THE ECONOMICS OF THE SERVICE SECTOR IN CANADA

THE FRASER INSTITUTE

THE MAIL MONOPOLY

Analysing CANADIAN POSTAL SERVICE

DOUGLAS K. ADIE

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CONTENTS

FIGURES AND TABLES

FIGURES

TABLES

PREFACE

In a series of books over the past decade or so, the Fraser Institute has documented the frailties of government production of goods and services. From garbage collection and bus transportation to debt collection and hydro electric generation, the evidence points unambiguously to the conclusion that public services are expensive services and their quality is inferior to those that can be provided by the private sector, or perhaps, more accurately, than those that are provided in an environment in which their production is subject to competition. Competition is the great efficiency inducer and price reducer.

It is not surprising, therefore, to discover in this veritable tour de force on the subject of the postal service that the author, Professor Douglas Adie, finds the postal service would better serve the interests of Canadians if it were privatized and subject to competition. Nevertheless, this is a surprising book. It is surprising largely because of its thoroughness and the extent to which it delves into every nook and cranny of the subject. Here we have the history of postal services and revelations that call into question most preconceptions people have about why public postal services were created. There is also a futurescape of the communications industry into which the monopoly postal service provided by Canada Post fits most uneasily.

While it might be expected that an economist analysing the evidence would find that Canada Post ought to be privatized for reasons of economic efficiency or to provide a higher level of service, it is surprising to discover that Canada Post's very survival may depend on it. Whatever happens to Canada Post, this study by Professor Adie is an important contribution to understanding its progress and is an essential background document for the formulation of future public policy regarding the postal service.

The Fraser Institute is pleased to support Professor Adie's work and to make it available for public information. However, he has worked independently and his analysis and conclusions may or may not reflect the views of the members and trustees of the Fraser Institute.

Michael A. Walker

ACKNOWLEDGEMENTS

Yale Brozen first encouraged me to study postal economics in the 1970s when he asked me to study the U.S. Postal Service's wages for the American Enterprise Institute. The research resulted in *An Evaluation of Postal Service Wage Rates*, 1977. In the middle 1980s Jim Dorn at the Cato Institute asked me to study the postal reorganization more broadly while Reason Foundation's Bob Poole asked me to write a policy paper on privatizing the U.S. Postal Service. Both endeavours resulted in publications: the first, *Monopoly Mail*, published jointly by Cato and Transaction publishers (Rutgers — The State University) and the second, a Reason policy paper.

When the Fraser Institute received a grant from the Canadian Government's Department of Regional Industrial Expansion (now Industry, Science and Technology Canada) to study Canada's service sector industries, Michael Walker looked for someone to study Canadian postal services, and, in particular, Canada Post because it contributed more than one-half of 1 percent to Canada's GDP. Because of my experience with the USPS which, like Canada Post, is a government-owned and operated postal monopoly, Bob Poole suggested me to Michael.

This study, begun in late 1986, has grown in size and complexity along with Canada Post's policy problem. While my experience with the USPS helped in suggesting questions, the distinctive Canadian institutional features were more important than originally anticipated. The Canadian setting also necessitated refamiliarizing myself with the Canadian milieu. Much had changed since I graduated from McMaster University in 1963. Many individuals were helpful in answering my questions, briefing me on the background, and sharing their views. They discussed Canada Post and its regulatory and political environment, listened to my ideas, criticized them where appropriate, and frequently sent me materials. For this I am especially grateful to William Stanbury of the University of British Columbia, Richard Schultz of McGill University, Ron Hirshhorn of the Economic Council of Canada, and Brian S. Osborne and Robert M. Pike of Queen's University.

Past and present postal officials provided aid. Iain J. Ryder, assistant corporate manager, Corporate Accounting and Reporting, Canada Post Corporation, sent me the government department's and the corporation's annual reports. Keith Jolliffe, a former vice president of Canada Post, consulted with me and sent me pertinent materials. I had brief conversations with the Honourable Harvie André, minister responsible for Canada Post Corporation, Honourable Eric Kierans, postmaster general 1968-71, Michael Warren, president, Canada Post Corporation 1981-85, and Donald Lander, current president, Canada Post Corporation, at the Fraser Institute's Canada Post Privatization Symposium in Toronto, June 23, 1989.

In the course of research I consulted with Ian R. Sadinsky and Ken Stein in the Office of Privatization and Regulatory Affairs. At the Fraser Institute, Herbert G. Grubel supervised all the service sector research projects while Michael Walker administered the programme. Sally Pipes and Lorena Baran attended to numerous requests. Kay Mikel and Dawn House turned the manuscript into a book. Staff at three libraries helped: Billie Kahlon, reference librarian at the National Postal Museum, Jean Weerasinghe, Ruth Moreland, and Chantal Mētivier at Canada Post's Corporate Library, and Katharin Foster at the Alden Library of Ohio University retrieved articles and other materials for me. In addition to *Postal Service Down the Centuries* and *Records of the Post Office Department*, there is an interesting bibliographic reference paper entitled "A Guide for Postal Researches" by Jane E. Harrison (December 1986, National Postal Museum, Ottawa), which is helpful to Canadian postal researchers. I also had the benefit of bibliographies generated by the study team, Third Party Regulation, Canadian Postal System.

Those who read the manuscript made specific contributions to the argument, organization, and text. They were Lynn Scarlett of the Reason Foundation; Keith Jolliffe, a private management consultant; an anonymous "official responsible for some policy work with respect to Canada Post"; and Stephen Easton of Simon Fraser University who did double duty by reading the manuscript twice. I have incorporated many of their detailed comments. Despite their efforts, they bear no responsibility for the content of the manuscript or any of the errors that might still remain. These are solely my responsibility. LaVerne Peterson, wife of the late John Peterson (a former colleague of mine at Ohio University), typed the manuscript numerous times and watched the argument evolve from a jumble of words and ideas into something approaching coherence. Dolores, my wife of twenty-five years, deserves credit for sacrificing much of her social life for most of the last five years. All these people deserve and have my thanks, while sharing no responsibility for the final product.

Since the research has been completed, an important development has taken place. The New Zealand government privatized its post office. How is it working? The New Zealand Post Office moved from a loss to a profit by reducing its staff 20 percent and its costs 30 percent, and it speeded mail delivery and increased "on time" delivery by 15 percent at a real rate lower than the U.S. This experience may be the proverbial hole in the policy dike. I believe the Canadian postal situation is ripe for the bold policy suggested in this book. It will be interesting to watch this issue evolve in the political arena in the next year or two.

