

Privatizing and Eliminating the Monopoly of the United States Postal Service

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I. Introduction

Ranked by sales, the United States Postal Service (USPS) is the eighth-largest American corporation. Ranked by employees, the USPS is second only to Wal-Mart^{1[1]}. The over 900,000 men and women who work for USPS produce more than \$60 billion in revenue and deliver over 200 billion pieces of mail annually^{2[2]}. These dedicated employees work hard to ensure that mail is delivered on-time and cost-effectively. Unfortunately, not only are USPS's industrious employees currently being denied their share of the fruits of their labor, but USPS is hamstrung by a pseudo-governmental status that stifles innovation and excellence in both itself and the competition.

Through inertia and intransigence, USPS remains owned by the United States government, which also grants it a monopoly in key categories, including home mailbox delivery. Indeed, more than 78.7% of USPS's business is in these "protected" categories where competitors are not allowed to encroach or are severely restricted^{3[3]}. For next-day express mail, a sector in which USPS magnanimously tolerates competition, USPS's market share has plummeted from 45% in the mid 1970s to 6% today^{4[4]} because private providers like FedEx and UPS have been able to offer a superior value proposition to customers. Customers, states, postal employees, and businesses all suffer from the current structure and monopoly of the USPS.

There are two separate but related reforms that are necessary for the benefit of postal customers, postal employees, and businesses in the delivery sector:

- ☞ End all monopolistic protections and special treatment enjoyed by USPS
- ☞ Transfer the capital stock of USPS into private hands more capable of exercising meaningful diligence and improving operating efficiency, thus allowing the profits and stock appreciation to accrue to the benefit of the employees and other shareholders.

II. Pony Express, Inc.: A Brief History of Postal Services in America

In the ancient world, postal services kept empires together by delivering information and distributing orders across large distances. The famous roads of the Roman Republic and

Endnotes

1^[1] United States Postal Service 1999 annual report, "Financial Section."

2^[2] Ibid.

3^[3] Ibid.

4^[4] Frederick J. Smith, "A Competitors View" in Edward Hudgins, ed., *Mail @ the Millennium: Will the Postal Service Go Private?* (Wash.: Cato Inst., 2000).

(later) Empire formed the backbone of a postal service that facilitated the governance of far-flung territories for centuries. Likewise, Attila the Hun implemented a notoriously efficient postal infrastructure across his vast domain.

In the British colonies which were later to become the United States of America, the first formal postal service was created in Massachusetts in 1639. "Richard Fairbanks' Tavern" in Boston was established as the official repository of incoming and outgoing mail. A central postal organization arrived in the colonies a half-century later in 1691, when the British Crown granted Thomas Neale a 21-year franchise to deliver postal services in North America. Neale was unable to make a success of the business, and died heavily in debt after selling his exclusive contract to R. West and Andrew Hamilton.

In 1753, Benjamin Franklin was appointed Joint Deputy Postmaster General along with William Hunter. Franklin toured the vast postal routes extensively and made numerous improvements during his tenure. On his watch, the post riders began carrying mail at night, and in 1760 Franklin reported the first budget surplus to the British Postmaster General. Franklin was dismissed as Joint Deputy Postmaster General in 1774 because of his sympathy for the Patriots.

One of the important questions before the delegates at the first Continental Congress in May 1775 was how to deliver the mail. Benjamin Franklin chaired a committee that recommended that a Postmaster General be appointed for the 13 colonies; the Continental Congress ratified the recommendation and appointed Benjamin Franklin the first Postmaster General of what soon became the United States of America. Franklin served in that capacity until November 7, 1776, and the current USPS descends in an unbroken line from the system that Franklin initially implemented.

Postal services are briefly mentioned in our Constitution. According to Article I, Section 8, Clause 7, the Congress is granted the power "To establish Post Offices and Post Roads." When the Constitution was ratified in 1789, there were 75 post offices and 2,000 miles of post roads (roads on which mail was delivered).⁵^[5]

The original intent of the Founders did not mandate that the federal government actually perform mail deliveries. The early Postal Department relied largely on outside contractors for delivery. The Postal Department did play a meaningful role in interstate road maintenance prior to the establishment of the Federal Bureau of Transportation in 1874, which evolved into the Department of Transportation in 1966.

As the population of California skyrocketed after gold was discovered in 1848, the Post Office Department looked for new ways to deliver mail across the continent. The Department awarded a contract to the Pacific Mail Steamship Company to carry mail by ship from New York to Panama, by rail across Panama, and then by ship to California. The four-week delivery goal was seldom met. The poor quality of postal services to California inspired entrepreneur William Russell to form the famous "Pony Express". In 1860, Russell and two partners incorporated The Central Overland California and Pike's

⁵^[5] "History of the United States Postal Service 1775-1993, www.usps.gov/history/his2.htm

Peak Express Company to deliver mail between Missouri (the westernmost point reached by rail and telegraph) and California over land.

