

# PUBLIC-PRIVATE PARTNERSHIPS FROM A NEOCLASSICAL AND KEYNESIAN POLITICAL ECONOMY PERSPECTIVE

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## **Introduction**

Founded in 1906 by the United States Steel Corporation (U.S. Steel), the city of Gary, Indiana was once considered a city of opportunity for immigrants, African Americans coming from the South, and others looking for work in the steel mills. At its peak in the 1950s, Gary had a population of nearly 180,000 (Indiana University, n.d.) with over 30,000 residents employed by U.S. Steel (Wolfe, 2012). When steel manufacturing in the United States began to slow, Gary entered a period of radical decline. Its population has now fallen to just over 80,000 and its poverty rate is 38% (US Census Bureau, 2010). There are 6,500 abandoned buildings in the city and one in four parcels of land sit vacant (van Dyk, 2016).

**G**ary's current mayor, Karen Wilson-Freeman, has been focused on revitalization since being elected in 2011. Her administration obtained capital through the federal government's Hardest Hit Fund and has demolished over 260 buildings since 2012 (Bierschenk, 2016). But given the scale of the problem, it would take an additional \$40 million dollars to tear down every unsalvageable building in the city (Carlson, 2016). Revitalization efforts have been further hampered by county-level tax lien laws that make city acquisition of salvageable buildings difficult, if not impossible, for the law ensures that auctions for buildings under a tax lien are first open to private investors (Hackworth, 2014). Since interested investors must pay any back taxes on the property – which are typically higher than the property's value – before they can legally own it, most sales do not go through and properties remain abandoned, only decaying further. The legal fees the city would have to incur to acquire these properties, in addition to the opportunity costs incurred from the loss in potential tax revenue from a successfully auctioned property, nearly guarantees

that properties will remain vacant and the city will continue to lose revenue (Hackworth, 2014).

In such circumstances, Gary's best chance to combat disinvestment and blight was to find a developer who would partner in a large-scale revitalization project. In July 2016, the city signed an agreement with MaiaCo, LLC (MaiaCo). The contract has not been made public, but parts of it have been discussed at town forums meant to educate the public about the partnership and assuage any concerns from citizens. The agreement as understood has MaiaCo making "significant up front capital investment" (van Dyk, 2016) to help the city acquire land and identify others who would develop it (Tejeda, August 2016). For this, MaiaCo would receive 65% of the total land sales; Gary would keep the remaining 35% (Tajeda, August 2016). In this partnership, the city would own the land acquired by MaiaCo until that land was sold to developers (van Dyk, 2016). The city's goal is to acquire 3,500 parcels of land within the first year of this partnership (Dolan, 2016).

As part of the agreement, MaiaCo will co-write an annual action plan with the Department of Planning and Redevelopment. This action plan will be approved by the city's Redevelopment Commission (van Dyk, 2016). The Redevelopment Commission will also review quarterly reports from MaiaCo which document all expenses and progress made towards the blight-reduction goals. Lastly, all proposed developments for the acquired land will be subject to the same process any other development would face before being approved by the city (van Dyk, 2016).

The city of Gary expects community involvement in this partnership. MaiaCo is responsible for creating a community engagement plan within the first six months of the partnership (van Dyk, 2016). As of February 1, 2017, MaiaCo had hired two Gary residents, both with experience working for the city, to serve as community liaisons (Bierschenk, 2017) and established a nonprofit organization called Maia Community Foundation to prepare residents for future employment through job training and assistance with accessing transportation and child care, as needed (Bierschenk, 2017). The final community safeguard states that before MaiaCo receives any proceeds from land sales, they must document that they prioritized Gary-based businesses before reaching out to other businesses in Northwest Indiana (van Dyk, 2016).

This article uses the Gary-MaiaCo partnership to explore how public-private partnerships work. It attempts to understand them through the lens of both neoclassical political economy (with its theories of rational choice and market equilibrium) and the economic

models and priorities associated with John Maynard Keynes (1883-1946), whose approach attempts to account for irrationality and market instability. The article's goals are to show complex reasons why public-private partnerships are so attractive to a city like Gary, to suggest why the Keynesian approach is important for ensuring protections for the public, and to alert social workers to the political economy that impacts their delivery of services. Social workers are often tasked with working at the intersection of such partnerships and understanding their nature can allow social workers to help their clients advocate for the best possible outcomes when public-private partnerships are being used.