ABOUT THE AUTHOR

Douglas Adie was born in Hamilton, Ontario, in 1940. After graduating from McMaster University in 1963 with an Honours B.A. in economics and mathematics, he attended the University of Chicago where, under the supervision of Milton Friedman, Robert Mundell, and George Stigler, he completed his Ph.D. in 1968. Dr. Adie has over 25 publications to his credit, including several books and monographs on the U.S. Postal Service for the American Enterprise Institute, Cato Institute, and Reason Foundation as well as numerous articles for economic journals. A member of the Mont Pèlerin Society for the past 15 years, he is now a professor of economics at Ohio University.

Chapter 1

INTRODUCTION

Organizational Development

Canada Post is one of Canada's largest enterprises. It was the largest government department, and is now the largest Crown corporation. It has annual revenues of $3.4 billion and assets worth over $2.5 billion. Canada Post employs 62,000 full- and part-time workers at 29 mechanized plants, 175 distribution centres, and 8,400 branches. It touches all Canadians daily as it delivers 83 billion pieces of mail per year to 10 million addresses.

This all sounds impressive until comparisons are made. For instance, Canada Post carries 277 pieces of mail per person per year, using 0.6 percent of Gross National Product (GNP). The U.S. Postal Service (USPS), which is no model of efficiency, carries 708 pieces of mail per person per year for 0.75 percent of the GNP. For a 25 percent increase in costs to the U.S. national economy, the USPS carries over twice the mail per person per year as Canada Post.

Eric Kierans became Canada's postmaster general on July 7, 1968. He immediately faced rising deficits, unreliable service standards, labour unrest, and patrons angry at a rate increase.[1] Before the end of the year he commissioned Kates, Peat, Marwick and Company to conduct a major study of the Post Office Department (POD).[2] The study concluded that the problem resulted from a military style management functioning with returning servicemen from World War II, who wore military style uniforms, employed military management techniques, conducted daily parades and inspections, and related to each other through the military style chain of command. This modus operandi led to unresponsive service, antiquated personnel practices, unfavourable working conditions, limited career opportunities, and a growing postal deficit. It was believed the growing deficit resulted not only from the productivity problems of the 1970s but also from the creeping politicization. For instance, the government only grudgingly raised postal rates for fear of contributing to general inflationary pressures, while costs increased without hindrance. The study described the need for converting the POD to a Crown corporation and the negative consequences of not doing so. Kierans, however, was unable to persuade Prime Minister Pierre Trudeau to reorganize. In 1969 Kierans adopted a national postal code as a basis for mechanization.[3] Beginning with Kierans, five postmasters general spent $1 billion on equipment automation, but service still deteriorated. Ten years later, in November 1978, after 60 strikes exasperated 23 million postal patrons, Trudeau finally agreed to the conversion.[4]

Postal corporations that reorganized in the U.S. and Britain from 1969 to 1972 had not lived up to expectations. Parliament's policy response, delayed until 1981, was to follow suit and reorganize the POD into a monopolistic, independent Crown corporation. Members of parliament used this legislation to distance themselves from a "bad" postal service. Managers wanted to manage the POD like a business but lacked the organizational and legislative structures to do so. Bureaucrats in other departments made all major decisions regarding labour negotiations, purchasing, real estate, construction, pricing, and hiring. Postal managers expected the Crown corporations to give them more independence.[5]

The original Crown corporation legislation, tabled in November 1978 when Gilles LaMontagne was postmaster general, contained a provision for a regulatory body to oversee rate increases. On October 16, 1981, Parliament passed Bill C-42, An Act to Establish the Canada Post Corporation, without the regulatory provision.[6] Immediately the POD ceased operating as a department of the federal government, and Canada Post, a Crown corporation, took its place. While a change was warranted, the rationale succumbed to the fallacy of misplaced concreteness. The fallacy was in calling a symptom, namely bureaucratic management and political interference, the root problem, while leaving unexposed the deeper, more basic problem of a lack of correct motivation. This deficiency, stemming from the nature of the organization itself, produced the symptomatic shortcomings listed above as well as accountability problems. Given a corrected motivation, the 1970s managers might have been able to run the POD more efficiently.

Canada Post became a Crown corporation on October 16, 1981. Has the Crown corporation ameliorated the shortcomings of the POD? Unfortunately, no. The reorganization addressed symptoms only and did not provide an organizational structure characterized by enough motivation and accountability to use resources efficiently. This should not be surprising because Canada Post lacks a bottom line and people to care about it. The change in organizational form did not lessen Canada's postal problems nor public criticism of its operations. The recent establishment of a Prices Review Commission is a public admission of this.

Since confederation, Canada Post's functions of handling the mail have not changed much. The differences are primarily operational and can be performed with modern industrial equipment developed for cheque processing, inventory control, package and envelope processing, and counter checks-outs. These innovations should improve service and productivity. Although Canada Post has tried many types of equipment, it has not been able to incorporate them effectively into postal operations, as it still takes almost as much time to deliver a letter 500 to 1,000 miles today as 200 years ago by a rider on horseback. What is the source of the efficiency problem and what can be done about it?[7] This has been a recurrent theme over the years and is one of the themes of this study as we inspect and analyse various aspects of Canada Post and its operations.

Highlighting gross inefficiencies in the USPS (which most casual observers believe to be more efficient and reliable than Canada Post), then President Ronald Reagan concocted the following illustration while campaigning in New York City. He said farmers in Ghana grow cocoa beans, sell them to the marketing board that exports them to London, where wholesalers ship them to New York and then to Hershey, Pennsylvania. Farmers in Jamaica grow sugar cane, refine it and ship it to Hershey via New York. Farmers in Wisconsin produce milk products that they also ship to Hershey. Paper mills in Quebec produce labels and ship them to Hershey. In Hershey, the Hershey Company processes all of these products and manufactures a chocolate bar, packs and sends it to New York and many other places around the country where customers buy and consume it for as little as 15 cents, although it costs the USPS 20 cents to *send* a letter from one coast to the other. This illustration applies equally well to Canada Post.[8]

Chapter 2 examines the history of Canada Post and sorts out the intentions, attitudes, and behaviour of Canada Post through the years. Originally there were no social policy objectives to justify the British postal monopoly in North America. It was simply an extension of the British Post Office used to generate revenues for Britain. After the American Revolution, the Post Office helped maintain Canada's separateness from the U.S. although routes through the U.S. and even the U.S. system itself was extensively used for both international and domestic deliveries. The monopoly was not comprehensive. Private deliverers usually served new areas first and pioneered in the use of new forms of transportation such as steamboats and airplanes. Private deliverers were excluded as the government monopoly expanded. While owned by the British, service was not extended until the new service would at least pay for itself, if not yield a profit to Britain. Social policy objectives only began to creep into the justification of the government monopoly after the federal government began operating it effectively, and these have, for the most part, been fulfilled. The historical record cannot sustain many of the postal myths that still influence postal policy.

