How Not To Privatize

Robert W. Poole, Jr.

Major premise: $200 billion annual deficits must be ended.
Minor premise: Significant tax increases are not in the cards.
Conclusion: Major cuts in federal spending are necessary.

Given this syllogism, many of us have concluded that a basic redefinition of the scope of federal government activity is required. Margaret Thatcher is divesting the British state of its commercial operations: shipyards, bus and truck lines, public housing, an airline, the telephone system. Why can't our federal government do likewise?

In fact, the Grace Commission identified hundreds of commercial activities engaged in by the federal government: producing electricity, growing timber, building and running housing projects, delivering the mail, operating airports. Surely, in capitalist America, it shouldn't be controversial to argue that the government ought not to be running *businesses.*

Yet thus far "privatization" has had tough sledding at the federal level. Back in 1981, administration economists were advocating privatization of public lands because of the benefits of private, rather than bureaucratic, ownership and management. But by the time James Watt and the bureaucrats got through with it, the proposal had been transformed into a wimpish attempt to transfer odds and ends of "surplus" federal lands—and not to the private sector, but to state governments. Now, a similar fiasco is in the making with respect to the federal government's two airports.

Yes, the *feds* own and operate Dulles International and Washington National airports. The latter, right next door to downtown, is very popular with air travelers. But it has woefully inadequate parking and terminals, and the government arbitrarily restricts both the total number of airline flights and the destinations those flights can serve, in an effort to deal with the overcrowding.

Meanwhile, Dulles Airport, far out in the country, has tremendous excess capacity but is poorly designed for some types of airline services, such as the popular hub-and-spoke operations. The Federal Aviation Administration (which operates the airport) still clings to its system of "mobile lounges" for getting people between planes and the terminal. While reducing the need for concourses, the system builds in delays, making quick transfers among an airline's flights—the key to effective hub operations—much less feasible.

Proposals for privatizing Dulles and National have been floating around for years. If the two airports were sold off to private firms, and if those firms were allowed to charge market prices for landing slots and parking, the shortages and surpluses would soon disappear. As a profit maximizer, National's owner would charge whatever the traffic would bear. After all, close-in, convenient air travel for Washington, D.C., is a premium service.

The high prices would force users to decide whether the convenience was really worth paying more; many would opt for Dulles or the nearby Baltimore airport, making those airports more viable. And the new revenue at National would permit it to build new terminals and replace inadequate parking lots with high-capacity parking garages.

Then, with more traffic and revenues, Dulles's new owner could afford to build new terminals suitable for quick transfers among planes—the sort needed to attract hub-type airline operations. In short, competition and market pricing by entrepreneurial owners would solve the grievous problems affecting airports in the Washington, D.C., area.

So is this what the Reagan administration is proposing? You've got to be kidding! No, the administration that talks about the "magic of the marketplace" is proposing to transfer Dulles and National to a bureaucracy created by the D.C. and Virginia governments. The sale price would be a fraction of what the airport properties are worth. The airports would be operated jointly, as a cartel, with both charging the *same* prices. "Excess" revenues from National would be used to subsidize operations at Dulles, rather than being invested in badly needed improvements at National. In short, all the problems inherent in government ownership and operation—nonmarket pricing leading to shortages and surpluses, cross-subsidization shifting money from where it is needed to where it isn't, lack of entrepreneurship—would be continued, simply at a lower level of government.

Where did the geniuses at the Transportation Department get this brilliant scheme? From none other than that paragon of capitalist virtue, the Grace Commission. The task force of business leaders assigned to look at the government's two airports "investigated" the situation...meaning they went and talked to bureaucrats.

They spoke with officials at the Federal Aviation Administration, with the trade association of government airport operators, and with aviation interest groups. All of these people prefer the comfortable status quo to the unknown terrors of the competitive marketplace. So they bamboozled the task force into believing such hokum as this: that airports are essentially "public utilities" and therefore should be government-owned (never mind that most electric, gas, and telephone utilities in this country are privately owned!), that landing fees should be set to just cover costs on a break-even basis, and that competition between airports is not feasible. Decades of serious study by economists and

editorial

public-choice theorists were simply ignored.

The task force also cited the experience of Lockheed Corporation, which until 1978 owned and operated the Burbank Airport (which it then sold to a group of cities). The fact that Lockheed got out of the business "proves" that no one would bid on Dulles and National, said the task force. Yet the main reasons Lockheed sold no longer apply.

