Economic Policy Institute

The war against the Postal Service

Postal services should be expanded for the public good, not diminished by special interests

Report • By Monique Morrissey • December 16, 2020

What this report finds: The United States Postal Service is a beloved American institution that provides an essential public service to communities and good middle class jobs for workers. It is a model of efficiency and responsive to changing customer needs. But the conflicting demands made upon it by Congress and regulators put it in a precarious financial position even before the pandemic. Anti-government ideologues and special interests have long sought to privatize, shrink, or hobble the Postal Service. The Trump administration revived these efforts, spurred by the president's opposition to mail voting and his animus toward Amazon, a major customer.

What needs to be done: The Biden administration and Congress must act to undo the damage and allow the Postal Service to adapt to meet unmet needs, including the revival of postal banking.

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Introduction

The Postal Service is many things—among them, a public service; part of the nation's critical infrastructure; a regulated monopoly; a good employer, especially for Black workers and military veterans; and a government enterprise competing with and supplying services to private companies.

To take advantage of network economies, the United States and other countries shield their postal services from competition in exchange for delivering mail to far-flung and poorer regions. Like transportation and communications networks that are often publicly owned or function as regulated utilities, a national service with standardized pricing promotes commerce and guards against the concentration of economic power.

Social value of the Postal Service

The social value of the Postal Service extends beyond the economic benefits provided by its delivery operations. It connects family and friends, fosters democracy, and is a key part of our emergency and national security infrastructure. It has operated without interruption during the COVID-19 pandemic and other national catastrophes.

Career jobs in the Postal Service are good jobs for workers without bachelor's degrees. Postal workers are better compensated than many other workers with similar education, years of experience, and hours worked. This is typical for unionized workers, workers employed by large employers, and public-sector workers without bachelor's degrees. However, this advantage is shrinking as the Postal Service increasingly relies on noncareer employees who receive meager benefits, and there is pressure to cut benefits for career employees as well.

Challenges faced by the Postal Service

The Postal Service's financial woes, exacerbated by the pandemic, are due to a confluence of factors: a mail monopoly that is declining in value with the rise of electronic communication; a public service mandate to deliver to every address in the country six days a week; caps on postal rates, borrowing limits, and other restrictions that limit its ability to raise revenue and make necessary investments; and an onerous requirement to rapidly prefund retiree benefits, among other factors.

President Trump's push to privatize the Postal Service and his party's antipathy toward government partly explain Republicans' reluctance to provide the same pandemic relief to the Postal Service as it has to airlines and other private companies facing a similar collapse in demand. Privatization is a long-standing goal of conservative think tanks and corporations that stand to gain from weakening or dismantling the Postal Service. The administration has also been motivated by the president's animus toward Amazon, a major Postal Service customer, and a desire to impede voting by mail.

While politics and ideology play a role in privatization efforts, the driving force is special interests—large corporations such as United Parcel Service, FedEx, and Pitney Bowes that seek to take advantage of the same network and scale economies as the Postal Service to capture an even larger share of the shipping and mail-processing markets without shouldering the Postal Service's public service responsibilities. These corporations not only lobby Congress and the Postal Regulatory Commission but also exert an unusual amount of influence through industry advisory groups that operate behind closed doors.

The Postal Service is restricted in its ability to enter new markets, a restriction that benefits competitors but not consumers. In particular, the financial services industry has an interest in preventing the Postal Service from reviving postal banking, which would greatly benefit unbanked and underbanked communities that currently rely on high-cost payday lenders and other alternative financial services.

Meanwhile, the Postal Service is being hollowed out by outsourcing and constrained in its ability to compete in parcel delivery, with negative effects on consumers and workers. Laws designed to prevent government agencies from lowering labor standards by outsourcing to low-wage companies do not apply to bulk mailers and other companies that perform processing and transportation tasks that would otherwise be done by the Postal Service—and receive deep discounts in exchange. The Postal Service itself does not benefit from these "workshare" arrangements because the cost savings are fully passed on to the companies, many of which are competitive only because they pay low wages. The new postmaster general, Louis DeJoy, previously headed a logistics company that performed outsourced postal work and engaged in illegal anti-union activities.

Policy recommendations

Allowing the Postal Service to fail, or speeding up the privatization process already underway, would harm the national economy while devastating many vulnerable households and communities, notably homebound seniors, people in rural areas, and residents of low-income urban neighborhoods. The corporations that stand to gain will do so not because they are more efficient than the Postal Service, but because they can shed public service obligations and pay their workers less.

Public policy needs to address market concentration and low-road labor practices in the e-commerce, shipping, and related industries. Amazon should be regulated, not arbitrarily forced to pay four times what it is currently paying the Postal Service for deliveries, as President Trump has demanded. Increasing what Amazon pays for deliveries would primarily benefit the United Parcel Service and other competitors, not consumers, workers, small businesses, or the Postal Service itself.

The Postal Service and corporations that interact with it have significant market power, though the Postal Service is limited in its ability to exercise this power by the Postal Regulatory Commission. Rather than treating the sector as if it were a competitive market and blocking the Postal Service from entering new markets, policymakers should focus on ensuring that the Postal Service fulfills its public service mission in the face of changing needs and market conditions.

The Postal Service is good for communities

The benefits of a postal monopoly

Governments around the world have for centuries understood the benefits of postal monopolies (USPS 2020d). In addition to the competitive advantage the Postal Service has as an established network, it has a legal monopoly on mail delivery, shielding more lucrative delivery routes from competition to help it extend service to less populated and poorer areas, fulfilling its universal service obligation (USPS 2008b, 2020d). Since 1934, the Postal Service has also had a monopoly on accessing mailboxes, a monopoly that rival United Parcel Service (UPS) has lobbied to end (Sullivan 2019). Like road, rail, electricity, communications, and other networks that are often publicly owned or function as regulated utilities, a national service with standardized pricing promotes commerce and guards against the concentration of economic power.

The universal service obligation is a great equalizer. Though it costs more to transport letters and packages to and from far-flung and less populated areas, this difference is not reflected in the postage. You can mail a letter from Kotzebue, Alaska, to Homestead, Florida, with the same stamp you would use to mail it across the street in New York City. Regulated pricing and uniform service also help small businesses compete with large ones, fostering entrepreneurship and helping counter the concentration of economic power. Though companies can negotiate bulk discounts with the Postal Service, these are overseen by the Postal Regulatory Commission to guard against favoritism. Many services, such as Parcel Select Lightweight for parcels weighing under a pound, have a uniform price regardless of sender.

The postal network is a part of the connective tissue that binds our nation and economy. Though viewed as a service rather than physical infrastructure like a road network, this distinction is not clear-cut. Roads require maintenance and other services, and postal networks require post offices, distribution centers, and other brick-and-mortar facilities. These networks reinforce each other. Road construction and other investments in physical infrastructure enabled the expansion of the postal network, which in turn spurred greater investment in post roads, distribution centers, and other infrastructure. Another commonality between our nation's physical infrastructure and the Postal Service is higher per capita costs in sparsely populated areas (Kirk 2018).

The contours of the postal monopoly have changed over time. Restrictions on what the Postal Service and its private-sector competitors can and cannot do have always been points of contention (Ryan 1999). The Postal Service lost its monopoly on express mail delivery in 1979 and has long competed with private companies in package delivery. These activities are circumscribed, with the Postal Service subjected to fluctuating weight and size limits on packages over the years, for example. FedEx, a pioneer in express air delivery, and UPS, which since its inception has focused on larger parcels, jealously guard against what they view as encroachment by the Postal Service.

Protecting private-sector companies against competition from the Postal Service is often treated as an end in itself, whether or not it serves a public purpose. In 1952, for example, Congress reduced the Postal Service's package weight limit to 40 pounds in a futile effort to prop up a competing railroad-based delivery service (USPS 2020d). Generally, relaxing these limits has benefited consumers and companies relying on home delivery. When a four-pound weight limit was lifted in 1913 with the introduction of Parcel Post, Sears, Roebuck catalog orders increased fivefold within a year (USPS 2008b).

While competitors try to crack the postal monopoly, they resist Postal Service efforts to expand its competitive business. Former Postal Service Inspector General and Board Vice Chair David C. Williams, among others, has pointed out that the Postal Service could offer more services to offset the fixed cost of maintaining post offices and daily delivery (USPS OIG 2015b; HSGAC 2016; Brookings 2015b). Post offices, for example, could offer many printing and other services provided by FedEx Office and The UPS Store, and expand the use of parcel delivery lockers (USPS OIG 2013). Likewise, mail carriers could pick up and make deliveries from local stores, including groceries (Chandler 2014).

Expanding the services offered by the Postal Service could not only bring in revenue to offset fixed costs associated with its public service mandate, but it could also address unmet needs. The Postal Service could provide banking services to low-income communities underserved by financial institutions or high-speed internet access to rural areas. Such service expansions would require congressional action because the Postal Accountability and Enhancement Act of 2006 (PAEA) restricts the nonpostal services the Postal Service can provide to a limited number of grandfathered services, such as processing passport applications, photocopying, and selling collectible stamps (Kosar 2009; Christensen, Francis, and Hatch 2016).

The post office provides an important public service

To our country's founders, the Postal Service's social and civic purpose—connecting people to each other and fostering a well-informed citizenry—were as or more important than its economic benefits. Though George Washington could not garner enough support for his proposal that newspapers be delivered free of charge, the Postal Service Act of 1792 established a uniformly low rate for newspapers, including those critical of his fledgling government (John 2020). Though people now get much of their news through television and the internet, no network reaches everyone and none is as reliable as the Postal Service, which remains critical for the delivery of official documents, ranging from jury summons to Census surveys and mail ballots.

The public service mandate was reaffirmed in the Postal Reorganization Act of 1970.[1] The Act transformed the Postal Service from a cabinet department into the more independent U.S. Postal Service (USPS) and described its basic function as providing "Postal Services that bind the Nation together through the personal, educational, literary, and business correspondence of the people." It called for "prompt, reliable, and efficient services to patrons in all areas," regardless of the higher cost of services to smaller communities, and specified that "no small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective Postal Services be insured to residents of both urban and rural communities."

The social value of the Postal Service extends beyond its delivery operations. A 2010 report by the Urban Institute enumerates some of these, including letter carriers being trained to alert emergency services when something is amiss, post offices serving as community hubs in rural areas, and traffic reduction as streamlined postal delivery replaces multiple shopping trips (Pindus et al. 2010; USPS OIG 2019a). The inscription above the old Washington Post Office, now the Smithsonian's National Postal Museum, reminds us that a letter carrier is not only the "consoler of the lonely"—especially apt in these times of social distancing—but also the "enlarger of the common life" (Widmer 2020).

The Postal Service is a lifeline in the wake of terrorist attacks, natural disasters, and other emergencies. It is a key part of our emergency and national security infrastructure (Block 2020). The Postal Service tightened safety precautions, including installing biohazard detection systems and educating the public about bomb and bioterrorism threats in the wake of 9/11 and anthrax attacks that followed a month later (Davis et al. 2008). The Postal Service was critical to reconnecting displaced persons, distributing relief funds, and delivering medicine and other supplies in the wake of Hurricane Katrina and other natural disasters (Katz 2015; Joy Leong Consulting 2011). Postal deliveries have continued uninterrupted during the COVID-19 pandemic, despite the risk to workers.

