



*Econ Journal Watch,
Volume 1, Number 1,
April 2004, pp 61-81.*

DO ECONOMISTS REACH A CONCLUSION?

Postal Reform

RICK GEDDES*

DO VITAL ECONOMISTS REACH A POLICY CONCLUSION ON POSTAL REFORM?

[ABSTRACT, KEYWORDS, JEL CODES](#)

THE UNITED STATES POSTAL SERVICE IS THE OLDEST AND LARGEST public enterprise in America. Officially called the Post Office for almost 200 years, it facilitated communications between the colonies and carried messages to the nation's farthest reaches. Since the Postal Reorganization Act of 1970 it has distributed mail as the U.S. Postal Service (USPS).

USPS is massive by almost any standard. In 2002 it earned revenues of over \$67 billion and processed over 203 billion pieces of mail (U.S. Postal Service 2002) It is also important internationally and handles about 40 percent of the world's mail (Universal Postal Union 1993). The Postal Service also plays an important civic role, since it is the only federal agency with which a majority of Americans interact on a daily basis.

The Postal Service's total employment in 2002 was 854,000, which is larger than the population of Delaware. It is also over 50 percent more people than General Motors, the largest company in the world in terms of sales, employed in that year. By comparison, in 1999 there were approximately

* Department of Policy Analysis and Management, Cornell University.

923,000 lawyers, and 837,000 automobile mechanics, in the United States (U.S. Department of Commerce 2000).

Although it has made progress recently in cutting costs, the Postal Service appears to be undergoing a slow-motion train wreck. Its revenue base is eroding. In 2002, for the first time in recent history, the number of pieces of first-class mail delivered actually declined, by 1.28 billion pieces or 1.23 percent—the largest recorded percentage decline. First-class mail constitutes over 57 percent of the Postal Service's total revenue from mail. The decline in demand caused the Postal Service's revenue from first-class mail to fall by \$607 million—1.7 percent.

The Postal Service's other big mail class is standard mail—mostly advertising items—accounting for almost 25 percent of revenues from mail delivery. The number of standard mail pieces delivered in 2002 declined even more precipitously than first class, by 3 percent, while revenues from standard mail increased slightly due to rate hikes.

Other mail classes also showed declines in 2002. The number of priority mail pieces declined by 10.7 percent, express mail pieces declined by 8.6 percent, and the number of periodicals mailed declined by 1.8 percent. The number of packages mailed declined by 1.64 percent, and international airmail pieces declined by 15.4 percent. Unsurprisingly, the Postal Service's financial condition has suffered as a result. Its net loss in 2002 was \$700 million, following a \$1.7 billion loss in 2001.

There is a clear reason for this decline in demand for mail delivery. In the 34 years since the 1970 Postal Reorganization Act was implemented a momentous transformation has taken place in the communications marketplace. Through electronic mail, people can send written messages instantaneously anywhere in the world at low cost. New technologies, such as direct broadcast satellite (DBS) allow users to receive those messages without accessing their computers. The wide availability of facsimile machines and cellular phones, as well as lower long-distance telephone rates, have also played their part. Innovations in communications technology are likely to continue apace, causing further declines in the demand for physical mail delivery.

Additional rate increases will only encourage further substitution into communications alternatives. Nor is enhanced commercial freedom for the Postal Service, in its current form, a viable alternative. That would only encourage it to compensate for revenue shortfalls by unfairly competing in its non-monopolized services with private firms that do not enjoy the Postal Service's wide variety of privileges and immunities.

Barring a return to large annual deficits, and the accompanying direct taxpayer subsidies, the USPS is unlikely to remain viable for long in its present form. Meaningful structural change is necessary. The General Accounting Office has recognized this and issued a report to the Senate Government Affairs Committee stating that the “basic business framework of the Postal Service doesn’t look like it will work in the future” (quoted in Chen 2002).

WHAT HAVE VITAL ECONOMISTS SAID ABOUT POSTAL REFORM?

I define a vital economist as one who has produced scholarly research on postal services *and* who has expressed an opinion on the direction that reform should take. It is surprising how few economists have carefully studied this important institution, i.e., how small the pool of vital economists is. For example, no chapters of either the *Handbook of Public Economics* or the *Handbook of Public Finance* deal directly with the Postal Service, and very few articles in academic journals examine postal issues.

