2. A business model for USPS*

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1 BACKGROUND AND MOTIVATION

Misconceptions surround the United States Postal Service's (USPS) current organizational structure. If unaddressed, they may result in an inappropriate policy response to its current severe fiscal and governance challenges. USPS, although clearly a federally owned entity, is not a state-owned enterprise (SOE) in the sense that this term is normally understood in the United States and in other advanced economies. It is instead an independent government organization (IGO) within the federal government, and thus lacks the standard attributes of an SOE.

There are many differences between the USPS as an IGO and other commercial enterprises. First, its ownership structure remains opaque and poorly defined. Ownership shares in USPS, for example, do not exist in a legal sense as they do in other SOEs, such as Amtrak.[1] Moreover, USPS is not subject to the standard rules and norms that apply to large publicly traded, privately owned corporations. It does not have a board of directors, for example, that is charged explicitly with making decisions in the interest of firm owners. In addition, it is restricted by statute in its ability to compensate executives according to prevailing market conditions. Most fundamentally, it lacks the basic commercial discretion and decision control necessary to pursue market opportunities, which are the hallmark of any entity termed an 'enterprise'. Although it may face regulation of some activities, an enterprise possesses the authority to pursue entrepreneurial undertakings, such as offering new products, entering new markets related to its core assets, divesting itself of underperforming assets, acquiring other companies and developing joint ventures with other firms. Government bodies, such as IGOs, are inappropriate where the pursuit of entrepreneurial activities is required. Indeed, they would typically be legally prohibited from such activities.

The USPS's organizational structure is important because the need for substantial postal liberalization is pressing. As Figure 2.1 shows, demand for USPS's core function of delivering First Class letter mail has declined by over 34 percent since its 2001 peak. Declines have been particularly large in recent years. They are the result mainly of the increasing diversion of physical communications into electronic alternatives such as email, text messages, online banking, and e-bill payment, among others. The decline is critical because First Class mail's profit margin is roughly three times that of Standard mail. Importantly, ensuring the universal delivery of letter mail provides the

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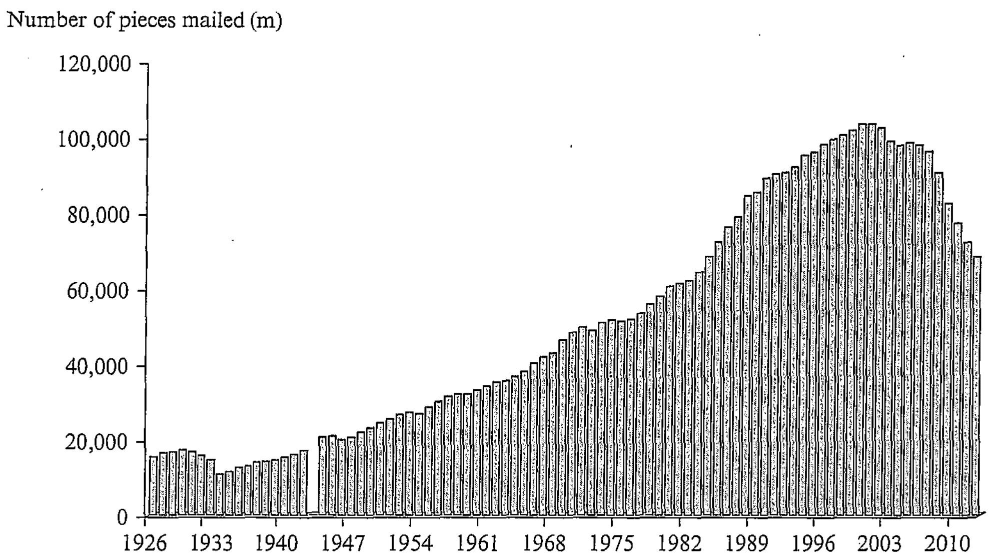

Source: USPS, available at: http://about.usps.com/who-we-are/postal-history/first-class-mail-since-1926.htm.

Figure 2.1 First Class mail volume since 1926

public interest rationale for USPS's current structure as an IGO within the executive branch. It is also the rationale for legal enforcement of two monopolies related to its public mission: one over letter delivery and another over households' mailboxes. As letter mail declines, the rents from and justifications for these monopolies dissipates.

