

**The Future of Our Public Postal Service**

**Presented by Alan Barber**

**Director of Domestic Policy, Center for Economic and Policy Research**

**A Grand Alliance to Save Our Public Postal Service**

**Russell Senate Office Building SR-385, Washington, DC**

**July 26, 2018**

**12:00–1:00 PM**

---

*“You have to ask yourself if you want roads that used to be considered a public service to be rationed by income class.” — Uwe Reinholdt*

Thank you for the opportunity today to speak in support of a public US Postal Service (USPS) in the face of possible privatization or restructuring. My part of the discussion will focus on demonstrating why privatization is the wrong path forward for the USPS.

Following the expansion of public services by the government during the New Deal, privatization — the conversion of public, state-owned assets to privately managed assets — emerged as a cost saving strategy for governments at the local, state, and federal levels in the United States. Since the 1980s, privatization has been widely touted as a viable alternative to government run services and sectors. While there have been some instances in which privatization has successfully provided services to the public, much of our recent experience indicates that privatization often benefits private entities over the public, both financially and in terms of quality of service.

To gain a sense of what is at stake, though, it is worth consider the following: 1) the example set by other nations that have already privatized or corporatized their postal services; 2) examples of typical privatization attempts in the United States; and 3) examining the effects of postal service restructuring in the past.

Comments of Alan Barber, CEPR  
July 26, 2018

The Office of Management and Budget cites examples of postal service privatization in other nations — particularly Europe — as potential models for a privatized USPS. The timeline of European postal privatization varies across countries. The outcomes of these efforts, though, has been consistent, and those outcomes have largely been less than stellar for customers and employees. Proponents of the privatization of public services often argue that profit motive serves as an incentive for a firm to minimize costs and maximize consumer benefits. And while similar arguments were made around postal privatization in Europe, the push to maximize returns resulted in a drop in employment in postal services, price increases, and lower service quality.<sup>1</sup>

Despite projections of jobs gains ahead of privatization and corporatization efforts, there were notable reductions in staff size at European posts following implementation. Privatized postal services in Germany created over 16,000 jobs but Deutsche Post, the German national postal service, cut 38,000 jobs. In the Netherlands, there was a net drop of 12,000 jobs.<sup>2</sup> From the initial transition to a privatized model through the present, postal sector employment is down by 32 percent in the UK, 31 percent in Belgium, and 25 percent in France. This has, in turn, led to a reduction in postal retail hours, decreases in mail delivery access, and consolidation of delivery routes that have impacted service and access for customers.

Royal Mail, the United Kingdom’s private postal service, failed to meet its “overall performance target” in fiscal year 2015–16, the year after the UK sold its remaining shares of the company.<sup>3</sup> Portugal has closed almost a third of its post offices and 13 percent of postal access points since privatization. At the same time, prices associated with postal services have increased by 20 to 30 percent on average in countries that have privatized services, climbing as high as a 50 percent increase in the United Kingdom.<sup>4</sup>

---

1 Hermann, Christoph. 2013. “The Liberalisation of European Postal Markets and the Impact on Employment and Working Conditions.” Vienna, Austria: FORBA, FORBA Research Report 3/2013. [http://www.forba.at/data/downloads/file/911-FB\\_03\\_2013.pdf](http://www.forba.at/data/downloads/file/911-FB_03_2013.pdf).

2 UNI Global Union et al. 2018. “Transformations and bargaining of work and employment in the European's postal services.” Brussels, Belgium: NETPoste. [http://www.uniglobalunion.org/sites/default/files/files/news/netposte\\_rapporteng\\_ultima.pdf](http://www.uniglobalunion.org/sites/default/files/files/news/netposte_rapporteng_ultima.pdf).

3 Ofcom. 2016. “Own-initiative investigation into Royal Mail Group Limited concerning compliance with Designated USP Condition 1.9.1 regarding the quality of service performance of D+1 universal service mail.” London, UK: Ofcom. [https://www.ofcom.org.uk/about-ofcom/latest/bulletins/competition-bulletins/all-closed-cases/cw\\_01183](https://www.ofcom.org.uk/about-ofcom/latest/bulletins/competition-bulletins/all-closed-cases/cw_01183).

4 WIK-Consult. 2013. “Main developments in the postal sector (2010-2013).” Bad Honnef, Germany: WIK-Consult. <https://publications.europa.eu/en/publication-detail/-/publication/2a435533-0c31-40a3-b5a4-e3d26b7c467f>.

Comments of Alan Barber, CEPR  
July 26, 2018

Price increases and workforce attrition were not the only mechanisms employed to increase profit. Public sector postal wages in Europe have been cut — in some cases by as much as 30 percent — and benefits have been slashed. Wages in the new private sector postal jobs are even lower in many cases.

Turning back to the United States, we should consider the following: the impact of the privatization of other public services in the United States, the impact of previous restructuring efforts on the USPS, and the potential impacts of privatizing the USPS.

