

# The Corner

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## Post Offices Don't Have to Be Dysfunctional

By [Matt Thoman](#)

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Without emergency appropriations from Congress, the United States Postal Service will become insolvent by the end of September. It lost \$8.5 billion in 2010 and is on track to lose at least as much this year. Its mail volume has declined precipitously, and overly generous labor contracts award annual raises and regular cost-of living adjustments to an overpaid, largely unskilled workforce, which also enjoys job security unrivaled in the private sector.

Despite its emerging insolvency, the Postal Service has shown little ability or inclination to reduce costs on its own, and its reform proposals skirt around the structural issues at the root of its problems. Its immediate problem: It simply cannot fund its short-term liabilities. Private-sector competitors FedEx and UPS — the latter despite being fully unionized by the Teamsters — spend about half their costs on labor; the Postal Service spends upwards of 80 percent. Thanks to its federally-mandated monopoly on first-class mail and periodic government support, there has never been any significant incentive to reduce costs. Over time, this has resulted in enormous concessions made to organized labor, the most egregious of which is the “no-layoff” clause for employees with over six years of service. To remain fiscally sustainable, the Postal Service will need to overcome union dissent and shrink its workforce by over 220,000 workers, which is well-nigh impossible without layoffs.

As an alternative, the Postal Service has suggested that the Office of Personnel Management (which manages its retirement fund) return \$270 billion in contributions the Postal Service has made toward its worker retirement programs, and that Congress grant immediate access to \$42.5 billion that the Postal Service has contributed toward its retirement health-care program. The Postal Service claims that it can design and operate its own retirement and health-care programs at a lower cost. However, the Postal Accountability & Enhancement Act of 2006 already alleviated nearly \$30 billion in retirement liabilities for the Postal Service to set up a retirement health-care plan for its workers. No such retirement health-care plan emerged.

Giving the Postal Service more money without accountability is a non-starter in the current Congress, and also obscures the bigger picture: Wages and benefits are climbing but revenue is falling. In the last four years, mail volume fell by 20 percent due to declines in direct-mail (a.k.a. junk mail), as businesses moved more interactions with their consumers to the Internet. If the Postal Service were a private company, it would have gone out of business years ago.

Higher-performing private delivery services are able to adapt to market changes in ways that the Postal Service simply cannot. Instead of attempting to improve productivity and regain market share in the markets where it faces competition, the Postal Service has focused on lobbying Congress for permission to cut service — by closing post offices and ending Saturday delivery. The mere fact that the Postal Service has to get Congress to acquiesce to major business changes is a sad indictment of an out-of-date model for delivering the mail.

Post offices don't have to be dysfunctional. Privatization provides a cost-effective alternative. #more#Inspiration can be found in Europe, where countries have been moving towards privatizing their post offices for years. Cato scholar Tad DeHaven points out that Germany, the Netherlands, and Britain have all privatized their postal services and that in 2008 the European Union enacted a plan to phase out all national postal monopolies by 2013. The European Commission's Internal Market division concludes that members are still on track to meet this goal; as a result of privatization in Europe, prices have fallen for the business consumers that comprise three-quarters of the European market. Even France provides the opportunity for private investment in *La Poste*.

Why can the Social-Democratic governments in Europe privatize their post offices but not the U.S.?  
Opening the Postal Service to market competition, less congressional interference, and a limited financial backstop would no doubt result in a more efficient entity. It would have greater freedom (and impetus) to reduce labor costs and could contract some operations out to low-cost providers. If approval were granted for outside investment, the Postal Service would have the opportunity to raise private capital.

Enacting any of these reforms would be difficult given the power and political clout of the postal unions, and no member of Congress wants to be responsible for closing post offices in their district. But with a bailout-wary public increasingly sensitive to the growing national debt, it behooves the Postal Service to restructure on its own rather than wait for more government money that is simply not available. Congress should encourage them to do so.

Before requesting another financial rescue from the American taxpayers, the Postal Service needs to get serious about reform.

— *Matt Thoman is a research analyst at the American Action Forum.*

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