34. Postal Service

Congress should

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

In a speech on August 31, 1998, Postmaster General William J. Henderson stated: "It is my belief that we will not retain our monopoly forever. We will lose this monopoly. It's happening all over the world. Monopolies are being deregulated." Indeed, the German government has made an initial public offering of shares in Deutsche Post (DP), and by January 2003 that country's privatized postal service will lose its monopoly status and be subject to competition.

Fast, efficient communications are vital for advanced industrial economies and societies. But the United States is entering the 21st century with a postal system established in the 18th. The U.S. Postal Service's monopoly on first- and third-class mail makes it a federal crime for private suppliers to transport and deliver messages on pieces of paper or other material media while charging prices as low as those of the USPS.

In recent years the USPS has been under competitive pressures from e-mail, faxes, private package carriers, and services such as Federal Express that are allowed to offer overnight delivery of urgent communications. Electronic bill paying is expected to reduce annual USPS revenues by some 20 percent over the next decade. The Postal Service also has suffered from chronic high labor costs. As a result, in recent years the USPS has sought additional sources of revenue by offering nonpostal services. For example, it now runs a check-processing operation and, more ominously, is moving into e-commerce, e-mail, and other online services.

The USPS also is making alliances with other businesses. Most notably, it is planning a strategic alliance with its long-time rival, Federal Express.

The Postal Service would deliver many FedEx packages and be allowed to use the FedEx air transportation system for its priority and express mail. Such arrangements are standard practice for many businesses. DP takes the approach even further. It has purchased Danzas AG, a Swiss mail forwarder, and Air Express International, America's largest air cargo forwarder. And recently it paid $500 million to take control of DHL Worldwide Express, the world's largest international delivery firm, by increasing its current 25 percent ownership stake to 51 percent.

But while DP is in the process of being privatized, the USPS is still a government monopoly. Thus private-sector competitors complain that, when it offers e-commerce services or makes alliances with other businesses, that is unfair competition.

After all, the Postal Service pays no taxes, can borrow from the U.S. Treasury, is not subject to most regulations that burden private companies, is not subject to those safeguards that restrain other government agencies, and has regulatory power over its competitors. Recently it has used such powers against companies offering private mailboxes for rent.

In the 106th Congress, H.R. 22 was meant to place the Postal Service under the same rules as private competitors when it offers nonmonopoly services. With the USPS moving into more business sectors in competition with the private sector, major reform is more crucial than ever. Congress should repeal the federal government's postal monopoly and allow market providers, including a privatized USPS, to offer mail services.

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 such 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 $65 billion per year operation employing nearly 900,000 workers, including contract workers. Nearly half of the mail handled by the Postal Service is advertisements. A little more than 30 percent is business-to-business correspondence. Some 15 percent is household-to-business mail, mostly payment of bills. Only around 8 percent of the mail is household-to-household, such as letters and greeting cards between family 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.

Major USPS efforts over the past six years have improved service quality for many customers, although some businesses and bulk mailers, the Postal Service's largest customers, have complained about service and costs. Further, the Postal Rate Commission, which sets postal rates, granted a hike in stamp prices for 1999 and did the same for 2001. Ironically, the Postal Service has had annual billion dollar surpluses in cash flow in recent years, although that trend is now reversing.

Recent improvements 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 in its core operations 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 1978 has cut average ticket prices by as much as 40 percent. Deregulation of trucking has saved some $100 billion over a decade. 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 10 times since 1973, from 8 cents to 34 cents in 2001.

High labor costs account in part for 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. Pensions for postal workers are backed by American taxpayers. And the Postal Rate Commission found recently that "nonproductive time" accounts for 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 that 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 using the assistance of the private sector, the USPS is demonstrating that the private sector could handle mail delivery without a government monopoly. Of course, many of the nearly 900,000 mostly unionized postal workers would oppose further moves in that direction.

Endangered Revenues

The communications and information revolution, with faxes, e-mails, and the Internet, already has taken business from the Postal Service. But an October 21, 1999, U.S. General Accounting Office report highlighted a coming problem that the USPS cannot ignore. That report found that, although overall mail volume will continue to increase over the next decade, first-class mail volume will decline on average 0.8 percent annually between 1999 and 2008.

