Public-private partnership in the reality of the global COVID-19 societal crisis

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Abstract. COVID-19 generated a societal crisis, which manifests itself in the fact that ordinary people are forced to revise their individual values in connection with the coronavirus pandemic and state the fact of their discrepancies with the priorities of the state and with the prevailing values in society. At the same time, the destruction of societal integrity necessitates a restructuring of the relationship between the state, society, business and households, taking into account fundamental changes in the consciousness of society and in people's assessments of the quality of the state's performance of the functions imputed to it by society. Before COVID-19 the priority of functions and fiscal preferences of the state was determined in accordance with the three main groups, according to R. Musgrave. COVID-19 made serious adjustments to the priority of state obligations to society, reducing them to two: improving the epidemiological situation in the country and timely reopening economic activities. These sharp changes were expressed in the emergence of the term “epinomics”, combining the two main goals of the states’ strategies for fighting the coronavirus. Adequate forms of organizing public-private partnerships make it possible to optimize the combination of strategic goals of the state and tools for their budget funding. And this, in turn, lets it possible to advance further in resolving the global societal crisis in the post-COVID-19 pandemics future.

1. Introduction
The governments in countries where the peak of coronavirus disease has already been passed, as well as representatives of international organizations, are seriously thinking what the future after COVID-19 should be like. And this is not only about protecting the health of citizens in virus pandemics, or about measures to reduce unemployment and increase real incomes of citizens. There will be required deep theoretical developments of the future institutional support of various forms of organizing people's activities, including the participation of private investors in partnership with the state for the implementation of socially significant projects in the public sector. These aspects of the study are directly related to the contemporary societal crisis, which predetermines the necessity to rethink the importance of formal institutions in the hands of the state and specify their role as to public-private partnerships (PPP). The PPP platform lets it possible to analyze the intersection of values of firms representing the interests of shareholders and many stakeholders, on the one hand and the state, on the other, which means the real step towards the resolves of the problems of the societal crisis. And the institutional specification of relations between the state and private business makes it possible to assess the possibilities of optimizing the tool of formal institutions when considering their alternative
options with the dominance of the punishment mechanism for opportunistic behaviour of partners or subject to adequate socialization of citizens who recognize the accepted norms of behaviour in society as indisputable. The unconditional preference of partnership compared to opportunism in the behaviour of the state and private business is the key to success in solving the problem of the societal crisis due to the fact that the main "architects" of the future post-coronavirus reality recognize "freedom" as "realized necessity" [1].

In this context it should be highlighted the institutional aspect of the manifestation of the COVID-19 outbreak which reached the size of pandemic, started off as a public health crisis but is quickly developing into a major economic and social crisis [2]. One of the essential reasons for the outbreak of the societal crisis caused by COVID-19 is the "failure" of the state to achieve using formal institutions a dialectic combination of mechanisms to combine the interests of participants and to punish them for opportunism. Actually, the following conclusion of World Health Organisation (WHO) Strategy Update of 14 April 2020 testifies to this: “Governments must also repurpose and engage all available public, community and private sector capacity to rapidly scale up the public health system.” It is about restoring the sphere of intersection of the values of society as the integrity of citizens and public choice aggregated by the state. As a result, two main strategic goals of the state came to the forefront - improving the epidemiological situation in crpane and re-opening the national economy, which were combined in one term “epinomics” [3]. At the same time, the state can test the epinomic policy and evaluate its first results using the PPP platform. It is the PPP one that represents the level of intersection of the values of private business as a representative of society and public preferences in the implementation of the state's epinomic strategy. In this regard, the mechanism of institutional support of various forms of partnership between the state and private business allows us to assess the adequacy of aggregation of individual values, from the point of view of business and public choice in its implementation of the state. As a result, expanding the practice of PPP implementation will allow optimizing the epinomic policy in terms of resolving the societal crisis in the post-COVID-19 future.