Voting by mail

An increasing number of Americans vote by mail. In recent decades, many states have eased rules that previously restricted mail voting to absentee voters, and five states have switched entirely to mail voting (MEDSL n.d.). In addition to the essential public service they provide by delivering mail ballots, post offices could also, if permitted, promote civic engagement through convenient voter registration (Christensen, Francis, and Hatch 2016).

In August, President Trump openly admitted that Republicans were holding up funding to the Postal Service in order to limit voting by mail in the 2020 election (Blake 2020). Though he and his party sometimes couch their opposition to mail-in voting as a concern over fraud (Cochrane and Fuchs 2020), there is no evidence that this is a widespread problem (Coll 2020). Republicans were highly selective in their opposition, with Republican leaders in Florida and other swing states actively encouraging Republican voters to use absentee ballots despite the president's claim that voting by mail was not secure (R. Berman 2020). These attacks on mail voting led former President Obama, among others, to accuse Trump of undermining the Postal Service to disenfranchise voters (Lee and Bogage 2020).

Done right, voting by mail is the safest way to vote in a pandemic. Even after the pandemic is over, voting by mail can increase access to the ballot box for low-income working parents and others with inflexible schedules, transportation barriers, health issues, and other obstacles to voting in person. In practice, however, state laws often restrict access to mail ballots to seniors and voters who are out of state on Election Day, and hard-to-follow rules can lead to large numbers of discarded ballots. These challenges are more likely to affect core Democratic constituencies (A. Berman 2020).

Leading up to the 2020 elections, there were also serious concerns about whether the Postal Service could handle the anticipated spike in mail volume in a timely fashion, especially since the president's hand-picked postmaster general, Louis DeJoy, appeared to be sabotaging mail voting through cost-cutting measures that slowed delivery of requested and completed ballots (Edmondson et al. 2020; Broadwater 2020). In the end, the worst fears about mail voting did not materialize, in part because a federal judge closely monitored DeJoy's actions, and in part because negative publicity prompted voters to request and mail ballots early and use other methods, including voting early in person and hand-delivering ballots to drop boxes, to ensure their votes would be received in time (Epstein 2020; Vasilogambros and Van Ness 2020; Redden 2020; Cheney 2020; Broadwater and Fuchs 2020; Vasilogambros, Van Ness, and Levine 2020).

Postal banking

While some seek to dismantle the Postal Service, others seek to expand its activities for the public good. The idea that has received the most attention is a return to postal banking, a service that existed in the United States from 1911 until 1967 and that currently serves people in numerous countries including Brazil, France, Germany, India, Italy, Japan, New Zealand, South Korea, and the United Kingdom (Campaign for Postal Banking 2015; Christensen, Francis, and Hatch 2016).

Postal banking takes advantage of underused capacity to address unmet needs. Law professor Mehrsa Baradaran and other advocates note that post offices, though far fewer in number than in the past, are still found in poor and rural communities that banks have largely abandoned (Baradaran 2014; USPS 2020b). They already sell money orders and offer check cashing, though many potential customers are unaware of these options (Christensen, Francis, and Hatch 2016). Post offices could expand these financial activities—offering savings accounts, making small loans, and facilitating other financial transactions, on their own or in partnership with other financial institutions, as they have in the past.

This would especially benefit low-income Americans who lack bank accounts or easy access to affordable financial services. The Federal Reserve estimates that 6% of U.S. adults are "unbanked"—meaning they do not have a checking, savings, or money market account (Federal Reserve 2020). Another 16% are "underbanked," people with bank accounts who nevertheless resort to using alternative financial services such as check cashing services, payday lenders, or pawn shops that typically charge high fees.

Difficulties in accessing pandemic relief laid bare the challenges facing the unbanked and underbanked. Nearly 70 million people without access to direct deposit waited a month or longer to receive financial aid checks from the CARES Act (Reilly 2020). Delays in receiving pandemic relief not only increased the hardship faced by many families hard hit by the economic crisis, but they also slowed the injection of funds into the weak economy.

People should not be subject to fees simply to access their own money, whether paychecks or government transfers. One option supported by President-elect Joe Biden and Sen. Bernie Sanders (I-Vt.) would provide bank accounts and rapid payments through the Federal Reserve and make these easily accessible at post offices and other locations (Biden-Sanders Unity Task Force 2020). A version of this plan, referred to as a "digital wallet," was introduced by Sen. Sherrod Brown (D-Ohio) in March (Haggerty 2020).

Support for postal banking has grown. The idea gained steam when USPS Inspector General David C. Williams issued two supportive white papers in 2014 and 2015, noting that the average household underserved by mainstream financial institutions spent an exorbitant $2,400 per year on interest and fees to payday lenders and other alternative financial services (USPS OIG 2014, 2015d). In addition to President-elect Biden and Sens. Sanders and Brown, policymakers who have championed postal banking include Sens. Kristen Gillibrand (D-N.Y.) and Elizabeth Warren (D-Mass.) and Reps. Alexandria Ocasio-Cortez (D-N.Y.) and Bill Pascrell (D-N.J.) (Pascrell 2019). A broad coalition of unions, financial industry watchdog groups, and economic justice organizations formed the Campaign for Postal Banking to promote the idea (Campaign for Postal Banking 2020).

The financial services industry opposes postal banking, even though some institutions would likely benefit. Payday lenders, not surprisingly, are against it (Davidson 2015). But there is also short-sighted opposition from credit unions and community bankers, who would be natural partners (Wack and Angell 2018; Dobbs-Allsopp 2015). Meanwhile, the Trump administration, far from taming the predatory lending practices that postal banking would help address, worked with the industry to weaken and delay a rule aimed at lenders who intentionally target borrowers who will not be able to repay loans and are trapped into paying interest indefinitely (Confessore 2019).

The financial sector's opposition to postal banking has parallels with its attempts to limit government involvement in setting up retirement accounts for workers without access to 401(k)s. The Obama administration's MyRA accounts and state and local governments' Secure Choice and similar accounts were shaped by the need to assuage financial industry concerns that government could be cutting into their business, even though the accounts were targeted at low-income workers whom the industry did not find it worth their while to pursue (Oakley 2017; Denmark 2015).

Skeptics have questioned whether the Postal Service could charge enough to cover not only transaction costs, but also default and other financial risks if its activities extend to making small loans. To put it another way, if it is so easy for nonprofits to service the unbanked, why are predatory payday lenders still in business?

One reason is that payday lenders are not really in the same business as credit unions and other mainstream financial institutions that extend credit at competitive rates to customers who face unexpected expenses or take out loans to buy homes or cars. Rather, payday lenders take advantage of borrowers' poverty and financial unsophistication to trap them in debt, forcing borrowers to repay loans several times over in the form of high interest and fees (Howarth, Davis, and Wolff 2017). Payday lenders do not charge competitive rates commensurate with the risks and transaction costs involved in lending to their customers. Rather, they often charge different rates to similar borrowers depending on limits set by states (Pew Charitable Trusts 2014). Since interest rates and fees charged by payday and other predatory lenders are not kept in check by competition, President-elect Biden, Senator Sanders, and other postal banking supporters have called for protecting consumers from usurious rates, in addition to supporting postal banking as a viable alternative for consumers (Biden-Sanders Unity Task Force 2020).

The advantage the Postal Service has over credit unions and other nonprofits is that it is a trusted national brand and a presence in all but the smallest towns. Since maintaining a post office is, like daily delivery, to a large extent a fixed cost, the Postal Service does not, in offering new services, incur the same overhead expenses that a credit union would if it opened a new branch in a small town. And offering such services—even at a low cost and for the benefit of the community—can serve to defray some of the post office's fixed overhead costs. Other fixed costs, such as the cost of developing new products and services, can be spread over a large nationwide pool of potential customers.

As a trusted institution with a preexisting customer base, the Postal Service might also benefit from lower marketing costs. It does face one disadvantage—its transaction costs could be higher than competitors' as it expands into new areas—but this disadvantage could be minimized by partnering with credit unions or other financial institutions with

Table 1

Educational attainment of full-time workers by sector, 2015–2019

	Less than high school	High school	Some college	Bachelor's degree	Advanced degree
Public sector	1.8 %	17.6%	25.8%	27.6%	27.3%
Postal service	2.7%	39.3%	41.6%	13.4%	3%
Private sector	7.5%	27.9%	28%	24.6%	12.1%

Source: Author's analysis of U.S. Census Bureau Current Population Survey microdata.

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experience offering these services.

Postal banking is not an either-or proposition. It can be introduced incrementally and in partnership with other nonprofit financial institutions. Whatever the pros and cons of different approaches, shielding for-profit providers from competition should not factor into the discussion. The fact that the Postal Service may have a cost advantage over other providers should not matter as long as consumers, especially low-income consumers, benefit.

The Postal Service provides good jobs

The Postal Service is an important rung to the middle class, especially for African Americans and military veterans. As is typical of jobs in the public sector, which are positions of trust that often require significant training, the pay of rank-and-file postal workers is better than the pay of many private-sector jobs that do not require a four-year college (bachelor's) degree. However, this pay advantage has been eroding.[2]

Postal workers are clustered in the middle of the educational distribution. Most have either a high school diploma (or equivalent) or some college education. They may have an associate degree, but typically lack a bachelor's degree. Few postal workers are on either end of the educational spectrum—lacking a high school diploma or having an advanced degree. The fact that most postal workers have a high school diploma or some college has been true since at least the late 1970s. In 1976–1979, 22.7% of private-sector workers lacked high school diplomas, while only 11.4% of postal workers did. However, the private-sector workforce has become better educated, with fewer workers lacking a high school diploma and more having a bachelor's or advanced degree (**Table 1**).

Postal workers look like America, but with a higher proportion of Black workers and veterans. Postal workers are older by five years on average and therefore have more work experience than the average private-sector worker (all statistics refer to full-time workers). Almost one in four postal workers is Black, double Black workers' share of the private-sector workforce (**Table 2**), the result of a hard-fought battle by Black activists and unions for employment and pay parity dating back to the early days of the Postal Service (Rubio

Table 2

Demographic characteristics and veteran status of full-time workers by sector, 2015–2019

	Male	White non-Hispanic	Black non-Hispanic	Hispanic	Other non-Hispanic	Veteran
Public sector	48.0%	67.2%	15.6%	9.8%	7.4%	9.0%
Postal service	58.5%	55.4%	23.2%	11.4%	10.0%	14.9%
Private sector	57.5%	64.4%	11.6%	15.1%	9.1%	5.3%

Source: Author's analysis of U.S. Census Bureau Current Population Survey microdata.

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2010). Postal workers are somewhat more likely to be male than private-sector workers. They are almost three times as likely to be military veterans as private-sector workers, since veterans benefit from preferential hiring in federal jobs and have skills sought by the Postal Service (DOL n.d.; OPM 2020b).

