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Official Can Advance
Privatization

By Ralph L. Stanley



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The Heritage Foundation
214 Massachusetts Avenue, N.E.
Washington, D.C. 20002-4999
U.S.A.
202/546-4400

HOW A GOVERNMENT OFFICIAL CAN ADVANCE PRIVATIZATION

by Ralph L. Stanley

I would like to comment on what I believe are three absolutely unassailable trends that are occurring at the federal level regarding privatization, trends which will contribute to keeping privatization the most exciting domestic public policy area for the years to come. These three trends, despite what we do in this city from year to year, will be with us through the 1990s. They are things that cannot be changed by legislation, and they will continue to create market opportunities for privatization that I have obviously left the government in order to pursue.

The first is the budget deficit. If you take a step back and look at the long-term game, there is a recognition that federal spending for most local and state programs is not going up. That is very different from ten years ago when I first came to Washington. With the help of Gramm-Rudman and the political pressure it has produced, that is going to remain the case. There really is not a great deal of talk about massive increases in spending, whether it is for transit or for wastewater treatment facilities, and that, I think, is going to be the case through the end of the century.

The second long-term trend is what I call "increased needs." Analysts have looked at local and state infrastructure needs, both in terms of reinvestment and creating new facilities, and estimated that by the year 2000 a \$3 trillion investment will be needed for infrastructure. Given the limits on federal spending, that means there will be considerable efforts by local and state officials to come up with new ways to deal with this problem.

The third trend is the political popularity of privatization. Just look across the Atlantic at privatization's political benefits for Margaret Thatcher.

Poll Favors Private Competition. At the Urban Mass Transit Administration (UMTA) we pointed to these trends in our ongoing efforts to try to convince mayors and county commissioners, state officials, about the use of privatization as a way of governing. We took a poll several years ago, and we looked at every municipal service and asked two simple questions: First, do you think that the government has responsibilities for making sure that Service X is provided, whether it is garbage collection, mass transit, building roads, fire protection, police protection? The answers were predictable, with 75, 85 percent of the people saying "yes."

Second, we asked them whether they felt that the government should be the provider. Between 70 to 80 percent of respondents to that poll, from every region

Ralph L. Stanley is the former Administrator of the Urban Mass Transit Administration. On September 3, 1987, Ronald Reagan appointed him to the President's Commission on Privatization.

He spoke at The Heritage Foundation on June 2, 1987, as part of a Heritage Foundation conference on "State and Local Initiatives in Privatization."

of the country, every income group, every racial group, said "no." They thought the private sector ought to provide it, or there should at least be private competition. That underscores the fact that Americans really do not care who the provider is as long as essential services are delivered.

Not only are officials more inclined these days to accept privatization, but the political lessons are also being learned. The leading thrust of the domestic policy campaign in France is privatization. *The Wall Street Journal* ran a wonderful article on it recently and quoted one of the French officials as saying, "We don't have enough shares to sell; wish we did." Share ownership in France has soared dramatically because so many nationalized industries have been privatized.

Lessons from Britain. In the Thatcher election campaign, one of the lessons for members of the Reagan Administration and Congress to heed is not just what Thatcher has done economically by privatizing companies and services, but what she has done politically. The number of people owning shares in Britain has gone up to 8.5 million--tripling the number of shareowners when the Thatcher government took power in 1979. And even more significant to those of us in this political town, it means that 20 percent of the British electorate now own shares. Among the first-time blue collar workers now owning shares, some 57 percent of them are inclined to vote conservative, as shareowners. That is a very, very different kind of political situation than existed before privatization began.

The other important political statistic about privatization in Britain, concerns the experience with public housing--or council housing as it is called in Britain. More than 1 million council houses have transferred from public to private ownership since 1979. Before that program, 52 percent of adults in Britain lived in their own home. Today it is 66 percent.

If you really translate all this into political terms, there is your constituency for privatization of housing; there is your constituency for the privatization of industry. And foreign and U.S. state governments have learned a lot quicker than those of us in Washington that constituency creation is probably the most critical aspect of a successful privatization program.

Rewarded for Waste. Let me now look back at my time in UMTA and explain what we, as a federal agency, tried to do and why. Three years ago, even mentioning mass transit and privatization in the same sentence was an oxymoron to most people. There was no constituency for it. Yet federal funding was a catalog of waste, as Senator Proxmire chronicled. Congress had spent \$43 billion in twenty years on the program and the share of people moved around urban areas by mass transit had dropped. Yet UMTA kept getting rewarded with higher subsidies.

