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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

April 24, 1986

MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

FROM: THOMAS G. MOORE, Chairman
Working Group on Privatization



Issue: What actions should the Administration pursue to develop and implement privatization initiatives?

Background:

In 1981, the President promised "to limit government to its proper role and make it the servant, not the master, of the people". The President called for a re-evaluation of past decisions that have created a bloated and ever-expanding Federal government. The Director of OMB recently articulated a set of management decision rules which were used to formulate the FY 87 budget, and which focus on achieving effective government within a balanced budget. The decision rules question whether each current government activity should in fact be performed by the Federal government. If there is no reason why the Federal government should provide a particular service, a decision is made as to whether the activity should be terminated, transferred to another level of government, or moved into the private sector.

The FY 87 budget supports the President's priority of turning over to the private sector those functions now being performed by government which could be more efficiently and effectively carried out by non-governmental organizations. Implementation of these initiatives and other similar privatization actions will strengthen the private sector of our economy, and allow the Federal government to more directly focus its limited resources on the tasks and activities best accomplished by governmental action. However, full implementation of new or previously identified privatization initiatives requires a coordinated inter-agency strategy that

allows the Administration to assess the broad economic and political implications of privatizing each identified area. The strategy must provide an organizational structure that leads to effective execution of each privatization initiative despite natural resistance from affected interest groups.

Discussion:

In its broadest sense, privatization is a process for transferring the governmental production of goods and services to the private sector. While the specific approach will vary from case to case, there are three primary means of privatizing government activities:

- * Contracting out
- * Asset sales to the private sector
- * Curtailing government provided services and allowing the private sector to determine if the service will be supplied and, if so, how much and what type of service will be provided.

Current Administration policy provides examples of each of these privatization activities: the A-76 program aims to reduce costs through contracting out; asset sales have been proposed for Conrail, Power Marketing Authorities, and other agencies; the proposals for ending Amtrak subsidies and phasing out crop insurance subsidies are examples of the last method of privatization.

Privatization improves economic performance in several ways. The economy gains from the efficiency improvement that comes with private ownership and management and the removal of distorting subsidies. Government expenditures decline due to cost savings and termination of subsidy programs. Finally, privatization reduces the monopoly restraints that often accompany government production.

These economic gains have led several other countries to pursue policies of privatization. Over the past few years Great Britain has transferred \$28 billion of assets to the private sector including British Telecom and Britoil. In the United States at the local level, many governments have contracted out for the provision of municipal services. The cessation of federal grants for waste-water facilities has led to private firms building and operating these facilities for municipalities. At the federal level, the A-76 program, the Conrail proposal, the creation of markets in airport landing and take-off slots, FCC proposals to auction the radio spectrum, and demonstration programs to sell public housing units to current occupants can all be considered privatization initiatives.

Current Privatization Candidates:

The budget process has led to specific privatization proposals in the 1987 budget (see attachment). Some of these proposals involve ending subsidies or instituting voucher systems. Other proposals initiate sale of government assets to the private sector. In addition, the working group has generated other privatization possibilities. The specific privatization candidates currently being considered by the Working Group are:

1. Student Loan Marketing Association (Sallie Mae). A subgroup (with representatives from Departments of Education and Treasury, OMB and CEA) is considering the role played by Sallie Mae and the advisability of eliminating its remaining federal connections. (This issue will ultimately be referred to the EPC for consideration).

Sallie Mae creates a secondary market for student loans and is privately owned. It does, however, enjoy special status which, among other things, exempts their earnings from state and local income tax, exempts their securities from SEC registration, and eliminates restrictions on investment in their securities by depository institutions. Privatization would terminate these special conditions and also eliminate restrictions on Sallie Mae's business activities.

Opponents of Sallie Mae privatization are likely to be those who fear that the private market will not continue to make a secondary market in student loans. Private firms now compete only to a limited degree with Sallie Mae. However, private activity could expand as the special advantages of Sallie Mae are phased out. There could also be significant opposition from other government sponsored enterprises concerned about the impact of similar proposals on their financial viability. Finally, a major issue being considered is how to treat Sallie Mae's current \$5 billion floating rate debt held by the U.S. Treasury on which repayment will begin in 1986.