Career jobs in the Postal Service are good jobs for workers without bachelor's degrees. Workers without bachelor's degrees are generally paid better in government jobs than in private industry, though the reverse is true for workers with bachelor's or advanced degrees (see Appendix Note and **Appendix Figure A**). This holds true for postal workers, who are less likely to have bachelor's degrees than most government workers. There are several reasons why workers without bachelor's degrees are generally better paid in the public sector, including less discrimination, a higher wage floor, greater responsibilities, and union membership.

Postal Service jobs were not always good jobs. In the years prior to the landmark 1970 postal workers strike, postal workers' pay lagged that of private-sector workers, and many postal workers were forced to work second jobs or live in poverty (Rubio 2020). However, reforms signed into law by President Nixon after the strike, including granting unions the right to bargain over compensation and binding arbitration if negotiations reach an impasse, led to better pay for postal workers. Meanwhile, wages for many private-sector workers, especially nonunion workers without college degrees, stagnated despite increased productivity.

Postal Service and other government jobs often require more training and responsibility than many private-sector jobs. Rank-and-file Postal Service jobs require anywhere from several months to a year of training and a range of technology skills. Many are also strenuous and expose workers to extreme temperatures and other hazards.[3] To avoid significant costs associated with recruitment, vetting, and training, the Postal Service and other government employers try to hire workers interested in public service careers rather than relying on a transient workforce.

The Postal Service is highly trusted and postal workers take pride in fulfilling their duties (Cep 2020). It has its own police force, and the police officers and other career postal

Table 3

Poverty rates and low-wage share of full-time workers by sector, 2015–2019

	Official poverty	SPM poverty	Low-wage (<$15/ hour)
Public sector (all)	0.8%	2.1%	16.3%
Public sector (no bachelor's)	1.5%	3.5%	26.7%
Postal service (all)	0.4%	1.3%	9.0%
Postal service (no bachelor's)	0.4%	1.3%	8.9%
Private sector (all)	2.3%	4.7%	28.4%
Private sector (no bachelor's)	3.4%	6.5%	38.7%

Source: Author's analysis of U.S. Census Bureau Current Population Survey microdata.

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workers have more to lose than the gig economy workers employed by FedEx and Amazon (Soper and Black 2018). This trustworthiness allows jewelry and other high-cost items to be shipped from businesses to homes, insured at modest cost through the Postal Service. A RAND study found that nine in 10 Americans felt the Postal Service was more reliable than private delivery companies, and more than half preferred having only the Postal Service access their mailboxes (Davis et al. 2008). Over three-fourths of respondents thought that increasing the sorting, processing, and transportation of mail by private companies would increase the respondents' concerns about security breaches and crime. The public trust in the post office is an asset that could allow it to successfully expand services offered, for example, to include in-home grocery delivery, as has been tested in Sweden (Bogage 2020d).

The Postal Service and other government employers have a higher wage floor than the private sector. Many private-sector employers, including Postal Service competitors and service providers, pay workers poverty-level wages and benefits and misclassify workers as "contractors" to avoid providing health and other benefits and evade minimum wage, overtime, and other labor standards. Few full-time postal workers without a bachelor's degree earn below $15 per hour (8.9%) or live in poverty (1.3%) based on the U.S. Census Bureau's Supplemental Poverty Measure (SPM) (Fox 2020), which, unlike the official poverty measure, takes into account taxes, transfers, and other factors that affect a family's standard of living (**Table 3**). In contrast, 38.7% of full-time private-sector workers without a bachelor's degree earn below $15 per hour and 6.5% live in poverty based on the SPM.

Poverty-level wages are common in some sectors that compete with or do work outsourced from the Postal Service. In the warehousing and storage industry, for example, nearly half (49.3%) of full-time workers without a bachelor's degree earn less than $15 an hour and 8.9% live in poverty. Since poor pay and benefits force workers to rely on government safety net programs to meet health care and other basic needs, a low-road employment strategy makes little sense for government employers.

There is less discrimination in the Postal Service and other government agencies than in the private sector. In the Postal Service, Black (non-Hispanic) and Hispanic workers are paid 6.5% and 1.9% less than white (non-Hispanic) workers with similar education, hours worked, and years of experience, and the difference is not statistically significant for Hispanic workers (**Appendix Figure B**). Though any pay gap is cause for concern, the gaps are much larger in the private sector, where Black (non-Hispanic) and Hispanic workers are paid 17.3% and 13.3% less than their white (non-Hispanic) counterparts. Similarly, though full-time women workers face a pay gap in the Postal Service (10.4%), it is less than half the size of the private-sector gap (22.0%).

Finally, the Postal Service is a large employer and most of its workers belong to unions. Large and unionized employers tend to offer better pay and benefits than smaller and nonunion employers (BLS 2020). The Trump administration task force report on the Postal Service that criticized the pay of Postal Service workers nonetheless found that Postal Service compensation, including benefits, was only 13% higher than compensation at unionized UPS in 2017, based on financial statements (Task Force 2018). The report acknowledged that such a comparison does not account for differences in "experience, duties, and location," among other factors.

Even if pay is higher in the Postal Service than in the private sector, this does not mean postal workers are overpaid. As mentioned earlier, many private-sector employers pay poverty wages and discriminate against workers of color and women. A regression analysis controlling for age, education, year, and hours worked finds that white male postal workers are paid 4.8% more than their private-sector counterparts, or 0.3% more (not statistically significant) if also controlling for union membership. This analysis does not account for other differences between the two groups, including employer size and workers' occupations, since the Current Population Survey does not ask about employers, and most postal workers are in occupations exclusive to the Postal Service, based on U.S. Census occupation codes. Though an imperfect comparison, this regression analysis suggests that postal workers' pay advantage, if it exists, is primarily due to smaller pay gaps for women and workers of color.

Moreover, the Postal Service pay premium (if it exists) appears to have shrunk since the 1970s. This is not due to increased earnings for private-sector workers with similar education, which have stagnated. Rather, there has been a decline in postal workers' average earnings from $66,437 in 1976–1979 to $59,048 in 2015–2019 (adjusted for inflation), as the Postal Service has come under increasing pressure to cut costs. This erosion occurred despite educational gains and an increased emphasis on technical skills. Though postal workers receive more generous health and retirement benefits than most private-sector workers, these benefits have not become more generous to compensate for declining pay. However, health cost inflation has eaten into workers' pay across sectors and accounts for some of the decline (Bivens 2018).

The Postal Service increasingly relies on noncareer employees with less job security and meager benefits. The number of career postal workers has shrunk by 38% in the new millennium and is at its lowest level in over half a century despite economic and population growth (USPS 2020a). Most of the decline happened in the decade following passage of the PAEA in 2006, which spurred the Postal Service to cut current labor costs by over $1 billion a year (more than 21% overall) in a futile effort to meet a requirement for rapidly prefunding retiree health benefits (USPS OIG 2016c). Much of the cost savings stemmed from reduced work hours, but some was achieved by replacing career employees with noncareer employees at a rate of around 3% per year. There is pressure to cut benefits for career employees as well.

Though corporate America is broadly supportive of efforts to weaken unions and lower labor standards, not all corporations benefit from attempts to force the Postal Service to cut wages and benefits. While reducing labor costs helps large shippers such as Amazon, it puts more pressure on unionized competitor UPS. Though unionized UPS drivers are more productive than nonunion FedEx drivers, FedEx is able to stay in business by paying its drivers much less (Linnane 2019).

Challenges and constraints faced by the Postal Service

The COVID-19 pandemic

Few sectors of the economy have been left unscathed by the COVID-19 pandemic. Though relief measures to help businesses, nonprofits, and workers weather the sharp economic downturn had bipartisan support in the first months of the pandemic, the Senate Republican majority and the Trump administration have so far resisted providing USPS and other essential public services with the funds they need to make up the decline in revenue caused by the pandemic (Bogage 2020e).

The Postal Service has said it would run out of funds within 18 months, but the Trump administration and Republican-controlled Senate have held up needed funding, including a loan that had been approved by Congress. The Postal Service initially estimated that it would be insolvent by the end of the fiscal year in September, but later reported an increase in package deliveries that pushed the projected insolvency date back (Fandos and Tankersley 2020).

The Postal Service still projects a liquidity crisis, albeit with more uncertainty about when this will happen (Bogage 2020d). The Postal Service estimated it would need $54 billion to make up for losses related to the pandemic (Brennan 2020). The CARES Act, which the president signed into law in March, increased the amount the agency could legally borrow by $10 billion (Stuessy and Gnanarajah 2020). But the administration, in an unprecedented power grab, held the loan hostage as it unsuccessfully pressed the Postal Service to raise prices on Amazon and other large shippers. Though the Postal Service did not bow to pressure to raise rates, it did agree to provide the administration with proprietary information about contract agreements with its top competitive customers (Bogage 2020b).

The HEROES Act, which passed the House in May, included $25 billion to cover the Postal Service's short-term losses and required the administration to release the $10 billion loan in the earlier bill (Bogage and Dawsey 2020). However, the bill has not been taken up by the Senate. A stand-alone bill with the same funding for the Postal Service passed the House in August with 26 Republicans voting with the Democratic majority, but it too stalled in the Senate (Fandos and Cochrane 2020).

The Postal Accountability and Enhancement Act

The Postal Service's financial challenges predated the pandemic, which made a bad situation worse. The Postal Service, whose operations are self-funded, had already nearly reached the legal limit on what it can borrow before the pandemic (Christensen, Francis, and Hatch 2016; Stuessy and Gnanarajah 2020). Therefore, in addition to immediate pandemic relief, the USPS Board of Governors requested $25 billion to replace an aging vehicle fleet prone to catching fire and make other overdue investments, plus a $25 billion line of credit to cover future shortfalls (House Committee on Oversight and Reform 2020; Lee 2020).

The Postal Service's financial difficulties stem from incompatible demands put upon it. USPS is mandated to be self-financing, but has limited ability to raise prices, cut services that do not generate sufficient revenue to cover costs, or expand into more profitable areas. It is required by law to deliver mail to every household at least six days a week regardless of mail volume. As a result of this universal service obligation, a drop in volume is not matched by a similar reduction in costs (USPS OIG 2016a). This long-standing problem was exacerbated by the pandemic, which caused a sharp decline in marketing mail (Bui and Sanger-Katz 2020; Marcos 2020). Though package volume has ballooned as more people shop online, especially during the pandemic, package delivery normally accounts for only about a third of Postal Service revenues (PRC 2020b).

Many problems can be traced back to the Postal Accountability and Enhancement Act of 2006, which capped postage rate increases for first-class and bulk mail at the rate of inflation, required rapid prefunding of retiree health benefits, limited the Postal Service's ability to expand into new business areas, and subjected the Postal Service to strict borrowing limits (Kosar 2009). Hamstrung by these constraints, the Postal Service's capital spending has not kept pace with depreciation and amortization, and the Postal Service has been forced to erode its capital stock and cut services rather than invest for the future (USPS OIG 2016c).

