# 32. Postal Service

***Congress should***

- privatize the U.S. Postal Service and
- repeal the Private Express Statutes that preserve the postal monopoly.

In a speech on August 31, 1998, Postmaster General William J. Henderson stated, ''It is my belief that we will not retain our monopoly forever. We will lose this monopoly. It's happening all over the world. Monopolies are being deregulated.''

Although it is questionable whether that remarkable statement will soon be translated into policy by the U.S. Postal Service, it is nevertheless a momentous event when the head of the largest single government agency after the military recognizes the inevitability of radical changes based on market forces.

Fast, efficient communications are vital for advanced industrial economies and societies, but the United States is poised to enter the 21st century with a postal system established in the 18th. It is a federal crime for private suppliers to transport and deliver messages on pieces of paper or other material media and charge prices as low as those of the U.S. Postal Service.

In recent years the USPS has been under competitive pressures from e-mails, faxes, private package carriers, and services such as Federal Express that are allowed to offer overnight delivery of urgent communications. It also has suffered the internal pressure of high labor costs. As a result, in recent years the USPS has sought additional sources of revenue by offering everything from phone cards and coffee mugs to rental use of postal facilities by the private sector and electronic postmarks. Private-sector competitors maintain that this is unfair competition from a government monopoly that pays no taxes, is not subject to many regulations, has a line of credit with the U.S. Treasury, and has its employees' pensions paid for in part by taxpayers.

The 106th Congress will see major postal service legislation. Such legislation should repeal the federal government postal monopoly and allow market providers, including a privatized USPS, to provide mail services.

### The Postal Monopoly

Mail delivery has not always been a government monopoly. In the early 1800s private railroads and steamboats gave rise to private companies offering mail delivery services. The Private Express Statutes of 1845 put an end to such service between cities. Private companies still delivered within cities until the Postal Code of 1872 barred them from doing so.

Today the USPS is a $60 billion per year operation employing nearly 900,000 workers, including contract workers. Nearly half of the mail handled by the Postal Service is advertisements. A little over 30 percent is business-to-business correspondence. Some 15 percent is household-to-business mail, that is, payment of bills. Only around 8 percent of the mail is household-to-household, such as letters and greeting cards between family and friends.

### Chronic Problems

Periodically the public hears horror stories about the inefficiency of the USPS that confirm what seems clear from personal experience. In 1994 inspectors at the South Maryland processing facility found 2.3 million pieces of bulk mail delayed for up to nine days and 800,000 pieces of first-class mail delayed for three days. In Chicago that same year, 5.9 million pieces of forwarded mail were delayed for a month. A hundred bags of months-old mail were found in one truck; 200 pounds of burned mail were found under a viaduct.

The USPS has made major efforts over the past four years to improve quality and cut costs, promising that efficiency savings would be passed along to businesses and bulk mailers, the Postal Service's largest customers. But many mailers complain that the USPS has failed to deliver on that promise. Some of the worst quality problems have been dealt with, but at a cost. The number of postal workers has climbed by 73,752 since 1993, to 856,732. The USPS purchases improved service by throwing manpower at its problems. Further, the Postal Rate Commission, which sets postal rates, recently granted a hike in stamp prices. Ironically, the

Postal Service has had billion-dollar surpluses in cash flow for the past four years.

Recent quality improvements simply are part of a striking pattern of roller-coaster drops and improvements in quality that the Postal Service has experienced for decades. Each postmaster general pledges to improve mail services and hold down costs. Some do, for a time. But problems always come back. That should come as no surprise. After all, a government monopoly that faces no direct competition in its core operations has little incentive to improve the quality and costs of its services.

### *High Costs*

The prices of goods and services drop when markets force suppliers to become more efficient. Airline deregulation since 1978 has cut average ticket prices by as much as 40 percent. Deregulation of trucking has saved some $100 billion over a decade. One estimate claimed as much as $90 billion was saved in one year. That savings translates into lower prices for many consumer products. And as the power of personal computers has skyrocketed, costs have plunged. Yet the price for first-class mail has not gone down. Stamp prices have risen nine times since 1973, from 8 cents to 33 cents in 1999.

High labor costs account in part for the price of stamps. The average wage and benefits package of Postal Service clerks and sorters is nearly $43,000, compared to about $35,000 for all private-sector workers. Pensions for postal workers are backed by the American taxpayers. And the Postal Rate Commission found recently that ‘‘nonproductive time’’ constitutes 28.4 percent of mail-processing labor costs. There is 1 manager for every 10 workers at the USPS, compared with 1 for every 15 workers at Federal Express.

