Privatizing the U.S. Postal Service

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Overview

The U.S. Postal Service is a branch of the federal government. It is headed by a Postmaster General and a Board of Governors, with further oversight provided by the Postal Regulatory Commission. However, ultimate authority over the USPS rests with Congress.

The USPS is structured like a business in that revenues from the sale of postal products generally cover costs, and it receives virtually no federal appropriations.[1] The organization is the second-largest civilian employer in the United States—after Wal-Mart—with about 600,000 workers. If the USPS were a private company, it would rank about 28th on the Fortune 500 list of largest companies.

While the USPS is structured like a business, Congress often prevents it from actually operating like a private company, such as taking actions to reduce costs, improve efficiency, or innovate in other ways. The agency is also obligated by statute to provide mail services to all Americans, irrespective of where they live and the cost of serving them. Furthermore, it is required to deliver first-class mail at a uniform price throughout the nation.

While Congress imposes various costs and obligations on the USPS, it also protects it from competition. The USPS has a legal monopoly over first-class mail and standard mail (formerly called third-class mail). Thus, we have a postal system that encourages high costs and inefficiency, while preventing entrepreneurs from trying to improve postal services for Americans.

The USPS is in deep financial trouble as a result of declining mail volume, bloated operating expenses, a costly and inflexible unionized workforce, and constant congressional meddling. At the same time, electronic communications and other technological advances are making physical mail delivery less relevant.

America’s postal system needs a radical overhaul. This essay discusses the problems of the USPS and looks at some recent postal reforms abroad.[2] It concludes that taxpayers, consumers, and the broader economy would stand to gain with reforms to privatize the USPS and open U.S. mail delivery up to competition.

Background

Article 1, Section 8 of the Constitution says that Congress shall have the power "to establish Post Offices and post Roads." Thus, the Constitution allows the government to get involved in postal services, but that doesn’t mean that the government has to be involved, let alone be granted a monopoly over mail.

Prior to the Postal Act of 1863, intercity letters were either held at the destination post office for pick-up or delivered by an independent contractor. The Postal Code of 1872 extended the postal monopoly to the delivery of local letters, banning intracity private carriers. These private carriers, which numbered 147 at one time, had been innovative: for example, they introduced stamps before the Post Office did.[3]

Prior to 1971 the government provided postal services through its U.S. Post Office Department, an agency that received annual appropriations and heavy subsidies from Congress. Members of Congress influenced many aspects of the Post Office Department’s operations, such as the pricing of postal products and the selection of managers.

The Postal Reorganization Act of 1970 replaced the Post Office Department with the U.S. Postal Service. The USPS was made an independent agency of the executive branch and designed to be financially self-sufficient, relying on the sale of postage, mail products, and services for revenue. The USPS is required by law to cover its costs, but can borrow from the U.S. Treasury subject to a limitation of $3 billion per year and a total debt ceiling of $15 billion.

As a federal organization, the USPS benefits from numerous other privileges. The USPS is exempt from vehicle licensing requirements, sales taxes, and local property taxes. It doesn’t have to pay parking tickets, and it has eminent domain powers. It pays to itself the income taxes that it would owe if it were a private business.

The USPS is mandated by Congress to provide the American public with "universal service," which includes uniform prices, access to services, and six-day delivery nationwide. To ensure financial support for these obligations, Congress grants the USPS a statutory monopoly on the delivery of first-class and standard mail and restricts mailbox access to mail delivered by the USPS.[4]

The USPS's express mail and package delivery services are subject to competition, which comes chiefly from FedEx and the United Parcel Service (UPS). However, the USPS's monopoly prevents other companies from delivering first-class and standard mail, with an exception for urgent mail, and private companies are not allowed to place their deliveries in mail boxes.

The USPS does face increasing competition from correspondence sent via a variety of electronic alternatives. While the USPS may have a statutory monopoly over a portion of physical mail, new technologies are allowing Americans to bypass the organization on all of its lines of business.

Declining Revenues

Although the USPS is structured to operate like a self-supporting business, this model is on borrowed time.