2. Overseas Private Investment Corporation (OPIC). The FY 1987 budget calls for the privatization of OPIC. A subgroup has been formed to develop specific proposals. OPIC provides insurance to firms investing abroad at rates that appear to be concessionary. At present, there are private companies in competition with OPIC that insure private investments against expropriation, and to a somewhat more limited degree, also offer insurance against war risk and nonconvertibility of currency. Some opposition to privatization comes from the business community whose members benefit from the relatively low-cost insurance. (This issue will also be referred to the EPC for consideration.)

3. United States Postal System. A subgroup will look at ways to increase competition in the Postal Service. Measures which could be considered include: increasing the use of private contractors; allowing charitable groups access to letterboxes for the delivery of their own mail; and, expanding the current "urgent letter" exemption to the private express statutes. Increased contracting out and expanded exemptions to the private express statutes can be accomplished by rule making by the Board of Governors of the USPS. Legislation is needed to expand access to letterboxes. All these options are likely to be opposed by the Postal Workers' Unions.

4. Department of Energy Initiatives. The 1987 budget calls for selling power marketing authorities and the naval petroleum reserves. The Department of Energy is also looking at privatizing the Great Plains Coal Gasification project and the advanced enrichment technology (AVLIS). DOE is also considering options for the closed gas centrifuge plant in Portsmouth, Ohio. At present, DOE is establishing an in-house task force to marshal its expertise to develop the information necessary to support successful privatization efforts.

Strategies:

Successful execution of the Administration's privatization policy requires careful management from initial concept generation through to the final implementation stage. The privatization strategy adopted by the Administration should consider: interagency coordination; innovative approaches that deal with the natural resistance of the affected interest groups; and formulation of priorities among the various privatization candidates.

1. Interagency Coordination. OMB will continue to work with Departments and Agencies to develop privatization initiatives through the budget process. The Working Group will also identify and propose additional candidates for privatization, and will coordinate its efforts with OMB and the affected Departments and Agencies. At the design and implementation phases of privatization, the Working Group will provide coordination, guidance and advice on specific initiatives and will draw upon the expertise of the affected agencies to address policy issues requiring DPC decisions.

While most privatization efforts affect a wide range of interest groups and involve a number of government agencies, one agency usually has primary responsibility for the targeted activity. Those agencies will need to organize internally to develop necessary information and possible options and action plans for privatization. These departmental efforts will be valuable as input to the Working Group. Broad based policy issues and the political and economic implications of specific

actions will then be addressed by the Working Group which will develop options for DPC review and decision.

2. Innovative Approaches for Dealing with Affected Groups.

The major obstacles to privatization come from groups that now benefit from the direct and indirect subsidies associated with Federal government provision of goods and services. Often, the only way to make privatization politically feasible is to compensate or provide assurance of service to current beneficiaries. This can be accomplished in a variety of ways. In Great Britain, for example, shares in privatized corporations were sold to affected workers at below market rates. The explicit recognition of the subsidies associated with sale at below market rates or other direct compensation exposes the Administration to criticism from those who will claim we are "giving away" public assets and benefits. Nevertheless, the Working Group feels that specific privatization strategies should recognize that realizing top dollar from privatization actions, while desirable, may not always be achievable given the need to build a supportive political constituency within affected interest groups. Of course, in implementing a proposal, consideration must also be given to protecting and benefitting Federal taxpayers.

3. Priorities. The difficulty of fashioning feasible proposals differs greatly between privatization candidates. Some early success would demonstrate the Administration's commitment to privatization and the feasibility of the privatization concept. Such successes would also create an environment that may make later privatization efforts easier. Further, the experience gained will be important to successful implementation of more complicated privatization initiatives. To demonstrate such success, priority effort should be given to pursuing a few less difficult proposals that will provide gains to the economy, but which are structured to engender relatively little opposition.

Recommendation. The Working Group recommends that the Domestic Policy Council support the following actions:

- o To establish early successes, effort over the next 60-90 days should be directed towards developing specific privatization action plans for OPIC, the Naval Petroleum Reserves, and one of the smaller Power Marketing Authorities.
- o The Working Group should continue to explore the possibilities for privatizing Sallie Mae, and measures for increasing the private sector role in mail delivery.
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- o The Working Group should periodically report progress to the Council and should continue to develop options for policy issues which may arise during the execution of privatization initiatives.

