

Letters

We welcome letters from readers, particularly commentaries that reflect upon or take issue with material we have published. The writer's name, affiliation, address, and telephone number should be included. Because of space limitations, letters are subject to abridgment.

Sagebrush Roundup

TO THE EDITOR:

Robert H. Nelson has demonstrated once again his ability to write about public land management with outstanding clarity, incisiveness, and relevance ("Why the Sagebrush Rebellion Burned Out," *Regulation*, May/June 1984, and "The Subsidized Sagebrush: Why the Privatization Movement Failed," July/August 1984). It is heartening to see serious scholars examining the problems and opportunities of the federal lands.

His account of why the inept privatization proposals of the past four years failed so completely is informative and perceptive, as is his description of how privatization of public lands is nonetheless occurring incrementally. . . . I do not challenge his conclusions, but I would like to add a few further points.

First, the privatization of federal lands was proceeding at an appreciable pace before the Taylor Grazing Act was passed in 1934. In the decade before 1934, Washington disposed of at least a million and a half acres every year, and as much as 5 million acres in 1925—even though federal laws were not well designed for such disposal. I find it hard to believe that all private sector interest in acquiring federal land has ended since then.

Second, the impetus for privatization must come from the purchasers, not the government agencies. The junk that federal agencies are willing to dispose of is, with few exceptions, junk no buyer would want. If we are serious about privatization, we must be prepared to

let private parties (including conservation groups) acquire land truly valuable to them.

Third, again if we are serious about privatization, we must expect it to take some time. The fire-sale approach of the past four years was doomed to failure simply because it sought large results too quickly. If what we want is to pretend to privatization but not really achieve it, then by all means we should let the federal agencies designate what they do not want and try to sell that quickly.

Finally, the disposal of much federal land on any terms—including outright gifts to present users—would improve the net income position of the U.S. government. The government's present costs of administration far outrun its income from the lands.

*Marion Clawson,
Resources for the Future*

TO THE EDITOR:

Nelson argues that special interest groups were cool to President Reagan's privatization proposal because they feared that it would not serve their interests. While Nelson's argument has merit, it is incomplete. It fails to explain why the general public likewise fails to support private ownership of the nation's vast federal estate.

To see why this is so, we must understand the role that ideology has played in corrupting science, which, in turn, has been used to deceive the public. In the context of the public lands debate, which goes back a long way, this deception began in the late nineteenth century.

The American Economic Association (AEA) was founded in 1885 as a way of lending scientific and professional credibility to its founders' ideological opposition to the laissez-faire English and Austrian schools of economics. Its leadership used land ownership as an object lesson toward this end. In 1890, for example, the AEA held a joint meeting with the American Forestry Association to promote public ownership of forest lands. The keynote

addresses were presented by three distinguished foresters (E. A. Bowser, B. E. Fernow, and Gifford Pinchot) and appeared in the May 1891 issues of the *American Economic Review*. Although veiled in the language of science, these papers amounted to little more than ideological, socialist bluster.

The conferees at the AEA-AFA meeting were told that timber resources must be wards of the state because trees require long periods to mature. Private individuals would not invest in this crop, it was argued, because they would not live long enough to reap the fruits of their investments. To support this nonsensical argument—which, by the way, was accepted by the general public—the ideologues of public ownership pointed to the extensive clear-cutting, without replanting, that was occurring on private lands.

What the early advocates of public ownership failed to take into account was that the nation's then-abundant supply of mature timber made it economically desirable to draw down the inventory for a time. By making this inventory adjustment, the logging industry was simply converting low- into high-yielding assets.

The ideologues of public ownership continue to hide behind the veil of science. Now they tell us—in the words of James Watt, former secretary of the interior and an ardent foe of privatization—that if land is sold to private owners "a sheep pasture will become an industrial site [and] desert lands will be used for hotels and resorts." What they fail to tell us is that private lands currently produce, at the same time, more valuable commercial and environmental outputs than comparable public lands. Privatization need not require a trade-off between commercial and environmental outputs; private ownership typically generates more of both.

