

44. U.S. Postal Service

Congress should

- repeal the U.S. Postal Service monopolies on first-class mail, standard mail, and access to mailboxes;
- repeal the special tax and regulatory benefits given to the Postal Service; and
- privatize the Postal Service.

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. Entrepreneurs are prevented from launching competing postal services and trying to improve quality and reduce costs for consumers. Other countries facing falling mail volumes have privatized their systems and opened them to competition. America should follow suit and liberalize its postal industry so that it can better 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.

The USPS also enjoys a range of other benefits:

- It can borrow 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 rules 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 without major reforms. One problem is that Congress stymies USPS efforts to improve efficiency. It blocks USPS efforts to close unneeded post office locations, blocks the consolidation of mail-processing centers, and blocks the ending of Saturday delivery. Private businesses make such operational adjustments all the time as demand for their products changes.

USPS's costly union workforce is another problem. Compensation for USPS workers is higher, on average, than for comparable private workers. Collective bargaining agreements—which cover more than four-fifths of the USPS workforce—make it more difficult for management to make cost-saving changes. In some cases, unions have resisted the automation of postal functions.

The postal system's financial challenges stem from the drop in first-class mail volume, which fell from a peak of 104 billion pieces in 2001 to 62 billion pieces in 2015, a decline of 40 percent. 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. USPS defenders complain that private companies are not required to prepay 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 those costs now than to leave them to taxpayers down the road under a possible federal bailout of the USPS.

Postal Reforms Abroad

Other nations with money-losing mail systems have either privatized them, opened them to competition, or both. Private companies have more

flexibility to deal with today's challenges. And with the rise of the Internet, the argument that mail is a natural monopoly needing special protection is weaker than ever.

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

Here is a sampling of postal reforms abroad:

- Sweden in 1993 became the first major European country to repeal its postal monopoly.
- The Netherlands privatized its national postal company in 1994 and opened postal markets to competition in 2009.
- New Zealand repealed its postal monopoly in a series of laws during the 1980s and 1990s.
- Germany partly privatized Deutsche Post in 2000, and today 79 percent of the company's shares are privately owned. Germany opened 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.

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 competition create efficiency gains. In New Zealand and Sweden, government postal firms slashed their workforces by about one-third when they were restructured and opened to competition. Similar job cuts were prompted when Germany and the Netherlands privatized their systems.

Restructuring U.S. Postal Services

Congress should privatize the USPS, repeal its legal monopolies, and give the company the flexibility it needs to reduce costs. Those reforms would give entrepreneurs a chance to improve America's postal services. Since the USPS monopoly over "extremely urgent" mail was lifted in 1979, we have seen the growth of innovative private delivery firms such as FedEx.

Instead of privatization, some USPS supporters want the company to expand into banking, payday loans, grocery delivery, and other activities. But such expansions would only create more problems. 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 nonmail areas, such as electronic bill paying, ended in failure. And if the USPS used its government advantages to undercut private firms, that would be both distortionary and unfair.

In an October 2015 study, economist Robert Shapiro found that the USPS raised prices on its monopoly products and uses those revenues to subsidize express mail and package delivery. He estimates that the cross-subsidies are \$3 billion or more a year. For FedEx, United Parcel Service, and other private firms, that practice is unfair because—unlike the USPS—they have to pay taxes, borrow at market rates, and follow all the normal business rules.

The cross-subsidy problem is difficult to solve under the current postal structure because the USPS obscures its finances by attributing a large share of costs to overhead. Privatization and competition would serve to increase transparency in postal system finances and 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. Elaine Kamarck of the Brookings Institution—like Atkinson and Shapiro, a veteran of President Bill Clinton’s administration—has proposed a similar partial privatization, with the USPS continuing to provide universal service to homes.

Partial privatization would move in the right direction, but foreign reforms show that full privatization is also achievable. In Germany, Britain, and the Netherlands, the dominant private postal firms continue to provide universal service. Postal companies have a strong incentive to provide universal service because, as a network industry, the value 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 Cornell University economist Richard Geddes argues that is probably not the case. Rural postal 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.

U.S. policymakers should be more flexible about how they define “universal service.” For example, delivery could be reduced from six days a week to every second day. Service would still be universal, but the USPS could slash its massive fleet of 211,000 vehicles, reducing 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.

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, according to USPS data. 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.

Essentially then, Congress currently imposes a rigid monopoly on the nation so that we can receive mainly “junk mail” in our mailboxes six days a week. But there are more than 200 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.

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.

Suggested Readings

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- Kamarck, Elaine. “[Delaying the Inevitable: Political Stalemate and the U.S. Postal Service](#).” Brookings Institution, September 18, 2015.
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- Schuyler, Michael. “[Troubles at the Postal Service](#).” Tax Foundation, September 17, 2015.
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- . “[How the U.S. Postal Service Uses Its Monopoly Revenues and Special Privileges to Subsidize Its Competitive Operations](#).” Sonecon, October 2015.
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