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- o The Working Group should periodically report progress to the Council and should continue to develop options for policy issues which may arise during the execution of privatization initiatives.

**THE WHITE HOUSE
WASHINGTON**

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 7/7/86 Number: 317, 147 Due By: -----

Subject: DOMESTIC POLICY COUNCIL MINUTES

April 28 and May 29, 1986 Meetings

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
State	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>	Poindexter	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>	Svahn	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Chew (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Executive Secretary for:		
CIA	<input type="checkbox"/>	<input type="checkbox"/>	DPC	<input type="checkbox"/>	<input checked="" type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	EPC	<input type="checkbox"/>	<input checked="" type="checkbox"/>
USTR	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

Attached for your information are the minutes of the April 28 and May 29 Domestic Policy Council Meetings.

RETURN TO:

Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

Don Clarey
 Rick Davis
 Ed Stucky

Associate Director
Office of Cabinet Affairs
456-2800 (Room 235, OE0B)

MINUTES
DOMESTIC POLICY COUNCIL

April 28, 1986

3:00 p.m.

Roosevelt Room

Participants: Messrs. Meese, Baldrige, Herrington, Bowen, Burnley, Wallis, Knapp, Wright, Sprinkel, Kingon, Svahn, Bledsoe, Moore, Cooper, Ms. Kuhl, Messrs. Calabresi, Zimmerman, Tuck, King, Cribb, Ms. Dunlop, Messrs. Gray, Lenard.

Privatization

Attorney General Meese began the meeting by introducing Mr. Moore, Chairman of the Working Group on Privatization. Mr. Moore described the background of privatization initiatives within the Administration. He pointed out several advantages of the private sector performing functions now performed by government, and gave examples of privatization possibilities. He indicated that the objective is not just to reduce the budget. Mr. Moore identified three methods established by the Working Group for furthering privatization. They include contracting out, asset sales, and curtailing government provided services. He referred to a list of 11 privatization initiatives, which includes issues now being addressed by a DOE task force and the Working Group. The list also includes other possibilities being developed by departments and agencies and the Working Group. He indicated that for each of the items on the list, the Working Group intends to bring recommendations to the Council.

Mr. Moore described a three-pronged strategy to be used by the Working Group. It involves interagency coordination, in which candidate programs will be identified, stressing innovative methods for privatization, and setting priorities to demonstrate the Administration's commitment to privatizing feasible functions. Mr. Moore recommended seven steps that would be taken by the Working Group, for which he was seeking Council approval. They include bringing specific proposals to the Council within 60-90 days for the Naval Petroleum Reserves, a smaller Power Marketing Administration (PMA), and the Overseas Private Investment Corporation (OPIC); continuing to explore Sallie Mae and postal services privatization; monitoring uranium enrichment privatization with DOE; working on additional proposals and budget initiatives for presentation at a later date; developing new initiatives with agencies and OMB; developing innovative approaches for dealing with opposition from current beneficiaries; and periodically reporting to the Council on progress on new options. Mr. Moore said that not all agencies are represented on the Working Group. Mr. Meese indicated that he should let Mr. Bledsoe know if additional representation is required.

Mr. Burnley pointed out the strength that private interests often display when privatization is attempted, citing Conrail as an example. He felt that senior management must work on the issue if a major privatization effort is to be successful. He said that there are often better ideas on how functions may be privatized, including only partially moving a function out of government. He gave as an example the assumption of Dulles and National airports by a regional authority. Mr. Knapp asked how the privatization process will relate to the budget process. Mr. Moore replied that OMB can identify privatization candidates, but has neither the time nor expertise to develop the detailed methods for privatizing them. Mr. Wallis said that the State Department is in favor of privatization, but would like the Working Group and agencies to take foreign policy implications into account in their studies.

Secretary Baldrige indicated that while everyone is in favor of privatization, the Working Group should consider whether the private sector is capable of doing the job. He used the OPIC as an example, and cautioned that we should first prove that their role can be assumed by a private organization, and next that it would be cheaper. He felt that not getting top dollar for privatization of a Federal asset goes against the grain.