Many PAEA provisions were suggested years earlier by industry bodies advising the Postal Service. As described by Postal Service scholar Sarah F. Ryan, recommendations from various industry task forces, committees, and conferences advising the Postal Service in the decade before the PAEA's passage were included in precursor bills that did not make it into law, as well as the 2006 act itself (Ryan 1999). These recommendations included indexing postage to a price index, allowing customized service and pricing for large mailers, and a narrow definition of the Postal Service's mandate. Industry groups also pushed the Postal Service to offer bigger discounts for processed mail before the PAEA's passage, sometimes resulting in revenue losses that were greater than the cost savings achieved. The chief congressional sponsor of the legislation that paved the way for the PAEA, John McHugh, now chairs the Package Coalition representing retailers and mail service providers.

Some of the damage done to the Postal Service from the PAEA may have been unintentional. The PAEA passed with bipartisan support at a time when mail volume was peaking, right before the onset of the Great Recession. Though the bill was backed by Postal Service allies in Congress and some postal unions, USPS leadership withheld support, concerned about the high cost of prefunding retiree health benefits (Olsen 2006).

Though they were right to worry, the prefunding provisions may not have been a deliberate attempt to sabotage the Postal Service or make it an appealing target for privatization. Some supporters may have had covert motives, but the more apparent reason for rapid prefunding was to preserve large Postal Service payments to the U.S. Treasury after the Postal Service was found to be overpaying the Civil Service Retirement System for pension benefits (Blom and Isaacs 2015; Hutkins 2013; Morris 2012). Since the Postal Service is an off-budget entity, these intragovernmental payments were counted as federal revenue at a time when deficit concerns—or deficit posturing—loomed large in policy discussions. To postal union allies in Congress, earmarking funds for retiree health care must have seemed an improvement over the Postal Civil Service Retirement System Funding Reform Act of 2003, which steered funds previously contributed to the pension plan toward federal debt reduction and an escrow account (Kosar 2009).

Retiree health benefits

Rapid prefunding of retiree health benefits has been the main cause of the Postal Service's financial woes since passage of the PAEA. In combination with aggressive cost-cutting, expanded package delivery would almost have kept the Postal Service in the black were it not for a provision in the PAEA that required the Postal Service to begin prefunding retiree health benefits and pay down these costs within 10 years (Brennan 2019; USPS OIG 2016c). As a result, the Postal Service has had to borrow or default on retiree benefit contributions every year since the passage of the PAEA in 2006.

Whatever the motivations behind the retiree health benefit provisions in the PAEA, they were arbitrarily stringent and extraordinarily harmful. The PAEA required the Postal Service to estimate retiree health benefits payable over the next 75 years and start paying into a Retiree Health Benefit Fund created for this purpose. Contrary to some accounts, the benefits of future employees were not included in the estimated liability, only those of current or former employees, some of whom will still be alive in 75 years. However, the measure does include benefits employees are not yet eligible for and may never receive.

Retiree health benefits fall into an accounting gray area. Unlike most pension benefits, retiree health benefits are generally not protected except to the extent that they are covered by collective bargaining agreements. That is, employers can cancel retiree health benefits workers are already eligible for, whereas they can only stop workers from accruing additional pension benefits (they cannot cancel vested benefits). In a legal sense, therefore, retiree health benefits, unlike pension benefits, are not liabilities that extend beyond the life of collective bargaining agreements even for union members.

Not only can retiree health benefits be reduced or eliminated, they generally require that workers remain in their jobs until retirement—a choice that is not always up to workers. In the case of postal workers and other federal employees, workers who are not employed by the Postal Service in the five years before retiring are generally ineligible for retiree health benefits even if they are eligible to receive pension benefits (OPM 2020a). Though the Postal Service is a special case because it would take an act of Congress to revoke these benefits, this offers only limited protection.

Because they are not guaranteed, retiree health benefits were previously treated as an expense for current retirees, not a future liability. This contrasts with traditional pension benefits, which are generally protected by law and, in the private sector, insured by a federal agency. In 1993, private-sector employers began including projected retiree health benefits in liabilities, and state and local governments followed suit in 2006 (McArdle et al. 2006). However, USPS remains the only federal agency—in fact, the only employer—required to treat these benefits as liabilities and prefund them for active workers (HSGAC 2016).[4]

The Postal Service was required not only to prefund the benefits but also to do so in only 10 years. Moreover, the size of the projected liability is highly sensitive to assumptions about interest rates, health cost inflation, and other factors (USPS OIG 2015a). It loomed large because health costs were assumed to grow rapidly—by 7% a year—while the fund was required to invest in low-yielding Treasury bonds (Blom and Isaacs 2015). The required payments ranged from $5.4–5.8 billion per year—roughly 15% of operating expenses (author's estimate based on Blom and Isaacs 2015 and USPS Annual Reports for 2007–2016). The rapid paydown of these legacy costs accounted for three-quarters of the Postal Service's shortfall in the 13 years after the PAEA's passage, with much of the remainder tied to the Great Recession and slow recovery (USPS 2020c).

Faced with unpayable expenses, the Postal Service simply stopped paying them. In the end, USPS contributed $20.9 billion to the retiree health fund between 2007 and 2010, including a reduced payment authorized by Congress in 2009, before defaulting on the remaining $33.9 billion (USPS 2019). Though the Postal Service paid no penalty, the defaults left the impression that the Postal Service faced serious problems even though the accounting losses were caused by Congress trying to minimize the amount of deficit spending they authorized in on-budget programs.

Though the rapid prepayment requirement has expired, the Postal Service is still obliged under the PAEA to prepay retiree health benefits rather than fund them on a pay-as-you-go basis. Because Congress pays less attention to costs outside a 10-year budget window, the PAEA gave the Postal Service 40 years to pay down retiree health benefits accrued by workers after the law's passage. After emerging from the 10-year rapid prepayment period, amortization payments to pay down legacy costs, spread over 40 years, fell to under $1 billion per year, though this is in addition to payments covering the cost of newly accrued benefits.

Since the Postal Service has been tapping the fund it built up, it is not currently being squeezed by these payments. However, its actions remain in violation of the PAEA and the defaulted amounts remain on the books as accounts receivable. Meanwhile, the Postal Service's reputation has unfairly suffered, and deficits that were entirely due to the retiree health provisions are still held up as evidence that the post office is on an unsustainable course. The *New York Times*, for example, recently reported that the Postal Service "has struggled economically for years" without providing necessary context (Tompkins 2020). Rapid prefunding of retiree health benefits has also contributed to the perception that Postal Service labor costs are high (USPS 2016c).

Postage rate caps

Another challenge facing the Postal Service is its limited ability to raise postage rates in response to declining volume of paper mail. The PAEA capped rate increases for most types of letter mail to changes in the consumer price index (CPI), allowing the Postal Regulatory Commission to approve increases above inflation only in "extraordinary or exceptional circumstances" (Kosar 2009; Christensen, Francis, and Hatch 2016). Unfortunately, the PAEA coincided with a peak in mail volume (USPS 2020b). Mail subject to the CPI cap has declined by over 50% since its passage (PRC 2018, 2020b). The price cap has generally been binding, though postage rates were temporarily raised above inflation in the wake of the Great Recession. After a 10-year review of inflation-indexing, the Commission asked for more flexibility to increase rates, but the proposed changes have yet to be approved (PRC 2017).

There is no reason to expect the price of postage to increase in lockstep with inflation. The CPI is a weighted average of price increases for a range of goods and services, with weights based on how much the average consumer spends on each category. Most prices rise either more slowly or more quickly than the index at any given time, with flat or declining costs in apparel and computing (for example) partly offsetting the rapidly rising costs of medical care and college tuition.

A service with high fixed costs and declining volume will generally have faster-than-average price increases. This problem with the PAEA price cap was identified early on but never addressed by Congress (Kosar 2009). First-class and marketing mail volume have declined as people have switched to other forms of communication and methods of bill-paying, even while the number of mailing addresses has continued to climb. Because of this and other factors that a postal service cannot control, most countries do not cap postage rate increases without some wiggle room (USPS OIG 2017a). Due in part to the U.S. Postal Service's strict price cap, the cost of a first-class stamp is now considerably lower in the U.S. than in most other industrialized countries (USPS 2020c).

Constraints on competitive services

The Postal Service has partly made up for the decline in letter mail with an increase in parcel delivery. The PAEA distinguished between "market-dominant" services (mostly first-class and bulk mail)—where the Postal Service either maintains a monopoly to help it

Table 4

U.S. Postal Service ‘market-dominant’ and ‘competitive’ volume and revenue, 2007 and 2019

	Volume (billions)		Revenue (2019$)	
	2007	2019	2007	2019
Market-dominant	210.6	136.9	$82.7	$45.7
Competitive	1.6	5.7	$9.8	$24.2
Total	212.2	142.6	$92.5	$69.9

Sources: United States Postal Service, *Connecting People and Business,* Annual Report 2008; Postal Regulatory Commission, *Financial Analysis of United States Postal Service: Financial Results and 10-K Statement*, Fiscal year 2019, May 2020.

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comply with its uniform service obligation or has a dominant market position—and “competitive” services (mostly parcel shipping), where it competes with private-sector companies. Shipping volume has more than tripled while market-dominant mail volume has declined by a third since the PAEA’s passage (**Table 4**).

Though some of the shift from the market-dominant to the competitive category reflects reclassification—commercial lightweight parcels, for example, were switched from market-dominant to competitive (Hutkins 2015)—it is largely due to electronic communication replacing some forms of paper mail as well as e-commerce replacing brick-and-mortar stores.

It is worth noting, however, that while some types of paper mail are on the decline (due to electronic bill paying, for example; see USPS OIG 2015f), marketing mail has expanded—as has the clout of the bulk mail industry. Since mail volume is declining but still accounts for most of the Postal Service’s business, the rapid increase in shipping has not offset the slower decline in mail.

Revenue per letter or parcel handled has also fallen as the Postal Service has engaged in more outsourcing and specialization. Whereas in the past the Postal Service and other delivery services might have participated in every stage of the process, they now share tasks with other companies—a process Brandeis professor David Weil has dubbed “fissuring” (Weil 2017).

The Postal Service offers discounts for mail that is processed or transported closer to its destination. It also offers “last-mile” delivery services to e-commerce and shipping companies, where the Postal Service is involved only in the last stage of the process. As a result, mail volume is not a consistent measure of the amount of work being performed in-house by the Postal Service. The size and weight of parcels, delivery time, and distance traveled are also not captured by simple volume measures. In combination with declining mail volume, fissuring and other factors have caused Postal Service revenue to drop by a quarter since 2007 despite the rapid increase in parcel volume.

Parcel delivery and other competitive services are regulated under the PAEA, though the

Postal Service has more flexibility in setting rates for these services than for first-class and bulk mail. The PAEA requires that the price of competitive services include an amount to cover some of the Postal Service's overhead. Though not as strict as the price cap on market-dominant services, this requirement (a price floor, not a ceiling) still limits the Postal Service's pricing flexibility. Left to its own devices, the Postal Service might opt for lower prices to increase revenue from some competitive services if demand for these services is price sensitive. On average, however, package delivery and other competitive services contribute significantly more toward overhead costs than the minimum required.

