



# The Post Office Is Broke: It's Time To End Washington's Postal Monopoly

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The United States Postal Service has run up \$4 billion in losses so far this year, on top of last year's \$15.9 billion deficit. Congress is considering legislation to rearrange the deck chairs on the postal Titanic. The only solution is for Washington to get out of the mail business.

The Constitution authorizes Congress "To establish Post Offices." Created in 1792, the Post Office turned into an important patronage tool. The local postmaster was one of the president's most important appointments; at one time the system accounted for roughly three-fourths of all federal employees.

Of course, turning mail delivery over to politicians did not ensure quality and timely service. So Congress passed the Private Express EXPR +0.62% Statutes, which gave the government a monopoly over first class mail.

Washington imposed fines on early competitors, including the famed Lysander Spooner. Uncle Sam continues to rigorously police his monopoly. Uncle Sam once wrote threatening letters to Boy Scouts who offered to deliver Christmas greetings. It was a season of goodwill to all men—except competitors of USPS!

The Postal Service boasts that it would rank number 42 on the list of the Fortune 500—but that is only because the other 499 companies on the list, as well as everyone else, are barred from competing to deliver mail. The system reflects the typical government attitude: customers are to be captured by coercive laws, not attracted by innovative goods and services.

Having a philosophy that Americans exist to support the USPS did empower the system to meet changing demand. Government lawyers could sue competitors but not force people to send letters. The number of pieces of mail delivered peaked in 2001. It continues to fall, dropping from 213 billion in 2006 to 160 billion last year, despite a rising population. The number is expected to fall to 130 billion by 2020.

In 1971 Congress made the post office more like a private company. However, legislators preserved the monopoly, retained control over system operations, and preserved a variety of indirect subsidies. For instance, USPS is exempt from taxes, regulations, and even parking tickets.

The post office has lost money most years since becoming self-financing. Last year the Postal Service ran a \$15.9 billion deficit and maxed out its borrowing authority. Reported the Government Accountability Office: "Given its financial problems and outlook, USPS cannot support its current level of service and operations."

System advocates, most importantly the unions which represent a bloated work force made up of people once called the highest paid semi-skilled workers in America, complain that the post office is forced to prefund its employees' retirement. Although the practice is common in the commercial world, since most enterprises cannot count on government bail-outs, no other federal agency is forced to set money aside for future obligations. Which is why the latest estimate, released last month, of the national government's unfunded retirement liability is \$761.5 billion, an increase of \$139 billion over the previous year. The prefunding provision attempts to protect taxpayers from having to bail out USPS in the future.

Over the last half century postal rates have increased 50 percent faster than the rate of inflation. Accelerating future increases would encourage more consumers to more intensively utilize alternative services, such as online bill payment. Thus, the system's principal response to its financial crisis, after clinging to its legal monopoly status, is to propose cutting services. Two of the most important steps, which raise fierce opposition from unions and other interest groups, such as the Greeting Card Association, and hence legislators, are ending Saturday service and closing small, inefficient post offices. Another favorite, advocated by GCA, among others, but hated by residents, is "cluster box" delivery, which treats entire neighborhoods as an apartment building served by a single postal location.

Scores of other ideas for cost-cutting have been offered. Some steps could be taken unilaterally. Others would require congressional authority or collective re-bargaining. Reducing compensation and retirement benefits, cutting workforce, and improving labor practices are among the most obvious responses. Selling real estate also could raise substantial funds, but that would have to be combined with post office consolidation to achieve the greatest savings. Network rationalization is another idea. Improving mail processing and reducing data collection, leasing unused office space, eliminating or reducing contributions to the Thrift Savings Plan, and shifting the expense of mandated services for the blind and overseas voters also would save some money.

Far more dubious are proposals to get into new fields: internet access, check cashing, notarization, photocopying and faxing, ATMs, and more. An inefficient de facto government agency with far less foot traffic than leading retailers would be ill-equipped to compete in providing widely available private services. Rather than acting as revenue generators, such initiatives more likely would generate additional financial losses, putting even greater pressure on Congress for a bail-out.

Several truly bizarre ideas, included in a lengthy list offered by the GCA, are turning post offices into "centers of continuous democracy" and offering "community bulletin boards, licenses, permit applications, citizen polling/opinion gathering." The first and very last would seem to move USPS back to a more political, even patronage, role. Other government agencies handle licensing and permits. Community bulletin boards don't sound like a major revenue raiser.

Two postal reform measures are moving through Congress. Last month the House Oversight and Government Reform Committee approved legislation authored by Chairman Darrell Issa (R-Cal.). The Issa measure predictably received no Democratic votes since it retains the retirement prefunding requirement and emphasizes service reductions. In the Senate Thomas

Carper (D-Del.) and Tom Coburn (R-Okla.) are pushing a compromise which would similarly cut deliveries (Saturday and curbside) while restructuring retirement financing.

Neither of these measures offers a long-term solution. Easing the Postal Service's obligation to cover retirement obligations only sets up taxpayers for a future bail-out, which would come on top of the trillions needed to cover unfunded liabilities for Social Security, Medicare, and other federal retirement benefits. Cutting back services may reduce red ink today but would ensure future losses by encouraging consumers to look elsewhere for better alternatives. For customers locked in by the federal first class monopoly USPS would become an ever worse deal as rates continued to rise. This future can be glimpsed from the proposal of one postal consultant to reduce mail delivery to just three days a week.

Instead, Congress should open the postal marketplace to competition and innovation. The idea only seems radical in the U.S. In recent years Australia, Finland, Germany, Great Britain, Indonesia, Israel, the Netherlands, New Zealand, Russia, Spain, and Sweden all liberalized their postal regimes. Some have dropped the government monopoly, allowed competition, privatized government operations, or adopted more limited steps. Indeed, the European Union has forced its members to open their markets.

The Organization for Economic Co-operation and Development concluded that such reforms had yielded "quality of service improvements, increases in profitability, increases in employment and real reductions in prices." In yet another area the supposedly *laissez-faire* U.S. lags behind "socialist" Europe in market innovation.

Undoubtedly the Obama administration will support the option which preserves the largest role for government at the greatest cost. Yet even President Barack Obama knows better. He once acknowledged that "UPS and FedEx are doing just fine." In contrast, he observed, "it's the post office that's always having problems." Indeed.

Three years ago Postmaster General John Potter defiantly insisted: "We intend to be around for decades and centuries to come." But monopoly won't be enough to save USPS. The Postal Service is locked in a death spiral of more losses, poorer service, fewer customers, more losses. The system needs money, lots of it. However, Uncle Sam has none to give. The only answer is to turn mail delivery over to market competition.