

Postal Markets between Monopoly and Competition  
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# Why America Sleeps: Explaining the U.S. Failure to Address Fundamental Postal Reform

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(personal views of author only)

# 1. Historical Development of U.S. Postal Policy

# Post Office Dept (1782-1970)

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- Post Office was crucial to development of the federal government
- Congress, not President, controlled Post Office
  - Congress specified postal routes until 1884
  - Congress set postage rates until 1970
  - Congress selected most postmasters until 1970.
  - Ultimate control vested in the Committee on the Post Office in House and Senate

# Consequences of Congressional Control

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- Comprehensive legal reform rare
  - Postal codes 1825, 1872, 1960
- Key legal provisions are old and unquestioned
  - Postal monopoly law was adopted in 1872 and last debated in 1845
- U.S. postal policy was very political
- Administration gained no experience in postal policy

# Origin of Postal Reorganization, 1970

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- Post Office was unable to keep up with growth in mail due to post WW II prosperity
  - 1966. Breakdown of Chicago post office
- Presidential Commission appointed in 1967
  - Composed on leading businessmen
    - Chaired by ex-chairman of telephone monopolist
  - Recommended a “business-like” postal service free of Congressional control
    - Did not recommend Rate Commission

# Postal Reorganization, 1970

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- Objective: managerial independence
  - Congress barred from influencing appointments
- Ultimate authority: Board of Governors
  - 9 Governors appointed for 9-year terms
  - Governors appoint Postmaster General, set rates
- Postal Rate Commission
  - Ex ante review of domestic rate changes
  - Limited authority to police price discrimination
- Transition took about a decade

## 2. Postal Reform of 2006

# Origins of McHugh Bill: 1991-98

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- 1991. USPS concludes PRC control is too intrusive and must be limited
- 1995. Republican John McHugh becomes chairman of HR Postal Service Subcommittee
- 1996. McHugh bill - first draft
- 1997-1998. McHugh bill completely revised
  - For: Postal Service, most postal unions, major mailers, FedEx
  - Against: largest postal union, large newspapers, parcel companies

# Reform Stalled: 1999-2003

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- 1999-June 2002. McHugh bill stalled and then rejected by HR Govt Reform Committee
  - Key: Democrats refused to cooperate
- Dec 2002. Presidential Commission appointed
  - Urged by mailers
  - Inadequate time or resources
  - Report in July 2003 endorsed McHugh Plus
- Postal pension act of 2003
  - Relieved USPS of excess pension fees until 2006

# Reform Adopted: 2004-06

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- 2004. Reform bills revived
  - Presidential Commission gives visibility to reform
  - Democrats work with McHugh to revise bill
  - Mailers/USPS became concerned over pension fees
  - HR and Senate committee approve bills
- 2005-06. Reform adopted
  - Further delay: end-game disputes among parties
  - Administration opposes pension fee relief
  - Dec. Bill adopted at very end of Congress