In addition, with Standard mail volume at 16.7 billion and First Class mail at 30.4 billion at the end of fiscal 2012, it is clear that a large proportion of the mail is now of an advertising nature.[2] Rapidly falling demand for the Postal Service's core public service is a key justification for postal policy liberalization in the US. Although Congress has been slow to undertake major USPS organizational reform, it is likely that market forces will make such reform inevitable in the near future. It is therefore important to consider reform alternatives prior to a major postal fiscal crisis.

As discussed below, the decline in letter mail is exposing flaws in USPS's current IGO organizational structure as established in the 1970 Postal Reorganization Act and modified in the 2006 Postal Accountability and Enhancement Act. Because it is not operating under any arrangement offering a true business model, USPS is effectively prohibited from utilizing its existing asset base to generate additional revenue to offset recent large mail declines. It is thus limited to ongoing cost cutting in response to declining demand. Such a constrained approach, however, converts one of USPS's past strengths – economies of scale in mail delivery – into a major liability.

Recognizing the limitations of USPS's current structure and the need for a viable business model under an SOE structure, this chapter proposes a series of fundamental reforms to enhance USPS's sustainability in the modern electronic communications marketplace. The monopoly/IGO governance structure as established in the 1970 Act – although viable in a growing market with a solid monopoly – is untenable in a declining market where the value of the monopoly is significantly reduced.

Scale economies have traditionally worked in favor of USPS. As mail volumes increased, unit costs declined. However, with declining mail volume, economies of scale are now increasing unit costs, which work against USPS. This has created serious fiscal problems. Overall mail volume reached an all-time peak in 2007, dropping from 212.2 billion pieces to 159.9 billion annually. The Postal Service lost $15.9 billion in its fiscal year ending September 30, 2012.[3] It also reached its congressionally authorized borrowing limit with the US Treasury of $15 billion in 2012. This chapter examines how USPS arrived at its current tenuous situation and suggests possible approaches to achieving fiscal sustainability. It argues that these problems stem mostly from a flawed governance structure whose weaknesses have been exposed by recent mail volume drops.

Section 2 reviews developments that led to its current fiscal crisis, which arise primarily from its flawed governance structure. It addresses the apparent paradox of why a governance structure that was largely successful for over 30 years has become fundamentally flawed. Section 3 examines and proposes changes to the current postal governance structure. In particular, it offers an approach to creating a business model for USPS with the objective of bringing about a privately owned USPS – USPS Inc. Section 4 concludes.

2 FLAWED GOVERNANCE

Teece (2010, p. 172) defines a business model as 'the manner by which the business enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit. It thus reflects management's hypothesis about what customers want, how they want it, and how an enterprise can organize to best meet those needs, get paid for doing so, and make a profit'. As this definition suggests, a valid business model is inherently focused on using the firm's assets to create economic value for customers. Conversely, a valid business model does not exist if the firm's only available option is cost reduction. The term 'enterprise' implies that the firm has the flexibility to pursue additional revenue. The process of business model creation is one aspect of a broader business strategy.

Rather than being an SOE, USPS, which was established in the 1970 Postal Reorganization Act, is a vehicle for ensuring the universal delivery of letters at a uniform rate by relying on revenue from low-cost routes rather than on direct taxpayer subsidies. By requiring USPS to break even, the new structure reduced the budgetary impact of providing universal service. The act also helped reduce political influences in postal hiring (especially of postmasters) through the implementation of a merit system. The 1970 Act, however, did not provide USPS with a business model that could withstand radically changed market conditions.[4]

The method of ensuring (that is, of paying for) universal letter delivery was to rely on surpluses from low-cost routes to subsidize delivery on high-cost routes. This payment mechanism required an enforced monopoly over letter delivery to prevent entry on low-cost routes. However, a legally enforced monopoly is inevitably accompanied by government oversight and restrictions on business decisions, which inhibit the firm's ability to innovate and adapt to changed market conditions.

