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Remarks before
The Mailers Council**

**"A Summit and Debate on
Privatizing the Postal Service"**

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Being the shy and unassuming type that I am, earlier this year--during the seminal stages of planning for this conference, I contacted Art Sackler and offered several suggestions regarding format and participants. Art, as always, was kind enough to hear me out. Then, Art, as always, being the insightful person that he is, proceeded to ignore most of what I suggested. Unfortunately, those of you who were either too courteous or too unknowing to leave immediately after the luncheon, are now stuck with my one suggestion that Art chose to go with: Me!

When I was growing up in Baltimore, Maryland, I learned many valuable lessons, several of which I try to keep in mind because of their relevance to daily life. The first, one that I refer to frequently, especially when I am speaking about the Postal Service, is the H. L. Mencken quote, "for every problem there is a solution that is simple, neat, plausible--and wrong!" The second is something I learned from my grandmother who, upon greeting me at the front door when I was sent home from junior high school for getting into a fight, said, as I tried to explain, "there are at least three sides to every story--in this case, yours, the other boy's and the truth." So, my friends, I hope that you, we, are capable of discerning those nuggets of truth that may be hidden in the "stories"--if you will--told during this conference and are able to avoid embracing solutions simply because they seem simple, neat and plausible.

Now, of course, the necessary disclaimer. Although in your program this talk is billed as "A View from the Postal Rate Commission," my views are my own, and do not necessarily represent those of my fellow commissioners.

Today, I want to share with you my thought process as I pondered the question "Should America Have a Choice of Postal Service?" First I want to review what the monopoly really is. Then, what are its perceived advantages and its assumed disadvantages? Is what we have working pretty well? I want to discuss what I call the Humpty Dumpty Problem; and, finally, share with you my conclusion that the real choice we face is between Relative Inefficiency versus Likely Chaos.

What is the monopoly?

I want to begin by examining what the Postal Service "monopoly" really is.

The first thing that comes to most people's minds when you mention the postal monopoly is the Private Express Statutes, Federal criminal provisions that make it a crime to carry letters privately. Generally, these provisions apply to written messages addressed to specific recipients, and thus cover First-Class and most of third-class mail. This captive market is sufficiently large--some 143 billion pieces billion pieces--that it requires an extensive delivery network. That network manifests economies of scale, and enables the Postal Service to provide comparatively inexpensive delivery of letter mail.

Another important aspect of the monopoly is the prohibition against private carriers opening, or depositing items into, residential mail boxes--a.k.a., the mailbox rule. Because of this restriction, in many cases it is more difficult and frequently more expensive for private carriers to deliver items not covered by the Private Express Statutes, such as unaddressed circulars and periodical publications.

These statutory restrictions underlie the monopoly over the delivery of mail nationwide--a de jure monopoly with the Private Express statutes, and a de facto monopoly--even in the absence of the Private Express statutes--with the mail box rule.

I hope you noted that I have described the monopoly in terms of the "delivery of mail," because there are other aspects of postal service that are very much "in play"; that is to say, functions that, because of Postal Service rules and/or Postal Rate Commission determinations, have been opened to competition: processing, in terms of presorting and barcoding; and transportation, in terms of drop shipping and destination entry are several examples that come to

mind. And more could be in play at the Postal Service's discretion. Remember the petition filed by several mailers earlier this year which asked the Postal Service to relax its regulatory definition of a "letter"?

Today, delivery is the monopoly. Whether it is de facto or de jure, mailers know that only the Postal Service delivers mail to every address in the nation; and six days a week at that. Anyone needing to send mail throughout the country, whether that mail is a letter, a magazine, a specialty catalog, or an annual financial report, can arrange for delivery most simply and easily by depositing that mail with the Postal Service. In other words, using the Postal Service reduces the sender's transaction costs associated with having something in hard copy format delivered to a national audience. There may, of course, be other factors that override the issue of transaction costs and influence the means a party may employ to deliver its message.

What are the perceived advantages of the monopoly?

What does the Postal Service provide under its monopoly umbrella?

First, there is no question that we have universal service. A letter will be picked up at any one of the 125 million-plus addresses in this nation and delivered to any other of the 125 million-plus addresses. Second, for First-Class letters, the charge for this service is uniform through the country. And, as I will discuss in a minute, that charge is both reasonable and affordable.