So long as the public ownership advocates can cloak their ideological arguments in scientific objectivity, public opinion will continue to support retention of federal lands. Once the cloak is removed, however, the way will be prepared for the nation to complete the unfinished task of privatizing its lands.

*Steve H. Hanke,
Johns Hopkins University*

TO THE EDITOR:

Nelson describes well the events that led to the demise of recent attempts to privatize federal lands. He traces the concept from its ori-

gin among a small group of academic economists to its attempted implementation during James Watt's reign as secretary of the interior, an attempt that led to a stampede to the public trough by subsidized interests. By the time state and federal land bureaucrats, subsidized ranchers, and various recreationists finished with the privatization idea, its advocates in the administration were either employed elsewhere or suddenly terribly busy with other pressing matters. Watt formally buried the whole idea in the summer of 1983.

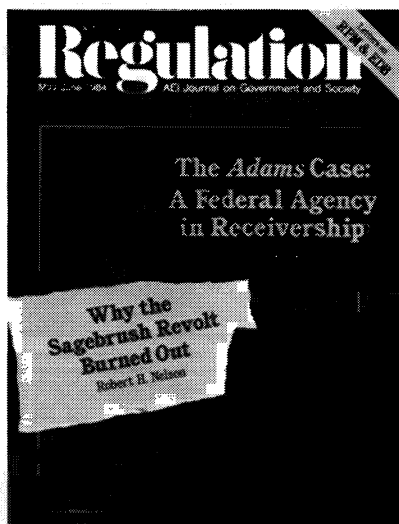
In attempting to explain these events in terms of resource allocation, politics, and history, Nelson struggles to keep a complex subject simple. Noting the vast literature indicting federal land ownership with gross inefficiency, Nelson fails to mention potential market failures that many believe would result from privatizing many western lands. Unique areas, such as the national parks, are presumably unique because there are no substitutes for them. Privatizing these kinds of lands would create private, as opposed to public, monopolies. Owners could restrict entry and set user charges well above costs—resulting in a different type of economic inefficiency than that linked to public ownership.

Another assortment of market failures involves externalities, intergenerational allocations, option values, and irreversibilities. Regardless of one's view of "non-market" values in general, these issues represent real political as well as conceptual problems for privatization advocates. For example, public opinion polls, for what they are worth, have generally shown Americans to be skeptical about selling federal lands in the West. When a 1983 ABC/*Washington Post* Poll asked people if they favored selling national forest lands, the responses were 11 percent yes, 58 percent no, and 31 percent no comment. I am unaware of any documented opinion surveys to the contrary.

There are several problems with Nelson's conclusion that privatization will not occur until the intellectual base established for it in recent years "can be translated into an acceptable popular ideology." First, that intellectual base remains incomplete because of its weaknesses in addressing market failure problems. Nelson complains that the opponents of privatization place the burden of proof on the proponents, but it seems fair to expect the positive case for privatization to consist

of more than microeconomic theory and ideological fervor. Second, the idea that there could be a "popular ideology" in favor of privatization seems unrealistic. The widespread perception that privatization would result in equitable wealth transfers from the public domain to various upper-income groups is a serious political problem.

It seems wrong to conclude, as Nelson does, that privatization will either succeed or be viewed as a "footnote" in the history of the West. Privatization has already had a significant impact, by spurring public land bureaucracies to improve their economic performance. While scientific and economic management of public lands has failed in the past, time seems to be on its side. Given expanding public deficits and the information explosion, public land bureaucracies will in the long run respond to the pressure to operate economically. Unless privatization advocates show some heretofore undemonstrated political abilities, this effect of their movement is likely to remain the major one.



For the proponents of privatization, this outcome has to be depressing. If they are to reconstitute the movement, they must accomplish several major tasks soon. The first is to make the positive case for privatization; proponents are dreaming if they think that free-market rhetoric is enough of an intellectual base. The second is to show the average American how he will be better off if the public lands are sold—which is no trivial task, and one that privatizers have yet to begin.

