



U.S. Department of
Transportation

News:

Office of the Assistant Secretary for Public Affairs
Washington, D.C. 20590

Contact: Jennifer Hillings
Tele.: (202) 426-4570

Melinda Ledden
Tele.: (202) 426-0237

REMARKS PREPARED FOR DELIVERY BY
DEPUTY SECRETARY OF TRANSPORTATION JIM BURNLEY
FOR CPAC PANEL DISCUSSION ON PRIVATIZATION
FEBRUARY 1, 1986

I'm sure everyone in this room agrees that the next three years will be critical in institutionalizing President Reagan's vision of the limited role of the federal government in a society of free men and women. After an orgy of government expansion lasting five decades, Ronald Reagan has restored to acceptance in polite society the idea that a free people engaged in enterprises of their own choosing are better able to determine the "public interest" than are national bureaucracies. We must spare no efforts to institutionalize his vision, and the changes he has made by making the Reagan Revolution irreversible. And in permanently taming our overextended central government, I can think of no better treatment for the patient than amputation.

As Madsen Pirie pointed out in his useful how-to manual, Dismantling the State, the term "privatization" means more than just a policy designed to sell off nationalized industries. Rather, privatization is a process by which the public sector is reduced by transferring its functions to the private sector. The benefits from this transfer of functions are many and arise from the imposition of market discipline on what were previously insulated public monopolies. Successful privatization can generate lower

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production costs, increased efficiency, innovation and flexibility, better service to consumers, and greater responsiveness to cost control and capitalization needs. The greatest benefit of all is the transfer of power from the proconsuls to the commoners.

Americans can learn much from the British experience with privatization. Since Margaret Thatcher became Prime Minister in 1979, nationalized industries have been sold to the private sector one after the other, funneling 7.7 billion pounds into the British treasury. For example, nearly one million public housing units have been sold to their tenants, raising more than five billion pounds for the Treasury and transforming once shabby neighborhoods into tidy communities of fresh paint and manicured lawns.

The British experience demonstrates that, in an era of reduced government means, privatization is an idea whose time has come. And it is no secret that the idea has begun to catch on here. The Office of Management and Budget's Circular A-76, for example, requires each agency to conduct studies to determine whether the government or a commercial private sector operation is the most efficient means of providing various services. The program has reduced the cost of services used by the government by over \$475 million. In the next five years, savings are expected to be approximately one billion dollars. This cost competition between private sector and government operations has resulted in overall savings averaging 25 to 30 percent.

In addition to the A-76 program, it is no secret that the President's 1987 budget will contain a number of proposals to take privatization several steps further. He will spell out the specifics next week.

At the Department of Transportation, we continue to pursue the privatization alternative whenever possible. Our Urban Mass Transit Administration, for example, has pursued an aggressive policy of promoting opportunities for private operators. We are also interested in weaning Amtrak from its dependence on federal subsidization.

And as you are no doubt aware, our proposal to sell Conrail to Norfolk Southern is currently under consideration by the U.S. Senate. We have every confidence that this first major legislative test of privatization in the United States will be a success. If the sale is ultimately completed, it will be the largest privatization exercise in U.S. history, providing powerful momentum for other such projects.

Our experience with Conrail has taught us some valuable lessons on the tough problems we can expect to encounter in translating privatization theory into practice. First, the United States does not have a parliamentary system of government as do the British. Party discipline is not as strict, and parochial economic concerns are likely to have a substantial impact on Congressional voting. Thus, the specific techniques

that have worked well in Britain may not be equally successful when transplanted to American soil.

Moreover, individuals who fully share the goals and objectives of privatization may disagree on the details of a given case. In attempting to resolve such disputes, any privatization proposal hinges not simply on closing a deal today, but also on minimizing the risk of future government entanglement with the enterprise. This is a major reason why we chose to sell Conrail to financially strong Norfolk Southern -- to assure that the already hard pressed American taxpayer will never again be called on to foot the bill to run a commercial railroad.

