

# PRIVATE MAIL IN SWEDEN

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## Introduction

On January 1, 1993 the postal monopoly was abolished in Sweden. At the same time it was announced that a new Postal Service Act was under way. The discussion leading up to this policy decision has a long and interesting history. The rationality of the postal monopoly has been challenged by several writers, primarily in the United States (e.g., Miller 1985; Adie 1985; Ferrara 1990) and in the United Kingdom (e.g., Senior 1989), drawing on empirical as well as theoretical evidence. This article shall focus on the lessons that can be learned from the Swedish example, with some emphasis on the historical development of the postal services in general and its competitive structure in particular. Private mail delivery existed during several historical periods in Sweden. Private companies were able to lower prices as well as introduce innovations into the mail market. In order to protect the Post Office and its monopoly gains, monopoly laws and decrees were introduced on several occasions, but time and again the postal monopoly was challenged, the latest being a private company, CityMail, which is operating in Stockholm since 1991.

## The Post Office and Early Private Attempts

Before the establishment of a government-run Post Office in Sweden, the King's couriers had the right to free-ride on private coaches, a special form of discretionary taxation, so to speak. In 1636 the Post Office was organized as an independent entity. Since most mailing items at that time were of an official nature the State set up its own

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business. There also were periods when the operation of the Post Office was contracted out. This did not, however, change the state monopoly character of the business. The Post Office also rendered its service to private senders. This part of the business grew fast and made the postal business profitable. As early as 1660 attempts were made in starting private mail companies, only to be outlawed by decree (Generalpoststyrelsen 1888). In 1685 measures were taken to stop foreign competition. The Danish Post sent mail along the Swedish west coast on its way to Norway. En route the Danish Post received and delivered letters for Swedish customers. This practice was forbidden. At the beginning of the 18th century regular boat traffic was going between Stockholm and the university city of Uppsala. The boatmen started to transport letters and packets between these cities. This was outlawed in 1703. Illegal mail delivery was fined with a month's salary for the first attempt, two months' salary for the second attempt and dismissal and physical punishment for the third attempt. In 1716 measures were taken against private mail delivery between the west coast city of Gothenburg and Amsterdam in Holland. At the same time letters from harbors on the east coast to foreign countries were allowed to be transported by private ships on condition, though, that an ordinary postage fee was paid to the Post Office before the letter sailed, thereby charging the senders twice for the service.

### Establishment of Local Mail Services

The Post Office was protected by a monopoly law. This law gave the Post Office the sole right to deliver letters between one domestic place and another, and between domestic places and foreign countries. Excluded from the monopoly statutes was mail delivery within a city or town. The reason for this exemption lies in the historical structure of the mail service. In the early days letters were only delivered between distant places, no local mail delivery existed. Since local mail service did not exist, and since nobody thought it was ever going to exist, it was not written into the monopoly law.

When a letter reached a town it was numbered and put up on a list at the post office. If you expected a letter, you had to go to the office and look for it. One can imagine people helping each other to look out for letters for family, neighbours, and friends. After a few days letters not picked up were transferred to a left-over list, and if possible they were delivered to the addressees. In 1669 two mailmen were employed to deliver left-over letters to addressees in Stockholm (Hasselrot 1985). In 1752 it was ordered that mail to

Stockholm should be provided with information regarding street names and house numbers. Gradually mail delivery to private homes became the norm in Stockholm. In other cities, though, household mail delivery was not established until much later. For example Gothenburg, the second-largest city in Sweden, got its household mail delivery in the 1850s.

At this stage one can identify at least two remaining inconveniences for mail senders in Stockholm. First, the city still had only one post office, and the only way to send a letter was to go there. Second, these letters were only delivered to places out of town. If you wanted to send a letter within the city, you had to walk there yourself. Both these inconveniences were to be overcome with the help of a private initiative.

In 1838 a private mail company was established in Stockholm by Emanuel Mallén, a former regiment commissary. He, his wife, and temporary employees walked certain rounds in the city where they picked up letters and packets for a fee. They then delivered the mail to the post office, which distributed the letters to addressees in other cities. The Mallén business soon met competition from the grocers' stores, which began performing the same service (Mallén 1846). In a first attempt in 1842, and permanently from 1844 onwards, the Malléns also distributed letters to local addressees.

