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TITLE: **If we build it, they will come, and take the profit**

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Confusion and contradiction have become the norm in our topsy-turvy political landscape, but the recent decisions by the ACT and NSW governments about how to fund infrastructure must take the cake.

Here in the ACT, the Labor-Greens government is set to embrace a "public-private partnership" to build its promised light rail project. The Liberals in NSW, on the other hand, have recently announced that their government will bypass the private sector and will directly fund the $1.8 billion first stage of the WestConnex motorway.

Of course, the Liberals have not had a change of heart about wanting to give the private sector a leg up; on the contrary. The NSW government believes that the first stage of its new motorway will be too risky for the private bankers to be a part of, so it will go it alone to get the ball rolling and only invite the private sector in once the profits are assured.

Yes, you read correctly. After the NSW taxpayer has taken on the risk of building a huge new road and after the traffic volumes have been observed rather than forecast, then the private sector will be invited in for a slice of any continuing profits. But fear not, if the project looks unprofitable, it will remain solely in public hands.

The modern obsession with public-private partnerships has nothing to do with economics and everything to do with rubbery accounting. Having spent decades convincing us that public debt is "bad" and that it is proof of poor economic management, the right-wing think tanks and business groups behind such messages have created a serious problem for the economy. Governments cannot be seen to borrow the funds they need to build the infrastructure that a rapidly growing economy and population need.

The solution is as simple as it is expensive; you pay someone to hide the debt for you. That is what a public-private partnership really is.

While the private sector always keeps track of both its physical and financial assets and liabilities, the public sector ignores the value of all of its physical assets when estimating its "net debt". The result is that when governments borrow to build new assets the debt is recorded, the asset is ignored and the "net debt" is said to "blow out". Rather than applaud our leaders for making the long-term investment that a population growing by 1 million every four years needs we attack them for "reckless spending".

This is where the Macquarie Banks of the world step in. Because private-sector accountants keep track of both assets and debts, they love to hold large public infrastructure assets on their books. For a fee of course.

If Macquarie Bank, for example, borrows instead of the government, then neither the value of the debt nor the value of the asset will show up on the government's books. Of course the interest costs still have to be covered and, unfortunately for the taxpayer, no private bank can borrow as cheaply as can an Australian government, so the cost of hiding the government's debts "off budget" will be higher than if they were up front about them.

Worse still is that private "partners" want more than just the funds to cover the interest costs of holding debt on behalf of the government; they want a profit margin as well.

Which brings me back to the ACT government's decision to rely on a public-private partnership to build light rail up Northbourne Avenue. Bringing a for-profit partner into its plans can increase the cost of the project in three ways.

First, as described above, if the government hides the borrowing "off budget" it will pay higher interest rates than if it borrows itself.

Second, whoever operates the project will need to pay for the staff and support to keep it running. But if the private sector takes responsibility for that it will demand a profit margin on top of the cost of actually providing the service.

And third, the ACT government will have to spend a lot of time and money, and take on all the political risk, associated with overseeing the private-sector operator. That is, having decided that even after it charges its profit margin the private sector will be cheaper than direct public provision, the ACT government will still have to employ teams of people both to monitor its private partners and to engage in continual negotiation with them about what the contract does and does not oblige them to do. Private operators always seem to come across problems that are not in the contract and will not be fixed without further government funding.

Why aren't governments ever asked hard questions when they assert that involving a private partner, a partner who expects to make a nice big profit on the project, will make it cheaper to deliver?

The fundamental flaw in the "private sector is always cheaper" school of thought is that if the public sector has the managerial capacity to efficiently oversee private contractors then it obviously has the capacity to efficiently oversee a public-sector workforce. Similarly, if the public sector does not have the capacity to manage light rail operations then it does not have the capacity to ensure that the private contractors are doing the best possible job for the lowest possible price.

Put simply, if the private partner knows more about running a light rail project it will use that knowledge to line the pockets of its owners, not to lower the cost to taxpayers. And if it does not possess such superior knowledge, then why would the taxpayer pay it a profit margin for doing the same job that public sector workers could do?

There is no doubt that the private sector does some things better than governments, but the history of public-private partnerships around Australia and the world is that the public sector picks up the risks and the private sector picks up the profits.

You cannot blame the private-sector companies for seeking out the work, but you can blame the government for believing that this time things will be different.

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