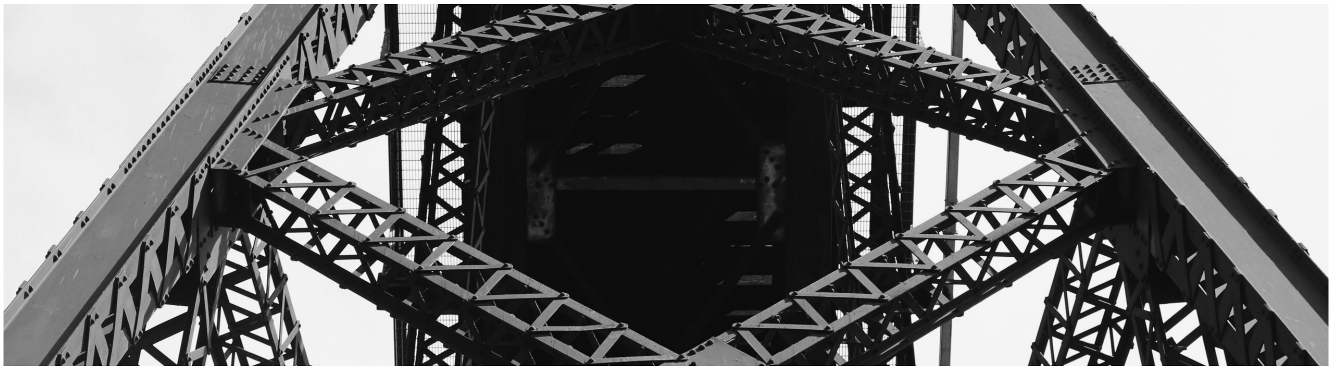
Asset Recycling
Privatization through complex means



Background

Asset Recycling is a new phrase describing corporatization, marketization and privatization of government assets.

An asset is "recycled" when a government, corporation or bank either sells or borrows against its physical assets to get money for investment in new capital.

The concept of "recycling" value from owned assets comes from the financial sector in the 1980s as companies looked for new debt-driven investment schemes. Right-wing governments started applying policies of asset recycling in the mid-1990s in Europe and India as a way to reform welfare economies. Pension funds and other private finance capital funds are promoting these kinds of partial privatizations as they push for safe investment opportunities.

Asset recycling is being sold as an easy way for governments to get more money for investment in new capital projects without increasing taxes. Money is found by using a system similar to private sector debt financing mechanisms companies use to take on debt for investment in new productive capital.

Asset recycling requires setting up an investment pool or infrastructure trust using money from public asset sales. These pools of money or capital are set aside from regular government budgets to be borrowed against in order to fund specific capital projects.

Asset Recycling

Asset Recycling comes in various forms and can include or be known as:

- Partial privatization
- Monetizing public assets
- (Partial) Disinvestment
- Re-mortgaging
- Leveraging

The basic idea is that these new capital projects result in a financial return or savings for government and these revenues or savings then pay for the debt. Much like how corporations in the private sector economy operate, as money comes back into the investment pool or capital projects are finished, the investment pool is then borrowed against again – or recycled – for other capital projects.

Recycling failed privatization schemes

In theory, debt generated by asset recycling is paid back by private sector partners finding operational efficiencies or increased government revenue driven by economic growth. While this may work in the private sector, it does not work for governments. Unlike the private sector, governments engaging in asset recycling are not using this debt to invest in productive or revenue-generating capital projects.

The only way these governments could generate revenue or savings in this model is through downward pressure on wages and benefits of public sector workers, or through private user fees. Proponents will say that economic growth can be generated by these investments leading to increased tax revenue, but still openly admit that this will not be enough to offset lost value when selling assets.

In addition, roads and other transport infrastructure, which are one major focus of this new investment money, cannot be "recycled" in the future. Roads cost more to maintain than what they can generate (unless they have high tolls). Investments in roads through asset recycling is really just a one-step privatization process.

Asset Recycling

Areas subject to Asset Recycling include:

- water infrastructure
- waste water infrastructure
- electricity utilities
- toll roads
- ports
- public office buildings
- crown corporations
- liquor control board infrastructure
- defence infrastructure

In practice, asset recycling is similar to other privatization schemes – such as public-private partnerships – that cost governments and citizens more money than traditional public debt-financed investments.