Special interests and the push for privatization

Not surprisingly, corporations lobby to tighten or loosen constraints on the Postal Service in ways favorable to their business models. This often puts Postal Service competitors and customers at odds with each other, as competitors try to raise Postal Service costs and prices and customers try to lower them. The two groups are also at odds in lobbying for or against changes to delivery standards, such as ending Saturday delivery. Complicating matters, alliances shift as customers such as Amazon are also increasingly competitors, and competitors such as UPS are also increasingly customers.

Special interest angles are not always self-evident. For example, the bulk mail industry aligns with package delivery companies, but not retailers, in favor of higher Postal Service shipping rates so that competitive services bear more of the Postal Service's overhead costs. UPS and other delivery companies have long accused the Postal Service of using its mail monopoly to cross-subsidize its package delivery business, a charge that has repeatedly been found to lack merit by the Postal Regulatory Commission. As will be discussed below, there is no single "right price" for delivery services when there are fixed network costs—and prices should be set to benefit consumers, not protect rivals.

Though UPS wants the Postal Service to charge retailers higher shipping rates, UPS itself takes advantage of the Postal Service's last-mile delivery services. Meanwhile, the Package Coalition, which represents Amazon and other retailers, favors lower shipping costs and disputes UPS's claim that the Postal Service has an unfair advantage over private competitors. The Package Coalition and another lobbying group, the Coalition for a 21st Century Postal Service, share some members—including Amazon, eBay, and Pitney Bowes—but the latter includes mail-processing, paper, and printing companies that push for larger "worksharing" discounts for bulk mail that has been processed or transported closer to its destination—discounts that do not benefit parcel shippers. Shifting interests and alliances further complicate the picture.

Postage and shipping rates are not the only prices under contention. The Postal Regulatory Commission also regulates prices and discounts for mail-processing and related industries, such as commissions paid to postage vendors and workshare discounts. Pitney Bowes, which pioneered the first commercial postage meter in 1920, remains a major player among these "workshare partners" of the Postal Service (USPS OIG

2019b). While less visible than e-commerce and delivery companies' interactions with the Postal Service, direct mail printers, mail service providers, and logistics companies also stand to gain or lose immensely, depending on the extent to which the Postal Service's activities are privatized or open to competition as well as on the size of discounts provided for mail that has been presorted or "drop-shipped."

Some Postal Service leaders have actively supported these efforts. In 1988, Postmaster General Anthony Frank established a joint worksharing task force with industry members representing mass mailers and mail service providers (National Postal Museum n.d.). The task force led to changes that incentivized companies to do more of the work previously done by the post office—a form of back-door privatization.

Hollowing out the Postal Service through outsourcing

It is a mistake to think of privatization as an all-or-nothing proposition. Privatization of government functions can occur through divestment, contracting out of tasks, or attrition. It can occur gradually or suddenly. And it can happen through lawmakers' concerted efforts or by haphazard deregulation and private-sector encroachment. The German government, for example, sold its postal service to the private sector in stages, an example that served as a model for a Trump administration task force (Task Force 2018). In the United States, President George W. Bush sought to divert a portion of Social Security contributions into privately managed investment accounts. While overt attempts to privatize popular programs such as the U.S. Postal Service and Social Security have met with fierce resistance, back-door privatization achieved by hobbling government services and encouraging outsourcing to the private sector has occurred with less public awareness and often with bipartisan support.

Outsourcing sometimes takes the form of direct contracting out of Postal Service tasks, despite strong resistance from postal unions. Unions have won important battles in this ongoing war, blocking attempts to expand the use of contracted delivery service carriers on specified routes and an effort by office supply store Staples to open postal counters (Kosar 2012; Vail 2017).

Often, however, outsourcing takes the less visible form of discounts that incentivize companies to perform tasks that would otherwise be performed by the Postal Service. Companies receiving these workshare discounts may perform the work themselves or hire third-party contractors to do it. From a purely economic standpoint, it matters little whether the Postal Service is directly paying contractors to transport mail, say, or offering discounts for mail that has been transported closer to its destination. However, there are legal and other implications of outsourcing that takes the form of customer discounts.

Outsourcing has grown rapidly since worksharing discounts were first introduced in the late 1970s. By 2008, 80% of mail was covered by these arrangements, according to a report by the USPS Office of the Inspector General (USPS OIG 2010). The report found that workshare discounts for companies that presorted or drop-shipped mail were a wash for the Postal Service, which provided $15.0 billion worth of discounts to workshare partners for $14.8 billion in cost savings to the Postal Service in 2008. This was by design, since the Postal Service aims to rebate all cost savings to the companies doing outsourced work based on the principle of "efficient component pricing," according to which workshare discounts are supposed to be set equal to avoided costs.

Outsourcing "upstream" work therefore does not benefit the Postal Service nor does it support its public service mandate. As Evergreen State College professor Sarah F. Ryan pointed out in her 1999 master's thesis, what drives outsourcing is not the Postal Service's desire to save money, as might be expected, but rather behind-the-scenes lobbying by corporations (Ryan 1999). Many of these corporations are military contractors and others adept at using past employment experience and contacts at government agencies to profit from government outsourcing.

Safeguards against conflicts of interest have proven ineffective. The Postal Service Board has long been dominated by corporate executives. However, its members are not supposed to have a direct financial interest in the mailing industry (a rule the current postmaster general appeared to be violating before belatedly selling his interest in his former employer; see Cohen 2020 and Durkee 2020). Instead, corporations' primary influence channel, aside from lobbying Congress and the Postal Regulatory Commission, is through industry task forces and advisory committees set up by the Postal Service (*Post & Parcel* 2001; HSGAC 2007). Postal Service unions have tried to make industry-dominated advisory bodies more inclusive and transparent, with little success.

Even if it does not benefit the Postal Service, is outsourcing efficient from a societal point of view? Some division of labor in the mailing industry, such as the Postal Service offering last-mile delivery to other shippers, takes advantage of underused capacity and economies of scale. This is efficient and clearly benefits consumers, though regulatory oversight is required to ensure that large companies such as Amazon do not unduly benefit. Similarly, presorting and bar-coding addresses before mail is printed and dropped off is more efficient than doing it after the fact.

Much outsourcing, however, is driven by differences in hourly labor costs rather than productivity. Low-wage companies engaged in mail processing, transportation, and related tasks generally have lower labor productivity than the Postal Service and other unionized employers because they rely on a less skilled and more transient workforce and have less incentive to invest in training or technology.

Outsourcing creates administrative and other headaches for the Postal Service. The inspector general and others have noted that even if cost savings are rebated on average to companies, discounts are difficult to price correctly and are often more or less than savings achieved, distorting incentives. Quality control is also an issue. Outsourcing incentivizes what economists call rent-seeking behavior by corporations—effort expended on gaming the system rather than engaging in productive activities. As the inspector general's report notes, "Worksharing represents a financial incentive for mailers and MSPs [mail service providers] to influence the postal policy debate. Not surprisingly, there have been controversies over the size of workshare discounts, how they are calculated, and how broadly they are applied” (USPS OIG 2010, 8).

If the Postal Service does not directly benefit from outsourcing tasks, who does? Outsourcing to low-wage companies means corporate shareholders benefit at the expense of workers. And whether bulk mailers perform the work themselves or use mail service providers, they benefit from lower costs. The extent to which these cost savings are passed on to consumers, however, depends on the competitiveness of the industry and the sensitivity of consumer demand to price changes. Since the mailing industry is increasingly concentrated, much of the benefit accrues to corporate shareholders, not consumers, especially if these companies negotiate preferential rates at the expense of other mail customers (Ryan 1999). In any case, the benefit to consumers of marketing mail is indirect, since much of it is designed to capture market share without necessarily leading to price or quality improvements.

Competitive pressure that normally leads to lower consumer prices is also blunted by the structure of outsourcing discounts. As the inspector general’s report notes, outsourcing may be lucrative even for inefficient companies because the Postal Service is required to give the same discount to all mail service providers rather than going through a competitive bidding process or setting the discount to maximize the cost savings to the Postal Service (USPS OIG 2010). As a result, work may be profitably performed by any company with lower costs than the Postal Service, not necessarily the most efficient company.

Limiting the Postal Service’s ability to compete in parcel delivery

The apportionment of fixed costs is another contested area, with UPS and others arguing that the Postal Service is engaging in unfair competition by subsidizing parcel delivery and other competitive services. While the hollowing out of the Postal Service through workshare discounts has happened under the radar, there has been a heated public debate around the pricing of competitive services.

Following the passage of the PAEA, which distinguished between market-dominant and competitive services, the Postal Regulatory Commission required that the price of competitive services include at least 5.5% toward “institutional costs.” When the Commission increased the institutional cost contribution requirement to 8.8% in 2019, Amazon (which is mostly a customer) predictably argued that this was too high, and UPS (which is mostly a competitor) predictably argued that this was still too low (PRC 2020a; Steiner 2019).

In practice, the institutional cost contribution requirement sets a price floor for competitive products, but prices are often significantly above this floor. The Postal Service sets rates above the floor when this helps its bottom line—that is, when the negative effect of reduced demand is more than offset by the positive effect of a higher price. In 2019, revenue from competitive products was $24.2 billion, of which $8.2 billion (34.1%) went toward institutional costs (PRC 2020b). The issue worth debating is not whether low Postal

Service shipping rates hurt industry profits, but whether high shipping rates serve the public interest.

President Trump sided with the Postal Service's competitors in calling for higher prices for competitive services—at least when Amazon is the customer. President Trump made no secret of his dislike of Amazon CEO Jeff Bezos, who owns the *Washington Post*, which has been critical of the Trump administration. In 2017 and again in 2018, Trump accused Amazon publicly of having a sweetheart deal with the Postal Service (DePillis 2017; Trump 2017, 2018). He also reportedly lobbied the postmaster general privately (Paletta and Dawsey 2018).

Though one of the Postal Service's largest customers, Amazon is rapidly expanding its in-house delivery network. By one estimate, the Postal Service delivered 31% of Amazon packages in July 2019, down from 60% just two and a half years earlier (Premack 2019). According to USPS financial disclosures, Amazon and two other unnamed customers (one of them presumed to be eBay) accounted for 8.5% of Postal Service revenues in 2019 (USPS 2019; Dawson 2019). Though Amazon is likely the Postal Service's largest customer among retailers, UPS and FedEx—which use the Postal Service for last-mile delivery—may be as or more important to the Postal Service's bottom line. As Amazon expands its own delivery network, its arrangements with the Postal Service may matter less to UPS and FedEx than the fact that the company that already dominates e-commerce is trying to do the same for delivery (Cheng 2019).

