# Public-Private Partnerships and Government Spending Limits

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- private partner compensated through combination of government payments and user fees.

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  - can provide financing from taxation

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- government has no particular expertise in development or operation

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- in PPP construction and operation bundled *together*

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- best developer may not be best operator

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- but in this talk, will be stressing *another* important advantage

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  - government made up of different parts
  - not all these parts have social welfare maximization as only goal

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- will explore implications of this incentive

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  - regional leader not completely benevolent because its payoff not same as social payoff

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- So, spending limit imperfect solution if contractor must bear risk

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- note: contractor should bear risk purely for *incentive* reasons

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  - so if cost is high, contractor won't accept 13 since 13-5-10 < 0

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- PPP allows central government to use spending limit as effective tool for inducing regional leaders to choose good public projects