Many people of goodwill have asked us why we did not sell Conrail through a public offering or why we are opposed to the sale of Conrail to the syndicate of college endowment funds and wealthy foreign investors organized by Morgan Stanley. We have looked at both options carefully, but have had no choice but to reject them. In the case of either a public offering or Morgan Stanley's proposal, immense pressure would be created for the immediate and continuous payment of dividends. Conrail is simply too fragile to survive that pressure. First, each year since its creation, Conrail's tonnage has declined steadily. Second, Conrail is particularly sensitive to cyclical downturns in the economy because of its special vulnerability to truck diversion, its lack of significant coal reserves and its lack of a strong parent.

The risk that Conrail will again be a government ward under such a scenario is real. Look at Morgan Stanley's recently released 1986 budget projections for Conrail. The budget projections released last June by Conrail's own management included \$634 million for planned capital expenditures. Morgan Stanley's pro forma, released a week ago, contemplates capital outlays of only \$501 million. Why the \$133 million discrepancy? The answer lies in the fact that the annual dividends expected by the Morgan Stanley investors amount to \$112 million, and Conrail's cash flow for 1986, according to Morgan Stanley's own figures, is expected to be negative.

Thus, the only way the Morgan Stanley investors can receive their promised dividends is by cutting capital investment. This is exactly the same path to destruction taken by Conrail's primary predecessor, the Penn Central Railroad. It led to the creation of Conrail by the federal government in the first place and over \$7 billion in federal expenditures. In the words of George Santayana, "Those who cannot remember their past are condemned to repeat it." We do not intend to repeat the past in our sale of Conrail.

Our experience with Conrail has also provided us with a series of graphic lessons about the kinds of problems that privatization initiatives are likely to encounter in the American political process. Even Congress itself has implicitly recognized the limitations of a committee of 535 members attempting to design a detailed plan to transfer government assets. Thus, in the Northeast Rail Service Act, or "NERSA," Congress directed the

Secretary to devise a plan to sell the government's interest in Conrail. The Secretary's decision would be final unless both houses exercised a legislative veto within 60 days. That was in 1981 -- five years ago. Since the Supreme Court struck down the legislative veto mechanism in the Chadha case, we were forced to seek new legislation from Congress to approve the deal. After NERSA passed, three years of extensive consultations with Conrail's management, labor unions and other interested parties took place. The Department hired an investment advisor and conducted a competitive bidding process.

In February 1985, Secretary Dole recommended to Congress that Norfolk Southern purchase Conrail for a price in excess of \$1.2 billion, with a rich package for Conrail's employees and major concessions to competing railroads. The parochial economic interests affected by the sale immediately set off a chorus of howls still reverberating around Capitol Hill. The Washington Post reported last Monday, for example, that residents of Western Maryland oppose the sale because CSX has threatened to sell or abandon its Baltimore and Ohio lines if Congress approves the sale of Conrail to Norfolk Southern. Others fear that the sale will boost the fortunes of ports in New York and Virginia at the expense of the port of Baltimore, while the Virginia port interests fear a loss of business to Baltimore. And the list goes on, with literally thousands of companies all over the country supporting one or another alternative, strictly on the basis of perceived relative advantages. While we have convinced a substantial majority of the Senate to view this issue as it should be viewed, as a major national policy question, we still have to get the Conrail bill through the House.

In terms of privatization efforts and the workings of the U.S. Congress, however, my favorite story concerns the Department's proposal to transfer our major transportation research center, TSC, to the private sector. TSC is located in Tip O'Neill's district, and the reaction to our proposal was language in our appropriations bill last year saying that it was against the law to spend one cent even thinking about such a subversive action.