Not satisfied by the recent increase in the institutional cost contribution requirement, Trump demanded that the Postal Service quadruple what it charges Amazon for last-mile delivery as a condition of receiving pandemic relief. The president's claim that Amazon has an unfair advantage appears to be based on an estimate of the "true economic cost" of shipping in a Citigroup brief (Ward 2020). This estimate, however, relies on the false assumption that the Postal Service's competitive services contribute only the minimum required by law toward overhead, as Josh Barro of *Business Insider* notes (Wetherbee et al. 2017; Barro 2018). According to Barro, the Citigroup brief also relies on UPS-funded research that includes legacy costs associated with past employment in measures that should only include current costs (Neels 2015). Moreover, the UPS analysis ignores how demand for services would be affected by rate hikes, as the Postal Regulatory Commission's lawyers successfully argued in federal court in *United Parcel Service v. Postal Regulatory Commission*. UPS appealed the court's decision as far as the Supreme Court, which declined to take the case (Stohr 2019).

There is no single "right price" for last-mile delivery. The Postal Service makes money on this mutually beneficial service since it delivers to all homes and businesses regardless and the cost of delivering an extra package is less than the Postal Service charges for these deliveries. Meanwhile, it would cost UPS, FedEx, and Amazon more to do last-mile delivery of a package if they had to make a special trip to do so. (This symbiotic relationship goes both ways: The Postal Service also contracts with UPS and FedEx for air transportation. See USPS OIG 2015b.)

The challenge in determining a fair price for Amazon and other large e-commerce, shipping, and processing companies is that there is not a textbook competitive market on either side of the transaction. There are network fixed costs in delivery services that give established actors an advantage against would-be competitors, which is why Amazon, UPS, and FedEx should be regulated as quasi-monopolies and why we should take with a grain of salt suggestions that the Postal Service, a monopoly that is heavily regulated, is not nimble enough to be competitive (Slentz and McCann 2009).

Both sides in the Postal Service's last-mile arrangements with shippers are better off engaging in the transaction across a range of prices, so that the distribution of spoils is determined through negotiation. Economists model situations like this using game theory, as opposed to pinpointing a single competitive price at the intersection of supply and demand curves (USPS OIG 2017b). The "game" in this case is complicated by the actions of other competitors and suppliers, dynamic considerations, and sunk costs. For example, shippers like Amazon can build out their own delivery networks. In such circumstances, raising rates could benefit the Postal Service in the short run but hurt it in the long run by incentivizing Amazon to expand its delivery network, especially in high-density areas (Premack 2020).

Ideology and special interests: The role of pro-privatization think tanks

Companies that stand to gain by hobbling or shrinking the Postal Service support pro-privatization think tanks. Think tank veterans active in these efforts have served in, or acted as outside advisors to, Republican administrations. Though some Democrats have supported privatization, these efforts are more aligned with the GOP's limited-government stance and its alliance with big business, two interests that often overlap.

The Cato Institute, the Heritage Foundation, and the Reason Foundation are among the libertarian and conservative think tanks that have pushed to privatize the post office and other government entities. FedEx CEO Frederick W. Smith served on the board of the Cato Institute, which has spent decades pushing for Postal Service privatization (Smith 1999; Hudgins 2000; Edwards 2016). Advocates of Postal Service privatization at the Cato Institute and the Heritage Foundation, including Peter J. Ferrara and Stuart M. Butler, were also architects of a high-profile effort to privatize Social Security (Ferrara 1980, 1999; Butler 1985; Butler and Germanis 1983). Another proponent, Robert Poole of the libertarian Reason Foundation, encouraged President Reagan to pursue privatization of the post office and other federal agencies, which led to the appointment of a privatization commission (Poole 2004). Decades later, President Trump nominated the commission's research director, Stephen Moore—who had also served stints at Cato and Heritage—for a position on the Federal Reserve Board (Cato n.d.; Moore 1988).

Centrist think tanks have also weighed in. Robert J. Shapiro, a Clinton administration veteran and author of a UPS-funded 2015 report claiming that the Postal Service had an unfair advantage over competitors (Shapiro 2015), participated in a panel discussion at the Brookings Institution (Brookings 2015c), which received funding from UPS (Brookings 2015a). His findings were the basis of a misleading essay by co-panelist Elaine Kamarck of

Brookings, who used Shapiro's report to argue in favor of privatizing Postal Service parcel delivery operations (Kamarck 2015; Anderson 2015). Kamarck, who led the Clinton administration's "reinventing government" initiative, had previously written that the Postal Service should either become more entrepreneurial and expand into new lines of business (which it is prohibited from doing under current law) or should be fully dismantled and privatized (Kamarck 2009).

Pitney Bowes was an early supporter of privatization efforts. Along with FedEx CEO Frederick Smith, former Pitney Bowes CEO Michael Critelli participated in a 1999 Cato conference on Social Security privatization, though Critelli was more circumspect in his remarks than Smith (Cato 1999). In 2013, Pitney Bowes funded a National Academy of Public Administration panel looking into privatizing many of the Postal Service's upstream operations (Keane 2013). The panel was led by former Comptroller General and Postal Service critic David M. Walker, a long-standing supporter of privatization (GAO 2001; Walker 2013). Despite the company's obvious financial interest in the issue and Walker's background, the panel was billed as an "independent review" of an earlier "thought-leader" proposal by, among others, Edward L. Hudgins, the author and editor of two Cato books on Postal Service privatization (NAPA 2013; Hudgins 1996, 2000). Pitney Bowes now belongs to the Coalition for a 21st Century Postal Service, which officially opposes privatization efforts but supports "postal reform" (C21 2018).

Trump-era assaults on the Postal Service

Office of Management and Budget report

Like some earlier Republican administrations, the Trump administration flirted with overt privatization. A 2018 Trump Office of Management and Budget (OMB) report proposes returning USPS to profitability in order to sell it off (OMB 2018). The report claims that a "privatized Postal Service would have a substantially lower cost structure, be able to adapt to changing customer needs and make business decisions free from political interference, and have access to private capital markets to fund operational improvements without burdening taxpayers." The report assures readers that "the United States could privatize its postal operator while maintaining strong regulatory oversight to ensure fair competition and reasonable prices for customers."

The OMB report blames politics for the Postal Service's woes, without explaining how a privatized service would be free of such interference. Rather than magically transforming "political interference" into "strong regulatory oversight," as the report promises, Postal Service privatization would more likely simply add another special interest to the lobbying mix. Currently, unlike its rivals, the Postal Service is not allowed to engage in lobbying or make political donations—but a privatized postal service could (Fisch 2005; Jacobson 2001). (A similar strategy of exacerbating a problem under the guise of paving the way for a solution was seen in the administration's starving the Postal Service of funds while promising that privatization would provide access to needed investment capital.)

The OMB report proposed significant cuts to customer service and workers' compensation. It called for delivering mail fewer days per week to more central locations, rather than six-day-a-week door delivery to all addresses, and emulating "private sector practices in compensation and labor relations"—among other things, by ending workers' participation in federal benefit programs. It also suggested offloading accrued pension liabilities onto taxpayers to make the Postal Service a more appealing target for would-be buyers. In short, the report did little to hide the fact that privatization would lead to a massive transfer of wealth from rural residents, small customers, taxpayers, and workers to corporate shareholders.

Treasury-led task force

A later Trump administration task force appointed to study the Postal Service's business model deemphasized privatization while filling in the details of the OMB's proposed service and compensation cuts. That task force, headed by Treasury Secretary Steven Mnuchin, called for stripping postal employees of their right to collectively bargain over pay and benefits while preserving a role for a downsized public postal service (Task Force 2018). Whether the task force was more politically realistic or more cagey about privatization than the authors of the OMB report is an open question. The administration may have become aware that overt privatization faced serious opposition, even from segments of the Republican Party base. Or it may simply have come to the realization that advertising a strategy of cutting services and workers' pay to pave the way for privatization was not politically smart.

The Treasury-led task force called for adopting a more targeted business model based on providing "essential mail and package services for which there is no cost effective, nationwide, private sector substitute." It proposed elevating the private sector to a central role while limiting the Postal Service to "correcting the failures and inefficiencies" of private markets in order to meet the needs of "customers who are not reasonably served by commercially available products." While recognizing a limited need for government involvement to provide "a safety net of necessary postal services," the task force declared that "the Postal Service's role in promoting national cohesion has diminished," paving the way for the private sector to take over more of its upstream operations.

The task force's rationale for elevating the private sector's role borrowed terms used by economists but was not based on rigorous economic theory. Echoing libertarian arguments long used to promote the privatization of government functions, the task force framed the historical argument for a government postal service as stemming from its resemblance to a public good—a term economists and political scientists use to describe goods or services whose benefits cannot be limited to those willing to pay for them. Even doctrinaire libertarians accept that lighthouses and armies should be funded by taxpayers for this reason, but they allow few if any other rationales for government provision of goods and services.

The task force argued that the Postal Service once resembled a public good, but that the rise of internet communications had relegated it to a safety net role. Aside from the highly debatable claim that a delivery network operated as a public service is less important in the age of e-commerce, framing the question around whether the Postal Service is or is not a public good makes little sense since the Postal Service is not funded by taxpayers.

The Postal Service does, however, have features of a natural monopoly with positive externalities, similar to other public or regulated utilities. A natural monopoly means that an established postal network can fend off competitors due to the fixed cost of building the network and network effects that make a service more valuable and cheaper to operate the more people who use it. A private service, unlike a government agency with a public service mandate, will underprovide services relative to what is socially optimal because monopolies maximize profits by restricting supply to raise prices, and because some benefits are not captured by paying users (the aforementioned “positive externalities”).

In the postal context, a private service left to its own devices will reduce or stop offering services in higher-cost areas, especially rural and poor regions of the country. While the task force claimed its proposed business model would not disadvantage rural residents, it defined this narrowly as maintaining uniform postage rates, while suggesting service reductions for rural customers, including closing post offices and reducing access points by clustering mailboxes.

In short, while you can make an argument for replacing a government postal service with a regulated private monopoly, the advantage of either option depends on the relative effectiveness of a government provider or regulator. The task force’s rationale for shrinking the Postal Service conveniently ignores the best arguments for maintaining it as a public service, notably the fact that it resembles a natural monopoly with positive externalities.

Appointment of Postmaster General Louis DeJoy

In June 2020, Treasury Secretary Mnuchin engineered the appointment of Louis DeJoy, the former CEO of a logistics company, to head the Postal Service. XPO Logistics, which bought DeJoy’s company New Breed Logistics in 2014 and kept him on as a director, has contracts with the Postal Service and many of its major customers. Amazon was reportedly XPO’s largest customer until 2018, when Amazon decided to expand its own warehouse and delivery operations (Baertlein 2019).