From 2007 to 2010, the USPS lost $20 billion, and its debt increased from $2.1 billion to $12 billion. The USPS expects to hit its $15 billion legal borrowing ceiling in 2011. As a result, the Government Accountability Office placed the USPS on its "high risk" list of troubled federal agencies in 2009.[5] These financial problems are not temporary. Postal experts expect a future of stagnant-to-declining revenue for the USPS with stable-to-increasing expenses unless Congress makes major reforms.

In 2009, USPS revenues totaled $68 billion, or $7 billion lower than 2008. About 88 percent of the revenue was generated by "market-dominant" products including first-class mail and standard mail (bulk advertising and direct-mail solicitations). First-class mail, which is the most profitable, accounted for 52 percent of those revenues. The remaining 12 percent of the USPS's revenue came from competitive products including Express Mail, Priority Mail, bulk parcel post, and bulk international mail.[6]

The decline in USPS revenues has been driven by a large drop in mail volume, particularly for profitable first-class mail. The recent recession has hurt USPS finances, but the demand for mail delivered by the USPS has been steadily falling as consumers and businesses have shifted to electronic alternatives.

First-class mail volume has fallen 19 percent since 2001, and it is projected to fall another 37 percent by 2020.[7] From 2006 to 2009 total mail volume dropped from 213 billion to 177 billion items, a 17 percent decrease.[8] By 2020 the USPS estimates further volume declines of about 15 percent, to 150 billion pieces, which would be the lowest level since 1986.[9]

The 2006 Postal Accountability and Enhancement Act terminated a cumbersome ratesetting structure and gave the USPS more flexibility to set prices. But the law required that average rates in each market-dominant mail class not increase faster than the consumer price index.

The USPS can request that the Postal Regulatory Commission approve a rate increase above the price cap on the basis of extraordinary or exceptional circumstances. The PRC recently rejected a USPS request for an exigent rate increase. Although it acknowledged that the recession has led to a substantial decline in mail volume, the PRC turned down the request because the rate adjustments represented "an attempt to address long-term structural problems not caused by the recent recession."[10]

Looking forward, increasing postal rates may boost revenue in the short run, but would risk depressing mail volume and revenue in the long run, in part by accelerating the diversion of mail to competing electronic alternatives. Higher rates would also damage millions of businesses dependent on mailing and currently stuck with a monopoly provider of those services.

The USPS has asked Congress for permission to offer new nonpostal products and services (such as banking and insurance) to generate additional revenue. However, the USPS has a poor track record when it comes to introducing new products, and allowing a government entity to compete with the private sector in nonpostal markets would be unfair and unwise.[11]

Bloated Costs

Despite the USPS's ability to achieve $10 billion in cost savings from 2007 to 2009, it has not been enough to offset the recent rapid decline in revenue.[12] It also hasn't been enough to prevent the upward trend in the organization's cost per piece of mail, which rose from 34 cents in 2006 to 41 cents in 2009.[13] If mail volume continues to decrease and the number of postal addresses increases, the cost to deliver each piece of mail will continue to rise while revenue per delivery point falls.

A key driver of mail delivery costs is the congressionally mandated obligation to serve virtually every mailing address, regardless of volume, six days a week. Fulfilling this "universal service" obligation results in the USPS having large fixed costs, including the costs of more than 36,000 postal outlets, 215,000 vehicles, and 600 processing facilities.

However, even given the universal service obligation, the Government Accountability Office and USPS officials believe that more than half of these processing facilities aren't needed.[14] Why aren't they closed down to save money? The GAO notes that the USPS faces "formidable resistance" from members of Congress and postal unions when attempting to close or consolidate facilities.[15]

The USPS is required to provide services to all communities, including areas where post offices have low traffic and are not cost effective. Before closing a post office, the USPS must provide customers with at least 60 days of notice before the proposed closure date, and any person served by the post office may appeal its closure to the Postal Regulatory Commission. The USPS cannot close a post office "solely for operating at a deficit."[16]

Members of Congress whose districts would be affected by a post office closure often raise a big fuss. Last year, for example, the USPS proposed consolidating 3,200 postal outlets, but following a congressional outcry, the number under consideration was reduced to a paltry

162.[17] That is no way to run a business.