The bottom line in all this is not to dampen your enthusiasm for privatization, but merely to suggest that sometimes half a loaf is better than no loaf at all. This may mean, for example, that when we get rid of a program or activity that the federal government has no business being involved with, we transfer it to a state or local government rather than the private sector. At DOT, we sold the Alaska Railroad last year to the State of Alaska for \$22.3 million. And our legislation to sell National and Dulles Airports to a regional authority has been voted out of the Senate Commerce Committee. Administrations have been trying to get rid of one or both of these airports since the 1940s, and Secretary Dole has made far more progress than ever before. Both the Alaska Railroad and airport transaction are the "new federalism" in action, but neither is pure privatization. On the other hand, attempts to fully privatize in either case would immediately suffer the same fate as our bright idea about TSC.

As Stuart Butler of the Heritage Foundation and others have pointed out, reducing government spending by cutting government services is neither the most politically popular nor the only way to get the job done. The best alternative, privatization, reduces federal spending while maintaining or even improving the level of service. With this approach, all the good guys win -- the taxpayer, the consumer, and the entrepreneur. The only losers are the tax and spend crowd -- the people whose personal power and prestige depends on the continued expansion and authority of the state into every conceivable area of human endeavor. To my mind, this is the only way feasible to permanently reduce the size of the federal government. Reduced funding for a program can always be increased under some future administration or Congress. Once transferred to the private sector, however, repatriation becomes an infinitely more difficult proposition. New "special interests" form around the privatized activity which will oppose any attempt to transfer responsibility back to the public sector. Furthermore, the burden of proof is completely shifted to those who wish to renationalize.

The founders of our country believed that a limited central government was crucial to the liberty and well-being of the citizenry. The truth of their belief has been proven time and time again in this country as well as others. For the last several decades, however, we have often lost sight of this guiding principle. Individuals and their enterprises were distrusted. Government and its central planners were viewed as the panacea for every human problem. The Reagan Administration has been successfully waging war on these intellectually bankrupt propositions. I have every confidence that privatization will be a major force in assuring a permanent redefinition of the public sector as the last resort, rather than the first, in seeking solutions in a free society.

Thank you.

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DEPUTY SECRETARY OF TRANSPORTATION JIM BURNLEY
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I'M SURE EVERYONE IN THIS ROOM AGREES THAT THE NEXT THREE YEARS WILL BE CRITICAL IN INSTITUTIONALIZING PRESIDENT REAGAN'S VISION OF THE LIMITED ROLE OF THE FEDERAL GOVERNMENT IN A SOCIETY OF FREE MEN AND WOMEN. AFTER AN ORGY OF GOVERNMENT EXPANSION LASTING FIVE DECADES, RONALD REAGAN HAS RESTORED TO ACCEPTANCE IN POLITE SOCIETY THE IDEA THAT A FREE PEOPLE ENGAGED IN ENTERPRISES OF THEIR OWN CHOOSING ARE BETTER ABLE TO DETERMINE THE "PUBLIC INTEREST" THAN ARE NATIONAL BUREAUCRACIES. WE MUST SPARE NO EFFORTS TO INSTITUTIONALIZE HIS VISION, AND THE CHANGES HE HAS MADE BY MAKING THE REAGAN REVOLUTION IRREVERSIBLE. AND IN PERMANENTLY TAMING OUR OVEREXTENDED CENTRAL GOVERNMENT, I CAN THINK OF NO BETTER TREATMENT FOR THE PATIENT THAN AMPUTATION.

AS MADSEN PIRIE POINTED OUT IN HIS USEFUL HOW-TO MANUAL, DISMANTLING THE STATE, THE TERM "PRIVATIZATION" MEANS MORE THAN JUST A POLICY DESIGNED TO SELL OFF NATIONALIZED INDUSTRIES. RATHER, PRIVATIZATION IS A PROCESS BY WHICH THE PUBLIC SECTOR IS REDUCED BY TRANSFERRING ITS FUNCTIONS TO THE PRIVATE SECTOR. THE BENEFITS FROM THIS TRANSFER OF FUNCTIONS ARE MANY AND ARISE FROM THE IMPOSITION OF MARKET DISCIPLINE ON WHAT WERE PREVIOUSLY INSULATED PUBLIC MONOPOLIES. SUCCESSFUL PRIVATIZATION CAN GENERATE LOWER PRODUCTION COSTS, INCREASED EFFICIENCY, INNOVATION AND FLEXIBILITY, BETTER SERVICE TO CONSUMERS, AND GREATER RESPONSIVENESS TO COST CONTROL AND CAPITALIZATION NEEDS. THE GREATEST BENEFIT OF ALL IS THE TRANSFER OF POWER FROM THE PROCONSULS TO THE COMMONERS.

