

ORAL STATEMENT OF:

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BEFORE THE

**POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268**

REGARDING

**PRC ORDER No. 71:
*NOTICE OF REQUEST FOR COMMENTS ON
UNIVERSAL POSTAL SERVICE AND THE POSTAL MONOPOLY LAWS
(DOCKET No. PI2008-3)***

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Mr. Chairman, Commissioners, and fellow panelists:

My name is Rick Geddes. I am an Associate Professor in the Department of Policy Analysis and Management at Cornell. My remarks today have a very specific purpose. My goal is to simply evaluate the following statement: That the two postal monopolies – the delivery monopoly and on access to the mailbox – are necessary to ensure the universal delivery of mail. That statement is demonstrably false. It is false both from a theoretical and from an empirical perspective. It is false based on both the experience in the United States in other network industries, and in postal services in other countries. Concerns about ensuring universal delivery service simply cannot be used to justify the continuation of the joint postal monopolies.

Before discussing some reasons why I would like to first address a key prerequisite. It is critical to separate out the question of universal delivery service from the best policy approach to ensuring that service. We should proceed as follows: Define exactly and precisely just what it is we mean by “universal delivery service.”

The second, distinct step is to then ask: What is the least cost way to achieve that policy goal? There are several alternative approaches. Most assuredly, a legally enforced government monopoly is not the least-cost way of ensuring universal delivery service. Rather, this probably imposes the highest cost on society of any approach. Indeed, government-enforced monopoly is likely to impose higher costs on society than a private monopoly. The social cost of government-enforced monopoly will manifest itself through higher costs for a given level of service, through higher rates than would obtain under competition, through slower innovation, and through slower adoption of technology that does exist, among other negative effects.

There are a variety of approaches that preserve universal delivery service, however defined, without enforced monopolies. But why is competition so important?

The introduction of competition in other network industries, such as airlines, trucking, and railroads, proves that allowing competition creates massive benefits for society. The evidence on lower costs, lower prices, and improved efficiency is overwhelming. In summarizing the evidence on competition in these other industries, Clifford Winston of the Brookings Institution stated that, “The intensified competition resulting from deregulation causes firms to make innovations in marketing, operations, technology, and governance that enable them to become more efficient, improve their service quality, introduce new products and services, and become more responsive to consumer’s preferences.” That is music to the ears of many a postal customer!

In my written comments, I offer many reasons why concerns about universal delivery service do not justify legally enforced monopoly. I review just two here.

First, *competition has been introduced in other industries with a similar network structure and universal service has been maintained.* Ensuring universal service to small communities was a concern when airlines first faced competition. Those concerns were unfounded. Competition in airlines accelerated the use of innovations that actually improved air service to rural communities. Examples include the hub-and-spoke system and the use of aircraft of different sizes and types. Service to rural communities improved due to innovation. But there is a general lesson here: *competition drives innovation.* Competition in mail delivery would similarly drive innovations that are likely to improve service to rural communities.

Second, there are other, much lower cost ways to achieve the policy goal of

universal mail delivery than through legally enforced monopolies. The economics profession has long recognized these alternative, lower cost approaches that allow competition. One alternative is to simply contract competitively with private firms to ensure universal service. In an influential 1998 article, the Harvard economist Andre Shleifer singled out postal services as an example:

A common argument for government ownership of the postal service is to enable the government to force the delivery of mail to sparsely populated areas, where it would be unprofitable to deliver it privately. From a contractual perspective, this argument is weak. The government can always bind private companies that compete for a mail delivery concession to go wherever the government wants, or it can alternatively regulate those companies when entry is free.

One may respond that private firms would not contract to serve money-losing routes. But still this does not preclude competition. Firms can simply bid on the basis of the lowest subsidy that they will accept to serve the route. This ensures the subsidy is delivered most efficiency, by the least-cost firm. This is exactly the approach used for contracting out highway operations for money-losing toll roads in Spain.

I refer you to my written comments for evidence from other countries, such as New Zealand and Sweden, that have repealed their delivery monopolies but retained universal service. In short, both postal monopolies can be relaxed, and we need not sacrifice universal delivery service. I look forward to answering any questions you may have.