



LeCCG



Choosing between PPPs and public finance

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A new term for an old idea?

- **Private financing of railways in the 19th century with government guarantees in New Zealand and elsewhere**
- **No great difference between some PPPs and intensive regulation of a private firm?**
- **Yet PPPs haven't been used as much in NZ as in many other countries**



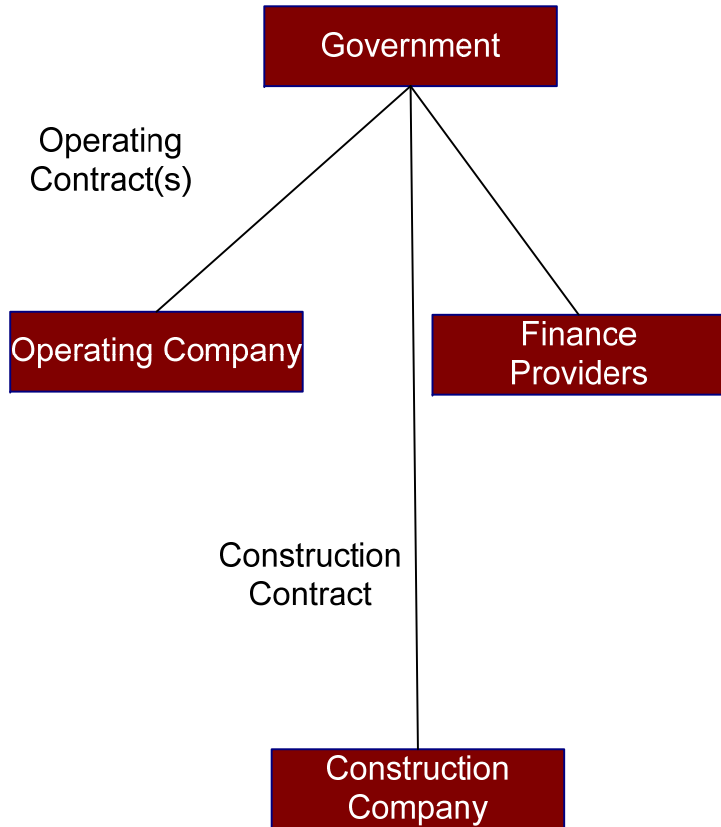
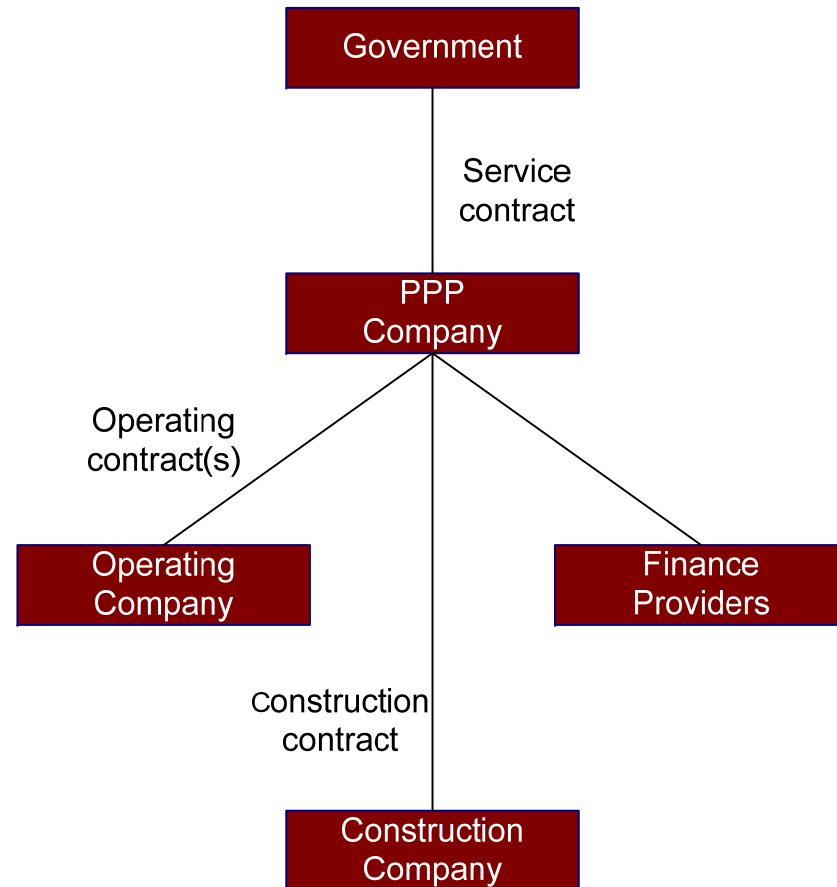
PPPs and fiscal illusions

- **Many governments turn to PPPs because their accounting or fiscal rules make public investment look expensive and PPPs free**
 - Australia, UK, European Union
- **But PPPs either require government to pay for the service or to forgo revenue from it**
- **So real fiscal differences are subtle**
- **New Zealand government starts from a better position (NZ-IFRS, new IFRIC)**



Borrowing costs versus private-sector efficiencies?

- **Borrowing costs are lower for governments than for many private companies**
- **Private sector often seems more efficient**
- **Is the choice about PPPs a matter of trading off these two things?**
- **True cost of capital is an opportunity cost**
- **And under public finance the government can still contract out construction, operations, etc**

Public Finance**PPP**



Conclusion

- **PPPs seem more promising when**
 - the services the government wants can be specified in advance for, say, 20 years
 - private companies are likely to be better than government at coordinating design, construction, maintenance, and operations
- **Do we know when PPPs improve on public finance? Why not experiment?**