AMERICANS CAN LEARN MUCH FROM THE BRITISH EXPERIENCE WITH PRIVATIZATION. SINCE MARGARET THATCHER BECAME PRIME MINISTER IN 1979, NATIONALIZED INDUSTRIES HAVE BEEN SOLD TO THE PRIVATE SECTOR ONE AFTER THE OTHER, FUNNELING SEVEN POINT SEVEN BILLION POUNDS INTO THE BRITISH TREASURY. FOR EXAMPLE, NEARLY ONE MILLION PUBLIC HOUSING UNITS HAVE BEEN SOLD TO THEIR TENANTS, RAISING MORE THAN FIVE BILLION POUNDS FOR THE TREASURY AND TRANSFORMING ONCE SHABBY NEIGHBORHOODS INTO TIDY COMMUNITIES OF FRESH PAINT AND MANICURED LAWNS.

THE BRITISH EXPERIENCE DEMONSTRATES THAT, IN AN ERA OF REDUCED GOVERNMENT MEANS, PRIVATIZATION IS AN IDEA WHOSE TIME HAS COME. AND IT IS NO SECRET THAT THE IDEA HAS BEGUN TO CATCH ON HERE. THE OFFICE OF MANAGEMENT AND BUDGET'S CIRCULAR A-76, FOR EXAMPLE, REQUIRES EACH AGENCY TO CONDUCT STUDIES TO DETERMINE WHETHER THE GOVERNMENT OR A COMMERCIAL PRIVATE SECTOR OPERATION IS THE MOST EFFICIENT MEANS OF PROVIDING VARIOUS SERVICES. THE PROGRAM HAS REDUCED THE COST OF SERVICES USED BY THE GOVERNMENT BY OVER FOUR-HUNDRED AND SEVENTY-FIVE MILLION DOLLARS. IN THE NEXT FIVE YEARS, SAVINGS ARE EXPECTED TO BE APPROXIMATELY ONE BILLION DOLLARS. THIS COST COMPETITION BETWEEN PRIVATE SECTOR AND GOVERNMENT OPERATIONS HAS RESULTED IN OVERALL SAVINGS AVERAGING TWENTY-FIVE TO THIRTY PERCENT.

IN ADDITION TO THE A-76 PROGRAM, IT IS NO SECRET THAT THE PRESIDENT'S 1987 BUDGET WILL CONTAIN A NUMBER OF PROPOSALS TO TAKE

PRIVATIZATION SEVERAL STEPS FURTHER. HE WILL SPELL OUT THE SPECIFICS NEXT WEEK.

Dr. Dob

AT THE DEPARTMENT OF TRANSPORTATION, ~~WE~~ *we* CONTINUE *STO* TO PURSUE THE PRIVATIZATION ALTERNATIVE WHENEVER POSSIBLE. OUR URBAN MASS TRANSIT ADMINISTRATION, FOR EXAMPLE, HAS PURSUED AN AGGRESSIVE POLICY OF PROMOTING OPPORTUNITIES FOR PRIVATE OPERATORS. WE ARE ALSO INTERESTED IN WEANING AMTRAK FROM ITS DEPENDENCE ON FEDERAL SUBSIDIZATION.