In the end, one has to feel that privatizers' laissez-faire attitude is their greatest weakness. If the im-

plementation of privatization is ever to become something more than a subject for academic treatises on the American West, proponents will have to demonstrate considerably more political common sense than they demonstrated during the early 1980s.

Zach Willey,
Environmental Defense Fund

TO THE EDITOR:

Although Nelson succeeds in capturing the reasons for the abrupt collapse of the Reagan administration's privatization program, I have two main differences with his article. The first has to do with the relative weight he assigns to various explanatory factors. The second has to do with what was, in my estimation, the mistaken focus of the administration's western lands policy.

Two competing laments regularly arise in the perpetual debate over the condition and future of the federal estate. One refrain comes from Sagebrush Rebel types and other westerners. They claim that western land users are forced to conform to federal wishes because federal land ownership is not only overwhelming but so intermingled with state and private holdings as to influence their use significantly. The advocates of this position have systematically underestimated the influence of western politicians and user groups on federal land policy.

The contrapuntal claim, made by some eastern members of Congress, is that westerners are the free riders of the open range, subsidized by the nation in activities ranging from ranching to river running. The advocates of this position consistently undervalue the influence of groups outside the West, from New England environmentalists to energy corporations.

It is no surprise that the Department of the Interior and the Forest Service do not make money. They are not and never have been seen in this country as the equivalent of the giant state energy corporations of Europe such as Electricité de France. The American land agencies are instead the products of often conflicting congressional mandates, competing user constituencies, and the initiatives of their respective bureaucracies.

The principal problem with the privatization initiative was not that private ownership of western lands is a pipedream. It was, rather, that the administration failed to understand the significance of the com-

(Continues on page 63)

(Continued from page 3)

plex system of intertwined federal, state, and private interests in the West, and the participants were afraid to risk an unknown new land tenure system. Thus the Reagan administration's public choice economists were unable to design a creative program to move from the existing checkerboard land system to private ownership and proposed, instead, merely to sell off the federal lands as a means to pay off the national debt.

This struck many as absurd—how could that make even a dent in the debt? And among the diverse users of the lands, the privatization initiative also raised fears like those of tenants who are notified that their apartment building is to be turned into condominiums in order to pay off the owner's debt. In such cases the tenant's reaction is to resist.

How much more useful had the administration identified the central problem that makes land use policy in the West so complicated and frustrating: the intermingling of federal, state, and private parcels. A major program aimed at land exchange and consolidation could reduce conflict by giving private and state landowners the opportunity to determine their own land uses responsibly. It might allow us to see how states and private landowners would operate their patrimony. Finally, by simplifying federal land management, it might even make federal ownership more efficient.

Such a move towards increased autonomy would be consonant with other values without reducing the size of the federal estate and would provide a policy framework for shifting land ownership patterns in the future. By failing to grasp the need to design such a policy of transition, the Reagan administration has left the federal estate less amenable to change than before.

*John G. Francis,
University of Utah*

ROBERT NELSON responds:

These four letters together capture much of the current diversity of opinion with respect to the future of the public lands. There is probably more basic questioning of the assumptions of public land management today than at any time since the Progressive Era. None of the letter writers disagrees with my diagnosis that the track record indicates a need for major changes, although they have widely differing views on what these changes should be. Nor do any of them deny that

any major changes in public land policies will have to overcome a severe case of interest-group gridlock. Indeed, it is precisely because public land management in the past has so often turned into an interest group competition that efficient management has been frustrated.

In its ambivalence, Willey's letter is representative of what I find to be a common current attitude. Willey recognizes the past failures of public land management, but has major qualms about the social desirability of a market outcome. He is not willing to go so far as to advocate privatization but does suggest that, if a new politically sophisticated group of privatization proponents can assemble a sufficient coalition in its support, he would not object strongly.

It is curious that none of the letters comments on what I suggest may be the most likely step—transfer of ordinary federal lands to the states (excluding national parks, wilderness areas, and other areas of special national significance). The states could then serve as laboratories for experiments in privatization or, perhaps, more efficient public management. The lack of comment in the letters may reflect the fact that, as a halfway measure, land transfers to states excite less ideological passion—pro or con. Nevertheless, in the long run, state ownership may be the most suitable tenure for large amounts of ordinary public lands whose highest-value use is dispersed recreation.