That USPS's current problems stem from its flawed governance structure is not contradicted by the fact that it operated relatively successfully for at least 30 years. It offered low-cost mail delivery, attractive pay, and reasonable service quality. It essentially broke even until 2006, and accumulated significant resources in its pension plan – in contrast to much of private industry. Although its future retiree health-care obligations were significant, it was little different from private industry or from the rest of government, which typically operate on a pay-as-you-go basis. A major problem was that the broader public mission and purpose of USPS, apart from breaking even and delivering letters at a uniform rate to locations where private carriers are less likely to deliver, was not explicitly stated. The Postal Service's actual behavior is best understood as the interaction of government agencies and private parties influencing the distribution of economic rents through the legislative and regulatory processes governing USPS. Such activity was possible only because monopoly rents from low-cost routes have historically been available.

This policy was impacted by the emergence of electronic substitutes for letter mail. This market incursion presents a problem for an IGO subject to a break-even constraint not only because of rent reduction but also because government is vulnerable to claims from competitors of subsidizing its own agency. These two features make an IGO, absent monopoly, problematic for government. The absence of rents means that it cannot pursue policies of rent redistribution. So, instead of a political benefit it becomes a liability. This is now the case with USPS. For many years it performed successfully for a number of pressure groups and the rents were divided among them. Beneficiaries included mailers, who paid low prices, and employees, who had secure, well-compensated jobs.

Mail volume declines over the last five years have generated severe USPS losses. Prolonged losses result in bankruptcy for private businesses. In contrast, an IGO cannot go bankrupt. Rather than having rents to disburse, the Treasury faces the prospect of supporting a loss-making IGO.

Under static conditions, IGO performance relative to private enterprise depends on the market conditions faced. However, the situation changes if USPS faces a radical shrinking of its major markets. The IGO in this case is in a precarious situation. Its governance structure is such that it cannot respond adequately to a greatly changed market environment. Corporate policy changes that would allow adaptation to a rapidly changing business environment require an act of Congress rather than standard executive decisions.

The Postal Accountability and Enhancement Act of 2006 (PAEA), despite being 10 years in the making, exacerbated the deficiencies in this process. Crew and Kleindorfer (2008) criticized PAEA, but in retrospect their criticism appears too weak.[5] Indeed, PAEA failed to consider the inadequacies of the governance structure in addressing the current situation. Implicitly, the PAEA relied on the expectation of stable business conditions and continued steady growth.[6]

In addition, PAEA was based on the flawed notion that price-cap regulation (PCR) would provide USPS with incentives to improve its efficiency under the IGO governance structure.[7] In fact, PCR has in some respects made matters worse. PCR allowed USPS

