Will Postal Reform Leave Rural Americans in the Cold?

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KEY TAKEAWAYS

The monopoly held by the U.S. Postal Service (USPS) has been shattered by digital alternatives to letter mail, sending the USPS into financial crisis.

This does not mean the end of rural mail. Many rural routes pay for themselves, and many others could do so with cost-saving service changes and new technologies.

Congress must give the USPS the flexibility to pursue service changes. Innovation should also be fostered by allowing the private sector to offer mail service.

Would postal reform kill rural mail delivery? Some argue that reforms to give the U.S. Postal Service (USPS) more flexibility to decide its service levels and allow competition from private companies would leave rural areas behind, damaging or ending mail delivery to more remote locations. But the world in which government monopolies could keep competitors at bay is rapidly disappearing. Alternatives to letter mail from e-mail and other new technologies has already shattered the USPS and is driving it to bankruptcy. Change is inevitable. But rather than posing a threat to rural Americans, innovation and targeted service changes, accompanied by an end to political control over the postal system, could be the best hope for continued mail service to rural areas.

Rural Postal History

When Congress established the United States Post Office in 1792, its mandate did not include rural areas. Letter delivery was only considered feasible in cities. Home delivery was at first not offered; all mail was picked up by the customer at the local post office.

Postage rates were high, with rates between 6 cents to 25 cents for each sheet of paper delivered.[1] Still, business boomed, and by 1863 post offices found themselves unable to handle the crowds. To ease the problem, home delivery of mail was established—but only to urban areas, where "the service was deemed effective."[2]

Rural areas were considered too costly to serve until 1893, when Rural Free Delivery was established.[3] To get delivery, 100 families on a route had to request service for the route. This request then had to be approved by Congress, with the appropriate legislation introduced by a local Congressman. Members of Congress were all too happy to take credit for the new service for their constituents, and rural delivery service grew.

For most of the late 19th century and 20th century, the Post Office operated at a loss. These losses were tolerated, as mail was considered essential to tying together the nation, especially sparsely settled rural areas.

Universal Service

The expansion of delivery to rural areas led to the development of the concept of "universal service," and the Post Office was charged with providing service to all parts of the nation—rural and urban. Specifically, as codified in 39 U.S. Code, section 101, the postal service has the obligation to "provide prompt, reliable, and efficient services to patrons in all areas" and shall "render postal services to all communities." The USPS is also required to provide a "maximum degree of effective and regular postal services to rural areas, communities, and small towns."[4] Another statutory provision requires that mail service be provided nationwide at uniform rates.[5] Aside from appropriations riders providing that no small post office be closed solely for operating at a deficit and mandating six-day-per-week delivery, Congress does not specify the quality or extent of service.

Universal service obligations have in effect created a system of cross-subsidy of high-cost areas by lower-cost areas. Widely seen as a rural subsidy, it has been funded by keeping urban rates higher than necessary. The system was protected by "private express" statutes banning anyone else from offering mail delivery services.[6]

The Post Office, which in 1970 became the United States Postal Service, operated under this business model for a century. In the early years, it was self-sustaining, delivering mail throughout the country, often with an end-of-year surplus.

Digital Tech Brings Change

The advent of digital communications technologies changed the landscape for mail delivery. Personal letters were replaced by e-mail. Business mail started declining next. It was—and is—hard to see where the changes will stop.[7] In all, letter-mail volume has shrunk by almost 50 percent since 2001.[8] The USPS has lost money 13 years in a row, with a total loss of $78 billion over that period.[9]

The spread of communications technology has permanently changed the economics of mail. The system under which mail service in high-cost areas was supported by high profits from urban customers no longer works. Peter is no longer able to pay Paul.

The threats to traditional mail service came from the digital revolution and that revolution in communications cannot—and more important— should not, be reversed. The problem is not new technology; the problem is the lack of reform.

End of the Small Town?

Rural areas are doomed, say some.[10] They predict that without substantial subsidies from Congress, postal service in rural areas will become unaffordable. Mail would become a luxury available only in big cities, leaving rural areas to wither. Such dystopian views are off base. Not all rural service is unstainable, and costs in the areas that are not sustainable can be reduced by targeted service changes and potential technological advances.