Russell advertised in newspapers: "Wanted: Young, skinny, wiry fellows not over 18. Must be expert riders and willing to risk death daily. Orphans preferred."⁶ The riders he recruited joined what became known as the legendary Pony Express and bravely rode across Missouri, and the Kansas, Nebraska, Utah, and New Mexico territories to reach California. In 1861, the Central Overland California and Pike's Peak Express Company received a contract from the Postal Department, and it continued to operate until the transcontinental telegraph line was completed a year later. The privately-owned Pony Express delivered President Abraham Lincoln's 1861 inaugural address in 7 days and 17 hours, a record time and well under the four-plus weeks that the sea-land-sea route required.

The postal service was increasingly subsidized throughout the 1950s and 1960s, and financial neglect and lack of controls caused Congress to cast their gaze at this burgeoning budgetary line-item. The Postal Department remained an executive department until it was taken off-budget during the most recent large-scale round of reforms in 1970. The decision was then made to create a separate United States Postal Service with an autonomous board that was mandated to break even every year and pay for its own capital costs and operations through its own revenues. While in some years USPS has run deficits and in other years surpluses, it remains off-budget as a separate entity owned by the federal government. Its directors ("governors") are appointed by the President of the United States.

III. What has Changed

Much has changed since the founding of the USPS as a government-owned entity and since its separation from the executive branch in 1970. For starters, first class mail no longer serves as the mission-critical communications backbone of our nation. Phone, fax, email, and instant messaging have relegated traditional first class "snail mail" to a supporting role. The volume of electronic greeting cards has already surpassed the volume of physical greeting cards exchanged through USPS, and the future will likely entail even more new forms of communication.

Postmaster General William J. Henderson commented, "We are facing a world of competition. This includes new inroads from traditional competitors, a slew of start-up delivery firms associated with the internet, liberalized foreign posts that have opened offices in the United States and purchased American subsidiaries, and the accelerating growth of electronic alternatives to the mail."⁷ As the market renders the areas subject to monopolistic protectionism a smaller percentage of the overall communications pie, USPS will continue to shrink unless it expands into new competitive areas.

⁶ "History of the United States Postal Service 1775-1993, www.usps.gov/history/his2.htm

⁷ Statement of William J. Henderson, Postmaster General, before the Congressional Subcommittee on Postal Service, September 19, 2000.

Volume significantly below projections in 2000 led to a budget shortfall and another budget deficit is expected for 2001. USPS will likely raise stamp prices again in a struggle to break even. This budget crisis has led to increased attempts of USPS to use its regulatory powers in ways that harm consumers, some of which are documented in this Issue Paper. As the main revenue sources of USPS shrink, USPS will be tempted to cast a wider net of regulation to protect broader market categories for itself -- to the detriment of consumers and its competitors.

Flailing about in death throes, USPS could cause an enormous amount of damage. As Rick Merritt of Postalwatch.org observed at a November 2000 forum on the book *Mail @ the Millennium*:

"If allowing a government agency to compete in private markets in order to prevent downsizing is such a great idea, why not allow the military to compete with private security firms and armored car firms to prevent post-cold war downsizing?"

Give the military the power to regulate everyone else's armored cars, and you have a potent allegory for the current state of postal services in the United States.

We currently have a communications landscape in which competition thrives and has proven its ability to provide services efficiently time and time again; nevertheless, consumers are denied a choice of vendors in certain arbitrary segments of the market. Ruth Goldway, a member of the Postal Rate Commission, wrote: "Why would a consumer advocate and liberal Democrat push to privatize the Postal Service with 900,000 government employees? Simple: Because it would be the best way to save the institution from oblivion and put government resources to their most efficient and socially responsible use."⁸ In the new environment, USPS as a government-owned monopoly poses great dangers to itself and others.

IV. A Government Monopoly by Any Other Name Would Smell as Sweet

USPS is locked in an awkward position between being a competitive private company and a government agency. The difficulties arising from this status detrimentally affect not only its competition, but also prevent USPS itself from achieving greater efficiency.

Imagine for a moment a company that can borrow massive amounts of capital at below-market rates, can build a facility wherever it wants -- even if the owner of the property refuses to sell and the town refuses to grant the permit -- does not have to conform its vehicles to applicable state laws, and has the power to require that competitors charge twice as much as it does. This is exactly the position of the United States Postal Service.

Unlike an ordinary business, USPS has preferential treatment before the law. The USPS:

⁸ Ruth Goldway, "*The Postal Service: One Hot Property*," *Washington Post*, January 19, 2000.

- 1) Has a below-market-rate revolving credit line with the Department of Treasury for \$15 billion, including the ability to borrow \$600 million on "same-day notice."
- 2) Is exempt from local zoning laws
- 3) Is exempt from most federal, state, and local taxes
- 4) Has the right of eminent domain (although it is only permitted to use it when there is no other "reasonable alternative")
- 5) Does not have to pay parking tickets or vehicle registration costs, both of which are substantial costs for private competitors
- 6) Is exempt from many employment-related laws
- 7) Is allowed to regulate its own competition. Regulations include requiring that competitors charge the greater of \$3.00 or twice the applicable U.S. Postage.
- 8) Cannot go bankrupt and can take advantage of sterling credit backed by the full faith of the U.S. government in contracting with suppliers
- 9) Enjoys exemption from U.S. anti-trust laws in areas where it has a monopoly "commanded by government as sovereign."
- 10) Is represented by the U.S. Attorney General in court, with all the special procedural and other advantages enjoyed by the U.S. Department of Justice.

