

including political messages. Let cable companies refuse to transport whatever they don't like, including broadcast channels. Abolish the abominable Copyright Royalty Tribunal and all the compulsory license laws it administers. Place cable companies under traditional copyright laws once again. If they want to retransmit anyone else's transmissions, make them buy them in the open market.

Prices. Large parts of the telecosm are already competitive today, or will be very soon. Price regulation here is a destructive anachronism. So...

Abolish all remaining price regulation of wireless services (there isn't much left anyway). Abolish all price regulation of interstate wireline services, like ATT's and MCI's (there isn't much left there, either). Whether or not the long-distance market is adequately competitive, regulation no longer does any visible good. Outlaw the filing of tariffs for any of these services. The tariffs in these markets just facilitate price fixing.

Abolish all price regulation of video services, whether supplied by cable, telephone, direct broadcast satellite, SMATV, VCR, disk, or other technology. Outlaw the filing of tariffs for these services, too.

Authorize every common carrier to meet or beat prices of-

fered by competitors, even if that results in what would otherwise be an (unlawful) "discriminatory" price.

Universal Service. When all else fails, this is always the last-ditch excuse for regulating what should be let alone. So...

Abolish all state and federal laws that impose service obligations on new and nondominant entrants into any market. Promote universal telecom service the same way we promote universal hamburgers: by open entry and free competition.

Free Speech. Abolish any law that passes First Amendment muster only on the theory that airwaves are somehow "scarcer" than print, or that wires are "natural monopolies," or that electronic media are inherently different and less deserving of protection. The only real scarcity in the business is a creation of government itself. The answer to government scarcity is market plenty. ♦

Peter Huber is a senior fellow of the Manhattan Institute, a columnist for Forbes, and serves Of Counsel to Kellogg, Huber, Hansen & Todd. He is the author, most recently, of Orwell's Revenge: The 1984 Palimpsest (Free Press). He has done legal work and market research for regional Bell companies and other providers of telecom services.

The Asset Test

A privatization agenda

By Robert W. Poole Jr.

The GOP sweep of both houses of Congress should make possible what has long eluded free-market proponents: a national agenda for privatizing government functions. After all, the Republicans were elected on a shrink-big-government-and-balance-the-budget platform. And, as mayors and governors across the country are demonstrating, privatization is a proven tool for doing just that.

Wasn't federal privatization tried during the Reagan years? Not really. Despite a lot of rhetoric, nothing much happened until 1987, Reagan's seventh year in office. In that year, Conrail was sold off, the only real asset sale of the entire Reagan years. In 1987, Reagan also created a "privatization czar" post in the Office of Management & Budget (which Bush subsequently abolished) and appointed a President's Commission on Privatization, whose rather tepid report appeared in March 1988, far too late to have any impact.

Besides a lack of presidential leadership, the major obstacle was Congress, which not only vowed to oppose nearly every proposed privatization measure, but on many occasions voted to prohibit the government from even *studying* such proposals. So with the startling shift of power this fall, think-tank reports from the '80s were being dusted off all over Washington. Rep. Chris Cox (R-Calif.) even proposed the creation of a Privatization Committee in the House.

Thus, it is beginning to look as if the United States might finally join Australia, Britain, France, Germany, Italy, New Zealand, and other democracies in divesting government corporations and assets to the private sector. Over the past decade, nearly \$500 billion of state-owned enterprises have been sold off worldwide. The proceeds have been used to reduce current budget deficits, to redeem outstanding bonds and save interest costs, or, in developing countries such as Mexico, to fund otherwise unaffordable public-works projects.

One major component of a federal privatization agenda would be to sell off federal enterprises and assets. No one has ever attempted to assess the possible market value of the government's numerous assets and enterprises. The General Accounting Office lists 45 government corporations (including the well-known Amtrak, Tennessee Valley Authority, and U.S. Postal Service, but also such lesser-known entities as the African Development Foundation, the National Credit Union Administration Central Liquidity Facility, and the Rural Telephone Bank). In addition, there is a whole set of government-sponsored enterprises, such as Fannie Mae, Freddie Mac, and Sallie Mae, most of which already have partial private ownership. Clearly, some of these are viable business enterprises which would command billions of dollars if offered for sale. Others would either have to be radically restructured or liquidated. All told, there are probably scores

of billions of dollars to be had by selling off those enterprises that are viable.