A major point of contention is the closing of rural post offices. Even before the rise of digital competition, many rural post offices were of questionable utility. Many had fewer than 10 customers per week.[11] In an effort to save costs, in 2011 the USPS announced a plan to close over 3,600 unneeded post offices. While 80 percent of these were unprofitable, that was not strictly the reason for closing. Savings would be about $200 million per year, a small portion of USPS' deficit, though still significant. But the plan met with intense opposition in Congress, and the USPS soon withdrew it. The episode shows the difficulty of achieving any reforms to mail service.

As a first matter, rural mail delivery has not been as dependent on the rural subsidy as is generally believed. In past years, the number of rural routes that are profitable is about the same as the number of profitable city routes. The difference is that while the density of rural routes area is lower, each address is easier to serve because city routes tend to require individual delivery to an address, either to a curbside mailbox or directly to the door. Rural routes by contrast, typically use roadside delivery, where mail is picked up along a main route.[12] An extensive 1993 study by economists Robert Cohen, William Ferguson, and Spiro Xenakis concluded that only the bottom quintile of rural routes, ordered by density, had costs that exceeded their revenue.[13] Eighty percent of rural postal routes turned a profit.

What the percentage of profitable rural routes today is open to debate. The 1993 study, while likely the most extensive, was prepared before the USPS's long succession of deficits and revolutionary technological changes. It stands to reason that fewer rural routes, as well as fewer city routes, are in the black today. This problem can best be addressed through service reforms. More mail could be delivered to central locations, such as post offices, reducing delivery costs and increasing the use of retail facilities (ironically, shoring up the rural post offices at the center of controversy several years ago). At the same time, new technologies, such as drones, promise to reduce the cost of delivery significantly, especially in less densely populated areas.

These changes need not be confined to rural areas, but may be more appropriate in some areas than others. The USPS can make many such changes now—but Congress has made many reforms off limits. More flexibility is needed.

Competition is also important for protecting rural service. Innovation is increased by having a challenger on the block, able to look at problems with a different eye and imagine a solution. But direct competition in letter mail is banned. Congress should lift that ban.

If necessary, Congress could also establish a subsidy program for the hardest-to-reach Americans, ranging from Inuit villages north of the Arctic Circle to survivalist compounds in eastern Idaho. The cost of any such program should be subject to annual congressional appropriations, with full transparency of all expenses. This is different from today's opaque cross-subsidies, the cost of which is hidden from view.

Ideas from Abroad

Many other countries have implemented similar service and competition reforms in their own mail markets. Germany, for example, has privatized

mail delivery, recasting the government postal provider as a private corporation and opening up the mail service to competition, while maintaining limited universal-service requirements. There is no requirement that rates be uniform nationwide, although they must be affordable. If the government finds that universal service falls short in an area, the Deutsche Post—the former monopoly provider—can be ordered to provide service to the area.

The system seems to be working. New entrants to the liberalized postal marketplace have gained a 10 percent market share. In a study of the German postal market, the Postal Regulatory Commission noted that German reforms have "had a positive impact." Prices have decreased for private customers and businesses.[14]

Of course, there are very significant differences between the postal environments of Germany and the U.S. Importantly, population density is much higher in Germany. In addition, the now-private Deutsche Post was sold with a substantial dowry, as the German government forgave €37 billion in pension liabilities.[15] But even noting that, Germany's response for the challenge of maintaining mail service in an Internet world can be a model for the U.S.

Recommendations for Congress

The Postal Service has been forever changed as digital alternatives significantly replaced "snail mail." The status quo is untenable, and change is necessary. Policymakers should take several steps to ensure that rural postal service can remain viable, such as:

- **Giving the postal service more flexibility** to decide the level of services appropriate to an area, including days of service per week.[16]

- **Encouraging innovation by allowing private entrepreneurs to offer services,** especially where the USPS failed to do so.