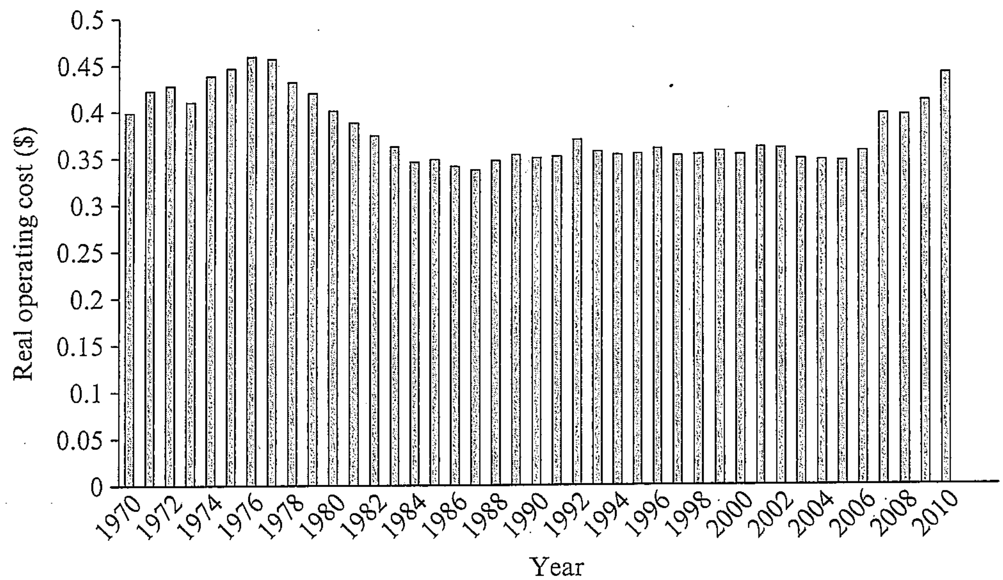

Figure 2.2 Real operating cost per piece of mail

to raise its prices automatically as limited by the consumer price index (CPI). Given that USPS has strong scale economies, the drop in volume increased its unit costs. This is illustrated in Figure 2.2, which shows an increase in unit costs despite significant USPS efforts to cut costs.

PCR allows companies to thrive if demand is growing and/or technological change is reducing unit costs. With USPS this is now reversed. The PAEA also placed additional burdens on USPS, such as pre-funding retiree health-care costs, while retaining a governance structure that was inadequate to address rapidly declining market demand. USPS is thus no longer self-sustaining at prevailing prices. Insufficient economic rents are present to fund the cost of universal delivery at the current uniform price.

It is useful to contrast USPS governance with that of a typical private law corporation. The law governing large private corporations provides much more flexibility than IGO governance (Easterbrook and Fischel, 1996). Subject to the antitrust laws, private corporations can divest assets, acquire assets, and merge with other firms. They can enter new product lines and exit others. Such actions are unavailable to USPS. In addition, private corporations have the ability to choose among several standard corporate legal frameworks. The company may have its business spread nationwide and its facilities located primarily in one state or registered in another if the state's corporate law is more suitable to its business. There are many examples of large companies registered in Delaware, for example. An IGO is confined to one jurisdiction and does not have the choice in legal framework available to private corporations. In the case of USPS, there is no alternative to federal-law governance. It would require an act of Congress to give the USPS flexibility to choose which state's corporation law it wishes to follow.

3 REFORMING THE GOVERNANCE STRUCTURE

Replacing the current IGO governance structure requires a new act to create a private law corporation – USPS Inc. – subject, for example, to Delaware corporate law. USPS Inc. would acquire the assets and liabilities of USPS, and be able to issue ownership shares, which we call 'corporatization'. The new entity would have a corporate board whose members would be subject to an explicit fiduciary duty to shareholders. It would be freed from governmental constraints on compensation. It would also be freed from most constraints on fundamental business decisions. It is important to note that corporatization does not mean privatization. All stock in USPS Inc. would initially be owned by the US government, and title to its assets would remain with taxpayers.

This basic proposal should not be considered radical in that it would align USPS's governance with that of other major postal operators in advanced economies. As Table 2.1 indicates, USPS's governance places it as a distinct outlier in the worldwide postal sector today.

The idea of the US government owning stock in a private corporation is not new. It made $22.7 billion profit on its investment in AIG and $23 billion on the $245 billion it invested to bail out over 700 banks during the financial crisis.[8] It still owns stock in GM but is expected to lose money on that investment. There is clearly no guarantee that the government would make money on its investment in a corporatized USPS Inc. The entry of governments into equity ownership is problematic and should only be undertaken in crisis situations as a last resort. The investments made in the banking system and AIG were of this kind. Similarly, with GM, there was concern that the transaction costs of bankruptcy would be great because of a multiplier effect. In the case of USPS, owning equity in USPS Inc. would not change the US government's ownership interest. Instead it would replace the current IGO governance structure. The US government currently has a large investment in USPS and continues to fund USPS's ongoing losses through its Treasury line of credit. Any investment now with a change in governance structure would enable a new beginning.