USPS maintains all these competitive advantages derived from its unique pseudo-public status while it also attempts to operate like a "business" and enter new markets, strike business relationships with corporate partners, and compete with privately-owned companies. There is even a section on the USPS website that allows visitors to submit a new "business idea" because "the USPS is interested in visionary business ideas and proposals that will help us continue to deliver quality services in the 21st century." It might seem a wonder that the competition has gained a foothold at all given the advantages enjoyed by USPS. But there are tradeoffs, and USPS also faces restrictions that place it at a disadvantage relative to its private competition.

At the same time USPS tries to act like a business, it is locked into inefficient and bureaucratic decision-making processes. A prominent example of how the process severely limits the flexibility of USPS is the pricing procedure. When USPS wants to raise rates (or, theoretically, to lower them), the Board of Governors submits a detailed rate proposal, accompanied by extensive testimony and documentation, to the Postal Rate Commission.

The Commission then holds public hearings at which time mailers, competitors, and consumer advocate groups are authorized to question the USPS proposals and submit their own testimony and counter-proposals. After the hearings conclude, the Commission deliberates and sends a recommendation to the Governors who may then

modify, accept, or reject the Commission's recommendations.^{9^[9]} The entire process takes 16 to 18 months^{10^[10]} and the most intimate cost details of USPS operations are exposed in public testimony to its competition. "It is not good business to take up to two years to be able to change your prices in response to the marketplace," complained Deborah White, a USPS senior vice president^{11^[11]}.

In addition, USPS cannot alter these prices for anybody. "The lack of ability to negotiate a price for the customer is really at odds with any business model," Postmaster General William J. Henderson remarked to reporters after announcing his retirement effective May 31, 2001^{12^[12]}. Private competitors UPS and FedEx routinely negotiate volume-based discounts broadly reflective of their own savings from the reduced costs of doing business with their integrated and larger-scale clients. The inability of USPS to negotiate pricing prevents USPS from optimally leveraging its extensive infrastructure. Postmaster General Henderson believes that USPS is well positioned to offer delivery of groceries and prescriptions, for example, but that kind of service cannot occur in the current regulated environment^{13^[13]}.

Another normal area of business activity for most companies is making contracts and alliances. USPS prides itself on a recent deal with FedEx. In January 2001, USPS and FedEx announced an extensive alliance that involves USPS paying FedEx \$6.3 billion over seven years for access to the FedEx air transportation network of over 650 aircraft. The deal also includes a retail component that allows the placement of FedEx self-service collection boxes on USPS property. "The Postal Service delivers main street, and Fedex provides an air fleet," commented Postmaster General Henderson, "these agreements will leverage two great networks -- the extensive reliability of FedEx planes and the coast-to-coast retail presence of the Postal Service."

In March 2001, Emery Worldwide, a contractor which delivers much of USPS's express mail, filed suit that USPS's deal with FedEx violates a 1970 law prohibiting no-bid awards. The Justice Department has also begun an investigation. "The parties have kept the details of this no-bid contract secret, so it's impossible to fully evaluate whether it is in the public interest," commented Rep. Tony Hall (D-Ohio)^{14^[14]}. The USPS is caught between trying to act like a business, which of course have reasonable expectations of contractual secrecy, and being subject to the public scrutiny that is required for government agencies.

^{9^[9]} USPS,, "How Rates Are Set," www.usps.gov/history/his4.htm

^{10^[10]} USPS, 1999 Annual Report.

^{11^[11]} Marianne Lavelle, "Why the Postman Can't Delivery Profits," *US News & World Report*, Apr. 9, 2001.

^{12^[12]} "Postal Service Faces Built-in Inefficiencies" Postalvoice.com, January 30th 2001.

^{13^[13]} Ibid.

^{14^[14]} Ellen Nakashimia, "FedEx Deal Would Increase Costs, Lawsuit Says." *Washington Post*, Mar. 11, 2001

Regardless of the merits of the particular deal with FedEx, outsourcing is *not* privatization nor is it the answer to the dilemma posed by the impossible status of the current USPS. There is no need for the government to insert itself as an intermediary and contract out to private firms for parcel delivery when individuals and companies are perfectly capable of selecting their own contractors -- as evidenced by the successes of FedEx, UPS, and other carriers in sectors where the USPS allows competition.

Another problem with the current USPS is the nature of its capital structure and corporate governance. Ownership is diffused across all Americans and is non-transferable therefore making it impossible for institutional investors to force organizational change, impossible for a buyout or merger to occur, and impossible to sell additional shares to raise capital for expansion. Board members, though generally qualified, are political appointees and do not have a diligent shareholder base to whom they are accountable to drive efficiency and value creation. There are strong correlations between good corporate governance and long-term corporate performance, and USPS currently has worse corporate governance than even the most insular private company.