In recent years the USPS has expanded contracting out for some services. In September 1996, for example, the USPS announced that it would use 1,200 private operators to answer telephone inquiries. And the Postal Service has offered discounts for businesses that presort mail going to different cities and for bar-coded mail, and it allows transportation of such presorted bags by private trucks to post offices in the cities of destination.

Why not contract out all bulk shipments between major distribution centers, or all mail sorting to private suppliers, or simply allow the private sector to perform those functions entirely? By adopting private-sector techniques and assistance, the USPS is demonstrating that the private sector could handle mail delivery without a government monopoly. Of course, it is also certain that the nearly 900,000 mostly unionized postal workers will ensure that progress goes only so far.

### Nonpostal Service

The USPS also has attracted criticism for straying from its government-mandated and government-protected task of delivering first- and third-class mail. The Postal Service, for example, has gone into the business of marketing prepaid phone calling cards for long-distance calls, competing with private firms. That competition of a government monopoly with the private sector is manifestly unfair. Postal facilities and assets were acquired through monopoly power. The USPS now uses those facilities and assets to compete with the private sector.

The USPS also has rented out space in the parking lots of its post offices for the erection of commercial antennas for cellular phone transmissions and other uses. In addition to running afoul of local regulations, that constitutes more unfair competition with the private sector. The Postal Service pays no property taxes on its real estate, whereas a private provider of space for broadcast operations would be subject to taxes.

In the early 1980s the Postal Service expressed initial interest in extending its monopoly over the emerging e-mail market. Fortunately, it failed at that attempt. Now, however, it is developing services to put electronic postmarks on e-mail and to guarantee e-mail security since mail fraud and tampering are federal crimes. Yet there already are private encryption software and services. And, no doubt, as the USPS uses its federal protection to keep e-mail secure, federal regulation of e-mail will follow.

The Postal Service revealed its imperial aims in November 1997 when the USPS tried to sneak into legislation a provision that would have granted it authority to purchase ''such other obligations or securities as it deems appropriate, if such investment is closely related to Postal Service operations as determined by . . . [its] Board of Governors.'' Fortunately, the provision did not pass, but the attempt made clear several of the problems with the postal monopoly.

To begin with, allowing government monopolies to purchase shares in private companies is a direct threat to the free market. The USPS is a $60 billion per year operation, compared to around $22.5 billion for United Parcel Service, $16 billion for Federal Express, and $4 billion for Pitney Bowes, the largest supplier of postal meter equipment. The Postal Service's size advantage, regulatory authority, and access to credit through the U.S. Treasury could allow it to absorb or snuff out competitors.

Speculation then was that the USPS wanted to use its new authority to acquire shares in E-Stamp, a start-up company that was developing software to allow customers to purchase postage and postmark mail on-line through personal computers. Normally customers purchase postage from the manufacturer of their metering equipment. The customer sends a check to the manufacturer. The customer can then call the manufacturer, who gives the customer the information needed to encode into the metering machine the amount of postage desired.

The Postal Service regulates sales of postage, usually in the name of protecting against those who might ''steal'' postage by encoding more than they pay for into metering machines. But such regulation is unnecessary. If someone breaks the security of a metering machine and is able to postmark a greater dollar value of mail than has been paid for, the machine's manufacturer is liable for the loss and must pay the USPS the value of the postage used. In other words, metering equipment manufacturers have a strong incentive to make their systems as secure as possible, even without USPS regulation. Thus acquiring E-Stamp would have allowed the USPS to favor that company at the expense of other competitors.

But eliminating its power to purchase companies in 1997 did not stop the Postal Service from exercising favoritism. It recently used its regulatory authority to allow E-Stamp to put into experimental use its version of an electronic postmarking system. The USPS deemed inadequate a system developed by one of E-Stamp's competitors, Pitney Bowes. That system incorporates encryption software used by MasterCard to ensure secure transactions. If the concern is security, surely a system safe enough for a major credit card company to use would be safe enough for the Postal Service. Speculation is that the USPS is trying to promote more diversity in the market for metering mail by favoring the start-up E-Stamp over the established Pitney Bowes. But for the USPS to set itself up as an antitrust enforcer is not only ironic but misses the point that customers in the market, not government agencies with regulatory powers, should decide from which on-line systems to purchase postage and postmarks.

