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HOW REAGAN CAN PUT PRIVATIZATION BACK ON TRACK

INTRODUCTION

The Reagan Administration long has listed as one of its priorities the privatization of many federal programs. Yet very little progress has been made on this. The impending public stock offering of Conrail, for example, is the sole major privatization victory. Large parcels of federal lands are not being sold to the private sector, despite Ronald Reagan's vow to do so, nor have the federal government's weather satellites been sold. Even the Administration's longstanding commitment to contracting with private firms for commercial services translated into only modest change. Just 30,000 federal jobs (out of a total of 3 million) were transferred to the private sector in Reagan's first term, while 120,000 new workers were added to the federal payroll.[1]

Failure to move rapidly on a broad privatization front will have serious consequences for the Reagan Administration. Reducing federal spending and hence the federal deficit will be impossible without a strategy of privatization that yields success. There were signs last year, when James Miller took charge of the Office of Management and Budget, that privatization would move up as a priority. His FY 1987 budget proposal contained 11 privatization initiatives, including the sale of Uncle Sam's oil fields and loan assets. The package sought to cut the cumulative deficit by $50 billion over five years. Yet the only privatization items okayed by Congress were a pilot program to

1. See Stephen Moore, "How to Privatize Federal Services by 'Contracting Out'", Heritage Foundation Backgrounder No. 494, March 13, 1986.

sell just $4 billion of the $290 billion federal loan portfolio and the Conrail sale.

Several factors have contributed to the disappointing record on privatization. For one thing, Congress and agency officials, even some political appointees, resist any loss of authority. For another, and probably more important, the Reagan Administration has handled the issue badly. By not developing an effectual plan to manage privatization decision making within the Executive Branch and to promote the concept among key constituencies, the Administration has invited legislative defeats, allowed departments to drag their feet, and failed to rally public support.

It is not enough for Ronald Reagan and James Miller to support privatization and understand that ideas like selling public housing to tenants has far more than budget implications. If the Reagan Administration is to regain the initiative on privatization, it must focus as hard on managing the policy as on picking privatization candidates. In particular, it should learn from the management of other policy initiatives, including Vice President George Bush's first-term assault on red tape, the Grace Commission, and the Administration's federalism proposals. The White House should adopt an "inside" and "outside" strategy to advance privatization--a finely-tuned process to coordinate policy making on the issue inside the Administration, combined with a strategy to build up public support for privatization outside the government.

Inside the Administration, a privatization "czar" should be appointed within OMB, to coordinate the Administration's privatization initiatives and work with a special Office of Privatization in every cabinet department. Cabinet officers should be required to submit privatization plans and progress reports to the Domestic Policy Council. Linked to the OMB bureau, a blue-ribbon Privatization Task Force should be launched to identify privatization possibilities and to generate public support for the concept.

As Nobel Laureate economist James Buchanan explains, there are powerful incentives in the political system that explain why lawmakers flinch from cutting federal programs to reduce the deficit. The attraction of privatization to congressmen of both parties is that by transferring government functions to the private sector, rather than simply eliminating them, federal spending can be cut without denying services to powerful constituencies. Thus privatization offers both Congress and the Reagan Administration an opportunity to cut spending even with the political realities of Capitol Hill. But the necessary coalitions will not be mobilized until there is an effective strategy to "sell" privatization on Capitol Hill and around the country. That requires key changes in the management of privatization policy, and it needs Ronald Reagan to let cabinet secretaries know that he is serious about getting results.

CURRENT DECISION MAKING ON PRIVATIZATION

Policy planning on privatization is spread thinly throughout the Reagan Administration. Unlike France, where a cabinet minister has direct responsibility for privatization, or Britain, where the government's plans and public statements are prepared by a senior official, no Reagan Administration official can claim to speak as the coordinator of privatization policy. A member of the President's Council of Economic Advisors, Thomas Gale Moore, does head an interagency task force to explore privatization. But Moore's position is strictly advisory--he is said to be the "high priest of privatization." He can make speeches on privatization but cannot require agency officials to meet his guidelines, and he cannot cut deals on Capitol Hill.