Secretary Herrington supported the idea that we must seek top dollar return. He noted the Working Group recommendation on Uranium Enrichment Privatization, and suggested that this be carefully examined. He said he was cautioned by Congress not to have a "fire sale" on new technology in this area. He also said that the Great Plains project should be put at the top of the list of assets for sale to the private sector.

Mr. Wright commented on three aspects of the Working Group report. The first had to do with the process of determining privatization candidates. He agreed that the budget process is not geared to the best decisions, as there is too little time available. He said that if privatization is a high priority with the Administration, the Council should develop a better front-end process. His second comment pertained to whether we have committed sufficient resources to the privatization initiative. He used as an example the previous Federal Property Review Board. His third observation had to do with contracting-out. He said that some agencies had not used the A-76 process, which is an excellent way of privatizing since it provides the necessary authorities. He felt the Council should look into this and support more A-76 studies by agencies. Mr. Meese said an advantage of A-76 is that it compares whether the private sector is cheaper. Mr. Wright indicated it includes both cost analysis and cost comparison.

Mr. Meese thanked Mr. Moore for the group's efforts and indicated that the Working Group recommendations are approved with caveats that the OPIC should be looked at more closely and brought back to the Council, that Uranium Enrichment Privatization must be reexamined, and that the Great Plains project be placed higher on the priority list. Mr. Moore agreed this would be done within 60-90 days.

Justice Legal Policy Changes

Mr. Meese indicated to the Council that as a result of recent court actions, the Department of Justice has developed policies to better handle three areas in which there are questions regarding executive branch/judicial branch conflicts. These are in the areas of consent decrees, special masters, and Presidential signing statements. Mr. Meese introduced Ms. Kuhl who described the new approaches to consent decrees. Ms. Kuhl pointed out that as a legacy of the Carter Administration, the Federal government is bound by consent decrees which have become intrusive on executive discretion. She used as an example consent decrees in a Chicago court ordered busing case. The consent decree in question permitted the court to excessively involve itself in Department of Education budgeting and funding proposals. Ms. Kuhl said that in order to keep the courts from expanding into executive branch jurisdiction, the new Justice policy will involve close examination and approval of consent decrees. This should ensure we do not easily give away authority for spending, or regulations, or discretion for handling agency problems.

Mr. Meese introduced Mr. Cooper who discussed problems with appointments of special masters. Mr. Cooper stated that we have seen the creation of a fourth tier of the judicial branch. He said that, special masters in effect, are a private judiciary with a broad range of functions. They are asked to conduct trials, monitor the carrying out of decisions, and other activities that often conflict with executive branch authorities. He cited the examples of two special masters being appointed to conduct a trial in a case brought by the Department of Justice against the Newark jail, and a proposed requirement that special masters be involved in all drug eradication raids. Mr. Cooper said that as a result of these, the Justice Department has proposed guidelines on when it is appropriate and when it is not appropriate to appoint special masters, criteria for their selection, and appropriate amounts of payment to special masters.

Mr. Meese introduced Mr. Calabresi who described a process being developed for having a statement of Presidential intent attached to each legal document that requires the President's signature. Mr. Calabresi pointed out that on numerous occasions courts refer to Congressional intent in their judgments regarding legal documents. It was felt that the President's intent at the time of signing legal documents should also be properly recorded, in order to encourage the courts to better reflect the President's understanding of the nature of the document. Under the new procedure, the Department of Justice will prepare a statement that contains information about the President's understanding of the legal document at the time of signing. This statement will be published by West Publishing Company. Mr. Calabresi said this should memorialize the President's intent. He said the Justice Department has a study group working on the process and format

for these statements. Mr. Wright cautioned that the required 10-day turnaround period be considered. He asked if the statement would be a legal attachment. Mr. Meese said it would, and that the Justice Department will work with OMB and agencies to ensure that the attachment is prepared in a timely manner. Mr. Meese indicated information about all three issues will be sent to members of the Cabinet.