Chapter 3 focuses on Canada Post's social policy role. Should Canada Post seek as its primary goal serving its customers as faithfully and competently as possible, giving the best service at the best possible cost; or should it, rather, seek to fulfill some social policy goal related to the national purpose? For instance, if Canada Post should choose to serve the public by providing individual patrons the services they desire at the lowest possible cost, private business could best do this. On the other hand, if Canada Post should pursue as its first priority a public service goal designed to benefit the entire nation rather than only its postal patrons, some form of government participation might be more defensible.

In the 19th century when literacy improved, governments began subsidizing the distribution of newspapers and magazines, which were the *only* general means of reaching the public. Major postal systems still carry newspapers and periodicals for a small fraction of their delivery costs. Today, however, the situation is very different. Although in other media advertisers underwrite most of the distribution costs, the subsidy for third class mail persists.[9] Seventy-five years ago numerous post offices helped to unify the country by providing a federal presence in every "burg and hamlet." Social policy still justifies the wide distribution of the 8,400 post offices throughout the country, even though only 80 post offices employ 80 percent of the employees and originate 80 percent of the mail. Despite these facts, many people believe the post office is a unifying force throughout the country and, as such, is more than just a public utility. Chapter 3 concludes that social policy never had as large a role as is sometimes thought and, whatever it was, it is now practically obsolete. This realization undermines the most important reason for continuing Canada Post as a Crown corporation.

Without altering the present organizational structure, there are only a few alternatives for increasing postal accountability. For instance, Parliament could increase its surveillance powers by regulation, as it has with the recent implementation of Third Party Review, or it could return it to its own control. The U.S. tried the first approach and finds it wanting. The second approach prompted reorganization in the first place. This kind of tinkering, however, is merely reconfiguring the regulatory powers and will be ineffective. We must acknowledge that the public corporation form of business organization has frustrated rather than helped responsibility and accountability in Canada Post. As regulation failed for many businesses, so it will fail with Canada Post. It is becoming clear that only private ownership functioning under competition provides responsibility and accountability. While changes in accounting and valuative procedures are needed, they are not enough to motivate managers to perform efficiently.

At the root of Canada Post's problems is an unsound organizational structure, particularly those characteristics distinguishing it from a privately owned and operated business. Chapter 4 discusses this organizational structure. The characteristics of Canada Post's present organizational structure are government ownership, the exclusive privilege,[10] total exemption from federal, provincial and local taxes and most laws, eminent domain, and the ability to borrow through the treasury. Chapter 4 applies the theory of public choice to the behaviour of Canada Post and enables us to see that the problems and inefficiencies are not aberrations but results that should be expected within a public corporation with the above characteristics. It also suggests that unless the motivational constraints are altered to conform to a private business operating in a competitive environment, the present problems will continue unabated.

Chapter 5 examines postal service and finds Canada Post is not meeting the needs of Canadians very well. For instance, Canada Post's own statistics show it takes 10 percent longer to deliver a first class letter today than it did in the 1960s.[11] Not only does Canada Post deliver the mail more slowly, it delivers it less often and not as directly. In 1987 Canada Post ended home delivery for new homes and began phasing it out for older homes as well. "Super Mailbox" delivery at central locations replaces home delivery. The rapid increase in first class rates might be justifiable if service improved commensurately, but instead postal service has steadily deteriorated.

Labour Relations Failures

Labour relations were disastrous before and have not improved since the POD became a corporation. Through its acts and statements, the work force determined to see Canada Post fail, and they have succeeded. Postal patrons increasingly use other carriers at much higher cost. What inference can we draw from this? Since reorganization, new problems have combined with old ones to annoy and exasperate Canada Post's customers and the general public, and to threaten the existence of Canada Post itself.

Labour has been the main beneficiary of increased revenues and efficiency measures. The Letter Carriers Union of Canada (LCUC), not the publicly despised Canadian Union of Postal Workers (CUPW), had most of the excessive clauses built into its contract. These cost clauses continued to be carried forward from contract to contract, which management claims prevented implementation of efficient mail handling measures. Over several years, management put considerable effort into negotiating the unmanageable, entrenched productivity clauses out of the labour contracts, and even precipitated two long strikes over this issue. The government, however, bending to public pressure to resume mail delivery, entered the fray and legislated a return to work, thus reducing the pressure on labour leaders to capitulate on this issue.

Since reorganization, postal wages have increased faster than the Consumer Price Index (CPI). Between 1968 and 1985, the Canadian CPI rose 334 percent while postal wages, salaries, and benefits rose 657 percent, or about twice that of the CPI. It indicates an astronomical rise in wages during the period which dwarfs the experience in the USPS where postal workers receive wages that are excessive by more than 30 percent.[12] Before the amalgamation of labour unions, Canada Post negotiated frequently with the 30 bargaining certificates and eight unions listed in table 1. In addition, the General Labour and Trades, Railway Mail Clerks, and the Union of Postal Communications Employees also represented postal employees. Negotiations with all these unions took a great deal of time and effort and produced fears of strikes and service curtailments among postal patrons. Hopefully the amalgamation will change this.

Table 1
Associations and Unions Representing Canada Post Corporation, 1983-84

Association of Postal Officials of Canada (APOC)	4,307
Canadian Postmasters and Assistants Association (CPAA)	9,239
Canadian Union of Postal Workers (CUPW)	22,991
Economists, Sociologists, and Statisticians Association (ESSA)	8
International Brotherhood of Electrical Workers (IBEW)	70
Letter Carriers Union of Canada (LCUC)	20,295
Professional Institute of the Public Service (PIPS)	243
Public Service Alliance of Canada (PSAC)	5,536
Total	62,689

Source: Canada Post Corporation, *Annual Report, 1983-1984*, p. 19.

To negotiate successfully, management must have the power and will to bargain hard with the union. CUPW[13] will predictably oppose such things as presorting programmes, refinement of postal codes, and other economies that would result in fewer clerk positions. Postal managers have been no more successful in negotiating changes in inefficient work rules and the introduction of labour-saving innovations since than before the reorganization. Table 1 shows that in fiscal year 1983-84, union membership was 62,689 and total person-year utilization was 61,486. This means that union membership regarded as a stock at one point in time was 62,689, while the flow of labour expressed as person-year utilization over a 12-month period was 61,486. In any event, unions represent nearly 100 percent of Canadian postal employees (97 percent).[14] Chapter 6 examines the labour force, the source of many serious problems, and finds its productivity lacking.

Social Costs of the Monopoly and Other Financial and Policy Issues

Chapter 7 uses a demand relationship for first class mail estimated elsewhere and applies it to the Canadian market to measure the monopoly power and welfare costs of the exclusive privilege. The astounding conclusion of this chapter is that government ownership of the postal monopoly for first class mail is costing Canadians about $1.2 billion a year in monopoly rent. Procrastination in dealing with the underlying organizational problems costs Canadian patrons and taxpayers about $100 million per month. This is the cost of continuing the currently inefficient and increasingly costly government-owned and operated mail service that patrons "enjoy."

