

U.S. POSTAL SERVICE

Congress should

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

The U.S. Postal Service (USPS) is a major business enterprise operated by the federal government with 650,000 workers and \$77 billion in revenues in 2021. USPS revenues are supposed to cover the system's expenses, but mail volume has been falling and the USPS has been losing billions of dollars a year.

The bright spot for the USPS is that its package or parcel delivery business is growing. However, that growth comes at the expense of private delivery companies that have tax and regulatory disadvantages compared with the USPS. The goal of federal policy should be to create a level playing field in postal and parcel markets that are open to competition.

Europe has faced the same challenge of declining mail volumes, and it has responded by opening postal markets and privatizing postal providers. The United States should follow suit. Congress should privatize the USPS, repeal its tax and regulatory advantages, and allow businesses to compete in all postal markets.

USPS Advantages

Congress confers on the USPS monopolies on the delivery of first-class mail and access to mailboxes, the latter of which is a unique protection among the world's postal systems. Congress provides the USPS numerous other benefits:

- it can borrow from the U.S. Treasury at low interest rates;
- it is exempt from state and local sales, income, and property taxes, as well as from parking tickets and vehicle fees;

- it pays federal corporate income taxes on its earnings from competitive products, but those taxes are circulated back to the USPS;
- it is not bound by local zoning laws, is immune from a range of civil actions, and has the power of eminent domain; and
- it has government regulatory power, which it can use to impede competitors.

Despite these advantages, the USPS has lost more than \$90 billion since 2007. The losses stem mainly from the 51 percent drop in first-class mail volume: from 104 billion pieces in 2001 to 51 billion pieces in 2021. The rise of email, the growth in internet bill paying, and other factors have driven the falling volume of mail. A mandate to prefund its future retiree health benefits had compounded the USPS’s financial challenges, but the Postal Service Reform Act of 2022 relieved the USPS of that requirement.

Incremental Reforms

The decline in USPS mail volume will likely continue as the demand for letters, magazines, and other printed materials falls. When private businesses face falling demand for their products, they cut costs, improve efficiencies, and innovate to regain profitability. The USPS has taken some steps to cut costs, including reducing employment, consolidating mail facilities, and reducing hours at some post office locations. But more needs to be done, including the following steps:

Close post offices. The USPS has more than 34,000 retail locations, including contract locations. The agency’s inspector general reported in April 2021 that 42 percent of locations do not generate enough revenue to cover their operational costs and that these locations “are often located within a few miles of another post office.” The bottom one-quarter of locations bring in just 2 percent of the USPS’s retail revenues. An earlier USPS analysis found that the bottom 4,500 locations averaged just 4.4 customer visits a day. The USPS should close thousands of low-volume post offices to save money and reduce energy and land use.

Cut labor costs. Labor accounts for more than three-quarters of USPS costs. Average USPS compensation is higher than for comparable private-sector companies. The 2022 postal law relieved the USPS of the need to prefund future retiree health benefits, but those benefits will still need to be paid when they come due. To control both health and pension costs going forward, Congress should replace the USPS’s defined-benefit plans with defined-contribution plans. Relatively few private companies even provide health coverage to retirees.

End collective bargaining. Collective-bargaining agreements cover four-fifths of the USPS workforce. The agreements reduce business flexibility, make

it harder to cut costs, and have impeded the automation of postal functions. Congress should repeal collective bargaining at the USPS and move toward private-sector labor standards. Just 6 percent of U.S. private-sector workers are members of labor unions today.

Narrow the universal service obligation. The federal government has adopted expansive delivery standards for the USPS called the universal service obligation (USO). The USO includes delivery to every home six days a week, uniform letter pricing, and other requirements. The USPS has a more expansive USO than postal companies in many other countries.

An expansive USO is no longer needed because individuals have electronic options for messages, paying bills, and other interactions. Congress should allow the USPS to reduce the number of mail delivery days, reduce delivery speed, use cluster boxes for residential delivery, and make other reforms reflecting today's smaller mail volume.

Cutting delivery frequency, perhaps to every second day, would allow the USPS to slash its armada of 230,000 trucks, which would reduce costs and benefit the environment. Similarly, reducing the speed of delivery could reduce costs and aid the environment by allowing some mail currently transported by air to go by ground.

