

## IT'S TIME TO FREE THE MAILS

*James C. Miller III*

Suggest that mail service might be improved by ending the government's monopoly over the delivery of letter mail, and most postal officials react as Oscar Wilde reacted when a producer suggested changes in one of his plays. Wilde clutched his manuscript in mock terror and exclaimed: "Changes? Impossible! Who am I to tamper with a masterpiece!"

To its friends, at least, the Postal Service *is* a masterpiece—a marvelous mechanical toy, performing its functions with clockwork regularity and precision. Admittedly, the machinery breaks down every now and then, but it takes only a little tinkering—or a modest increase in the price of a first-class stamp—to put things right.

But this argument is wearing thin. Mounting criticism of the Postal Service has forced its apologists to make more convincing excuses. Increasingly, they have tried to lay the blame at other doorsteps—including mine. Incredible as it may seem, OMB is being blamed for what's wrong with the Postal Service today. Let's look at these allegations, and then let's look at the facts.

### Postal Service Blames OMB

First, OMB is accused of trying to "micro-manage" the U.S. Postal Service. Now how in the world can we do that? OMB has no apportionment power over the Postal Service. Nor have we authority to approve or disapprove the Postal Service's budget submissions to Congress. Nor have we any control over the Postal Service's legislative proposals. Nor over its testimony. Nor over its personnel. Nor over the rules and regulations the agency promulgates. So where do

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the friends of the Postal Service get this notion that OMB is trying to “micro-manage” the agency?

Second, in response to public outcry over cutbacks in window hours and collections, friends of the Postal Service have alleged that OMB is responsible for these inconveniences. Vincent R. Sombrotto, President of the National Association of Letter Carriers, said in a recent letter to the *Wall Street Journal* (5 April 1988): “The serious cutbacks were engineered by OMB Director James Miller III.” But if OMB has no direct control over the Postal Service, how could this be true?

Of course, the friends of the Postal Service have a ready answer to that one as well. If OMB has not dictated precise cutbacks, they say, we have “forced” the savings that are making the cutbacks necessary. For example, Moe Biller, President of the American Postal Workers Union, AFL-CIO, said in a recent letter to the *Washington Post* (2 April 1988): “[R]ecent Postal Service reductions . . . have been imposed by budget cuts engineered by President Reagan and his hatchet man—Budget Director James Miller III.”

Let’s be very clear on this point: when we concluded the bipartisan budget negotiations last November, it was understood that the House Post Office and Civil Service Committee, in cooperation with the Senate Governmental Affairs Committee, would pony up \$850 million in outlay reductions for each of the two years covered by the agreement. OMB’s role in this matter was not to dictate where the savings came from, but whether they could be “scored”—or, in other words, realized.

Predictably, the Postal Service played the “Washington Monument Game.” It shortened window hours 10 percent; it stopped collecting mail on Sundays; and it eliminated the Sunday sorting of outgoing mail. A letter-writing campaign has been launched. Organized labor is running ads. The avowed object of this propaganda barrage is to end the alleged “micro-management” of the Postal Service by the executive branch.

The real object, however, is more disturbing. What these people want is nothing less than the elimination of effective Congressional oversight and exemption from budgetary discipline. In plain terms, they want to put the agency “off budget.” They don’t think that the federal government’s need to reduce the deficit should affect them in the least.

Well, we’ll see about that. The postal unions have long been accustomed to getting their way with Congress, but do they really think that Congress is going to roll over and play dead on this one? Do they really think the administration is going to stop looking at ways

by which improved mail service might be provided at lower costs? Now, I can't speak for Congress, but I can tell you that the answer up at our end of Pennsylvania Avenue is, "Not on your life!"

### Private Alternatives to Postal Cutbacks

So what's to be done about the Postal Service? First, let's address those cutbacks in service. Believe it or not, those drastic cutbacks I just cited are being blamed on a reduction in operating expenses of less than *1 percent!* Less than 1 percent! Whom does the Postal Service think it's kidding? And this is not to mention the other cutbacks they claim they are being "forced" to make. Doesn't the Postal Service realize that, on average, American industry reduces costs by almost 2 percent every year? Why can't the Postal Service do the same?

Rather than close windows, let mailboxes fill, and allow sorting tables to groan under the weight of unsorted letters over the weekend, the Postal Service ought to consider the suggestions for savings made by the General Accounting Office, the Grace Commission, the Privatization Commission, numerous academic studies, and the U.S. Postal Service itself.

For example, the Postal Service should contract more with retail stores for the sale of stamps, the posting of parcel post, and the acceptance of express mail. The public would have more postal windows without the need to build more post offices. The Postal Service should contract out larger volumes of mail to private firms for pre-sorting. Today, some 40 percent of first-class mail and 50 percent of third-class mail is sorted, not by the Postal Service, but by private industry. The Postal Service should expand the practice of contracting out rural mail delivery to private carriers. And so on. We estimate that these and other creative new approaches to mail service would more than cover the required savings and reductions in operating costs mandated by Congress in last year's Reconciliation Act.

