually every country on every continent. That history has not yet been and may never be comprehensively written, but it is something that future historians alone will ultimately assess—no doubt using recombinant data from the whimsical memories of whatever information storage facilities fancifully allow their unredacted contents to be selectively spilled.

The point here is that, for good or ill, the dividing line between private and public economic orders, organizations and activities has rarely been clear, and that there is a rich and contentious legacy predating any contemporary "clamourings" as governments seek, sometimes too desperately, to raise short-term funds at inappropriate long-term costs. In recent decades, governments have sought to ease budgetary deficits and to dream of lowering overall debts through mechanisms other than increased taxation measures which are rarely well received by citizens—rich and poor alike.

These allusions to past and present shady dealings are not intended to imply that the current wave of P3s is inherently or necessarily either ill-considered or corrupt. They are not made to suggest for a Wall-Street instant that there are no legitimate reasons why governments are now looking to private investors to provide funds for public sector projects and services. Government spending is high regardless of the jurisdiction, the ideology of the party in power, and whether funds are expended on "guns or butter." Except in a very few resource-rich countries in the vicinity of the Persian Gulf, expenditures regularly exceed revenues and, as the current government of Venezuela can undoubtedly attest, even a substantial supply of a limited resource is no guarantee of perpetual prosperity ... or political stability. So, it is to be expected that both democratic and dictatorial regimes will do their best to find innovative ways to pay their bills. In what is somewhat preciously called "real time," P3s have emerged as a much favoured method.

> P3s are still a relatively new family of service delivery mechanisms, and they are not yet perfectly understood. P3s inherently entail significant political, financial, and legal hurdles that must be cleared before a lasting cooperative effort can be implemented; in many cases, the complexity involved in designing a contractual collaboration between the public and private sectors has resulted in financial disaster or the failure to meet policy objectives.
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> – Joshua Newman

In most national and subnational systems, it takes meticulous care, forward-thinking procurement policies and astute financial practices to ensure that incoming revenues are sufficient to meet the capital and operating budgets needed for the construction and/or administration of airports and hospitals, urban transit systems and prisons, postsecondary education and alternative energy investments, as well as to avoid mistakes in such mundane matters as outsourcing cleaning services in community hospitals. Very often, "partnering" with private-sector management entities who are happy to "contract out" essential services to companies that charge low fees (mainly by using cheap, non-unionized workers) can have "penny-wise" practices that produce "pound-foolish" consequences (Pollak, Cohen and Stinson, 2005; Toffolutti, Reeves, McKee and Stuckler, 2017). The market, they eventually discover is neither "free" nor "rational" in all cases. So, we need regularly to remind ourselves that the gap between the public and the private sector is not (and has never been) as wide as some may choose to believe. The "efficiency" of the latter is not always evident. And recurrent rounds of "nationalization" and "privatization" are nothing new.

There is, however, no denying that the current flurry of conversations and contracts between and among government and private enterprise merits comment. Past shifts from mercantilism to free-market capitalism and, now, to the emerging dominance of global conglomerates attract descriptors such as "seismic," "revolutionary" and "transformational." So, the recent wave of intersectional innovation and occasional integration warrants at least a few words of description, interpretation and explanation. Is it nothing more than a display of short-term panic or does it be token an enduring change in which the interpenetration of the private and public sectors wherein a combination of political authority of the state and economic power of the corporation will become the standard operating model of governance.

3.

The P3s discussed in this book—the Airport Rail Link in Sydney, Australia and the Canada Line in Vancouver, Canada—are absorbing as case studies of urban transit projects, but they are even more useful examples of the common issues that crop up in a broad range of P3 initiatives. They indicate patterns of change which, in some cases, may obscure, if they do not actually erase, the public/private divide. These patterns will eventually sort themselves out. *Governing Public-Private Partnerships* provides one view of the process.