Table 2.1 Governance of major POs

Postal operator	Governance	Comments
Australia	Corporate	Profitable
Austria	Partially privatized (49% private ownership)	Profitable
Belgium	Corporate (partially privatized by CWS)	Profitable
Canada	Corporate (Crown Corporation)	Profitable
Finland	Corporate	Profitable
France	Corporate	Profitable bank
Germany	Partially privatized	Profitable
Italy	Corporate	Profitable bank
Netherlands	Privatized	Profitable
New Zealand	Corporate	Profitable
Norway	Corporate	Profitable
Sweden	Corporate (Sweden–Denmark merged)	Profitable
United Kingdom	Corporate	Planned privatization
USA	Independent government organization	Poor financial condition

This proposal is deceptively simple, as the details are complex. Some principles are clear and can be drawn from experience elsewhere. For example, Deutsche Post AG was created out of Deutsche Bundespost, which was a department of the German government operating under civil service rules. When Deutsche Post AG was created, a precise date in the future was established. Prior to that date, pension obligations were grandfathered in, and became the obligation of the German federal government. Similarly, for USPS Inc., the federal government would acquire pension and retiree health-care obligations until the date of incorporation. This chapter does not attempt to compute the details of how much USPS health-care and pension funds the federal government would retain. These depend upon actuarial calculations that are beyond the authors' expertise. Some broad approaches, however, can be considered. Employees retiring prior to the date of incorporation would be covered by existing plans. Continuing employees would be covered by the existing plan until the date of incorporation and then by the new benefit plan offered by USPS Inc.

The changes in the benefit plan would mean that USPS Inc. would withdraw from the Federal Employee Health Benefits Program (FEHB). This results in using its considerable buying power to purchase a single-employer plan that met the needs of its employees. More importantly, by severing itself from the federal government's plan, USPS Inc. would benefit from the payments it makes to Medicare. As an IGO, its employees are not required to claim Medicare benefits as their primary insurer, in contrast to retirees of private corporations. Although it pays into Medicare, USPS fails to capture the return on its Medicare taxes that private corporations receive. For other IGOs this issue does not arise since benefits are paid by the federal government irrespective of whether Medicare pays them. This is a serious problem for USPS since its success is measured by its income statement and balance sheet as in a private law corporation, unlike most other federal entities. Its retiree health-care expenses are inflated because its employees are not required to claim their Medicare entitlement and instead the entire expense is charged to USPS. The simple bookkeeping exercise of moving from an IGO to a private law corporation would improve USPS Inc.'s earnings by several billion dollars. USPS is aware of this problem. However, fixing it within the IGO framework is difficult.

Corporatization allows USPS to reform its compensation structure, which dramatically improves governance. It would no longer be bound by government pay scales as provided in PAEA 2006. This would allow USPS to attract board members and senior managers with considerable business acumen and substantial international experience in liberalizing a large post. These changes would convert the Postal Service's current IGO structure into a corporate or enterprise structure. This term is used because such reforms include adoption of the structures most common to successful, large companies that not only must break even, but also have sufficient commercial flexibility to pursue additional revenue.

Corporatization would also subject the new entity to all Generally Accepted Accounting Principles (GAAP) that have evolved for publicly traded, private law corporations. This includes the use of accrual versus cash accounting, a consolidated balance sheet, and standards required for sound corporate governance (such as the board's audit committee being composed entirely of outsiders), among other important conventions. This would also assist USPS in valuing its extensive real estate portfolio at market value. Improved accounting practices would help USPS in making investment allocation decisions, including such critical decisions as which large sorting centers to expand and which to contract. It would also allow USPS to more freely form alliances with new partners, and to divest itself of underperforming assets. This approach recognizes explicitly that USPS liabilities are in fact liabilities of federal taxpayers rather than of the USPS itself. That fact is obfuscated by USPS's current structure. From the date of corporatization onward, taxpayers would absorb existing outstanding USPS liabilities.

Although there would be no stock prices reflecting performance, the ability to employ modern accounting techniques would lead to better performance measures. Managerial and board compensation could be tied to such improved accounting measures, providing the new SOE with sharper, clearer incentives. This is particularly important in charging the Board and CEO with making the firm profitable as needed to undertake an initial public offering (IPO). The resulting privatization (which refers to the actual transfer of ownership title to investors who provide capital through an IPO), would create a stock price, which is a critical performance measure for private corporations, unavailable to SOEs. A possible path to privatization is discussed below.

