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President Obama doesn't get it

By WILLIAM F. SHUGHART II

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When President Obama told the people attending a town hall meeting on health care that "UPS and FedEx are doing just fine, right? ... It's the post office that's always having problems," he was right on the facts, but drew the wrong conclusion from them.

As his whirlwind schedule of Sunday talk show appearances indicates, he still doesn't get it.

President Obama was trying to make the point that private health insurance companies have nothing to fear if his health care reform plan forces them to compete with a publicly financed insurance "option" patterned on Medicare. But he failed to recognize that the successes of United Parcel Service and Federal Express - or the Postal Service's failures - have little to do with the competition between them.

UPS and FedEx are doing fine because they are privately owned. Their survival and success depend on their ability to provide service at prices customers are willing to pay and that cover the costs of the global network of people and equipment necessary to pick up and deliver packages when promised. Motivated by the pursuit of profits for shareholders, the managers and employees of the two companies have powerful incentives to treat their customers well, while keeping costs down.

The U.S. Postal Service is not doing "just fine" because it is publicly owned, which means it has no real owners. As a result, the Postal Service has no bottom line to attend to and no shareholders to hold it accountable for failure to operate cost-effectively. Despite having an exclusive monopoly on first-class and bulk mail, the post office chronically loses money - about \$7 billion this year, with another \$7 billion anticipated next year.

But why should its managers and employees worry? They know they can rely on their operating losses being covered by a combination of congressional subsidies (financed by taxpayers) and rate increases, which will be rubber stamped by the so-called Postal Rate Commission.

Since 1950, stamp prices have risen much faster than the rate of inflation, when a first-class stamp cost just two cents. According to the American Institute for Economic Research online inflation calculator, if the cost of a first-class stamp had merely kept up with inflation it would cost 18 cents today - nine times what it cost in 1950 - not 44 cents.

Generous salaries for Postal Service employees, restrictive work rules negotiated by the labor unions that represent them, the continued operation of thousands of obsolete, small-town post offices and failure to adapt to a world in which people communicate by e-mail rather than by first-class mail and pay their bills online all help explain why the Postal Service does not - and possibly cannot - operate profitably.

The solution to the cost-control problem offered by Postal Service Chief Executive John Potter is to stop delivering mail on Saturdays, thereby offering worse service at 44 cents than customers once got for two cents.

If the U.S. Postal Service were privately owned, it would have gone out of business long ago.

Had the president grasped more fully the lesson he was trying to teach his town-hall audience, he

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would have said that if a public insurance option is included in the health-care reform package that emerges from Congress, an option that now seems increasingly unlikely, it will operate more like the U.S. Postal Service than FedEx or UPS.

Supporters of publicly financed health insurance contend that its administrative costs would be lower than those of private insurers, in part because a public plan would "not have to make a profit," as if "profit" is a cost of doing business rather than a reward to owners who provide a desirable product or service at an attractive price.

The U.S. Postal Service's problems (not unlike the problems of Medicare and Medicaid) should provide clear warning that the costs of any government health insurance program will balloon, precisely because the government insurance program wouldn't have to make a profit. No profit motive means no incentive to innovate, streamline and provide a quality product at a competitive price.

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