For the past forty years, both public capital investment in infrastructure projects and the funding of innovative social programs have come under increasingly intense pressure. Indeed, in many jurisdictions it's all the public sector can do to maintain existing operations and facilities—never mind to widen and deepen public sector innovation and initiatives. Whether in thrall to the "new public management" or any other version of neoliberal ideology, the market mentality and the strategy of austerity have more or less dominated thought and action in the public sector in the advanced liberal democracies and elsewhere as well.

> Fiscal crisis: inability of the state to bridge a deficit between its expenditures and its tax revenues. Fiscal crises are characterized by a financial, economic, and technical dimension on the one hand and a political and social dimension on the other. The latter dimension tends to have the more important implication for governance, especially when a fiscal crisis necessitates painful and frequently simultaneous cuts in government expenditures and increases in taxes
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> – Encyclopedia Britannica

Our situational parameters are well known. What may once have been perhaps overdramatically called the "fiscal crisis of the state" (O'Connor, 1973) has now become recognized as a chronic condition. The diagnosis is simple enough. Abject Ayn Rand-style libertarians and antique advocates of "command economies" aside, there is now a consensus in most liberal democracies that governments in late capitalist mixed economies have three primary duties: to ensure national defense and domestic law enforcement (keeping citizens safe); to promote capital accumulation (fostering prosperity); and to secure political legitimation (maintaining the consent of the governed).

How these tasks are performed, however, is a matter of political choice, and there are many options. Though we are constantly told that government should be run more "like a business," competent business leaders understand that no such methods could be effective. Government is needed precisely because it is *not* like a business.

Businesses may be job creators but, if so, then they are so by default. As the massive layoffs in enterprises from banking to information technology, commercial sales, manufacturing and resource extraction attest, corporations are always eager to turn work over to machinery, which works 24/7, makes no demands or complaints, and requires no benefit packages other than routine mechanical/technical maintenance and occasional hardware replacement. Likewise, businesses are generally averse to servicing remote areas or to attend to the needs of marginal groups, whereas governments regularly find themselves having to supply services more or less equitably and universally—even when the cost of schools, medical clinics, energy, transportation links and increased band width far exceeds any marginal material benefit that might attract for-profit entrepreneurs. At least in Canada, postal services and public television are considered rights of citizenship … so far.

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Accordingly, it is now generally agreed that government can and should enable, complement and enhance private business, but that there are areas in which the public sector is required to intervene in the pure market economy for minimal purposes of equity, efficiency and public interest regulation. In most accepted theories of pluralist democracy, governments of all approved political postures need to manage the affairs of state in a way that establishes and maintains a balance among competing socio-economic interests. While the standard myths of pluralist democracy have been exposed as mainly aspirational, all but the most arrogant of insiders and all but the most alienated of outsiders retain at least a symbolic commitment to the norms of representative democracy. Some version of a mixed economy is conceded as necessary to what passes well enough as civilized society.

At the most obvious level, creating a good entrepreneurial climate requires undertaking projects which the private sector cannot or will not undertake by itself. So, governments must funnel public investment into infrastructural projects that are essential to prosperity and economic growth, but are not immediate sources of profit. Hence, some measure of public asset accumulation is a precondition for private-sector expansion. Budget cut-backs and bad planning are not merely apt to result in public policy failures, but can be devastating for private businesses

that rely on publicly funded and regulated infrastructure from information technology to transportation links and from basic and applied scientific research to comprehensive public education. This costs money.

Moreover, given the potential for resistance among anxious and alienated voters, successful governments must also ensure stability by providing all manner of income enhancements (welfare, pensions, minimum wages, etc.) and public services (affordable health care, education, etc.) for otherwise fretful citizens. Such emoluments for the seemingly precarious middling and working classes are no doubt necessary, but their generosity is a matter of open debate. In any case, this costs money.

The growth of the "welfare state" is generally credited (or blamed, if you happen to be an overly enthusiastic Marxist) for giving aid and comfort to the proletariat in exchange for its studied neglect to perform its historic role. Although employers and employees continue to quarrel over exactly what the nature, extent and cost of public sector activities should be, never has the barometer of social pressures in liberal democracies risen so high that anyone outside the most extreme sufferers from anti-communist hysteria or pro-communist delusion has seriously contemplated revolutionary class conflict in advanced capitalist societies in the century or so since the murders of Rosa Luxemburg and Karl Liebknecht in 1919.