## PUBLIC-PRIVATE PARTNERSHIPS

Cities like Gary, lacking the financial resources to provide services or facilitate infrastructure improvements, are increasingly turning to public-private partnerships. Public-private partnerships are financial agreements typically related to public services, focusing on infrastructure improvements, utility service delivery, or capital investments for the sake of blight reduction and redevelopment (Amram & Crawford, 2011). These partnerships tend to follow the responsibilities outlined in the Gary-MaiaCo agreement: private companies provide the financial support needed to complete a given project, and the government ensures that the company meets the agreed-upon goals without exploiting the local community.

All public-private partnerships have four components (Martin, 2016). The first component is a value for money (i.e., cost-benefit) analysis, which is completed by the municipality to justify entering into the agreement. The second component is the contract between the municipality and the selected partner that stipulates the length of the contract. The contract includes the third component: specification of the amount of independence granted to the private partner. The final component is the transfer of risk from the public partner to the private partner. It is this risk which forces the private partner to be as efficient as possible when working towards the goals of the partnership.

Martin (2016) distinguishes types of public-private partnerships based on the different degrees of contractor and municipality investment. The level of investment can be minimal, as with design-build public-private partnerships, where the private company is only responsible for the design and building or refurbishing of buildings or infrastructures. The investment can be expansive, as in a design-build-finance-operate-maintain public-private partnership, where the

private company is responsible for the building or infrastructure from its earliest stages through its continued maintenance. Private companies benefit from public-private partnerships through returns on investment. Municipalities may benefit from these partnerships because they are no longer responsible for providing services that would be financially ruinous if not impossible. Citizens can benefit from these partnerships because they receive needed services within the context of a severely weakened municipality.

While cities and private companies enter into these partnerships, that does not mean there are not conflicts with the actual implementation of the agreement. There is often, for instance, conflict over the range of independence allotted to the corporation and the degree of oversight afforded the city (Martin, 2016). Depending on the complexity of the project and size of the investment from the private company, cities and private companies may each try to negotiate terms that minimize their risk and increase that of the other party.

## THE POLITICAL ECONOMY OF PRIVATE-PUBLIC PARTNERSHIPS

Neoclassical political economists believe capitalistic, unregulated markets are the most effective way to organize societies. Adherents to this form of political economics believe that capitalistic or “free” markets are self-correcting and efficient and will benefit all actors who participate in the economic system. They believe capitalistic markets are highly adaptable and able to quickly respond to ever-changing consumer desires (Caporaso & Levine, 1992). Neoclassical political economists view capitalism’s ability to foster innovation as one of its largest strengths, as evidenced by the rapid growth in technology during the early 19th century (Glaeser, 2009; Peterson, 1981). Innovation is believed to enhance the quality of life in a society, because consumers have the greatest amount of choice available and are able to pick products and services that are the most useful to them.

Since economic transactions are believed to only occur when both parties, acting rationally, believe them to be mutually beneficial (Caporaso & Levine, 1992), neoclassical political economy does not address issues of exploitation and inequality; since actors are able to freely enter and exit transactions with other actors, exploitation in free markets is unlikely, if not impossible. Since exploitation is unlikely, neoclassical political economy also argues that regulation is counterproductive to market efficiency. Government interventions are viewed as disrupting the efficiency of the market and, consequently,

should not occur unless said intervention is to protect property rights, which are a necessary prerequisite for people entering markets freely.

What came to be known as a Keynesian approach followed from economist John Maynard Keynes' arguments that unregulated markets fail to maximize resource allocation efficiency and that government regulation is indeed necessary to correct these market failures (Caporaso & Levine, 1992). A Keynesian approach holds that the state should have a significant role in equitable wealth distribution. Moreover, it does not believe that capitalists and workers/consumers operate in the market equally and therefore is alert to worker/consumer exploitation. It sees its economic ideology as protecting the working class, which typically does not own the major means of production (land and capital) and which must rely on labor power to acquire the goods and services needed to survive. Unlike a neoclassical political economy, a Keynesian political economy does not divorce the economic from the political.

In the context of understanding public-private partnerships, a crucial characteristic of Keynesian political economy is the belief that economic decisions should be analyzed from a long-term perspective. It argues that short-term priorities are rational only at the micro level because actors benefit from doing what is in their best interest. When most or all people behave in this way, self-interest is no longer rational from a macro-level perspective and can have negative consequences on society as a whole (Caporaso & Levine, 1992). Keynesian political economics encourages political actors to consider the social consequences of economic policies when deciding whether or not they should be implemented. In ideal situations, community members have the opportunity to be part of the evaluation and decision-making processes for programs and policies that would directly affect their lives.