Efforts at privatizing services in the United States have often had negative outcomes for the public. In 1995, Caltrans, the California Department of Transportation, contracted out for the construction of a toll road in the form of express lanes on SR 91. The California Private Transportation Company, the private partner in this venture, then leased the toll roads from Caltrans, initially for a 35-year period. However, the contract contained a no-compete clause which did not allow capacity improvements to SR 91's other lanes. Due to a need to make improvements to relieve the growing traffic congestion, CalTrans bought out the contract in 2003.<sup>5</sup> That same year, the city of Atlanta retook control of their water system from United Water who had been slated to manage the system through 2019.<sup>6</sup> The \$428 million deal was hailed as a model for future privatization projects, but after workforce attrition, poor maintenance, overcharging the city and failing to rein in rate hikes, the contract was nullified.<sup>7</sup> In 2008, Chicago privatized their parking meters by way of a 75-year lease to a private consortium led by Morgan Stanley. The consortium continues to reap increasing yearly returns. Consumer experience has largely been negative due to steep rate increases — over 100 percent from 2008–2013 — and declining maintenance standards for meters, resulting in broken equipment and overcharging.<sup>8</sup>

---

5 Center for Innovative Finance Support. 2018. "Project Profile: 91 Express Lanes." Washington, DC: Federal Highway Administration. [https://www.fhwa.dot.gov/ipd/project\\_profiles/ca\\_91expresslanes.aspx](https://www.fhwa.dot.gov/ipd/project_profiles/ca_91expresslanes.aspx).

6 Jehl, Douglas. 2003. "As Cities Move to Privatize Water, Atlanta Steps Back." *The New York Times*, February 10. <https://www.nytimes.com/2003/02/10/us/as-cities-move-to-privatize-water-atlanta-steps-back.html>.

7 Public Citizen. 2003. "The water privatization "model"; A backgrounder on United Water's Atlanta fiasco." Washington, DC: Public Citizen. <https://www.citizen.org/sites/default/files/atlantafiasco.pdf>.

8 Spielman, Fran. 2018. "Parking meter deal keeps getting worse for city as meter revenues rise." *Chicago Sun Times*, May 14. <https://chicago.suntimes.com/politics/parking-meter-deal-keeps-getting-worse-for-city-as-meter-revenues-rise/>.

Comments of Alan Barber, CEPR

July 26, 2018

It is worth noting that the examples of US cities and European countries pertain to entities much smaller than the USPS. Any attempts to privatize the Postal Service would likely face even more challenges simply based on the sheer size of the USPS.

Over the course of the past 12 years, reforms that fell well short of privatization have had a significant impact on the USPS. Beyond the burdensome and unnecessary pre-funding mandate stemming from the Postal Accountability and Enhancement Act of 2006 (PAEA), restructuring, such as the indexation of postage rates-to-inflation, has cost the USPS more than 300,000 jobs and the number of mail processing centers has fallen from 600 to 300.<sup>9</sup> As a result, hours have been reduced in post offices across the country and mail service standards have degraded.

These effects would have been compounded had USPS moved forward with a plan to contract out to Staples. In an effort to save money, USPS would have initiated a pilot program allowing Staples to offer many of the services exclusively offered by retail post offices. If fully adopted, this would have represented a huge shift of well-trained and well-paid jobs to lower wage positions with little to no postal training. The Office of the Inspector General, the oversight body for the USPS, found that such a move would actually cost the post office money due to improper postage charges and clerical errors.<sup>10</sup>

The effects of further restructuring of the USPS would ripple throughout the economy. The mailing industry supports over 8 million jobs and accounts for well over a trillion dollars in revenue or roughly 8 percent of US GDP. Further, a thriving public Postal Service is key to the rapidly growing e-commerce industry. This is especially the case in rural and urban areas with a low density of delivery wherein USPS provides affordable service and, in many cases, makes deliveries to remote locations that private companies may not service. Private entities without existing infrastructure would be challenged to provide services to these areas without substantial rate increases compared to current USPS rates.

---

<sup>9</sup> For background on the future retiree prefunding mandate, see: Clemente, Frank and Tom Kiley. 2010. "Congressional Mandates Account for Most of Postal Service's Recent Losses." Washington, DC: Economic Policy Institute. <https://www.epi.org/files/page/-/pdf/BP268.pdf>.

<sup>10</sup> USPS Office of Inspector General. 2016. "Approved Shippers Pricing and Customer Service." Arlington, VA: USPS Office of Inspector General. <https://www.uspsoig.gov/document/approved-shippers-pricing-and-customer-service>.

Comments of Alan Barber, CEPR  
July 26, 2018

As discussed by other panelists today, the USPS balance sheet is somewhat misleading and very much the result of legislative and policy mistakes. The Postal Service is and can continue to be financially viable. This is even more so the case if services were expanded. USPS owns over 8,000 properties totaling over 300 million feet of interior space as of 2012, in towns and cities across America. These are community hubs that could easily perform services such as driver's license renewal and issuing permits and other licenses while earning additional revenue. Postal banking is perhaps one of the most attractive expanded service options. Such a system would provide basic services, such as simple checking and savings accounts, issuing debit cards, and offering small loans. In addition to representing a substantial boost to revenue, it would increase economic security for millions of unbanked Americans.

The promise of a robust Postal Service is an important public good. The examples presented here demonstrate that privatization of public goods typically benefits those privatizing at the expense of consumers and workers. It is clear that if allowed to address past restructuring to increase revenues, a public USPS can continue to thrive. It is crucial that resolutions such as H.R. 993 pass so that the USPS can continue to uphold its mandate of affordable universal service.