2. Methodology

2.1. Contradictory phenomenon of state and the COVID-19 societal crisis

Even before the COVID-19 pandemics, theorists took their best to find out the reasons for the low efficiency of state activity in national socio-economic systems. They linked the main reason with the problem of priority choice of budget expenditures in relation to the three main groups of functions of the state. V. Tanzi [4] called that problem the "triad" of R. Musgrave. Triangle angles were associated with the following state functions: (1) of allocating resources, (2) of redistributing income (equality in income distribution), and (3) of in economic stabilization (economic efficiency) [5]. The budgetary constraints of the state did not allow him to finance them equally, which objectively predetermined his choice of any two groups of expenses out of the three available. This essentially fiscal problem was compounded by the fundamental contradiction inherent in the phenomenon of the state itself. On the one hand, the state does not have its own interests, since society created it solely for the purpose of serving the public interest. On the other hand, the society have no adequate means for the operative assessment of the effectiveness of the state's activities. And given the significant financial resources redistributed by society to the state budget for the purpose of financing the production of socially significant goods, its activities become opaque, corrupt and often self-sufficient. This phenomenon is also predetermined by the fact that the state is contradictory in essence, acting both as a subject and as an object of management. All the above determines the theoretical paradox of Masgrave's "magic triangle" [6].

The complexity of the theoretical interpretation of the low efficiency of the state’s activity is compounded by the fact that it is authorized by society to institutionalize relations within its framework. In this case, all of the above listed contradictions related to the phenomenon of the state are strengthened due to formal institutions. However, the institutions themselves are associated with the dialectic of the interconnections between the mechanisms of observance of socially established
norms of behaviour and of punishment for their violation. If citizens and private business share the values of society, then the significance of punitive actions of the state through formal institutions is minimized. Если эти социальные ценности не совпадают с приоритетами во взглядах граждан, то государство применяет формальные институты как механизм наказания за оппортунизм. It is in this case that the inefficiency of the state in all its actions is maximized.

The societal crisis, generated by the COVID-19 pandemic, demonstrated the inefficiency of the state and its formal institutions in implementing the mechanism of punishment for opportunistic behaviour in society in the context of the state of national health systems that are not ready to effectively fight for the lives of their citizens, as well as the helplessness of national states to stop exponential growth of coronavirus cases, except to resort to economic lockdown. IMF Managing Director Kristalina Georgieva called the current period ‘the Great Lockdown’ because to fight a health emergency the national governments have brought production and consumption to a standstill. This has never been done before [7]. By the end of 2020, 170 countries—almost 90 percent of the world—will be worse off with lower per capita income. However, the complete «failure» of the state is the number of fatal cases due to coronavirus infection: according to the Johns Hopkins Health Centre on June 29, 2020, it approached 0.5 million cases, while the daily increase remained at the level of 0.003 million. As a result, the societal crisis generated by COVID-19 reduces three priority functions of the state before COVID-19 into two without alternatives ones during the coronavirus pandemic. It is about (1) improving the epidemiological situation and (2) reopening economic activities. Moreover, the first goal is paramount, because health outcomes are an ongoing concern as the coronavirus is still out there. In addition, rising unemployment and economic lockdown take huge hits. The epinomic policy of the government in the first two phases (“flatten” and “fight”) of the fighting COVID-19 pandemics crisis has become extremely expensive. So in any case national states do their best to construct their epinomic policy, aiming at collaborating with the society in the attempts to seek balance in health and economic outcomes and to minimize health and economic tradeoffs.