Users of first-class mail pay premium prices. Revenues from that mail cover two-thirds of the USPS's institutional costs. But in the future, more bills, which require first-class postage, will be paid electronically, via the Internet. Currently such payments in the mail stream account for some $17 billion of the USPS's total annual revenues of $65 billion. Thus, over the next decade, the Postal Service could see as much as 20 percent of its revenue evaporate.

Unfair Competition and Regulatory Abuses

The USPS has attracted criticism for straying from its government-mandated and government-protected task of delivering first- and third-class mail. For example, it has marketed prepaid phone calling cards for long-distance calls, competing with private firms. It has rented out space in the parking lots of its post offices for the erection of commercial antennas for cellular phone transmissions and other uses. Such competition with the private sector by a government monopoly that pays no taxes is manifestly unfair.

Playing Favorites

Most ominous in recent years have been attempts by the Postal Service to become a major player in the new communications and information economy, coupled with abuses of its regulatory authority. For example, the Postal Service revealed its imperial aims in November 1997 when it tried to sneak into legislation a provision that would have granted it authority to purchase "such other obligations or securities as it deems appropriate, if such investment is closely related to Postal Service operations as determined by . . . [its] Board of Governors." Fortunately, the provision did not pass, but the attempt made clear several of the problems with the postal monopoly.

To begin with, allowing government monopolies to purchase shares in private companies is a direct threat to the free market. The USPS is a $65 billion per year operation, compared to around $27 billion for United Parcel Service, $18.3 billion for Federal Express, and $4.4 billion for Pitney Bowes, the largest supplier of postal meter equipment. The Postal Service's size advantage, regulatory authority, and access to credit through the U.S. Treasury could allow it to absorb or snuff out competitors.

Speculation then was that the USPS wanted to use its new authority to acquire shares in E-Stamp, a start-up company that was developing software to allow customers to purchase postage and postmark mail online through personal computers. Normally customers purchase postage from the manufacturer of their metering equipment. The customer sends a check to the manufacturer. The customer can then call the manufacturer, who gives the customer the information needed to encode into the metering machine the amount of postage desired. If someone breaks the security of a metering machine and is able to postmark a greater dollar value of mail than has been paid for, the machine's manufacturer is liable for the loss and must pay the USPS the value of the postage used. In other words, metering equipment manufacturers have a strong incentive to make their systems as secure as possible, and the Postal Service has no reason to regulate much less offer online postage.

But even though its power to purchase companies was blocked in 1997, the USPS was not deterred from exercising favoritism. It used its regulatory authority to allow E-Stamp to put into experimental use its version of an electronic postmarking system. However, the USPS deemed inadequate a system developed by one of E-Stamp's competitors, Pitney Bowes. That system incorporated encryption software used by MasterCard to ensure secure transactions. Surely a system safe enough for a major credit card company to use should be safe enough for the Postal Service.

In late 1998 Postal Service officials participated in the rollout of systems by E-Stamp and another company, Stamps.com. None other than former postmaster general Marvin Runyon is a member of the board of the latter. USPS favoritism seemed clear. Speculation was that the Postal Service was trying to promote more diversity in the postage-metering market by favoring start-up companies over the established Pitney Bowes, offering the ironic spectacle of a government monopoly running its own antitrust policy. In September 2000 Pitney Bowes sued Stamps.com, the Postal Service's preferred online postmark provider, charging infringement of four shipping patents.

E-Commerce Efforts

In the early 1980s the Postal Service expressed interest in extending its monopoly to the emerging e-mail market. Fortunately, it failed at that attempt. But now the Postal Service has returned with a vengeance and has big plans to be a major e-commerce player.

Of particular concern is its plan to assign an e-mail address to every physical address in the country. Its goal is to create a database to maintain a link between those addresses. The Postal Service claims that such a system would allow a business with only an individual's e-mail address to access an individual's physical address, or would allow individuals to have e-mail or physical mail automatically forwarded. The USPS also plans to give access to e-mail to individuals who do not already have e-mail accounts. Details of the plan are still being developed.