The four letters also illustrate the importance of the public lands as a symbol in a broader ideological debate. The public lands attract more attention and generate stronger feelings than their economic importance warrants, because their management is widely seen as a powerful symbolic statement of general social trends. The *laissez-faire* policies of the United States during the nineteenth century were perhaps nowhere more visible than in the disposal of the public lands. Then, the change to a policy of retention—reflected in the creation of the Forest Service in 1905—helped to determine the character of the Progressive movement. Today, many people seem to assess proposed changes in public land tenure more for their broader ideological significance than for the actual impact on the land. When the stakes are so readily perceived to be the future direction of society, it is no wonder that even small changes are highly controversial. To be sure, the

public lands may still be a good mirror, in that they now reflect a society critical of past approaches but somewhat confused and divided about future directions.

Marketing Satellite Slots

TO THE EDITOR:

I agree with Molly Macauley and Paul Portney that market-based allocation of the orbital spectrum would increase efficiency ("Property Rights in Orbit—Slicing the Geostationary Pie," *Regulation*, July/August 1984). My criticism is not of this conclusion but rather of the arguments they use to support it. Idiomatically put, my observations are: First, Macauley and Portney are beating a dead horse, and second, even if the horse were alive, it could not pull the cart they have hitched it to.

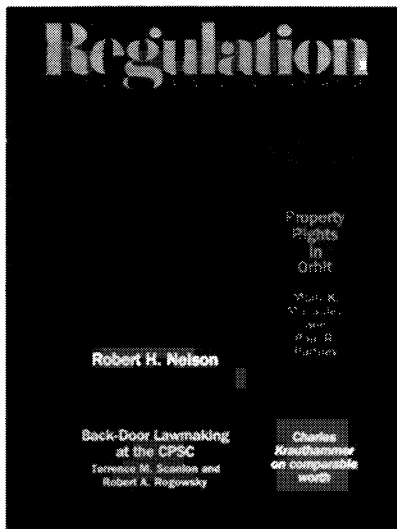
Macauley and Portney accuse the Federal Communications Commission of dragging its heels on the auction concept: "So far, however, the commissioners have yet to endorse the sale rather than the rationing of their wares." But many decision makers at the FCC and elsewhere accept such market-based tools of resource management. As far back as 1976, FCC commissioner Glen Robinson recommended the use of auctions to choose among broadcast applicants, in his dissent in the WESH-TV case. The FCC's current chairman, Mark Fowler, has frequently spoken out on the superiority of auctioning over rationing. And several of the other current commissioners have endorsed the sale of radio licenses in various forms. Over the years, a number of congressional leaders have likewise come to support the use of economic choice mechanisms. President Carter also supported the concept in his 1979 press conference statement on communications policy.

Legislation explicitly authorizing reforms of this sort, however, has never passed either house of Congress. Such legislation faces difficult political problems.

Current users whose licenses have scarcity value fear that they will suddenly have to pay high prices for what in some cases they have been getting for free and in other cases they have already paid high prices for (to previous holders). Moreover, even those whose licenses have no scarcity value may fear that a resource use fee could easily become an excise tax. The latter users, moreover, see little need to im-

prove the efficiency of spectrum management, since they operate in uncongested regions of the spectrum.

Despite the broad support for a market-based allocation system, it appears that if the FCC held an auction today for satellite parking slots, there would not be enough bidders to raise the price above zero. Macauley and Portney write as though the orbital resource were a scarce one. But they note that, to date, the FCC has not turned away any serious applicants for an orbital slot. The fact is that there is a satellite glut today (the industry calls it a transponder glut). *Communications*



Daily reported on November 16 that more than half of the installed satellite capacity serving the continental United States is inactive.