Thus it is important to privatize and eliminate the monopoly at the same time. Eliminating the monopoly without privatizing would end USPS's advantages without removing its disadvantages and USPS would likely be overrun by the competition. "The notion of a publicly owned company actually competing in the private sector would be harder to accept in the long run than privatizing the company," said Ruth Goldway, a Clinton-appointed member of the Postal Rates Commission¹⁵^[15]. Privatizing without eliminating the exclusive monopoly and special privileges of USPS would result in the only thing worse than a public monopoly: a private monopoly.

V. Anti-competitive Practices that Harm Consumers, Small Businesses, State and Local Governments

On March 25, 1999, USPS decided to put Karen Schaeffer out of business. It was on that day that USPS announced the intent to execute Postal Bulletin 21994, which was first issued for public comment in 1997. This regulation had two requirements affecting commercial mail receiving agencies (CMRAs, also called "mailbox companies" or "private mailboxes") such as "The Mailbox" owned and operated by Karen Schaeffer in Boulder, Colorado. Firstly, all mailbox companies that offered private mailboxes had to collect PS Form 1583 from every customer, which includes information that USPS itself does not collect for PO Box renters. The regulation also requires two forms of identification.

Secondly, USPS announced that commencing six months later, USPS would only deliver mail to mailbox companies addressed with the demarcation "P.M.B." USPS would return to sender any mail addressed with the traditional customer "suite" or "#" (after congressional pressure, USPS decided to allow "#" but not "suite" or "ste.").

Hundreds of thousands of small businesspeople across the country needed to redesign and reprint their brochures, business cards, and catalogs. Small businessmen and

¹⁵^[15] Cato Institute Book Forum for *Mail @ the Millenium*, Nov. 1, 2000, <http://www.cato.org/events/transcripts/001101et.pdf>

women who relied on the professional appearance of an "office suite" were forced to use cryptic "P.M.B." addresses to their detriment. Professionals in correspondence-heavy industries like headhunting and mail order were severely damaged as they lost mission critical mail. The ensuing confusion cost Karen Schaeffer her business. The costs to the private sector of this regulation could approach over one billion dollars¹⁶^[16].

One of the reasons that many people choose mailbox companies over USPS Post Office boxes is that post offices do not allow delivery of parcels from competing carriers like UPS and FedEx. Such deliveries are becoming increasingly necessary in the normal course of running a business. Thus to the extent that people are pressured into using USPS Post Office boxes, the pressure improves the position of USPS in the intensely competitive express mail market. In other words, the suppression of private mail boxes is an indirect form of suppressing private parcel delivery.

Another negative affect of the regulations was that women who relied on the anonymity of CRMA's to remain hidden from abusive stalkers suddenly found themselves without mail service:

"When Jane left her batterer, he became her stalker. She moved and obtained a post office box in order to keep her new address secret, but he found her and was waiting for her at her post office box. She moved to another State and got a new post office box, but again her batterer was waiting for her when she went to pick up her mail....Jane went to domestic violence advocates in her newest hometown, and she was advised to obtain a private mail box, or PMB. Jane did so and still continues to live peacefully in that same town. Unfortunately, since August 26, 1999 she has been unable to receive her mail because all delivery to her PMB was stopped when she refused to provide her home address on the Form 1583 now required of PMB users."¹⁷^[17]

One in twelve women will be stalked at some point in their lives, and 1.4 million Americans are stalked every year¹⁸^[18]. Many threatened women relied on mailbox companies and the confidentiality they offered. Form 1583 requires the name and home address of anyone receiving mail at that box, including children. The initial privacy rules for sharing this information are vague:

"The Postal Service may disclose this information to an appropriate government agency, domestic or foreign, for law enforcement purposes; where pertinent, in a legal proceeding to which the USPS is a party or has an interest; to a government agency in order to obtain information relevant to a USPS decision concerning employment, security clearances, contracts,

¹⁶^[16] Rick Merrit, "The US Postal Service War on Private Mailboxes and Privacy Rights," Postalwatch.org, July 30, 1999.

¹⁷^[17] Statement of Juley Fulcher, National Coalition Against Domestic Violence, Congressional Subcommittee on Regulatory Reform and Paperwork Reduction, Oct. 19, 1999.

¹⁸^[18] *ibid.*

licenses, grants, or other benefits; to a congressional office at your request; to an expert, consultant, or other person under contract to the USPS to fulfill an agency function; to the Federal Records Center for storage; to the Office of Management and Budget for review of private relief legislation; to an independent certified public accountant during an official audit of USPS finances; to a labor organization as required by the National Labor Relations Act; for the purpose of identifying an address as an address of an agent to whom mail is delivered on behalf of other persons; **and to anyone when the delivery address is being used for the purpose of doing or soliciting business with the public.** Completion of this form is voluntary; however, without the information, the mail will be withheld from delivery to the agent..."¹⁹ (emphasis added)

Considering that the lives of women and children are at stake, it is no wonder that a form requesting home addresses without strong privacy safeguards scares away many women who would potentially benefit from mailbox company services. After a congressional firestorm, PS Form 1583 was reissued in August of 2000 with additional protective language:

"...information concerning an individual who has filed an appropriate protected court order with the postmaster will not be disclosed in any of the above circumstances except pursuant to the order of a court of competent jurisdiction...."

