# Postal Administrations and Non-Postal Products:
## A Study of Justifications and Difficulties Associated with Decisions to Diversify Into Non-Postal Areas

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### 1. Introduction

Postal administrations are under considerable pressure. The degree of competition is increasing. Technology is allowing attractive alternatives to many postal products, in forms such as e-mail, direct debit, and various electronic services like bill payment. In addition, there is great interest in reducing the statutory protection these administrations receive, thus increasing competition even further. As part of their responses to these pressures, many postal operators are considering expansions into non-postal areas.[2] Moves of this kind can increase the attractiveness of product offerings and increase revenue.

Expansions, however, are often met with arguments that there is no justification for government operators competing with the private sector. There are convictions that private firms can do a superior job of meeting non-postal needs and that it is difficult to assure a level playing field when a monopoly provider, owned by the government, is competing.

This paper reviews in section 2 the directions currently being pursued by postal administrations and their competitors. Section 3 discusses two examples of expansions. Section 4 focuses on the justifications and difficulties associated with expansion decisions. The final section contains concluding observations. The context of the examples and most of the discussion is the United States Postal Service.[3]

### 2. Current Directions

Both postal administrations and their competitors are expanding their service offerings. The Italian post has begun providing enhanced banking services, bringing it "into line with accounts offered by banks." It "will compete with banks by offering lower fees to win the loyalty of ordinary customers." (PostCom 5/16/2000) Great Britain has plans to change "post offices into banks, online shopping centers, … [and providers of] government information such as advice on benefits, jobs, transportation, and health services." (PostCom 6/30/2000) The Danish post office plans a hybrid service with electronic mail being converted into hard copy at the destination. (PostCom 10/27/2000) Other expansions include travel, currency exchange, life insurance, and the lottery in the Netherlands; investment and lotteries in New Zealand; and checking accounts, mutual funds, and home loans in France. (Cote)

Administrations are also expanding by purchasing private firms, sometimes in order to expand internationally. Reisner summarizes some of these, including Deutsche Post purchasing YellowStone International (a US distribution company), MIT (an Italian package company), and a portion of DHL; the Dutch acquiring Technologistica (an Italian logistics company) and a portion of TNT; and UK acquiring Der Kurier (an overnight provider in Germany).

The purchase of a logistics company is in line with the expansion activities of postal competitors. A visit to the UPS web site (www.ups.com) provides links to the UPS Strategic Enterprise Fund, the UPS Logistics Group, UPS Document Exchange, UPS and E-Commerce, UPS Capital (a financial services subsidiary), UPS e-Ventures, and UPS e-Logistics. Recently UPS purchased First International Bancorp (UPS 1/29/2001), Burnham Group (a parts network) (PostCom 6/7/2000), FRITZ (a freight forwarder) (PostCom 1/19/2001), Livingston Inc. (a Canadian logistics firm) (Rosencrance), Livingston Healthcare Services Inc., and

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[1] The author is Special Assistant to the Postal Rate Commission in the United States. The views expressed in this paper are those of the author and do not necessarily reflect the views of the Commission.
[2] For purposes of this paper, postal services involve elements of collecting, sorting, transporting, and then actually delivering physical objects.
[3] No attempt is made to deal with the question of whether it is legal or within the intent of Congress for the Postal Service to compete in non-postal areas.

Mail Boxes Etc. (UPS 3/5/2001). UPS plans to offer credit services[4] to some customers and is preparing to offer bill presentment and payment services. (Isadore) In a speech to a group of business leaders, the CEO of UPS said:

> In just the past few years we've introduced new lines of business that extend far beyond our core package delivery business … but which indeed complement that core. New businesses like global financial services for new and expanding companies … supply chain consulting services … e-commerce services and an array of logistics services. (UPS 2/5/2001)

The FedEx web site shows similar activities although not, apparently, on as broad a scale. FedEx has recently acquired American Freightways, St. Louis-based Passport Transport, and World Tariff Limited (a supplier of customs duty and tax information) (FedEx 4/4/2000), and has established a new headquarters for its Supply Chain Services. (FedEx 2/12/2001) It also has a business relationship with Kinko's (JoC Online and FedEx 8/12/1999). Its year-2000 Annual Report (p. 5) refers to "integrated supply chain solutions." In short, competitors are integrating both vertically and horizontally in order to meet a range of customer needs.