It is difficult to know why this important institution has received so little careful analysis from the economics profession, but the substantial amount of institutional detail required to understand postal issues may represent a substantial fixed cost. Moreover, that detail is highly idiosyncratic; it cannot easily be cross-applied to other firms or industries.

I now review the work of ten vital postal economists. Given the limited number of economists who have studied postal services, this represents a relatively broad survey of views on postal reform. These vital economists represent a variety of institutions, including government, business schools, economics departments, and public policy institutes. Academic institutions represented include Northwestern Business School, Ohio University, Rutgers Business School, the Wharton School, Yale Law School, and Yale School of Management. I first provide a biographical sketch for each vital economist and then summarize their views on postal reform.

RICK GEDDES

DOUGLAS K. ADIE

Douglas K. Adie is a professor of economics at Ohio University in Athens, Ohio, where he has taught since 1968. He holds a Ph.D. in economics from the University of Chicago. He has published numerous books and articles in professional journals on postal economics, minimum wages, privatization, and monetary history.

After a lengthy discussion of the social costs of the delivery monopoly, as well as the benefits of de-monopolization in other industries, Professor Adie recommends both repeal of the delivery monopoly and privatization of the Postal Service.

It will take positive constructive policy to turn this situation around and give the Postal Service a chance. Instead of waiting for the situation to worsen, events to overtake us, and much folly to be perpetrated, Congress should take a series of actions that will lead to the repeal of the private express statutes, divestiture, and privatization of the postal service (Adie 1989, 157).

He then discusses in detail how privatization and competition should be implemented. This vital economist is clearly in favor of substantial reform of postal markets in the United States, including both de-monopolization and privatization.

ROBERT H. COHEN

Robert H. Cohen has been the Director of the Office of Rates, Analysis, and Planning of the Postal Rate Commission since 1978. He has worked and written on economic issues related to postal rates for decades. He has written extensively on a variety of postal policy issues (as evidenced by the number of works cited in the references), but has focused on several issues of crucial importance to postal reform. He holds B.A. degrees in philosophy and mathematics from the University of Michigan and an M.A. in philosophy from the City University of New York.

The main justification given for the continuation of the postal monopoly is the preservation of a cross-subsidy from urban to rural customers created by a uniform rate. The size and cost of that cross-subsidy are crucial because they must be set against the costs of a legally enforced monopoly.

Mr. Cohen and his research team were the first to examine those issues empirically.

Strikingly, Mr. Cohen's research has revealed that *there is no significant cross-subsidy from urban to rural postal customers*—largely because of differences in the quality of mail service in rural versus urban areas. The rural customer must provide what is called “the last mile” of delivery service by picking up his or her mail from a cluster box, or from the end of a driveway, while urban customers often receive mail directly at their doors. The implications of this finding are far-reaching. The most concise statement of its policy implications were presented in Mr. Cohen's February 20, 2003 testimony before the President's Commission on the Postal Service. Mr. Cohen begins his testimony by stating that:

My colleagues from the technical staff of the Postal Rate Commission (PRC) and I have been studying these topics and related matters for more than a decade. Our conclusions cast grave doubt on much of what passes for conventional wisdom in discussions of universal service and the monopoly (Cohen 2003, 1).

The testimony also summarized the universal service argument for monopoly and should be quoted in detail (emphasis as in original):

The conventional view is that a monopoly is necessary to preserve universal service. Proponents of this position reason that a monopoly is required to sustain a cross-subsidy from profitable operations in urban areas to money-losing services in rural areas. If profits earned in urban areas are not protected by the monopoly, “cream skimmers” will undercut uniform prices and capture so much urban volume that the Postal Service will be left unable to afford delivery to rural areas and universal service would be lost. Moreover, the thinking continues, without the monopoly, the nation would lose the benefits of scale economies in delivery operations where fixed costs are high.

Although this economic rationale for the postal monopoly is widely accepted, our findings indicate that it is fundamentally mistaken. In brief, our major findings are as follows:

The cost of universal service is a surprisingly small portion of the Postal Service's \$70 billion budget. In 1999, losses on unprofitable routes were \$2.6 billion; about half of the losses were sustained on just ten percent of the routes. The cost of the 10,000 smallest post offices (out of a total of 28,000) was \$567 million. Six-day-a-week delivery is also frequently cited as a universal service requirement. An upper bound on the savings from eliminating a delivery day is \$1.9 billion (the daily fixed cost of residential delivery).

