

# Tax & Budget

BULLETIN

No. 75 • April 2016

## Privatizing the U.S. Postal Service

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The U.S. Postal Service (USPS) is a major business enterprise operated by the federal government. Revenues from the sale of USPS products are supposed to cover the company's costs. But with the rise of electronic communications, mail volume has plunged, and the 600,000-worker USPS has been losing billions of dollars a year.

The USPS has a legal monopoly over various types of mail. Thus entrepreneurs are prevented from competing in the postal industry to improve quality and reduce costs for the benefit of consumers.

Other countries facing falling mail volume have privatized their systems and opened them to competition. America should follow suit and liberalize its postal industry so that it can adjust to changes in the modern Internet-based economy.

### USPS Advantages

Congress confers on the USPS monopolies on the delivery of first-class mail (letters under 13 ounces) and standard mail (bulk advertising items). The agency also has a legal monopoly on access to mailboxes, which is a unique protection among postal systems in the world.<sup>1</sup>

The USPS also enjoys a range of other benefits:<sup>2</sup>

- It has been able to borrow \$15 billion from the U.S. Treasury at subsidized interest rates.
- It is exempt from state and local sales, income, and property taxes and fees.
- It pays federal corporate income taxes, but those taxes are circulated back to the USPS.
- It is not bound by local zoning ordinances, is immune from a range of civil actions, and has the power of eminent domain.
- It has government regulatory power, which it has used to impede competitors.

### USPS Failures

Despite those advantages, the USPS has lost more than \$50 billion since 2007, and will likely continue losing

money unless there are major reforms.<sup>3</sup> One problem is that Congress stymies USPS efforts to improve efficiency. It impedes USPS plans to close unneeded post office locations, even though the bottom 4,500 rural locations average just 4.4 customer visits a day.<sup>4</sup> It blocks the consolidation of mail-processing centers, and it blocks USPS plans to end Saturday delivery. Private businesses make such adjustments to their operations all the time as demands for their products fluctuate.

USPS's costly union workforce is another problem. USPS worker compensation is substantially higher, on average, than for comparable private-sector workers.<sup>5</sup> Collective bargaining agreements—which cover more than four-fifths of the USPS workforce—make it more difficult for management to make cost-saving changes, such as increasing part-time work. And, in some cases, unions have resisted the automation of postal functions.

The postal system's financial challenges stem from first-class mail volume falling from a peak of 104 billion pieces in 2001 to 62 billion pieces in 2015, a decline of 40 percent.<sup>6</sup> The decline is driven by the rise of email, Facebook, Evite, and Internet bill paying; the decline of printed magazines; and the rise of online advertising as an alternative to bulk print advertising.

The USPS's financial challenges have been compounded by a requirement passed in 2006 to pay down the company's large unfunded liabilities for retiree health care.<sup>7</sup> USPS defenders complain that private companies are not required to pre-pay retiree health costs. But the vast majority of private firms do not even offer retiree health coverage. Also, since traditional mail faces a long-term decline, it is better to tackle these costs now than to leave them to taxpayers down the road under a possible federal bailout of USPS.

### Postal Reforms Abroad

Other nations with money-losing mail systems have either privatized them, opened them to competition, or done both. Private companies have more flexibility to deal with today's challenges. And with the rise of the Internet,

the claim that mail is a natural monopoly needing special protection is weaker than ever.

The European Union has recognized these realities and has pressed its member nations to deregulate their systems. Most EU countries now have a more entrepreneurial postal industry than we do. The U.S. ranks near the bottom of the Consumer Postal Council's 26-country "Index of Postal Freedom."<sup>8</sup>

Here is a sampling of postal reforms abroad:

- Sweden in 1993 became the first major European country to repeal its postal monopoly. Sweden Post (now PostNord) was put into a corporate structure, but it is still owned by the government.
- The Netherlands partly privatized its national postal company in 1994. Majority control shifted to the private sector in 1995, and the company later became part of TNT, a global delivery company. Netherlands opened postal markets to competition in 2009.
- New Zealand cut costs at New Zealand Post in the 1980s, and put the company into corporate form. The country repealed its postal monopoly in a series of laws during the 1980s and 1990s.
- Germany partly privatized Deutsche Post in a stock offering in 2000. Today, 79 percent of company shares are publicly traded.<sup>9</sup> Germany opened its postal markets to competition in 2008.
- Britain opened postal markets to competition in 2006, and privatized the Royal Mail in share offerings in 2013 and 2015.<sup>10</sup>

In many countries, dominant national carriers now have some competitors, often focused on niches such as business mail or bulk mail. Some privatized companies, such as Deutsche Post, have expanded internationally. Progress toward full competition has been a slow but steady process.

