

The Local Privatization Revolution

By Robert Poole

I can count a dozen times in the past year when friends in the free market community in Washington have lamented the death of privatization because the Bush Administration no longer has a privatization czar. I say, privatization hasn't died at all; it's blossoming all over the country and all over the world. Maybe it's not blossoming in Washington, but don't misread the situation and think that means it's not happening anywhere else.

In getting ready for this talk, I checked the latest edition of the International City Management Association's *Municipal Yearbook*. This is a thick annual reference volume for city and county officials. I found that privatization is now so accepted as a standard way of doing business in municipal government that this *Yearbook* contains all kinds of tables on the types and extent of private provision of services. For example, vehicle towing is provided by the private sector in 85 percent of all the cities reporting. The private sector provides street lighting in 53 percent of the cities. Residential garbage collection is privatized in 49 percent of the cities surveyed and legal services in 48 percent.

These are the kinds of privatized services that have become standard practice. Though the A-76 program is still a controversial issue in Washington, D.C., contracting with private firms is now a standard way of doing business across the United States, and it's continually moving into new areas.

One of the hottest areas currently is mass transit systems. The transit districts of our cities and suburbs are finding that by competitive contracting they can get a lot more transit for their dollars. Many of you may have seen the report by transportation consultant Wendell Cox documenting the success stories in this field.

Transit Competition. Last year Denver became the first large city to contract out a full 20 percent of its transit service. A number of smaller cities are doing more than that. The Southern California Rapid Transit District, a Los Angeles County-wide transit agency, which is a nightmare of inefficiency and corruption, has been mandated by the County Board of Supervisors to go to competitive contracting for a full 20 percent of its service area. As a result, the entire San Gabriel Valley in southern California is now served by private contractors rather than by the RTD at a savings of 30 percent to 40 percent in actual operating costs.

Cities like Miami, Seattle, New Orleans, Cincinnati, and Dallas are also moving to competitive contracting with encouragement from the federal Urban Mass Transportation Administration (UMTA) in programs begun by UMTA Administrator Ralph Stanley and con-

Robert Poole is President of the Reason Foundation.

He spoke at The Heritage Foundation on March 13, 1990, in the Resource Bank series of lectures featuring leaders of conservative public policy organizations.

ISSN 0272-1155. ©1990 by The Heritage Foundation.

tinued by his successor Alfred Delli Bovi. Decisions are being made and programs are being put in place at the local level throughout the country.

Jail and prison privatization is another area where there has been rapid progress. I read a book review of Charles Logan's new book on corrections privatization which criticized the whole movement for privatizing the easy cases such as juvenile detention facilities.

Well, privatization in this area is so new and there is so much resistance to it that many jurisdictions hesitate to privatize medium security or maximum security facilities. Nonetheless, last year Louisiana became the first state to contract out a medium security prison to the private sector Corrections Corporation of America.

In another milestone, Monroe County, Florida, the state's southernmost county, which includes Key West, last year contracted out the entire county correctional system to Wackenhut Security. Individual facilities have been contracted out, but this is the first time a county has privatized the entire county system.

Dramatic Breakthrough. I think the most exciting new area for privatization at the state and local level is in infrastructures. There have been very dramatic breakthroughs in the past several years, particularly in highway construction, which will have major implications in the 1990s.

Transportation Secretary Sam Skinner's national transportation policy, with its emphasis on toll roads and private sector investment, was not invented in Washington. This approach has been pioneered in the states during the last several years and has been picked up, fortunately and thankfully, by Washington. A handful of us have been carrying the flag for infrastructure privatization for the last seven years, trying to make the case for tolls and private sector involvement.

I remember in 1983 having discussions with colleagues at the Reason Foundation, reacting to newspaper articles that were beginning to highlight the enormous problem of deferred maintenance of U.S. roads and bridges. As free market people familiar with public choice analysis, we recognized that politicians will allocate money for services that are better vote getters than highway maintenance. Because politicians will act irresponsibly in supporting projects that are not funded by their own direct unit charges, it's predictable that there would be big problems with deferred maintenance and attendant safety hazards.

I remember saying that what we really needed was one good bridge collapse to get this movement going. One month later the Meanus River Bridge on I-95 in Connecticut collapsed in the middle of the night. Within two days we had an op-ed article in *The New York Times* about that bridge collapse, making the case for building in responsibility and funding for maintaining the facility through tolls, and even suggesting private ownership.

Because of that article, our people were invited to conferences, and papers were written that may have helped push these ideas into circulation in forums like the Transportation Research Board and UMTA conferences. And at a 1984 UMTA conference we may have even introduced UMTA Administrator Ralph Stanley to the idea of private sector involvement in transportation infrastructure. As you know, Ralph has gone on to building the first modern-day private toll road, the Dulles toll road extension, after legislation permitting this passed in Virginia in 1988.