In the sense that privatization is primarily a budget issue, OMB Director James Miller is its point man. Yet privatization strategy is developed within each agency, so the appropriate Secretary has the responsibility for tactics and "selling" the Administration's policy. In most cases, agency heads have been unenthusiastic in pushing privatization. It is believed, for example, that earlier this year, Energy Secretary John Herrington was not a strong advocate of selling the Power Marketing Administrations--it subsequently went down to heavy defeat in Congress. In the first Reagan term, there was similar doubt over Interior Secretary James Watt's commitment to selling surplus public land. In other cases, a Secretary's choice of tactics has caused consternation in other parts of the government. Transportation's Elizabeth Dole, for instance, was faulted this summer for her reluctance to agree to selling Conrail as an independent company, through a stock offering, even though the House leadership had agreed to privatization on those terms. Eventually she conceded and the long-delayed sale legislation was enacted.

Some agencies have pursued their own privatization initiatives. Within the Department of Transportation, for instance, the Urban Mass Transit Administration (UMTA) has created an Office of Private Sector Initiatives, and is vigorously pursuing private transit alternatives. In the Department of Housing and Urban Development, a modest pilot program was launched last year to enable public housing tenants to buy their units. The Office of Personnel Management, meanwhile, is exploring ways to encourage federal workers to become private contractors. And the Justice Department's Office of Juvenile Justice and Delinquency Prevention has developed a private juvenile probation program.

While these innovative privatization programs deserve applause as examples of the type of policy initiative that comes from decentralized decision making in a government, there are two aspects of them which blunt the Administration's effectiveness. First, there is no effective channel whereby the valuable lessons of one experiment can be used to improve an initiative in another department. Many officials, in fact, are quite unaware of privatization programs in other departments. Second, there is no focus or agreed theme to these individualized efforts, so it is difficult for the Administration to project a clear vision either to lawmakers or to grassroots Americans.

GIVING MORE FOCUS TO PRIVATIZATION

Privatization is an intensely political exercise, requiring initiatives which create coalitions of beneficiaries and service providers that gain directly from privatization. These balance the coalitions currently gaining from government-provided services.[2] Thus at the same time that the Administration pursues an "inside" strategy to coordinate privatization decision making and hone its legislative tactics, it must also adopt an "outside" strategy to identify and mobilize potential constituents for privatization. Moreover, lessons from the constituency-building campaign must be fed into the process for designing legislative initiatives.

For the most part, the Reagan Administration's privatization campaign so far has consisted only of an inside approach, and the campaign has suffered accordingly. For instance, in the sale of public lands, and the attempted disposal of the Power Marketing Administrations, insufficient attention was given to building public support before proposals were announced. The result: only opposing coalitions were ready for battle. In many instances, even ardent supporters of privatization were not consulted fully and only learned the specifics of an initiative when legislation was submitted.

To avoid this, a new structure is needed which operates on an outside as well as an inside track. A useful way to identify the key foundations of such a two-track approach is to examine the features of a number of efforts to promote specific policies or reforms. Among the most relevant:

1) The Grace Commission

Established in 1982, under the auspices of the White House, the Grace Commission consisted of businessmen and other private sector individuals. Its purpose was to use business techniques to identify waste and inefficiency in federal programs. Since the Commission had no formal staff links with OMB, however, the absence of a parallel inside group severely reduced its impact. Thanks in large part to the energy and charisma of its chairman, Peter Grace, the Commission's

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2. See Stuart M. Butler, Privatizing Federal Spending (New York: Universe Books, 1985).

report attracted enormous media coverage. Its horror stories of waste undercut congressional claims that spending had been cut to the bone. But the White House was not ready with legislative proposals to build on the momentum, and some Reagan officials--most important OMB Director David Stockman--began to dispute Commission figures, weakening its impact. Nor was an office created within the Administration to promote the report; Grace subsequently established his own foundation. Thus the political gains won by the outside Commission were not reinforced by an inside group within the government.

2) <u>The Task Force on Private Sector Initiatives</u>

Created early in Reagan's first term, to bolster Reagan's plan to shift elements of federal human service programs to the private sector, the Task Force consisted of representatives of the nonprofit sector, together with business and congressional leaders. Unlike the Grace Commission, the outside group was complemented by an inside Office of Private Sector Initiatives, located within the White House.