Experience has shown that both privatization and open competition create efficiency gains. In New Zealand and Sweden, government postal firms slashed their workforces about one third when they were restructured and opened to competition.<sup>11</sup> Similar job cuts were prompted when Germany and the Netherlands privatized their systems.

### Reforming USPS

Congress should privatize the USPS, repeal its legal monopolies, and give the company the flexibility it needs to innovate and reduce costs. Those reforms would give entrepreneurs a chance to improve America's postal services. In 1979, when the USPS—under political pressure—lifted its monopoly over "extremely urgent"

mail, we saw the growth of innovative private delivery firms such as Fed Ex.

Instead of privatization, some USPS supporters want the company to expand into banking, payday loans, grocery delivery, and other activities. But rather than solving any problems, such expansions would create more distortions. The USPS would have to find activities where it could earn above-normal profits to funnel excess cash back to support the mail system. But it is unlikely that a government agency—if not subsidized—could out-compete private firms in other industries. Past USPS forays into non-mail areas, such as electronic bill paying, ended in failure.<sup>12</sup> And if the USPS used its government advantages to undercut private firms, it would be both distortionary and unfair.

In a 2015 study, economist Robert Shapiro found that the USPS raises prices on its monopoly products and uses those revenues to subsidize express mail and package delivery.<sup>13</sup> This works because consumers are less price sensitive for the monopoly products than for the competitive products. Shapiro estimates that these cross-subsidies are \$3 billion or more a year.

For Fed Ex, UPS, and other private firms, however, this is unfair because—unlike USPS—they have to pay taxes, borrow at market rates, and follow all the normal business laws and regulations. Shapiro thinks that "without its subsidies, [the USPS] probably could not compete at all" against these more nimble private firms.<sup>14</sup>

These problems are difficult to solve under the current postal structure because the USPS hides the cross-subsidies in its books by attributing a large share of costs to overhead.<sup>15</sup> So a benefit of privatization and open competition would be to increase transparency in postal finances and pricing, and to end the cross-subsidies.

Policy experts are coming around to the need for major reforms. Economist Robert Atkinson proposed that the USPS focus on delivering the "final mile" to homes, while opening collection, transportation, and the processing of mail to competition.<sup>16</sup> Elaine Kamarck of the Brookings Institution has also proposed partial privatization.<sup>17</sup> She would split the USPS into a government piece that fulfills the "universal service mandate" for delivering mail to every address, and a privatized piece that would compete with other firms for activities such as collecting mail.

The Atkinson and Kamarck proposals move in the right direction, but foreign reforms show that full privatization is both feasible and consistent with universal service. In Germany, Britain, and the Netherlands, the dominant firms continue to provide universal service. Postal companies have a strong incentive to provide universal service because, as a network industry, the value

to customers of the service increases the more addresses that are served.

USPS supporters fear that rural areas would be left out unless the government required universal service. But economist Richard Geddes argues that is probably not the case.<sup>18</sup> Rural post routes can be as cost-effective to serve as urban routes because rural letter carriers stay in their trucks and use roadside boxes, whereas urban letter carriers often walk their routes.

Looking at nations that have privatized or opened their postal systems to competition, economists Robert Carbaugh and Thomas Tenerelli found that rather than the price increases and service reductions that some people fear, “liberalizing countries have shown the ability to offer affordable, reliable, universal, and increasingly efficient postal-delivery services.”<sup>19</sup>

U.S. policymakers should be more flexible with the idea of “universal service.” For example, if delivery was reduced from six days a week to every second day, it would allow USPS to slash its massive fleet of 211,000 vehicles, which would reduce both costs and energy consumption. Other countries interpret universal service more narrowly than we do—some countries have cluster boxes for communities, some exclude bulk mail from universal service requirements, and some allow more flexibility in pricing.<sup>20</sup>

