21. Postal Service

In the thick of the battle against the Clinton health care plan, Sen. Phil Gramm (R-Tex.) repeatedly scored points by likening socialized medicine to a system run by the U.S. Postal Service. There is a reason that Senator Gramm's analogy resonated with the American people: the USPS has long been a focal point of public disgust with bureaucratic incompetence. The Postal Rate Commission's recent decision to raise the price of a first-class stamp to thirty-two cents merely reinforced what the American people had already realized: that the USPS is inherently inept, irredeemably inefficient, and utterly beyond repair. Members of the 104th Congress should not get tangled up in unworkable proposals for reinventing the postal service; they should

- **repeal the Private Express Statutes,**
- **privatize the U.S. Postal Service.**

Why Privatize?

One week before the election, Henry A. Pankey, vice president of the Arlington, Virginia-based Mid-Atlantic postal area, inadvertently provided the public with a glittering insight into the economics of state monopolies. Explaining why the area has the nation's worst rate for on-time delivery, Pankey blamed the decline in service on a 12.4 percent increase in local mail volume. It is almost impossible to imagine Federal Express or United Parcel Service lamenting a sudden surge of customers.

It is equally unlikely mat a private carrier's response to the challenge of competition would be a price hike, yet the USPS has repeatedly raised prices. Postmaster General Marvin Runyon spent the weeks following the election arguing that a 10.3 percent price increase would help keep the postal service competitive with other information delivery systems. Any other business that followed such a strategy would soon find itself displaced by its rivals. But the USPS is not like any other business; it is shielded from free and open competition by the Private Express Statutes, which restrict access to private mailboxes and criminalize private delivery of third- and (nonurgent) first-class mail.

Predictably enough, the Private Express Statutes provide the USPS with the perverse incentives inherent in any state monopoly: the USPS views rate hikes as the solution to inefficiency and sees increases in business volume as a burden. The result is a record of rising prices and declining service. Even though the price of a first-class stamp has outpaced inflation, mail delivery was 22 percent slower in 1990 than in 1969. The USPS's response to its own poor performance record can only be described as "defining deviancy down." In 1990 the USPS broadened its definition of "on time" by shrinking the areas designated for overnight delivery. About 10 percent of its first-class mail was switched from overnight delivery zones to two-day zones.

Even though USPS workers lose more than a billion pieces of mail a year, their wage rates remain about 25 percent above what the private sector offers for similar jobs. Average annual compensation for carriers, sorters, and clerks was $42,711 in 1993, compared with an average of $34,627 for all private-sector employees. That uneconomic pay scale led former postal rate commissioner John Crutcher to call USPS employees "the highest paid semi-skilled workers in the world." High pay does not result in high performance, however. Postal Rate Commission data show that "nonproductive time" accounts for 28.4 percent of mail-processing labor costs—wasting nearly $2.4 billion a year. (The USPS takes exception to the term "nonproductive," arguing that it includes time spent by workers waiting for mail and on coffee breaks.)

In the noncompetitive environment sustained by the Private Express Statutes, there are no incentives for improved productivity and no penalties for dereliction of duty. During the first few months of this year, more than 70,000 pieces of undelivered mail were discovered in Chicago. Some 40,000 letters were found stashed in an employee's truck, some 20,000—dating back as far as 1979—were unearthed in garbage cans behind a house in southwest Chicago, and more than 200 pounds of mail were discovered burning beneath a South Side viaduct. A USPS internal memo obtained by the *Chicago Tribune* described a test in which 119 pieces of mail were sent to Chicago post offices; 47 of them ended up in a dead letter office in Minnesota. Acknowledging that mail service in Chicago "has not measured up," Runyon left the problem in the hands of a newly appointed 27-member task force and promised that service would improve within five years. None of the USPS's senior managers in Chicago was fired.