Reducing Congestion. Some of you may know that California is now second but coming up fast in the private toll road sweepstakes. Our state passed a private toll road law in June 1989 that was inspired by a spring 1988 Reason Foundation paper. That paper used as its hook not a bridge collapse but traffic congestion. We pointed out the relationship between pricing road use by using peak hour price differentials and controlling urban traffic congestion.

We suggested that one way to deal with the horrendous urban traffic congestion in southern and northern California would be to introduce the principle of pricing. Realizing that it would be politically very difficult to put prices on the use of existing freeways, we argued that the private sector should be allowed to build additions to the system. These would be private toll roads that would use peak-hour pricing.

This idea hit a very responsive chord in the governor's office and in CALTRANS, our state transportation department, and led directly to the drafting of legislation that has now authorized four private toll road projects. CALTRANS issued a statement requesting bidders to submit their qualifications last October. Out of thirteen detailed applications that were made by the January deadline, ten private firms were selected as qualified to submit proposals. These include some of the world's largest banks, construction companies, and engineering firms.

A bidders' conference was held on March 1 in Sacramento which issued a request for proposals. Each consortium has six months to propose the projects it thinks would make good private venture candidates. Each must submit by September detailed justifications for the proposals.

Before the end of the year we'll be picking the four best projects. We'll get started, we hope, by the beginning of 1991.

Federal Blessing. This idea has been spreading from state to state. In 1989 Illinois passed a private toll-road law. Colorado has in the planning stages both a public/private partnership toll road and a proposed project for a fully private toll road. There is a bill in the Florida legislature to allow private toll roads because a group of people are interested in building a major ring road like the Beltway around Orlando. Nobody has figured out how to do it unless it's done as a private venture. And Puerto Rico has put out bids for a number of private toll roads and bridges just in the last few years. So the idea seems to be popping up in state after state. This is the climate in which national transportation policy is being formulated, thereby giving a federal blessing to a trend that's spreading across the country.

I spoke about infrastructure, not just highways, and I said that advisedly because I can think of similar examples of privatization of waste water treatment plants, solid waste disposal plants, of ports and airports.

I want to talk a little bit about airports as another key example of privatization. For seven or eight years a gang of three, Heritage policy analyst James Gattuso, President of the Competitive Enterprise Institute Fred Smith, and I have led the fight to privatize aviation infrastructure. We have argued that while the Airline Deregulation Act of 1978 freed up the airlines, it did nothing about the rest of the aviation system. Consequently, a thriving, fast-growing aviation industry has been hobbled by an obsolete and increasingly limited air traffic control system and airport system. We argued that sooner or later constraints on the sys-

tem would become intolerable. At that point there would be a threat to repeal airline deregulation or at least to re-regulate the airlines to some significant degree because of the disruptions, delays, and safety problems caused by this mismatch.

Targeting Airports. The three of us have written papers and spoken at conferences on the issue of air traffic control. We managed to get Jim Burnley, the Reagan Administration's Secretary of Transportation, to endorse the concept of privatizing air traffic control. But the Administration did nothing to implement it.

We also got the President's Commission on Privatization to endorse the privatization of airports and air traffic control but, again, there was no follow-through. By the end of 1988, the three of us were becoming very worried at the growing number of op-ed articles and outcries in Congress concerning the sad state of airline deregulation: the growing problem of delays, concern about safety, and the lack of competition at certain major airports.

We decided we had to refocus the issue. At the Reason Foundation we targeted the airports as the place to push for applying market pricing principles and privatization to increase capacity to cope with the growth in air travel.

So we published a little concept paper last April in time for National Consumer Week and gave a copy to John Sununu. We mailed a couple hundred copies to people who we knew had an interest in aviation. This generated a bit of publicity. But what was really impressive is the FAX machine network in this country that started working. Copies of our paper went from one person to another all over the aviation world, to Guinness Peat Aviation in Shannon, Ireland, the world's largest commercial airline leasing company, and to places we had no idea existed, such as a company in Switzerland that's trying to finance privately new air traffic control systems for Third World countries.

All sorts of people telephoned for information. This encouraged us to do further research for a major policy study on how airport privatization could solve the problems that had been identified.

Innovation in Albany. Meanwhile, a copy of our concept paper reached a company in Albany, New York, which had the idea of buying the Albany airport. Albany County wanted to sell its airport because it had dug itself into a financial hole. The only alternative to the sale of a public asset was an increase in the property tax. The County Executive recognized the chance of a big windfall, thirty years' income or \$5 million, to bail out the county, avoid a property tax increase, and let people who knew how to run airports run the airport.