While the latest rule is progress, it protects only women who have the time and resources to obtain court orders against their stalkers. If a woman must flee the state before she has time to go to court, she may never have the court order which USPS demands in order to protect privacy.

Homeless people have often availed themselves of mailbox companies so that they could receive their mail in one location. Many of these users were unable to comply with the new regulation requiring two forms of identification and are now unable to receive their mail. Thus, USPS has made it more difficult for the homeless to apply for jobs.

Mailbox companies provide competition and thus help keep prices low USPS box rentals, thus making it easier for people without permanent physical addresses to maintain correspondence.

Transient people frequently have difficulty maintaining a reliable physical address, and mailbox companies offer a variety of forwarding services more comprehensive than those offered by USPS. The USPS regulatory attack on private competitors hit yet another set of unintended victims.

The regulations regarding private mailbox addressing conventions and information requirements are examples of transparent attempts by USPS to put their competition at a severe competitive disadvantage. The 1997 USPS Strategic Plan cites private mailbox

¹⁹ PS Form 1583, Mar. 1999.

companies as "significant" competitors. By 1997, USPS's annual growth rate for box rentals fell to 1.3%, down from 8.7% two years earlier, due to increased box rental competition from mailbox companies. It was during this same year in August that USPS first published the proposed regulations that would disadvantage thousands of mailbox companies and thus lead to a resurgence in USPS box rental growth. During the comment period, USPS received more than eight thousand comments against the proposed regulations and only ten in favor.

Although the strategic plan showed that USPS intended to harm private mailbox companies because they are competitors, Anthony Crawford (USPS Inspector in Charge, Mid-Atlantic Division) told Congress just the opposite. At hearings before the Congressional Subcommittee on Regulatory Reform and Paperwork Reduction, on October 19, 1999, Rep. Kelly asked, "Does the Postal Service compete with the CMRA industry?" Crawford answered, "No, not to my knowledge. CMRA's are actually quite a benefit to us."

This USPS claim is further discredited by a USPS brochure and P.O. box application titled "Apply for Post Office Box Service, the Safe and Convenient Way to Get Your Mail." Given that box rentals are the mainstay of the CMRA industry, the evidence is clear that USPS viewed mailbox companies as competition.

During this process, USPS hid behind a cloak of "fraud prevention" to legitimize its anti-competitive actions. USPS admits it has no evidence of any significant or disproportionate level of criminality emanating from CMRAs. According to testimony presented before the Congressional Subcommittee on Regulatory Reform and Paperwork Reduction, USPS has never done any studies demonstrating CMRAs are in any way linked to crime! The entire justification for the CRMA regulations was based on mere anecdotal evidence. Yet USPS did not hesitate to foist these regulations, which cost the private sector an estimated one billion dollars²⁰^[22], on the competition.

In fact, USPS's crime-reducing justifications for the new regulations are extremely hypocritical; special treatment of USPS's own packages through the federal customs process is a much more serious example of favoritism that abets criminals and smugglers worldwide. A study by Dr. David Whitlark of Brigham Young University found that the Customs Department does not apply the same rigor in appraising, classifying, and collecting duties on imported merchandise transported by USPS as it does on imported merchandise transported by other carriers.²¹^[23] In Whitlark's experiment, almost 90% of the packages transported by private carriers were checked and assessed, but only 6.3% of USPS packages were checked and assessed. In 1997 Congressional testimony, a former narcotics smuggler and money launderer testified that criminals "sign the checks and deliver them to the money brokers in Columbia via the U.S. Postal

²⁰^[22] Rick Merritt, *The U.S. Postal Service War on Private Mailboxes and Privacy Rights* Cato Inst. Briefing Paper no. 48, July 30, 1999, <http://www.cato.org//pubs/briefs/bp-048es.html>

²¹^[23] David Whitlark, "The US Customs Service Fails to Collect Duties and Fees on Merchandise Imported Via the US Postal Service: A Study of the Absence of Postal Service Parity with the Express Carrier Industry," Marriott School of Management, Brigham Young University, Provo, Utah.

Service. Columbian money brokers believe that other delivery services, namely DHL and FedEx, are searched by government agents, but feel safe with the U.S. mail."²²^[24]

The USPS promulgated regulations terribly harmful to the competition in a supposed attempt to close an undocumented crime loophole while retaining a better-documented crime loophole that gives USPS a competitive advantage!!

Attacking mailbox companies through onerous regulations while catching small businesses, battered women, and homeless people in the crossfire was not enough for USPS. USPS also launched a direct propaganda attack against mailbox companies by sponsoring "The Inspectors" made-for-TV movies on Showtime.

"The Inspectors" not only glorifies postal inspectors, but in the second movie, about a credit card scam and identity theft, private mailbox companies are specifically maligned and displayed in seedy contexts. The movie explores the case of a thief who steals credit card numbers and racks up large charges over time.