## THE CASE OF GARY

In the case of Gary, Indiana, few would argue that the city is not in need of significant investment. Gary does not have the financial resources to attend to its many needs and can seemingly benefit from partner like MaiaCo. Taking the neoclassical view, the partnership is an example of a market need (investment in demolition and redevelopment) met through a mutually beneficial contract (Caporaso & Levine, 1992). Although MaiaCo will receive the majority of land sale revenues, Gary does receive a percentage and, moreover, will see its cityscape better positioned for commercial and residential redevelopment. Thus, Gary's focus on land acquisition is not only in its best interest as a means to lessen the city's

blight, but is also one of the most impactful projects it could have chosen. Since Gary has a large amount of underdeveloped land, it stands to benefit tremendously from interest in the city's new businesses once the land is primed for development. Cities and towns that are more developed have less available land and are less competitive for large-scale construction projects. If Gary and MaiaCo are successful in parceling together multiple lots of land into larger ones, businesses will have space in Gary to build on a scale unmatched by any other community in the region.

Despite the positive effects this public-private partnership may bring to Gary, there are important things the city must consider if this partnership is to be beneficial to its citizens. Here we see how a Keynesian perspective can help. Indeed, some of Gary's citizens believe they will be left out of the economic gains that MaiaCo and the city expect to receive through this partnership. They argue that the partnership will be more focused on attracting new, more affluent residents than it will be with improving the lives of those who already reside in the city (Tajeda, July 2016).

Community Benefit Agreements (CBAs) between local governments and developers are signed to ensure that "the benefits of new urban development [are redistributed] to less-advantaged communities, residents, and workers" (Parks & Warren, 2009, p. 91). While the CBA-like agreement within this partnership stipulates that there will be at least one resident hired as a liaison and that community forums will be used to keep citizens up to date with progress, city leaders are receiving pushback from residents who claim their interests are not being protected. Specifically, there are concerns that current residents will be displaced once property values increase (Tajeda, July 2016).

There was no citizen input into the CBA included in the Gary-MaiaCo deal, and the city finds it has undermined the trust it was attempting to build with residents. Citizens are therefore right to worry: they have little control over the types of businesses or developers that come into the city. As the current agreement stands, all proposed developments will be vetted by the Redevelopment Commission (van Dyk, 2016). Since Gary will receive a portion of all land-sale proceeds, there must be due diligence on behalf of the city to ensure the pool of potential developers is not "creamed" so that only the most profitable developments — regardless of whether or not they enhance the quality of life in the city — are approved (Kee & Forrer, 2012). City officials must also be cognizant of the workforce and skill expectations prospective employers have when they provide higher wage jobs. Given the high rate of unemployment among current residents, there may

be a mismatch in the skills employers want and the skills potential employees have. MaiaCo's creation of the Maia Community Foundation is an encouraging first step to mitigate these potential gaps.

In order to proceed more fairly, a new CBA should be negotiated with input from Gary residents. That CBA could model the Department of Housing and Urban Development's Neighborhood Stabilization Program (NSP), which stipulates that NSP funds must be used to provide housing services, general services to households at or below 120% of the area's median income, or services that will benefit entire impoverished neighborhoods where "at least 51% of the residents" are at or below 120% of the area's median income (Department of Housing and Urban Development, n.d.). Given the high levels of poverty and unemployment in Gary, a CBA that is centered on the needs of low-income households is the most appropriate agreement, as such an agreement would protect current residents from losing their homes. It would prioritize quality of life by providing lower-income residents with resources and programming tailored to their needs. The trust between residents and the city might also improve if a new CBA with significant resident input could be implemented. Gary's commitment to becoming a more desirable place to live should be reflected in how it treats those residents who have remained in the city throughout its worst years.

## CONCLUSION

Regardless of which approach to blight and redevelopment cities and towns choose to take, the needs of current citizens should always be central in local governments' decision-making. A Keynesian approach provides a useful framework for local governments to use when negotiating contracts with potential partners that prioritize the citizens' best interests over private partner's profits.

Social workers can play a unique role in supporting current residents as they advocate for their position within municipalities like Gary. This support by social workers could take the form of traditional community organizing but could also take the form of direct participation within the structures created by public-private partnerships. For example, in the case of Gary, social workers might find themselves employed by the Maia Community Foundation. The Foundation's identified programming in job training, transportation access, and child care access are ideal for social workers. Moreover, social workers could help generate additional programming ideas in response to the needs of their citizen-clients.

Social workers indeed have a unique skill set that allows them to facilitate conversations among diverse or competing groups, understand and appreciate the multifaceted causes of inequality and injustice, and work with vulnerable populations to maintain their dignity and autonomy. As cities continue to redevelop through public-private partnerships, the partnership between the city of Gary and MaiaCo, LLC provides a useful model for how these partnerships can be structured in a way that makes a blighted community a desirable location for new and existing businesses and residents to work, play, and live.

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