Some financial and other policy issues are considered in chapter 8. From 1968 through 1980 the postal deficit, defined as the difference between operating expense and operating income, averaged about $295 million a year. Subsidies for POD in some years had exceeded 50 percent of total revenues. Parliament mandated Canada Post to operate on a self-sustaining basis, while "providing a standard of service to meet the needs of Canada."[15] Canada Post agreed to reduce its subsidy each year for five years until it was self-sufficient but did not achieve either goal. Although intending to be self-sustaining, Canada Post operated in the red continuously up to fiscal year 1988-89. From 1981 through 1985, Canada Post ran an average annual deficit of $317 million. The period 1981-85 included a major government restraint programme on prices but not on wages, which had already been negotiated in union contracts. Perhaps because of this one should not hold management responsible for the financial failure after reorganization. Placing blame, however, is not the task of this book or, in my opinion, a useful exercise. It is immaterial who is responsible for the various failures. In some cases it may be government officials; in others, management, workers, unions, and so on. The important point is that the total system is faulty because incentives do not encourage the behaviour reasonable people expect.

How has Canada Post reduced its dependence on government subsidies? "Milking the cash cows" of first class postage prevented the financial status of Canada Post from more serious deterioration. First class postage rose from 10 cents in 1976 to 39 cents today, outpacing the Consumer Price Index by over 50 percent in this time period, and still there is discussion of further increases in 1990.

After nearly doubling first class rates from 17 to 30 cents in the reorganization, the government's anti-inflationary programme restricted both costs and revenues to 5 and 6 percent per year in 1982-83 and 1983-84, respectively. The government subsequently tried to force Canada Post to provide customers adequate service at lower cost by implementing efficiency measures. This, however, did not work. Service deteriorated noticeably while first class rates increased from 32 cents per first class letter in 1982 to 38 cents in 1989.

What has Canada Post done with the revenues raised through increases in first class postage, deficit financing, and the savings from the curtailment of services? In addition to the reduction of some government subsidies, Canada Post squandered its revenue increases on inefficiencies in operation, mistakes in innovation, sabotage,[16] and especially on the excessive wage demands of one of the highest paid semi-skilled work forces in the world.[17] (Almost 75 percent of postal revenues go to support the wages, salaries, and benefits of its 60,000 postal employees.)

Canada Post and U.S. Postal Service Innovation Failures

Canada Post and the USPS provided similar if not identical innovative services. These services include overnight delivery, a new parcel post network, an overseas instant communication system called INTELPOST, E-COM, Telepost, Envoy Post, a 9-digit zip code, and new equipment. Telepost enables the public to send messages electronically via phone, Telex, or any telegraph office for hard-copy delivery by mail to any address in Canada or the U.S. INTELPOST electronically sends facsimiles of documents between specially equipped post offices in Canada as well as to certain overseas cities. Envoy Post is an electronic mail service enabling subscribers of the Envoy 100 service of Telecom Canada to transmit text or facsimiles electronically between major centres and, by using the mail-delivery system, to reach any address in Canada. The results have been so uniformly disappointing one might characterize the USPS's and Canada Post's experiences as "the Midas touch in reverse."[18]

To illustrate this phenomenon, the volume of parcels handled by the USPS fell more than 50 percent between 1951 and 1974. One reason for this may be that the USPS, as reported by an internal survey, damaged half the packages marked "fragile." The mechanical conveyor belts used in USPS centres included a drop of up to four feet; the United Parcel Service (UPS) system had no drops. Instead of focusing on the problem of package handling, the USPS responded to its volume loss by spending a billion dollars to build 21 new bulk mail centres to win back business. Promoted as a cost-cutter, the USPS National Bulk Mail System turned into a $1.5 billion financial albatross.

The USPS opened the first bulk mail centre in Jersey Meadows in 1974. The result was a disaster. Today, the privately owned and operated UPS is carrying more than 70 percent of all parcels. This is not an irrelevant example. Canada Post is suffering the same deterioration in the package delivery business. Has it learned from its neighbour to the south? Its strategy was the same. Michael Warren proposed a billion dollar investment to revive the parcel business and to enter electronic mail service (E-mail). The proposed investment in the parcel operation would have been $191 million.[19] Fortunately for the Canadian taxpayer, the Marchment Committee recommended that Canada Post not embark on a costly investment programme to regain its lost package business.

The USPS's experience with E-COM is parallel to its bulk mail experience. Despite legal prohibitions, the USPS offered the heavily subsidized electronic computer-generated mail system called "E-COM." Although customers paid only 26 cents per letter, the USPS lost $5.25 on each E-COM letter the first year, and continued to lose more than $1 per letter until its demise in the autumn of

1985. The system required too high a volume to break even and actual volume consistently fell short of predicted volume. Postal operators instantaneously beamed messages electronically to one of 25 post office receiving stations; once there it might still wait two days or more for delivery. Communications expert Michael Cavanagh said, "there's just no way this can be characterized as anything else than an abysmal failure." Representative Glenn English, chairman of the Government Operations Committee, concluded that E-COM "certainly looks like a turkey and it gobbles like a turkey."[20] Confirming this failure, the USPS announced it would shut down E-COM and look for a buyer.[21]

INTELPOST was another E-mail service offered by both Canada Post and the USPS that appeared to be a good idea. It failed in execution, however, at the hands of postal managers. The USPS seems to have overestimated the size of the market for this service too. What is the reason for this shortfall in actual demand as compared with expected demand? With the increasing popularity of fax machines, now it appears the concept was unprofitable whether in public or private hands. One cannot rule out unreliable service in this case, as well. Perhaps there is a reason for this systematic bias of overestimating market size for new services. In any event, this venture failed.

ZIP+4, another innovation of the USPS, is a 9-digit zip code system permitting more mechanized sorting than the 5-digit code. Although not as sophisticated as the Canadian ANA NAN code, in the right hands it could potentially cut labour costs dramatically.[22] The USPS requested $900 million to carry out ZIP+4 without assigning enough funds to encourage customer use. The USPS obscured the costs and perhaps exaggerated the benefits of the programme. Whether or not the expanded zip code will succeed is still an open question.[23] The programme, however, is slated for termination.

The USPS has not proved competent in planning, carrying out, or marketing electronic services in a competitive and unregulated environment.[24] More importantly, it has not learned much from its mistakes. A pattern of failures in innovations that should have succeeded does not bode well for the future of the USPS as it faces competition in a dynamic communications industry. This experience should raise a warning flag to both postal management and employees; USPS's present organizational form (a government-owned monopoly) cannot cope and respond in today's rapidly developing communications industry. Can Canada's Crown corporation, Canada Post, do a better job in Canada than the USPS has done in the United States? It is doubtful. Why? Because the incentive system under which it operates is the same as that under which the USPS operates. Chapter 4 investigates this incentive system in detail.