Full post offices are more costly to operate than other means of serving customers. The average post office transaction cost 23 cents per dollar of revenue in 2009 while the average transaction at a contract postal unit cost just 13 cents.[18] Post offices used to generate almost all postal retail revenue, but 29 percent is now generated online through usps.com and other alternative channels.[19]

In 2009 post offices recorded 117 million fewer transactions than in 2008.[20] Four out of five post offices are operating at a loss.[21] However, the postal network's overcapacity has drawn little corrective action from Congress. In fact, legislation introduced in the House with 102 cosponsors would apply the burdensome procedures for closing post offices to other postal outlets as well.[22] Congress is actively working against the modernization of the U.S. postal system.

Excessive labor costs are another major problem. While the USPS has been able to eliminate a substantial number of employees through attrition, the USPS's predominantly unionized workforce continues to account for 80 percent of the agency's costs despite increased automation. The USPS estimates that, in the absence of changes, its total workforce costs will soar from $53 billion in 2009 to $77 billion in 2020.[23]

As of 2009 the USPS had financial liabilities and unfunded obligations of $88 billion.[24] Unfunded obligations for retiree health benefits accounted for $52 billion of the total. The 2006 Postal Accountability and Enhancement Act addressed this unfunded liability by requiring the USPS to make a special payment of more than $5 billion annually from 2007 through 2016 to build up a retirement fund. This was a good idea to reduce possible liabilities on future taxpayers.

However, USPS revenues began plummeting shortly after the PAEA's enactment. In 2009 Congress relieved the USPS by allowing it to defer $4 billion of its scheduled $5.4 billion retirement payment for the year. Facing the same situation this year, Congress adjourned without providing the USPS with similar relief. As a result, the USPS could soon run out of operating funds.

Critics argue that the pre-funding payment schedule is too aggressive, particularly in light of the USPS's current financial struggles. However, the USPS faces a bleak future regardless of the payments. As the GAO notes, allowing the USPS to continue deferring the payments will "increase the risk that in the future USPS will not be able to pay these obligations as its core business continues to decline and if sufficient actions are not taken to restructure operations and reduce costs."[25]

Opponents of pre-funding USPS retiree health benefits argue that private companies and the rest of the federal government are not legally required to do so. That is largely irrelevant. Retiree health care coverage is an increasingly rare perk in the private sector, and the federal government's financial management is nothing to emulate. In 2008, only 17 percent of private sector workers were employed at a business that offered health benefits to Medicare-eligible retirees, down from 28 percent in 1997."[26]

Postal Unions

More than 85 percent of USPS employees are covered by collective-bargaining agreements. Among other provisions, these agreements include regular raises based on cost-of-living allowances. The other 15 percent of employees receive regular pay increases through a pay-for-performance program.

While the Postal Service negotiates with its unions to structure compensation, federal statutes hamper the USPS's ability to craft market-based pay and benefits packages.[27] The potential for mandatory arbitration gives the unions a big advantage in negotiations with management. When unions demand higher wages, more generous benefits, and added work rules, arbitrators usually give them part of what they want. And when weighing a decision on union contracts, arbitrators do not have to take the USPS's financial situation into consideration. Not surprisingly, unions have been able to extract lucrative compensation packages from the USPS over the decades.

The Government Accountability Office notes that the USPS covers a higher proportion of employee premiums for health care and life insurance than other federal agencies.[28] USPS workers participate in the federal workers' compensation program, which generally provides larger benefits than the private sector. Also, instead of retiring when eligible, USPS workers can stay on the "more generous" workers' compensation rolls.[29]

In 2009 the average postal employee received about $79,000 in total compensation.[30] This compares to $61,000 in wages and benefits received by the average private sector worker that year.[31] A recent study by labor economist James Sherk found that postal workers earn 15 to 20 percent more per hour than comparable workers in the private sector.[32]

Postal expert Michael Schuyler reviewed the studies on postal compensation and found the following:

> Although the law says that postal employees should receive wages and benefits comparable to what they could earn in the private sector, the majority of economic studies examining the issue have concluded that a postal pay premium of 20%– 25% exists if just wages are counted and about 35% if the Service's very generous benefits are also included.[33]

Another factor that reduces postal service efficiency is that union contracts inhibit the flexibility of USPS leaders in managing their workforce. For example, most postal workers are protected by "no-layoff" provisions, and the USPS must let go lower-cost part-time and temporary employees before it can lay off a full-time worker not covered by such provisions.