The monopoly also allows the Postal Service to promote many national policies established by the Congress:

- The maintenance of small community and rural post offices;
- Postal rates that promote educational, scientific, cultural, and informational ends;
- "Preferred" rates that support the work of nonprofit and other preferred mailers (although this is not as significant after enactment of the Revenue Foregone Reform Act (RFRA));
- Free Speech protection in written communication: the Postal Service will carry what you put in the mail, and it cannot drop you as a customer because it doesn't like what you mail;

--Sanctity of the mail: privacy of written communications, and (to the extent constitutionally permissible) protection from offensive mail matter.

What are the assumed disadvantages of the monopoly?

On the other hand, because we have a postal monopoly and its associated mail box rule, mailers have little choice in who will deliver their mail. One does not need a Ph.D. in economics to understand that because of the lack of full competition in many areas the monopolistic Postal Service may not be very innovative, may not be very customer friendly, and may not be the ultimate in efficiency.

The Postal Service has introduced relatively few products or new services during the last 25 years. Its most important innovation has been the unbundling of its rate structure--rate discounts for customer work sharing. This has been significant, but it involves no innovation from the standpoint of product or service offerings. When I meet mailers, I am frequently given examples of poor service and to put it mildly, a lack of customer orientation on the part of some postal employees. And, by the way, I am not talking about just those folks who are doing the heavy lifting. Complaints about lack of responsiveness are directed all the way up to--well, darn near, the 10th floor at Postal headquarters.

Finally, I have studied the Postal Service's own total factor productivity data and have seen the lack of progress toward efficient operation. While logic would argue that it has achieved some gains through automation, the Postal Service simply seems unable to capture savings from its more than \$15 billion of investment in plant and high tech equipment since 1980.

I submit that no institution subject to genuine competitive forces could afford to have such a poor record with respect to innovation, customer service and efficiency. This, then, is the price mailers and the economy pay for the monopoly.

What we have is working pretty well.

Nevertheless, our postal system works pretty well in spite of its legal monopoly. The amount of our gross domestic product which is derived from mail-dependent industry is large and dwarfs that of any other nation. It takes a pretty good postal service for that to happen. And, it

helps that our Postal Service has by far the most economically-oriented rate structures of any postal administration in the world--and that's even without the fruits of the reclassification case currently before the Rate Commission. Moreover, I believe our much berated and rather unique regulatory arrangement is in good part responsible for this--the many work-sharing discounts incorporated into our rates and the classification structure have promoted postal volume which, in turn, is probably responsible for our having the lowest postage rates in the industrialized world (when measured on a purchasing power parity basis.) And, we have these low postage rates despite what some assert is a grossly overpaid work force. This work force, by the way, enables more than two million workers and dependents to participate meaningfully in our nation's economy, to buy those goods which direct mailers advertise. Also, the Postal Service is, and has been, a significant employer of women and minorities.

Now, I want you to consider the USPS as a physical distribution network.

The network connects about 125 million sender/recipient points. Yearly, it makes nearly 200 billion physical--not electronic as in the case of telephones--connections between these senders and recipients. The fact that the network runs as smoothly as it does is, frankly, incredible.

The Humpty Dumpty Problem.

We have looked at what the monopoly is, its advantages and disadvantages, and I have voiced my view that it is working pretty well. Now, what happens if we do away with it?

Let me tell you, I think that postal service, that is small "p" and small "s," is very, very important to this country. I know this audience agrees with me on that. If postal service were to collapse, you and your companies--our economy--would suffer grievously.

I know that we are all quick to criticize the Postal Service, that is big "P" and big "S," but it fascinates me that the Postal Service operates as well as it does.

When you think about 125 million addresses in this country from which and to which mail of various sizes, shapes, and forms can go six days a week, 500 million-plus pieces a day, it is fascinating that the system gets anything, anywhere, ever.

When I think about it, I put mail--our postal system--in the same context as telephones and televisions and computers; I know they work most of the time, but I do not know exactly how they work. So, I think we have to keep in mind that we have this enormously valuable system intertwined with our everyday life--our business lives and our personal lives.

My view is that when you talk about doing away with the monopoly, providing "choice of postal services," privatizing, or whatever, if you mean splitting up the Postal Service and selling it in bits and pieces or giving it to some private party or parties, I'm not in favor of it.

I do not think that the country would be well-served. I do not think that we would have universal service. I do not think we would have uniform rates. And in many parts of the country, I do not think we would have affordable rates.