# Overall

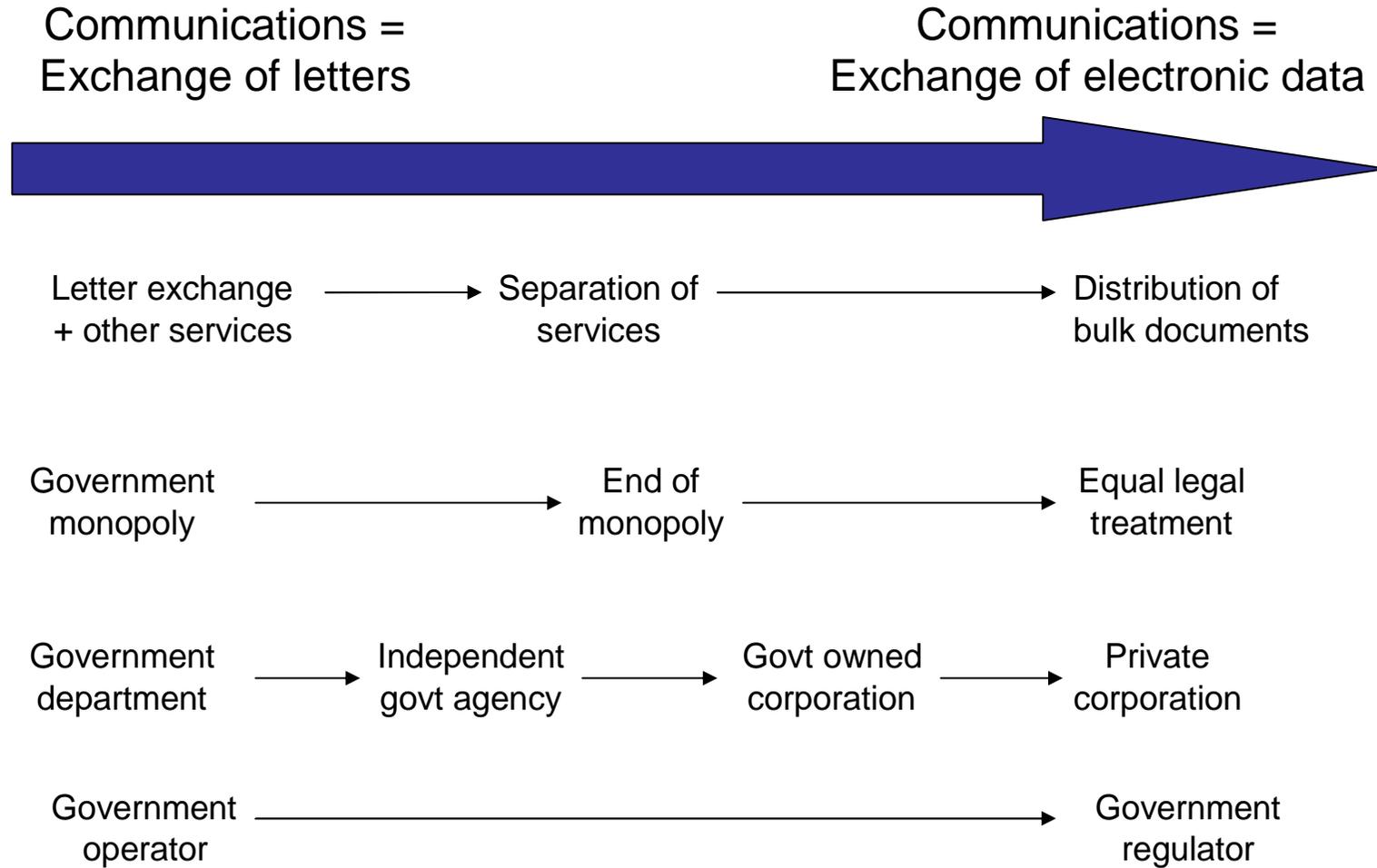
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- Postal reform bill took 11 years (1995-2006)
- 2006 law is primarily based on McHugh's proposal of early 1998.

### 3. U.S. in Relation to Other Industrialized Countries

# Arrow of Postal Reform

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# US v. Other Industrialized Countries

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|  | US | EU | UK | DE | NZ |
|--|----|----|----|----|----|
| Repeal of reserved area  |    |    |    |    |    |
| Institutional transformation   |    |    |    |    |    |
| Separation of commercial and governmental functions                          |    |    |    |    |    |
| Definition of public service objectives (universal service)                  |    |    |    |    |    |
| Control of anticompetitive activities (accounts, antitrust, equal treatment) |    |    |    |    |    |

Draft of

# Summary

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- U.S. has done little to reform the fundamental parameters of postal policy: monopoly, institutional organization, or definition of universal service
- U.S. does a good job of ensuring fair competition primarily by accounting controls
- Postal reform of 2006 is a significant step, but far behind most other industrialized countries.

## 4. Why? Most Common Answers

# Common Explanations

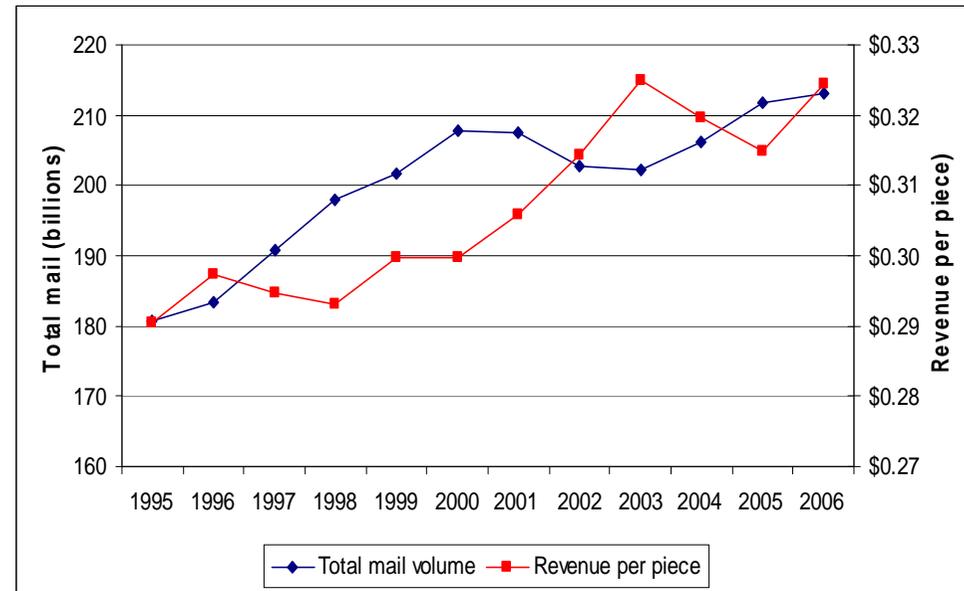
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- Congress only acts in a crisis
- Key opponents are too politically powerful
  - Postal unions
  - Postal Service
  - Major mailers
  - Competitors
- 1970 Act was so advanced that there was less need for change in the U.S.

