



Catalyst

It's Time the Post Office was Outsourced

The troubled agency would be better off contracting out to the growing private logistics market.

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The United States Postal Service has had a bad year. Amid the pandemic, the agency saw numerous cuts to services and staff reduction, leading to a nationwide outcry from people not getting their mail. It was announced in October that further cuts and price increases will continue under Postmaster General Louis DeJoy. *Vox* [reports](#) that the cuts mean that average delivery times for first-class mail could be as high as five days in some regions. Progressives argue that the cuts should be reversed, [calling](#) USPS a vital public utility. But there are in fact deep flaws in the business model that this crisis has exposed, all while private companies are doing similar things more efficiently. It suggests that USPS functions should be outsourced, or perhaps that the agency should be disbanded.

Over the last year, I have [written](#) extensively for *Catalyst* on the various trends and innovations occurring in the e-commerce and logistics industries. Companies such as Amazon, XPO Logistics, USPS, FedEx and more are experimenting with automated warehouses, digitized freight brokerage, and other innovations that move more goods faster. These e-commerce companies have at times relied on USPS to deliver goods; but increasingly it seems the opposite could happen, with USPS contracting with companies that have an obvious comparative advantage.

Logistics and e-commerce giant Amazon is expanding its own delivery capability. As of last September, the firm [used](#) USPS for 30% of deliveries (at highly subsidized rates), and has used FedEx before as well. But increasingly, it is making its own deliveries. In 2019, it [shipped](#) 26%

of its own orders, and this will increase as Amazon has introduced a subsidiary to rival UPS and FedEx that employs its own fleet of vehicles (readers have likely seen those navy blue Amazon vans in their cities). This means Amazon could potentially become an independent delivery service, possibly used by USPS.

UPS also has a formidable shipping operation to rival USPS. As *Seeking Alpha* wrote in 2014: “It is hard to imagine how a new entrant to the delivery business could compete with UPS on a global scale; the company has over 1,900 operating facilities and 96,000 vehicles at its disposal.” But Amazon may be catching up; *Business Insider* reports that the firm’s fleet and manpower is substantial enough to cut into its competitors, the Post Office included, on the order of \$100 billion combined.

The Post Office already contracts out some functions. The firm made a \$120 million deal with XPO Logistics (controversially, as the current postmaster general was previously in the company’s leadership) to oversee distribution in some cities, along with continuing existing contracts, the *Washington Post* reports. FedEx has long held contracts with USPS, mainly by utilizing FedEx’s planes to carry mail.

Given these trends, a future where USPS contracts out most of its functions is increasingly plausible. This would help reverse an undesirable model, which may be the thinking behind DeJoy’s actions.

USPS has become, with the rise of electronic communication, a money-losing and environmentally-hazardous boondoggle. It has been \$50 billion in the red since 2007, requiring subsidy for each package sent. It has a “junk mail” business model from which recipients must opt-out on an individual basis. 44% of this junk mail is disposed of in landfills, which increases paper usage and vehicle miles traveled. The mandate that all U.S. households must be served by the post office has encouraged sprawl, further harming the environment and making shipping less efficient.

Which gets to a philosophical and pragmatic question: with printed mail’s importance on the decline—dropping to 77.9 billion mail pieces delivered, from 93.1 billion during the Great Recession—should the federal government continue to subsidize delivery?

If the answer is “yes,” then that delivery should at least be outsourced. The reason USPS mail provision nowadays has become so profligate and “junk” is that it is driven by political incentives; there is a large bureaucracy of postal workers and buildings that amount to a voting bloc and a special interest. If each USPS transaction meant paying a private company like Amazon or XPO instead, the agency might be less enthusiastic about running junk mail along inefficient routes.

But to some people, the question of whether the federal government should continue subsidizing delivery is “no.” Chris Edwards of the Cato Institute believes that even without USPS, the market would provide universal service. And even if that were not the case, he writes, it doesn’t matter.

“A universal service obligation for paper mail is not needed in the modern economy. Electronic communications bind the country together without it. Household-to-household personal letters have plunged to just 3 percent of total mail volume today. Advertising represents 60 percent of the entire household mail volume. Bills and other business statements are the second-largest type of mail, but these are being replaced by electronic payments, which now account for 63 percent of all bill payments.”

-Chris Edwards, Cato Institute

Granted, the post office isn’t about to be abolished anytime soon—especially since it enjoys Constitutional protection. But a good government reform would be to outsource as many of its functions as possible, given the gains made in this industry by the private sector.