AND AS YOU ARE NO DOUBT AWARE, OUR PROPOSAL TO SELL CONRAIL TO NORFOLK SOUTHERN IS CURRENTLY UNDER CONSIDERATION BY THE U.S. SENATE. WE HAVE EVERY CONFIDENCE THAT THIS FIRST MAJOR LEGISLATIVE TEST OF PRIVATIZATION IN THE UNITED STATES WILL BE A SUCCESS. IF THE SALE IS ULTIMATELY COMPLETED, IT WILL BE THE LARGEST PRIVATIZATION EXERCISE IN U.S. HISTORY, PROVIDING POWERFUL MOMENTUM FOR OTHER SUCH PROJECTS.

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100
38,000
emp.,
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more than 15% of the
country's
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OUR EXPERIENCE WITH CONRAIL HAS TAUGHT US SOME VALUABLE LESSONS ON THE TOUGH PROBLEMS WE CAN EXPECT TO ENCOUNTER IN TRANSLATING PRIVATIZATION THEORY INTO PRACTICE. FIRST, THE UNITED STATES DOES NOT HAVE A PARLIAMENTARY SYSTEM OF GOVERNMENT AS DO THE BRITISH. PARTY DISCIPLINE IS NOT AS STRICT, AND PAROCHIAL ECONOMIC CONCERNS ARE LIKELY TO HAVE A SUBSTANTIAL IMPACT ON CONGRESSIONAL VOTING. THUS, THE SPECIFIC TECHNIQUES THAT HAVE WORKED WELL IN BRITAIN MAY NOT BE EQUALLY SUCCESSFUL WHEN TRANSPLANTED TO AMERICAN SOIL.

MOREOVER, INDIVIDUALS WHO FULLY SHARE THE GOALS AND OBJECTIVES OF PRIVATIZATION MAY DISAGREE ON THE DETAILS OF A GIVEN CASE. IN ATTEMPTING TO RESOLVE SUCH DISPUTES, ANY PRIVATIZATION PROPOSAL HINGES NOT SIMPLY ON CLOSING A DEAL TODAY, BUT ALSO ON MINIMIZING THE RISK OF FUTURE GOVERNMENT ENTANGLEMENT WITH THE ENTERPRISE. THIS IS A MAJOR REASON WHY WE CHOSE TO SELL CONRAIL TO FINANCIALLY STRONG NORFOLK SOUTHERN -- TO ASSURE THAT THE ALREADY HARD PRESSED AMERICAN TAXPAYER WILL NEVER AGAIN BE CALLED ON TO FOOT THE BILL TO RUN A COMMERCIAL RAILROAD.

MANY PEOPLE OF GOODWILL HAVE ASKED US WHY WE DID NOT SELL CONRAIL THROUGH A PUBLIC OFFERING OR WHY WE ARE OPPOSED TO THE SALE OF CONRAIL TO THE SYNDICATE OF COLLEGE ENDOWMENT FUNDS AND WEALTHY FOREIGN INVESTORS ORGANIZED BY MORGAN STANLEY. WE HAVE LOOKED AT BOTH OPTIONS CAREFULLY, BUT HAVE HAD NO CHOICE BUT TO REJECT THEM. IN THE CASE OF EITHER A PUBLIC OFFERING OR MORGAN STANLEY'S PROPOSAL, IMMENSE PRESSURE WOULD BE CREATED FOR THE IMMEDIATE AND CONTINUOUS PAYMENT OF DIVIDENDS. CONRAIL IS SIMPLY TOO FRAGILE TO SURVIVE THAT PRESSURE. FIRST, EACH YEAR SINCE ITS CREATION, CONRAIL'S TONNAGE HAS DECLINED STEADILY. SECOND, CONRAIL IS PARTICULARLY SENSITIVE TO CYCLICAL DOWNTURNS IN THE ECONOMY BECAUSE OF ITS SPECIAL VULNERABILITY TO TRUCK DIVERSION, ITS LACK OF SIGNIFICANT COAL RESERVES AND ITS LACK OF A STRONG PARENT.