A few months after the Chicago debacle, postal inspectors at the Capitol Heights postal facility in southern Maryland stumbled upon some 2.3 million pieces of undelivered mail stashed in trailers. Capitol Heights postal workers had routinely hidden mail to avoid counting it as delayed. Washington, D.C., residents were hardly surprised—after all, nearly 40 percent of first-class mail in that city of less than 10 square miles arrives late. Postal officials deny the systemic nature of the problem, blaming the USPS's incompetence on everything from the design of the city's streets to "poor address hygiene."

Runyon has devoted considerable resources to changing the public's perception of the USPS. Although the postal service is likely to run a deficit of more than $2 billion this year, Runyon has authorized spending up to $7 million on a new advertising logo. "We need to send a clear signal that we are dedicated to a new level of quality, customer focus, and competitiveness," said Runyon.

Admittedly, the new logo is impressive—a blue eagle's head drawn with bold, angular lines, it suggests swiftness and singleness of purpose. But it is not likely to fool the American people into thinking that their mail is being delivered on time. A sharp new logo will not eliminate the systemic flaws inherent in the postal monopoly—only repeal of the Private Express Statutes can do that. The statutes are an affront to a nation made great by competitive capitalism; further, they are an 18th-century anachronism in a 21st-century economy that increasingly depends on the rapid transmission of information. Ultimately, there is only one solution to the problems of the postal monopoly: total elimination of government involvement in the postal marketplace.

Privatize and Deregulate

The 104th Congress should enact legislation aimed at turning the USPS into a private corporation and leaving it free to compete with other private carriers. There is a variety of privatization plans from which to choose, but all include some means of compensating postal workers for reduced job security. Most set aside large blocks of shares to sell at discounted rates to USPS employees. Some analysts, such as James C. Miller HI, former director of the Office of Management and Budget, and Thomas Gale Moore, a member of President Reagan's Council of Economic Advisers, have suggested simply giving majority ownership to postal employees. According to Miller, "Turning the Postal Service over to the employees would give each a windfall of *at least* $30,000." That would neutralize, or more realistically, weaken, opposition to privatization among the rank and file. It would also compensate postal workers for waiving their unfunded pension claims on the federal government.

Several privatization plans also provide for a transition period after which the Private Express Statutes would be repealed. After that, postal workers would be allowed to sell their stock and reap any value that had accrued to it as a result of efficiency gains during the restructuring period. The USPS would lose its federal subsidy and its monopoly, but it would also be freed from its universal service obligation and the regulatory authority of the Postal Rate Commission.

Despite its many problems, the USPS boasts a variety of assets that should be attractive to private investors. Its physical assets alone include some 178,000 vehicles, over 165 million square feet of space, and much valuable downtown real estate. Transferring that property to private ownership is fiscally responsible policy. Privatization will allow the federal government to raise revenue from stock sales, jettison some or all of its long-term obligations to postal employees, and turn the task of delivering the nation's mail over to private, taxpaying companies.

Arguments against Competition in Postal Services

Of course, those who stand to lose from privatization are prepared to fight for their interests. But if ideas matter, reformers can take heart, because none of the arguments commonly used to justify the postal monopoly can withstand scrutiny.

The "Natural Monopoly" Argument

Defenders of the Private Express Statutes argue that the postal service is a natural monopoly. If that were true, the USPS would be unique among natural monopolies—it would be the only one that required the force of law to shield it from competition. As Thomas Gale Moore has written, "If a firm is a natural monopoly, it will not need legal barriers to maintain its position—hence the term natural monopoly." Certainly, there is nothing inherent in the delivery of private letters to private houses that precludes competition. There may well be economies of scale that favor large providers; if so, they will be discovered in the course of the competitive process.

The "Mailbox Security" Argument

Opponents of privatization have argued that security of the nation's mailboxes demands that access to private mailboxes be limited to the

USPS. According to the defenders of the postal monopoly, if competing private carriers were given free access to mailboxes, they would have an incentive to steal mail delivered by their rivals. As former senior assistant postmaster general Murray Comarow puts it, "If ten people can put mail in, might some take mail out?" That argument exhibits a rather perverse distrust of free enterprise. It also applies equally to competition in second-class mail, which, to a limited degree, exists today. After all, the *New York Times* competes with the *Washington Post*, yet carriers of the *Times* have not been known to steal copies of the *Post* along their morning delivery routes. And if they did, the *Post* would certainly have legal recourse to put a stop to it.