In 1848 the Post Office started its own local mail service. Letters were distributed to local addressees, but the letters still had to be handed in at the post office. In 1855 a system was introduced with stamps that could be bought in advance. Mailboxes were at the same time put up around the city where the senders could leave their letters. Mallén's service then became superfluous. As a gesture the government decided to grant him a yearly pension.

### Stadsposten: A Private Mail Company in Stockholm

In 1882 the Post Office wanted to raise the local postage rate from 6 to 10 öre.<sup>1</sup> The Riksdag (the Swedish Parliament) settled on 6 öre, concerned as it was about the threat of private competition. In 1885 the local postage rate was lowered to 5 öre. This too was a measure of avoiding private competition.

On December 6, 1887 the threat nevertheless became real, when Anders Jeurling started his mail service called Aktiebolaget Stadsposten (Citymail Inc.). Jeurling was assistant editor-in-chief of a leading Swedish newspaper, and in the summer of 1887 he visited

<sup>1</sup>100 öre = SEK 1.

Copenhagen in Denmark (Stenberg 1987). There he was able to study the private local mail company *Kjøbenhavns Bypost* (Copenhagen's Citymail), which had been operating since 1879 (Christensen and Ringström 1974). Local mail companies were numerous at this time in Germany, Denmark, and Norway (Thunaeus 1936).

Back home he began planning for a private local mail company in Stockholm. Before he started his operation in 1888, Jeurling asked the government for permission which was granted. One could interpret this to be a discretionary measure on the part of the government and the conclusion could be drawn that no real free entry existed. A more plausible interpretation is to think of Jeurling's application as a mere precautionary measure. From the written law at that time as well as from the discussions in the Riksdag, one can infer that free entry was the case and that discretionary permission was not necessary.

*Stadsposten* set up mailboxes, distinguished by their color from the ones the Post Office was using. Stamps were distributed, and the price was set at 4 öre, 20 percent lower than the Post Office's. *Stadsposten* also accepted letters of greater weight than the Post Office. For some letters this meant a 60 percent lower price compared with what the Post Office charged.

The new private mail immediately became a success. Already in the first days of operation the number of deliveries reached almost 2,000 a day. The number of mailmen had to be increased and mailboxes needed to be emptied 5 times a day (*Dagens Nyheter*, 14 December 1887). During the first nine months of operation *Stadsposten* delivered 583,845 items of mail, i.e., an average of 2,123 per day (*Dagens Nyheter*, 7 September 1888). In the entire year of 1888 the number of delivered items was 824,492, i.e., an average of 2,259 per day (Stenberg 1987). The market share for *Stadsposten* in 1888 is estimated to have been 34 percent.<sup>2</sup>

A state monopoly can be expected to over-price and limit the supply of its services in order to maximize profits. In the case of so-called nonprofits this behavior is disguised because of rising costs. The profit motive of the Post Office, however, was quite openly

<sup>2</sup>In 1888 the Post Office delivered 48,225,000 items of mail in the whole of Sweden. The population of Stockholm was 234,990, and in the whole country 4,748,257. If we assume that mail delivery in Stockholm was proportional to mail delivery in general, a market share of 34 percent is derived. The assumption of proportional mail delivery is rather weak, as mail delivery could be expected to be higher in a capital. This would make the *Stadsposten* market share lower. On the other hand it has to be kept in mind that *Stadsposten* only acted on the intracity segment of the market, and on this segment the market share must have been higher.

stated. In the Riksdag the loss of income to the State was put forward as a main argument against the private local mail companies (Stråle 1888, Törnebladh 1888). The over-pricing theory of monopoly is confirmed by the fact that Stadsposten was able to lower the price by 20 percent. The profit of the Post Office also sank temporarily during this period. In 1888 the profit was only SEK 36,116, compared with SEK 209,516 two years earlier, and SEK 475,703 two years later. This drop in profit can of course have other causes, but since the low 1888 figure stands out, the impact of the competition is very likely.

Another, and perhaps more serious, effect of state monopoly is the lack of incentives for innovation. The assumption that competition leads to a higher degree of innovation is supported by the evidence available for the 1887–89 period. During that time Stadsposten introduced a variety of innovations into the Swedish mail market. Right from the start subscriptions to newspapers and magazines were possible with Stadsposten acting as an intermediary, whereas the Post Office did not perform this service.