End unfair competition. The USPS appears to use earnings from its monopoly products (mainly letters) to subsidize its competitive products (mainly parcels). The cross-subsidies stem from the way the enterprise allocates its institutional costs. Markets are further distorted by the USPS's regulatory and tax advantages over private parcel companies. The USPS does not pay federal, state, or local taxes, whereas, for example, FedEx pays about \$1.8 billion a year in taxes. Economists Robert Shapiro and Isaac Yoder examined the economics of the USPS in a 2021 study, and found:

USPS has been able to compete in the parcel market by leveraging its privileges and subsidies from universal mail service—tax exemptions, Treasury loans, its mailbox monopoly—and by using its nationwide network of facilities, equipment, personnel, and vehicles for mail delivery, financed by postal rates, to support its parcel business.

As mail volume continues to decline, the USPS will increasingly rely on its parcel business to survive, but that will mean that the distortions caused by the USPS's advantages over private firms will grow. The way forward is to allow the USPS to grow its parcel business and diversify into other competitive products, but also to privatize the enterprise and create a level playing field in mail, parcels, and all related markets.

Privatization and Competition

Congress should privatize the USPS, require it to pay taxes, and repeal its legal monopolies. Entrepreneurs should be allowed to compete in the mail industry. They may pursue innovations that the USPS has not even thought of. At the same time, Congress should give the USPS the flexibility it needs to reduce costs and face new competition.

Postal companies in the European Union have faced similar challenges as the USPS from falling mail volumes, but the EU solution has been to open markets and, in some nations, to privatize their systems. The Netherlands privatized its postal company in the 1990s and opened postal markets to competition in 2009. Britain opened postal markets to competition in 2006 and privatized the Royal Mail with stock offerings in 2013 and 2015. Germany began privatizing Deutsche Post with a stock offering in 2000 and opened postal markets to competition in 2008. A 2019 report by the technology company Escher Group on the future of postal services said, “Deutsche Post DHL is the most admired postal operator in the world.”

A 2018 European Commission report about the continent’s postal markets found that companies have made the following changes:

- reengineered postal networks and cut costs;
- expanded the use of on-call work, temporary work, and performance pay;
- reduced USO mandates to allow slower and less frequent delivery; and
- cut the number of post office locations in 23 of 32 countries.

A March 2020 study by the USPS inspector general found that six countries it examined had all outsourced large portions of their retail networks to private businesses. Germany, for example, has closed all its standalone post offices and moved retail transactions to counters in grocery stores and other businesses. Such outsourcing reduces costs; it can also benefit postal customers because private businesses usually have longer operating hours.

Lithuania illustrates another cost-saving innovation, as discussed in a 2019 Copenhagen Economics study. It is replacing rural post offices that have few customers with postal vehicles that visit many locations during the day on a schedule. The Lithuanian postal company found that the vehicles serve about 150 customers a day compared with about 7 customers a day in its rural post offices.

Numerous countries have reduced delivery frequency. A May 2020 study by the USPS inspector general found that seven of eight foreign postal systems it examined had cut, or were planning to cut, delivery frequency. Sweden recently cut letter delivery to every other day, while Italy has gone to every other day for many rural areas.

Unlike our Congress, the Europeans have recognized that postal and delivery markets are changing, and that postal carriers need flexibility to cut costs and innovate. Whereas the Europeans are reducing mail delivery frequency, for example, Congress just reaffirmed America's wasteful six-day delivery in the 2022 postal law. Whereas the Europeans are innovating, the Government Accountability Office reported in September 2021 that the USPS's productivity has been declining in recent years.

Competition and privatization are the best paths forward. The Government Accountability Office noted in June 2017 that most postal experts think that relaxing USPS monopolies "could induce USPS to become more efficient and increase innovation across the postal market" and that "the prospect of competitive pressure would stimulate USPS to be more efficient through both cost-cutting and general restructuring."

Similarly, a June 2018 Trump administration report on reforming the government recognized the new realities of postal markets. It found that "a privatized Postal Service would have a substantially lower cost structure, be able to adapt to changing customer needs and make business decisions free from political interference, and have access to private capital markets to fund operational improvements without burdening taxpayers."

Conclusion

Monopoly government postal systems are obsolete. But nostalgia for a bygone paper era continues to impede reform in the United States. In February 2022, House Speaker Nancy Pelosi called the USPS "a beautiful thread that continues to weave together communities across America." But what is the beautiful thread? Advertising or junk mail now accounts for 62 percent of household mail volume, according to the USPS, while bills and other business statements are the second-largest mail item. Person-to-person letters have fallen to just 2 percent of mail volume.

Today's "beautiful thread" is the internet, not the junk mail that dominates our mailboxes. Government operation of a paper delivery system is unneeded in a world where 300 billion emails fly around the planet every day. Congress should follow the European lead and privatize the postal service while opening competition in all postal markets.

Suggested Readings

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