Attachment

List of Privatization Initiatives
in the FY 1987 Budget

1. Power Marketing Administrations - Adelman PMA working
by DOE
2. Naval Petroleum Reserves - Before Congress
3. ~~GSA Surplus Property Sales~~
4. ~~Compensatory Education Vouchers~~
5. ~~Housing Vouchers~~
6. ~~Federal Housing Administration~~
7. ~~Export-Import Bank Direct Loans~~
8. OPIC - An Options paper is being prepared for
Working Group & DPC
9. ~~Crop Insurance Subsidies~~
10. Amtrak Subsidy - Under study
11. ~~Landsat Subsidy~~
12. Post Office - An options paper is being prepared
13. Hospital Mortgage Insurance program is being
worked on.
14. Salley Hoe - A ~~study~~ task force is working on
this.
15. Uranium Enrichment - working with DOE on.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

January 26, 1987

MEMORANDUM FOR RALPH BLEDSOE

FROM:

JOE WRIGHT *JW*

SUBJECT:

Privatization Update -- DPC

Ralph: I have asked Tom Lenard whether or not he could be ready for a "overview of privatization results" by the Wednesday DPC -- he will not be ready since he has just asked our budget divisions for information. My suggestion is that you should continue with the DPC on the Postal Service and announce that there will be an overview of the privatization efforts to date -- along with recommendations for "beefing them up" -- sometime in February.

cc: Jim Miller
Tom Lenard
Tom Moore
Becky Norton Dunlop

DRAFT

MEMORANDUM TO ATTORNEY GENERAL EDWIN MEECE

FROM: Ralph Bledsoe, Executive Secretary of DPC

SUBJECT: Privatization Initiative

At the DPC meeting, March 18, 1987, the working group on privatization proposed a three-point initiative to further privatization. They proposed the appointment of a new Associate Director in OMB for Privatization; each Cabinet officer to designate a senior policy-level official who would be responsible for furthering privatization and would work with the new Associate Director in OMB; and that each department would prepare a report on what had already been accomplished in privatization and what future privatization initiatives could be taken.

Virtually all of the discussion revolved around the new Associate Director in OMB. Several Cabinet officers expressed reservations about the idea but with strong support from Jim Miller and Beryl Sprinkel, there was general acquiescence to the idea. However, there was little visible enthusiasm for moving vigorously ahead.

THE WHITE HOUSE
WASHINGTON

BLS
M. M.
S. C.

April 24, 1987

MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

FROM: RALPH C. BLEDSOE *Ralph Bledsoe*
Executive Secretary

SUBJECT: Privatization

On March 18, 1987, the Council discussed proposals by the Privatization Working Group calling for a new associate director in OMB and a special contact person in each agency to handle privatization issues. The Working Group also recommended that a report to the Council on possible privatization initiatives be prepared by each agency. It was agreed by all that privatization is a high priority for the Administration, and that we should continue to seek opportunities for privatizing as many governmental activities as are appropriate.

Consistent with the Council discussion, OMB is moving ahead with appointment of a person to assume responsibility for operational coordination of privatization activities through the budget process. It was to be the responsibility of each department and agency head to determine whether they wish to designate a contact person within their organization. Regardless, it is felt the Cabinet department head must take an individual interest in each initiative if it is to have a chance of success.

The Privatization Working Group, chaired by Thomas Moore of CEA, has asked that departments and agencies identify possible privatization initiatives within their areas. The Attorney General has asked that these be submitted no later than May 1, 1987, so that the Working Group can begin working with departments in further developing their initiatives.

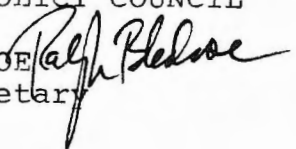
THE WHITE HOUSE

WASHINGTON

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There are two general options available now:

Option 1: Take Privatization to the President and ask him to endorse (in writing) Privatization, including having OMB take the lead by establishing an Associate Director for Privatization. A draft decision memo is attached.

Advantages: Would make it clear to all departments that this is a major Presidential initiative. It would thereby result in considerably more cooperation by departments.

Disadvantage: It would raise privatization to a visible level that could be politically embarrassing if few results are attained.

Option 2: You as Chairman pro tem could issue a memorandum to all departments (not just those represented in the DPC) to the effect that there was a consensus of the DPC that Privatization was a major initiative of this Administration and that each department should cooperate with the new Associate Director in OMB by designating a senior official for Privatization and by providing a report on the department's privatization initiatives and plans.