Stadsposten also introduced quantity discounts for items sent as printed matter, including advertising. Later on Stadsposten started printing letter-cards with the buying firm's logotype printed on the envelope. The advertising value of this was recognized, and letter-cards were printed, covered with advertisements, and sold to the public at a discount for 3 öre. The customer then not only could lower his postage rate but also got the envelope free. In comparison with the Post Office's postage rate this meant a 40 percent discount.

In cooperation with the State Railways Stadsposten began delivering parcels from various places in the city to the railway station. The parcels were then distributed by the State Railways to other railway stations in Sweden and Norway. A new service for associations was introduced by Stadsposten, as the private company started to collect membership fees. The membership fees could be paid directly at the door to the mailman.

## Monopoly Decree of 1888

The private local mail delivery became a political issue in the spring of 1888. In the second chamber of the Riksdag Lasse Jönsson proposed that the postal monopoly should be extended to include the local mail service also (Jönsson 1888). In the first chamber similar proposals were put forward by Wilhelm Stråle (Stråle 1888) and Ragnar Törnebladh (Törnebladh 1888). The arguments put forward against private competition were: that it was unnecessary, that it

made it difficult for the public who had to use different types of stamps and mailboxes, that the public was quite satisfied with the existing Post Office service, and that the State would lose its present income from the Post Office.

The matter was drafted in committees in the respective chambers. The committee reports subscribed to the monopoly proposals, and even extended the monopoly argument by claiming that *Stadsposten* was only serving the more profitable parts of Stockholm and let the Post Office handle the other not-so-profitable parts. The two chambers united in proposing that the government issue a decree whereby the local delivery of closed letters as well as postal cards would be included in the postal monopoly. This was done, and *Stadsposten* was given a respite time before it had to go out of business on October 1, 1889.

If examined more closely the arguments for a monopoly turn out to be rather weak. First, the claim that a private mail delivery was unnecessary, and the public was happy with the services the Post Office rendered, should of course best be tested on the market and not judged out of hand. Second, the supposed troubles for the public obviously were not of such a degree as to warrant a monopoly. Certainly, letters with the wrong stamp were put in the mailboxes of both the Post Office and *Stadsposten*. If a Post Office letter was put in a *Stadsposten* box it was transferred to a Post Office box. This procedure only caused a minor delay. On the other hand if a *Stadsposten* letter was put into a State mailbox the addressee had to pay a stamp fee to get the letter out. The major cause of trouble for the public was consequently the stubborn behavior of the Post Office, and this could hardly be a valid argument against competition.

In any case, in the absence of consent about how to evaluate these difficulties, here again the market should be the judge. The fiscal argument can only be valid if one chooses a politicians' view, and sympathizes with their desire to maximize the budget without having to raise taxes openly. If one chooses the view of the public, the answer leads in a different direction. A hidden tax on mail delivery is as bad as any other form of taxes, and if for some reason this tax form is chosen, it could be implemented under private competition as a mail sales tax. Finally, the accusation that *Stadsposten* only served the most profitable parts of Stockholm does not seem to be accurate. Certainly, the operating field of *Stadsposten* was limited in its original statutes. But these self-imposed limitations soon became superfluous when the business grew. As a result *Stadsposten* in practice served the entire city of Stockholm (Gumaelius 1888). Still, even if *Stadsposten* had 'taken the best plums', this would not have

been a valid pro monopoly argument. The only thing this would have proven was that, under the old regime, the profitable customers had to subsidize the others.

### Private Local Mail 1925 to 1947

The monopoly decree of 1888 did not include open letters, newspapers, printed matter and parcels. By 1925 the market for delivering these items had grown to the extent that private competition once more became possible. Private mail companies started in the larger cities, some of them not lasting for long. Probably the most successful business was the private mail company in Helsingborg, which operated between 1926 and 1947 (Hoverby 1985).

