

PREFACE

Major privatizations raise a host of Catch-22s for governments. In purely financial terms, if the enterprise to be privatized is a successful one, critics will wonder whether the government should not in fact hang on to it. If the enterprise is a troubled one, critics will home in on whether the government will possibly be able to get a good price, or strike a good deal.

In terms of the broader public interest, governments must consider how to ensure that the public values the enterprise was originally meant to serve, as a public asset, can be adequately pursued post-privatization. And yet, if the government maintains too heavy a hand, it risks undermining whatever public interest is to be served by privatization itself, as decisions that should be made on non-political criteria risk being subjected to political influence.

In attempting to negotiate these conflicting dynamics, governments have opted for any number of public-private partnership structures, some more successful than others. Rarely, though, has a case study come along of the rich sort provided by Ontario's Highway 407, in which a leading-edge toll road was initially envisaged as a public-private partnership, then developed by a special-purpose Crown corporation, and ultimately privatized by means of a multi-billion dollar 99-year lease.

The issue of road tolls is becoming an immensely significant one around the world. In technological terms, Highway 407 is, as the authors say, the "world's most technologically advanced highway" because of its integration of transponders with videoimaging. In financial terms, Highway 407 is Canada's largest privatization. And in political terms, the project had to survive a dramatic political change from an unprecedentedly (for Ontario) social-democratic government under Premier Bob Rae to an unprecedentedly free-market conservative one under Premier Mike Harris.

Chandran Mylvaganam and Sandford Borins tell a fascinating story clearly, with equal measures of rapportorial detail and analytic insight. With respect to the government's success in negotiating the public-interest

Catch-22s that such a project poses — the need to allow for not too much but not too little political direction — the authors conclude that, by and large, the Highway 407 model offers a success story for future consideration.

The Rae and Harris governments both created or adhered to institutions and structures that allowed politicians to direct the project with "passion" while keeping them "detached" from the political meddling which might otherwise have compromised the deal. The authors meticulously detail how the Crown corporation set up to oversee the project, staffed by public servants at arm's length from their home departments, and supervised by a board of external experts, managed to bring public values and private-sector insights to the process, without being tainted by either bureaucratic or business interests. Independent auditors from both the private sector, such as Price Waterhouse (as it then was), and from the public sector, in the form of the provincial auditor, provided further checks and balances.

It is when it comes to the financial and, in a particular way, the technological aspects of the 407 experience that the authors raise serious questions. Perhaps because of its ideology, the authors write, the Harris government was less likely to believe that an asset run by the public sector, or that had any governmental role in management, would be as productive or remunerative as it would be if government got out. Hence, the authors say, the Harris government allowed the purchaser an "unconscionably" long-term lease while — by focusing on its very short-term budgetary need to produce revenue for its 1999 election platform — leaving billions of dollars on the table.

Not only did the Conservatives underestimate the financial value of the highway itself, the authors claim, they passed up a valuable opportunity to create a public-private partnership to market its cutting-edge technology around the world. The Conservatives also overlooked mixed possibilities such as retaining majority governmental ownership in the Highway, but issuing shares in an IPO, thereby creating minority shareholders who would press to maximize the value of their investment. Conversely, the government failed to consider seriously how it might have retained a minority ownership stake itself so as to realize, for the public, some of the revenues ongoing, while remaining passive on managerial issues so as to allow the private owners full scope to pursue the project's financial goals unimpeded by political interference. (An example of the latter is the federal government's retaining a minority share in Petrocan which it recently sold at a highly profitable price of \$65 per share, netting over \$3 billion.)

The authors are uniquely placed to offer us this story. Mylvaganam was chief of staff to three transportation ministers during the Rae government, and is now a consultant and adjunct professor at Northwood University in Midland, Michigan. Borins was on the board of the Ontario Transportation Capital Corporation for three years overlapping both the Rae and Harris governments; he is professor of public management at the University of Toronto.

If You Build It... will be a valuable contribution to the growing literature on the lessons of privatization and the complexities of public-private partnership. And it is also a chapter in an ongoing story: The new Liberal government of Ontario, in seeking to veto proposed toll increases, is raising anew the question of where to draw the line between a government's legitimate role in ensuring that the public interest is served, and its own parochial interest in serving its political agenda. The latter could come at the expense of creating an environment in which potential private partners in the future will be more cautious than they ideally should be.

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