

34. **Postal Service**

Congress should

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

Although fast, efficient communications are vital for advanced industrial economies and societies, 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. Yet the problems with the USPS, which has the monopoly right to provide those services, are chronic. And the defects of the government system stand in contrast to the successes of the private-sector-created telecommunications revolution. Faxes and e-mail are becoming the preferred means of sending important and urgent messages or purchase orders. It is time for the federal government to abandon this last monopoly.

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 that 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 \$55 billion per year operation employing approximately 800,000 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 sent between families 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 two 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.

Recent quality improvements, in part the result of adding more manpower and thus increasing costs, 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 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 the late 1970s has cut ticket prices by from 10 percent to 30 percent. Deregulation of trucking has saved at least \$100 billion over a decade. One estimate is that 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 32 cents today.

High labor costs account for part of 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. Pen-

sions 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 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 800,000, mostly unionized, postal workers will ensure that such progress goes only so far.

Nonpostal Service

The USPS also has attracted criticism for straying from its government-mandated and 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 has begun renting 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.

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 in response to a request by Sen. David Pryor (D-Ark.), the ranking Democrat on the Subcommittee on Federal Services, Post Office, and Civil Service of the Senate Government Affairs Committee. Remarkably, the report addressed the usually forbidden topic of repealing the Private Express Statutes. The report states 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 that time he was critical of changes made by Congress to the original reorganization plan; those changes allowed binding arbitration of 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.

Two Approaches to Privatization

The real question is not whether the USPS should be privatized but rather how it 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 the USPS, principally delivery of first- and third-class mail.

Two approaches to the task appear to be politically possible.

Give the Postal Service to Its Employees under an Employee Stock Ownership Plan

The main barrier to postal privatization is the 800,000-person, mostly unionized, workforce whose members are found in 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 104th Congress Reps. Dana Rohrabacher (R-Calif.) and Philip M. Crane (R-Ill.) introduced legislation (H.R. 2100) that would do just that.

The employee-stock-option-plan 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 current employees pensions comparable to what they might have expected without privatization. Pensions for new employees would be determined by, and be 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.

Some critics would contend that a USPS privatized intact would still have an unfair advantage over potential private competitors. Further, say critics, American taxpayers in effect currently own the Postal Service and should be beneficiaries of the privatization. Thus, an alternative plan could contain the following elements:

- First, the Postal Service would be broken up into five regional delivery companies, plus a package delivery division and a division to coordinate privatization.
- Second, the regional divisions would be sold off to any buyer. Some stock might be reserved for sale to postal workers at concessional prices to purchase their support.
- Third, when each division was privatized, the postal monopoly would be removed.

No doubt other, better approaches are possible. And no doubt the political battle that accompanies any major policy change will determine which approach is used. But the case for privatization is strong. So 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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- General Accounting Office. *Postal Service Reform: Issues Relevant to Changing Restrictions on Private Letter Delivery*. 2 vols. Washington: General Accounting Office, September 1996.
- Hudgins**, Edward, ed. *The Last Monopoly: Privatizing the Postal Service for the Information Age*. Washington: Cato Institute, 1996.
- Sidak, J. Gregory, ed. *Governing the Postal Service*. Washington: American Enterprise Institute Press, 1994.

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