Collective bargaining agreements also make it difficult for the USPS to hire part-time workers, which would help to reduce labor costs. Hiring workers who can work less than eight-hour shifts would also give managers needed flexibility to address seasonal and weekly fluctuations in workload.

The USPS inspector general recently pointed out that the USPS's utilization of part-time workers is less than that of UPS, FedEx, and postal systems in other countries.[34] While only 13 percent of the USPS's workforce is part-time, the figures for UPS and FedEx are a respective 53 and 40 percent. Germany's Deutsche Post, which has been privatized, employs a workforce that is 40 percent part-time.[35] The story is similar at many other foreign posts, such as the Netherlands' postal service, TNT, which has also been privatized. TNT recently told its union that it would be "migrating towards an organization that employs mainly part‐time staff."[36]

Unfortunately, already generous compensation combined with the USPS's poor financial condition hasn't stopped the postal unions from demanding more money and opposing greater flexibility. The American Postal Workers Union, which represents more than 200,000 workers, recently entered collective bargaining negotiations for a new contract. In an interview, APWU president William Burrus called a pay increase for his members an "entitlement" and stated that his union wants "more control over activities at work, more money, better benefits—we want more."[37] Burrus also called the sensible suggestion that arbitrators should be required to consider the USPS's financial position "antidemocratic."[38]

Lessons from Abroad

Declining demand and an inability to cut costs are not unique to the USPS, as government postal services in other countries have experienced similar problems. However, numerous countries have responded by shifting away from a government-run postal monopoly toward market liberalization, including privatizing the government postal agency and opening postal markets to entrepreneurs. The United States has lagged behind many countries on postal reforms. As a result, the U.S. rates near the bottom of the Consumer Postal Union's 23-country "Index of Postal Freedom."[39]

For some people, the idea of liberalization conjures up fears of a decline in the quality or universality of postal service. However, those things have not happened in the countries that have introduced pro-market postal reforms. Rather, these liberalizing countries have shown the ability to offer affordable, reliable, universal, and more efficient postal-delivery services.

In many countries, reforms have been pursued through the commercialization and corporatization of the postal service. Under such reforms, the government retains full or partial ownership but introduces modern practices involving management, labor compensation, finance, marketing, and capital investment.

In some countries the private sector has taken large ownership stakes. For example, 69 percent of Germany's formerly government post office Deutsche Post is now privately owned.[40] In the Netherlands, 100 percent of its formerly government post office is privately owned as TNT Post.[41] The British government is considering selling off to private investors its ownership of the Royal Mail. At least 10 percent of the shares may be reserved for postal employees, which would have the benefit of reducing the unions' incentive to take actions negatively affecting the company's bottom line.[42]

While some nations have partly or fully privatized their post offices, a parallel trend is for countries to reduce or eliminate postal monopolies and allow for entrepreneurs to offer competitive services. New Zealand and Sweden repealed their postal monopolies in 1998 and 2003, respectively, and Germany and the Netherlands followed suit in 2008 and 2009, respectively. In 2008, the European Union announced a plan to eliminate the national monopolies of all EU member states by 2013.

Postal liberalization has produced more efficient services in many countries, but governments continue to impose unwarranted postal regulations in even the most reformed markets. For example, governments still typically mandate that universal service obligations be met, and they often also mandate certain service standards and pricing.

In New Zealand, for example, the government has a "deed of understanding" with the New Zealand Post under which it must maintain a specified number of post offices, keep the price of a stamp below a certain level, and refrain from implementing a rural service fee. Also, New Zealand Post must provide 95 percent of households with letter-delivery service six days per week in addition to other minimum service standards.[43]

Some patterns have emerged regarding the outcome of postal liberalization. Productivity has increased, costs have decreased, the universal service obligation continues to be met, service quality measured by on-time delivery has not dropped, and overall customer satisfaction seems to have increased.[44]

Another common result of postal liberalization is diversification of postal organizations into nonpostal activities. Consultants at Accenture have found that diversification not only has a measurable impact on the performance of international posts, but that it is what ultimately distinguishes high performers from low performers.[45] America's relatively dynamic economy is particularly suited for the diversification opportunities that would arise under postal liberalization.