One scene takes us to a private mailbox company listed as the fraudulent billing address on a credit card scam; the operation appears just as the screenplay instructs, "low-budget, the distinct whiff of criminality in the air." In response to Agents Hughes (Louis Gossett, Jr.) and Urbina's (Jonathan Silverman) requests for information, the gruff, sleazy owner refuses to cooperate and responds "I don't say nothin' till I talk to my lawyer. I know my rights." When the inspectors threaten to halt all mail deliveries unless he cooperates, he finally dishes up an unrecognizable poor-quality photocopy of the suspect because "copier's on the fritz."

On the way out of the disreputable private mailbox establishment, Hughes and Urbina watch a seedy-looking character slink into the store and Urbina comments "Makes you wonder what we'd find if we emptied out all those boxes," to which Hughes responds, "One mailbox at a time Urbina, one mailbox at a time."

"The Inspectors II" attacks the credibility of private mailbox companies and also intimates that USPS inspectors will get into your box eventually if you use one.

Using an action theme and special effects, "The Inspectors II" tars mailbox companies in the eyes of the viewing public with undocumented allegations of fraud and scams. A disturbing example of the worst form of government influence over media, USPS's role in The Inspectors involved lending over a dozen technical advisors to the production, creating 5,000 commemorative envelopes, opening case files to the writers, displaying movie posters in over 40,000 post offices, displaying television clips of the movie in post office television sets, and placing life size cut-outs of Agent Frank Hughes (Gosset) in post offices around the country. Callers to post offices who were placed on hold were even treated to the voice of Gosset imploring them to watch the movie.

Last year, there was a public outcry amid allegations that the White House Drug Czar, Barry McCaffrey, was offering financial incentives to inject anti-drug messages into popular television series. The Postal Service involvement with "The Inspectors" I and II

²²^[24] "The United States Postal Service" A Citizens Against Government Waste Special Report, www.cagw.org

should be of even greater concern, because while at least the Drug Czar propaganda consisted of something that most of us sympathize with, in this case the message being delivered undermines competition and stigmatizes innocent mailbox companies and their proprietors.

Despite the protestations of USPS to the contrary, it appears that USPS promulgated the mailbox rules and participated in a propaganda assault in order to give itself an unfair advantage over the increasing competition. In the crossfire, American small businesses were hit and a valuable service to victims of stalking and the homeless was jeopardized. Innocent owners of private mailbox companies were wrongly maligned.

James Morrison, Senior Policy Advisor for the National Association for the Self-Employed, testified that he had never in his decade with the Association seen an issue that stirred more spontaneous member concern. Because the USPS can regulate its own competition, "this regulatory authority is something that is almost too tempting to use in a competitive field where you have the ability to use that authority over competitors²³."

How many damaging anti-competitive barrages pass under the scrutiny of Congress and harm the general public? No other company has these broad-ranging powers to regulate their own competition. Although Congressional scrutiny exists to mitigate the damage, there is no reason why USPS should enjoy these vast powers at the expense of small businesses and the general public.

VI. What Other Countries are Doing

The United States is not the first country to re-examine the role of the government in providing postal services. Across the world, nations have taken actions to ensure the ongoing viability of their national postal systems through various forms of privatization and de-monopolization.

The government controls more than 60% of the Gross Domestic Product (GDP) in Sweden. The government owns critical industries and provides the strongest social safety net in the world. Yet even the socialist haven of Sweden has taken steps to privatize and de-monopolize their postal service. The first nation to abolish its official postal monopoly was, ironically, Sweden. In 1992, in reaction to Citymail, a newly formed competitor, Sweden Post supported deregulation, thus freeing itself to compete. Sweden Post, now a corporation whose stock is held by the government, became subject to the same taxes and regulations as the competition. Unfortunately, the legal framework did not include viable antitrust provisions and through exclusivity clauses, tie-in arrangements, and predatory pricing, Sweden Post soon drove Citymail out of business and re-asserted itself as a *de facto* monopoly.

New Zealand converted its national postal service into a corporation in 1986. New Zealand Post, which continued to be owned by the government, gradually had its monopoly phased out and by 1998 it was competing on a level playing field. Australia

²³^[25] Rick Merritt, Postalwatch.org, forum.

Post followed a similar model, and on-time delivery improved from 89% when the reforms began in 1989 to 94% in 1998²⁴.

Holland has the only completely privatized postal system in which the government has no equity stake in any of the companies. In 1989, the Netherlands transferred the national postal company into PPT, a private stock company and sold 45% of the stock to the public, raising funds that were kept within the company to expand and modernize operations²⁵. The Dutch government sold 30% of its remaining stake in 1994 and eliminated the statutory monopoly. After the Dutch government sold its last 25% stake in 1996, PPT used its newfound freedom and made several critical acquisitions, including the TNT Group (an international mail firm) and Tecnologica (an Italian logistics and mail company). PPT (now called TNT Post Group) is positioned to become a continental leader in postal services. TNT Post employs 129,675 employees at year end 2000, 47,000 more than they did when they were first privatized in 1989.