# Congress Acts Only in a Crisis

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- For
  - 1970 Act resulted from crisis
- Against
  - Deregulation of other US sectors without crisis
  - No postal crisis in 2005-06
- Yet
  - 2003 pension act implied legal crisis?



# Powerful opponents: Postal Unions

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- For
  - Large interest in preventing change (up to \$10 bil/yr)
  - Unions blocked reform of mailbox monopoly
- Against
  - Unions could not block couriers in 1970s
  - Largest union could not block 2006 act
  - Postal unions have different interests
  - Excess wage issue creates political vulnerability
  - Unions in other countries could not block reform
  - Unions in other US sector could not block reform

# Powerful opponents: Postal Service

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- For
  - Postal Service is well respected by public
  - Most all legislators praise USPS
- Against
  - USPS failed to block 2006 act
  - USPS has never been politically adept
  - Incumbents in other countries could not block reform
  - Incumbents other US sector could not block reform

# Powerful opponents: Major Mailers

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- For
  - Large interest in status quo (700 items per cap.)
  - Mailers were crucial in passage of 2006 act
- Against
  - Mailers are split: Letter mailers are leaving system
  - Mailers had little role in writing 2006 act
  - Mailers in other countries support reform
  - Reform will benefit mailers

# Powerful Opponents: Competitors

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- For
  - Political power of competitors is evident
- Against
  - Competitors failed to block 2006 act
  - Newspapers are in decline
  - Competitors interests are split and changing
  - Competitors in other countries could not block reform

# Perfection of 1970 Act

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- For
  - Increase from 400 to 700 items per cap since 1970 (downstream access)
  - Substantial liberalization of U.S. market if downstream is considered
- Against
  - Successes due primarily to technology, not reform
  - 1970 act does not address basic reasons for reform in other countries other than accounting controls

# Summary

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- The common explanations have limited explanatory force.
- They do not satisfactorily explain the unique slowness of the U.S. to liberalize postal markets in wake of liberalizations other network markets.

## 5. Why? Alternative Explanations

# Usual Prerequisites of Reform

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- Comprehensive, authoritative studies
  - EU: Postal Green Paper (1992)
  - Australia: Industry Commission Report (1992)
  - UK: Green Paper (1994)
  - US airline industry: economic studies; Kennedy committee report (1976)
- Legal imperative
  - EU: Remail case (1988); repeal of directive (2002)
  - US telecomm (MCI, 1978); ATT (1984)

# Why No Postal Studies in the US?

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- Few comprehensive policy studies
  - Except for PRC which did not press consequences (monopoly, cost of universal service, international policy, etc.)
- No executive department is responsible for postal policy
  - Postal policy was historically committed to Congress, not executive
  - 1970 act separated postal service from government
  - Congress has limited fact-gathering ability

# Why No Legal Imperative?

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- USPS used rulemaking authority to avoid monopoly confrontation
- USPS exempt from competition rules
- Other possible issues not challenged

# Basic Flaws in 1970 Act (I)

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- Created large vested interests . . .
  - Postal Service managers gain autonomy
  - Postal unions gain right to uncapped monopoly rents
  - Well-compensated postal rate bar created by PRC review