2.2. State violation of the formal institutions’ dialectics as a manifestation of the COVID-19 pandemic societal crisis

The societal crisis connected with the fact that the COVID-19 outbreak has been threatening lives and the wellbeing of the whole global community [8]. And at the beginning of 2020, it became obvious that national states were not able to repel this fundamental threat. It is in this context the BCG’ experts have treated the COVID-19 outbreak as the first and foremost a societal crisis. In other words, even taking into account the unprecedented decline in economic activity, the social crisis is still the main problem of mankind due to the COVID-19 pandemic. One of the most striking manifestations of the societal crisis is the lack of citizens’ support for the self-isolation regime introduced by national governments. These and other societal contradictions, fixed by formal institutions before COVID-19, specify the fragmentation of values in the representation of society and of its citizens, on the one hand, and of the state, on the other. As a result the COVID-19 pandemics have revealed many injustices and weaknesses due to activities of governments that already exist in human-built national societies. Rabbi Jonathan Sacks is sure that if people were blind to these faults before, it is hard not to see them now [9]. It is in this context that it can be understood why the world is waiting for fundamental changes. In other words, the essential manifestation of the societal crisis caused by the COVID-19 pandemic is the inadequate use of formal institutions by the state. It is formal institutions which could become an effective means of the state’ society collaboration and of coordination of the value priorities of society and of the state as the fundamental foundation of the societal integrity of national communities [10]. However, before the advent of COVID-19, modern states recognized themselves as an unquestioned authority in everything, the last resort in solving national problems. They really did relatively well with economic tasks compared to their social functions to protect the lives of their citizens, determine their value orientations and adapt to them using formal institutions [11]. The societal crisis generated by COVID-19 has brought everything back to square one, putting first the actions of the state connected with protecting the citizens’ lives at the expanse of the economic
lockdown. As a result, it becomes clear that the essence of the societal crisis is associated with the violation by the state of the dialectics of formal institutions. They are designed to mediate the interaction of mechanisms to ensure norms of behaviour when the value ideas of all representatives of society coincide and to punish for opportunistic behaviour of community representatives. Before COVID-19 it seems that national states abstract from this problem, using formal institutions to a greater extent as a well-functioning punishment mechanism. At the same time, they did not realize that in this case formal institutions crush the societal integrity [12]. And to institutionalize relations in a society consisting of citizens opposing the state could be possible only with emphasis on the mechanism of control, punishment, etc. Political decisions made under these conditions by the state are doomed to be inefficient. And, first of all, this was reflected in the inadequate public choice aggregated by the state on the basis of distorted individual values and preferences. Then it becomes obvious that the solution to the societal crisis caused by COVID-19 lies in a radical restructuring of the state itself. It is about priority functions of the national state and their implementation through formal institutions, as well as the priority of their dialectically interconnected implementation mechanisms. Only the priority of the institutional mechanism for coordinating value preferences in the representation of citizens, society and the state will restore the societal integrity of national communities. Ultimately, this will help resolve the 2020 societal crisis caused by COVID-19. Such a restructuring of the vertical of modern societies requires fundamental theoretical research and rethinking of political decisions of the state in the framework of epinomics.

2.3. The importance of PPPs in resolving a societal crisis
Governments now, more than ever, need to protect citizens’ lives and health, manage mid-term implications and search for lasting solutions. This situation along with the global GDP drop predetermines the necessity to investigate a national socioeconomic structural characteristics associated not so much with the objective, easily modelled factors of its development, as with the subjective ones, difficult to be understood, but increasing in importance. As a result, a complex set of problems arises in the field of healthcare, economics, societal relations and private business, which need to be understood and appropriate decisions taken to minimize the negative consequences of ineffective epinomic decisions of the state. In this regard, PPP is becoming an adequate experimental platform for the implementation of the choice by national states of the specific structure of epinomics [13]. In the first two phases of the fighting the COVID-19 pandemic - “flatten” and “fight” - the national states in their eponomic policy make a choice between health outcomes and economic and societal costs. Historically, there has been little connection between the studies of epidemiology and economics, as modern outbreaks have not been significant enough economic events. Today, however, local government officials and public health decision-makers will have to make decisions that balance the disease trajectory with policy choices—and understand the implications of these tradeoffs [14]. But even a full recovery of the modern countries is unlikely to look like the pre-COVID national economies and societies.

The partnership between the state and private business is promising from the point of view of eliminating the essential cause of the modern societal crisis, since it is built on the coinciding interests, preferences and values of partners. In addition, PPP refers, as a rule, to long-term, capital-intensive and socially significant projects. This means that the implementation of PPP projects in the field of public goods implies a significant number of stakeholders who, through their actions, transmit consent (disagreement) with each other's actions, including the state (fig. 1). It should be noted that the state as a partner in a PPP project is also forced to coordinate its interests with those of private investors. The coordination of interests objectively implies the institutionalization of relations of partners, which are guided by partnership behaviour that excludes opportunism, and, therefore, the mechanism for harmonizing norms of behaviour. In this case, the state’s epinomic decisions in the sphere of public interests are objectively predisposed to efficiency. In other words, since PPP is implemented in socially significant areas, it a priori combines individual and social values in the field of protecting the health and well-being of citizens, i.e. the first component of the state's epinomic policy. In this context,
the development of PPPs can play a significant role in resolving the societal crisis after COVID-19.

3. Results and discussion
As for the economic component of government decisions in the field of epinomics, the rapid development of PPPs in the field of public infrastructure will provide the most significant contribution to economic re-opening after COVID-19 [15]. According to the Global Infrastructure Hub, economies, especially developing economies, have been already facing significant infrastructure gaps, amounting to $15 trillion globally for the period 2016 to 2040. Governments now face a dilemma whether to increase infrastructure spending as a means to stimulate their economies or, ironically, to cut committed infrastructure spending to save. As a rule when economic growth declines, so too does public investment. Yet, the pandemic will increase calls for increased spending for certain priorities, such as health care, welfare, pandemic-proofing of public services, and infrastructure such as transport, digital connectivity.

