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CHALLENGES AND OPPORTUNITIES FOR THE PRESIDENT'S POSTAL COMMISSION

Executive Summary

As a result of the U.S. Postal Service's financial problems, the President recently appointed a commission to examine the organization and offer suggestions for change. The commission will be best positioned to make useful recommendations if it recognizes that the U.S. Postal Service is in financial difficulty now — as it has been during most of its existence — because its costs are high. Proposals that concentrate on better cost management would be very helpful. Some recommendations might be directed at the Postal Service's current business practices, but the commission should also look carefully at the many political constraints that sharply raise the government agency's expenses. Although the Postal Service often cites its weak bottom line as justification for both expansion and less regulatory oversight of postal prices, the commission should be skeptical of such arguments. Trying to solve a government agency's money problems by letting it become bigger and more powerful instead of better controlling its expenses is contrary to the public interest.

The Bush Administration has performed a valuable service in appointing a Presidential commission to examine the U.S. Postal Service. The commission's purpose is to formulate recommendations that will "ensure the efficient operation" of the organization "while minimizing the financial exposure of the American taxpayers."¹

As is typical of government enterprises, the Postal Service has lost money during most of its existence. Its financial and operational problems were much worse, however, before the suggestions of an earlier commission. The 1968 Kappel Commission provided a framework and helped build a consensus for reorganizing the old Post Office Department as the Postal Service. The Administration's hope is that a commission will once again offer useful ideas leading to significant

improvements. In the first meeting, commission members sensibly began by asking the Postmaster General and the Postal Service's Chief Financial Officer where they thought recommendations from the commission would be most helpful.

For the new commission to play a constructive role, however, it will need to focus on where the Postal Service is weakest — its costs. A telling example is that the Postal Service says its costs are 24¢ when it sells one dollar of stamps at a post office counter, but that its expenses drop to 10¢ when the stamps are sold at a contract postal unit and only 1.6¢ when the stamps are sold at a supermarket.² Why is providing service at a post office counter so expensive? Here and elsewhere, the commission should look for ways to lower costs and bolster productivity.

Government enterprises characteristically have trouble managing their costs. The underlying problem is that government ownership and operation create incentives which often subordinate cost issues to political and bureaucratic goals. A commission may not be able to cure the underlying problem, but it can still be very useful by highlighting the tradeoffs and pointing out the potential savings if various practices adopted for political or bureaucratic reasons were reformed. For instance, the Postal Service regularly complains that Congressional actions in areas like service standards, the location of facilities, and the setting of employee's wages, benefits, and work rules have put it in a straight-jacket and driven up its costs. A Presidential commission is well suited to evaluate such claims and offer guidance to both the Congress and the Postal Service. In cases where costs are very high relative to political and other benefits, the commission may perhaps be better able than the Postal Service itself to persuade Congress to modify the ground rules.

To do its job properly, the commission should also investigate costs that the Postal Service would prefer not to discuss. For example, although the Postal Service loses money on some products outside its monopoly-sheltered market and has thin margins on some others, bureaucratic rewards for size and growth make it reluctant to trim its product line. It is likely that the Postal Service would be financially stronger and able to deliver better service within its core market if it offered fewer products that distract it from its core mission and duplicate services already provided by private-sector businesses. The commission should examine this issue.

The commission also has an opportunity to reinforce an initiative the Bush Administration announced in November. The Administration seeks to open to public-private competition many jobs now performed within the government because it reasons that outsourcing more federal work will "lower costs for taxpayers and improve program performance to citizens."³ The commission should consider the merits of doing the same thing at the labor-intensive Postal Service, where about three-fourths of costs are labor related. Greater

contracting out at the Postal Service makes sense for several reasons. According to many researchers, postal wages and benefits, on average, significantly exceed wages and benefits for comparable work in the private sector.⁴ Restrictive work rules diminish the productivity of postal employees in many cases.⁵ Moreover, with nearly 900,000 career and non-career employees, the Postal Service is a larger employer than all but one private-sector company.

As it carries out its work, the commission can expect frequent communications from the Postal Service that while controlling costs is very important, it is only a stopgap, that what the government agency really needs is authority to change rates and expand into additional markets with less regulatory oversight and fewer other restrictions.

In response to persistent Postal Service calls for greater rate-setting authority, H. Edward Quick, then a commissioner on the Postal Rate Commission (the independent federal agency that regulates postal rates), explained why that would be bad public policy:

As long as the USPS has a monopoly — and many patrons have no alternative to using its services — "*freeing the rate-setting process*" can only mean that captive customers are at risk of having their rates increased in order to reduce the rates of customers who have the opportunity to use other means of communication. The continued existence of the Private Express and mail box access statutes ... dictates an independent forum, mechanism, or process to allow review and modification of all postal price changes.⁶

With regard to expansion, the Postal Service insists it would reap valuable synergies by branching out into additional areas. But a more realistic assessment is that more product lines would mean bigger losses, due to the agency's high costs and slow responsiveness compared to private-sector businesses. Further, while the Postal Service often refers to itself as a tradition that dates from colonial times, another American tradition is that the

government leaves ownership and operation of most business activities to the private sector. Having a smaller government sector than most other countries has contributed to America's high levels of productivity and personal freedom.