There is no urban to rural cross-subsidy. Analyses of revenues and costs by route show that routes serving rural areas are, in total, quite profitable. Overall, because the Postal Service is required to break even (i.e., earn no net profit), a large number of routes are necessarily unprofitable. However, the proportion of unprofitable routes in the U.S. is approximately the same for urban and rural areas. Volume, not population density or urban character, is the major determinant of profits on delivery routes in the U.S. . . .

The monopoly is not necessary to preserve universal service. An analysis of the competitive upstream market shows that only 16 percent of the mail would be susceptible to diversion for delivery by competitors of the Postal Service. Thus, for the foreseeable future, it would be difficult for competitors to accumulate sufficient volume to achieve unit costs below those of the U.S. Postal Service. The experience of countries that have abolished their monopolies confirms this finding. Moreover, posts in those countries have had very large cost reductions as a result of liberalization.

The costs of the monopoly exceed its benefits. In 1993, the Postal Service estimated its wage premium to be \$9 billion (i.e., the total amount by which postal wages exceeded wages for comparable jobs in the private sector). We calculated the scale benefits of having a single provider, as opposed to a duopoly, for delivery to be \$6 billion (Cohen 2003, 1-2).

Perhaps the most important elements of those findings for postal policy are: (1) that rural routes are profitable, (2) that the delivery monopoly is not necessary to preserve universal service, and (3) that the costs of the delivery monopoly exceed its benefits. This vital economist's conclusions support liberalization of postal market in the United States.¹

MICHAEL A. CREW AND PAUL R. KLEINDORFER

Michael A. Crew is Professor of Economics and Director of the Center for Research in Regulated Industries, Rutgers University School of Business. Paul R. Kleindorfer is the Anheuser-Busch Professor of Management Science and Professor of Decision Sciences, Economics, and Business at the University of Pennsylvania's Wharton School. As indicated by their contributions in the reference list, Professors Crew and Kleindorfer have published a large number of books and articles on postal issues.² They have also been instrumental in raising the level of discourse on postal reform by organizing a series of international conferences on specialized postal topics.

Because Professors Crew and Kleindorfer have conducted much of their postal work jointly, it is useful to consider their views together. Professors Crew and Kleindorfer have concisely expressed their views on postal reform in a 2000 book chapter entitled, "Privatizing the U.S. Postal Service." They begin by noting the lack of reasons for government ownership of postal services.

There are no strong technological, strategic, or economic reasons why postal service should be publicly operated. While it may be difficult to make a case for privatizing the armed services, there are no such strategic considerations with postal service. Postal service is a network industry. Other network industries – for example, electricity, gas, and telecommunications – are privately owned and operated. Postal service is arguably less important than any of the

¹ For additional background on Cohen's perspective see: Cohen and Chu (1997), Cohen, Ferguson, and Xenakis (1993), Cohen et al. (1999), Cohen et al. (2000), Cohen, Pace, et al. (2002), Cohen, Ferguson, et al. (2002), and Cohen et al. (2003).

² See, for example: Crew and Kleindorfer (1992), Crew and Kleindorfer (1993), and Crew and Kleindorfer (1994).

other network industries. It would be much more painful if the lights were out for half a day than if postal service ceased for an extended period (Crew and Kleindorfer 2000, 161).

They then move on to enumerate the benefits of privatization.

Absent privatization, there is no strong residual claimant to ensure a proper allocation of scarce resources. . . . The implications for the USPS are clear. Absent privatization or a schedule to privatize, the benefits to be expected from incentive regulation are likely to be reduced significantly.

Similarly, in the absence of privatization and residual claimants there is little incentive on the part of postal management to address the issue of the current labor relations framework within which the USPS operates. Unless there is a change in labor practices, the improvements in efficiency are likely to be small or nonexistent . . . (Crew and Kleindorfer 2000, 155-6).

We could go on at length as to the potential benefits from privatization of USPS and the creation of USPSI (U.S. Postal Service, Inc.). However, we recognize that privatization of the USPS, as in the USPSI, is no more than a dream at this stage. That does not reduce our belief that it should happen. Whether it will happen is a political matter . . .

