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THE HONORABLE DANIEL OLIVER
CHAIRMAN
FEDERAL TRADE COMMISSION

ON

"SAVING THE POST OFFICE"

before the

DIRECT MARKETING ASSOCIATION'S
GOVERNMENT AFFAIRS CONFERENCE

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SAVING THE POST OFFICE

I'm honored to be able to talk with you today. You're part of an important American tradition. It's said that Thomas Jefferson was our first great mail-order aficionado, requesting, among other things, grape seedlings from France for starting a vineyard in Virginia. Benjamin Franklin, in 1744, printed a book catalog offering, as he put it, "near six hundred volumes." Over a century later, Montgomery Ward produced his catalog, and Messrs. Sears and Roebuck put out theirs. America soon became a consumer society. These catalogs, nicknamed "the farmer's friend," were of immense importance to a scattered frontier population.

And then there were countless lonesome cowboys and gold prospectors whose lives were enriched by mail-order brides. We can discuss later whether today's mail order rule would cover those orders.

Americans who grew up more recently, in the 1940s or 50s, remember the excitement found in the pages of the old Johnson Smith & Co. novelty catalog. It was full of little devices that could "throw" the voice; bow ties that blink; and, of course, rubber spiders to put in your sister's bed.

Nowadays, we think of L.L. Bean and Bloomingdale's competing with Sears and Spiegel. Mail order has become sophisticated. Some of the best products available are now sold directly to people in their homes.

Every time I open my mailbox, I'm reminded that mail order is a booming business. There's almost nothing you can't buy through the mails. Or, for that matter, by telephone, or even through home computers. Or cable television: The Home Shopping Network has become one of the direct marketing success stories of the 1980s.

Of course, you represent a lot more than just mail-order these days. In fact, your membership roll is rather impressive: it includes not only the classics like L.L. Bean, but also CBS, McGraw-Hill, Time, Inc., and the many major corporations involved in direct marketing. And that's not even to mention the many companies that work behind the scenes, such as the fulfillment houses and the mailing-list brokers.

In all, your group represents a 50 to 75 billion dollar industry, one that is uniquely competitive. Your business has become especially important now, when many women work and have less time for shopping.

My experts tell me you're so successful that some of your companies are stealing markets away from traditional stores. This is especially the case in women's fashions. You're able to offer your customers the fashion choices they want -- more conveniently than the traditional stores, and at better prices. That's the way competitive markets are supposed to work.

The Direct Marketing Association is worthy of this dynamic industry. You represent the kind of effective self-regulation that makes the free marketplace work so well. I am impressed with your constant efforts to upgrade your industry. I'm impressed with the work of your Ethics Committee in reminding your members of the finer points of dealing honestly with customers. Your recent campaign against medical fraud is laudable. I also appreciate your strong support for the FTC's mail-order rule, and for our work against deceptive advertising.

I'm especially impressed with the Regional Dialogue sessions you've been holding with us and the other government agencies concerned with consumer affairs. The most recent one, in Chicago, was fruitful for everyone involved. FTC staff learned about the things that interest you in each part of the country. And you learned more about our interests. We're able to work together in these Regional Dialogue sessions, and I hope they continue.

You've also backed us in our work on telemarketing fraud, for which we are grateful. Earlier this year, I announced a joint crackdown on this kind of fraud with the National Association of Attorneys General. We obtained 2.7 million dollars in refunds to consumers -- from a telemarketing scam offering a phony chance to win oil and gas leases. Some of the states and the Commission filed more than a dozen lawsuits last January alone, and we're working on still more telemarketing fraud cases even now. Telemarketing fraud can cost consumers up to a billion dollars a year. And, in addition, it harms the good name of your members who sell by telephone.

I understand why, in an industry such as direct marketing, you're especially sensitive to fraud and deception. A few bad operators can give your whole industry a bad name. That's why I appreciate your own efforts to weed out the con artists.

These con artists still exist on the fringes of any industry, and doubtless, they always will. So it's necessary always to be vigilant. But always be careful at the same time not to stifle the innovators with excess rigidity.