Advantages: Less visible, more low-keyed.

Disadvantages: Would receive less attention and support than a Presidential statement.

Draft Presidential Decision Memo

PRIVATIZATION INITIATIVE

Privatization is an important goal for my Administration. It will result in a smaller, more efficient government. Privatized services will be improved and offered at lower cost by the private sector than by the government. Consequently, I am asking my Director of the Office of Management and Budget to establish an Associate Director for Privatization to coordinate and facilitate privatization, including contracting out. I am also requesting each of my cabinet officers to designate a policy-level individual to be responsible for promoting and fostering privatization of activities in the Cabinet officer's department and for working with the new Associate Director for Privatization.

Approve:

Disapprove:

THE WHITE HOUSE
WASHINGTON

June 22, 1988

TO THE DOMESTIC POLICY COUNCIL

FROM: NANCY J. RISQUE

SUBJECT: Discussion of Privatization Issue

We will discuss privatization with the President at the Cabinet meeting tomorrow. Attached is a copy of the paper being provided to the President for discussion of this issue.

Attachment

Acton, B. Hahn

CC: BWS

T&M

MBM

*on Work #
Privatization
(PPO papers)*

Nancy J. Risque

THE WHITE HOUSE

WASHINGTON

June 23, 1988

MEMORANDUM FOR THE PRESIDENT

FROM: THE DOMESTIC POLICY COUNCIL

SUBJECT: Privatization Recommendations f

ISSUE: Your response to recommendations by your Privatization Commission.

BACKGROUND: Your Commission on Privatization submitted its report on March 18, 1988. On May 12, May 18, and again on June 15, 1988, the Domestic Policy Council discussed an analysis of the commission's report. Council members endorsed the goals of the report and agreed that its general thrust coincides with Administration philosophy and past positions.

The Council asked its Working Group on Privatization to further study recommendations for reforming Amtrak and the U.S. Postal Service, and to develop well-defined Administration initiatives in these two important areas. These will likely be completed in the fall. The Council also agreed to seek a meeting with you to discuss the commission's report, and to determine how departments and agencies can vigorously pursue privatization recommendations that are consistent with Administration policy.

DISCUSSION: The commission report provides an excellent analysis of many areas where increased privatization efforts can stimulate economic growth, improve government service, and reduce costs. Of the 78 commission recommendations, 49 (63%) are consistent with Administration policies, and 8 (10%) are partly consistent. Only 7 (9%) are inconsistent with your policies, and for 14 (18%) of the recommendations we have taken no previous position.

RECOMMENDATIONS: As a result of its discussions, the Council recommends:

1. That you endorse the general aim expressed in the commission's report, of utilizing privatization to "develop better ways to accomplish what is now government's business."

Congress has passed legislation preventing the Executive Branch from studying the privatization of the uranium enrichment industry or the power marketing authorities. The Council believes these important areas merit study, and should not be precluded from further analysis by the Executive Branch.

Thus, the Council also unanimously recommends:

2. That you strongly oppose any action by Congress that limits efforts aimed at studying privatization, including consideration of a veto.

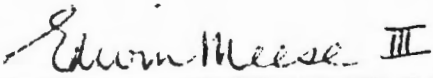
Your endorsement of the report's general aim, and affirmation of opposition to congressional micromanagement, will further efforts to encourage public and private sector managers to propose more efficient means for providing services to the general public. Congressional restrictions on Administration efforts to study important policy issues inhibit good government and deny valuable options to both the Executive and Legislative branches.

Finally, the Council recommends:

3. That you direct agencies to vigorously pursue Privatization Commission recommendations that are consistent with Administration policy.

If you approve these recommendations, the Office of Management and Budget will issue a memorandum to departments and agencies, indicating privatization initiatives that they should vigorously pursue. In advancing particular proposals, agencies should carefully consider approaches for gaining the support of all concerned parties. These include privatization initiatives contained in the FY 1989 and prior Presidential budgets and agency compliance with Executive Order 12615.

A decision memo will be forwarded to you following this meeting.



Edwin Meese III
Chairman Pro Tempore