28. Privatization

Congress should

- sell all federal energy enterprises;
- convert air traffic control, public broadcasting, and various research and development laboratories to self-supporting nonprofit corporations;
- privatize Amtrak and the U.S. Postal Service via worker-management buyouts;
- gradually sell off commercial lands and buildings;
- auction off all remaining nonmilitary frequency spectrum;
- sell federal loan portfolios; and
- sell remaining commodity stockpiles.

Since 1986 governments worldwide have sold off more than $750 billion in assets and enterprises. Many additional billions worth of state assets have been given to citizens of former communist countries via privatization voucher programs. Privatization has dramatically improved the performance of former government enterprises, while improving the financial health of the governments involved. In private hands, former government assets no longer get taxpayer subsidies; indeed, they become net taxpayers. And the one-time proceeds from asset sales are used either to help meet budget-balancing goals or to pay down excessive levels of government debt. The United States has only begun to tap the potential of a serious program to divest federal enterprises and assets.

During the past two years, Congress and the administration have begun to take privatization seriously. In 1996 the Congress approved legislation to sell the Naval Petroleum Reserve at Elk Hills, California, the National Helium Reserve, the U.S. Enrichment Corporation, the Alaska Power Administration, and the Office of Personnel Management's Investigations Service. The Petroleum Reserve was sold for $3.65 billion in 1997, and

the Enrichment Corporation went for $1.9 billion in the summer of 1998. But, as this chapter will make clear, Congress has only scratched the surface of salable assets and enterprises.

Sale of Federal Enterprises

Table 28.1 lists some additional federal enterprises that are potential candidates for privatization as going concerns.

Electricity

The first four items in the table are all parts of federal energy systems. Worldwide, electric utility systems worth some $34 billion were privatized in 1997. Investment bankers and accounting firms have been analyzing and carrying out such transactions around the globe for the past 10 years, and a wealth of expertise is available on structuring such deals and coping with the inevitable political concerns, such as possible rate increases for electricity users. While privatization will mean the loss of tax subsidies for the utilities in question (thereby tending to increase rates), investor

Table 28.1
Salable Federal Enterprises

Enterprise	Sales Revenue ($ billions)	Annual Savings ($ billions)
Tennessee Valley Authority	8.5	1.0
4 power marketing administrations	14.0	1.2
130 dams*	10.0	?
Misc. energy facilities**	10.0	?
U.S. Postal Service	8.1	—
Air traffic control	3.5	—
Global Positioning System	7.0	?
National Weather Service	2.5	0.4
U.S. Geological Survey	0.8	0.6
4 NASA aeronautics labs	5.6	0.3
USDA Ag. Research Centers	4.0	?
Department of Energy labs	6.1	?
Amtrak	—	1.0
CPB	0.3	0.3
Total	80.4	4.8

*Under the Army Corps of Engineers and the Bureau of Reclamation.
**Under the General Services Administration, Veterans Administration, and Department of Defense.
? means no reliable savings estimates available

ownership will provide strong incentives for cost cutting (thereby tending to permit lower rates). With electricity deregulation fast approaching, it may well be a matter of survival for government-owned electric utilities to develop a truly commercial, entrepreneurial corporate culture (as has occurred via privatization overseas—in Argentina and Britain, for example).

One way of easing rate shock for consumers is to offer them shares in the enterprise on a preferential basis, as was done in most of the utility privatizations in the United Kingdom. That way, their gains as shareholders (dividends, capital gains) will help to offset any increases in their utility bills.

U.S. Postal Service

The most important reason to privatize the U.S. Postal Service is not to raise money but to improve the organization's ability to survive and thrive in a rapidly changing world of e-mail, fax machines, and overnight express companies. Because its monopoly status lets the USPS subsidize new services with profits from monopoly functions, competitors rightly object to any proposed new ventures by the USPS. Second, the corporate culture of the USPS is still that of its predecessor government agency. Lacking shareholders that can hold management accountable for truly commercial performance—and constrained by its mountain of procedural rules and red tape—the USPS is simply unable to operate like a real business. Argentina, the Netherlands, and Sweden have already privatized and deregulated their postal services; Germany, Italy, Lebanon, Malaysia, and Saudi Arabia are planning to do so; and Britain and Canada are considering the idea.

The best way to address the concerns of postal workers and management is to give them partial ownership of the privatized firm. Earmarking for workers and managers a meaningful fraction (10 percent or more) of the shares in a firm being privatized has become routine around the world, especially for large firms and especially for those that are labor intensive. Turning workers and managers into shareholders is one of the best known ways to change the corporate culture of a bureaucratic enterprise, giving every individual a tangible stake in its success as a profitable private enterprise. A precedent has already been set with the worker-management buyout of OPM's former Investigations Service.