Despite the new technologies of direct marketing -- via television and telephones -- many of you still depend, as you always have, on the U.S. Postal Service.

Reading the papers, I can sympathize with Commissioner Tyson, who soon will have to consider a 16 per cent rate increase, and with Postmaster General Tisch, your keynote speaker of yesterday. These days, it seems that no government agency gets less respect than the U.S. Postal Service. You've seen the stories. The Wall Street Journal regularly lambastes post office deficiencies, as does, sometimes, even the New York Times. Columnists make a sport of sending poison-pen letters to the Postal Service for such sins as lost and thrown-away mail, but they take the precaution of not leaving delivery of those messages to the post office.

I imagine some of you have also heard the complaints of customers -- who wonder when their packages are going to arrive, even though you ship them immediately after you received their orders. Sometimes packages never arrive at all, or they arrive damaged.

You yourselves have been known to complain -- about the difficulties of the post office in handling bulk mail, about the bureaucracy, about the ever-escalating cost of third and fourth class mail. Speaking of bulk mail, I got a letter the other day that said, "Darling, I love you and cannot live without you. Marry me at once or I shall kill myself." I checked the envelope, and saw it was addressed to "Occupant."

The Postal Service is a glaring example of the deficiencies of government monopolies. Productivity is low, and service is poor, as you all know. According to a survey done by Doubleday, as much as nine per cent of third-class mail is thrown away or lost. Some 83 per cent of second-class mail arrives late.

Professor Douglas Adie, an expert on postal economics, has noted that post office workers earn wages 40 per cent higher than those of the average American. In 1985, they made an average of 38,000 dollars a year. He said they also enjoy far greater job security, larger pensions, and better fringe benefits. And the number of postal employees, incidentally, has risen by over 100,000 since 1981.

As recently as 1970, first-class stamps cost six cents. The price of a first-class stamp jumped to ten cents in 1974. Fifteen cents by 1978. Twenty cents in 1981. Now it's 22 cents. Next year, first-class stamps may go to 25 cents. This rate of increase is more than twice the rate of inflation over the past two decades.

The Postal Service figures postal rates on a simple cost-plus basis, and the Postal Rate Commission, which is charged with monitoring postal costs, has in the past approved the Board of Governors' recommendations.

Before Postmaster General Tisch's arrival, the Postal Service used consumer money to subsidize ventures in other markets -- such as electronic mail -- where it competed against private companies, and it lost millions in the process.

The deficiencies of the post office are magnified by the sheer scale of the operation. The Postal Service is the largest single commercial undertaking of the federal government -- and it is as large as the entire U.S. airline industry.

Postmaster General Tisch has to defend his agency from all this criticism. I don't envy him. But that's what you have to expect when you run a statutory monopoly. The nature of a monopoly is to charge higher prices while restricting consumer choices. The monopoly's perennial motto is, "Take it or leave it. You've got no choice." In a monopoly, especially a state monopoly, there's no penalty for failure, no punishment for shoddy service, no rival to discipline management.

The fact is, it is government that is the primary source of restraints on competition. Too often, economic regulations confer anti-competitive powers to special interests -- and protect these special interests against all economic forces. If government didn't prop up these special interests, natural market forces would have made them competitive or made them disappear, a long time ago.

How did our land of opportunity inherit this great postal monopoly? The post office's letter-carrying monopoly is granted by the Private Express Statutes. These laws derive from the eighteenth century, when monarchs granted monopolies for the carrying of mail from court to court. By 1740, the European kingdoms had abolished private mail delivery in favor of the mail monopolies. It was thought the monopolies were needed to guarantee mail deliveries between royal courts.

In 1872, Congress passed the Private Express Statutes. The rationale for the law is explained in an 1883 court decision. The decision says that, "If private agencies can be established, the income of the government may be so reduced that economy may require a discontinuance of the federal postal system."

"Thus," continues the decision, "mail service may be handed over to individuals or corporations who will conduct it with the sole view of making money." The decision warned that those entrepreneurs might find it profitable to exclude some localities or some classes of mail from postal service.

Well, the same argument was made against airline deregulation. Some airline people said high fares were needed to subsidize flights to small cities. Let in competition, they said, and service to small communities would be cut off.