Lacking firm leadership and a clear set of political goals, however, the Task Force degenerated into a forum for special pleading by a nonprofit sector that had grave reservations about the Administration's policy. In addition, the special White House Office was given very little real authority to pursue an agenda.

3) <u>The Federalism Initiatives</u>

A different model was used to promote the Reagan Administration's proposals on fiscal federalism. In this case, there already existed a framework of agency offices of intergovernmental relations, coordinated through Richard Williamson, the White House Assistant to the President for Intergovernmental Relations. Williamson used this structure to build support in Congress and among the states for a program of block grants and a transfer of programs to the states.

The Administration achieved a significant goal in 1981 with the enactment of nine block grants and new spending rules to give states greater flexibility to manage the grants. Efforts to create additional block grants, and to accomplish a historic shift in state-federal responsibilities were not successful.

This structure had several valuable features. With Williamson as the undisputed point man on the initiative, state and local officials knew who spoke and who listened for the Administration--they did not have to deal with different departments. The structure also allowed the Administration to have a unified and consistent position. As such, governors were not able easily to pit one cabinet Secretary against another.

4) <u>The Presidential Task Force on Regulatory Relief</u>

Within days of entering the White House in 1981, Reagan set a two-tiered strategy to reduce federal red tape. One consisted of a cabinet-level Presidential Task Force on Regulatory Relief, chaired by Vice President Bush and consisting of cabinet officers and top White House staff. The other tier was a new Office of Information and Regulatory Affairs (OIRA) within OMB.

Though the Task Force was hardly an outside group, it gave Bush a very visible platform from which to bid for public support for deregulation. The OIRA had two functions. It provided staff support for the Task Force and, more important, it was given the power to promulgate guidelines to agencies and to review each agency's new rules to ensure that they complied with the goals of Administration policy. This way imposed a general approach to regulation on each department. The Task Force was disbanded, but OIRA continues--despite recent congressional efforts to eliminate it.

5) <u>The Office of Private Sector Initiatives (UMTA)</u>

Within a year of his appointment in November 1983, to head the Urban Mass Transit Administration, Ralph Stanley established a high level Office of Private Sector Initiatives (OPSI). Its goal: To encourage local transit authorities to make greater use of private operators and public-private partnerships in providing transit services. OPSI does this by educating local officials on the merits of privatization, establishing a national network of transit experts to advise local authorities, funding research on private options, and linking transit grants to privatization experiments. OPSI has been particularly effective as a mechanism for 1) improving understanding of privatization among otherwise skeptical officials; 2) mobilizing constituency support for privatization among officials, transit employees, and riders; and 3) changing the financial incentives to reward privatization efforts.

<u>Lessons</u>

These and similar models used by the Administration to further various agenda items suggest that a mechanism to promote privatization needs to contain certain characteristics:

- A high-profile commission can be effective at educating Americans about an issue and building general support for a policy. But it must have a clear goal and strong leadership (unlike, for instance, the Task Force on Private Sector Initiatives). If it is too independent of the political forces of government (such as the Grace Commission), the public attention it commands may not be translated into action.

- A special office within the Administration, working with an outside commission or task force, is necessary to provide good liaison with departments and to follow through on commission recommendations. But this office must have clout. It must not be denied line authority, as was the White House Office of Private Sector Initiatives. Either it must carry the authority of a powerful official within the Administration (such as the Vice President), or it must be given the explicit power to clear departmental initiative and tactics so that they comply with an overall strategy (like the OIRA).

- A network of special offices within each department can be useful. They can give a focus to each department's efforts to promote the agenda item, and act as a clearing house to ensure that experience is shared and good ideas copied (such as the system of intergovernmental relations offices).

ADVANCING THE PRIVATIZATION AGENDA

The models already tried by the Administration suggest that an effective approach to improving decision making and legislative planning on privatization consists of:

1) <u>Creating a special Task Force on Privatization, chaired by either the Vice President or a respected private citizen, to build public support for privatization, identify privatization candidates, discuss options with interested parties, and develop a political strategy</u>.