Air Traffic Control and the Global Positioning System

For these two high-tech functions, the imperative to privatize is to permit users to realize the full potential of their vital 24-hour-a-day services.

Current governmental personnel, procurement, and budgeting systems fatally hamstring the performance of the nation's air traffic control (ATC) system. It cannot retain sufficient highly experienced controllers in the most demanding locations because of civil service. It cannot procure state-of-the-art computers and electronic systems because, by the time the procurement process is completed, the systems have already become obsolete. And it cannot rationally plan and implement a modernization program on a year-by-year pay-as-you-go basis. As of 1998, 16 other countries—including Australia, Britain, Canada, and Germany—had converted their ATC systems to user-funded corporations, independent of government procurement, civil service, and budgetary systems. In Canada, a user-owned not-for-profit corporation—NavCanada—purchased the ATC system in 1996 for over $1 billion. A larger scale version could be applied in the United States.

Much the same analysis can be applied prospectively to the Global Positioning System, the complex of satellites that provide real-time position locating worldwide. Developed originally for defense purposes, the system has now been opened to civilian users. Full use of the GPS's tremendous capabilities over the next several decades promises huge benefits—to aviation, ocean shipping, trucking companies, fleet managers, individual drivers (navigation systems), hunters, backpackers, and others. But continued Department of Defense operation and management of the system will fail to realize the full range of the GPS's potential. A federally chartered corporation (like Comsat) could buy the system from the government and operate it on a user-fee basis.

Research and Development Agencies

The next items on the list are all involved in science-based activities for which commercial markets exist, and in which the agency's ability to operate commercially is often restricted by the constraints of being a government agency. Both the National Weather Service and the U.S. Geological Survey generate information products whose commercial value is potentially quite large. But their status as government agencies has required them to give away or sell for token amounts much of that valuable information. They are also plagued by budgetary constraints, which make it difficult for them to afford state-of-the-art computer systems that are critical to their success in processing the large volumes of information inherent in their work. As commercialized entities they would be free to borrow in the capital markets to modernize their equipment, demonstrating

the soundness of those investments in terms of future sales of enhanced information products.

The National Aeronautics and Space Administration's aeronautical laboratories (Ames, Dryden, Langley, and Lewis) are in a slightly different situation. The market for their aeronautical research and development is limited principally to the producers of aircraft and aircraft engines, along with the military. The labs' findings are provided at no charge to those firms and the Department of Defense. Hence, taxpayer support for those labs amounts to a subsidy to a specific industry and to the DoD. Privatizing those labs would be a way to end an industry-specific subsidy and would require those firms to purchase the valuable information and incorporate the cost into the ultimate prices of their products. The DoD would become responsible for funding that portion of the labs' work that it finds valuable. Much the same is true for many of the R&D labs of the U.S. Department of Agriculture and the Department of Energy.

Worker-management buyouts would be one form of privatization suitable for the various R&D labs. In the past five years, Britain has privatized a number of labs that deal with research in agriculture, chemistry, construction, engineering, physics, and transportation. And the worker-management buyout of OPM's Investigations Service sets a valuable U.S. precedent for such buyouts.

Amtrak

Amtrak will be difficult to privatize in its current form. Were the company to be put up for sale, with all current laws and provisions unchanged, it is doubtful that a single serious bid would be received, since Amtrak covers neither its operating nor its capital costs from its fares. Even the Northeast Corridor, where Amtrak enjoys its heaviest patronage, is a money-losing proposition.

The only way in which viable bids might be received for Amtrak is if Congress enacted major changes in the law that would permit dramatic reductions in Amtrak's costs. Such measures might include repealing the Federal Employers' Liability Act (at least as it applies to Amtrak), amending the Railway Labor Act to reduce severance pay from the equivalent of six years' to that of six months' normal pay, repealing statutory requirements for various types and levels of Amtrak service so as to permit it to discontinue specific routes or trains, and reforming Railroad Retirement and Unemployment Insurance.

Railroad expert Joseph Vranich has proposed replacing Amtrak with several decentralized alternatives. The Northeast Corridor should be spun

off as a potentially profitable business, possibly via a worker-management buyout. Commuter service in urban areas should be divested to cities and states, via interstate compacts, where necessary. Amtrak's long-distance service should be liquidated, to be replaced—where demand exists—by private cruise trains. Congress would protect successor passenger rail services by establishing a ''post-Amtrak passenger-rail employee'' category of worker who is exempt from current rail-specific legislation such as RLA, FELA, RRA, and RUIA.