Further the Global Infrastructure Outlook [16] estimates that the cost of providing infrastructure to support global economic growth and to start closing infrastructure gaps will be US$94.0 trillion by 2040. As whole the global infrastructure investment needs is estimated to be $94 trillion in the period of 2016 - 2040. This is 19 percent higher than would be delivered under current trends, and is an average of $3.7 trillion per year. To meet this investment necessity, the world will need to increase the proportion of GDP it dedicates to infrastructure to 3.5 percent, compared to the 3.0 percent expected under current trends. So the 'investment gap' represents the difference between a country’s investment need, and what would be spent under current trends [17]. It seems that if current trends continue, global infrastructure investment will reach $3.8 trillion in 2040, an increase of 67 percent over the 2015 value, in real terms.

The scale of the infrastructure “gap” and the serious problems associated with finding financial sources to overcome it are related to the dominant topics of epinomics, post-COVID-19 reality. But all these problems can be reduced to the only few: how to ensure large scale, better quality of infrastructure networks at a lower cost. It is about rethinking how governments together with the private sector could choose, design, implement and manage infrastructure projects, as well as provide more economic benefits from the already existing networks in the framework of epinomic decisions. Experts are sure that only the introduction of PPPs provides a remarkable opportunity to significantly increase the productivity of infrastructure investments.

The problem is that even if the state increases infrastructure spending this will not be enough even to maintain the conservative pace of the country’s infrastructure provision. As a result the sustainable
growth of the national economies can be ensured on the condition of considerably large private investments in the development of public infrastructure in the countries of the world. And these opportunities are clearly related to the development of hybrid forms of PPP in the field of infrastructure projects. Below there are presented hypothetical calculations of the investment opportunities of a number of countries, provided that their states manage to offer such PPP projects to private investors, that makes it possible to attract 1 or 2 or 3 extra-budget US dollars per each budget US dollar (fig. 2). Using official data, there are made some estimates of the prospects to increase infrastructure capital investments without budget government expenditures growth. The data obtained are presented in Figure 2 connected with the example of Russia.

![Figure 2](image-url)

**Figure 2.** Russia: dynamics of economies of scale derived from private investment in addition to the state budget expenditures on infrastructure projects at current prices (in billion US dollars).

Source: The author’s estimations.

So the government’s attraction of one extra-budgetary additional US dollar doubles the potential of national budget spending on infrastructure development. If the national government could manage to attract private funds in proportion of 1 budget US dollar to 2 extra-budgetary US dollars then the investment resources for public infrastructure financing would increase three times. But in the case of the realization of proportion of 1 budget US dollar to 3 extra-budgetary US dollars then the national public infrastructure financing would increase four times. According to the calculations of InfraONE experts [18], if budget funds of the Russian Federation could be “packaged” in a model of project financing on the base of hybrid PPP (concessions, or any other hybrid PPP model) then the total amount of funds attracted to projects would increase no less than three times.

4. Summary

Covid-19 is a major event that exposes the lack of preparedness and resilience of the increasingly globalised and interconnected economy, and it certainly won’t be the last. But we can use this moment to innovate about public-private partnerships and make them serve the purpose. In case of health emergencies, it is critical to mobilise quickly all PPP actors: public sector, private sector, donors. When PPP actors and stakeholders are organised in a ecosystem, it is easier to place calls for actions, initiate new PPPs and to receive a response in a coordinated way, through traditional procurement but also using unsolicited proposals.

National governments put in place crisis management and recovery strategies to prevent, mitigate, and backstop distressed PPP projects. Today, the question arose most sharply as to integrated approach
to help mobilize private sector financing and expertise for infrastructure development in general [19]. No doubt healthy cooperation with the private sector will be more important right now as well as in post-crisis reality ever because countries exit this crisis even more fiscally constrained. It is obvious, that many governments will use infrastructure PPP projects as an economic stimulus measure. PPP infrastructure investment—by both public and private means—supports low-carbon pathways and strengthens resilience to climate change and other kinds of shocks, like the COVID-19 pandemic.

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