The United States Postal Service is also making changes. In Docket No. R2000-1 before the Postal Rate Commission, the Service discussed a prepaid phone card, limited retail merchandise, a web site called PostOffice Online, a stored-value card called Liberty Cash, a money order for exchanges with Mexico called Dinero Seguro, a business (no longer with USPS ownership ties) called REMITCO which opens returned credit card and utility payments for agencies such as banks and utilities, and a money order program with the Dominican Republic called Sure Money.[5] For an earlier period, GAO studied 19 new Postal Service products. From their inception through fiscal year 1997, these products generated $148.8 million while costing $233.5 million. (GAO) In April 2000, the Postal Service (primarily under contract) began offering a bill presentment and payment service called eBillPay. (USPS) In early 2001, the Postal Service began a secure electronic transmission product for use by one other Federal agency called NetPost.Certified. It was developed in conjunction with AT&T, IBM, PubliCARD, and TecSec, and uses technology from Cylink, WareOnEarth, GemPlus, RSA, and KeyCorp. (New York Times)

The Postal Service has described its plans and activities in various ways. In its Five-Year Strategic Plan (FY 2001-2005), it observes:

> The concept that the Postal Service is the local provider of service is eroded when competitors offer bundled services. For example, on UPS's web site today, it is possible for a catalog shipper to obtain a wide range of services beyond traditional delivery choices. UPS offers to manage inventory, to do order fulfillment, to manage logistics services, and to provide customer service. Such integration with customers threatens to undermine whatever advantages may have existed under the previously protected markets of the Postal Service." (p. 14-15)

It then says it will "move beyond the mailroom and position itself further into the customer's organization as a provider of business solutions by using a variety of products and services." (p. 39) In the end, the Plan refers to the mailing industry as a "market in transition" and says that "it is important to describe a vision of the possibilities for the role of the Postal Service's physical infrastructure in a future that is increasingly connected by alternative digital technologies." (p. 56)

In a presentation to the Mailer's Technical Advisory Committee, as reported in the Mail Advertising Service Association's "Postal Points," the Postal Service's Senior Vice-President of Corporate Business explained that "new products will fall into one of the following general business portfolios: financial services; hybrid services; electronic messaging; logistics and mailbox; commercial value; and the Internet channel." (Postal Points)

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[4] A credit service might allow a shipper to be paid for a shipment before the recipient pays his bill.

[5] See interrogatory response, Docket No. R2000-1, Tr. 21/9203.

## 3. A Review of Two Products

This section reviews briefly two products that were the subject of recommendations by the Postal Rate Commission in the United States. The focus is on the characteristics of the products and on the outcome of the regulatory process. In each case, an extensive record was developed before the Commission.

As a preface, it is important to understand certain aspects of how rates are set.[6] For each product, an "attributable" cost is developed. This cost is primarily marginal, but it also includes some non-marginal costs that are viewed as *caused* by the product. In some instances, the resulting attributable cost has characteristics similar to those of an incremental cost. Although economists tend to expect that firms in competitive markets can break even (i.e., cover costs and make a normal profit) when prices are equal to marginal costs, pricing at attributable would result in a substantial deficit. In general, breakeven is found to require markups over attributable costs that average 50 to 60 percent.[7] The markups on specific products may be above or below the average.

The first product considered here is a packaging service called "Pack and Send."[8] Packaging items for shipment is a mail preparation activity that does not involve traditional postal activities. It is, therefore, non-postal in character and there are no constraints on who can do it. Under the Postal Reorganization Act, however, its rates must be set following a recommendation from the Commission. Accordingly, the Postal Service filed a Pack and Send case with the Commission on July 29, 1997.