But what we did at UMTA was to adopt a policy of privatization and stick with it. We started talking about privatization and began generating a number of policy studies. We said, "Let's take a look at it." The economics were obvious--we had done studies that showed that competition in bus service would save between 10 and 50 percent. We introduced the ideas of public-private partnerships, and we institutionalized it. We created, in 1984, a Office of Private Sector Initiatives. We put a representative for the private sector in every one of UMTA's

regional offices. We told those representatives and regional administrators--all career civil servants--that their job performance was going to be measured by the degree to which they privatized services in their region. So there was an incentive for the staff to privatize. We also took the money that we had for grants and studies and awarded them to conferences on privatization.

We put the policy analytical framework together in the first year. The studies and efforts that showed the economic benefits of privatizing transit services came in during the second year. And it was in the second year that we issued policy guidance from the Agency.

Note one very important thing: we did not wait for legislation to pass in Congress. We did not wait for a consensus to be built among the special interest groups that were normally around the Agency. Instead, we issued guidance on a little part of the UMTA Act that said that we should maximize the private sector. In twenty years, UMTA had given only a little bit of guidance on that, but now we emphasized it.

Fostering Privatization. We found an enormous number of tools available to somebody in a policy position to achieve privatization goals. We eagerly and quickly began funding studies whenever there was a hint of interest expressed in privatization or public-private partnerships. Take the Dulles Light Rail proposal as an example. That idea was included in a bill that typically was supposed to lead to a federal grant to build a rail system to Dulles Airport, outside of Washington, D.C.

We changed that. We said that any analysis of it must look at the promotion of private sector investment. I do not know whether a light rail system will be built out to Dulles Airport, but if one does get built or initiated, it will not be the way they have been built in the past. It will be built as a public-private partnership.

We also initiated something called PPTN--Public-Private Transportation Network--through which we have funded a number of consultants to be available to local and state officials interested in looking at privatization. With the capital money we have, we are going to reward those systems with a degree of private sector investment. In the letter I sent to everybody that gets UMTA grants, I said that if they come up with 50 percent of the funding that is non-federal, we will fast-track the project.

We have also issued a policy on the capital cost of contracting, saying to local officials that if they want to buy buses with federal capital dollars, they should contract out and we will allow them to use their capital dollars to pay for contracting out.

The effect of these and similar initiatives is that the momentum behind privatization in mass transit is now underway. Every project I see right now in terms of new rail projects has a mix of privatization in it.

Miami Turns Around. Let me give you an example. One of the studies I approved on the longest day of my life--the day I left UMTA--concerned Miami. To show you the progress that you can make in privatization, introducing privatization there is like introducing the free market to Albania. When I talked to them about privatization in transit they fought me for two years. But right now in Miami we have provided a grant in which they are going to be the first county to contract out on a demonstration basis a number of their bus routes. The private sector is going to compete with their own public transit agency. We provided the buses for that demonstration, and we hope to demonstrate on the streets what we have said in the policy forums and the congressional hearings.

There are other remarkable changes taking place in Miami. The federally funded Miami rail system has been a significant failure. It carries 28,000 trips a day, when they said they would be carrying 200,000. They failed to link it with development in the private sector, and it was funded 80 percent by UMTA, 10 percent by the state and the rest by the county. In fact, the project itself gave birth to a phrase I never forgot during by government service: "Miami needs a rail system because we can't say no to 20-cent dollars."

Yet I got a request the the other day from Dade County, saying that they want to add stations to the system to increase ridership. But the proposal is not 80 percent funding from UMTA. Instead they have gone to a major developer where the station is going to be, and said, "You want a station? Well, you are going to design your building around it and you are going to pay 60 percent of the cost of the station."

Nuts and Bolts. That is a seismic shift in the thinking in Dade County, and it is an indication of what you can do if you really push hard and pursue privatization at the nuts and bolts level, blocking and tackling actual federal programs and federal policies.

In the coming months, we are going to have competitive demonstration grants on bus service in eight other cities. Contracting out in those cities, and the contracting out already occurring in bus services, is going to create savings upwards of two to five hundred million dollars a year.

On the infrastructure side, asking for a mix of private sector investment--whether it be 100 percent as we are proposing now in the Dulles toll road extension, to partial construction on some of the infrastructure projects--we have shown it can be done. You just have to have the courage to ask for it.

If we can continue to do these things, and to learn from local and state examples that have been successfully implemented, we can convince a lot of the policymakers in Washington that privatization makes economic sense, and that there is really nothing else that can be done, given the budget situation. If the experience of UMTA or Mrs. Thatcher is anything to go by, privatization can be made to be very politically popular in the next ten years. Indeed, in this country I think it is going to gain the same grassroots political popularity that we see in France and England, and indeed in many countries around the world.