- **Exploring the possibility of establishing a small fund, if necessary,** to assist those in the highest-cost areas. The fund should be on budget, transparent, and limited to those truly in need.

Conclusion

The postal monopoly system that prevailed for a century no longer works. It has succumbed to competition from the Internet. Many predict

major hardships for Americans, especially in rural areas, and have called for massive federal subsidies to help replace the monopoly model. But that is unnecessary, unworkable, and counterproductive. Rather than dreading reform, rural Americans should cheer the replacement of monopoly and bureaucracy with innovation-focused market alternatives.

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Endnotes

1. United States Postal Service, Office of the Inspector General, "Rural and Urban Origins of the US Postal Service," August 26, 2019, https://www.uspsoig. gov/sites/default/files/document-library-files/2019/RISC-WP-19-007.pdf (accessed June 26, 2020).

2. Ibid.

3. United States Postal Service, "Rural Free Delivery," August 2013, https://about.usps.com/who-we-are/postal-history/rural-free-delivery.pdf (accessed June 24, 2020).

4. 39 U.S. Code § 404.

5. 39 U.S. Code 3623(d).

6. In addition to the ban on direct competition, U.S. law also bans any entity other than the USPS from placing anything in a customer's mailbox.

7. James L. Gattuso, "Can the Postal Service Have a Future?" Heritage Foundation Backgrounder No. 2848, October 10, 2013, http://thf_media. s3.amazonaws.com/2013/pdf/bg2848.pdf.

8. U.S. Postal Service, "First Class Mail Since 1926," https://about.usps.com/who-we-are/postal-history/first-class-mail-since-1926.htm (accessed June 26, 2020).

9. U.S. Postal Service, "Pieces of Mail Handled, Post Offices, Income, and Expenses Since 1789," https://about.usps.com/who-we-are/postal-history/ pieces-of-mail-since-1789.htm (accessed June 26, 2020).

10. See for instance, Catharine Kim, "If the US Postal Service Fails, Rural America Will Suffer the Most," Vox, April 16, 2020, https://www.vox.com/ identities/2020/4/16/21219067/us-postal-service-shutting-down-rural-america-native-communities (accessed June 25, 2020), and David Dayen, "Biggest Threat in the Postal Report Is to Rural Areas, Not Amazon," The New Republic, December 5, 2018, https://newrepublic.com/article/152542/ beubliciggest-threat-postal-report-ruamericans-not-amazon (accessed June 25, 2020).

11. James L. Gattuso, "Too Small to Fail," Heritage Foundation Issue Brief No. 3571, April 19, 2012, http://thf_media.s3.amazonaws.com/2012/pdf/ib3571.pdf.

12. Geddes, R. Richard, "Policy Watch: Reform of the U.S. Postal Service," The Journal of Economic Perspectives, Vol. 19, No. 3 (2005), https://pubs.aeaweb. org/doi/pdfplus/10.1257/089533005774357879 (accessed June 26, 2020).

13. Robert H. Cohen, William W. Ferguson, and Spyros S. Xenakis, "Rural Delivery and the Universal Service Obligation," in Michael A. Crew and Paul R. Kleindorfer, eds., Regulation and the Nature of Postal and Delivery Services (Boston: Kluwer Academic Publishers, 1993), pp. 161–176.

14. Cited in Dan Soifer, "Universal Service in Major Economies," Consumer Postal Council, June 2015 (updated), http://www.postalconsumers.org/wp-content/uploads/2018/01/June-2015-CPC-Universal-Postal-Service-Report.pdf (accessed June 26, 2020). Basic universal service obligations were retained. Germany's regulator was authorized to set up a fund to maintain universal service but did not do so since the private-sector providers did not require the assistance.

15. Ibid.

16. For a more detailed set of recommendations on USPS reform, see Romina Boccia, David A. Ditch, James L. Gattuso, and Rachel Greszler, "Congress Should Free the Postal Service, Not Bail It Out," Heritage Foundation Backgrounder No 3495, May 8, 2020, https://www.heritage.org/sites/default/ files/2020-05/BG3495_0.pdf.