THE PRIVATIZATION PANACEA

The United States faces serious challenges to its infrastructure, and has for years. The American Society of Civil Engineers long ago began providing detailed report cards highlighting the deteriorating asset base on which our nation’s economy, health and national defense rely.

The problem is exacerbated by political deadlock in Washington. Although surface transportation funding was finally reauthorized in July in the Moving Ahead for Progress in the 21st Century, or MAP-21, legislation, most transportation experts don’t consider it to be sufficiently comprehensive.

The transportation system’s infrastructure difficulties are complex. Not only is current development insufficient to accommodate growth, but new technologies that would help us do more with less — replacing the 1950-era air traffic management system, for example — also are starved for funding. Moreover, existing infrastructure, especially bridges, lacks proper maintenance and deteriorates daily.

In the late 1990s, the idea of privatizing public assets gained traction. These transactions removed government from inappropriate roles, and were intended to allow the development of market-based solutions, such as peak pricing, without fear of incurring voter wrath. Selling government-owned assets, as well as building private assets from scratch, occurred worldwide.

Early U.S. transactions included the Dulles Toll Road (1984) and California State Route 91 (2002). Then the 2004 Chicago Skyway privatization prompted many public entities to ponder how they might magically harvest funding, observed, “If we are hoping the federal government is going to come to the rescue, we’re dreaming.”

Just prior to the 2006 Memorial Day weekend, Daniels wrote a self-congratulatory editorial for The New York Times that noted the Indiana Toll Road deal got Indiana out of a “losing enterprise with an underpriced product.” The outlook had been dim because “it was run by politicians who are rarely businesslike and deathly afraid to annoy anyone,” Daniels wrote.

The financial community eagerly anticipated this new market. A frenzy of marine terminal transactions propelled infrastructure into the can’t-miss investment category. Investment banks such as Goldman Sachs developed practice areas, and private equity firms such as Kohlberg Kravis Roberts cited the “multitrillion-dollar market opportunity.”

But highway privatization failed to become widespread. The changing political dynamics of Main Street vs. Wall Street, and the well-publicized financial shortcomings of some deals, helped slow momentum. More important was the formation of alliances among concerned stakeholders.

Bill Graves, president of the American Trucking Associations, became a high-profile opponent of what he perceived to be a policy of chasing “easy money,” while ignoring long-term risk and threatening the highway network with piecemeal dismemberment.

“Privatization is nothing more than an abdication of government responsibility to create and manage transportation resources,” Graves, a two-term Republican governor of Kansas, stated in March 2007. The alternative to privatization, he observed, is “for politicians to have the political will to raise the resources necessary to manage our nation’s highway transportation system.”

For the last seven years, the funding debate has gone nowhere as the reputedly inexhaustible Highway Trust Fund slowly went broke. Every discussion of surface transportation policy has included doctrinaire discussion about privatization, to no good end. Congress and the past two administrations have avoided making any tough decisions on how — and how much — to fund surface transportation.

Just as our government has refused to make firm decisions about privatization, it’s also declined to raise the fuel tax and resisted unfettered tolling of previously “free” interstates. Graves once mused whether our nation was such a mess that it needed to “outsource political will to serve the public interest.” There are no panaceas — only tough choices. Let’s hope our leaders find a solution. joc

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