



Orzag: Privatize the Post Office

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By: Peter Orzag

Those who believe in the usefulness of government must be vigilant about making sure all its activities are vital ones, since the unnecessary ones undermine public confidence. With this in mind, Congress should now privatize the U.S. Postal Service.

Further evidence for why this should happen came last week, when the Postal Service announced that it would be unable to meet billions of dollars in payments that are coming due in August and September for future retiree health benefits. Privatization is not always the best way to improve efficiency, but the problems facing the Postal Service will be difficult to address if it remains within the government, and there is no longer any sound reason for it not to go private.

The Postal Service faces three problems: First, Congress has not given it the permission it needs to cut costs and raise revenue -- and lawmakers seem unable to approve even modest reforms. Second, its market has been declining for years, as e-mail, electronic payment and other alternatives to traditional mail have grown. Third, the economic slump has caused a further drop-off in mail volumes.

The agency has been struggling to meet these challenges by becoming more productive -- and has been more successful than many people may realize. As the Cato Institute (hardly a bastion of support for government operations) has noted, a decade ago sorting 35,000 letters an hour required 70 employees. Today, it takes only two. Over the past six years, the number of career Postal Service workers has declined by more than 20 percent.

Deeper Predicament

Unfortunately, this new efficiency has been outmatched by a deepening of the Postal Service's predicament. Over the past five years alone, mail volume has fallen more than 20 percent, and revenue has declined 12 percent. The post office lost \$25 billion from fiscal year 2007 to fiscal year 2011.

It now has less than \$1 billion in cash, a dangerously small amount for a service with weekly operating expenses of almost \$1.5 billion. Of the roughly 32,000 local post offices across the country, fewer than 7,000 generate enough revenue to cover their costs.

Which brings us to privatization, a path already being followed for postal services in countries such as Germany, the Netherlands and Japan. Despite claims to the contrary, privatized entities do not, on average, become miraculously more productive than public agencies. Indeed, privatization can sometimes turn out to be a disaster -- as has been the case with the financially troubled U.S. Enrichment Corporation, which produces enriched uranium for nuclear power plants, since it was unwisely pushed out of government by the Clinton administration's Treasury Department during the 1990s.

In the case of the Postal Service, though, privatization has become the best path forward, mainly because it would take Congress out of the picture. As New York Times columnist Joe Nocera recently argued, “the problem is that neither the management nor the workers really control the Postal Service.

Even though the post office has been self-financed since the 1980s, it remains shackled by Congress, which simply can’t bring itself to allow the service to make its own decisions.” And Congress won’t do so, as long as the post office remains part of the government.

The Postal Service has many assets that could be managed more efficiently, if Congress got out of the way. In addition to its 32,000 post offices, it has 461 processing facilities, monopoly access to residential mailboxes and an overfunded pension plan. These assets would attract bidders. Consider, for example, that many processing facilities and post offices sit on valuable real estate, and it may be smarter to sell many of them than to keep them.

Arguments Against

Three counterarguments caution against privatization, but none of them is convincing. The first is that Congress could simply unshackle the agency. Legislation is currently pending in both the Senate and the House that would give Postal Service management additional flexibility.

In an increasingly polarized Congress, however, it is not clear if or when this legislation will be enacted. And even if it were passed soon, it would probably provide only temporary help.

The second argument against privatization is that only a public-sector post office can provide universal service. Yet in sectors from telecommunications to electricity, universal service does not require government ownership. Privatization could come with the obligation to provide universal service.

FedEx Corp. and United Parcel Service Inc. already deliver to almost all U.S. addresses. For the hard-to-reach, unprofitable routes, a subsidy could be provided. This would be more economical than the vast and opaque cross-subsidies now used to ensure universal service.

The final argument involves the postal unions, and this one is not so easy to dismiss. Labor compensation accounts for about 80 percent of Postal Service costs -- a much higher share than at FedEx or UPS. No one would argue that, in the midst of a weak labor market, a large share of the Postal Service workforce should immediately be shed.

But it is also true that the agency will one day need far fewer workers. Private ownership could facilitate more generous buyout packages and other measures to ease the transition to a leaner workforce.

The U.S. Postal Service has a long and storied history. Yet it is now struggling because the world has changed and because congressional sclerosis has prevented it from adapting to the new realities. The best way to modernize it now is to move it out of the government.

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