Possible Path to Privatization

Arising from decades of operations under a monopoly IGO structure, USPS is unlikely to be privatized quickly. This contrasts with Royal Mail in the UK, which is scheduled for privatization following the enabling legislation, the Postal Services Act of 2011. However, it is important to consider next steps after corporatization and commercialization. For privatization to be viable, pension and health-care obligations must be addressed. The Board of Governors would be abolished and replaced with a Board of Directors tasked with overseeing the conversion of USPS into a privately owned company. The Board of Directors and top management would subject USPS Inc.'s financial statements to the same accounting standards as a private law corporation. This would imply realistic valuations of its liabilities and its assets. Some of its assets may be very valuable, such as its real estate portfolio. Its pension obligations would be valued on the same basis as private corporations according to GAAP.[9] Top management would be charged with selling the government's equity through an IPO. Management and labor would receive options or rights to purchase stock in the IPO.

One possible concern is the degree of investor interest in a postal company. The challenges such a company would face in raising capital are indeed significant. Mail volume is declining dramatically. To attract investors, USPS must promise positive cash flow either through additional cost savings or through extra revenue. Indeed, new revenue opportunities may exist in parcel and packet delivery.[10] There may be scale economies associated with delivery of such items, which would benefit the Postal Service as the quantity of such deliveries increased over time. Scope economies between letters and parcels are still likely to exist with the balance shifting toward parcels. USPS's existing delivery network may afford it the opportunity to take advantage of such scale and scope economies. There may also be value in USPS real estate that is not being utilized under the current IGO structure.

Regulation and the USO

The success of a privatized USPS Inc. will depend in part on the regulatory governance structure and the nature of the Universal Service Obligation (USO). The two are closely related. The Postal Regulatory Commission (PRC) would be responsible for the administration of the USO. In fulfilling its duty to administer the USO, the PRC would follow certain principles outlined below. However, it will have additional powers and responsibilities, which will be reviewed before discussing the USO.

A new approach to the USO is needed in light of declining mail demand, which involves a much larger role for the PRC. In the enabling legislation, the PRC would have responsibility for determining the USO for USPS Inc., subject to broad principles laid out by Congress. Given the rapid pace of change, it is unlikely that Congress would be able to adjust the parameters of the USO at the necessary pace.

The PRC would no longer issue Advisory Opinions. All of its decisions would be binding subject to the usual right of appeal to the District of Columbia Circuit Court of Appeals. The nature of the regulatory process would be determined by the PRC. This is in contrast to the current situation where Congress imposed a price cap through PAEA. Under a privatized USPS Inc., the PRC – if it chose a price cap as the desired form of regulation – would have to set the initial level, the formula for inflation adjustment, the price cap, term and re-opener provisions, among other policies. The PRC would thus have more flexibility to determine the best way to meet the terms of any congressionally determined minimum service standards.

A significant increase in initial postage rates or a reduction in labor costs would likely be required to attract private capital. Assuming constant elasticity of demand of 0.8, for example, and 160 billion pieces of mail subject to regulation, the prices of regulated mail would need to increase on average by around 60 percent to increase revenue by about 10 percent.[11] Moreover, as a further illustration, a $6 billion increase in revenue with an elasticity of around 0.5 would require a price increase of around 20 percent. In addition, the drop in volume of roughly 10 percent would result in additional cost savings from a reduction in volume-variable costs. The alternative approach of reducing labor costs by the same amount might be achieved through a reduction in the total compensation of $6 billion based on 2012's wage and benefit expense of $47.7 billion. Leaving aside potential savings from attrition and layoffs, the across-the-board reduction in wage rates needed to achieve this would likely be steep, around 12.5 per cent.[12] This would have the advantage of avoiding a major price increase. Other possibilities include changes in work rules and contracting.

The price-cap formula typically takes the form of CPI-X, where X is a positive number nominally reflecting productivity increases. Under current law X is set at zero so that rates are allowed to increase at the rate of the CPI. For USPS Inc., however, X might be a negative number, reflecting a need to implement automatic real price increases regardless of productivity improvements. USPS Inc. would be required to make a case before the PRC for its initial price level and the price-cap formula. Such a case should determine rates for many years, long enough for USPS Inc. to gain the benefits from increased efficiency and to give it sufficient stability in its continuing operations.