In Germany, Deutsche Post was converted into a company in 1994. In November of 2000, the government sold some shares in a very successful \$5.6 billion initial public offering (IPO). The demand for shares was eight times greater than the 278,000,000 shares sold by the government²⁶. The market capitalization of Deutsche Post is over \$70 billion on Y2000 sales of almost \$40 billion.

The experience of other countries is useful in guiding our own efforts. We can learn from mistakes made elsewhere and improve upon the paths that other nations have taken to end their postal monopolies and foster competition. We must take heed, however, that should we not reform our own socialist vestige, we will render our own postal service increasingly feeble and vastly inferior to those of the rest of the world.

VII. Arguments against Privatization

Opponents of privatization and ending the postal monopoly frequently use different definitions of key terms. One of the most frequently cited reasons for retaining government ownership of USPS is its universal service mandate. Private providers, some fear, would soon eliminate unprofitable routes and close down the over 26,000 money-losing post offices. Postmaster General William J. Henderson offers the following interpretation of the statutes requiring "universal service"²⁷:

☞ Providing daily, regularly scheduled collection and delivery to secure and protected mailboxes

²⁴ James I. Campbell, Jr, "*The Global Postal Reform Movement*," in *Mail @ the Millennium*.

²⁵ Nigel Ashford, Richard Minter, and Jeroen Oomen, "The Privatization of the Dutch Postal Service" in *What Works* (Lexington Inst., 2000).

²⁶ "Deutsche Post Goes Public With \$5.6B IPO" *Transport Topics*, Nov. 29, 2000.

²⁷ William J. Henderson, "A View from the Postal Service," in *Mail @ the Millennium*.

- ☞ Receiving, transmitting, and delivering written and printed materials and parcels throughout the United States and to and from the rest of the world
- ☞ Closing no post office solely for operating at a deficit
- ☞ Maintaining postal facilities that provide ready access
- ☞ Showing no unreasonable discrimination or preference to users of mail
- ☞ Carrying a stamped letter anywhere in the United States for a uniform rate.

These USPS mandates are frequently cited to argue that privatization is inconsistent with the public service mission of offering "true universal service." There is nothing above, however, that is inconsistent with private companies competing to achieve success within a regulatory framework incorporating policy goals culled from the principles of "universal service."

The government could require that the privatized USPS as well as any other company seeking to provide first class mail services abide by some of the universal service criteria we feel are beneficial to us as a nation. While allowing a preference in the form of volume-based pricing discounts for large postal customers is probably something we want to allow in the marketplace (subject to relevant antitrust provisions), the requirement that letters be delivered anywhere in the United States at a uniform rate might make sense to retain.

Much of the rhetoric from the unions regarding privatization is misplaced. In a section from the Denver Metro Area Local of the American Postal Worker's Union (APWU) also found syndicated across numerous APWU locals websites entitled "How is the APWU fighting privatization?" a different meaning of privatization is used: "Privatization is the Postal Service's attempt to contract our postal work- your work- to private companies that hire low-wage nonunion workers...."28^[30] Thus the APWU is leading the charge against what might more properly be called "outsourcing," a legitimate matter for union negotiators to address with their employers, public or private.

Like any company, USPS must sort this issue out with their employee unions, a matter that would be all the more easy to accomplish if the employees themselves were major shareholders with a financial stake in increasing efficiency. The experience in the Netherlands demonstrates that renewed investment in a postal company through privatization can help generate more jobs than a public monopoly can.

The monopolistic status and the capital structure of USPS are separate issues altogether from the negotiated union-contract treatment of outsourced labor, but aligning the incentives of management and employees would help resolve such matters more amicably in the future.

Some consumer-oriented opponents of privatization argue that creating a need to make money (profit incentive) would result in rate increases. USPS is currently designed to run at break-even (although it sometimes falls short), the argument goes, and therefore in a privatized scenario the investors would want a return on capital and they would need to raise prices. This reasoning is faulty and dangerous.

28^[30] <http://www.denverapwu.com/faqs.htm>

What this argument fails to take into account is that the current system is even worse. The postal service has a monopolistic price/demand curve which means that they can set pricing based on the tolerance of the marketplace rather than in reaction to competitors. Since they have no incentive to be profitable and are not rewarded for increased efficiency, USPS is likely likely to find ways to spend everything it takes in. Costs expand to meet revenues.

Most of the arguments against privatization and de-monopolization raise points that can be addressed within the process of privatization and de-monopolization. There are many valid concerns about how the competitive landscape will look after the end of the monopoly, and failure to pay attention to the details could result in a disaster. As we move towards privatization and de-monopolization, it is important to resolve the valid objections by ensuring that the playing field at the end of the day is one that is fair to consumers, USPS, existing postal companies, and new entrants.

VIII. Logistics of Privatization

Privatizing this behemoth federal monopoly is more complex than the simple decision to do so. The United States would likely retain a regulatory role in setting the rules for private mail couriers to compete. Fortunately, the government would no longer have a conflict of interest in doing so.

One normative judgment is likely to be reached is the requirement that companies engaging in the delivery of first class mail offer a universal rate, thus subsidizing delivery to rural and remote areas. While in a free market, distance-based pricing might become the most efficient market equilibrium, the universal service requirement is not as onerous as it may seem. FedEx, although perhaps only in answer to the USPS's express rate structure, currently offers both flat-rate and distance-based pricing models.