We conclude that the case for privatization is strong. Although we recognize that a powerful case does not imply political feasibility we also know that political decisions arise from ideas. Privatization of the Postal Service is an idea whose time is overdue (Crew and Kleindorfer 2000, 152-3).

These two highly regarded postal researchers are clearly in favor of postal reform through privatization.

GEORGE L. PRIEST

George L. Priest is the John M. Olin Professor of Law and Economics at Yale Law School. His areas of legal research include antitrust, regulated industries, products liability, insurance, and civil procedure. Although he teaches in a law school, much of his research addresses economic questions. He authored an often-cited article on the history of the postal monopoly in the *Journal of Law and Economics* and has written a number of essays on the Postal Service (Priest 1975). Writing in 1994, in reference to his famous 1975 article, Professor Priest stated:

After a lengthy description of the colorful history of the Post Office, that article ended with what I regarded as a devastating critique of the postal monopoly as a mechanism of economic organization, revealing the monopoly's great failings and proving that no rational person could support its continued existence . . . (Priest 1994, 46).

The Postal Service remains today as the most significant example of socialism in the United States. We know from theory and the American public knows from the success of Federal Express, Purolator, and other competitors that there is no inherent reason for a government monopoly of the delivery of written communication. My article showed that the historical reasons for the survival of the monopoly were not strong (Priest 1994, 50).

Noting that standard economic arguments against the postal monopoly have been unsuccessful in bringing about reform, Professor Priest goes on to provide a spirited argument for liberalization of postal services.

In my view, to reform the Postal Service, it will be necessary to move beyond the calculation of subsidies, beyond the mechanics of efficiency, and even beyond the analysis of organizational form. However important these concepts and the values underlying them may be to economists, public policy regarding postal operations, just as public policy regarding the great revolutions against socialism in Eastern Europe and around the world, is motivated by a set of values

RICK GEDDES

related to the political commitment to freedom and democracy . . . (Priest 1994, 56).

The strongest argument in favor of elimination of the monopoly and of privatization of the Postal Service is that the citizenry and thus democracy in America can be made better off by freeing the forces of innovation and experimentation to empower the discovery of new methods of delivery that advance communication... (Priest 1994, 58).

It is clear in my view, thus, that the most fervent defenders of the role of postal delivery in promoting democracy must be the critics of the monopoly, not the reverse. Supporters of the monopoly and of the socialized features of Postal Service operations must be portrayed – as I believe they are in fact – as the enemies of true democracy who seek, through advocacy of the principle of universality, to tax the communication of all of us, stifling innovation and experimentation and burdening the communication of the citizenry to subsidize particular mail classes or high-cost routes (Priest 1994, 58).

It is clear that Professor Priest strongly favors liberalization of postal services.

PETER J. FERRARA

Peter J. Ferrara is General Counsel and Chief Economist at Americans for Tax Reform. He holds a bachelor's degree in economics and a law degree from Harvard University. He was associate deputy attorney general from 1992 to 1993. He has written extensively on economic issues, including Medicare and Social Security reform.

He has also written on postal reform, and has expressed his views on the direction he thinks reform should take. In his 1990 book on the Postal Service, Mr. Ferrara stated that:

The U.S. Postal Service is a monopoly by government decree. That is the problem. The law prohibits any other

firm or individual from delivering letters or other first class mail . . .

In a society that values freedom, the prohibition on private mail delivery should seem not only anomalous but authoritarian. The decision of one individual to hire another to deliver his or her mail hardly seems to pose the kind of threat to others that should be punishable as a crime. The prohibition of private mail service deprives consumers of the freedom to choose who will deliver their mail, and it deprives entrepreneurs and their employees of the freedom to pursue economic opportunities. The policy consequently adds up to a substantial restriction on economic freedom, which in itself should be good enough reason for repeal (Ferrara 1990, 1).

Mr. Ferrara then goes on to advocate repeal of the postal monopoly and privatization of the Postal Service, and is, thus, clearly in favor of postal liberalization.

SHARON M. OSTER

Sharon M. Oster is the Frederic D. Wolfe Professor of Management and Entrepreneurship at the Yale School of Management. Professor Oster has written extensively on non-profit enterprise and has studied the U.S. Postal Service.

