

The Goals of Postal Reform and How We Get There

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Introduction

These notes present some of my thoughts on the prospect of postal reform. I want to emphasize that the views expressed are entirely my own and do not necessarily reflect those of past, present, or future postal clients. They are based upon my experience with postal markets around the world over the past two decades.

Goals of postal reform

The instructions to the Commission contained in the Executive Order are very open ended. Thus, it is worthwhile to approach the problem of designing postal policy with a “clean slate.” The first question one must address is whether reform is necessary at all: “if it ain’t broke ...” It is not fashionable to question the quest for “progress,” but consider the following points:

- The United States enjoys nationwide postal service for a fraction of the price paid in many “postage stamp-sized” countries in Europe.
- This low cost service is provided despite the fact that the Postal Service pays a wage premium to its workers that is largely absent in other countries.
- Despite the Private Express Statutes, work sharing has made the U. S. letter market is the most competitive in the world as measured by the non Postal Service share of value added.
- The rest of the world is moving toward the U. S. system: i.e., a government owned, partial monopoly enterprise monitored by a sector specific regulator.

None of these facts mean that the current system cannot be improved upon. However, it suggests to me that, in contrast to the radical changes being implemented overseas, changes here be made on an incremental basis.

The internal organization of the Postal Service

Much attention has focused on reform of the Postal Service as an operational entity. I think this issue is overblown. It is clear that privatization would provide the kind of “high powered incentives” that economists worship, and I would certainly not oppose that. However, postal privatization has proven to be politically difficult or impossible around the world. I doubt that it would be any easier here in the United

States. Further, I do not think that the impact of privatization is likely to be as great as I once did. There are two main reasons for my revised view.

First, I used to think that the profit maximizing incentives that would follow from privatization would cause the Postal Service to more effectively resist union wage pressure. International experience, however, leads me to question this view. Ability to control the postal wage premium seems to be a political matter largely unrelated to the organizational structure of the post. American-level wage premia were rare under old style postal ministries and in Germany, the other country with substantial wage premiums, the post is relatively far down the road to privatization.

Second, I used to think that privatization was an essential precondition for implementing more efficient regulatory policies, such as price cap regulation. Again, international experience has convinced me otherwise. Australia and New Zealand are examples of government owned posts that operate quite efficiently and profitably under price cap style constraints.

I do not mean to suggest that organizational restructuring of the Postal Service may not prove to be important. Rather, it is quite possible that many of the potential efficiency gains can be achieved by *corporatising* the Postal Service rather than privatizing it.

Universal service and the legal postal monopoly

In my opinion, universal service *need not* be a major issue in the postal policy debate. There are two reasons for this. First, the sender, usually a large business, pays

the costs mailing. Second, household specific access facilities are not required.

Individuals can “access” the international delivery network for little more than the cost of a postage stamp.

Unfortunately, these considerations do not ensure that universal service and its funding *will not* be contentious issues. This will certainly be the case if it is required that universal service be provided at a uniform price. It is interesting to note that the Commission is instructed to consider “the ability of the Postal Service, over the long term, to maintain universal mail delivery at affordable rates ...”. This suggests that it may be possible to eliminate uniform rates in situations in which it is no longer useful or efficient.

The statutory monopoly on letter mail is a more complicated issue, and one where my views are not “fashionable.” (At the last postal conference I attended, I was referred to as “the last monopolist.”) Like most network industries, postal service has many natural monopoly components. It does not strike me as unreasonable that portions of the network should be served by franchised monopolies.

If the sole criteria were economic efficiency, I would recommend that the monopoly be retained and that the pricing policies of the Postal Service be managed by the intellectual descendents of Marcel Boiteaux at La Poste, with regulation according to the principles of Laffont and Tirole. However, as a practical matter, I would support elimination of the monopoly as the only way to free the Postal Service to compete effectively during the coming century.

Regulation of postal markets

The United States Postal Rate Commission regulates the *rate structure* of the Postal Service, but not the *rate level*. It performs much like a state utility commission engaged in traditional rate of return regulation, but without the necessity of determining the “fair” rate of return or the value of the rate base. The PRC will face a much more daunting task under postal reform, just as “deregulation” has complicated the life of telecommunications and electricity regulators. After reform, the PRC will be required to extend its activities to:

- Control the profits of the Postal Service
- Regulate the terms of *competitive* access
- Administer universal service “taxes” and subsidies
- Scrutinize sophisticated tariff offerings

Lessons from the international experience

A decade ago, the U. S. postal marketplace was one of the most progressive in the world. There was a letter monopoly, but there was also substantial work sharing and strong competition in express mail and parcels. Since then, much of the rest of the world has moved quite a way down the road to competitive postal markets, while essentially nothing has changed here. The contrast with Europe is especially striking. However,

before attempting to draw too many lessons from the European experience, it is important to recognize a fundamental difference between their goals for liberalization and ours.

In attempting to create its single market for goods and services, the EU was faced with a postal market containing more than a dozen well-established incumbents. For this network to be integrated efficiently, it was necessary to establish detailed rules of how national posts would cooperate and, ultimately, compete. It would be as if each of our states had developed an independent postal service. Instead, the U. S. possesses a highly integrated national network that operates smoothly. I see little of the urgency facing the EU in our situation.

Nonetheless, I will make a few predictions of what we can expect if postal reform in the United States proceeds along European lines:

- Elimination of the legal monopoly will not mean that significant competition will emerge without “help.”
- Despite the absence of essential facilities, there will be endless wrangling over “access.”
- Universal service rules will create arbitrage opportunities for entrants.
- Competition for the business of large users will be fierce.
- Interconnection rules will create curious arbitrage opportunities for competing “networks.”

The road ahead

Since I am not entirely sure where we should be going, it is not surprising that I do not have much to offer regarding how to get there. However, I have no doubt that it will be an interesting journey. (And, a lucrative one for postal consultants.)