In addition, the feds have other assets that could be liquidated. Many federal agencies have loan assets on their books, some of which have been sold over the past decade. There's probably another \$100 billion in this category. There are also untold scores of billions of dollars worth of radio frequencies which could be sold off.

Then there are federal lands. Not national parks and wilderness areas, but supposedly income-producing "commodity lands" administered by the Bureau of Land Management and the U.S. Forest Service. A 1989 Reason Foundation study estimated their value at \$160 billion. Environmentalists would go ballistic, but in fact some of the most successful examples of ecologically sensitive resource development occur in privately owned commercial forests and wilderness areas owned by environmental groups. Given the feds' dismal record in managing grazing and timber lands, enlightened environmentalists might see net gains in some forms of privatization.

Interestingly enough, the Clinton administration's "reinventing government" people had actually begun moving toward privatization before the November election. They proposed "corporatizing" the air traffic control system and privatizing Sallie Mae, and have begun large-scale auctions of electromagnetic frequencies, expecting to generate over \$10 billion. If this faction in the White House gains the upper hand, congressional privatization initiatives may go a lot further than many pundits imagine.

Supporters of privatization at the federal level can look to state and local governments for targets. After all, America's cities and states are also bastions of socialized enterprises. A 1992 Reason Foundation study identified some \$227 billion worth of municipal electric, gas, and water utilities; parking garages; airports and seaports; highways and bridges which would be attractive commercial propositions. A fledgling privatization industry has begun emerging in the past five years, both developing new facilities of these kinds using private capital and proposing to buy or lease existing facilities and operate them in a more business-like manner.

Financially strapped governors and mayors have generally been positive about this kind of privatization, seeing it as a way to "mine their balance sheets" by turning relatively unproductive physical assets into financial assets. And various studies have pointed out benefits from converting bureaucratically run enterprises into entrepreneurial ones—market pricing that would encourage more efficient use of freeways and water systems, for example, and technological innovation.

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Several barriers have stood in the way, however, barriers which a Congress committed to shrinking big government could easily remove. One type of barrier is limitations imposed either by federal grants or by the tax code. For example, airports which get federal grants face many restrictions on how they can spend not just the federal money but all their income. And no enterprise (such as a water system) funded in part by tax-exempt bonds can enter into a management contract with a private firm for more than five years (thereby ruling out many forms of privatization involving longer-term private investment).

In 1992, President Bush issued an executive order on infrastructure privatization aimed at reducing the first type of barrier, but its provisions have not been enforced and it could be rescinded at any time. Congress could enact an improved version of these provisions into law, giving states and cities greater freedom to sell or lease these socialized enterprises.

The more serious barrier is the lack of a level playing field between taxable and tax-exempt bonds. One of the artificial advantages of municipal utilities is that they can issue bonds exempt from federal

(and usually state) income taxes. For example, on \$1 billion worth of bond funding, the annual debt service payments would be \$20 million greater with taxable private-sector debt. A privatizer must go to heroic lengths in cost-cutting to be able to offset the huge difference in financing costs created by this tax subsidy to the wealthy investors who purchase municipal bonds.

Essentially, there are two ways to level the playing field. One would be to extend the federal tax exemption to infrastructure bonds regardless of whether the owner or developer is a public entity or a private firm; the test for tax-exemption would be the purpose to which the facility would be put. If it were an airport, a toll road, or a water system serving the public (as opposed to simply a few private users), it would qualify for tax-exempt bond financing.