Professor Oster concisely presented her views on postal reform in a 1995 book chapter. In a section entitled, “The Eroding Basis for Postal Regulation,” Professor Oster states:

A critical look at the legislative history of the postal monopoly suggests that economics played very little role in stimulating government intervention in this market; the principal force behind the granting of the monopoly was the political desire for universal service as a way to support the growth of the democratic state (Priest 1975). . . . But, however legitimate or not this motivation for market interference was in the 18th century, it is difficult to take this argument seriously in the modern period. In the current

period, Americans are surely more linked together by electronics than by mail and few would argue that democracy rests on as thin a reed as a universally priced stamp or universal home delivery.

A more modern basis for the monopoly involves scale economies. Here, too, the story is familiar to students of the other regulated sectors. To the extent that scale economies in mail are substantial, granting a postal monopoly and then subjecting it to regulatory oversight could well be in the public interest. Here, too, however, developments both in technology and in our broader understanding of the possibilities of economic engineering have reduced the salience of this story . . . In sum, the sands on which the postal monopoly rests are rapidly eroding (Oster 1995, 110).

Professor Oster goes on to examine the current organizational structure of the Postal Service, as created by the 1970 Postal Reorganization Act, and states that, “In sum, the 1970 Act replaced the overly-meddlesome, highly politicized oversight of the postal organization by Congress with oversight by a board which is under almost no control at all, coupled with sporadic Congressional inquiry when particular interests are threatened!”

She concludes her essay by suggesting some policy changes. She first advocates privatization of the Postal Service.

The advantages of moving in the direction of privatizing the postal service seem clear. Indeed, substantial improvement seems to be impossible within the current institutional structure. However well meaning reform efforts might be, the current structure of the Postal Service provides too few managerial incentives for any real re-engineering of the organization to occur (Oster 1995, 118).

Professor Oster goes further, however, to advocate horizontal dismantling of the Postal Service in addition to privatization.

The localized nature of postal scale economies suggests an additional avenue for reform: breaking up the postal monopoly horizontally, creating locally distinct – and locally

managed operations – to replace the cumbersome, nationwide system. Rather than having a national, U.S. Postal Service, in which central bureaucrats try to manage a vast network of local operations, the postal operations would be divided into local operations, perhaps organized around the regional bulk collection operations (Oster 1995, 118-9).

Sharon Oster, a vital economist on this issue, is an advocate of substantial reform of postal services.

JOHN C. PANZAR

John C. Panzar is the Louis W. Menk Professor of Economics at Northwestern University. He was head of the Economic Analysis Research Department at Bell Telephone Laboratories and is Associate Editor of the *Journal of Regulatory Economics*. He has written extensively on postal issues, and has expressed his views on how reform should proceed. Professor Panzar summarizes his policy views in a section of a book chapter entitled, “Should the Delivery Monopoly Continue?”

There remains the treatment of the local delivery monopoly itself. Even if natural-monopoly cost characteristics are present, there is no guarantee that the Postal Service is cost efficient. Removal of statutory entry barriers would subject it to a market test. Such a policy, however, has its risks. Even if the Postal Service were producing efficiently, there might still be profit opportunities for inefficient, cream-skimming entrants. In addition, the social objectives of universal service at uniform rates may require restriction on entry. . . .

Of course, a policy of free and open entry may be the only way to push the system to efficiency. Given the risks involved, however, it seems more prudent to reserve this policy as a last resort, to be implemented only after efficient pricing policies and franchise contracting have been fully exploited. These policy tools can provide powerful incentives for the creation of a cost-efficient network (Panzar 1994, 6).

RICK GEDDES

Professor Panzar is somewhat more conservative in his policy prescriptions than other commentators, in that he advocates attempts at novel pricing policies, such as efficient discounts, before the monopoly is repealed. He also advocates franchise contracting as an alternative, which is a way to introduce competition while maintaining more bureaucratic control. Notably, Professor Panzar accepts the notion that the current system of postal regulation can be improved upon.

