

Time for the Mail Monopoly to Go

by *Scott Esposito*

In 1775 the Continental Congress named Benjamin Franklin head of the newly created federal post office with the hopes that it would help bind together the emergent confederation.¹ Although the confederation failed, the post office didn't, as Madison himself listed it as one of the organs of government necessary to "provid[ing] for the harmony and proper intercourse among the States."² Accordingly, the postal system became part of the federal government when the Constitution was ratified in 1788.

The first substantial challenges to the legitimacy of the federal Postal Service occurred in 1839 when anger over high postage costs and patronage within the post office led businessmen to establish private postal ventures.³ Postal inspectors attempted to frighten away private mail carriers by prosecuting Adams & Company, a New York-based mail delivery service. Attempts at prosecution failed when Adams was acquitted in 1843, with the court ruling that the federal government's postal monopoly did not extend to mail carried by the emergent technologies of the railroad and steamship.⁴ When prosecuting private mail carriers proved fruitless, the federal government, fearing challenges to the legality of the postal service such as those raised by Lysander Spooner's American Letter Mail

Scott Esposito (machiavelli112@usa.net) is a recent graduate of the University of California, Berkeley, earning degrees in economics and political science.

Company, sought other ways to stamp out private competition.⁵ Such efforts eventually proved successful; the federal government eliminated most private mail carriers by 1860 through a 50 percent reduction in the postage rate and extra-legal tactics (such as declaring all city streets "post roads").⁶

In 1872 the federal government solidified its hold on mail delivery by passing legislation that granted the Postal Service full monopoly rights over first-class (letters) and third-class ("junk") mail. Entities such as United Parcel Service (founded in 1907) exploited loopholes in the law from the early twentieth century onward, leaving the Postal Service in such financial disarray that the federal government was eventually forced to pass the Postal Reorganization Act of 1970.⁷ The Reorganization Act was a massive undertaking, accomplishing nothing less than the transformation of the Post Department Office, a directly government-funded agency, into a theoretically self-supporting government corporation, today's United States Postal Service (USPS).

Reform, But No Improvement

The effort to make the Postal Service competitive failed. Largely due to private competitors, the Postal Service from 1971 to 1997 lost \$5.7 billion.⁸ Partly because of inefficiency and partly because of competition, the USPS last posted a profit in 1995; it posted losses of over \$1 billion in 2000, and

expected losses of \$3 billion for 2001.⁹ Staggeringly, the USPS, created as a self-sufficient government corporation, has required billions of dollars in taxpayer subsidies since the 1980s.¹⁰

Of all the problems faced by the USPS, one of the most persistent is tardiness. In 1994, for instance, inspectors found 2.3 million pieces of mail in Maryland delayed for nine days and 5.9 million pieces in Chicago delayed for a month.¹¹ Another problem is inefficiency. Despite continual adoption of labor-saving technology, experts estimate that 80 percent of all mail costs are due to labor, with 28.4 percent of that taken up by "non-productive time."¹²

Perhaps more pressing than efficiency and finance troubles is the USPS's increasing obsolescence. Demand for letter delivery, the reason for which the USPS was originally created, is slowing. In 1999 the General Accounting Office reported that although the total volume of mail is expected to increase, the amount of first-class mail is estimated to decrease 0.8 percent annually between 1999 and 2008.¹³ Although a decrease of less than 1 percent sounds paltry at first, it becomes significant when one considers that the premium rates charged for first-class mail are the Postal Service's largest source of revenue, covering two-thirds of costs.¹⁴ The main reason for the decline in first-class mail is that bill payments, accounting for \$17 billion of the USPS's \$65 billion in revenue, are increasingly being transacted online. While the demand for first-class mail falls, package delivery, an area dominated by private-sector mail carriers, increases.¹⁵

In the face of declining profits and increasing obsolescence, the USPS has attempted to stay competitive by turning to new ventures. Throughout the 1990s it has sold phone cards, voice mail, T-shirts, mugs, earrings, and bill-processing services. These ventures have not gone well: overall they have netted the USPS a loss of about \$85 million.¹⁶

In addition to expanding into new industries, the USPS has attempted to increase profits by contracting work out to private mail carriers. The best-publicized of these is the USPS's alliance with Federal Express.