Moreover, the FCC has adopted a regulatory regime for satellites that is mostly market-driven—and that has enjoyed great success. Although the licensing decision itself is not market-based, the commission places few limits on what users do with their satellite once it is licensed. Licenses are transferable: Southern Pacific sold its satellites to GTE, and Hughes created and marketed a condominium in the sky. A licensed satellite can be used for data, for voice, or for one-way video at the user's option. This flexibility is in strong contrast to the rigid technical restrictions that apply to such services as broadcasting and land mobile radio.

The authors appear to believe that a market-based assignment of initial rights in the geostationary orbit would yield large efficiency

gains. They owe the readers some rough estimate of those gains. One way to make such an estimate would be to look at satellites operating under other regulatory systems (those run by the military, other nations, or the Intelsat system, for example) to find technical features which our domestic regulation prohibits. The authors do not do this, and I believe that if they did, they would be hard pressed to find important alternatives that are foreclosed by domestic regulation.

Market-based techniques for spectrum management are important and serve efficiency, but they should not be oversold. Nor should the FCC's solid achievements in regulating communications satellites go unnoticed or unpraised. If regulation always worked as well as it has with the case of satellites, it (the concept, not the magazine) would have a much better reputation.

Charles L. Jackson,
Shooshan & Jackson,
Washington, D.C.

MOLLY MACAULEY and PAUL PORTNEY respond:

We appreciate Charles Jackson's thoughtful letter, but we disagree with him on a number of important points. First, the lack of a satellite slot market cannot be blamed on Congress's failure to pass legislation. More likely it has to do with a lack of chutzpah at the FCC. The Environmental Protection Agency began its now widely accepted emissions trading program without enabling legislation; it was years before Congress finally caught up and okayed the idea. Similar innovations occurred elsewhere in the government without legislation, as when the Department of Transportation experimented with a market for airport landing slots, and the Civil Aeronautics Board sanctioned auctions of airline seats in cases of overbooking. Indeed, the FCC itself has done well in deregulating other areas of telecommunications without waiting for Congress to act. Yet in nearly a year and a half the commission has still not acted on seventy-two applications from telecommunications firms for a handful of slots in the arc. The regulatory workhorse Jackson touts is mired deep in the mud. The FCC must, and just as important, *can* change courses—or should we say horses—even in midstream.

Second, Jackson's comments notwithstanding, we paid explicit attention to the difficulties inherent in the transition to a market, and with

this in mind we suggested at least two ways the commission could begin to market slots. Of course incumbents will complain, as we acknowledged, because restraints on access to the arc have let them earn above-average profits. However, such complaints hardly justify maintaining the status quo.

This is precisely why Jackson is wrong in assuming that it is not important that the licensing process be market-based. It is the license itself that confers access to the arc. The Southern Pacific case he mentions illustrates our point. It took a major court battle to decide that GTE could acquire those arc slots when it bought the Southern Pacific subsidiary that owned them. Clearly, those property rights were valuable enough to make it worth going to court. But surely we do not want corporations to have to conduct mergers or takeovers simply in order to acquire slots in the arc.

In assessing the efficiency of the FCC's current regulations, Jackson asks us to compare FCC-regulated communications satellites to those operated by the military or Intelsat, which are not subject to FCC rules. In fact those types of satellites are technically superior to domestic commercial satellites in some respects, but that is not really the point. What we must compare is not one possible inefficiency with another, but the existing regulatory regime with a lively market. We gave examples and estimates of the static efficiency gains from the latter in our article.

Furthermore, the "transponder glut" Jackson refers to may only be a temporary one (see the April 16, 1984, issue of *Broadcasting*), and it is certainly location-specific; there are plenty of slots that no domestic satellite operator would be willing to pay for because the slots do not "see" the United States. This was one of our fundamental observations.

We also cited examples of how regulation has blunted incentives for dynamic efficiency—that is, incentives for companies to do long-term R&D to find ways of economizing on spacing between satellites along the arc. This is an efficiency gain Jackson fails to recognize in his letter.

We repeat the explicit thesis of our original article: only by pricing the geostationary arc—permitting market exchange to decide who gets what—will we elicit these static and dynamic benefits. The FCC should not pass up its opportunity to create such a market. ■