Among others, the Coalition Against Unfair USPS Competition intervened in the case and argued that private firms were already offering packaging services and that the Postal Service should not offer one. Mostly for reasons bearing on inappropriate competition with the private sector, one Commissioner dissented from the majority and argued that the service should not be approved. The majority did recommend a service and a set of rates, taking the position in part that the record was not sufficiently well developed to determine the extent of any harm to private operators.

Operationally, the service begins when the customer brings an unwrapped item to a postal window. The clerk assesses wrapping needs, tabulates the charges, and puts the item aside to be wrapped later. After being wrapped, the item is mailed as a parcel. The Postal Service presented costing evidence that did not account for the possibility that the item might be wrapped during otherwise-idle time. The Commission found the cost estimates of the Postal Service to be somewhat low in three regards: first, it increased the cost to account for a recommendation that the Postal Service indemnify mailers against damage due to faulty packaging; second, it recommended that certain startup costs be recovered over two years instead of the proposed five years;[9] and third, it added certain incremental costs that were not marginal. On top of this costing, the Commission found a markup of 57 percent to be appropriate, which was equal to the average markup for all postal services. The Postal Service had proposed a 25 percent markup.

Economic guidance on what the markup should be in a situation like this is virtually nonexistent[10] and little basis exists for assuring that a markup is consistent with notions of how to achieve a level playing field or of how to compete fairly with private firms. Similarly, there is no way to know what level of markup would evolve in a competitive system. Competitors needing markups would have to get them on one product or another, but they could vary substantially by product. Further, no guidance is available on the speed with which startup costs should be recovered.

Another difficulty which complicates the Postal Service's competitive posture is that it is widely regarded as having rather high labor costs, as will be discussed further below. This raises the question of whether the markup on competitive products should recognize this reality. It is elementary that as the markup increases, particularly if costs are unduly high, the Postal Service's rates become non-competitive. Without

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[6] The current state of the analysis of costs is the result of 30 years of examination and refinement. One could argue that there is more to be learned, but not that analytical effort to date has been insubstantial.

[7] For purposes of this paper, it is important only that this markup exists. No position is taken on whether it is needed because attributable costs are low or because there are substantial economies of scale or joint production.

[8] The information on this service is from the Commission's Opinion, Docket No. MC97-5, April 31, 1998.

[9] The case was filed with the Commission under experimental rules with a proposed duration of two years. If successful, the expectation would be that a subsequent case would be filed to make the service permanent. Information developed during the experiment would be part of the case for permanent service.

[10] Ramsey pricing could be considered, but no information is available on the relevant elasticities.

giving reasons, the Postal Service has not acted on the Commission's recommendation, so Pack and Send does not exist as a service.

There is another dimension of Pack and Send that should be noted. Suppose, in the minds of the consumers, the packaging service and the shipping service are complementary. That is, consumers do want to have items wrapped but *do not* want to have them wrapped one place and then to take them to another place to arrange shipping. If the Postal Service does not offer a packaging service under such conditions, it is reducing its potential to offer an effective shipping service.[11]

The second product considered here is Mailing Online (MOL), now called NetPost. MOL was filed with the Commission on July 15, 1998 as a limited market test, to be followed by a 2-year experiment. The Commission issued a recommendation on the market test on October 7, and the Postal Service withdrew the request for an experiment on May 5 of the next year. On November 16, 1999, the Postal Service filed a request for a 3-year experiment. The Commission issued a recommendation on June 21, 2000 and the Postal Service selected an implementation date of August 7, 2000. Again, the purpose here is to summarize limited economic characteristics of MOL and its rates; a full review of all issues considered in the case may be found in the Commission's Opinion.[12]

The basics of MOL are reasonably simple. The mailer goes to the Postal Service's web site (www.usps.com, which is presumably well known and trusted) and supplies messages with associated addresses. The Postal Service assesses charges, checks the addresses for correctness, and sends the necessary electronic files to printing facilities near the intended delivery points. Using equipment at these facilities, all MOL files for the day are merged (or batched), the addresses are placed in the desired order (i.e., the mail is presorted on the computer), the printing is performed, and the resulting bundles (or trays) are submitted to the Postal Service as automated mail. In the ideal, there is only one MOL-type printing facility in each area. Therefore, the Postal Service achieves the greatest depth of presort allowed by the volume.