Especially in the post-World War II era of labour peace, employers have wanted governments to help them make profits and employees have wanted governments to help them achieve a decent standard of living and job security through legitimizing trade unions and providing social assistance, health insurance, public education and the like. As Wolff (2010) succinctly puts it: "Employers seek to burden employees by shifting income taxes onto middle and lower income earners, by imposing sales and property taxes that fall disproportionally on [them, whereas employees] seek to push tax burdens in the opposite direction (more progressive income taxes, capital-gains and dividends taxes, etc." So, when the adversarial rhetoric is quieted, both sides understand that revenue must be generated and that the public sector must play its part in managing, regulating and compensating for irregularities in the political economy of every society.

> Capitalism's way of dealing with its recurring crises is thus a remarkable two-step hustle. In step one, massive borrowing funds stimulus and bailout programs. In step two, austerity pays for the borrowing. – Richard Wolff, 2013

While governments try to steer a middle course, the tendency has been to ensure that the private sector is supported in the long term through the establishment of legal systems that protect investors. Balance does not ensure equity, never mind equality. So, over the past few decades, we have witnessed the greatest migration of wealth from the middling and working classes to the far-famed "1%" (or actually much less) of the population. This, too, is an essential element of the context in which the popularity of P3s has developed.

Of course, the problem of government revenues can be managed either by printing more money or by borrowing mainly from the large private banks; but, occasionally the fiscal burden becomes unbearable. Something must be done, and that generally involves either increasing taxes or reducing spending. Neither is easily achieved, especially popular, or even seriously considered by governing parties regardless of ideology. True, governments have been known to increase or reduce *deficits* from time to time, but it is rare for people in positions of political power even to mention, much less to address accumulated public *debt*. So, we witness inflationary fiscal policies or, more often, creative bookkeeping manoeuvres and efforts to shift national responsibilities to subnational state or provincial levels, and then dumping those obligations on municipalities usually with depressing—economic *and* psychological—results.

Taxes are what we pay for civilized society. – Oliver Wendell Holmes, Jr., 1927

Hence, the "legitimation crisis" of which Jürgen Habermas (1973) wrote presciently as the point at which people lose confidence in the social and especially the state institutions that retain the legal authority but no longer seem able or willing to fulfill the practical functions for which they were established. P3s thus become an attractive tactic. By means of joint public-private ventures, the public sector benefits in terms of its ability to raise the capital needed for necessary projects and the private sector benefits in terms of the profits it can extract for meeting the political objectives of governments. Or so the story goes.

3.

Joshua Newman is (somewhat) less sceptical. His book can be divided into three parts. The first three chapters (58 pages) are devoted to an overview and description of P3s as well as an interpretation of the role of the state in modern society. He then presents his case studies with special attention to the relationship between what he calls "collaborative project management" and innovation. And, in a clear and frankly judgmental conclusion, Newman explains the failure of the Sydney project *both* in terms of a leadership failure by the public sector partners *and* a final highly partisan failure to deal with a last-minute financial collapse when the errors of research, planning and implementation came fully to light. Having failed to meet its responsibilities, the governing Labour Party chose to use the failure as a way to chastise the previous Liberal government for having set up the fiasco in the first place—perhaps self-satisfying in the short haul, but no way to run a railway.

Newman's approach differs from the standard "case study," which tends to focus on the internal structure and dynamics of particular cases very much as singularities and on their own terms. They are structured like personal biographies and often include (too much) biographical information about "leaders" and the like, as though the objects of inquiries were mainly products of particular people or, at best, particular conditions that led to fairly easily foreseen results.