THE RISK THAT CONRAIL WILL AGAIN BE A GOVERNMENT WARD UNDER SUCH A SCENARIO IS REAL. LOOK AT MORGAN STANLEY'S RECENTLY RELEASED

1986 BUDGET PROJECTIONS FOR CONRAIL. THE BUDGET PROJECTIONS RELEASED LAST JUNE BY CONRAIL'S OWN MANAGEMENT INCLUDED SIX-HUNDRED AND THIRTY-FOUR MILLION DOLLARS FOR PLANNED CAPITAL EXPENDITURES. MORGAN STANLEY'S PRO FORMA, RELEASED A WEEK AGO, CONTEMPLATES CAPITAL OUTLAYS OF ONLY FIVE-HUNDRED AND ONE MILLION DOLLARS. WHY THE ONE-HUNDRED AND THIRTY-THREE MILLION DOLLAR DISCREPANCY? THE ANSWER LIES IN THE FACT THAT THE ANNUAL DIVIDENDS EXPECTED BY THE MORGAN STANLEY INVESTORS AMOUNT TO ONE-HUNDRED AND TWELVE MILLION DOLLARS, AND CONRAIL'S CASH FLOW FOR 1986, ACCORDING TO MORGAN STANLEY'S OWN FIGURES, IS EXPECTED TO BE NEGATIVE.

THUS, THE ONLY WAY THE MORGAN STANLEY INVESTORS CAN RECEIVE THEIR PROMISED DIVIDENDS IS BY CUTTING CAPITAL INVESTMENT. THIS IS EXACTLY THE SAME PATH TO DESTRUCTION TAKEN BY CONRAIL'S PRIMARY PREDECESSOR, THE PENN CENTRAL RAILROAD. IT LED TO THE CREATION OF CONRAIL BY THE FEDERAL GOVERNMENT IN THE FIRST PLACE AND OVER SEVEN BILLION DOLLARS IN FEDERAL EXPENDITURES. IN THE WORDS OF GEORGE SANTAYANA, "THOSE WHO CANNOT REMEMBER THEIR PAST ARE CONDEMNED TO REPEAT IT." WE DO NOT INTEND TO REPEAT THE PAST IN OUR SALE OF CONRAIL.

Let me review for you the litany of obstacles that we have encountered in trying to sell Conrail and that any priv.
~~OUR EXPERIENCE WITH CONRAIL HAS ALSO PROVIDED US WITH A SERIES~~
~~OF GRAPHIC LESSONS ABOUT THE KINDS OF PROBLEMS THAT PRIVATIZATION~~
 INITIATIVES ARE LIKELY TO ENCOUNTER IN THE AMERICAN POLITICAL
 PROCESS. EVEN CONGRESS ITSELF HAS IMPLICITLY RECOGNIZED THE
 LIMITATIONS OF A COMMITTEE OF FIVE-HUNDRED AND THIRTY-FIVE MEMBERS

ATTEMPTING TO DESIGN A DETAILED PLAN TO TRANSFER GOVERNMENT ASSETS. THUS, IN THE NORTHEAST RAIL SERVICE ACT, OR "NERSA," CONGRESS DIRECTED THE SECRETARY TO DEVISE A PLAN TO SELL THE GOVERNMENT'S INTEREST IN CONRAIL. THE SECRETARY'S DECISION WOULD BE FINAL UNLESS BOTH HOUSES EXERCISED A LEGISLATIVE VETO WITHIN SIXTY DAYS. THAT WAS IN 1981 -- FIVE YEARS AGO. SINCE THE SUPREME COURT STRUCK DOWN THE LEGISLATIVE VETO MECHANISM IN THE CHADHA CASE, WE WERE FORCED TO SEEK NEW LEGISLATION FROM CONGRESS TO APPROVE THE DEAL. AFTER NERSA PASSED, THREE YEARS OF EXTENSIVE CONSULTATIONS WITH CONRAIL'S MANAGEMENT, LABOR UNIONS AND OTHER INTERESTED PARTIES TOOK PLACE. THE DEPARTMENT HIRED AN INVESTMENT ADVISOR AND CONDUCTED A COMPETITIVE BIDDING PROCESS.