When it filed the case, the Postal Service explained that because it was relying on digital printing technology, MOL would be economical only for small mailings, and specifically for those not having special features. It argued that this is not the kind of mail that is attractive to letter shops and that many of the potential users were underserved. On this basis it provided volume estimates, saying that a substantial portion of the volume would be new.

From the start, the Postal Service's plan was that completed MOL mail would be submitted by the printer to a bulk acceptance facility, just like other bulk mail. The acceptance process, then, would be the same for all mailers, which precludes any economies of seamless entry that might be possible for an in-house operation. The postage charges for MOL would be the same as those for corresponding mail, except that the minimum volume requirements would be lower and MOL would not be eligible for deeper worksharing discounts.[13] Questions arose during the case about whether private firms running an MOL-type operation (which do exist) could submit mail on the same terms as an MOL printer, and the Postal Service agreed that they could. This agreement precluded any economies from having only one MOL-type mailer.

An interesting characteristic of MOL is that the destination printing facility is owned and operated by a private contractor. Excepting startup costs, the costs to the Postal Service of running the web site, checking the addresses, and sending the electronic files to the contractor (which may be called the support costs) are relatively low. In the case of a one-page document, for example, the support costs might be in the neighborhood of one-half cent and the contractor costs might be in the neighborhood of 13 cents. Therefore, except for an added complication that the contractor's bid could be distorted by a minimum payment feature in the contract, about 96 percent of the MOL portion of the Service's cost (as apart from the cost of processing and delivering the piece finally printed) is a market-based contract cost that includes taxes and a normal profit.

The pricing arrangement proposed by the Postal Service and recommended by the Commission is unusual. It involves multiplying a markup factor times the sum of the contract charge of the printer[14] and a

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[11] One could argue that a separate server could package the item and then decide whether to ship it with the Postal Service or another shipper. Note, however, that UPS recently purchased Mail Boxes Etc., suggesting that vertical integration is important.

[12] Opinion and Recommended Decision, Docket No. MC2000-2, June 21, 2000, available at www.prc.gov.

[13] Certain preparation requirements apply to all bulk-entered mail; it is worksharing beyond these basic requirements for which MOL is not eligible.

[14] These charges could vary geographically, depending on the bids received in the contracting process.

support charge. The Postal Service proposed that the markup be 30 percent and that the support charge be 0.1 cents per impression. The Commission found a more appropriate markup to be 52 percent (equal to the then system average) and that the support charge should be 0.5 cents. Deliberations in selecting the markup focused, among other things, on the fact that a similar service could be provided privately, on the uncertainty surrounding the volume forecasts, and on the degree of risk associated with the new service. Both the proposed and the recommended rates omitted certain development costs, under the reasoning that if the service were successful, these costs would be covered eventually.

Two additional characteristics of this service should be noted. First, if a printer not under contract with the Postal Service could attract sufficient volume and could piggyback for a small fee on the electronic service of a well-known web site, he could compete at a rate that might be in the neighborhood of the Postal Service's sans-markup cost. Under these conditions, which are characterized primarily by the heavy use of a contractor, the Service's cost without the markup would be an estimate of the stand-alone cost of the MOL portion of the service. Since the Postal Service is placing a markup on this cost, it may be asking MOL to cross subsidize other postal services. The Postal Service did not mention the concept of stand-alone cost in any part of its filing, despite the fact that it is central to the concept of cross subsidy.

Second, to get the mailer's total bill, the MOL fee as calculated above is added onto the postage rate for the mail involved. More specifically, for example, an MOL piece entered as First-Class Mail would pay the basic automation First-Class rate (unconstrained by the minimum volume requirement). Important to note is that MOL mail is undoubtedly lower in cost, on average, than other basic-automation mail and, second, that the basic automation rate itself has a high markup due to substantial averaging in the host subclass. Thus, the postage portion of the MOL piece has a low cost and a high rate relative to its cost. In the end, then, MOL stands, on the one hand, as a technological innovation and as a response both to e-mail and to the electronic world of the Internet and, on the other hand, as a product that is priced far above its cost and may be in the position of being asked to subsidize the existing mail base.