Former Postmaster General Benjamin F. Bailar sensibly commented in 1977, "I don't see any reason why the government ought to be in a business which private industry is willing and able to take care of."⁷ Unfortunately, his judgement that a bigger Postal Service is not better for the nation is rarely in evidence at the government enterprise.

One of the commission's assignments is to examine how universal service should be defined in the future. In doing this, the commission might evaluate the pros and cons of proposals that have often been floated previously, such as not requiring six-day-a-week mail delivery. If it is willing to think (just slightly) outside the box, it might consider ideas like defining universal service as a basic level of delivery service that is relatively uniform at all addresses but breaking from the one-size-fits-all mold by permitting the Postal Service to offer enhanced delivery services to customers willing to pay more. For example, cable TV companies usually offer basic service for one price and provide premium services at higher prices. Local telephone companies normally offer a basic "lifeline" service at a reduced price. Similarly, many banks offer an economy-priced basic checking account and charge more for checking accounts with enhanced options. Why doesn't the Postal Service do the same?

If the commission is bolder, it might ask more fundamental questions about universal service. The requirement that the Postal Service furnish a relatively similar level of service at uniform prices to all delivery addresses creates cross-subsidies among postal customers because deliveries to some addresses are more expensive than others. Are these cross-subsidies good public policy? Should the uniform price structure be changed to reflect costs? If a flat universal fee is retained, should it be subsidized via the postal monopoly and other off-

budget gimmicks such as tax-exempt status and a low-cost credit line into the U.S. Treasury, or would government be more transparent and resources better allocated if Congress provided the subsidy for universal service through explicit Congressional appropriations?

For political reasons, privatization is unlikely. Nevertheless, the Presidential commission should at least take a look at privatization because of the potential efficiency gains which would benefit both consumers and taxpayers. Under privatization, universal service can be maintained at whatever level Congress thinks desirable through methods like stipulations in business licenses or Congressional appropriations. The commission should be aware, however, that privatization can only work properly if a variety of special government privileges for the Postal Service are ended. Among these advantages are the postal monopoly, numerous tax exemptions, and a de facto government guarantee against bankruptcy. In many countries incomplete privatization, in which government enterprises were turned over to private owners while being allowed to keep important government-conferred advantages, resulted in new market distortions. If the commission offers privatization as an option, it should carefully explain how to reach the goal of full privatization. We should avoid the bait-and-switch problem that has arisen in several European countries. The postal authority was supposed to be privatized in a gradual series of steps over a number of years, but after regulatory restraints on the postal authority were loosened, the later steps needed for full privatization did not occur.

Striving to better manage costs is not a glamorous undertaking. However, it is essential if the U.S. Postal Service is to become financially stronger. One hopes the new Presidential postal commission will focus on better cost management as the key to a financially stronger Postal Service and wishes it well in the effort.

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Endnotes

1. George W. Bush, "Executive Order: President's Commission On The United States Postal Service," December 11, 2002, accessed on the Internet at www.ustreas.gov/press/releases/reports/executiveorder.pdf. The nine-member panel, which held its first meeting on January 8 and is to offer recommendations to the President by July 31, is co-chaired by Harry Pearce, chairman of Hughes Electronics Corporation, and James Johnson, former head of Fannie Mae.
2. United States Postal Service, *United States Postal Service Transformation Plan*, April 2002, p. 15, accessed on the Internet at <http://www.usps.com/strategicdirection/transform.htm>.
3. Office Of Management And Budget, "Proposed Revision To Office Of Management And Budget Circular No. A 76," Federal Register, Vol.67, No.223, p. 69769, November 19, 2002.
4. For a survey of empirical economic studies in this area, see Michael Schuyler, "The Postal Wage Premium: No Wonder The Postal Service Loses Money," *IRET Congressional Advisory*, No. 131, July 24, 2002. A number of ideas for reducing the disparity between postal pay and private-sector pay are examined in Michael Schuyler, "How To Bring Postal Compensation Into Line With The Private Sector," *IRET Congressional Advisory*, No. 132, August 28, 2002.
5. For a discussion of how productivity growth at the Postal Service has lagged that in the private sector, see Michael Schuyler, "The Postal Service's Productivity Problem," *IRET Congressional Advisory*, No. 137, October 7, 2002.
6. H. Edward Quick, Jr, "Trilogy Of Woes Demands A Reality Check," Testimony before the Subcommittee on Postal Service, Committee on Government Reform and Oversight, U.S. House of Representatives, March 13, 1996, accessed on the Internet at <http://www.prc.gov/docs/33/33400/Quick.pdf>.
7. Walter S. Mossberg, "Postal Service Is Losing Out On R & D," *The Wall Street Journal*, May 10, 1977, p. 22.