Traditionally, the problem with this approach has been the U.S. Treasury (and deficit-reducers generally). The last thing they want to see is yet another "loophole" that would reduce federal revenues. But the privatization community has come up with an approach that might get past this traditional objection. Based on the report of the 1993 Infrastructure Investment Commission, they have proposed a new type of infrastructure bond (applicable to both public and privately owned projects) which would be marketed to individually directed retirement accounts, such as 401(k)s. On the assumption that investors who buy these (tax-exempt) bonds will liquidate an equal amount of corporate bonds,

the Treasury is expected to score this proposal as "revenue-neutral." A bill to this effect was introduced late in the last Congress by Democratic Reps. Dick Gephardt (Mo.) and Rosa DeLauro (Conn.), and a revised version is expected early in 1995.

The other approach, of course, would be to remove the tax exemption for revenue bonds that go to finance transportation, energy, and environmental infrastructure—the kinds that are, at least in principle, profitable enterprises. The Treasury and deficit hawks would love this because it would add to federal revenue. The privatizers would also love it, because it's more clear-cut than the very complex Gephardt-DeLauro approach.

But investment bankers and bond buyers could be formidable opponents. Their opposition might be overcome if the proposal were narrowly drawn: applying only to new revenue bonds, and only for these specific kinds of infrastructure. That amounts to just over one-quarter of the annual volume of tax-exempt bonds. But each year's new issues of taxable infrastructure bonds would

add an additional \$1.3 billion in new tax revenue, so after 18 years, the annual contribution to deficit reduction from this change would be \$24 billion. It might be politically smart for Gingrich & Co. to nick wealthy bond buyers to this extent, while they are hacking away at overgrown social welfare programs.

Both types of privatization—selling off federal assets and enterprises and encouraging the privatization of state and local infrastructure—share the virtues of improving the economic performance of the entity in question while contributing seriously toward achieving a balanced federal budget. These virtues, in turn, are held dear by New Democrat types as well as by New Paradigm Republicans. Hence, privatization may finally have found political champions in Washington. ♦

Robert W. Poole is president of the Reason Foundation and the author of Cutting Back City Hall (1980), the first book about privatization issues.

A New Environment

Braking the green machine

By Rick Henderson

On the environmental front, for libertarians, conservatives, and other property-rights and sound-science buffs, a little celebration is in order. After all, three of the biggest enemies of liberty and sensible environmental policy in the House of Representatives—California Democratic chairmen Henry Waxman, George Miller, and Norm Mineta—have turned in their gavels and lost their subpoena powers.

But it's not time to get cocky. The 104th Congress will not board up the Environmental Protection Agency or defund the Fish and Wildlife Service. Right now, such moves would certainly fail and would be bad politics. Though the term *environmentalist* has become almost meaningless, we all want to

be one. For most folks, talk of repealing environmental laws conjures up scary images—the Bhopal chemical-plant disaster, the Exxon Valdez spill, or Reagan administration Interior Secretary James Watt.

It will take time to convince the general public that being environmentally conscious does not require massive regulations. Republicans and sympathetic Democrats should

start implementing what former Rep. Don Ritter, founder and chairman of the National Environmental Policy Institute, calls "reinventing the process of environmental regulation." Devolving environmental decision making to states, municipalities, and individuals, and replacing hidebound regulations with more innovative approaches could eventually result in effective environmental policies that don't stifle individual freedom. And even if the GOP loses its congressional majorities in 1996, procedural changes this year could help bring environmental extremism under control.

So here's a game plan for the next two years:

1) *Pass the "unholy trinity" provisions in the Contract With America, but cover your posteriors.* The contract includes provisions on risk assessment, unfunded mandates, and unconstitutional takings of private property—three issues that could so constrain environmental regulations that greens call them an "unholy trinity."

The trinity components of the contract could revolutionize the regulatory process, especially in environmental policy. One section of the contract's Job Creation and Wage Enhancement Act requires a "regulatory impact analysis" of any new federal rule that affects more than 100 persons or will cost individuals or nonfederal agencies more than \$1 million to enforce.

The property-rights component in the contract would require the federal government to compensate property owners if any new regulation reduces the value of their land by more than 10 percent.

A third section would require the budget director and the Congressional Budget Office to develop a "mandate budget" to esti-

