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USPS Going Postal with Enormous Debt

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The United States Postal Service (USPS) lost \$5.5 billion last year. That is the eighth annual loss in a row and the third-highest ever. The only silver lining is that the loss was below the red-ink tsunami of \$15.9 billion in 2012.

Why does the federal government deliver the mail? Why does it *have a monopoly* over delivering the mail?

Admittedly, the Postal Service is one of the few government programs with actual constitutional warrant. The Constitution authorizes Congress to establish post offices. And early American politicians rushed to take advantage of their opportunity, creating the Post Office Department in 1792.

Alas, one-time revolutionaries turned the system into a fount of federal patronage. Local postmasters became perhaps the president's most important appointments, at one time accounting for three-quarters of all federal employees. The postmaster general actually was a member of the cabinet from 1829 to 1971.

With politics rather than service as the post office's priority, Congress took the next step and approved the Private Express Statutes, which prevented anyone from competing with the government in delivering first-class mail. And Uncle Sam enforced his monopoly, fining would-be competitors, including celebrated libertarian author **Lysander Spooner**.

The feds continue to prosecute anyone with the temerity to compete with the USPS, even threatening the Cub Scouts for once offering to deliver Christmas cards.

Believing that Americans existed to serve the USPS left the system ill-equipped to adapt to changing circumstances. In 1971, Congress turned the Post Office Department into the semi-independent USPS. That removed its direct role in politics, but the USPS still is exempt from taxes and regulations, including local parking restrictions. Congress retained its control over postal policies and, of course, preserved the system's delivery monopoly.

But banning competition could not preserve the postal market. The number of pieces of mail peaked in 2001 and continues to fall despite a rising population. Mail pieces dropped from 213 billion in 2006 to 155 billion last year, and the number is expected to decline to 130 billion by 2020. The USPS's last profitable year was 2006. Since then, losses have run between \$2.8 billion

and \$15.9 billion. The Postal Service has maxed out its borrowing from Uncle Sam and missed four retiree program payments. With characteristic understatement, the Government Accountability Office observed, “Given its financial problems and outlook, USPS cannot support its current level of service and operations.”

The postal unions insist that nothing is wrong — at least, nothing that a federal bailout wouldn’t solve. They reserve particular ire for the requirement that the USPS prefund workers’ retirement. Had this rule not been in place, noted former postmaster general Patrick Donahoe, the Postal Service would have earned money last year.

But prefunding protects taxpayers. Washington’s unfunded (government) retirement liability is about \$800 billion and growing every year. That no other agency is required to prefund is unfair to taxpayers, not the Postal Service, since every agency should have to set aside sufficient money to fulfill its financial promises. With the Postal Service earning too little to pay and with nothing left of its federal credit line, the USPS has defaulted four times over the last three years on its mandated contributions.

Even Donahoe acknowledged that prefunding is appropriate. He contacted me after I wrote about the issue a couple of years ago and disputed only the amount the USPS should set aside. He said he asked postal workers what they thought of an unfunded system in light of Detroit’s bankruptcy, when city coffers were empty.

The unions may simply assume that Congress would bail them out if need be. Legislators normally can be counted on to do the wrong thing, but with the unfunded liability for Social Security and Medicare around \$100 trillion, there won’t be a lot of cash available when the big retirement bills come due. Tens of millions of elderly retirees have the edge in fighting with postal workers over a diminishing public pot. The postal workers shouldn’t bet their retirement on winning that political battle.

There’s no other obvious way for the USPS to become solvent. Over the last half-century, the postal authorities raised rates 50 percent faster than the rate of inflation. Pushing hikes even faster in the future would encourage more people to use alternatives. Squeezing postal consumers would work only for truly essential first-class delivery services, but what are they? Bills are paid online; digital magazines and greeting cards go instantly and inexpensively. Junk mail trumps online spam only in the ability to blanket every address in a neighborhood.

The USPS has reduced costs through facility closures and staff reductions despite strong opposition. Cuts in compensation, retirement benefits, and workforce levels and improvements in productivity also are obvious responses, but they must overcome union opposition. Proposals for reducing services abound: end Saturday delivery, cut delivery to just three or four days a week, close more post offices, stop door-to-door delivery (with neighborhood “cluster boxes”). All of these anger consumers, encouraging them to go elsewhere — including to Federal Express and UPS, which offer better options for packages. Irritated workers and customers also complain to Congress, creating political roadblocks for the USPS.

Odder ideas involve offering services that already are widely available, such as check cashing and photocopying. Perhaps the strangest, from the Greeting Card Association, is to transform post offices into “centers of continuous democracy” and offer “community bulletin boards, licenses, permit applications, [and] citizen polling/opinion gathering.” In other words: a bizarre mix of political activism and government regulation, with no obvious way to raise the billions annually needed to balance the books.

Instead of attempting to save an unnecessary political monopoly, Congress should look abroad, where numerous countries, some pushed by the European Union, have introduced competition and innovation into their postal markets. Even such unlikely states as Indonesia, Russia, and Sweden have pursued postal liberalization.

The Organisation for Economic Co-operation and Development, made up of wealthy industrialized states, including the United States, reported that such reforms have yielded “quality of service improvements, increases in profitability, increases in employment and real reductions in prices.” Only in the supposed laissez-faire paradise of America — where a union-led “Grand Alliance to Save Our Public Postal Service” just formed to ensure that whatever has been will forever be — do such ideas seem radical.

Even President Barack Obama appeared to get it. A few years back, he admitted, “It’s the post office that’s always having problems.” In contrast, “UPS and FedEx are doing just fine.” That suggests an obvious solution.

Better management and less politics would help. In fact, revenue was up a bit last year, much of it for package delivery, despite the bigger loss. But over the long term, the USPS cannot escape from a seeming death spiral of bigger losses, higher rates, poorer services, fewer customers, bigger losses, and so on.

Uncle Sam should get out of the postal business. Privatize the USPS and drop the federal first-class monopoly. No one can say for sure what would happen. But if history is a guide, innovative entrepreneurs would be more likely to find cost-effective solutions than will today’s mix of politicians and bureaucrats.

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