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A FIRST STEP IN GOVERNMENT DOWNSIZING: GET THE U. S. POSTAL SERVICE OUT OF THE PACKAGE DELIVERY BUSINESS

As they attempt to carry out the promises they made to voters last November, the new majorities in both Houses of Congress are grappling with how to slow significantly the growth of government spending. One of the keys to successful downsizing will be recognizing that in large part the federal government has grown so rapidly because it has tried to do too much. Many tasks undertaken by the government — which really means tasks foisted upon the taxpayers who must pay the bills — should be scaled back or abandoned: the programs are too costly, create perverse incentives, invade personal liberties, or all of the above.

After a generation and a half in which the government's reach has expanded in virtually all areas except national defense, reversing direction will not be easy. To rein in the size of government, federal programs need to be subjected to a series of fair but firm tests. Some of the tests are: Does the program carry out a legitimate function of government? Do the program's benefits outweigh

the program's costs? Could the private sector do the same job better?

With regard to the last point, an effective strategy for limiting the size of government is to rethink all government programs for which there are well developed private-sector alternatives. In most such cases the government program should be reduced or eliminated because the private sector can do the job better.

To illustrate this test by way of an example, why should the U.S. Postal Service, a quasi-governmental organization, be in the business of delivering packages? By no stretch of anyone's imagination can package delivery be seen as a legitimate function of government. Not only is the Postal Service encroaching on private business, it is heavily subsidized in doing so. It is exempt from most taxes. It can borrow directly from the U.S. Treasury, which vastly improves its credit rating, enabling it to obtain funds from private lenders at very low interest rates. Many of the governmental regulatory agencies that inspect — and burden — private businesses do not have jurisdiction over the U.S. Postal Service. And if worst comes to worst, it is widely expected that the federal government would bail out the U.S. Postal Service rather than allowing it to go under.

The U.S. Postal Service's package delivery business is certainly not a uniquely wasteful government-subsidized activity. It is cited merely as a flagrant example of government activities for which no economic justification can be provided.

There is no good reason for bestowing these federal supports and guarantees on the delivery of packages. None of the arguments that are sometimes made on behalf of one or another government activity applies to the U.S. Postal Service's package delivery.

It might be argued that a government-supported agency is needed to deliver packages if private companies were unable or unwilling to do so.

Clearly, though, that is not the case. Many private companies are in the package delivery business, usually offering faster delivery times and often lower prices than the U.S. Postal Service.

A quasi-governmental package delivery system might also be advocated if it could be shown that the U.S. Postal Service has real cost advantages — uses less real resources per delivery — than private companies. For this real cost advantage to be present, the Postal Service would have to possess inputs or know-how regarding the package delivery business that private companies do not have and cannot acquire.

In reality, though, the U.S. Postal Service is a high-cost provider. While private delivery companies have generally been profitable, the U.S. Postal Service, by 1994, had run up cumulative net losses on its combined operations of \$9.4 billion. The losses are particularly impressive because they come despite hidden subsidies worth billions of dollars. According to the Postal Rate Commission, "In the world of private industry cumulative losses and the negative equity of the magnitude the U.S. Postal Service has incurred would spell financial disaster... According to the Postal Service's own witness...if the Postal Service were a conventional business operation, it would be bankrupt." (Docket No. 94-1, p. II-31)

In this respect the U.S. Postal Service is similar to state-run enterprises in Europe, Latin America, and the rest of the world, which are often multi-billion dollar budget drains. (Efforts to stanch the losses explain the popularity of privatization efforts throughout the world.)

As a variation on the cost argument, top postal officials contend that their organization's size and nation-wide presence enable it to provide additional services for little extra cost. There is no evidence, however, that these claimed economies of scale exist. In fact, the Postal Service faces higher labor costs and less managerial and operational flexibility than private firms. Cost considerations urge that the Postal Service should be downsized, perhaps to its

core business of delivering first class mail, on which it enjoys a federally-enforced monopoly.

Government-run or protected enterprises are also notorious around the world for insensitivity to customers' needs and poor use of technology. The U.S. Postal Service exemplifies these failings. The quality of its services often leaves its customers dissatisfied. And it is a technological laggard compared to the revolutionary advances that many of its private-sector competitors have achieved.

The fundamental reason for these shortcomings is that those who design and carry out government programs face political and bureaucratic incentives, not market-based incentives. In the private sector, profits motivate producers to avoid unnecessary costs and to satisfy customers, while also giving producers an objective standard by which to measure how well they are doing. In the government sector, on the other hand, holding down costs is usually less important than maintaining and expanding bureaucratic power and keeping powerful constituents happy. Cost control is further handicapped because government officials often measure success by how much they can increase their budgets and their staffs, both of which tend to bloat costs. In addition, government bureaucrats, unlike private-sector workers, can generally let costs rise without jeopardizing their jobs.

Nonmarket incentives similarly explain why government programs are often indifferent to the preferences of users. Those who operate government programs generally suffer no financial and little political penalty when they treat users badly (unless, of course, the users have substantial political power). In the private sector, however, companies need to meet customers' wants as much as possible because unhappy customers quickly hurt the bottom line by taking their business elsewhere.

Another conceivable argument for government support is that the marketplace provides too little of a service if the service confers benefits to society that private sellers do not capture (so-called external benefits). It may be that in the early years of this

nation, the U.S. Mails helped unite the country by facilitating communication among regions. It certainly is not a relevant consideration today when technology embodied in the telephone, television, satellites, and computers have made communications almost instantaneous not just across the country but around the world.

A frequently heard claim is that the U.S. Postal Service charges less for package delivery in rural areas than private delivery companies. Whether the claim is true, it does not justify government intervention. Some things are more expensive in rural areas; other things, like land and often food, are less expensive. Rural areas are less congested than cities, but amenities are usually farther away. Why should the government try to change any of these relative prices, which help people decide where best to live? And if the government does

intervene, why should it single out package delivery?

The U.S. Postal Service's package delivery business is certainly not a uniquely wasteful government-subsidized activity. It is cited merely as a flagrant example of government activities for which no economic justification can be provided. The government should avoid undertaking activities that are already offered in the private sector. Because of skewed incentives, government organizations can rarely match the cost savings and quality that private businesses routinely deliver. The U.S. Congress will find it easier to downsize the federal government if it keeps this lesson in mind.

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