Regarding the X-factor, USPS Inc. might be offered an average annual factor of −3 percent for example over a five-year period, which represents a 16 percent real increase over five years. It could choose to take a higher percentage in the early years in return for a lower percentage in later years. Alternatively, it might decide not to take the maximum increases allowed by the cap, depending on its judgment of market conditions.

Other alternatives to PCR exist, including cost-of-service regulation (COS). While this should not be ruled out, it seems unlikely to be appropriate. First, although USPS has lost much of its market, it still has residual monopoly power. However, it does not possess the degree of monopoly power held by electric utilities subject to COS, for example. An assumption underlying COS is that the regulated firm typically has sufficient monopoly power to earn its expected rate of return. Second, COS works most effectively where a firm operates only in a regulated monopoly market. Otherwise there is a risk of cross-subsidization from the monopoly market to the competitive. Third, COS attenuates the profit motive whereas price-cap regulation does not attenuate incentives directly, but does reduce maximum profits.

The nature of the USO is critical to the success of a privatized USPS Inc. The process of governing the USO would be determined, not by Congress, but by the regulator.[13] There would be both an initial USO and a process through which the USO could be modified. The USO for a profit-oriented company would be very different from the current approach. Currently, unprofitable routes receive roughly the same level of service as profitable routes. As noted, however, sufficient profits to cross-subsidize money-losing routes no longer exist.

The USO for a profit-oriented USPS Inc. would require it to deliver ubiquitously. It might fulfill this obligation by delivering six days a week on profitable routes and perhaps three days a week on unprofitable routes. This could encounter political opposition. However, the alternatives, such as much higher prices – and severe continuing losses and subsidies – may be even less palatable. The idea of density and therefore scale and scope economies in delivery is straightforward. This is in contrast to the current situation where USPS wishes to abandon letter delivery for all addresses on Saturdays, since that approach is not targeted. Its proposal to deliver only parcels on Saturday may seem like a bold new initiative. However, it may also reduce benefits from any scope economies between letters and parcels. Moreover, it will effectively be developing a freestanding package network *de novo* that will function only one day per week. A more profit-oriented USPS Inc. may exhibit very different behavior. Although taxpayers implicitly assume the risks of such decisions under current organizational arrangements, a profit-oriented company would have to bear the risks of such an experiment under the approach outlined above.

A profit-oriented USPS would also create new regulatory challenges. It may, for example, find it profitable to focus more carefully on the needs of large customers. In addition, it may attempt to raise prices for small customers and to reduce service.[14] The regulator's job under USPS Inc. would be more challenging and certainly require greater powers, as the effect of electronic competition is to reduce monopoly rents, but not necessarily to eliminate market power, as discussed in Brennan and Crew (Chapter 1, this volume).

4 CONCLUDING DISCUSSION

As a viable business model, the Postal Service's current governance structure may be the 'worst of all possible worlds'. This chapter proposes a major reform in USPS governance.

Although it suggests a path to privatization, it does so not because of an inherent view that private governance is always superior to public. Whether one ownership form is superior to the other depends on what is being produced. Where there are substantial externalities, an SOE and an IGO may be superior to private enterprise. With negative externalities, private enterprise will produce in excess of the efficient level, but with positive externalities it will underproduce.

Under monopoly, SOE and regulated privately owned monopoly may not perform very differently in terms of efficiency (Crew and Kleindorfer, 1990). Regarding static efficiency, the evidence is mixed as to which governance structure performs more efficiently under monopoly. However, recent changes in the structure of US postal services suggest that those services are now likely to be produced more efficiently under private governance. Its role in the traditional positive externality of 'binding the nation together' is much less significant given the Internet, mobile devices, and improved transportation systems. USPS plays a major role as an advertising medium. Monopoly letter mail was its primary driver in the past. Its future will likely involve increasing parcel delivery to residential customers. However, this is a competitive market, where an IGO structure is inappropriate. By its very nature an IGO cannot be entrepreneurial and innovative, two attributes desperately needed given competition from electronic substitutes.