IN FEBRUARY 1985, SECRETARY DOLE RECOMMENDED TO CONGRESS THAT NORFOLK SOUTHERN PURCHASE CONRAIL FOR A PRICE IN EXCESS OF ONE POINT TWO BILLION DOLLARS, WITH A RICH PACKAGE FOR CONRAIL'S EMPLOYEES AND MAJOR CONCESSIONS TO COMPETING RAILROADS. THE PAROCHIAL ECONOMIC INTERESTS AFFECTED BY THE SALE IMMEDIATELY SET OFF A CHORUS OF HOWLS STILL REVERBERATING AROUND CAPITOL HILL. THE WASHINGTON POST REPORTED LAST MONDAY, FOR EXAMPLE, THAT RESIDENTS OF WESTERN MARYLAND OPPOSE THE SALE BECAUSE CSX HAS THREATENED TO SELL OR ABANDON ITS BALTIMORE AND OHIO LINES IF CONGRESS APPROVES THE SALE OF CONRAIL TO NORFOLK SOUTHERN. OTHERS FEAR THAT THE SALE WILL BOOST THE FORTUNES OF PORTS IN NEW YORK AND VIRGINIA AT THE EXPENSE OF THE PORT OF BALTIMORE, WHILE THE VIRGINIA PORT INTERESTS FEAR A LOSS OF BUSINESS TO BALTIMORE. AND THE LIST GOES ON, WITH LITERALLY

THOUSANDS OF COMPANIES ALL OVER THE COUNTRY SUPPORTING ONE OR ANOTHER ALTERNATIVE, STRICTLY ON THE BASIS OF PERCEIVED RELATIVE ADVANTAGES. WHILE WE HAVE CONVINCED A SUBSTANTIAL MAJORITY OF THE SENATE TO VIEW THIS ISSUE AS IT SHOULD BE VIEWED, AS A MAJOR NATIONAL POLICY QUESTION, WE STILL HAVE TO GET THE CONRAIL BILL THROUGH THE HOUSE.

IN TERMS OF PRIVATIZATION EFFORTS AND THE WORKINGS OF THE U.S. CONGRESS, HOWEVER, MY FAVORITE STORY CONCERNS THE DEPARTMENT'S PROPOSAL TO TRANSFER OUR MAJOR TRANSPORTATION RESEARCH CENTER, TSC, TO THE PRIVATE SECTOR. TSC IS LOCATED IN TIP O'NEILL'S DISTRICT, AND THE REACTION TO OUR PROPOSAL WAS LANGUAGE IN OUR APPROPRIATIONS BILL LAST YEAR SAYING THAT IT WAS AGAINST THE LAW TO SPEND ONE CENT EVEN THINKING ABOUT SUCH A SUBVERSIVE ACTION.

THE BOTTOM LINE IN ALL THIS IS NOT TO DAMPEN YOUR ENTHUSIASM FOR PRIVATIZATION, BUT MERELY TO SUGGEST THAT SOMETIMES HALF A LOAF IS BETTER THAN NO LOAF AT ALL. THIS MAY MEAN, FOR EXAMPLE, THAT WHEN WE GET RID OF A PROGRAM OR ACTIVITY THAT THE FEDERAL GOVERNMENT HAS NO BUSINESS BEING INVOLVED WITH, WE TRANSFER IT TO A STATE OR LOCAL GOVERNMENT RATHER THAN THE PRIVATE SECTOR. AT DOT, WE SOLD THE ALASKA RAILROAD LAST YEAR TO THE STATE OF ALASKA FOR TWENTY-TWO POINT THREE MILLION DOLLARS. AND OUR LEGISLATION TO SELL NATIONAL AND DULLES AIRPORTS TO A REGIONAL AUTHORITY HAS BEEN VOTED OUT OF THE SENATE COMMERCE COMMITTEE. ADMINISTRATIONS HAVE BEEN TRYING TO GET RID OF ONE OR BOTH OF THESE AIRPORTS SINCE THE 1940S, AND