J. GREGORY SIDAK AND DANIEL F. SPULBER

J. Gregory Sidak is the F. K. Weyerhaeuser Fellow in Law and Economics emeritus at the American Enterprise Institute and is a senior lecturer at the Yale School of Management. He holds a bachelors and a masters degree in economics, as well as a law degree, from Stanford University. Daniel F. Spulber, an economics Ph.D., is the Thomas G. Ayers Professor of Energy Resource Management and professor of management strategy at the J. L. Kellogg Graduate School of Management at Northwestern University. They have both written extensively on regulatory issues and have expressed their views about the proper direction for postal reform.

They conclude their book, *Protecting Competition from the Postal Monopoly*, with a cogent policy prescription for postal reform. They are quite clear on the need to introduce more competition into mail delivery, but also specify that competition must be introduced before privatization.

The path to more competitive and innovative mail service in the United States is not to facilitate predatory cross-subsidization by a government-owned monopolist. In other words, the proper policy is not one of congressional acquiescence to the unconstrained diversification and corporate aggrandizement of the Postal Service.

Rather, the policy most conducive to greater economic welfare is one of commercialization of the Postal Service. Such a reform package would repeal the Private Express Statutes and other statutory privileges enjoyed by the Postal Service, explicitly subject the Postal Service to the antitrust laws and all other laws of general applicability to private businesses, and relieve the Postal Service of its incumbent burdens, including the duty to deliver at a uniform national

rate to high-cost areas. The Postal Rate Commission would oversee the transition to competition and then cease to exist. This set of reforms might eventually lead to the privatization of the Postal Service, though it need not. Indeed, privatization would be unconscionable on economic grounds if it failed to provide for repeal of the Private Express Statutes (Sidak and Spulber 1996, 162-3).

These two vital economists clearly favor postal liberalization through the introduction of competition and the removal of special privileges for the Postal Service.

There is, thus, a surprising consensus among these ten vital economists on the need for postal reform and the direction it should take. The majority of economists surveyed here advocate some combination of demonopolization and/or privatization. There are differences of opinion about the order and details of reform, but none about its expediency. Indeed, only one vital economist advocates a go-slow approach.

NON-VITAL ECONOMISTS ON THE POSTAL SERVICE

The contrast on this policy issue between the views of non-vital economists, i.e., those who have not studied postal services, and vital economists is striking. In particular, non-vital economists often assume that government ownership, and legally enforced monopoly, are necessary in this basic commercial activity. For example, in the 9th edition of *Economics* Paul Samuelson writes in a subsection entitled “Government Production” that:

The post office was long a function of government . . . The reasons for drawing the line at one place rather than another are partly historical and are to some degree changing; but, economically, the distinction is not completely arbitrary. Thus, the courts have held that, in the special case of ‘public utilities affected with public interest,’ there is limited possibility of effective competition among many independent producers, so they must be *publicly regulated or owned*; but one would not expect the production of soap or perfume to be a

natural candidate for governmental operation (Samuelson 1973, 153).

Samuelson, in contrast to vital economists, although vague, leaves the textbook reader with the impression that a government-run post office is necessary. Also, where he italicizes his core conclusion, it is ambiguous whether the conclusion is that of the courts' or his own. He is content to rely on the courts for economic judgment in either case.

Writing twenty years later, and with much more research to call upon, Joseph Stiglitz includes a "Close-Up" sidebar in his textbook, *Economics*. The complete sidebar, "Productivity in the U.S. Postal Service," follows.

Gripping about the shortcomings of the U.S. Postal Service is a great American tradition. But the anguished complaints every time the price of a first-class stamp goes up are not really about money. After all, even if you sent a letter every day, which is probably more than most of us do, an extra 5 cents per stamp adds up to only about \$18 in a year.

More likely, knocking the post office is part of a deep-rooted suspicion about the inefficiencies of government. If the Postal Service is controlled by the government, it must be inefficient, right? Well, the prejudice used to have some truth in it, but no longer.

About four-fifths of total Postal Service expenditures go to paying postal employees, so measuring the productivity of these employees is the real test of the Postal Service. In 1950, the Postal Service delivered 90,000 pieces of mail per employee. By 1960, it was 113,000 per employee; in 1970, 115,000; and in 1975, 127,000.

These figures help explain why people do not have much faith in the Postal Service. During the 1960s, the productivity of the average postal employee barely budged. Over the quarter century from 1950 to 1975, the productivity of the typical employee increased by 41 percent. By way of comparison, business sector productivity for the economy as a whole increased by 85 percent from 1950 to 1975. The

Postal Service spent twenty-five years building its reputation for backwardness and inefficiency.

