

CURING POSTAL SERVICE ILLS BY A DOSE OF COMPETITION

(Updating "Privatizing the Postal Service," in Stephen Moore and Stuart M. Butler, eds., *Privatization: A Strategy for Taming the Federal Budget*, The Heritage Foundation, 1987.)

For Americans, postal service is down and price is up. This is the message from two important recent developments. The first was the announcement of service reductions, including Sunday collections. The second came last Friday when the Postal Rate Commission bowed to pressure from the U.S. Postal Service and recommended increasing postal rates from nearly 14 percent for first class mail to 25 percent for third class "junk" mail. These moves, say USPS officials, are required because of the congressionally ordered cut in the USPS deficit equal to a modest 0.5 percent of its budget. Meanwhile, postal workers are enjoying last year's pay raise under which the average clerk and carrier receives an annual salary of \$30,000 — about 25 percent above the pay received by a comparable private sector worker.¹ Boasted the Letter Carrier union chiefs: "we made out like bandits in the new contract."²

Putting the Customer Last. When most corporations face financial pressure, they seek ways to cut costs and improve productivity to maintain services to their customers and fend off competitors. But since the Postal Service is a legal monopoly, it operates in the interests of its managers and employees. Managers have no incentive to cut costs or withstand excessive pay claims; employees have no incentive to improve service. And the customer has to pay what USPS demands.

Only competition can force the USPS to deliver better service at lower price. This in fact is the conclusion of the President's bipartisan Commission on Privatization, which extensively studied the Postal Service's productivity problems. With America's international competitiveness under siege, U.S. businesses and consumers need a mail system that puts the customer first, not last. This can be achieved only by the discipline of competition. Congress can open the door to competition by making greater use of private contractors for Postal Service activities and by allowing private firms to deliver third class mail.

1 "Postal Unions Win Again," *Business Mailers Review*, July 27, 1987, p. 1.

2 "Doing the Devil's Work," *Business Mailers Review*, August 10, 1987, p. 2.

ARE RATE HIKES NECESSARY?

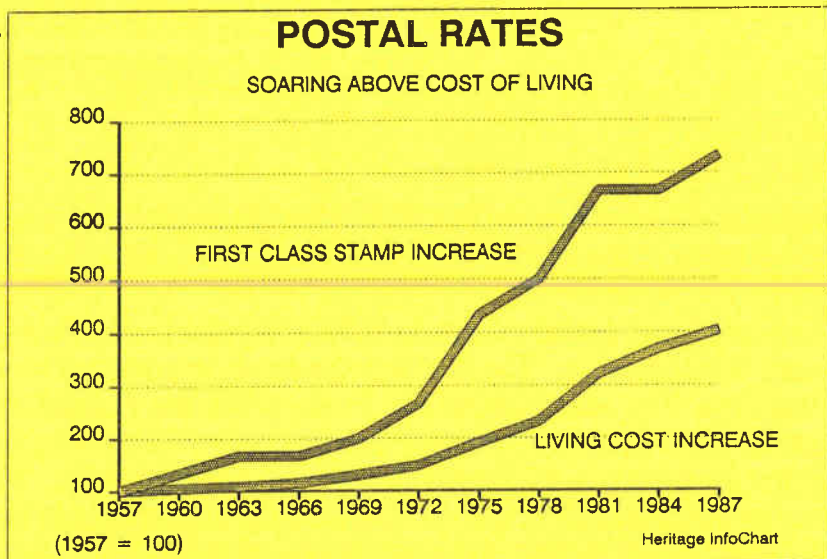
Since 1970, the cost of a first class postage stamp has outpaced the consumer price index — the rate of inflation on all other goods and services — by about 30 percent. If the Postal Service were as efficient over the past 18 years as the average firm, consumers would be paying about 18 cents, not the proposed 25 cents, for each first class stamp. This amounts to a \$7 billion annual surcharge on businesses and consumers.

While over 85 cents of every Postal Service dollar is spent on direct labor costs, managers do not negotiate a labor contract that ties pay to productivity improvements. Probably the entire one percent annual gain claimed by the Postal Service, moreover, is the result of presorting by private mailers, which reduces the tasks performed by postal workers. According to Van Seagraves, publisher of *Business Mailers Review*, if the USPS used an honest measurement system it would find that its productivity likely would have declined in recent years.³

Nonetheless, Postal workers will receive a 5 percent pay raise for the next three years, well above the 2 percent average pay increase for private sector blue collar workers in 1987 and the 3 percent pay raise granted to federal workers. The Postal Service can award such wage hikes because generally it can pass on costs to consumers by virtue of its monopoly. Significantly, at the same time the post office will be introducing the 25 cent stamp, it will be cutting prices between 10 and 40 percent on overnight Express Mail — one of the few services for which it directly competes with the private sector. The last time the Postal Service cut its prices for its monopoly first class mail was in 1919.