There is currently confusion over the true organizational structure of USPS. The current structure has not resulted in a true SOE because USPS is constrained in its ability to enhance its revenues, and thus to be enterprising. USPS's structure is instead better understood as a mechanism for redistributing rents, particularly a cross-subsidy from low- to high-cost mail routes, while striving to break even. Congressional involvement in USPS's business decisions needs to be eliminated if USPS is to develop a sound business model. The current framework limits USPS's opportunities to generate new revenue from its existing assets. This is problematic in an environment of declining mail demand and rapidly changing digital technologies.

The consequent disappearance of monopoly rents is good reason for Congress to reduce its involvement. USPS was useful to Congress when rents were plentiful. Now monopoly rents are almost gone and a declining USPS is likely to become a political liability. A viable USPS business model cannot be created with continued congressional interference. Instead, such involvement must be eliminated to ensure a sustainable USPS free of government subsidies. The lack of major postal reform in the United States suggests that Congress still views the economic benefits of USPS's IGO model as greater than the costs. Public policy, however, must respond to economic realities. The question is how long that will take.

The proposal above would allow USPS to become a true state-owned enterprise, with ownership shares that legally exist and are held by the government. It provides a legal/institutional framework, which offers USPS a business model, with a view to its ultimately becoming a privately owned corporation. It can thus be viewed as an extension of the 1970 Act that created USPS out of the old Post Office, since one goal of the 1970 Act was to encourage the USPS to operate in a more businesslike fashion.

This proposal provides the USPS with sufficient commercial freedom to utilize its existing assets in order to generate additional revenue while attracting the managerial talent necessary to guide it through liberalization. It would also sharpen USPS's incentives. Rather than board appointments remaining in the political realm, the proposal would allow USPS to obtain managerial talent and a board with private sector and global experience to enable its transition from monopoly to private enterprise. This is critical for its success in the new communications marketplace.

NOTES

* The authors are grateful to the discussants, Robert Campbell and David Levy for helpful comments and suggestions.

1. See, for example, *American Premier Underwriters, et al. v. Nat'l R.R. Passenger Corp (2013)*.
2. USPS clearly plays a major role as an advertising medium, given that a third of letter mail is Standard mail and a non-trivial percentage of First Class mail is advertising.
3. USPS Annual Report 2012. Approximately $11 billion of those losses are related to the requirement that USPS make annual payments toward pre-funding the health-care costs of its retirees.
4. The drastic changes in the communications market that occurred could not have been foreseen. So, the absence of a business model was not even considered to be an issue since USPS then had a robust monopoly with substantial rents to share.
5. Crew and Kleindorfer, while aware of the threat of electronic competition, were lulled into a false sense of security, given its relatively small impact at the time. The tipping point came with the recession.
6. Legislative intent is a different matter. As there was no legislative committee report the common refrain, 'Who knows what Congress intended?' would appear to be appropriate.
7. This fallacy was clearly articulated by Crew and Kleindorfer, noting the absence of residual claimants in the IGO structure.
8. Estimates vary but at the current stock price the loss is projected to be around $10 billion, see http://articles.latimes.com/2013/jun/07/autos/la-fi-hy-taxpayers-loss-gm-bailout-20130607.
9. PAEA made the Postal Service subject to the Sarbanes–Oxley Act of 2002, which suggests further evolution toward a corporatized structure.
10. Amazon, for example, is focusing on the provision of same-day service for delivery of items purchased on its website. This is a potential revenue opportunity for the Postal Service. See, for example, 'Amazon to Focus on Same-Day Delivery?' available at: http://www.cnn.com/2012/07/12/tech/amazon-same-day-delivery (accessed March 27, 2013).
11. It is unclear whether the elasticity of demand would remain constant over such large price increases.
12. These estimates are approximate. Alternatives to across-the-board reductions might be greater reductions for some crafts than others. For example, since USPS Inc.'s strength is in delivery it would have to pay compensation to its delivery personnel commensurate with its competitors, if its delivery operations are to continue to be successful.
13. The enabling legislation would, of course, determine the regulatory framework.
14. Currently, USPS exercises some degree of market power over small customers in its non-regulated products, notably, international mail and parcels. With international parcels it typically provides inferior service to its competitors. However, most small mailers do not have easy access to the competitors' product but they do have access to USPS.

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