The USPS claimed to have innovated and improved existing service with its cluster box programme, which really offered no improvement at all. It was designed to disguise a reduction in service and a loss in home delivery. In 1978 the USPS replaced home delivery with cluster boxes for newly built homes and began phasing in the boxes for older homes as well. Cluster boxes sometimes require a trip of a half mile or more from home. James Bovard described cluster boxes as too small, located inconveniently, subject to freezing shut in cold weather, providing little privacy, and easy targets for vandals.[25]

Canada Post calls its cluster boxes, "Super Mailboxes," but Canadians dislike them just as passionately as Americans do. Just as the USPS, Canada Post also heralded them as a commendable innovation. Without regard to local considerations, Canada Post began installing these boxes on public properties without permission or consent from local governments. Gord Harding, public works commissioner in Windsor, Ontario, attempted to defend local residents from Super Mailboxes, and threatened to remove the structures from every public right-of-way in Windsor if Canada Post continued replacing doorstep delivery with them. Canada Post spokesperson Tom Dalby said that federal legislation allowed the corporation to erect mailboxes without municipal approval wherever it best served the public.[26] Canada Post gained the government's approval for the programme by promising increased postal efficiency and reduced operating costs on the basis of unrealistic cost-benefit projections. The programme totally ignored the customer's needs and used an unrealistic time frame. Although it is doubtful the programme increased efficiency or reduced operating costs, it did break the postal union's position on home delivery.

Despite protests, Canada Post still plans to install these Super Mailboxes across Canada. Varennes, a small town south of Montreal, also opposed the construction of the boxes, not only because it replaced doorstep delivery with remote location delivery but also because it fostered increased traffic and litter in residential neighbourhoods. Varennes prevented Canada Post from constructing the boxes with a temporary injunction. Deborah Saucier, a Canada Post spokesperson from Ottawa, said the Super Mailboxes now serve about 122,000 Canadian homes, and that despite the injunction she expects the number of Super Mailboxes to more than double within the year. Angela Smyth, a Ryerson Road resident who also successfully fought the location of community boxes in her neighbourhood, said that the court ruling would not provide doorstep delivery to homes in new construction surveys.[27] Canada Post used the Super Mailbox programme as a public relations ploy to disguise a decrease in service. This behaviour is characteristic of a government monopoly that is not accountable to its customers.

Private businesses use up-to-date equipment in order to survive in competitive markets. Instead of using appropriations to increase already excessive wages, Canada Post could have pursued mechanization, especially labour-saving devices. The POD before and Canada Post after reorganization have been reluctant to do this for fear of reducing the number of jobs available to union members, and preferred the risk of causing a public outcry through repeated increases in postal wages.[28]

Both the POD and the corporation had available several key machines capable of handling the mail quickly, efficiently, and in huge volumes with only a few employees. The multi-position letter sorting machine at the heart of the mechanization programme, is capable of sorting 36,000 pieces of mail an hour. It moves a letter into the sight of one of its 12 operators who type address codes on a keyboard, sending letters to one of 277 destination bins. These machines have enabled some reduction in the total work force despite increasing volume. Unfortunately, the gains did not result in lower postage rates for customers. The subsidy Parliament pays to Canada Post has been reduced, but the corporation has squandered most of the gains on other inefficiencies and wage increases for existing employees.

As an example of how hypothetical efficiencies from mechanization are converted into inefficiencies, machine operators often misdirect outgoing mail processed on letter sorting machines. This lowers the average speed of service and causes the same mail to be sorted more than once. A mail handler in the south central letter processing plant in the Toronto area (Canada's largest facility) was sceptical that mechanization would bring about the expected efficiency. His comments become almost a self-fulfilling prophecy. He said the rejection rate from machines to manual sort was sometimes as high as 60 percent.[29] Another postal worker said of his colleagues, "they are afraid of efficiency."[30]

Presort programmes and contracting out rural delivery routes are innovations representing improvements in efficiency. This reorganization of the provision of functions does not introduce anything new, however. Efficiency gains occur only because Canada Post is so costly compared to private businesses that there are many opportunities for improvement. The presort programme is a form of contracting out. It allows large mailers to presort mail by postal code area and even mail it within their regions for a discount.

Although the American Postal Workers Union (APWU) opposed presort discounts, they supported the ZIP+4 programme. They sponsored testimony in Docket Number R84-1 favouring a 1.5 cent discount for all ZIP+4 mail, in contrast to the USPS's proposal to continue the 0.9 cent (non-presort) and 0.5 cent (presort) discounts set up in 1983. On losing the case before the Postal Commission, APWU pursued this issue in the Court of Appeals because, by 1984, private presorters were doing 40 percent of the sorting. In the U.S., the ZIP+4 programme is not so much an innovation to improve efficiency of mail delivery as it is an alternative programme to compete with the presort industry.[31] The unfortunate result is that, whatever efficiencies the USPS realizes through any of these programmes, it dissipates elsewhere within the public corporation in higher wages, featherbedding, increased employment, graft, or other forms of inefficiency.[32] Does Canada Post have the same tendencies?

How Much Time Do We Have?

Chronic inefficiency in Canada Post raises a series of questions. Is there consistent petty sabotage on the part of the employees who are trying to protect their jobs? Is there laxity in management's demands for performance? Or is there a jinx on Canada Post that allows it to take a perfectly sound idea and see it fall short of its potential? It is pointless, however, to delve into the continual morass of postal difficulties with a view to assigning blame for the stream of failures and nonperformances. These occurrences are part of an endemic malaise stemming from the nature of relationships and incentives under public ownership, whether the POD is run as a department or a Crown corporation. It is equally pointless to compare problems before and after reorganization to assess relative severity. While there are differences, to be sure, between the department and the Crown, they pale into insignificance when compared with the issue of public versus private ownership and so only obfuscate this important issue. Whatever the reason, a restructuring of Canada Post as a private profit-making business would introduce enough incentives for management to find out what the problems are and solve them — or else find themselves looking for other jobs.

Canada Post, the USPS, and the British Post Office all have three major problems: increasing deficits on existing volumes, labour relations difficulties, and challenges by alternative services.[33] A good reason for reorganizing now is that Canada Post is unlikely to survive in its present form much beyond the year 2000. The communications industry is increasingly dependent upon high technology and is experiencing rapid and dramatic changes. By 1995, electronic transmission, word processing, funds transfer, and fax transmission will be able to handle 8 billion communications which would otherwise be first class mail. E-mail and fax machines will erode much of business first class mail, which presently accounts for about two-thirds of postal revenues.

