



## **Editorial: The End Game of the Auto Bailouts - The USMS**

By Robert Huebscher  
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Once again, the government must decide the fate of GM and Chrysler. Either the automakers declare bankruptcy or the government will provide a bailout. The government's previous bailout funds, \$17.4 billion in December, are gone.

Now GM and Chrysler are seeking \$30 billion more.

GM's market capitalization is now under \$1 billion and Chrysler's is a fraction of that (since Chrysler is private, its exact market capitalization is unknown). If the government chooses another bailout, the \$30 billion investment – 30 times the value of these companies – should bring with it significant control over the companies' operations, to ensure the taxpayers' interests are protected.

For the investment itself to be wise, we must assume that the government can turn around these behemoths, make them profitable, and realize a gain on its investment once they are returned to private ownership. A clear example allows us to assess the likelihood of success: the U.S. Postal Service.

Since 1971, the USPS has operated as an independent arm of the executive branch of the government. Its revenues come from postal fees, bond issuance, and government subsidies. The subsidies are meant to offset the cost of carrying certain government mandated categories of reduced-rate mail.

Like the automakers, the USPS is heavily unionized, with approximately 330,000 workers represented by the American Postal Workers Union. That is about twice the size of the automakers' unionized labor force.

The USPS and its workers deserve a lot of credit. They deliver mail to every person in the country, regardless of where they live, with a virtually non-existent error rate. Theirs is a thankless job, and they face undeserved ridicule.

As a business model, though, the USPS is not so admirable: it lost \$5.2 billion in 2007 and \$2.8 billion in '08.

Running the post office at a profit should be fairly easy. Its business is recession-proof, as mail volume grows consistently through economic cycles (with no decline in the last decade despite the growth of email). Government



protection insulates the USPS from competition, ensuring a perpetual monopoly for non-express services. The basic postal service has not changed since its introduction 200 years ago – mail is picked up, sorted, and delivered. Technology improvements, like machines that can sort 30,000 pieces of mail per minute, should drive costs down consistently over time.

On the revenue side, the USPS can increase prices whenever it needs to - as we all know, first class postage will increase from 42 to 44 cents in May. But the history of first class postal rates provides the key to understanding why the postal service's business model is broken.

From 1885 until 1970, the cost of first class postage rose from \$.02 to \$.06 per ounce, representing an annualized rate of 1.3%. Inflation data (CPI indices) are available starting in 1914, and the rate of inflation from 1914 to 1970 was 1.9%. Postal rates increased less than inflation during a period of rapid geographic expansion, including the admission of 12 states to the union.

But, from 1970 to the present, the price of first class postage has grown at a rate of 5.1% per year, significantly more than the 4.0% rate of inflation over this period. Meanwhile, the U.S. population became increasingly urbanized over this period, and consolidated deliveries to apartment buildings should have helped contain postal costs.

The choice of 1970 as the dividing line between these two periods is not accidental. In 1970, the postal union won collective bargain rights for its labor contract. This contract contains a "no layoffs" provision. The size of the postal work force can be managed only through attrition. As a result, the postal workforce is slowly aging and offers few opportunities to younger workers.

The combination of government ownership and a powerful union means the postal service has long since ceased to be guided by the invisible hand of the market. Workers are not rewarded for efficiency and management can raise fees as necessary to cover uncontrollable costs. The ultimate losers to emerge from this morass of misaligned incentives are Americans who now pay far too much for postage stamps.

Government ownership would place GM and Chrysler squarely on this path. An empowered union would have no incentive to make those concessions necessary to turn around these businesses and make them profitable. While entrenched unions are not the only reason the automakers' business model has become untenable, these businesses will remain doomed without significant concessions in wages and work rules.



If the government pursues its current bailout strategy to its logical conclusion, it might as well rename GM and Chrysler the United States Motor Service.

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