Corporation for Public Broadcasting

Abundant cable and satellite television has greatly weakened the original case for taxpayer support of public broadcasting. Cultural and educational programming, once considered commercially inviable, is now available on competing commercial channels. And tentative offers from private firms indicate that the Corporation for Public Broadcasting and the Public Broadcasting System have developed programming with real market value. Privatizing the CPB would depoliticize it, thereby ending once and for all the controversies between liberals and conservatives over program content. If Congress judged none of the bids for the CPB acceptable, an alternative would be to earmark several billion dollars of the proceeds from the sale of broadcast frequencies as an endowment fund for the CPB, sufficient to end its dependence on annual appropriations. The CPB could then become an independent, nonprofit corporation, deriving its annual budget from earnings on its endowment fund, fundraising and sponsorship, and revenues from licensing and commercial spinoffs (e.g., *Barney*).

Sale of Federal Assets

Much larger than the potential value of federal enterprises is the potential value of other federal assets. Table 28.2 indicates that just eight categories of those assets might be worth as much as $442 billion.

Electromagnetic Spectrum

Thus far the Clinton administration has auctioned off over $10 billion in previously unallocated spectrum, thereby setting an important precedent—namely, the acknowledgment that frequencies are a form of property, an essential component of the means of production of communications services. But the current spectrum auctions fall short in two ways. First, auctions have been used only for a few frequency bands that were previously unused. Second, what has been auctioned off is only a temporary

Table 28.2
Salable Federal Assets

Asset	Sales Revenue ($ billions)	Annual Savings ($ billions)
Spectrum	150.0	?
Lands (Forest Service, BLM)	160.0	3.0
Loan portfolio	108.0	2.0
Defense stockpile	1.0	?
Strategic Petroleum Reserve	13.0	?
Govt. bldgs. & land	10.0?	?
Total	442.0	5.0

right to use the frequency, not a true property right. The principle needs to be expanded in both of those areas.

Private ownership is equally valid for all civilian frequency bands, not just for those currently unoccupied. Among the most important bands are those used by broadcasters. Current license holders exist in a kind of twilight zone, in which their studios, antennas, broadcast equipment, and all the other means of production are privately owned, but the frequency—without which they cannot broadcast—is held at the sufferance of a federal agency that can rescind the right to use it in response to interest-group opposition to the content of current broadcasting.

Moreover, the Federal Communications Commission has decreed that certain frequency bands must be used only for the purposes that the commission has specified—even if alternative uses would be far more valuable. Many ultra-high television frequencies, for example, are worth relatively little in that use; the same frequencies could be worth vastly more if repackaged for other uses.

In a recent Reason Foundation study, communications attorney David Colton sets forth a three-phase program for dezoning, privatizing, and protecting spectrum bands. On the basis of careful analysis of recent auction prices, Colton estimates that privatization of all nonmilitary spectrum could yield between $100 billion and $300 billion. To be conservative, we have used $150 billion for this line in Table 28.2.

Commodity Lands

The next item is commodity lands—commercial timberlands owned and operated by the Forest Service and grazing lands owned by the

Bureau of Land Management. A 1989 Reason Foundation study, making conservative assumptions, estimated that those lands are worth some $160 billion at market value. The Forest Service and the BLM are poor stewards of those lands. (The Forest Service is notorious for spending hundreds of millions of dollars on logging roads in forests the timber harvests from which do not produce sufficient revenues to recover the costs.) The BLM's policies encourage overgrazing. Both environmental and multiple-use goals can be secured as part of privatization. Deed restrictions, for example, can require the purchasers of forest lands to continue to provide access for multiple uses—hiking, fishing, hunting, and forestry. Especially environmentally sensitive BLM and Forest Service lands (where commercial operations cannot be economically self-supporting) can be set aside for sale to environmental groups.

Loan Portfolio

The federal government is the nation's largest lender—to homeowners, college students, and small businesses in particular. Unfortunately, the various agencies involved do a relatively poor job of collecting on those loans. A loan portfolio is an asset that can be sold for a percentage of its face value to a buyer that believes it can do a better job of collecting on the loans than the seller is doing. During the 1980s federal loan asset sales demonstrated that the federal government could receive up to 80 cents on the dollar for its loan assets. Assuming a sale price of between 60 and 80 cents on the dollar, the government's current $155 billion portfolio could yield between $93 billion and $124 billion.

