

Executive Memorandum

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Postal Reform Legislation: Less Than Letter-Perfect

James L. Gattuso

Over the past few weeks, things have been moving quickly in the otherwise glacially paced world of the U.S. Postal Service (USPS). On May 12, the House Committee on Government Reform unanimously passed the first broad postal reform legislation approved by a congressional committee in 30 years: H.R. 4341, sponsored by Representative John McHugh (R-NY). The next week, the Senate Committee on Governmental Affairs approved similar legislation (S. 2468). The bills now await votes by the full House and Senate.

While these bills would implement some welcome changes in how the Postal Service operates, they fall short of the kind of real transformation that is needed and would saddle taxpayers with billions of dollars in postal costs. Congress can and should deliver more than this disappointing package.

The Need for Reform. It is no secret that the USPS is in need of change. Americans, instead of visiting the post office, increasingly use e-mail and other forms of electronic communication to send messages. Last year, total mail volume shrank for the third year in a row, and the trend has continued in 2004. Although the USPS ran a surplus in the past year, it suffered huge deficits in the three previous years, and more deficits are likely. The old way of doing things no longer works: Without change, the Postal Service could soon cease to be viable.

In 2003, a presidential commission looked at how the Postal Service should respond to these long-term trends and recommended a broad set of reforms focused on reducing costs, increasing flexibility to respond to market conditions, and increasing oversight. The postal reform bills now before the House and Senate would implement many—but not all—of the commission's recommendations. Specifically, they would:

1. Grant the USPS broad authority to set prices for competitive products (i.e., those for which it does not enjoy a monopoly). It would be prohibited, however, from subsidizing competitive products with money from other areas.
2. Limit the USPS to provision of "postal services," although all current activities would continue to be allowed under the House bill.
3. In markets where the Postal Service is dominant, replace the current cumbersome system of setting rates with more modern regulation,

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- Legislation now pending in Congress would implement welcome changes in how the Postal Service operates but still falls short of what is needed.
 - The bills would also grant the USPS a \$27 billion subsidy by transferring certain pension obligations to the U.S. Treasury.
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such as price caps, to be established by the new Postal Regulatory Commission. This is meant to give postal managers more flexibility in setting and adjusting rates by ending the years-long administrative hearings typical under the current system.

4. Require more transparency in the USPS's operations, with more public disclosure of information about its finances and other activities.
5. Replace the relatively weak Postal Rate Commission with a much more powerful Postal Regulatory Commission. This oversight board would review and approve rates, establish service quality standards, and review financial data. Unlike the current Rate Commission, the board would have clear authority to subpoena information from the Postal Service.
6. Reduce some of the special privileges enjoyed by the USPS. Among the changes, the Postal Service would be subject to certain antitrust laws, would have to comply with local building code procedures, and would pay an assumed federal income tax on competitive product revenue (although this payment would simply be a transfer from the USPS's competitive products account to its general account). The USPS's statutory monopoly on letter mail would remain, although the price that competitors such as FedEx and UPS can charge would be slightly reduced.

The operating theory behind these principles is clear and largely sensible. To survive in today's changing world, the USPS—like other companies—needs the flexibility to adapt to changing market conditions. However, it is not an ordinary company. As a government enterprise, it enjoys legal privileges and protections unlike those enjoyed by any private firm. Thus, in return for increased flexibility, these privileges and protections should be reduced and oversight should be increased to prevent market abuses.

Yet the House and Senate bills fall far short of the comprehensive reform that is needed and, in some ways, would make the current situation worse:

- The bills provide for billions of dollars in new subsidies for the Postal Service. The legislation relieves the Postal Service of its obligation to pay postal retirees some \$27 billion over the next few decades in pension benefits for prior military service. Instead, the U.S. Treasury would assume this obligation. However, these obligations are Postal Service costs, triggered by retirees' postal employment, and part of the total compensation paid for postal work. Taxpayers should not be saddled with this burden.
- The bills keep in place—or even expand—political restrictions on the USPS's ability to cut costs. For instance, the Postal Service would continue to be banned from closing post offices because they run a deficit. Moreover, the bills ignore a proposal by the President's reform commission to streamline closures of other facilities through a process similar to that used to close unneeded military bases.
- Most of the special privileges enjoyed by the USPS would remain in place, including the most important one: the statutory monopoly that makes it illegal for anyone else to deliver letter mail. This monopoly should be repealed. Short of that, a number of important changes could be made. For example, the President's postal reform commission proposed giving the Postal Regulatory Commission the authority to determine the extent of the monopoly rather than letting the Postal Service define the limits of its own monopoly.

In addition, the USPS enjoys a monopoly on the use of customers' mailboxes. This also should be repealed. Individual consumers—not the Postal Service—should decide which providers can use their own mailboxes.

Conclusion. Many elements of the postal reform legislation now pending in Congress are welcome steps in the right direction, but the bills still fall far short of the comprehensive transformation that is needed—and that American consumers deserve.

—James L. Gattuso is Research Fellow in Regulatory Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.