Such a plan would not only create potentially unfair competition with private companies, it would create a serious potential for invasions of privacy. For example, it could cause individuals to be flooded with unwanted, "spam" e-mails. It also could help the government keep track of individuals and their private communications. Other Postal Service plans suggest such dangers to civil liberties. For example, the Postal Service wants to control assignment of all .us domain names. It also wants to guarantee e-mail security since mail fraud and tampering are federal crimes. Yet there already are private encryption software and services. In fact, such USPS activities would facilitate the efforts of the federal government to monitor individuals' online activities and read individuals' e-mail.

Other planned Postal Service activities also pose the threat of unfair competition and misuse of USPS regulatory authority. For example, the Postal Service in 1996 opened its REMITCO operation on Long Island, New York, to process checks and physical bill payments. It has developed an electronic bill paying system as well. It also is exploring ways to provide electronic business-to-business infrastructure that allows enterprises to coordinate inventory, orders, shipping, and payments processing. The problem, of course, remains that the Postal Service is tax-exempt, is exempt from most regulations, and has regulatory authority it can use against competitors.

Mailbox Wars

Postal Service misuse of regulatory authority was on display in its new regulations on commercial mail receiving agencies (CMRAs), such as Mail Boxes, Etc., that rent out private boxes. CMRAs are popular, especially with small businesses, because they offer convenient hours, sometimes 24 hours a day; they will accept deliveries from private carriers as well as from the Postal Service; and they often offer other services for businesses. Also such boxes give small entrepreneurs a professional aura, since they can list an address as a number or suite, such as "123 Main St. #401." But such enterprises, which have as many as a million and a half customers, clearly compete with USPS post office boxes.

In the name of fighting mail fraud, in 1999 the Postal Service issued regulations stating that it would deliver only to CMRA customers who produced two forms of identification, including a photo ID. Copies of each ID would be kept by the CMRA and the Postal Service. Customers using their boxes for business would have to provide home addresses and phone numbers, and the information would be made available to anyone for the asking. Further, CMRA customers would have to contact every person and entity that might send them mail in the future and advise them that the acronym "PMB" (Private Mail Box) would have to precede the renter's box number and that the Postal Service would not deliver mail to CMRAs without this code.

But of the nearly 10,000 annual convictions for mail-related crimes, only about 1,500 involve misuses of mailboxes, and the Postal Service could not produce figures on how many crimes involved boxes at a house, a CMRA box, or a P.O. box. Further, it could not show how the new rules would prevent mail fraud. In addition, giving out personal information about individuals would violate the USPS's own privacy rules and would aid "identity thieves." Women might find unstable ex-husbands or stalkers learning their home addresses courtesy of the post office. Finally, the direct costs of the regulations to CMRAs and their customers who would have to mail out millions of change-of-address notices and incur other expenses would be between $619 million and $994 million.

In light of public outrage, the Postal Service made some changes to the regulations, for example, saying it would not turn over personal information to strangers off the street. But the regulations already have caused many CMRA customers who valued their privacy to cancel their accounts.

Another case of the arbitrary exercise of Postal Service power has been recent denials of full delivery services to certain apartment buildings. Local postmasters in college towns have begun refusing to sort and deliver mail for residents of buildings that those postmasters consider to be dominated by students. The excuse offered is that students are transients and it is costly to forward mail to them when they move. For such buildings postmasters will deliver only bags of unsorted mail to some resident manager who will have to do the sorting and distribution. But in some cases there is no resident manager, only tenants, many of whom are not students but long-term residents. Thus the Postal Service—which justifies its monopoly as a way to ensure that every individual is guaranteed mail service—is in fact denying such service. In light of this and the CMRA case, one can only imagine the kinds of problems the Postal Service could cause if it gets to exercise more power over e-commerce and cyberspace.

It is also interesting to note that the Postal Service is becoming more brazen in promoting its own interests. For example, it is sponsoring a Showtime made-for-T.V. movie series, titled *The Inspectors*, about the exploits of postal inspectors. Showtime is paying for the production, and the USPS is handling promotion, including producing 5,000 commemorative envelopes and posters for 40,000 post offices. The Postal Inspectors Office has opened its files to the show's producers. Five inspectors are advisers to the show, and one inspector has appeared in the show. One show depicted inspectors trying to get a CMRA proprietor, portrayed as a nasty character, to turn over the home address of a customer using a private mailbox for criminal purposes. The Postal Service is using receipts from its monopoly for nothing less than political propaganda to extend its power further.