Under the terms of this agreement, FedEx will deliver the USPS's Priority and Express Mail, while the USPS will permit FedEx to put its boxes in 10,000 post offices around the country.¹⁷ Is this alliance with a private firm the first faltering step toward privatization of the USPS?

Steps Toward Privatization

Internationally, privatization of the postal service is hardly a new idea. New Zealand, the Netherlands, Germany, and Sweden have had quasi-privatized post offices for years, and the European Union has set January 1, 2003, as the deadline for all its member states to have privatized post offices.¹⁸ Domestically, the idea has been debated as well. Representatives Phil Crane and Dana Rohrabacher perennially support a proposal for full privatization of the USPS. Alternatively, a proposal by Representative John McHugh would inch the United States closer to full privatization by breaking the USPS up into competitive and monopolistic entities.¹⁹

Calls for privatization rest in part on the fact that the USPS does not compete with its rivals on equal terms. For one thing, the USPS has several legal advantages. Although competing services such as FedEx and UPS deliver documents, it is illegal to compete with the USPS in the delivery of first-class and third-class mail.²⁰ Furthermore, as a government agency the USPS is exempt from taxation and some federal safety regulations and has often borrowed from the U.S. Treasury at below-market interest rates, advantages Federal Express and UPS will never enjoy.²¹ Firms that compete with the Postal Service in package delivery, such as FedEx and UPS, are hindered by the fact that mailboxes by law are the private resource of the USPS. Advocates of privatization point out that such laws and advantages hardly have a place in a nation founded on the virtues of liberty and capitalism.

The problem of unfair competition between the USPS and private firms is compounded by the fact that the USPS has repeatedly attempted to expand its reach.

"In addition to normative and competitive reasons for privatization, there is significant evidence that exposing the USPS to true competition would provide consumers with better service at a lower cost."

Seeing its monopoly on first-class and third-class mail slowly undermined by the Internet, the USPS has made several attempts to break into this new technology. However, services the USPS has tried to provide, such as verification of when e-mail was sent and secure document-transfer protocols, are already provided by private industry.²²

In addition to normative and competitive reasons for privatization, there is significant evidence that exposing the USPS to true competition would provide consumers with better service at a lower cost. Parcel delivery, in which the Postal Service competes more or less on equal terms with private companies, is now dominated by private rivals.²³ The two largest private mail delivery firms, Alternate Postal Delivery and Publishers Express, are seeing their tiny \$20 million sliver of the mail delivery pie (significantly circumscribed by federal law) expand as the USPS continually increases its rates for magazine delivery.²⁴ Furthermore, the Netherlands, the first European Union nation to partially privatize its postal service, has seen its postal employees become the most efficient in all of Europe.²⁵

Privatizing the Post Office

If the United States is to privatize the Postal Service, the question of how must be answered. The Dutch example provides some lessons.

In the Dutch case privatizers attempted to transform the postal service into a joint-stock company by offering shares to private investors on the stock exchange.²⁶ In theory this scheme would have had the double advantage of swiftly privatizing the service

(as investors rapidly snatched up shares) and placing the Dutch post office on equal terms with all its competitors.

Although private entrepreneurs have finally acquired a majority of the shares of the Dutch postal service and have transformed it into an international delivery giant,²⁷ the privatization process has some notable flaws that American privatizers would be wise to avoid. Perhaps the most significant problem is that the Dutch post office still holds a monopoly on the delivery of letters "weighing 500 grams [roughly 18 ounces] or less and priced below certain limits."²⁸ A second problem is that ownership of the Dutch post office was only slowly transferred to the private sector; it wasn't until 1996, seven years after the privatization process started, that the government gave up majority control.²⁹

Explanations for these two flaws in the Dutch approach to privatization range from benign to corrupt. Some argue that the slow transition and continued monopoly are necessary because the private market might leave some areas of the Netherlands without postal service. Others believe that privatization was chosen by the Dutch government because it allowed the postal service to expand into other industries, thereby creating a cash flow that could prop up the insolvent Dutch post office.³⁰ The first argument is without merit; FedEx and UPS show that private firms will enter the market and provide postal delivery wherever someone is willing to pay for it.