But, in fact, just the opposite occurred. With airline deregulation, commuter airlines have used smaller planes to serve small cities at far lower costs. Fares fell dramatically, and millions of middle-income people became first-time flyers. Air travel became democratized. For \$39, you can now become a member of the jet set.

Of course, this has disgruntled some expense-account business flyers, who find their once-cozy clubhouses invaded by hordes of bargain flyers. And the new competition has swamped the airports' capacity to handle all the new air traffic. But these are temporary growing pains -- to be expected in a prospering, newly competitive market.

But the Postal Service was not content merely to go after the smallest violation of the Private Express Statutes. The agency has sought in addition to expand its powers by broadening the definition of "letters" to include: payroll checks, fishing licenses, Walt Disney posters, blueprints, data processing tapes, computer programs, credit cards, corporate memoranda, and electronic mail.

Using these farfetched definitions of what constitutes a letter, the Postal Service threatened businessmen with enormous back-postage fines when these items were sent by private carrier.

Judge Malcolm Wilkey, of the District of Columbia Circuit Court of Appeals, explained it this way: He said the Postal Service "has always latched onto whatever interpretation of the word 'letter' which [sic] would give it the most extensive monopoly power which Congress at that time seemed disposed to allow."¹

Now that the Postal Service is under the new leadership of Postmaster General Tisch, many people are hoping for modern efficiency in mail delivery. I would like to hope too. But I do not hope for vain things. Mr. Tisch is an honorable man, and a well-qualified executive -- very possibly the best the Postal Service has ever had. Postmaster General Tisch may be able to eke out a few, small improvements during his tenure. But let's not expect him -- or ask him -- to work miracles.

¹ Associated Third Class Mail Users v. United States Postal Service, 600 F.2d 824, 831 (1979) (Wilkey, J., dissenting).

The fact is, monopolies act like monopolies no matter who's in charge. It's the legal institution itself which is the problem, not the man running it. Only competition will benefit consumers, but competition is the one thing Mr. Tisch can't provide -- even through all his consummate management skill.

What should we do? I must confess to you, in all modesty, that I have the solution to the post office's problems. Let's liberate Mr. Tisch from the impossible task of defending a hopelessly inefficient government monopoly. Let's put him back in his element -- the competitive economy -- where he proved himself by making the Loews Corporation one of the best-run companies in the nation. We can do that quite simply. My proposal is: Let's repeal the Private Express Statutes.

The only real solution to the problems of the Postal Service is to bring in competition. That idea should come as no surprise to you. Most of you already use UPS, for example, to deliver your packages. A company like the Postal Alternative Delivery Corp. claims 50 million addresses where it can deliver your ads. Some magazines are now delivered by private mail services. More than 500 "presorting" firms take in business mail and sort it by zip code, to help businessmen take advantage of bulk mail rates. I say, let the trend grow. The truth is -- as it has been for years -- that it's long past time to remove the government's postal monopoly.

Imagine what might happen in a newly-competitive postal market. If the legal barriers to competition were removed, you'd see a proliferation of new, state-of-the-art competition. You'd see more competitive prices for mail services, and you'd see innovative forms of mail delivery. The new competition would benefit all consumers, and especially those of you who depend so much on mail rates. Postage costs, I understand, are the main expense for many of you.

The fear that mail service would dry up if the government didn't continue to monopolize it is unfounded. The argument supporting the Private Express Statutes was dubious even in the under-developed economy of nineteenth-century America. In today's sophisticated, entrepreneurial economy, the argument flies in the face of reality -- the reality of airline deregulation, to give but one example.

In fact, entrepreneurs, large and small, are anxious to compete in a deregulated postal market. Recall the famous case of Patricia and Paul Brennan, who in 1976 started a mail delivery service in Rochester, New York. They guaranteed same-day delivery in town, and did it for less than the post office. Of course, the bureaucrats at the Postal Service hastily got an injunction to stop the Brennans, whose competitive activities had badly embarrassed the monopoly post office.