Approaches to Privatization

The Postal Service, with its tax-free status, regulatory exemptions, regulatory powers, and need for new revenue, is on a head-on collision course with the dynamic information economy. The status quo cannot be maintained in the future. In fact, a September 1996 GAO study, *Postal Service Reform: Issues Relevant to Changing Restrictions on Private Letter Delivery*, examined the usually forbidden topic of repealing the Private Express Statutes. The report stated that "it is not clear whether the underlying economic basis for the Statutes cited by the Postal Service . . . remains valid today." Postmaster General Henderson acknowledges that the monopoly likely will not last. The real question is not whether the USPS should be privatized but rather how that 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 USPS, principally delivery of first- and third-class mail.

Thus, four approaches to privatization have emerged.

First Approach

The first approach would give the Postal Service to its employees under an employee stock ownership plan. This is the most direct approach. The main barrier to postal privatization is the huge, mostly unionized, workforce, distributed across every congressional district in the country. Most union leaders have been vehemently opposed not only to privatization but also 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. Rep. Philip M. Crane of Illinois and Rep. Dana Rohrabacher of California have sponsored legislation that would do just that.

This 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 for current employees pensions comparable to what they might have expected without privatization. Pensions for new employees would be determined by, and 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.

Second Approach

The second approach would deal principally with the concern of private-sector providers of nonpostal services about unfair competition from the USPS. Rep. Duncan Hunter of California has sponsored the Postal Service Core Business Act that would prohibit the Postal Service from competing in any function that it did not perform before January 1, 1994. This approach in essence would force the USPS to return its primary function of delivering first- and third-class mail and to abandon e-commerce plans. But since the Postal Service will face a financial crisis over the next decade, such an approach no doubt would force it to some privatization option.

Third Approach

A third approach is a German import. That country over the past decade has been implementing a plan to privatize its mail monopoly. The Germans brought DP under private management. Although those who were employed before the privatization process began remained civil servants, new employees were treated as private employees. The workforce was reduced over a period of years from 379,000 to 250,000, through attrition and early retirement deals. The handling of the labor situation is particularly significant since labor markets in Germany are much more rigid and union influence is much stronger there than in the United States.

DP's nonmonopoly operations (e.g., parcel services) are now subject to corporate and other taxes and the regulations under which other businesses operate. DP has sold a lot of assets and shut down many of its inefficient processing and transport centers. It has used the proceeds to open fewer but more efficient processing centers and to offset pension costs.

In November 2000 DP made a first initial public offering of shares in the company, selling off 25 percent of DP, with more to follow. Germany already allows more competition in mail services than does the United States. In January 2003 the German postal monopoly will be repealed.

An important aspect of the German approach is that DP sees its future as a private company offering a variety of integrated services. It already is a major parcel carrier and views that part of its business as a profitable wave of the future. DP also is becoming heavily involved in e-commerce. It sees the Internet as a way to generate profitable delivery volume. Also, DP has been purchasing shares in related enterprises and forming partnerships of various sorts. This approach suggests that, instead of fearing future developments, postal workers might look forward to even more lucrative opportunities to offer goods and services as part of a private postal service in an information economy. Such an approach could have a strong appeal in the United States.

Fourth Approach

A fourth alternative to the straightforward privatization approach has been offered by Rep. John M. McHugh of New York. His bill, H.R. 22 in the 106th Congress, the Postal Modernization Act, sought to deal both with the Postal Service's desire for more flexibility in offering noncore services to compete with the private sector and with the private sector's desire not to be subject to unfair competition from a postal monopoly that also has regulatory powers.

McHugh's approach would subject the USPS functions that compete with private suppliers to many of the same regulations to which the private sector is subject. The Postal Service could also offer services not directly connected with mail delivery but would have to do so through a separate entity and keep those accounts separate from its core first- and third-class mail services.

One potential benefit of this approach would be that many postal workers and innovative postal managers might be diverted into potentially profit-making activities, and be forced to compete on a more equal footing with the private sector. That would make the Postal Service easier to privatize in the future because many postal workers already would be working, in essence, in the private sector. But critics of this approach observe that the firewalls between the USPS's monopoly functions and services that compete with the private sector are not sufficient.

No doubt other, better approaches are possible. And no doubt the political battle that accompanies any major policy change will determine the approach used. But the case for privatization is strong. 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

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