Driving down wages is the real agenda

Public assets and government services operate on different management models than commercial activities. For example, proponents of asset recycling state that efficiencies come from involving private sector expertise in reforming and modernizing public institutions.

Studies examining private sector involvement through partial privatization of public assets and services have shown negligible increases in efficiency. Public services require people to deliver them. After decades of cuts in public services the workers are stretched to their limits and most efficiencies have been found.

If no efficiencies can be found, then asset recycling advocates must rely on driving down wages of public sector workers to pay for their privatization schemes.

Taxpayers paying more to privatize

Asset recycling was recently introduced in Australia by the right-wing Abbot government. The Abbot government legislation incentivizes privatization of state assets. The proposed Australian legislation included a bribe of 15% in addition to the asset sale price to get its states and municipalities to engage in public asset recycling.

The Australian Senate saw right through the thin propaganda of the bill and gutted the Abbot conservative government's asset recycling legislation.

The senate went so far as to re-title the legislation's bill "Encouraging Privatization" to more accurately reflect the law's intentions.

The Australian Senate concluded that there would be no benefit to the public interest in paying to sell useful public assets for short-term budget balancing.

Mowat Report on Asset Recycling

Asset recycling was first introduced to Ontario policy makers through the Mowat Centre report entitled "Recycling Ontario's Assets: A New Framework for Managing Public Finances" earlier in 2014.

The Mowat report stated that one of the main problems with current asset management in government is their "lack of commercial expertise". While government's understanding of commercial practices is an obvious asset, government must manage its assets to work in the interests of the public. In most cases, private-sector commercial management would mean managing counter to the public interest.

Other problems with government asset management outlined in the Mowat report are ideologically self-inflicted or what most would not consider problems at all. These problems range from years of tax cuts or opposition to conventional forms of government borrowing. For example, the report outlines the following to call for reform:

- Lack of money to invest in new capital projects.
- Difficultly in raising private capital for public projects.
- Lack of long-term strategic plans.
- Budget and tax rules that inhibit privatization.
- Not knowing true private market value of a government asset.
- Pressure from stakeholders such as union and general public.
- Absence of rigorous assessment frameworks because of lack of private sector expertise.
- Limited areas that allow safe private investment by pension funds.

The Mowat report examines the Australian example of asset recycling but excludes examples from the UK, Australia, Indonesia and India where partial privatizations have not resulted in the promised benefits. Many examples ignored by the report show that asset sales are not guaranteed to generated the desired amount of capital, do not reduce risk to the public sector and do not lead to the kind of efficiencies promised. In many cases the level of inefficiency in government-managed infrastructure is overstated making returns much lower than predicted – resulting in costs instead of savings to the public.

From the Mowat report:

"The ability of a purchaser of a public asset to acquire a public monopoly (or an entity operating within a protected regime) further enhances the value of the asset (and the bid price)."

The report's reasons for acting now – such as low interest rates – are also reasons for the government to engage in more conventional and cheaper forms of borrowing.

Additionally, the report highlights some reasons that corporations would be interested in buying or investing in public assets including that many government utilities operate as a monopoly. So, while promoting asset recycling as a way to find efficiencies for private sector involvement, Mowat is promoting asset recycling to private companies by saying they would benefit from fewer, not more, market forces constraining their profits. It is contradictory and incorrect to suggest that public monopolies cost consumers and taxpayers more than private monopolies and that competition will drive efficiency in areas of natural monopoly such as energy utilities.

BC Asset Sales Example

The British Columbia Auditor General's 2014 report highlights how the BC Liberal Government balanced its books with a record breaking $601 million sale of government assets. BC's AG stated that there is no revenue to be gained after the sales are complete. This, in effect, robs future budgets to balance the current budget. In addition, with most partial asset sales, the future costs of maintenance and upgrades are still on the public dime.

Asset recycling is similar to these asset sales in that it robs future budgets to balance the current one and the government gives-up some ability to generate revenue and regulate. The BC AG's report also highlights how P3s (similar to asset recycling in their relationship to privatization) have increased borrowing costs (interest rates) from 4% to 7.5%. In the end, it would have been much cheaper to borrow through traditional public debt mechanisms to build publicly owned infrastructure.

Asset recycling is just another scheme driven by bankers and governments desperate to hide past failures of neo-liberal privatization policy. There are cheaper and better alternatives and it is time we started using them.

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