

THE PUBLIC POLICY

Free the Mails

By [Chris Edwards](#) & [Tad DeHaven](#) on 8.28.09 @ 6:07AM

Yet another giant company has plunging sales, soaring debt, and is weighed down by massive labor costs. Will taxpayers have to pay for another federal bailout? Alas, it's already in the cards because this company is the U.S. Postal Service, which has estimated losses of \$7 billion this year.

With email grabbing ever more market share from snail mail, USPS's finances are steadily deteriorating. What should federal policymakers do? They can't give USPS the General Motors treatment and nationalize it, because it's already government-owned. And they can't reform postal markets with a "public option" because that's what the USPS already is.

Instead, Congress and President Obama should deregulate postal markets and privatize the USPS. It's true that such pro-market reforms are not in vogue these days, but Obama claims that on economics, he doesn't want to "get bottled up in a lot of ideology...my interest is finding something that works." For postal reform, that means injecting competition by allowing "private options" in the marketplace.

We know that postal deregulation works because it's already in place abroad. Postal services have been opened to competition in Britain, Finland, New Zealand, and Sweden. In those countries, private operators are starting to challenge former monopoly mail providers, particularly on business mail delivery.

In Germany and the Netherlands, the main postal companies (Deutsche Post and TNT Post respectively) have been privatized, allowing them to expand into foreign markets and diversify their services. These two countries haven't yet leveled the playing field for competitor firms, but that reform should be coming soon.

That's because the 27 member nations of the European Union have agreed to end their mail monopolies by either 2011 or 2013. Some countries are dragging their feet, but it appears that the wheels are in motion for the Europeans to soon have a much more dynamic postal sector than the United States.

An analysis by the Consumer Postal Council found that U.S. postal markets are the third most regulated among 19 countries examined. The main regulatory shackle is the USPS's legal monopoly over first-class mail. That restriction makes no sense in today's economy. It simply deprives consumers of the innovations and cost savings that could be brought to the mail

business by entrepreneurs.

The good news is that the choke-hold that the USPS has long had over personal and business correspondence has ended. USPS's mail volume peaked in 2006 and will probably never recover. These days, people communicate via email, text messages, and other electronic tools. The share of bills that U.S. households pay online is already 38 percent and rising fast.

The bad news is that we've still got a 700,000-worker behemoth to deal with. We can let entrepreneurs into the market to bring new efficiencies to letter delivery, but we still need to downsize the USPS. In most industries, businesses facing declining markets can radically cut costs and innovate to survive. But the USPS can't do that effectively because it is beholden to members of Congress and their parochial concerns.

Plans to close down some of USPS's 37,000 retail locations across the country are usually met with resistance on Capitol Hill as members defend the facilities in their states. And recently, the USPS floated the idea of cutting mail delivery to five days, but members haven't embraced that cost-cutting idea either.

At the same time, USPS managers try to avoid tough financial decisions. Right now, for example, the USPS is asking Congress to suspend a legal requirement that it pre-fund its huge unfunded health care liability. However, that would just dig a deeper financial hole for the organization down the road.

And then there is USPS's difficulty in cutting its massive labor costs. The average USPS worker earns \$83,000 per year in compensation, as union deals have delivered regular wage and benefit increases over the years. The Government Accountability Office recently noted that "compensation and benefits constitute close to 80 percent of USPS's costs -- a percentage that has remained similar over the years despite major advances in technology and the automation of postal operations."

A privatized USPS would have the incentive and freedom to tackle such long-standing inefficiencies. At the same time, competitor firms would give households and businesses alternatives to the USPS's regular postal rate increases. It's time to end America's last great monopoly and free the mails.

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