**4. Justifications and Difficulties**

Whatever may have been the reasons for setting up the Postal Service, with protection, as it is now, the point of departure of this paper is that it is justifiable to have a government postal service engaged in producing a product if it is possible thereby to do something special and valuable for the people that could not be done otherwise or that could be done otherwise only with great difficulty. In other words, can we do a favor for the people through a government postal service?

In line with this guidance, the possible justifications for government production are as follows. (1) If there are economies of scale or of joint production, having a government provider might allow a lower price than would be available otherwise. (2) If the demand for two (or more) services is complementary (as tends in some degree to be the case between Pack and Send and the traditional parcel service), then a postal service's effectiveness might be reduced if it does not offer both services. (3) It might be desirable to have a structure of rates or of service levels that competing firms would not provide. (4) Even accepting a competitive structure of rates and service levels, it might be desirable to extend service to geographical areas that competition would exclude.[15] (5) Having a government provider might be a means to an infrastructure that would provide wide-ranging (externality-like) benefits to the economy, for which it would be difficult to collect payment. (6) If reducing postal employment in the face of volume declines is not an option, there may be an interest in keeping existing resources fully utilized. (7) Having a government provider could help achieve social goals. It could also be a means to provide a needed service and then withdraw as the private sector rises to the occasion. (8) Interests in privacy, security, and reducing fraud could support having a government provider.[16]

As summarized in a *Federal Times* article,

> [t]he … Postal Service views its forays into electronic commerce [and, by extension, to non-postal products in general] as a way to boost flagging revenues. … Faced with declining

[15] Unless scale economies are substantial, protection might be needed to sustain any rate or service arrangements that competition would not provide.

[16] Note also that traffic, pollution, energy usage, and neighborhood security could be improved with one delivery agency instead of several.

revenues, fixed overhead costs and growing competition from electronic mail, Postal Service officials have said the agency must pursue new lines of business to survive. (Davidson)

The reasoning here seems to be that costs on the downside are substantially fixed and that, given a breakeven requirement, declines in traditional volume will cause significant rate increases, further volume declines, and possibly a death spiral. The question is whether revenues from non-postal products would help. Barring cross subsidies, they could help only if economies of scale or joint production allow low incremental costs for the new products. Otherwise, the new products would be self-supporting at best. In any case, the focus should be on the costs for the new products and not on the death spiral.

Other reasoning in support of non-postal products has been provided as well. In a letter to Congress on the subject, the Service said it is "enabling the private sector by providing essential infrastructure with universal coverage and access." It also said it might enter a new area and then leave when it is no longer needed, that what it is doing is a "natural extension" of its traditional role, and that its efforts might be viewed as helping to bridge the digital divide.[17] (Hopper) In the case of expansions of these kinds, however, it seems unlikely that there would be much contribution to covering fixed costs. In fact, a net burden could well be associated with producing them and the Postal Service might have to ask for Federal assistance in funding their production. Such products might help with social goals, but they would not help the Service deal with any financial needs associated with declining volume.

A service like Pack and Send might be justifiable as a complementary service. Another possibility is that a certain degree of idle time is inherent in even the best of window-service operations, and that Pack and Send is a candidate to use some of that time effectively. If this is the case, an appropriate cost analysis should show economies of joint production and a low incremental cost.

In many cases involving non-postal products, the resources used and the production facilities themselves are separate from those used in support of traditional products, precluding low incremental costs. In fact, as in MOL, some of the production is arranged under contract and is not being done differently from similar production in the private sector. It seems unlikely in these cases that a competitive price would do more than sustain the product itself. The chances are slim for a subsidy to help cover fixed costs, even if cross subsidies are allowed.