Telephone use instead of mail will probably increase and even accelerate. The number of long distance calls will probably exceed the number of first class letters in the early 1990s. Data transmission volume is estimated to grow at 25 percent per year, from 125 million letter equivalents in 1975 to 380 million in 1980, and to 4.2 billion per year by 1995. Carrier services are growing at more than 15 percent per year. Fax machines are expected to increase from 2,100 in 1973 to 76,000 by 1995. Actual volume of fax transmissions will increase from 10 million pages in 1975 to 380 million pages in 1995. A large portion of the fax volume will replace the use of mail. Text editing typewriters can transmit material to and receive material from other word processing machines. By 1995 approximately 350,000 of these machines in Canada will transmit 1.3 billion pages per year.

If Canada Post does not provide effective competitive service, its existence will be doubtful. Canada Post should not be allowed to subsidize E-mail or any other business venture so long as it has a monopoly on first class mail. When the government revokes its monopoly on first class mail, Canada Post should be free to compete on an unsubsidized basis with private companies in all phases of the communications industry. This requires the abolition of the "exclusive privilege" that now makes it illegal for private companies to offer competitive first class mail delivery for less than three times the first class postal rate fee.[34]

There have always been excuses or reasons why the POD before and Canada Post after reorganization have not been able to improve efficiency. Before reorganization, other departments and agencies, including the Department of Finance, the Treasury Board, the Public Service Commission, the Department of Public Works, and the Department of Supply and Services "managed" the POD. Postal managers who functioned in this milieu complained they did not have authority to make necessary efficiency changes. This prompted reorganization into a Crown corporation. After reorganization when managers presumably did have the authority, they believed all changes had to proceed out of labour contract negotiations and looked to the labour unions as the scapegoat for their inability to make efficiency changes. During this time, managers also complained about their unfamiliarity with the Canada Labour Code in dealing with unions. Lending more credence to their complaints, the act creating Canada Post theoretically permitted postal workers to return to the Public Service labour relations rules during the first three years of Crown corporation life. For these reasons, the efficiency savings made in the first few years of Canada Post were marginal ones and came mainly from purchased services, transportation contract negotiations, administrative down-sizing, and minor organizational changes.

It now appears the 1981 reorganization of Canada Post has failed.[35] Chapters 5, 6, 7, and 8 discuss the problems and how they arose. On May 20, 1986, when asked for Canada Post's strategy for dealing with its problems, President Donald Lander said to a House of Commons committee, "there is no plan."[36] This is not altogether correct, because Canada Post has been contracting out some mail delivery services. At present, 5,000 subcontractors deliver mail in rural areas and small communities. Canada Post itself delivers mail only in Canada's 36 largest communities and threatens to reduce its direct participation further.[37]

Chapter 9 explores the relationship between Canada Post's problems and the present Crown corporation structure, and suggests some possible solutions. These range from the dissolution of Canada Post to restructuring possibilities aimed at meeting the challenges of the next 50 years. Chapter 9 asks, should a government-owned monopoly provide mail service? Canada Post is going to require aggressive, flexible management if it is to survive. More than anything else, competitive pressures bring these qualities to the forefront. It is necessary for managers to assume risks under conditions designed to encourage better decision making. In the communications world of the future it will take aggressive managers to survive. Even with the perfecting of automated mail handling (something not yet achieved), there may still be little room for Canada Post.

One solution would simply allow private competitors in the communications industry to achieve dominance. Canada Post may then simply fall into disuse. Canada Post was aware of this possibility in its own planning document.[38] If Canada Post continues to respond to competitive threats with inaction or slow action, it will find itself handling only the expensive volumes. In the communications/funds transfer market, Canada Post will lose the volumes suited to machine processing (standard size and coded). In the goods market, it will lose the more profitable business transfers in and between major centres. For a while Canada Post would continue to provide the more expensive deliveries to households, smaller more remote centres, and rural areas. Canada Post might also keep its expensive deliveries of advertising mail to rural addresses.

Another solution is to radically restructure Canada Post so it can become competitive. How much time can pass before the communications industry bypasses Canada Post? When will E-mail systems be cost effective? As it now stands, postal prices will continue to rise as electronic prices fall. Even at the time of this writing, some electronic communications services are cost effective. For instance, direct-dialed, late night or weekend transcontinental one-minute calls cost less than 40 cents — less than the cost of postage and stationery for one letter. In one minute, one computer can send a considerable amount of information to another. Unless Canada Post adjusts, it may well become an anachronism. Postal workers and labour union leaders need to see these consequences and ease the adjustment process. Otherwise, they may find themselves presiding over the decline of Canada Post much as John L. Lewis presided over the decline of the U.S. coal industry some 30 years ago!

Although it has not been done, Canada Post could automate instead of mechanize its mail handling. It requires, however, an address code, Optical Character Readers (OCRs), and Bar Code Readers (BCRs).[39] OCRs read address codes and print a bar code on the letter at the first station. Less expensive and reliable BCRs process mail at every other station, reducing the need for postal workers to sort mail or memorize carrier route schemes. If the letter does not have a complete address code, sorting clerks (who memorize schemes) must sort it for carriers. A complete address code, when present, enables the post office to sort mechanically for the carrier and section of a city block. This process can reduce Canada Post's dependence on labour and has relevance for the size and structure of the organizational divisions of Canada Post.

On the other hand, there are those who would argue for a return to the old ways of hand sorting when the POD was a major employer of very productive but poorly paid newcomers to Canada. This technology does not require massive injections of capital for equipment and facilities. Some mix of technology and manpower requiring more automation, less knowledgeable skills, and more part-time jobs at moderate hourly rates might be most efficient. On the service side, perhaps Canada Post should reintroduce twice-a-day delivery where volumes justify and the customer could benefit from it. In any event, the right decisions are more apt to be made within the cost-benefit calculations of a private profit-making business functioning in a free competitive market than under the present government-owned and operated monopoly.

What is the policy solution advocated here for Canada Post? It is privatization which involves three essential elements: deregulation of mail service (similar to recent transportation and communications deregulations), divestiture into several smaller entities (as was done in the U.S. with AT&T), and, finally, privatization via a public stock offering (as with British Telecom). Although they are separable, I present a package of three reforms designed to be politically possible, that is, capable of winning the support of key interest groups.[40]