The private mail company in Helsingborg from the start charged 4 öre for a local letter, compared to the 10 öre charged by the Post Office. In 1944 the price was raised to 6 öre as a reaction to the Post Office raising its price to 15 öre. The Helsingborg business had mailboxes around town and worked on the same basis as the Post Office. The major drawback for the customers was that letters had to be open. The market share for private mail in Helsingborg in 1945 is estimated to have been 5 percent.<sup>3</sup>

In 1944 the local postage rate of the Post Office was raised from 10 to 15 öre. This immediately made the private local mail delivery more profitable. Private mail businesses boomed and about 50 firms were established in different towns during 1945, and about 25 of these lasted till 1947. The newly established companies usually charged 8–10 öre for their delivery of open letters.

The private mail companies formed an association to take care of common interests. Suggestions and attempts were also made toward establishing intercity transfer of letters between the private mail companies. At the same time the Post Office started to combat the private mail companies. If a letter with a private stamp was put in a Post Office mailbox, the addressee had to pay a stamp fee to get it out. The Post Office also systematically tried to send closed letters with the private mail businesses in order to gather evidence for future trials.

The boom of private local mail delivery was not foreseen by the government. In order to put an end to the threat to the Post Office

<sup>3</sup>In 1945 the private mail company in Helsingborg delivered 445,460 items of mail. The Post Office delivered 860,200,000 items in the whole of Sweden. If proportional mail delivery in Helsingborg and Sweden is assumed, a market share of 5 percent is derived. Since the private mail company only acted on the intracity segment of the market, the true market share on this segment must have been higher.

a monopoly decree was passed in 1947 whereby open letters were included in the postal monopoly also. The statutes were ratified by a unanimous Riksdag and the private mail companies had to close down on July 1, 1947.

## CityMail and the Revival of Private Mail in Sweden

Since May 1991 a private mail company is operating in Sweden called CityMail. At present only the city of Stockholm is served, but the plan is to expand to other urban areas. CityMail now reaches 15 percent of the Swedish households.

CityMail delivers mail from companies, associations and authorities to various addressees. This mail is already sorted by computers when it is picked up by CityMail, which lowers the costs for the mail delivery and makes it possible for CityMail to give generous quantity discounts to their customers.

From the start CityMail claimed that their service was not included in the postal monopoly. In November 1991 this interpretation was supported by the district attorney. In October 1992 the situation became unclear when the chief district attorney changed the former decision and decided to investigate a supposed violation of the postal monopoly decree.

The Minister of Transport and Communications Mats Odell initiated a process that led to the abolishment of the postal monopoly on January 1, 1993. The Director-general of the Post Office supported the abolishment. As a consequence the investigation concerning violation of the postal monopoly was dropped.

It has been announced that the abolishment of the postal monopoly shall be followed by the introduction of a Postal Services Act. This act will state that there shall be a nationwide postal service enabling letters and parcels to reach all addressees at a uniform and reasonable price. The responsibility for ensuring the availability of this service rests with the State. In practice the basic postal service—at least for the immediate future—is likely to be managed by the State-owned postal corporation. The new act will also include rules on the handling of undelivered letters and the protection of confidentiality.

The Post Office has started to compete with CityMail by giving discounts to large customers in the Stockholm area. Because of its size the Post Office, at least in the short run, has an advantage of being able to reallocate vast resources to areas where it meets competition. This was especially the case before the postal monopoly was finally abolished. In October 1992, when the legal status of City-



Mail's business was uncertain, the company got into financial trouble. New capital has since been invested in the operation and according to CityMail's president the financial situation is now satisfactory.

A company similar to CityMail, though smaller, was started in January 1992 in the rural area of Skaraborg. This company delivered mail from companies and authorities to households in a number of small municipalities. The towns as well as the surrounding countryside were fully covered. This business was closed down in the autumn of 1992.

## Conclusion

The Swedish experience tells us that private mail services are likely to emerge in the market whenever there is a possibility due to loopholes in postal monopoly legislation. It also gives evidence that private competition tends to lower costs and stimulate innovation. When occurring, private mail services have been met with prohibition by the government. An exemption to this were periods between 1838–55 and 1925–44, when the private mail services were small and regarded as non-threatening to the Post Office.

The latest period of private competition in the Swedish mail market began in 1991. Instead of attempting prohibition the Riksdag has made postal competition legal. This could be interpreted as CityMail not being regarded as a major threat to the Post Office. On the other hand it could also be a symptom of a changed political and public opinion regarding state monopolies.

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