Unlike the Grace Commission, a Task Force on Privatization should be linked closely with the Administration, to avoid the lack of follow-through which comes from excessive independence. It should focus on political strategies to achieve privatization, and build coalitions in support of its proposals.

Membership of a Task Force on Privatization should reflect the need to build public support and to identify privatization targets, as well as the need to develop practical political tactics. Thus the Task Force should include members from groups with an expertise in privatization, business organizations that specialize in service delivery, accounting and investment firms that have undertaken public-private transfers, together with state and local officials who have pioneered privatization.

In addition, working groups on potential candidates for privatization should also be formed to work with the Task Force and to issue their own reports. These should be bipartisan, drawn from legislators, consumers, businesses and organizations likely to be affected. Periodic publication of working group reports would maintain media interest in privatization.

2) <u>Creating a privatization "czar" within the Administration by establishing a new position of Senior Associate Director for Privatization at the Office of Management and Budget</u>.

This new official should report directly to OMB Director Miller and be responsible for coordinating privatization planning within the Executive Branch. He should also be, <u>ex officio</u>, Executive Director of the Task Force on Privatization. The official should issue guidelines on privatization to departments and monitor their proposals.

The creation of a senior position responsible for privatization is essential if the momentum built up within the Task Force is to be carried forward within the Administration. It is also important for a high-level official to work closely with the Task Force and to coordinate privatization planning within each department.

Such a "czar" best would be based within OMB. Creating a new, senior position would give a strong and clear focus to the privatization campaign, and ensure that the OMB Associate Directors emphasized privatization. Since the official would be working with the Task Force and various nongovernmental organizations, it is important that the office be separated from the traditional management functions of OMB. With the official carrying the full authority of the OMB Director and having a firm hand on each department's purse strings, he would be able to speed up privatization planning within departments.

3) <u>Requiring cabinet officers to submit plans for major privatization initiatives to the Domestic Policy Council (DPC), and authorize the DPC chairman to issue directives to cabinet officers to follow up on decisions made by the Council.</u>

The DPC makes broad decisions on policy questions, but it has little power to follow up those decisions by demanding specific and concrete action by senior department officials. This lack of control helps to explain the poor performance of some departments in pursuing privatization. DPC chairman Edwin Meese, the Attorney General, should have the authority, on behalf of the President, to require a timetable of action on privatization and progress reports from cabinet officers. Foot-dragging officials would then be forced into action, and dubious tactics caught before a department became publicly committed to them.

4) <u>Creating Offices on Privatization within each department to plan and promote privatization initiatives. The activities of these Offices should be monitored and coordinated by the privatization official at OMB.</u>

A network of privatization offices within each department, modelled on UMTA's Office of Private Sector Initiatives, would complete the management structure for privatization. This element would permit each department to conduct its own privatization ventures, and the link with the OMB official and hence the Task Force would improve the flow of information and tactical ideas within the Administration.

CONCLUSION

The need to reduce the federal deficit amid the political reality of constituents demanding services makes privatization an increasingly attractive option for Congress and the Administration. Congress seems likely, sooner or later, to move in that direction because the alternatives are less palatable for most lawmakers. By improving the management of privatization within the Administration, leading to legislative proposals that attract public support, the Reagan White House can encourage Congress to move sooner rather than later. And that will increase the chances of action by Congress to cut the deficit by improving the efficiency of services, instead of slashing essential programs or passing a damaging tax increase.

Privatization has been demonstrated to be an extremely valuable tool to achieve important objectives. City after city across the United States, for instance, contracts with private companies to deliver such basic services as garbage collection and maintenance work, because allowing private firms to bid for contracts stimulates cost-cutting competition and spurs innovation in service delivery. In addition, numerous countries have turned to the sale of public assets because they discover that private ownership leads to greater efficiency and sensitivity to the consumers' interests. And Britain, which recently sold its one-millionth public housing unit to the tenant, has discovered that privatization can stimulate the improvement of poor communities by introducing the pride that comes with ownership and control.

In short, privatization would make sense, even if the federal government were running an enormous surplus, rather than a deficit. The deficit crisis, and the savings which can be achieved by privatization, simply makes it more urgent that the concept is implemented by the federal government.

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