But unfortunately for all the complainers who enjoy bashing the Postal Service, the productivity figures have now reversed themselves. By 1980, the post office was delivering 159,000 pieces of mail per employee. By the end of the 1980s, the average had risen to 198,000 per employee. From 1975 to the end of the 1980s, the letters delivered per postal employee increased by 56 percent, which is a substantially larger increase in fifteen years than had been managed in the preceding quarter century. Over that same time, business sector productivity increased by only 18.4 percent.

The post office has become an American leader in productivity gains. Clearly, if led and managed appropriately, a government agency is no barrier to dramatic gains in productivity. (Stiglitz 1993, 188)

There are several profound differences between the views of this non-specialist and those of the vital postal economists surveyed above. First, postal economists are aware that rate hikes are, at least partially, passed on to consumers receiving items shipped through the mail even if they don't pay the higher postage directly. Second, Stiglitz suggests that critics of current postal organization are grippers and complainers who enjoy bashing the USPS for its own sake. The qualifications and introspection reflected in the above comments of vital economists suggest that is not the case. Third, Stiglitz presents disturbingly superficial evidence on increasing postal productivity. For example, he measures only labor productivity (pieces per worker), rather than total factor productivity. Using broader measures, most analysts find increasing productivity right after the 1970 act and slowing postal productivity subsequently. Fourth, he provides no analysis of why such gains might have occurred at that particular time. Perhaps those gains were the result of increasing competition from electronic mail, telephones, fax machines, and alternative providers, which suggests that there are further gains from repealing the monopoly. Does Stiglitz want us to conclude that government-owned monopoly is likely to result in more rapid productivity gains than private business as a general principle? The broad economic history of the twentieth century does not

support that conclusion, and it stands in stark contrast to the dismal assessment of postal performance offered by vital economists.

CONCLUSION

There are surprisingly few vital economists who have expressed views on the important topic of postal reform. The views of the ten surveyed here are, thus, likely to be representative.

The policy prescriptions of economists surveyed here are similar. The vital economist suggesting the most limited reforms merely recommends trying novel pricing policies before repealing the postal monopoly. All others advocate some combination of rapid de-monopolization and privatization and differ only in the order that those reforms should take. None of the vital economists surveyed here suggest that postal reform is unnecessary. In contrast, economists who have not studied the Postal Service in detail seem content with its current institutional structure.

REFERENCES

- Adie, Douglas K.** 1989. *Monopoly Mail: Privatizing the U.S. Postal Service*. New Brunswick: Transaction Publishers.
- Chen, Kathy.** 2002. Postal Panel Set to Increase Rates: First Class Stamp Will Rise to 37 Cents. *Wall Street Journal*, 22 March, A6.
- Cohen, Robert H.** 2003. Testimony before the President's Commission on the Postal Service. Online: <http://www.nonprofitmailers.org/capitol/cohen.pdf> (Cited: November 17, 2003).
- Cohen, Robert H., and E.H. Chu.** 1997. A Measure of Scale Economies for Postal Systems. In *Managing Change in the Postal and Delivery Industries*, ed. Michael A. Crew and Paul R. Kleindorfer. Boston, MA: Kluwer Academic Publishers, 115-132.