Back then, grants for airport improvements from the federal trust fund were available only to government-owned airports, putting Lockheed at a major competitive disadvantage. That restriction was repealed the next year. In addition, tax-exempt industrial development bonds—important in airport facility construction—were not then commonly used for privately owned projects, as they are today. Privately owned airports are no longer at a competition disadvantage, except for paying property taxes, which is a normal business cost.

Ironically, it is what used to be called "socialist Britain" that may show the way on airport privatization. The Thatcher government has already announced plans to privatize the British Airports Authority. The only question remaining is whether it will be sold as a unit or be broken up into its component airports (Heathrow, Gatwick, etc.). Two separate British think-tank studies have urged the latter course, arguing that *competitive* privatization would serve consumers far better than continued cartelization of airports.

It is true that most commercial airports in this country are now operated by government agencies, using nonmarket pricing. It is also true that the federal government has a unique opportunity to demonstrate a *better* way to operate airports—as enterprises competing in the marketplace. To impose such a model on existing city- or state-owned airports would raise troubling issues of federalism. But to design the divestiture of the federally owned airports as a demonstration project in true privatization is well within the government's prerogative.

Privatization offers immense potential for reducing the size and scope—and therefore the cost—of the federal government. But true privatization does *not* mean simply replacing one level of bureaucratic management with another. It means understanding *why* government operation is inappropriate and putting commercial activities into the marketplace where they belong.

The Defense Difference

Tibor R. Machan

"Defense spending should not be exempt from action taken to reduce the deficit." So proclaimed a resolution recently passed by the National Conference of State Legislatures. It reflects the ongoing debate, ever since Ronald Reagan started talking budget cuts, over defense spending versus "social spending."

While our representatives in Washington debate this issue, it behooves us to remember one simple fact: defense is the federal government's primary obligation. Our government was established to secure our rights, not to provide us with welfare. If these rights are secured, we can provide for our own welfare. If they are not secured, then the question of human welfare is moot.

Comparing military spending with social spending is like comparing apples with oranges—no, apples with volcanos. Government's business is equipping itself to fight wars against domestic and foreign criminals—those who would murder, assault, and steal from its citizens. That is the reason for government's existence. The rest is extra—indeed, an exercise in futility and fraud.

Even those who do not dispute the moral authority and right of governments to take from Peter to give to Paul, to try to help science, education, medicine, farming, the indigent, the aesthetically inclined, and everyone else, must see one matter clearly enough. Government's military mission is different from the rest. National defense benefits all of us and precisely fits the expertise of government. Government uses force as its job—cops and soldiers are trained to fight and the rest of government is trained to tell them whom to fight.

The citizens teach, design computers, publish books, write columns, type manuscripts, dig ditches, perform operations, clean hallways, and in innumerable other ways promote the general welfare. The welfare state is superfluous; we are already doing quite well and would do even better without government's help.

The general welfare—what government social spending is supposed to advance—is something citizens can promote without government. But national defense is different. Therefore cutting defense spending is a very different kind of question from whether we should cut social spending. It is roughly like the question of whether a city should give up its police or its public parks.

This isn't to say that defense spending is too low or too high. Such spending can be wasteful, as the Grace Commission has shown. But it is also possible, as Steven Kelman of Harvard's JFK School of Government argued in *The Public Interest*, that the horror stories about sums spent by the Pentagon on hammers and wrenches look different when one notes that the prices paid for them include overhead costs. Perhaps the Defense Department isn't as mismanaged as the media would have us believe. Indeed, defense spending increases may even be justified.

Be that as it may, defense spending is fundamentally different from social spending. Those who do not recognize the distinction misconceive the budget debate.

notes

The deadline has passed and the entries are in for REASON's First Quadrennial Waste, Fraud, and Abuse Contest. The result: a resounding vote of confidence in our elected spendthrifts and a set of predictions guaranteed to bring a smile to Tip O'Neill's lips.

You may recall that we announced the contest in our May issue. The object was to guess the administration's initial budget request for fiscal year 1989. First prize is two complimentary tickets to the Reason Foundation's 20th Anniversary Banquet, a swanky affair expected to be held in the spring of 1988. Second prize is the sheet music for "Hey, Big Spender."

The lowest estimate was submitted (well, not directly to us) by one Ronald Reagan, who took a stab in the dark and hit $1.26 trillion. The next most optimistic guess was nearly $100 billion more,