

[Don't blame PFI](#) [1]

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UK Health Secretary Andrew Lansley says that patient care is under threat at over 60 NHS hospitals which are 'on the brink of financial collapse' because of costly Private Finance Initiative (PFI) schemes. This is particularly disappointing to those of us at the Adam Smith Institute who campaigned for private financing of public infrastructure projects as far back as the early 1980s. What went wrong?

Back then, following decades of postwar nationalisation and state control, it was the familiar story. Building a new school, hospital, prison or road took ages, precisely because the whole operation was financed by the Treasury and designed, managed and often executed by state employees. Money would be spent on architects, designers, surveyors and all the rest, but the facilities would open only years or decades later. That was not just hugely inefficient, but costly too, since the government had to borrow for such long periods to find that finance in the first place. No private sector project manager would waste money like that. A publicly financed prison could take more than a decade to build; a privately financed hotel would probably be built within a year. The state needed some private expertise in the finance, planning and management of these big projects. Civil servants were plainly not up to the job, and taxpayers were bearing the cost.

There was another thought, too. If we could break the taboo and have public infrastructure projects financed and planned privately, then the private sector might come up with ideas for projects that were needed, but which the politicians and civil servants would never have imagined. Would a new road around a congested city like Birmingham, or a bridge crossing over the Thames, be welcomed by the public? Indeed, would motorists be willing to pay to use it? It was a promising idea, that public infrastructure could be built and charged for privately. And even if the users could not be directly charged ? as in prisons or NHS hospitals ? then the private sector could collect 'user charges' from the government. Then, it would be private developers, not taxpayers, taking the risk if the facility turned out to be used less than the private initiators had thought.

This initiative led to roads, prisons and other facilities being built, owned, and indeed operated by the private sector, with taxpayers enjoying the benefits of new facilities (which would have been unaffordable to the state) and private management. It worked. But there were two flaws. First, the civil service turned out to be a very poor customer. They would look at PFI proposals, but tweak them over and over, adding to the expense and lengthening the building period once again. They were hopeless at future use predictions. The private sector, which is used to tough bargaining every day, proved experts at keeping the risk with the government and making the state pay too much for its use of their PFI project.

And second, Gordon Brown corrupted the initiative and made it, in effect, a mortgage scheme. As Chancellor from 1997 onwards, he recognised that private finance could be brought in to build a whole new generation of schools and hospitals, and indeed roads and other facilities ? which could be paid for as it was used, over the generations. He could get all the kudos of providing glistening state facilities and services today, but not on his own budget. It would be on the budget of future generations who would pay the bill. And an over-inflated bill at that, because the civil service had done such a bad job of commissioning these facilities and managing their costs.

So now we have schools and hospitals that local authorities and trusts cannot afford to run. Don't blame the PFI though, which remains a good idea. You know who to blame.

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