The argument that labor cannot be reduced in the face of volume declines and therefore that some other use of it should be found is a legitimate consideration. Several aspects of it should be explored. First, it is possible that any excess of labor is temporary and that adjustment to the lower volume level can be achieved in a limited period. Under these conditions, producing a non-postal product would not be a justifiable solution. Second, many non-postal products draw on different labor classifications or are arranged under contract, as discussed above. Producing these products would not use excess labor. Third, attention should be given to any cost analysis for the new products, which might show low incremental costs. Low incremental costs that are expected to prevail would be the preferred justification for a non-postal product.

One more issue warrants comment. Arguments are sometimes made that there are substantial scale economies in the mail system and that if volumes decline, unit costs will rise. This observation can be viewed as suggesting that steps must be taken to keep volume high. But this argument fails because scale is an outcome (of demand and competitive forces) and not an input. It is doubtful that biasing the economic system to generate mail volume is ever a good idea. Further, most non-postal products would do little to add to the scale of the basic postal operation of concern; but if they did, their low incremental cost would be their justification.

The *difficulties* associated with government production, to which we now turn, are rooted in the first instance in a general conviction that a large government organization should not be competing with the private sector, especially if the private sector is already producing the product in question. The basis for this conviction is that having the government involved will reduce competition, result in lower efficiency and higher prices, and reduce innovation in the long term.

There are specific difficulties as well, some of which are easily seen in the examples above. (1) It is not generally possible to assure a level playing field. This was seen in both MOL and Pack and Send in that there was no way to know what particular markup on cost was appropriate. A related issue is the difficulty of

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[17] Some recent observers have referred to the line between those with and those without Internet access as the digital divide.

adjusting returns for risk and of selecting a period over which to recoup start-up costs. In addition, it is not possible to separate the Postal Service as a competitor from the fact that it is backed by the Federal government. (2) There is no acceptable way to fund risky ventures or to impose the usual discipline on the risk-taking process. Specifically, the Postal Service has no source of funds and no method to cover losses, except by drawing on the revenues of mainstream postal services. The importance of this concern is bolstered by the experience to date, as discussed above, that the Postal Service has lost money on most or all of its non-postal ventures thus far. Complicating matters further is that many observers believe government managers to be unnecessarily risk averse.

An additional perspective on the difficulty of competing is that it may be unfair to the Postal Service to expect it to compete. Wage studies show that the Postal Service pays a premium in the neighborhood of 23 percent. (Wachter) Moreover, the Service's employee and manager incentive systems may be weak and its agreements with labor unions constrain its ability to adjust to change and to improve efficiency.[18] Beyond this, its relations with labor are far from ideal. According to a *Federal Times* article, quoting postal sources, "[a]busive managers, intense pressures to meet mail-delivery demands, budget cuts and distrust between managers and employees have created a work environment far more hostile than exists in other industries[.]" The article goes on to say that there were just over 126,000 outstanding workplace grievances, and that there is an "autocratic, abusive management style." (Young)

To the extent to which these observations apply, it is reasonable to view the Postal Service as a handicapped competitor. Under these conditions, it would not be reasonable to expect it to be able to compete effectively in an environment often characterized as demanding agility and responsiveness.

To be sure, it is often noted that the Postal Service has a number of advantages, such as not needing a net profit, not having to pay taxes, and not having to pay parking tickets. The problem is that it should probably be viewed as unfair for it to have these advantages. Also, some of its advantages may be mitigated by special benefits given to competitors, such as special tax provisions, targeted tax breaks, access to government owned capital assets, development subsidies, and direct subsidies. (Robinson) On balance, it is probably the case that the handicap view applies.

**5. Concluding Observations**

In an article written for the *Federal Times*, Mary Elcano, former General Counsel for the Postal Service, said:

> The market dynamics of the new economy pose an increasing threat to the long-term ability of the Postal Service to deliver universal service. If the decline in mail continues until the Postal Service is left only with the business no one else wants, Congress will be faced with unpleasant options: sell off an unwanted asset or bail out a dying business. (Elcano)

If this is a realistic projection, what can be done?