WHY USPS IS CUTTING BACK SERVICE

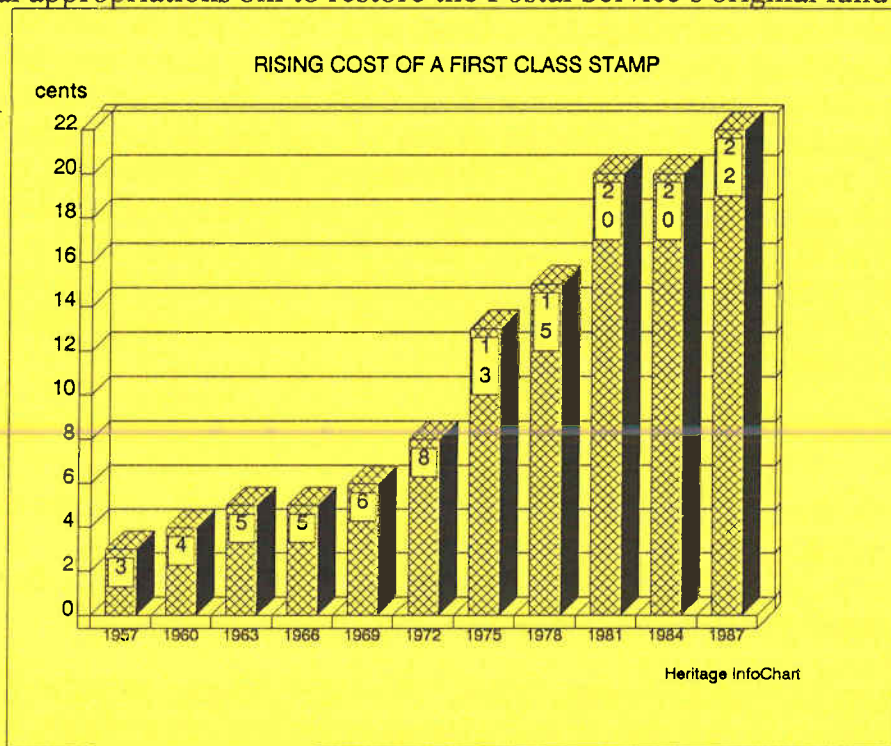
In addition to uncontrolled labor costs, the USPS also faces a reduction of \$1.2 billion over two years in its federal subsidy, agreed in last year's federal deficit reduction plan. The angry Postal Service reacted to this 0.5 percent cut in its budget by announcing that this month it will cut back window hours by about 10 percent at local post offices and end Sunday collection activities. Even some of the Service's Capitol Hill supporters were stunned that it would try what has become known as the "Washington Monument ploy" — in which a government agency, forced by Congress to reduce its budget, cuts back its most vital functions. The aim, of course, is to stir up public outrage and thereby force legislators to reverse their decision. An embattled U.S. Park Service, for instance, might close down the Washington Monument. The Postal Ser-



³ Quoted in: "Bank Official Named Postmaster General," *The Washington Post*, February 3, 1988, p. A4.

vice easily could have cut its budget the pittance required by Congress through better management and efficiency gains.

Faced with public irritation, lawmakers now are considering two remedies to defuse the situation. The first is a supplemental appropriations bill to restore the Postal Service's original funding amount. This would be an unconscionable violation of the bipartisan deficit reduction agreement reached last fall. The second, likely to be introduced soon by House Post Office Committee Chairman William Ford, the Michigan Democrat, would be to move the Postal Service's federal subsidies off budget, thus hiding the agency's deficit from view and permanently protecting the Postal Service from future spending cuts. Neither step would make the Postal Service more efficient. On the contrary, they would encourage it to be even less efficient.



A REMEDY FOR CHRONIC INEFFICIENCY

Congress should not cave in to USPS pressure. Lawmakers instead should adopt a strategy to improve mail service by adopting privatization initiatives. Congress should:

1) Require the Postal Service to contract out more of its activities.

If the Postal Service cannot provide the level of service that consumers expect, the private sector is capable of doing so. Private contractors already deliver mail for USPS on more than 5,000 rural routes at savings of approximately 30 percent, while private trucks and aircraft carry most of the mail between major cities. Some retail services also have been contracted out on an experimental basis. A systematic expansion of contracting out would generate the savings necessary to absorb the Postal Service budget cuts without jeopardizing the national mail system. The U.S. General Accounting Office found in 1982, for example, that USPS could save almost \$90 million simply by contracting out janitorial services.⁴ USPS also could shift retail services to department and convenience stores, such as Sears and Seven-Eleven — which are open on weekends. Postal Rate Commissioner John Crutcher has criticized the Postal Service repeatedly for its "unwillingness to even experiment with contracting" despite hundreds of mil-

⁴ U.S. General Accounting Office, "The Post Office Can Substantially Reduce Its Cleaning Costs," 1982.

lions of dollars of potential savings. The Postal Service prefers to discontinue service rather than contract out.

2) Allow private firms to compete for the delivery of third-class mail.

Third class mail, commonly referred to as "junk mail," consists mainly of business advertising and mail from charitable organizations. The money that it loses for the Postal Service is offset by profits from first class letters. If third class mail were spun off from USPS, the agency could save money and devote all of its efforts to improving the performance of delivering first class mail. Third class mailers would welcome this change. According to Third Class Mail Association President Gene Del Polito, the Postal Service only delivers about 30 percent of third class mail on time — that is, within ten days.⁵ Many third class mailers would welcome the opportunity to turn to private companies to deliver their advertising notices. With a 25 percent rate hike for third class mailing just announced, business mailers likely would be even more receptive to trying private companies.

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The climate for structural reform of the Postal Service perhaps has never been more favorable. Americans increasingly recognize that the USPS puts its customers last, reducing services while ignoring the fat in its operating budget. In short, the Postal Service acts like the monopoly that it is.

The only antidote is competition. The USPS has proved with its Express Mail overnight service that it can improve its performance and reduce costs when it is forced to. It should be forced to do so for third class mail. And rather than cutting services and resorting to price hikes whenever its flabby budget is challenged, the Postal Service should reduce the cost of sorting and delivering the mail by allowing private firms to carry out functions more efficiently.

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⁵ Gene A. Del Polito, Testimony before the President's Commission on Privatization, January 28, 1988.