So much for the immediate problem; what should we do about the Postal Service over the longer term? Here I would agree that the Postal Service should be placed off-budget. But I think we should place the Postal Service off-budget by making it part of the private sector.

The Postal Service has been an independent corporation for nearly 20 years. There is no good reason why it should remain part of the U.S. Government, and no good reason why it should enjoy a monopoly over the delivery of letter mail—any more than a single company

should enjoy a monopoly over such services as banking, insurance, or telecommunications.

But the Postal Service and the postal unions want it both ways. They want to be an independent corporation when it comes to the budget process, but they feel they should be exempt from the belt-tightening required of every other federal agency, including the Department of Defense. At the same time, they want to be a government-protected monopoly when it comes to letter mail, and they want to be a federal agency when it comes for federal subsidies and other federal benefits. For example, they want to retain the taxpayer payment for revenue foregone (\$650 million in FY 1987), and subsidies for the unfunded portion of Federal retirement and health benefits (\$2.5 billion in FY 1987). They also want to retain access to the Federal Financing Bank, which gives the Postal Service a 1 percent interest advantage, worth over \$100 million in FY 1987.

### A “Necessary” Monopoly?

Advocates of the present system make the classic monopolist’s defense: necessity. If there were no postal monopoly, say the postal monopolists, nationwide delivery of the mail would be left to the caprices and uncertainties of the free market. Mail service would no longer be reliable. Amateurs and sharpers would move in. The business community would be hampered in its ability to transact business by letter. The economy would suffer. People would be laid off. Calamities untold and manifold would befall the Republic!

As an economist, I am skeptical of this argument: have these people never heard of United Parcel Service or Federal Express? If you push them on this point, they’ll usually come back with the familiar “cream skimming” argument. Yes, they will say, United Parcel and Federal Express are all very well—in their place. But the delivery of letter mail is a special situation. If private carriers were permitted to compete for the delivery of letters, competition would be intense for the most profitable routes—i.e., those in highly populated areas—but thinly populated rural areas would be slighted or ignored. Since the Postal Service would be squeezed out of the more profitable routes, it would not be able to take care of the hinterlands. Great-Aunt Gertrude, who lives way up in Lonesome Valley, Montana, would no longer receive cards on Christmas and her birthday.

This argument is likewise unpersuasive. In point of fact, it has always been the private sector that has taken the lead in providing cheaper, faster, and more convenient mail delivery. And it has been

the Postal Service that, more often than not, has impeded these efforts by invoking its legal monopoly.

If the Postal Service is really worried about Great-Aunt Gertrude and the other patrons who live on what are supposedly “unprofitable” routes, why won’t it allow competition in those markets as the Privatization Commission recommends? Why won’t it allow competition in the delivery of “junk mail”—another recommendation of the Privatization Commission? Is it *that* afraid of the energy and creativity of the private sector? Perhaps it is. After all, if private letter carriers can make money off the “milk”—letting the Postal Service “skim the cream”—then there is no longer any convincing argument against total privatization of the mails.

## How to Privatize the Postal Service

All fears to the contrary notwithstanding, the Postal Service could survive and even prosper as a private corporation once all government controls were removed. But it would have to be truly private and able to compete on equal terms with other mail carriers. As long as the Postal Service remains a governmental entity, it cannot adjust its rates without lengthy administrative hearings; it cannot close unprofitable post offices or otherwise restructure its operations without risking the wrath of Congress; and it cannot tie pay to performance and make needed staffing changes because of the political clout of the postal unions. Thus, simply to repeal the private express statutes and allow private companies to compete with the Postal Service would be both unfair and uneconomical. First the umbilical cord to the Federal Government must be cut, and I believe this can be done.

Recently, two of my OMB colleagues and I visited with a number of political leaders and privatization experts in Europe. They told us that their public-sector commercial operations have done very well when transferred to the private sector. One reason is that they have given employees a stake in the outcome. What they did was to give each employee a block of stock and incentives to purchase more. The result was that while the employee unions opposed the idea overwhelmingly, the employees took full advantage of stock ownership. On the whole, we were told, these experiments were a great success. I think we should do something like that here with the Postal Service. The Privatization Commission, in fact, made just such a recommendation.

There is no good reason why this recommendation should not be implemented. The fundamental arguments for and against ending the postal monopoly have not changed in a century and a half. But

by this time the accumulated evidence is conclusive: the privatizers and anti-monopolists have won the debate hands down. Practically all the great innovations in mail delivery have come from the private sector while the Postal Service, at best, has tried to catch up or, at worst, tried to stand in the way. We can now assert with confidence that the public has everything to gain from competition and little, if anything, to lose. In fact, the only losers I can imagine would be the cartoonists—who would no longer be able to get away with caricaturing the Postal Service as a giant snail.

Victor Hugo once said that nothing can withstand an idea whose time has come. I say it's time to free the mails!