Notes

1. Stanley J. Shapiro and J.A. Branhill, "The Post Office in the Market Place: A Ten-Year Retrospective," pp. 51-52.
2. *A Blueprint for Change: Canada Post Office*, Kates, Peat, Marwick and Company, 1969.
3. David MacFarlane, "Moving the Mail," p. 24.
4. Ian Urquhart, "A Step Removed Doesn't Guarantee a Step Improved," p. 15.
5. Ibid.
6. Walter Stewart, *Uneasy Lies the Head: The Truth About Canada's Crown Corporation*, ch. 7, "I Wrote a Letter to My Love," p. 122.
7. A consistent policy of petty sabotage cannot be ruled out as a proximate cause of this huge discrepancy between what Canada Post is capable of doing and what it actually does. In 1968, when then Postmaster General Eric Kierans initiated a programme of mechanization and modern managerial control, CUPW responded with a public statement concluding: "We, therefore, declare that unless the above reasonable and just conditions are met by our employer, we shall insure that the enormously expensive and complex mechanization program in the post office *will not succeed*." [Emphasis in the original.] L.M. Read in his study suggests that CUPW has kept its promise. Read's findings will be examined more closely later as will labour relations at Canada Post. What conditions allowed this situation to persist and what can be done about it, are questions this book addresses. L.M. Read, "Canada Post: A Case Study in the Correlation of Collective Will and Productivity," p. 231.
8. Throughout this book, the USPS is used for comparative purposes to understand Canada Post because the USPS has many important characteristics in common with Canada Post. Studies of the USPS can be helpful in explaining many of the same and often more serious problems experienced in Canada Post.
9. *The Post Office*, Royal Commission on Government Organization, pp. 309, 326, 349.
10. This is a monopoly on letter mail bestowed and supported by the government, which yields 60 percent of its revenues.
11. The volume of first class mail has failed to keep pace with population growth as patrons have shifted to other forms of communications. Volume of subsidized third class unaddressed mail has risen dramatically since Canada Post was established, and may account for some of the slowing of first class mail. Unaddressed third class mail, however, still accounts for less than 5 percent of total revenues.
12. "Excessive" is a term used by researchers examining postal wages in different ways. I use it to refer to the positive wage differential over and above what the USPS would need to pay to attract and retain a competent labour force. Perloff, Smith, and Wachter refer to the differential that individual postal workers receive over workers of the same age, education, area of residence, and other demographic characteristics in other industries. For a discussion of the literature evaluating U.S. postal wages, see ch. 4, n. 34.

13. Until recently there were 30 certificates and eight unions with which Canada Post bargained. The two largest unions, CUPW and LCUC, have been forced to amalgamate. They discharge their activities and leadership unenthusiastically.
14. Stewart, Uneasy Lies the Head, p. 123.
15. Ibid., pp. 122, 125.
16. See n. 1 of this chapter for a discussion of union and worker sabotage of the mechanization programme.
17. There seems to be little dispute that Canadian postal workers are overpaid compared to what Canada Post would need to pay to recruit and retain a competent work force. This condition is evidenced by low voluntary quit rates and large queues for job vacancies.
18. The "Midas touch in reverse" refers to the USPS's uncanny ability to take what appears to be a perfectly good idea and under the most favourable circumstances destroy its effectiveness through incompetence and bungling.
19. David Stewart-Patterson, *Post Mortem: Why Canada's Mail Won't Move*, p. 263.
20. James Bovard, "The Last Dinosaur: The U.S. Postal Service," quoted in *Washington Post*, December 4, 1983.
21. In 1984 Federal Express began an electronic document delivery service called ZapMail, which could transmit a brief from New York to Phoenix in seconds. The plan looked good on paper. Federal Express felt that satellite transmission would supplant air travel for document transmission, especially to remote locations. In October 1986, Federal Express terminated ZapMail to cut its losses. It is clear today that fax machines have become the medium of choice for this service. "Postal Service May Close Its Electronic Mail Service," *Wall Street Journal*, p. 14; John J. Keller and John W. Wilson, "Why ZapMail Finally Got Zapped," pp. 48-49.
22. Because they did not invent it, the USPS refused to implement a Canadian style ANA NAN [alpha (A), numeric (N)] postal code, which would have facilitated progress in productivity and mean that less costly processing equipment could have been used — as in Canada — to sort mail more finely. The ZIP+4 is too complicated and customer-insensitive.
23. In dealing with the USPS one quickly reaches a quandary and becomes exasperated. If ZIP+4 is not cost effective at any volume, as it may appear, certainly the USPS's failure to provide incentives for using it is not grounds for criticism, but in this case their requesting $900 million is. However, if it would be cost effective at higher volume levels, failure to increase volume through the use of incentives is grounds for criticism.
24. INTELPOST: A Postal Service Failure in International Electronic Mail, U.S. Congress, p. 9.
25. Bovard, "The Last Dinosaur," pp. 11-12.
26. "Stop Super Mailboxes, Canada Post Warned," *Hamilton Spectator*. January, 1988.
27. Dana Robbins, "Post Office Superbox Program Stalled," January, 1988.
28. The average annual wage of a postal worker including part-time and casual workers is $35,719 for fiscal year 1986.

29. MacFarlane, "Moving the Mail," p. 28.
30. Ibid., p. 24.
31. Representative Bill Green, "Privatizing Postal Service," vol. XI, no. 1, p. 84, Summer, 1986.
32. For a fuller and more detailed discussion of this thesis, see Douglas K. Adie, *Monopoly Mail: Privatizing the United States Postal Service*, 1989.
33. *Considerations Which Affect the Choice of Organizational Structure*, Report of a Study Group to the Postmaster General, pp. 7, 8, 35.
34. Carriers now charge much more than three times first class rates for speedy across-town delivery which is sometimes accomplished in less than an hour. What carriers cannot do is offer a guaranteed next-day delivery in local areas for less than three times first class rates.
35. One might ask by what measurement the reorganization of Canada Post has failed. The succeeding chapters will discuss this in considerable detail. More succinctly, the reorganization failed to remove political influence, to introduce motivation to use resources efficiently, to achieve adequate service levels, to improve upon the distribution of income, to make Canada Post accountable to its ultimate stockholders — the taxpayers and its customers, or to produce enough enterprise to innovate successfully and adapt to the changing communications industry. Despite the fact that Canada Post earned a profit in fiscal year 1988-89, this occurred under the threat of privatization and in large part because of major revenue/price changes resulting from the monopoly on first class mail.
36. In fact there was a plan which was complete in many if not all respects regarding strategies for privatization and reducing the unions' strength; it also included plans for capital investment. However, because the government had not approved "the plan," Donald Lander could state to the House Committee, comprised of members of all political parties, that there was no plan. Stewart, *Uneasy Lies the Head*, p. 111.
37. Ibid., p. 123.
38. Shapiro and Branhill, "The Post Office in the Market Place," p. 73.
39. The multi-line OCR is supposed to be able to read an ordinary address and compare it to a data file in order to impose the correct bar code. This machine, if reliable, could make the address code superfluous.
40. As part of an earlier business plan, Michael Warren, as president of Canada Post, recommended the full privatization of Canada Post with a public stock offering. The bureaucrats who advise government on Crown corporation business plans scuttled this recommendation.

Chapter 2

The Early History of Canada Post

History of Postal Monopoly

In the development of North America, postal service was the lifeline of government and commerce because it was the only form of communication between France, Britain, Spain, and their colonies. Early postal service in Canada involved relationships with these nations and their colonies because parts of Canada and the U.S. were originally colonies.

Postal Services in "Canada" before Union with the "U.S."