The local company, which owned a major land parcel next to the airport, knew a lot about land development but nothing about running airports. They had read our paper and contacted us. We put them in touch with Lockheed Air Terminal, a division of Lockheed Corporation that runs airports. The upshot is that the two companies created a joint venture that made a serious proposal to buy, expand, and operate the airport. Unfortunately, the Federal Aviation Administration took one look at it and said, "Nobody's ever done this before; we can't allow this."

Their veto was issued in early December and it has not gone unnoticed.

The Wall Street Journal published an editorial blasting the Department of Transportation for being shortsighted. I am told DOT has engaged in some serious rethinking about federal airport policy and airport privatization.

Albany is back at FAA with a scaled-down proposal that calls for a long-term lease management agreement. This would still provide Albany County with funds to bail itself out of its financial difficulties, but would not technically involve transferring the airport's ownership. This avoids concern over various federal regulations and federal grant controls. This proposal is awaiting a decision and, my sources tell me, there have been incredible wars fought within the bureaucracy and by some outside interests that would rather not change the status quo.

Interest in this issue is high. The Reason Foundation published a major policy study at the end of January. We sent out news releases to the cities surrounding the fifty largest airports mentioned in the study, which account for over 80 percent of all passenger traffic. These are the airports that will be most congested by the turn of the century, the ones that will be unable to operate unless there is some regulatory relief and some major new investment.

Local Greed. There has been a tremendous response from the press in those cities and from local public officials. Serious discussion of airport privatization is occurring in a dozen cities, including Philadelphia and Los Angeles. As we had hoped, the greed of local politicians to get their hands on the value of their airports is working in our favor. This is a powerful force that can change the political dynamics in terms of who's for and against airport privatization.

Interestingly, a number of the people favoring airport privatization now seem to be Democrats at the grass roots level. That's definitely the case in Albany County, New York. The County Executive is a Democrat and the local political supporters have tended more to be Democrats than Republicans.

The local Republican establishment apparently thinks that because they have periodically been in political control, they would rather have their hands on the machinery. So events may create an interesting exercise in new coalition-building.

Finally, let me suggest some areas where we at the Reason Foundation believe there are exciting opportunities at the state and local level.

We have three projects under way. One is our infrastructure project and the role of market pricing, which I've already discussed.

The public utilities industry — electricity and telecommunications in particular — is a second major area of opportunity. *The Washington Post* recently reported on an electric utility in Indiana that is trying to sell its power to other utilities and is willing to let its own transmission lines service other companies that want to use them, like a common carrier, to transmit electricity across its territory from one company to another. There are real opportunities to make the electricity market competitive in this country, and we have several studies on that in progress.

There are also tremendous technological opportunities in telecommunications: personal portable telephones that you can carry everywhere, so you have a single telephone number

no matter where you are in the country or, ultimately, in the world. And the optic fiber wiring of homes promises to make incredible varieties of services available to the public.

George Gilder's book *Microcosm* outlines many of these developments, but they are all critically dependent on the character and scope of government regulation. Federal, state and local regulations currently limit the degree to which different kinds of companies can offer these services. In particular, there are laws that reserve certain areas only to a single company.

So, there is much important policy work for us over the next few years to undo all of that and to open up markets for the kinds of services the new technologies are making possible.

The third area offers enormous potential for policy makers to do good or ill. This is the area of urban and regional growth, land use and planning, and the environment. We call this project our growth/no growth project, and it is of greatest importance to the fastest-growing parts of the United States.

Danger of Central Planning. There's a very real danger that at the moment when central planning is rejected in Eastern Europe and all over the world, the United States will create its own version of central planning at the regional government level to deal with the problem of growth.

Not a whit of free market thinking is going into most discussions of these issues in the major urban areas of the United States. Yet free market ideas can contribute so much. At Reason Foundation we're investigating congestion changes on highways to deal with traffic, new forms of flexible land use regulation to deal with the environment without infringing on the property rights of others, pricing incentives to handle garbage disposal so that people have an economic incentive to recycle instead of forcing recycling in ways that may not make sense.

There is a great need for free market policy proposals to deal with the local and regional issues that are going to be very important over the next ten years. Most of these issues are not entirely state or local. If you dig a little bit, you usually find the hand of some federal agency involved, whether it's EPA or UMTA or the Federal Aviation Administration, or the Federal Highway Administration, or the Federal Energy Regulatory Commission.

But most of the important policy work on these issues and the implementation of policy recommendations will occur at the state or local level. So it's crucial that free market policy analysts and activists be targeting these areas. The Reason Foundation will be concentrating its resources on these issues as we enter the 1990s.