Newman, of course, is not skimpy on details, conditions, decisions and the rest. His narrative relies in large part on extensive interviews with key personnel—private sector CEOs, senior government bureaucrats and politicians—but it quickly develops a primary theme; namely that the relative success of the Canada Line partnership has be due to the "active and shrewd provincial government in British Columbia" taking the initiative in supporting the complex set of "players in the transportation game," going out of its way to learn from the experience of others

around the world, and taking the lead in terms of concrete innovations in policy making and execution. By contrast, he says, "the more hands-off" approach of the state government in New South Wales, allowed the private sector partners to set the tone and the pace of development. So, rather than setting alight the fireworks of entrepreneurial spirit, the "go-getter" and "can-do" energy which the private sector is said to provide, the Sydney project has resulted in "a sluggish airport link that, after sixteen years in operation, still has not met its original expectation."

What's more, the struggles in Sydney seem to be echoed in other Australian instances, no doubt born of a similar willingness on the part of governments to defer to the allegedly energetic and efficient private sector partners. As Stephen King (2013) has reported, other P3 projects have had less than satisfactory results. There have been, for example, a number of P3 toll road failures in Sydney and Brisbane that have suffered from failures to accurately predict usage and that have proven less than viable. The pro-P3 theory has it that private sector partners take on the financial risk in anticipation of profits; however, the reality seems more often to be that the actual risk is assumed by taxpayers. Devils find their homes in details and, with superior legal advice, private sector partners have been known to include contract provisions that protect investors either by guaranteeing government payouts or by bailing out failing private sector firms, or both. When that happens, of course, the taxpayers also lose as the social benefit of the enterprise fails to materialize and, in cases like these, frustrated commuters are stuck with the bill.

> The failure of BrisConnections does not spell the end of PPPs. If we want infrastructure investment and government budget surpluses, then PPPs are a must. But it does spell the end of naïve PPPs and it signals the need for research in order to design better PPPs. – Stephen King

As for Vancouver's more successful Canada Line project, Newman describes and explains how the government was wise not to surrender responsibilities to its private sector partners by "paying attention" to the nested layers of stakeholders, fostering cohesion among public agencies and private companies, and building complete policy networks involving all participants rather than allowing the private sector providers to act independently and at will.

Newman also lays stress on the notion that "innovation" isn't just a term to be applied to new organizational "frameworks," but must penetrate the entire culture of institutional service delivery if it is to be more than a convenient label. If P3s are to be truly innovative, they cannot just be cover stories for privatization or, worse, the privatization of profit and the socialization of risk. The policy makers in Vancouver succeeded precisely because they understood that the emphasis in P3 arrangements must be on the "public"—both as the defining partner in the arrangement and, more generally, as the larger interest of the entire society.

"Policy makers in Vancouver," Newman concludes, "innovated a new method for project management that provided a central focus to the project and to the governance arrangement." It was built on the principle of collaboration, rather than the silos of visioning on the one hand and designing and implementing on the other. Newman is well aware and makes a point of stating openly that the two projects were almost identical as far as "technical design, political motivation, and cultural and legal contexts" are concerned. One worked and one didn't. In *Governing Private-Public Partnerships,* Newman provides a virtual handbook on how to succeed and how to fail.

By viewing his two cases in Sydney and Vancouver through what is now fashionably called the "lens" of critical analysis, we are not just given a guided tour of exercises in P3 management, but are allowed to probe more deeply into how and why these examples illustrate the successes and failures of both theoretical and practical (you can't have one without the other) approaches to governing. By linking (so to speak) the experiences in Australia and Canada to a more comprehensive understanding of how P3 fit into the overall processes of first building a welfare state using a robust mixed economy model and then, since the 1980s, abandoning much of that model by embracing "marketisation" of the public sector, embracing increasing private-sector control, and downsizing government (and governance). Newman puts his case well and summarizes it succinctly: "in order to prevent government failure from occurring, the state must provide sufficient policy leadership. In other words, it is not sufficient for the governments to retreat into the realm of policy ideas; the state must have an active and authoritative engagement with the delivery of public services."

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