Germany's former postal monopoly, Deutsche Post, illustrates the type of transformation possible by liberalization. Today, the private Deutsche Post World Net has changed its compensation structure, imported managers from other industries, modernized the mail and parcels network within Germany, and developed new products such as hybrid mail and e-commerce. The company now has interests in not only the traditional mail and parcels business but also express mail logistics, banking, and more.[46]

Opening up America's postal markets to new competitors promises great benefits for consumers because entrepreneurs have strong incentives to innovate, improve quality, and reduce costs. The universal service mandate could become less of an issue as entrepreneurs figure out cheaper and better ways to deliver mail to rural areas. Sam Walton, Henry Ford, and other great entrepreneurs made their fortunes by bringing affordable products and services to the masses. We need these sorts of innovators in the postal business.

Former Postmaster General William J. Henderson (1998–2001) stated in a *Washington Post* op-ed following his retirement that "what the Postal Service needs now is nothing short of privatization." Henderson noted that while privatizing the USPS might sound radical, "it's a concept the rest of the world has been taking seriously for years."[47]

Conclusions

The USPS is in a financial death spiral because of the myriad factors discussed. It faces a projected $238 billion in losses over the next 10 years under the status quo. To avoid a large and growing burden from being foisted on taxpayers in coming years, the USPS should be privatized and postal markets open for competition from FedEx, UPS, and upstart entrepreneurs.

With privatization, Congress should end its micromanagement of the nation's postal services. It should rescind the complex laws and regulations on delivery schedules, price caps, restrictions of facility shut-downs, and other business decisions. Such congressional meddling ultimately hurts the consumers that any postal business is supposed to serve by pushing up costs.

Consider the USPS's recent request that Congress allow it to end Saturday mail delivery.[48] Congress has blocked that move, which will raise USPS costs and ultimately result in higher stamp prices. The Saturday mail delivery issue also highlights the lack of consumer choice in the current system. If the USPS decides not to provide Saturday service, customers should be free to contract with other commercial entities to provide Saturday service, or service for any day of the week for that matter.

Policymakers resistant to reform often depict the USPS as a "national asset" that "binds the nation together." But these days, it's the Internet and our telecommunications networks that bind families and businesses together across the nation. It's time to let go of the nostalgia for the USPS and bring America's postal services into the 21st century with privatization, open competition, and entrepreneurial innovation.

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[1] The USPS receives a small annual appropriation from Congress of about $100 million as compensation for the revenue it forgoes in providing, at congressional mandate, free mailing privileges for the blind and absentee-ballot mailing for overseas military personnel.

[2] I benefited greatly from the discussion of postal reforms in Robert Carbaugh and Thomas Tenerelli, "Restructuring the U.S. Postal Service," forthcoming in *Cato Journal*.

[3] Edward L. Hudgins, ed. *The Last Monopoly: Privatizing the Postal Service for the Information Age* (Washington: Cato Institute, 1996), p. 14.

[4] The U.S. Supreme Court has confirmed this privilege by ruling that it is illegal in the United States for anyone other than the employees and agents of the Postal Service to deliver mail pieces to letter boxes marked "U.S. Mail."

[5] U.S. Government Accountability Office, "High Risk Series: Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability," July 2009.

[6] Government Accountability Office, "U.S. Postal Service: Financial Challenges Continue, with Relatively Limited Results from Recent Revenue-Generation Efforts," GAO-10-191T, November 5, 2009, p. 4.

[7] Government Accountability Office, "U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability," GAO-10-455, April 2010, p. 8.

[8] United States Postal Service, "Ensuring a Viable Postal Service for America: An Action Plan for the Future," March 2010, p. 3.

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[16] Government Accountability Office, "U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability," GAO-10-455, April 2010, p. 30.

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[18] United States Postal Service, "Ensuring a Viable Postal Service for America: An Action Plan for the Future," March 2010, p. 8.

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[27] United States Postal Service, "Ensuring a Viable Postal Service for America: An Action Plan for the Future," March 2010, p. 9.

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[29] Government Accountability Office, "U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability," GAO-10-455, April 2010, pp. 15–16.

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