Now, economic theorists would probably say, "so what?" Quite frankly, I am not sure I how I would respond to such a retort. Perhaps, that is a failing due to my formal training in the natural and physical sciences--fields in which theories fall to realities rather than vice versa.

And let me say something about uniform, affordable rates. I remember reading some time ago in Roll Call, a Capitol Hill newspaper, that a Member of Congress found somebody who would deliver his letters to other Members of Congress and committees in the Capitol complex for five cents a pop.

He thought that was great deal; and it was--and it is!

I dare say that whoever's delivering those letters for five cents a pop between offices in the Capitol complex is not going to carry that Member's letters back to his district for five cents a pop. I'll bet that Member's constituents who write to him about something and ask him to intercede in a dispute with the Federal Government could not find anybody private to carry their letters to Washington for 32 cents, let alone five cents--in the privatized world.

I know, some of you are saying, "this is just the old cream-skimming argument." And, of course, it is. The fact that it is old, however, does not make it any less persuasive or invalid!

I am seriously concerned about what will happen if we split up the Postal Service, or give parts away, or if we give it away lock, stock, and barrel. It's too darn important. And if anybody decides that we need to chop it up or give it away, I hope they'll think about all the pieces of the

new puzzle being in place before they do it. Because, I would just hate to think of all my creditors not being able to send me their bills.

Seriously, I fear breaking up the Postal Service monopoly over the delivery of mail would create a Humpty-Dumpty situation. Once it is broken into pieces, it could never be put back together again. And the likely result, in the absence of some very thoughtful planning, could be chaos.

I suspect you have heard or will hear during this conference a lot of "theory" about what would happen if the monopoly were relaxed or eliminated. No one, however, really knows what would happen. Here is one very real possibility. Local delivery systems would be fairly easy to establish. Consider what might happen if there were hundreds of providers all over the country; perhaps no one serving a population larger than an average Standard Metropolitan Statistical Area. A Balkanized postal system, if you please.

Economists use the term transaction costs to describe the cost, no matter how big or small, of entering into a business arrangement. Your child buying a piece of penny candy (I mean 25 cent, no make that 50 cent candy) has transaction costs. He or she has to get to the store, perhaps wait to be served, and make a selection. Customers have transaction costs. That is why firms try to make their own sales processes easy for customers to deal with. I'm convinced that is why, for example, private firms will travel over every rural byway in the continental U.S. to deliver packages. They want to make it easy on their customers. They don't want to say we only deliver to these ZIP Codes, so find some other firm to handle the rest of your parcels.

Under a Balkanized system, consider the transaction costs to a mailer situated, let's say in Rockville, Maryland, who wants to deliver circulars throughout California. Suppose a broker arranged for transportation to, and delivery from, the 40-odd delivery firms that serviced California. Now suppose the mailer finds out that he is getting no orders from a half dozen areas. What happens to the mailer? He has lots of transaction costs when that happens.

In such a scenario, a purely local mailer may benefit, but if you are a national mailer, watch out. It's not altogether clear that any private entity would like to take on the costs associated with visiting all 125 million addresses, six days of the week. Things are even worse for

the individual consumer who could be faced with numerous decisions about how to send a letter. Again, a likely result is chaos.

The Choice: Relative Inefficiency versus Likely Chaos.

So, in the end, it may be that the choice we face is not a "choice of postal service," but, rather, a choice between relative inefficiency and likely chaos. We have a nationwide delivery system that delivers universal service with uniform affordable rates. Why put it at risk?

For you competition addicts, remember the Postal Service already faces significant competitive pressures. Much of its business, for example processing and transportation, is already in play; and its true monopoly activity, delivery, faces alternative competition--Fax, E-Mail, electronic funds transfer, and those other wonderful technological services.

In fact, technology may some day lead to the end of the monopoly. But, meanwhile, my view is the Postal Service should focus on its monopoly service, universal mail delivery at uniform affordable rates, and not be sidetracked by new ventures for which it is ill equipped. It should concentrate on improving service and containing costs, and if it does, it should continue to be afforded the protection of its monopoly over the delivery of mail.

In closing let me add one final thought: Despite all the hand wringing and gnashing of teeth over the future of the Postal Service--of postal services, your presence here today--the very existence of the Mailers Council, the vitality of its member associations and businesses leads me to conclude that something has gone terribly RIGHT in the twenty five years since Postal Reorganization.

I want to thank you for hearing me out and I welcome your questions.