The "Cream-Skimming" Argument

This argument, commonly employed against repealing the Private Express Statutes, holds that private companies would enter the most profitable sectors of the postal services market, leaving the USPS with the obligation to provide service to its least profitable customers. The cream-skimming argument puts defenders of the postal monopoly in an awkward position; it is an implicit admission that the USPS is extracting monopoly rents from some customers in order to offer below-market rates to others, thus undermining the USPS leadership's pose as disinterested servants of the public good. Those who make this argument also assume that the USPS would remain in existence as a quasi-public entity with the obligation of providing universal service; however, in the privatization plans discussed above, it would not.

The "Rural Residents Will Suffer" Argument

Proponents of the Clinton health care plan envisioned the uninsured as permanently locked out of the health care market unless coverage was guaranteed to all; similarly, opponents of postal privatization argue that, while privatization might lead to lower prices in some areas of the country, it would leave rural residents at the mercy of postal profiteers, or perhaps without any reliable service at all. This argument is a classic example of confusion about markets. The statist mentality views markets as static and rigid, failing to recognize mat free competition in services drives down prices and improves access and quality for all consumers. The only way to ensure steadily declining postal service prices for rural residents is to allow private firms to compete for their business.

Furthermore, it is by no means clear that private providers would adopt differential pricing for rural areas. Federal Express bases its rates on weight and speed of delivery, not distance, except for packages bound for Hawaii or Alaska. Financial consultant and postal privatization expert Bert Ely has argued that "distance, as such, does not add much to the cost of delivering first class mail. For a typical half-ounce first class letter, the cost differential between local delivery and cross-country delivery most likely does not exceed two cents." The labor-intensive aspects of mail processing, such as sorting, add far more to costs than does distance. Since the USPS is far more labor intensive than is economically efficient—labor costs make up over 80 percent of USPS expenditures, as compared with 52 percent for Federal Express—privatization should lead to lower costs for all consumers. Ely and others have noted that the costs of administering a distance-based differential pricing system would probably exceed the benefits, especially given that the ability to offer universal service at a uniform price would be a major marketing asset for any private postal company. For example, Federal Express did not offer universal service at a uniform price until it became clear that customers placed a high premium on it.

Even if private carriers did find it economical to charge rural residents more, that would not weaken the case for postal privatization. It is not unfair to ask rural residents to pay the real cost of efficient, daily postal service, any more than it is to ask urban residents to pay the real costs of parking in a metropolitan area. However, if reformist members of Congress find it politically impossible to privatize the post office without offering compensation to rural residents, the least disruptive way to do so would be to give them some kind of tax break.

Conclusion

In attempting to deregulate, reformers are faced with the perennial problem of concentrated benefits and diffuse costs. Ironically, that dynamic, so vexing to past deregulators, might actually aid the cause of postal privatization. The benefits conferred by the Private Express Statutes are concentrated among a readily identifiable group of people, reaping an above-market return for declining service. And the costs are spread so widely throughout society that almost every citizen has been frustrated with the USPS. The disgruntled postal consumer is a stakeholder in the fight to privatize the postal service.

In a 1983 *New York Times* op-ed entitled "The Little Guy Will Get Hurt," Joseph A. Califano, former counsel to the Postal Service Board of Governors, railed against postal privatization: "The deregulation bulls who want to get into the Postal Service's china shop are the same ones who have jeopardized the financial viability of the airlines while travelers pay more to fly. And they have just put in motion the disintegration of a national telephone system that will more than double local telephone rates." Califano's words remind us that timidity has its costs; had the status quo prevailed in the late 1970s and early 1980s, the American consumer would have been denied the benefits of reduced regulation of telecommunications and air travel. It must not be allowed to prevail today.

Suggested Readings

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