SECRETARY DOLE HAS MADE FAR MORE PROGRESS THAN EVER BEFORE. BOTH THE ALASKA RAILROAD AND AIRPORT TRANSACTION ARE THE "NEW FEDERALISM" IN ACTION, BUT NEITHER IS PURE PRIVATIZATION. ON THE OTHER HAND, ATTEMPTS TO FULLY PRIVATIZE IN EITHER CASE WOULD IMMEDIATELY SUFFER THE SAME FATE AS OUR BRIGHT IDEA ABOUT TSC.

AS STUART BUTLER OF THE HERITAGE FOUNDATION AND OTHERS HAVE POINTED OUT, REDUCING GOVERNMENT SPENDING BY CUTTING GOVERNMENT SERVICES IS NEITHER THE MOST POLITICALLY POPULAR NOR THE ONLY WAY TO GET THE JOB DONE. THE BEST ALTERNATIVE, PRIVATIZATION, REDUCES FEDERAL SPENDING WHILE MAINTAINING OR EVEN IMPROVING THE LEVEL OF SERVICE. WITH THIS APPROACH, ALL THE GOOD GUYS WIN -- THE TAXPAYER, THE CONSUMER, AND THE ENTREPRENEUR. THE ONLY LOSERS ARE THE TAX AND SPEND CROWD -- THE PEOPLE WHOSE PERSONAL POWER AND PRESTIGE DEPENDS ON THE CONTINUED EXPANSION AND AUTHORITY OF THE STATE INTO EVERY CONCEIVABLE AREA OF HUMAN ENDEAVOR. TO MY MIND, THIS IS THE ONLY WAY FEASIBLE TO PERMANENTLY REDUCE THE SIZE OF THE FEDERAL GOVERNMENT. REDUCED FUNDING FOR A PROGRAM CAN ALWAYS BE INCREASED UNDER SOME FUTURE ADMINISTRATION OR CONGRESS. ONCE TRANSFERRED TO THE PRIVATE SECTOR, HOWEVER, REPATRIATION BECOMES AN INFINITELY MORE DIFFICULT PROPOSITION. NEW "SPECIAL INTERESTS" FORM AROUND THE PRIVATIZED ACTIVITY WHICH WILL OPPOSE ANY ATTEMPT TO TRANSFER RESPONSIBILITY BACK TO THE PUBLIC SECTOR. FURTHERMORE, THE BURDEN OF PROOF IS COMPLETELY SHIFTED TO THOSE WHO WISH TO RENATIONALIZE.

THE FOUNDERS OF OUR COUNTRY BELIEVED THAT A LIMITED CENTRAL GOVERNMENT WAS CRUCIAL TO THE LIBERTY AND WELL-BEING OF THE CITIZENRY. THE TRUTH OF THEIR BELIEF HAS BEEN PROVEN TIME AND TIME AGAIN IN THIS COUNTRY AS WELL AS OTHERS. FOR THE LAST SEVERAL DECADES, HOWEVER, WE HAVE OFTEN LOST SIGHT OF THIS GUIDING PRINCIPLE. INDIVIDUALS AND THEIR ENTERPRISES WERE DISTRUSTED. GOVERNMENT AND ITS CENTRAL PLANNERS WERE VIEWED AS THE PANACEA FOR EVERY HUMAN PROBLEM. THE REAGAN ADMINISTRATION HAS BEEN SUCCESSFULLY WAGING WAR ON THESE INTELLECTUALLY BANKRUPT PROPOSITIONS. I HAVE EVERY CONFIDENCE THAT PRIVATIZATION WILL BE A MAJOR FORCE IN ASSURING A PERMANENT REDEFINITION OF THE PUBLIC SECTOR AS THE LAST RESORT, RATHER THAN THE FIRST, IN SEEKING SOLUTIONS IN A FREE SOCIETY.

THANK YOU.

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