The new postmaster general was a controversial pick. His candidacy was promoted by Robert M. (“Mike”) Duncan, a former Republican National Committee chairman and ally of Senate Majority Leader Mitch McConnell. Trump appointed Duncan’s son to be U.S. District Attorney for the Eastern District of Kentucky in 2017 before appointing Duncan Sr. to the Postal Service Board in 2018. DeJoy himself is a major Trump donor (who, among other things, gave large sums to the RNC during Duncan’s tenure and to political action committees with ties to McConnell) and was the chief fundraiser for the party’s 2020 convention (Bogage 2020c; Mak, Dreisbach, and Temple-Raston 2020; Schouten 2018; Arkin 2020). Two members of the board, including Deputy Postmaster General Ronald Stroman, resigned, reportedly in protest of Mnuchin’s interference in the Postal Service’s internal affairs and DeJoy’s selection (Herb and Dean 2020; Dayen 2020a). The other board member who resigned, Vice Chair David C. Williams, compared Mnuchin’s interference to an earlier attempt by the George H.W. Bush administration to wrest control of the independent agency by withholding funds (USPS OIG 2016b).

DeJoy is no friend to workers. A Cornell University analysis of the mailing industry commissioned by the American Postal Workers Union in 2004 (Hickey 2005) painted a scathing portrait of New Breed Logistics not simply as a company that actively opposed unionization efforts—hardly uncommon in the United States—but as one whose central business model was encouraging unionized companies and government agencies to outsource their supply chain management to nonunion New Breed. USPS was New Breed's largest customer in 2002 and the Postal Service accounted for a fifth of New Breed's revenues in 2004. Depending on the year, the Postal Service and other government contracts were responsible for anywhere from 25% to 95% of the company's revenues.

Describing unions in promotional materials as "cultural obstacles," New Breed engaged in illegal anti-union activities to ensure that not a single employee would be represented by a union. The Cornell study recounts the lengths DeJoy went to in order to achieve this. When New Breed took over a contract for a container facility on an Army base in California, it refused to hire the 12 unionized employees, instead conducting a secret hiring process offsite. Since this is illegal, the company falsely claimed that the former employees had not applied for the jobs. The National Labor Relations Board ruled that New Breed had acted with anti-union animus and pursued a rare motion for injunctive relief, which New Breed tried to challenge all the way to the Supreme Court. More recently, a series of *New York Times* articles reported on unsafe working conditions and charges of unfair labor practices in warehouses managed by XPO, the company that bought New Breed in 2014 (Silver-Greenberg and Kitroeff 2018; Kitroeff 2019). New Breed was also cited for retaliating against workers who had filed sexual harassment complaints.

As the Postal Service is under pressure to save costs by degrading middle-class jobs, union-busting and health hazards in this sector are serious causes for concern. DeJoy has wasted no time making changes that sacrifice service with directives banning late trips and extra trips to deliver late items (Bogage 2020a). These are presented as cost-saving measures but smack of sabotage, since on-time delivery is a major selling point for the Postal Service and its competitors. As American Postal Workers Union President Mark Dimondstein has noted, "Undermining and degrading the Postal Service helps frustrate the customer, which sets the stage to privatizing it" (Bogage 2020a).

A party at odds with its constituents

The Postal Service is very popular, especially with rural Americans. Surveys consistently find the Postal Service among the most popular government agencies, with 91% of Americans expressing approval in a March 2020 Pew poll (Pew Research Center 2020). A RAND poll conducted in May found the Postal Service was second only to the Centers for Disease Control and Prevention (CDC) in public trust, with rural Americans, who tend to vote Republican, giving it especially high marks (Pollard and Davis 2020; Parker et al. 2018).

However, anti-government sentiment among Republican lawmakers often outweighs their constituents' economic interests. Republican-controlled states have been slow to expand Medicaid under the Affordable Care Act, forgoing billions in federal dollars in addition to harming the physical and financial well-being of families in these states. With increased polarization and sorting of districts and states into Republican and Democratic strongholds, Republican incumbents often face more danger from primary challengers than from opponents in general elections, making them reluctant to provoke the ire of more ideological voters and big-money donors. Nevertheless, the fact that 26 House Republicans recently broke ranks to support pandemic aid to the Postal Service reflects its broad popularity (Fandos and Cochrane 2020).

If a party's political brand is limited government—and Republicans in the Trump era have been increasingly willing to attack even government functions the party previously supported—underfunding public services may seem to make strategic sense. "Starving the beast" leads to deteriorating public services, which in turn can lead to reduced support for these services. This also explains Republicans' reluctance to include significant funding to state and local governments in pandemic relief legislation passed to date. But this presents political risks, both in terms of being blamed for deteriorating public services and because state and local government cutbacks further damage an economy already suffering from insufficient demand for goods and services (Tahmincioglu 2020).

Underfunding government in order to shrink it undoubtedly appeals to the party's wealthy supporters. Big-money donors also tend to be antagonistic to public-sector unions, including the four that represent rank-and-file postal workers (Pilkington 2018). In addition to resisting pay cuts, unions are often the most effective champions of public services, and this has certainly been true of postal unions. But while some conservatives do not like government in the abstract, most voters like programs they have direct experience with, including those the ideologues are most eager to eliminate or radically transform, such as Social Security, public schools, and the Postal Service. Even the much-maligned Affordable Care Act is increasingly liked by voters, which helps explain why President Trump and other Republicans have tried to claim credit for its benefits while quietly trying to kill it in the courts (Sullivan 2020; Rizzo 2020).

Though full privatization efforts have not borne fruit, they have succeeded in putting the Postal Service and unions on the defensive and expanding the private sector's role. This may have been the primary goal all along. Though some think tank libertarians may be true believers in privatization efforts, most "reform" efforts are fueled by competitors who want to encroach on or curtail the Postal Service's activities and by major customers who support privatization as a way to force the Postal Service to reduce labor costs or outsource to low-cost providers.

There are parallels with Social Security. While President George W. Bush's high-profile attempt to replace Social Security benefits with 401(k)-style accounts was soundly defeated, these benefits have gradually been reduced while tax subsidies for 401(k) plans have expanded since 1983 (Reno, Bethell, and Walker 2011; EBRI 2018). In the case of the Postal Service, overt privatization attempts have never gone beyond an exploratory phase. Nevertheless, the hollowing out of the Postal Service has proceeded apace, mostly a result of workshare discounts offered to bulk mailers and third-party service providers.

The PAEA sped up back-door privatization. Its onerous requirements spurred the Postal Service to cut post office hours, close distribution centers, and outsource more of its functions (Christensen, Francis, and Hatch 2016). The Postal Service also came under increased pressure to move to five-day-a-week delivery even as e-commerce boomed and customers became accustomed to faster service (Christensen 2012). Six-day delivery gives the Postal Service a valued niche delivering goods ranging from ice cream packed in dry ice to life-saving drugs (USPS OIG 2015e). However, the Postal Service's reputation for reliably speedy delivery has suffered since Trump's hand-picked postmaster general began implementing service cuts (Cochrane et al. 2020).

Looking to the future

Congress has left the Postal Service to wither on the vine. Political polarization has rendered Washington so dysfunctional that the USPS Board of Governors was entirely vacant in 2016 (Christensen and Stuessy 2018). The following year, then–Postmaster General Megan Brennan told Congress that no amount of cost-cutting and defaulting on contributions to employee benefit plans would balance the books given the fundamental imbalance between costs fixed by law and statutory constraints on revenue-generating activities imposed by Congress (Brennan 2017).

The incoming Biden administration will have its hands full repairing the damage inflicted by its predecessor. This will require new leadership. The USPS Board consists of up to nine presidential appointees, who serve seven-year terms, plus the postmaster general and the deputy postmaster general, who are selected by the board and serve indefinite terms. The current board is composed of five Republican Trump appointees, plus Postmaster General DeJoy. Four seats are vacant, plus the deputy postmaster general position. Unless President Trump is able to make additional appointments during the remainder of his lame-duck presidency (all of these appointees would have to be Democrats, since a maximum of five appointees on the board can be from the same political party), President-elect Biden should be able to fill the four current vacancies plus up to four more that will open up during his term. This assumes, of course that Republicans do not maintain control of the Senate and quash his appointments. However, DeJoy and the Trump appointees on the board may be able to maintain control long enough to inflict more damage on the Postal Service, especially if they are able to hand-pick a deputy postmaster general who would also have a seat on the board.

A change in leadership will not be enough. The Postal Service cannot thrive under the PAEA. Whether the PAEA's disastrous prefunding provision was a booby trap or simply a mistake, Congress's unwillingness to amend the law to adapt to changing circumstances in the ensuing years reflected not only growing polarization and gridlock in Congress, but outright hostility to the Postal Service from Republicans on the House Oversight and Government Reform Committee, among others, quashing attempts by the PAEA's co-sponsors and others to repair the damage (Nichols 2013; WSJ 2011).

There are glimmers of hope. In February, the House passed a bipartisan bill, with the support of 87 Republicans and 222 Democrats, that would eliminate retiree health prepayments and forgive the remaining balance (Katz 2020; U.S. House Clerk 2020). However, the Republican-controlled Senate has yet to schedule a vote on a companion bill.

Congress urgently needs to provide the Postal Service with the same pandemic relief as airlines and other private-sector employers facing a collapse in demand (Steinberg 2020). Allowing the Postal Service to fail would have negative economic and social consequences throughout the country, especially in rural areas and low-income urban neighborhoods.

Postage rate caps should be relaxed after the economy recovers. A postage increase is not the answer during the coronavirus crisis. Raising rates now would amount to a tax on businesses and households at a time of high unemployment.

The bigger issues that need to be addressed are outsourcing and limits on Postal Service activities that benefit big corporations at the expense of American families. Concerns over the postal monopoly and "unfair competition" are misplaced. We should worry less about regulated public monopolies and more about underregulated large corporations. While the e-commerce and package delivery sectors tend to be highly concentrated due to network economies, there is also increasing consolidation in mail-processing and related industries due to technological, regulatory, and other barriers to entry. Industries undergoing consolidation include direct mail printing, mail-processing software, and third-party logistics (Patel and Qian 2019; Stoller 2020; Burnson 2019).

The goal of government should be to raise, not lower, labor standards. Though both "high-road" and "low-road" employers can be competitive, it is worse for society when the main competitive advantage a company or public service has is paying low wages. The low road leads to increased poverty, widening inequality, and taxpayers bearing more of the burden of meeting families' basic needs through means-tested government programs.

A range of federal, state, and local laws are designed to ensure that government actions do not exacerbate poverty and inequality. The Davis-Bacon Act requires contractors in federally funded construction projects to pay the prevailing (usually union) wage, and the McNamara-O'Hara Service Contract Act does the same for contractors providing services to the federal government (Parrott 2014). Living wage ordinances in many municipalities around the country require businesses that have government contracts or receive government assistance to pay above-minimum wages to ensure that workers and their families do not live in poverty. Though Postal Service contractors are generally covered by these laws, the laws do not apply to companies taking advantage of worksharing discounts as opposed to directly contracting with the Postal Service.