- Cohen, Robert H., William W. Ferguson, John D. Waller, and Spyros S. Xenakis.** 1999. An Analysis of the Potential for Cream Skimming in the United States Residential Delivery Market. In *Emerging Competition in Postal and Delivery Services*, ed. Michael A. Crew and Paul R. Kleindorfer. Boston: Kluwer Academic Publishers, 141-157.
- Cohen, Robert H., William W. Ferguson, John D. Waller, and Spyros S. Xenakis.** 2000. Universal Service without a Monopoly. In *Current Directions in Postal Reform*, ed. Michael A. Crew and Paul R. Kleindorfer. Boston: Kluwer Academic Publishers, 69-88.
- Cohen, Robert H., William W. Ferguson, and Spyros S. Xenakis.** 1993. Rural Delivery and the Universal Service Obligation. In *Regulation and the Nature of Postal and Delivery Services*, ed. by Michael A. Crew and Paul R. Kleindorfer. Boston: Kluwer Academic Publishers, 161-176.
- Cohen, Robert H., Carla Pace, Matthew Robinson, Gennaro Scarfiglieri, Vincenzo Visco Comandini, John Waller, and Spyros Xenakis.** 2002. A Comparison of the Burden of Universal Service in Italy and the United States. In *Postal and Delivery Services: Pricing, Productivity, Regulation and Strategy*, ed. Michael A. Crew and Paul R. Kleindorfer. Boston: Kluwer Academic Publishers, 87-106.
- Cohen, Robert H., William W. Ferguson, John D. Waller, and Spyros S. Xenakis.** 2002. Impacts of Using Worksharing to Liberalize a Postal Market. In *Liberalisation of Postal Markets*, ed. Gabriele Kulenkampff and Hilke Smit. Rheinbreitbach: Druckerei Plump KG, 83-112.
- Cohen, Robert H., Matthew H. Robinson, John D. Waller, and Spyros S. Xenakis.** 2003. The Cost of Universal Service in the U.S. and Its Impact on Competition. Forthcoming in *The Proceedings of Wissenschaftliches Institut für Kommunikationsdienste GmbH (WIK) 7th Königswinter Seminar on "Contestability and Barriers to Entry in Postal Markets."*
- Crew, Michael A. and Paul R. Kleindorfer.** 1992. *The Economics of Postal Service*. Boston, MA: Kluwer Academic Publishers.
- Crew, Michael A. and Paul R. Kleindorfer.** 1993. *Regulation and the Nature of Postal Services*. Boston, MA: Kluwer Academic Publishers.
- Crew, Michael A., and Paul R. Kleindorfer.** 1994. Pricing, Entry, Service Quality, and Innovation under a Commercialized Postal Service. In *Governing the Postal Service*, ed. J. Gregory Sidak. Washington, DC: AEI Press, 150-170.

- Crew, Michael A. and Paul R. Kleindorfer.** 2000. Privatizing the U.S. Postal Service. In *Mail @ the Millennium*, ed. Edward L. Hudgins. Washington, DC: Cato Institute, 149-161.
- Ferrara, Peter J.** 1990. Ending the Postal Monopoly. In *Free the Mail*, ed. Peter J. Ferrara. Washington, DC: Cato Institute, 1-10.
- Oster, Sharon M.** 1995. The Failure of Postal Reform. In *Deregulation and Privatization in the United States: 3 Hume Papers on Public Policy*, ed. Paul W. MacAvoy. Edinburgh, Scotland: Edinburgh University Press, 109-120.
- Panzar, John C.** 1994. The Economics of Mail Delivery. In *Governing the Postal Service*, ed. J. Gregory Sidak. Washington, DC: AEI Press, 1-11.
- Priest, George L.** 1975. The History of the Postal Monopoly in the United States. *Journal of Law & Economics* 18(1): 33-80.
- Priest, George L.** 1994. Socialism, Eastern Europe, and the Question of the Postal Monopoly. In *Governing the Postal Service*, ed. J. Gregory Sidak. Washington, DC: AEI Press, 46-59.
- Samuelson, Paul A.** 1973. *Economics*, 9th ed. New York: McGraw-Hill.
- Sidak, J. Gregory, and Daniel F. Spulber.** 1996. *Protecting Competition from the Postal Monopoly*. Washington, DC: AEI Press.
- Stiglitz, Joseph E.** 1993. *Economics*, 1st ed. New York: W. W. Norton.
- U.S. Postal Service.** 2002. *2002 Annual Report*. Washington, DC.
- U.S. Department of Commerce.** 2000. *Statistical Abstract of the United States 2000*. Washington, DC.
- Universal Postal Union.** 1993. *Survey of Postal Administration*. Berne: Universal Postal Union.

ABOUT THE AUTHOR



Rick Geddes is assistant professor of policy analysis and management at Cornell University. He holds a PhD in economics from the University of Chicago and was a visiting faculty fellow at Yale Law School in 1995-1996, and a National Fellow of the Hoover Institution at Stanford University in 1999-2000. His research interests include the effects of regulation on corporate governance, public utility regulation, postal economics, and the economics of women's property rights. He is currently writing a book on postal reform in the United States. His email address is: rrg24@cornell.edu.