The second argument is a warning that future privatizers of the USPS must be wary of. As noted above, the U.S. Postal Service has already tried to enter unrelated markets in an attempt to balance its books and

expand its powers. Further, Postmaster General William Henderson has publicly stated his desire to make all electronic bill payments go through a USPS monopoly and to have the USPS own an e-address that matches every physical address.³¹ Keeping the Dutch privatization example in mind, one can imagine how the USPS might use privatization to make these plans a reality.

Both domestically and internationally the facts indicate that there is much to gain from privatization and little to lose. It is surprising that the U.S. government has not yet made substantial moves toward relinquishing its monopoly over mail delivery. After all, the overseas examples, in addition to domestic examples in air travel, telecommunications, and trucking, testify to the virtues of privatization. Regardless of why the USPS has not yet been privatized, the verdict stands. It is time to put an end to the government mail monopoly. □

1. Victorville Post Office, "History of the Post Office," www.ceol.com/vvpo/history.html.
2. James Madison, Federalist 42, www.mcs.net/~knautz/fed/fedindex.htm
3. Kelly B. Olds, "The Challenge to the U.S. Postal Monopoly, 1839–1851," *Cato Journal*, Spring/Summer 1995, www.cato.org/pubs/journal/cj15n1-1.html.
4. Ibid.
5. Ibid.
6. Ibid.
7. United States Postal Service, "History of the United States Postal Service," www.usps.gov/history/his3.htm#REORG.

8. Michael A. Schuyler, "The Postal Service's Market Grab," in Edward L. Hudgins, ed., *Mail @ the Millennium* (Washington, D.C.: Cato Institute, 2001), p. 40.
9. Elizabeth Wasserman, "Pushing the Envelope," *The Industry Standard*, March 5, 2001, www.thestandard.com/article/0,1902,22373,00.html.
10. Edward L. Hudgins, "Postal Service Privatization," testimony before U.S. House Appropriations Subcommittee on Treasury, Postal Service and General Government," April 30, 1996, www.cato.org/testimony/ct-eh043096.html.
11. Ibid.
12. Ibid.
13. Edward L. Hudgins, "The Coming Revolution in Mail Delivery," in Hudgins, *Mail @ the Millennium*, p. 4.
14. Ibid.
15. Ibid., p. 3.
16. Wasserman.
17. Tom Jacobs, "FedEx and Postal Service in \$7 Billion Deal," *The Motley Fool*, January 11, 2001, www.fool.com/news/breakfast/2001/breakfast010111.htm.
18. Scott Esposito, "Will Federal Express Deliver USPS From Upheaval?" Independent Institute, January 12, 2001, www.independent.org/tii/news/010112Esposito.html.
19. Robert Taub, "Congressional Plans for Postal Modernization," in Hudgins, *Mail @ the Millennium*, pp. 190–96.
20. Schuyler, p. 25.
21. Robert Knautz, ed., "Privatizing the Post Office," *FreeMarket.net*, January 1999, www.free-market.net/features/spotlight/9901.html.
22. Schuyler, pp. 30–31.
23. Hudgins, "The Coming Revolution in Mail Delivery," p. 3.
24. Tim Bogardus, "Private Mailers Offer United Front against USPS," *Magazine for Magazine Management*, June 15, 1995), p. 18.
25. Nigel Ashford, Richard Minter, and Jeroen J.L. Oomen, "What Works: The Privatization of the Dutch Post Office," *Lexington Institute*, January 2000, www.lexingtoninstitute.org/whatworks/whtwrks14.htm.
26. Ibid.
27. Ibid.
28. James I. Campbell Jr., "The Global Postal Reform Movement," in Hudgins, *Mail @ the Millennium*, p. 173.
29. Ashford, Minter, and Oomen.
30. James P. Lucier, "Dangers in Cyberspace" in Hudgins, *Mail @ the Millennium*, pp. 48–50.
31. Ibid.

Register online for
the FEE National Convention!
www.feenationalconvention.org