The Heritage Foundation
Backgrounder UPDATE
214 Massachusetts Avenue N.E. Washington, D.C. 20002 (202)546-4400

2/23/88 Number 70

NEXT STEP FOR U.S. SPACE POLICY

(Updating "Space: America's Competitive Frontier," in Edward L. Hudgins, ed., *Making America More Competitive*, The Heritage Foundation, 1987.)

Following the January 18, 1986, Space Shuttle *Challenger* disaster, the Reagan Administration decided that future United States progress in space could be assured best if space were opened more fully to private American businesses. This triggered a number of actions, culminating in the announcement this February 11 of the Administration's new space privatization policy. Reforms begun in August 1986 have turned commercial space cargoes over to private businesses, ended subsidized government competition for space cargoes, which has hampered a private U.S. space launch industry, and required the government to purchase launch services from private suppliers whenever possible. A recent surge in private space activities illustrates the enormous potential benefits from space deregulation and privatization.

In the February 11 announcement, the National Aeronautics and Space Administration (NASA) commits itself to rent space on a proposed privately developed, launched, and maintained space station. As important, the announcement ends many uncertainties concerning commercial space activities, thus giving the green light to U.S. industries to proceed at full speed with space-oriented enterprises. The Reagan Administration should be applauded for its space sector reforms. The next step for the Administration and Congress should be to reorganize NASA to enable the agency to achieve its own goals without precluding or deterring commercial space development.

Opportunities at Zero Gravity. Policy makers concerned with America's long-term competitive position often ask which industries will take up the slack as such traditional industries as steel and textiles become less important to the economy. One answer is space; it offers almost boundless opportunities. Americans already are familiar with satellites used for communications or remote sensing of oil and other resources. The public is less aware of the great potential for manufacturing in space's unique environment. Example: many industrial materials necessary for the production of better computer chips or pharmaceutical products are best developed and manufactured in space's zero gravity environment.

The problem in the past has been that NASA acted as sole owner and operator of America's space transportation system, turning to private industry only to manufacture vehicles that the agen-

cy designed, owned, and flew. As with any monopoly, NASA discouraged competition. Thus when the Shuttle disaster left the U.S. without NASA to place payloads in space, the U.S. had no alternative launchers. Meanwhile, competition from Europe, Japan, and even the Soviet Union and People's Republic of China threatened to take potential commercial business away from the U.S. In response to the *Challenger* disaster, the Reagan Administration wisely decided to diversify America's space transportation system by making space more attractive for private U.S. firms. Reforms begun in August 1986 required first that Space Shuttles not take on commercial cargo that could be launched by private companies. Second, NASA and the Air Force were instructed to contract out to private companies any payloads that do not absolutely require a craft the size of the Shuttle for launch. Further, NASA was required to lease unused launch facilities to private companies.

Thousands of Jobs. Freed from unfair subsidized competition from NASA, private U.S. companies have added thousands of employees and developed their own capacities to launch payloads into space. Late this January, for instance, Martin Marietta Corp., the manufacturer of the *Titan* rocket, announced that it will launch fifteen communications satellites for General Electric Co. This arrangement could be worth between $750 million and $1 billion for Marietta. Another company, Space Industries Inc., has attracted considerable attention with its plan to create a mini space station that would be launched and available for projects by 1993, ahead of the larger NASA station scheduled for the late 1990s. The private station would cost between $500 million and $700 million, compared with as much as $32 billion for the NASA facility.

By instructing NASA not to compete with the private sector and to contract out for services whenever possible, the Reagan Administration has ignited the kind of private entrepreneurial spirit typified by the Marietta-GE deal and the Space Industries proposal. The Administration February 11 policy statement promises to spur even greater private sector space activity. Yet much confusion and concern remain among the private sector as to how NASA will follow the Reagan guidelines. Many businesses are afraid that NASA will drag its feet -- the agency has been lobbying hard within the Administration for a slowdown in space privatization. Thus many firms are still cautious about making major commitments of money.

World Leadership. It is time, therefore, for Congress and the Administration to reevaluate NASA's institutional functions. The agency should be restructured so that its activities do not preclude or deter commercial space development. The more the private sector takes up launches and operations in space, the more of NASA's nearly $8 billion budget will be freed up for basic research and development. Space privatization is a shining example of the Reagan legacy, of how American businesses, freed from restrictive government practices, respond by developing new services and products that will preserve America's world economic leadership. NASA now should be told to get out of the way.

Edward L. Hudgins, Ph.D.
Walker Senior Policy Analyst in Economics