Steep workshare discounts allow outsourced work to be profitably performed by any company with lower labor costs than the Postal Service, not necessarily the most efficient company. For this reason, a report from the inspector general's office recommends that the Postal Regulatory Commission allow the Postal Service to reduce worksharing discounts (USPS OIG 2010). This would have the dual benefit of allowing the Postal

Service to capture some cost savings and potentially reduce race-to-the-bottom outsourcing to low-wage companies. Though this change would not require legislative action, the Commission has not implemented this recommendation. A more far-reaching solution should address the loophole allowing low-road employers who would be prevented by the Service Contract Act to perform contracted work for the Postal Service to take advantage of workshare discounts to perform outsourced work.

The Postal Service should not be prohibited from entering markets that fit with its public service mandate. If there were less resistance to expanding the scope of government to meet unmet needs and take advantage of natural monopolies, the Postal Service could not only offer postal banking services but could also compete with Amazon as a one-stop shopping and delivery conduit to independent retailers. There is much discussion of how the growth of electronic payments has reduced mail volume and contributed to the Postal Service's financial challenges. Another way to look at this trend is to see that a private monopoly—Amazon—is replacing a public one, without, however, a public service mandate. While President Trump may have been wrong to suggest that Amazon is taking advantage of the Postal Service with a sweetheart deal for last-mile delivery, the long-run health of our economy depends on limiting Amazon's ability to take advantage of network economies in payments and delivery systems to squeeze small businesses, workers, and ultimately consumers.

Conclusion

The GOP's "big tent" is getting smaller. The Republican Party has historically balanced individual and community values; the interests of global corporations and patriotism; free enterprise and public service. In its support for privatizing a beloved public service, however, libertarian and narrow business interests have trumped tradition and broader community interests, including those of rural residents and small business owners.

Rather than openly attacking popular government programs, anti-government activists try to paint these programs as obsolete and inefficient. For would-be reformers, recessions and other crises present opportunities for radical change. But privatizers can cite no hard evidence of poor service or a reluctance to innovate (Keating 2013). If anything, the fact that Postal Service jobs—unlike many in the private sector—provide a decent middle-class income has forced the Postal Service to innovate and invest in labor-saving technology because it is less able to rely on low-wage labor than competitors such as FedEx. The incoming president, who has signaled that creating good jobs will be central to his economic agenda, should include bringing back Postal Service jobs lost to outsourcing among his priorities.

The Trump administration and other would-be privatizers simply assume the answers to the key questions of whether a privatized service would be more efficient and whether allowing the market to set prices would make people better off. Adam Smith famously argued in *The Wealth of Nations* that the self-interest of "the butcher, the brewer or the baker" can lead to the socially beneficial provision of goods and services. However, much economic discourse since Smith's time has revolved around when markets do and do not achieve desirable results.

Even with textbook competitive markets and in the absence of externalities, Kenneth Arrow and other economists have demonstrated that you can never assume that free markets maximize well-being because people have different tastes and inherited advantages, among other reasons. A competitive market can only be said to be Pareto optimal, meaning that no one can be made better off without making someone else worse off. As Arrow noted in his Nobel Prize speech, “An allocation of resources could be efficient in a Pareto sense and yet yield enormous riches to some and dire poverty to others” (Arrow 1972).

The real issue is whether the Postal Service should reflect egalitarian democratic values or profit-maximizing free market ideals. A functioning democracy serves as a counterweight to unequal resources even in a capitalist society, and voters may prefer a Postal Service with more equal pricing and services than would occur in an unfettered marketplace. In addition to the fact that a postal network does not operate in an environment where it is easy to assume that private-sector competition will lower prices and improve quality, there are many areas of society where most people prefer government or nonprofit providers over for-profit ones, including education and health care (Quilantan 2020; KFF 2020). Often these are areas where it is important that those providing the services be motivated by a sense of responsibility more than personal gain. Like public schools and hospitals, the Postal Service is a concrete reminder that while for-profit companies may make the best smartphones, civic-minded institutions are better suited for many other purposes, especially when public trust is paramount.

Another common refrain is that government services should be targeted, not universal. This allows small-government advocates to stake the moral high ground by offering to take better care of those who really need it while reassuring vulnerable but influential groups. Thus, the Trump administration task force and other would-be reformers do not dismiss the concerns of rural residents, but rather assure them their interests will be protected in a “safety net” system. However, it is highly unlikely that a Postal Service pared down to what would-be reformers consider “essential services” will be able to maintain current services to rural residents at affordable prices.

Comedian P.J. O’Rourke once quipped, “The Republicans are the party that says government doesn’t work and then they get elected and prove it” (O’Rourke 2003). This has certainly been the case with the Trump administration’s undermining of the CDC and Postal Service during the COVID-19 pandemic. Despite these attempts at sabotage, most Americans, including Republicans, value government services. Rather than trying to shrink government on the false assumption that the private sector is always more efficient, we should consider expanding government entities—like the Post Office—that have proven their worth.

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Appendix: Methodology note

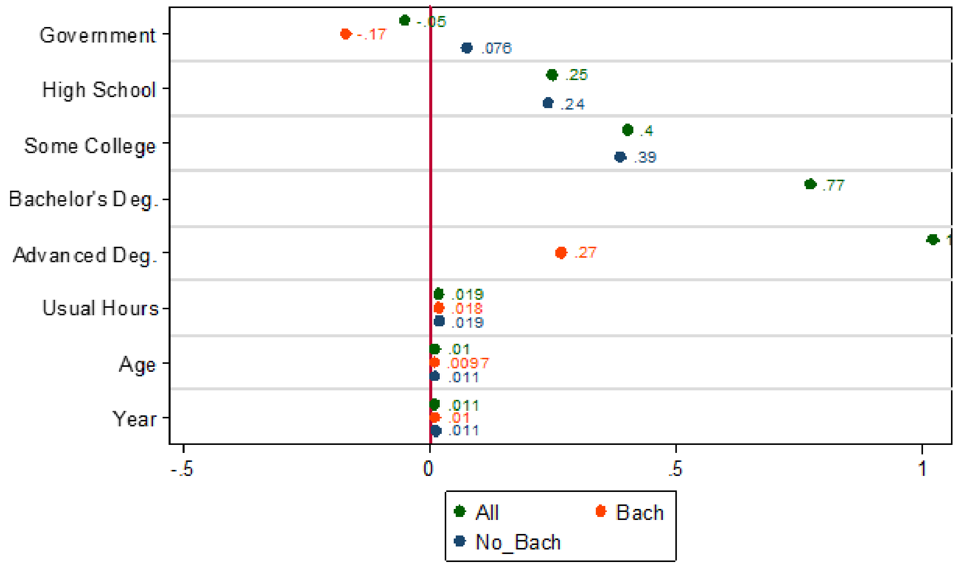
In both regression results reported here, the dependent variable is the natural logarithm of inflation-adjusted annual earnings. In Appendix Figure A, the baseline is the earnings of full-time private-sector workers (all workers in the analysis work 35+ hours a week and 50+ weeks a year). In Appendix Figure B, the baseline is the earnings of male, white, non-Hispanic (NH) workers without a high school diploma.

A log-linear model is used to estimate percentage differences from baseline earnings, controlling for education, hours worked, age, year, and, in some cases, gender, race, and ethnicity. While the coefficients shown in the appendix figures serve as approximations, more accurate estimates cited in the text are calculated using the $e^{(b)} - 1$ formula, where e is the base of the natural logarithm and b is the coefficient estimate. For example, in Appendix Figure A, applying this formula to the coefficient estimate for government workers with a bachelor's degree (-0.170, rounded to two decimal points in the figure) shows that postal workers earn 15.6% less than private-sector workers (not 17.0% less) since $e^{(-0.170)} - 1 \approx -0.156$.

In the figures, 95% confidence intervals are indicated by lines extending from point estimates, which are not always visible. Confidence intervals are wider for postal workers than for other government or private-sector workers because sample sizes are smaller, especially for subgroups such as postal workers with advanced degrees. Confidence intervals that cross the zero line indicate that differences in earnings from the baseline are not statistically significant.

Appendix Figure A

Pay premium of government workers compared with private-sector workers, by educational attainment, 2015–2019



Source: Author's analysis of U.S. Census Bureau Current Population Survey microdata.

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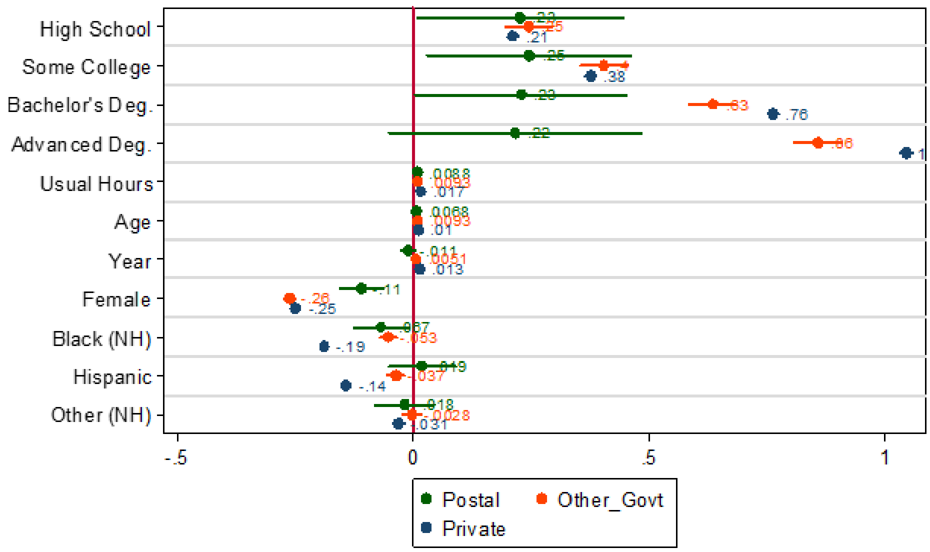
Appendix Figure B

Pay premium of female, Black, and Hispanic workers in the Postal Service, other government employment, and private sector, 2015–2019



Source: Author's analysis of U.S. Census Bureau Current Population Survey microdata.

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Notes

1. Postal Reorganization Act, Pub. L. 91-375 (1970).

2. Unless otherwise noted, all worker statistics refer to full-time wage and salary workers and are based on the author's analysis of microdata from the Annual Social and Economic Supplement (ASEC) of the U.S. Census Bureau's Current Population Survey (Flood et al. 2020). Years refer to survey years (the ASEC is conducted in March) and pay refers to the previous 12 months' pay. Thus, 2019 earnings are earnings from March 2018 through February 2019. Amounts are inflation-adjusted based on a 2018 (not 2019) consumer price index (CPI-U) because reported pay is backward-looking.

3. Source: O*NET OnLIne occupation summary reports for Postal Service Mail Carriers (43-5052.00); Postal Service Clerks (43-5051.00); and Postal Service Mail Sorters, Processors, and Processing Machine Operators (43-5053.00), accessed September 18, 2020.

4. Changes in the accounting treatment of retiree health benefits did spur many private-sector employers to cut these benefits or begin prefunding them to minimize the liability on their books (Munnell, Aubry, and Crawford 2016). Likewise, state and local governments must estimate how much they would need to contribute to prefund benefits within 30 years, but they are not required to actually make the actuarially determined contribution (GASB 2004).

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