While larger companies would compete for national markets, and certainly for your business, ending the post office monopoly would also open new opportunities for the Patricia and Paul Brennans of this world. Deregulation of mail would allow entrepreneurs to start new mail delivery services.

Competition has wondrous effects in curing inefficiencies of any type. In the competitive economy, obviously, profits matter. Providers of services are motivated to offer the best possible services at the lowest possible prices. If they don't perform, consumers will vote them out of business -- by taking their business elsewhere.

The potential savings to the nation are enormous. If competition increased efficiency only five per cent, that would save the economy 1.5 billion dollars a year. More likely, the savings would be larger. And we'd have a new private postal industry, providing better and cheaper mail service to the nation.

Any proposal to end the Postal Service monopoly on letter delivery might worry Congressmen from rural districts. They might argue that private companies would provide service only in more profitable urban markets.

The same argument was made before deregulation of air travel and trucking. As I mentioned earlier, it turns out that commuter airlines are still providing adequate service to smaller communities as before. And since the trucking industry was deregulated, thousands of new trucking companies have started, many of which specialize in service to rural areas. So I think rural areas will continue to have mail service under a de-monopolized post office.

Unfortunately, this year, Congress seems to be in no mood to privatize much of anything -- except the burdens of protectionism. In fact, they may be moving in the opposite direction. We hear ominous talk of re-regulation these days on Capitol Hill. There seems to be some inclination to reimpose the regulatory burdens the Reagan Administration has worked so hard to remove.

Nevertheless, you and others in the private sector must build the support needed to return competition to the postal market. It will take some doing. It might take years -- but, like tax reform, competition can come if we are persistent.

The Direct Marketing Association is an ideal source of opposition to the Postal Service's monopoly powers. Your industry has a lot to gain from a competitive postal market. And here, your self-interest coincides with the interests of all

consumers. The benefits of competition -- lower prices, better service, and more choices -- benefit everyone.

The best thing that Postmaster General Tisch and Commissioner Tyson could do for you, and for all American consumers, is to urge Congress to repeal the Private Express Statutes. In fact, today I sent Mr. Tisch a letter proposing that he do precisely that.

The only way he can be effective in making the postal system work for the benefit of all consumers is to advocate de-monopolizing the system. I also urge Commissioner Tyson and the Postal Rate Commission to join Mr. Tisch in seeking repeal of the Private Express Statutes. The simple truth is that nothing less will suffice to improve the national postal system. This Administration is firmly committed to competitive markets. It is my hope that the President's postal appointees will work to honor this commitment.

Would such a proposal be regarded as "scandalous"? Perhaps, though "controversial" might be more accurate. But today's controversial proposals have a way of becoming tomorrow's accomplishments. Only a few years ago, tax reform was just a pipe dream -- until a lot of talk and hard work by President Reagan made it at first respectable, and then a reality.

If we talk about the idea of removing the postal monopoly, people will stop being afraid of the idea. Someone has to stand up and say, "the monopoly must go" -- I think that is the equivalent of saying, "The Emperor has no clothes!" If Mr. Tisch does only that during his term, he will have served consumers well -- and far better than he could by doing anything else, even wielding his legendary business expertise in 80-hour weeks, month after month.

If we believe in competition, we should advocate it for mail service. If the idea proves to be unpopular, then we must ask ourselves, "Do we really believe in competition?" Or is all our talk about "competitiveness" and antitrust enforcement just so much lip service we pay to the idea of competition -- all the while pursuing anti-competitive exemptions for special interests?

Bear in mind, the mail monopoly is not just an idle anachronism. It's a government statute that prevents our citizens from employing mail carriers of their choice. It interferes with their liberty -- in this case, their liberty to contract for efficient mail delivery services. The point of repealing the monopoly is not to obtain better delivery service for letters. Letters don't have rights. People do. The point of repealing the monopoly statute is to increase the liberty of our citizens.

By calling for an end to the postal monopoly, the Postmaster General and the Postal Rate Commissioners have a chance to become genuine heroes to consumers and to all who believe in free markets and competition. They have an unusually clear chance to serve the cause of liberty. I know you join me in wishing them courage and fortitude in the face of such a noble opportunity.

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