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Regulation Costs and Private-Sector Know-How Spillovers of Public-Private Partnerships

Policy debates often contemplate public versus private provision of goods such as water supply, sewage, electricity, public transportation, and roads. However, many municipalities and state administrations use *public-private partnerships* (PPPs) as an alternative to exclusive government provision of public goods, and the Trump administration is considering the use of PPPs to fix infrastructure. A potential way of organizing these PPPs is as companies with mixed public-private ownership and governance.

In "Regulation Costs and Private-Sector Know-How Spillovers of Public-Private Partnerships," Marian Moszoro provides a framework to analyze this type of organizational structure. The paper models specific key drivers of PPPs—namely, regulation cost and managerial expertise—as functions of the private ownership share. Utilities with mixed public-private ownership and governance can be an efficient arrangement if they are able to save on regulation and operating costs by introducing the efficiencies of the private sector.

KEY POINTS

A *private monopoly* lowers output and increases price to maximize profit, while a *public monopoly* incurs higher costs due to the lack of know-how. A *regulated monopoly* results in high regulation costs to overcome the government's deficiency of information about the monopoly. A *public-private partnership* is not a distinctive organizational mode but a creative hybrid solution designed to provide decision makers with better information so they can keep costs down.

A public-private partnership may be an efficient way to provide a public good, but it must enable the sharing of private know-how (the knowledge that an organization retains about its business functions) and save regulation costs as the public administration works closely with private management.

- When the private management and the public administration each hold sufficient control rights in the PPP, information asymmetry (the difference in knowledge held by the company and knowledge held by the government) vanishes, and quality and price are audited internally rather than through traditional regulation. Regulation cost can then also be minimized.
- Regulation and managerial expertise capture the major differentials and tradeoffs involved between the public and private sectors in pursuit of their goals: welfare and profit. Public opinion tends to welcome a close relationship between welfare and efficiency, but the public can be sensitive to corruption and favoritism.

When a public-private partnership meets these criteria, it can be superior to private, public, and regulated monopolies.

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