All that said, a universal service obligation for paper mail is not needed in the modern economy. Electronic communications bind the country together without it. Household-to-household personal letters have plunged to just 3 percent of total mail volume today.<sup>21</sup> Advertising represents 60 percent of the entire household mail volume. Bills and other business statements are the second largest type of mail, but these are being replaced by electronic payments, which now account for 63 percent of all bill payments.<sup>22</sup>

Essentially then, Congress imposes a rigid monopoly on the nation so that we can continue to receive mainly “junk mail” in our mailboxes six days a week. But there are 205 billion emails blasted around the planet every day, so it makes little sense to retain special protections for the government’s old-fashioned paper delivery system.<sup>23</sup>

## Conclusions

In a *Washington Post* op-ed, former U.S. Postmaster General William Henderson said, “What the Postal Service needs now is nothing short of privatization.”<sup>24</sup> He was right. Congress should wake up to changes in technology and to postal reforms around the world. Other countries have shown that postal liberalization works, and it would work in America as well.

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<sup>1</sup> R. Richard Geddes, “Reform of the U.S. Postal Service,” *Journal of Economic Perspectives* 19, no. 3 (Summer 2005): 219.

<sup>2</sup> Robert J. Shapiro, “The Basis and Extent of the Monopoly Rights and Subsidies Claimed by the United States Postal Service,” Sonecon, March 2015.

<sup>3</sup> Michael Schuyler, “Troubles at the Postal Service,” Tax Foundation, September 2015.

<sup>4</sup> U.S. Postal Service, “Our Plan to Preserve Rural Post Offices,” May 9, 2012.

<sup>5</sup> Robert J. Shapiro, “The Basis and Extent of the Monopoly Rights and Subsidies Claimed by the United States Postal Service,” Sonecon, March 2015, p. 14.

<sup>6</sup> U.S. Postal Service, “First-Class Mail Volume Since 1926,” February 2016.

<sup>7</sup> The requirement was passed in the Postal Accountability and Enhancement Act of 2006.

<sup>8</sup> See Consumer Postal Union, “Index of Postal Freedom,” 2012, [www.postalconsumers.org](http://www.postalconsumers.org).

<sup>9</sup> The other 21 percent is held by a government-owned bank.

<sup>10</sup> The privatized Royal Mail delivers letters and packages. The government retained the “Post Office,” which operates a retail chain providing postal and other services.

<sup>11</sup> Vincent Geloso and Youri Chassin, “Canada Post: Opening Up to Competition,” Montreal Economic Institute, May 2011. And see Geddes.

<sup>12</sup> Robert D. Atkinson, “Postal Reform for the Digital Age,” Information Technology and Innovation Foundation, June 2013, p. 13.

<sup>13</sup> Robert J. Shapiro, “How the U.S. Postal Service Uses Its Monopoly Revenues and Special Privileges to Subsidize Its Competitive Operations,” Sonecon, October 2015.

<sup>14</sup> *Ibid.*, p. 4.

<sup>15</sup> *Ibid.* And see Schuyler.

<sup>16</sup> Atkinson.

<sup>17</sup> Elaine Kamarck, “Delaying the Inevitable: Political Stalemate and the U.S. Postal Service,” Brookings Institution, September 18, 2015.

<sup>18</sup> Geddes, p. 224.

<sup>19</sup> Robert Carbaugh and Thomas Tenerelli, “Restructuring the U.S. Postal Service,” *Cato Journal* 31, no. 1 (Winter 2011), p. 140.

<sup>20</sup> Don Soifer, “Universal Postal Services in Major Economies,” Consumer Postal Council, June 2015.

<sup>21</sup> U.S. Postal Service, “The Household Diary Study 2012,” May 2013, Tables E.2. and 3.1. And see discussion in James L. Gattuso, “Can the Postal Service Have a Future,” Heritage Foundation, October 10, 2013.

<sup>22</sup> Janet Granger, “How Americans Use the Postal Service: By the Numbers,” Pitney Bowes, August 26, 2015.

<sup>23</sup> Email statistic from The Radicati Group, “Email Statistics Report, 2015–2019,” press release, March 2, 2015, [www.radicati.com/?p=12964](http://www.radicati.com/?p=12964).

<sup>24</sup> William J. Henderson, “End of the Route: I Ran the Postal Service—It Should be Privatized,” *Washington Post*, September 2, 2001.