### Recent Developments

Despite recent improvements in the timeliness of mail delivery, the USPS continues to draw criticism. In September 1996 a study, *Postal Service Reform: Issues Relevant to Changing Restrictions on Private Letter Delivery*, was released by the General Accounting Office to meet a request by Sen. David Pryor of Arkansas, the ranking Democrat on the Government

Affairs Subcommittee on Post Office and Civil Service. Remarkably, the report examined the usually forbidden topic of repealing the Private Express Statutes. The report stated that ''it is not clear whether the underlying economic basis for the Statutes cited by the Postal Service . . . remains valid today.''

Another indication of the need for change is found in the pronouncements of Murray Comarow, a former senior assistant postmaster general and, more important, the executive director of the presidential commission that devised the plan that in 1970 reorganized the Post Office into today's U.S. Postal Service. At the time, he was critical of changes made by Congress to the original reorganization plan; those changes allowed binding arbitration in labor disputes and created the Postal Rate Commission to set prices. Comarow now believes that it is time to revisit the issue of the USPS, to appoint another commission to consider future arrangements, including a possible privatized system.

## *Approaches to Privatization*

The real question is not whether the USPS should be privatized but rather how that should be done. Two actions are essential to accomplishing that goal:

- Privatize the Postal Service. The USPS, including its equipment, trucks, buildings, real estate, and other assets, along with its liabilities, principally worker pensions, should be sold off. The U.S. government should eliminate all official support for mail delivery.
- Repeal the postal monopoly. That would mean that any private provider could compete in any service currently offered by USPS, principally delivery of first- and third-class mail.

But political resistance to privatization is strong. Thus three approaches to privatization have emerged. One is a more direct approach, and the others attempt to create conditions that could make privatization more politically feasible in the future.

### *First Approach*

The first approach would give the Postal Service to its employees under an employee stock ownership plan. This is the most direct approach. The main barrier to postal privatization is the huge, mostly unionized workforce, distributed across every congressional district across the country. Union leaders have been vehemently opposed not only to privatization but to many of the reforms that would make the Postal Service more efficient. That suggests that postal workers will have to be given incentives to prevent them from blocking privatization. During the 105th Congress Rep. Philip M. Crane of Illinois and Rep. Dana Rohrabacher of California cosponsored legislation that would do just that.

This approach would proceed in three steps:

- First, both the assets and the liabilities of the USPS would be transferred to the employees.
- Second, the government would still guarantee for current employees pensions comparable to what they might have expected without privatization. Pensions for new employees would be determined by, and the responsibility of, the new private USPS.
- Third, the postal monopoly would be retained for a five-year period to give the Postal Service an opportunity to reorganize.

### *Second Approach*

The second approach would deal principally with the concern of private-sector providers of nonpostal services about unfair competition from the USPS. A bill sponsored by Rep. Duncan Hunter of California, H.R. 198, the Postal Service Core Business Act, would prohibit the Postal Service from competing in any function that it did not perform before January 1, 1994. This bill in essence would force the USPS to return to its primary function of delivering first- and third-class mail and to abandon packaging, sales of novelties and phone cards, and other activities that it has taken up in recent years.

### *Third Approach*

A third alternative to the straightforward privatization approach was offered by Rep. John M. McHugh of New York. The revised version of his bill, H.R. 22, the Postal Modernization Act of 1998, seeks to deal both with the Postal Service's desire for more flexibility in offering noncore services to compete with the private sector and with the private sector's desire not to be subject to unfair competition from a postal monopoly that also has regulatory powers.

McHugh's approach would subject the USPS functions that compete with private suppliers to many of the same regulations to which the private sector is subject. The Postal Service could also offer services not directly connected with mail delivery but would have to do so through a separate entity and keep those accounts separate from its core first- and third-class mail services.

One potential benefit of the last approach would be that many postal workers and innovative postal managers might be diverted into potentially profit-making activities, and be forced to compete on a more equal footing with the private sector. Thus in the future the Postal Service will be easier to privatize because many postal workers already would be working, in essence, in the private sector. But critics of this approach observe that the firewalls between the USPS's monopoly functions and services that compete with the private sector are not sufficient.

No doubt other, better approaches are possible. And no doubt the political battle that accompanies any major policy change will determine the approach used. But the case for privatization is strong. If Congress wishes to ensure an efficient and cost-effective communications system for the 21st century, it should repeal the last monopoly and allow private providers to compete.

### *Suggested Readings*

Adie, Douglas K. *Monopoly Mail: Privatizing the United States Postal Service*. New Brunswick, N.J.: Transaction Publishers, 1989.

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