Who deserves the bounty from a "sale" of USPS? For both pragmatic and moral reasons, surely the employees and retired-employee pensions deserve a significant stake in a privatized USPS as they helped build the value of the corporation to where it is today and should also share in value creation while moving forward. Taxpayers, as the current shareholders, also deserve part of the windfall from the sale of USPS. It might also be desirable to retain some of the proceeds from an IPO within USPS for capital expenditures, development, and to ensure stability during its transition to a more competitive marketplace.

The value of the USPS, based on a rudimentary analysis of publicly-traded comparables, is easily in excess of \$94,000,000,000 (see Appendix A for analysis). That means that every American holds about \$334 of stock in the USPS!

To build political consensus and answer many of the arguments against privatization, additional aspects of a regulatory framework can also be established. For instance, if there is an outcry over the prospective closing of post offices around the country, then the government could subsidize competitive contracts for the establishment of postal facilities in under-served areas. Private mailbox firms such as Mailboxes Etc., along with locally-owned general stores and businesses could compete to run "post offices" that

would be required as a condition of their federal grants to accept mail from all private couriers on an equal basis.

Alternatively, the government could continue to operate some post offices as federal offices to provide citizens with services like passports and tax forms as well as to offer convenient provider-neutral postal services.

Would privatization lead to cheaper rates? While evidence suggests that rate pressures in a competitive environment drive efficiency resulting in cost-savings to the consumer, that is hardly a necessary case to make for privatization. It is indeed possible, through the Byzantine structure and special treatment and tax exemptions received by the USPS, that the taxpayers are actually subsidizing the US Mail today. Is mail something that we should be subsidizing? Why subsidize postal mail but not e-mail, voice mail, faxes, or instant messaging? There is little economic sense in centrally re-allocating valuable resources for the subsidization of mail.

While it is likely that postal rates will fall after privatization and that delivery times will improve, if rates rise and delivery times deteriorate it will prove that we have been deluding ourselves all along into thinking USPS was charging correctly based on actual costs. No group of central planners, even a highly qualified blue-ribbon Postal Rates commission, can allocate resources better than the market as a whole. It is very difficult to argue that we should subsidize the postal industry to provide services any better or more cheaply than the market equilibrium would provide given the optimal allocation of resources by the market itself.

It is also important that we move quickly to privatize and de-monopolize USPS. Eighty-five percent of USPS executives, 75% of USPS managers, and 50% of the entire USPS workforce will be eligible for retirement within the next decade²⁹^[32]. Replacing these talented individuals and their institutional experience in a competitive labor market will be difficult for a public sector employer unable to offer stock options or true market salaries. The postal service of ten years from now will mostly consist of people who have not been hired yet. Taxpayers have invested a lot in USPS in the form of direct subsidies and tax exemptions as well as toleration of monopoly pricing; waiting to act would decrease the market value of USPS and result in less return to the taxpayers and employees when it is ultimately sold or liquidated; privatization should be done now, while USPS still has valuable assets.

Successfully engineering a privatization and de-monopolization of postal services in America is fraught with challenges. We need to think all the issues through carefully, lest we wind up creating a landscape in which no one can compete and mail services suffer. But the risk is greater in not taking any action at all. Postmaster General Henderson

²⁹^[32] David Rawnsley, "Postal Reform: The Aging Mailman," Postmag.org.

Appendix A: Calculation of postal industry average capitalization to sales ratio. Application of this average of the value of USPS

observed, "I do not think our limited legislated public interest monopoly is that big a deal. We have it, but it is becoming increasingly irrelevant. Someday, whether by legislative action or market changes, it will probably fade away." We as a society have invested heavily in our postal service, and it would be a great shame to write off the hard work of the men and women who built and run USPS. Unless we unshackle USPS and allow it to leverage its infrastructure effectively as a normal privately owned company, then USPS will sadly fade away as it becomes increasingly irrelevant in the marketplace, destroying an infrastructure and logistical system that could otherwise be leveraged to provide great benefits and causing even more harm in its desperate regulation-casting death throes.

IX. Next Steps

| | Annual Sales | Market Cap | Capitalization/Sales ratio |
|------------------------------------|----------------------------|--------------------------------------|-----------------------------------|
| UPS | \$29.8 billion (for 2000) | \$64.6 billion as of 4/29/01 | 2.17 |
| FedEx | \$16.8 billion (for 1999) | \$12.6 billion as of 4/29/01 | .75 |
| Atlas Air Worldwide Holdings, Inc. | \$790.5 million (for 2000) | \$1.0 billion as of 4/22/01 | 1.27 |
| TNT Post Group (formerly PTT) | \$8.74 billion (for 2000) | \$11.4 Billion as of 4/22/01 | 1.30 |
| DeutschePost | \$39.2 billion (for 2000) | \$78.8 billion | 2.01 |
| Average for above companies | | | 1.5 |
| USPS | \$62.7 billion (for 1999) | Estimated valuation: \$94.05 billion | 1.5 |

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