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End the Post Office's monopoly and special privileges

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Every holiday season, Americans send billions of letters, cards, and packages through the mail. A variety of carriers work throughout the season to ensure that these gifts and greetings arrive at their destinations.

Yet despite the United States Postal Service's prominent place in our lives, and its $15 billion in outstanding debt, politicians rarely talk about how to improve the Postal Service, let alone actually reform it. Even President Trump has thoughts about the Postal Service, which for once actually got people to talk about how to fix it.

While the mail delivery business is highly lucrative for private companies such as FedEx and UPS, the USPS has been struggling. USPS-delivered letters increasingly arrive late, and the agency has even failed to meet its new, lower delivery speed standards. With its mail volume at a 29-year low, the Post Office lost $5.6 billion in 2016, prompting discussion of eliminating deliveries on Saturdays to cut costs.

These financial struggles are a bit surprising given that the USPS has an array of privileges over its private competitors, including a legal monopoly on the delivery of non-urgent letters, tax breaks, and subsidized loans. These privileges give the agency an estimated $18 billion boost every year. In short, the Postal Service shouldn't be struggling.

Over the past several decades, however, the USPS has grown inefficient and unresponsive to market demand. As a public enterprise, it cannot substantially change its business model without approval from the Postal Regulatory Commission. For example, it cannot flexibly charge surge pricing during the holidays. While its private competitors profit from the delivery of packages and other mail, the Post Office loses money.

In his book, *The Libertarian Mind*, Cato Institute Executive Vice President David Boaz says "The U.S. Postal Service is one of the world's largest monopolies, and it displays all the sluggishness we expect from a government-run monopoly. Every other form of information transfer has been changed beyond recognition in the last generation, but the Postal Service still chugs along with five hundred thousand employees delivering letters the old-fashioned way, just a little bit slower each year."

If the USPS clearly fares worse than private companies, why does it have a legal monopoly on mail delivery? The standard argument says that postal service is a natural monopoly; it is more efficient to have one postal service provider than several. If many firms competed to deliver mail, delivery trucks would travel overlapping routes, which would waste time, trucks, and fuel. One firm would end up dominating the market, because its costs would remain lower than its competitors' even as it grew. A public agency must be created to deliver mail to prevent this private monopoly.

This explanation is plausible, although uncertain. Many different private firms compete in the package delivery business with no monopoly; it is unclear that letter delivery is much different. Furthermore, there is no guarantee that a public monopoly is better than a private one. Judging from the Post Office's recent track record, it would be reasonable to believe that even a market dominated by a single private monopolist could deliver mail better.

However, even if letter delivery is a natural monopoly, and a public monopoly is better than a private one, that would still not justify legally preventing private companies from competing. In a natural monopoly, one firm wins out. If the Post Office is the best mail delivery provider, it will become the sole provider in the market; if a private firm is better, that firm will dominate the market instead. If many firms survive, the industry was not a natural monopoly to begin with. In all of these cases, the most efficient outcome occurs.

The Post Office's legal monopoly on letter delivery prevents all of these efficient outcomes. Even in the case where the Post Office monopolizes the market because it is the best provider, potential competition from other firms would force the agency to provide quality service and cut costs. With legal protection from competition, however, the USPS grows complacent and inefficient, losing billions of dollars annually. The Post Office's legal protection turns a potentially efficient natural monopoly into a failed agency.

It has also been argued that the Post Office's legal monopoly is necessary to ensure equal mail delivery to urban and rural areas. According to this argument, if private companies could compete for mail delivery, they could lower prices on urban services to capture the majority of the market while raising prices for rural clients or refusing to serve them at all. On the other hand, the Post Office, which essentially subsidizes higher-cost rural delivery with slightly higher prices on all mail, would go out of business. Rural access to mail delivery could be jeopardized.

This argument provides no justification for the Post Office's legal monopoly. It is unclear whether subsidies for rural mail delivery are necessary to ensure rural access to postal service. However, even if subsidies are judged to be necessary, honest government policy would explicitly subsidize rural mail delivery, rather than implicitly funding it through Post Office pricing. The merits of rural subsidies could then be openly debated as an explicit item in the government's budget. A legal monopoly is not necessary to ensure equal rural access to mail delivery.

The Post Office's legal monopoly on non-urgent mail has no economic justification. An efficient natural monopoly can occur without a legal monopoly, and the Post Office's legal protection actually encourages it to provide lower quality service. Furthermore, legal protection is not necessary to ensure equal rural access to mail. Ending the Post Office's privileged status could save the government billions of dollars annually and provide better postal service to the entire country. And our holiday mail could finally be delivered on time.