It is doubtful that this situation is being brought on by the universal service requirement. If rates were completely deaveraged and adjustments in service levels were allowed, it is probably the case that service to all areas and customers would still be available. (Cohen) Furthermore, the mail that would receive lower rates, which is currently being asked to subsidize the high-cost mail, would probably still leave the system for some electronic alternative. Neither is the situation being caused by increases in the number of delivery points, as the Postal Service often bemoans. New delivery points, which are occurring at 5,600 per day (Henderson), bring new volume with them.[19] Without new delivery points and their associated volume, the Postal Service would be worse off still. Instead of using the additional burden as an explanation of any problems it may view itself as facing, the Postal Service should be overjoyed at new delivery points.

It may also be questioned whether the problem is really a decline in volume. The Postal Service has a volume of about 1,540 pieces per delivery point per year.[20] [21] This is far more than that of most other

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[18] Some of these constraints are outlined by Froelke, who explains that most of the constraints were the outcome of the Postal Service negotiating with the unions and not of binding arbitration.

[19] New delivery points could generate volume with a lag, which would not affect their desirability. Also, new points could lower average costs due to increased scale and to the use of cluster boxes and curbside delivery.

[20] Derived from USPS Annual Report, 2000, p. 2.

countries.[22] Many countries have reasonably effective postal services at much lower volume levels than this. The problem, then, is either an inability to operate a tight system as the volume declines or an unwillingness to accept cost-based rates in a lower-volume system.

Even were it not for compelling arguments against government competing with the private sector, as outlined above, one may reasonably doubt that the Postal Service could solve any perceived problems by selling non-postal products. For one thing, most of these products would use facilities and systems that are somewhat separate from those used in the traditional postal business, thus suggesting that economies of a scale and joint production would not be available to allow costs lower than the private sector would incur. For another thing, as explained above, the Postal Service might fairly be viewed as a handicapped competitor. Under these conditions, the chances of a non-postal product successfully subsidizing traditional postal products are very low. Of course, even if this were possible in a marketing sense, one would have to ask serious questions about a policy of taxing non-postal products in order to help finance a traditional, non-compensatory postal system.

But even if a low-volume, cost-based mail service is acceptable, maintenance of the status quo might not be attractive. As explained above, many competitors are expanding into non-postal areas because of the complementarity of demand. If customers demand packages of services that include non-postal products, then the Postal Service can't exist as an effective entity without providing those products as well.

The question becomes whether there is a solution. The most common suggestion is some form of privatization. As former Postmaster General Paul Carlin said a 1999 speech at MailCom, the Postal Service "cannot compete as a half-government, half-private enterprise." It must forego its monopoly status, "subject itself to the discipline of the marketplace" and "give its employees and customers the opportunities to share in its future through stock ownership." (PostCom 10/22/1999) More recently, Postal Rate Commissioner Goldway explained that privatization would "save the institution from oblivion." (Goldway)

Private ownership would solve problems relating to the level playing field, how to handle risk, and the general conviction that governments should not compete. There are some issues, however, that would still command attention. An overarching one is whether the monopoly statutes and the mailbox rule would be eliminated. If they were not eliminated, then it would still be impossible to know whether the field was level, because there would be no way to know how much revenue should come from the protected area. If they were eliminated, there would be the problem of determining whether the private postal service was using any de facto monopoly power to extract revenue from groups that warrant special consideration. In either case, Congress might see fit to institute constraints that would place handcuffs on the new firm's ability to compete.

There would be other issues as well. The biggest one would have to do with labor's right to strike, and the new firm's freedom to achieve competitive wages and harmonious relations with the unions. This would include whether it is asked to carry pension obligations from the past. If these issues were not dealt with adequately, the new postal service would be doomed from the start.

Until the path from the current situation to that of a private firm is outlined more clearly than it has been thus far, and until a way is found to deal with some of these issues, it is unlikely that an offer to sell would be met with attractive bids.

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[21] Note that if economies of scale are anywhere near the magnitude argued by the Postal Service in its rate filings with the Commission, a delivery volume at this level should allow rates to be a fraction of those of any other country, which they are not.

[22] Volume per capita can be calculated from a chart on page 47, USPS Annual Report, 2000, including Italy 113, Great Britain 324, Switzerland 688, and US 745.

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