Defense Reserves

During the Cold War, the government built up a huge variety of reserve stocks of various commodities. One of the oldest of those was the Naval Petroleum Reserve, at two sites in California and Wyoming. Those stocks of oil no longer have strategic value, and the oil is, in fact, sold into the commercial market today. Congress approved the sale of the California reserve in 1996, and it was sold for $3.65 billion in 1997. Another obsolete reserve is the National Helium Reserve, which accounts for 90 percent of the nation's helium sales. That reserve has a market value of between $1.0 billion and $1.5 billion; unfortunately, its borrowings from the Treasury, plus accumulated interest, total $1.4 billion, making net proceeds from the sale a wash. But at least the sale would provide a ready means of paying off the reserve's debt. Congress enacted the Helium Privatization

Act in 1996, providing for the gradual sale of the reserve over a 20-year period. In addition to oil and helium, the Defense Department acquired immense stockpiles of other commodities during the Cold War, much of which it is no longer necessary to maintain. Those stocks should also be sold off over a period of years (so as not to greatly depress the market price of each commodity).

Strategic Petroleum Reserve

As a result of the oil embargoes of the 1960s and 1970s, the federal government created a huge civilian reserve stock of petroleum. While the reserve could prove valuable in a future situation of unexpected supply shortages, it is the existence of the reserve, rather than its ownership, that is critical. Private institutions could buy out the function of operating the reserve, and there is some reason to believe that the release of stocks from the reserve in response to market price increases would be more timely and less subject to arbitrary constraints than would releases under the current political management. The Congressional Budget Office has estimated the market value of the SPR at $13 billion and included its possible privatization in a recent options paper.

Government Buildings and Land

The federal government is the nation's largest owner of real property. Not only does it own one-third of the country's land area (the commodity lands discussed above, as well as national parks and wilderness areas), but it also owns huge amounts of valuable urban land and buildings. Moreover, the government owns some $12 billion of real estate overseas. It is high time Congress reviewed the General Services Administration's detailed inventory of federal real estate for the purpose of identifying salable properties, both domestic and foreign. A significant fraction of those holdings appears to be surplus by any reasonable definition. And for that real estate required for ongoing governmental functions, the government should consider the option of sale and leaseback. Many state and municipal governments are discovering that their in-house costs of operating and maintaining office space are as much as double those of the private sector. Rather than battle endlessly over whether or not to contract out selected operating and maintenance tasks, the GSA could realize savings by selling many buildings to professional real estate management firms and leasing back needed space at rates that reflect private-sector efficiencies.

Achieving Fiscal Benefits

As shown in Table 28.3, a serious privatization agenda could produce $522 billion in one-time proceeds, which should be earmarked for paying down the national debt. In addition, three other impacts would improve the government's annual fiscal position. First, elimination of current operating costs or subsidies, or both, would yield nearly $10 billion per year in savings. Second, federal corporate income taxes on the privatized federal enterprises would generate an estimated $18 billion per year. Third, the reduction in the national debt (thanks to the proceeds of the sale of assets) would lead to annual interest savings in the vicinity of $31 billion. Together, those three savings total $59 billion per year in permanent annual savings.

Those numbers may understate the full potential savings from federal privatization. Tables 28.1 and 28.2 are incomplete in two ways. First, some of the annual savings estimates are not included, because hard numbers are unavailable at this time. Second, other assets and enterprises can undoubtedly be added to these lists, producing further sales proceeds and associated annual savings. So the total proceeds and annual savings from a full-fledged federal privatization agenda would be larger than what is shown in these preliminary tables.

While the totals are large, most of the individual items are rather small. With each individual federal asset or enterprise defended by a well-established constituency with strong ties to the congressional committees that have historically dealt with that asset or enterprise, the gains from each isolated privatization may appear to not be worth the cost of the struggle to bring it about. That problem is analogous to that faced by advocates of closing surplus military bases in the 1980s. Rep. Dick Armey

Table 28.3
Overall Savings from Privatization ($ billions)

		Annual Improvement in Federal Balance Sheet		
Type of Sale	One-time Proceeds	Interest Savings*	Subsidy Elimin.	Fed. Corp. Tax**
Enterprises	80.4	4.82	4.8	2.73
Assets	442.0	26.52	5.0	15.03
Total	522.4	31.34	9.8	17.76

*Interest calculated at 6.0 percent on Treasury bonds.
**Federal corporate tax rate of 34 percent on revenue equal to 10 percent return on asset value.

of Texas proposed the breakthrough solution of a Base Closing Commission, which had carte blanche to identify, on the merits, a whole set of bases that were good candidates for closure. Congress agreed to bind itself to accept or reject the entire package of recommendations in an up-or-down, no-amendments-possible vote. That mechanism permitted members of Congress to do what was right despite the potential of short-term pain in their individual districts.

A similar mechanism might prove useful in the case of privatization. A privatization commission could be charged with identifying each year a package of federal assets and enterprises to be privatized. The independent, bipartisan commission would produce an annual list of proposals that would be voted on as a package, without amendment, in an up-or-down vote. That approach has the best chance of overcoming what Milton Friedman has called ''the tyranny of the status quo.''

Suggested Readings

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