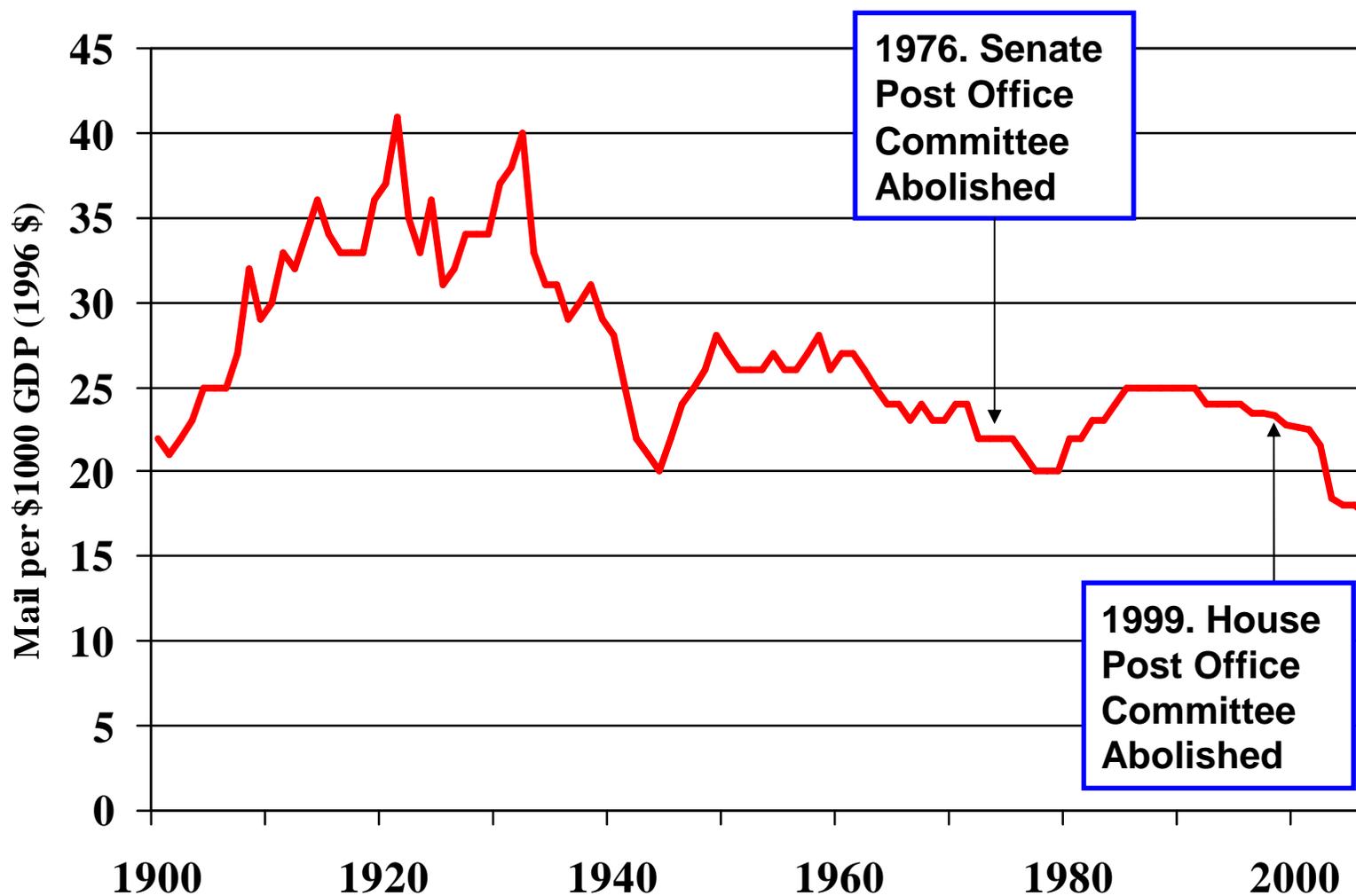
# Basic Flaws in 1970 Act (II)

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- . . . but lacked mechanisms to foster change
  - PRC cannot modify monopoly or USO
  - Monopoly protects USPS from market
  - No govt office/PRC is responsible for postal policy
  - USPS is empowered to restrain political unrest with rulemaking power and threats to mailers
  - President has little power to change Board of Gov.
  - Neither Board nor PRC designed to attract top talent
  - No sunset provisions in law (e.g. EU 2002)

# Decline in Political Importance of Post

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# Conclusions

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- The political process which induces reform of a regulatory framework is rarely apparent to those who work within it
- Slowness of the U.S. to address fundamental postal reforms is due primarily to basic flaws in postal law of 1970
  - Created large vested interests
  - Failed to create mechanisms for adaptation or self-renewal

# Sound Regulatory Principle #8

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“8. Self-renewal. A regulatory framework should include appropriate mechanisms to induce fundamental review and permit appropriate modification to act as a counterweight to the vested interests accompanying any regulatory framework.”

(Addendum to famous WIK study)