From 1723, official French ships carried letters postage free between Quebec City and La Rochelle, France. Delivery times were irregular because they depended entirely on shipping schedules.[1] Very little correspondence took place between the French colony at Quebec City and France through Paris and New Rochelle. Within France, postage between La Rochelle and Paris was 7 sols. Letter delivery to any other place in Canada or France required private arrangements because there was no formal postal system during the French regime. The French government employed a courier system for its own messages between Quebec and Montreal which occasionally carried private correspondence free.[2]

Before 1721 the government proposed a postal system for New France but did not develop it. Instead, it granted a franchise to Sieur Nicolas Lanoullier in January 1721 to set up a private system between Montreal and Quebec. Lanoullier planned but did not develop an express service between Quebec, Three Rivers, and Montreal. In 1734 his brother, Jean-Eustache Lanoullier de Borsclerc, the *grand voyer* of New France, built the road, ferries to cross rivers, and post houses (taverns) at nine-mile intervals. He employed a postmaster at each post house to provide facilities for travellers and horses for postal couriers. Jean operated this private courier service primarily for the government, but he also delivered private letters for a small fee. Travellers sent letters to other parts of the colony by local and personal arrangements.[3]

There was no regular mail service from England to the colonies in colonial days either. Senders would write their own name, the recipient's, the ship, and its captain on the front of the letter and deposit it in a bag which hung next to the ship departures schedule in a well-known coffee house. The captain would transport the mail and on arrival would leave the letters in the mail racks or on a table at the wharf-side coffee house where he transacted his business. The recipient paid the captain a penny for each letter he received. If the letter was addressed to an inland town, the addressee's friend could take the letter after paying the postage. In some places this system continued until 1774.[4]

The colonies around Virginia, Boston, and New York each had their own connections with England through the Virginia Fleet, the Mast Fleet from Boston, and the New York Fleet, respectively, but had no connection with each other. All available sailors, the Dutch West India Company, and even private persons carried letters to and from New York in 1652 when it was a Dutch possession. Within each colony, receivers were responsible for their own local delivery.[5] The British government contracted for its first mail packet delivery from Portsmouth to Barbados in October 1702, but it failed in 1711.[6]

England first organized the postal system in North America when the Massachusetts General Court passed an ordinance on November 5, 1639, appointing Fairbanks' Tavern in Boston the first colonial post office.[7] Ship captains were directed on arrival to bring all incoming mail to his coffee house for delivery. The ordinance also appointed Fairbanks to receive letters at his house from Boston's citizens for transmission across the ocean. The ordinance stated, however, "no man shall be compelled to bring his letters thither except hee please," thus making it clear the ordinance tried to establish a convention rather than a monopoly for outgoing mail.[8]

The British set up other post offices and routes. For instance, in 1673, nine years after the British captured New York, King James II directed New York's Governor Lovelace to set up regular postal communications between the colonies. On January 22 the governor set up a monthly courier service between New York and Boston. It lasted for only a few months until the Dutch recaptured New York. Although the British captured New York again in 1674, there was no regular courier service between Boston and New York until New York's Governor Dougan re-established it in 1685.[9] Dougan contemplated a post route from Nova Scotia to the Carolinas, but dropped the idea because there wasn't enough business.[10] Connecticut, New Hampshire, and Virginia had their own internal post routes by 1674. New York set up its own internal mail service in 1684.[11]

On November 23, 1685, as part of James II's scheme for establishing a royal governor for all the colonies, the Earl of Rochester appointed Edward Randolf postmaster. This appointment lasted only until the King's death in 1689, when the scheme collapsed. However, postal service continued with only a slight interruption.[12]

The Thomas Neale Monopoly

On February 17, 1692, William III granted a patent to Thomas Neale, Master of the Mint, to set up one or more post offices in the chief port of each colony and to deliver mail from Canada to Virginia. Neale operated out of the General Post Office at Philadelphia and deputized Andrew Hamilton of New Jersey. Most colonial governments north of Philadelphia accepted Hamilton's plan for the inter-colonial post. New York passed enabling legislation in November 1692, Pennsylvania in May and June 1693, New Hampshire and Massachusetts in June 1693, and Connecticut in May 1694. Other colonies did not participate. In May 1693 the inter-colonial service began from Portsmouth, New Hampshire, to Philadelphia, and by the end of 1693, Hamilton had extended service from New York to Virginia. His son, John, set up inland cross posts.[13]

When Neale began operating in 1693, he was authorized to use a postage rate schedule contained in the English Post Office Act of 1660, or to charge whatever the traffic would bear.[14] Neale charged expensive postage to the recipient and provided slow service. This led to Neale's inability to enforce his monopoly rights and the ultimate failure of his business.

When Neale died in 1699, the monopoly passed to Andrew Hamilton and Robert West. When Hamilton died in 1703, his widow and son, John, inherited the monopoly. Under the terms of the monopoly it was Hamilton's responsibility to make arrangements with the colonial governments for service between their post offices. Negotiations were difficult because the post offices at Boston, New York, and Philadelphia were independent of each other. To facilitate the development of service, the Crown nationalized the monopoly in 1707 by repurchasing the patent.[15] The Crown then appointed John Hamilton as postmaster general and commissioned him to make the service financially viable.

British Monopoly on Mail Delivery

The Act of Queen Anne (the Post Office Act of 1710) placed the independent post offices at Boston, Philadelphia, and New York under the direct supervision of the postmaster general of England and designated New York the headquarters. This consolidation, however, did not occur until 1773.[16] The act also set the postage rate to the colonies at 1 shilling per single sheet of paper, although the merchant captains still charged only a penny per letter. Under threat of fine, the act required captains to deliver letters to the post office of the port of arrival. Colonists regarded this act as an unlawful 11 pence per letter tax and ignored the law, as did the British. The private coffee house collection and delivery system flourished. Even British colonial officials avoided the Post Office and complimented themselves on saving colonial funds.[17] Despite the threat of heavy fines, settlers sent their letters to England by merchant ship captains instead of the official packet boats to avoid the excessive General Post

Office postage rates. The diversion of mail from the government monopoly reduced the government's postal revenues.[18]

In June 1711 the British Parliament reorganized the Post Office serving England, Scotland, and Ireland by uniting the post offices of England and Scotland and setting up a General Post Office in Ireland, the North American colonies, and the West Indies. Even though this new General Post Office was given a monopoly in the handling of mail, postal customers still sent mail via private carriers as late as 1721 because of unsatisfactory service.[19] The royal colonial officials did not enforce the monopoly.

The General Post Office in London regulated the parliamentary post and appointed the postmaster general and his deputies. The post office in British North America, which was an extension of the British Post Office, served the American colonies and Canada during the period 1711 to 1851. Its main function was to promote inter-colonial mail. Some colonial governors opposed the parliamentary post and denied it access to their colonies because they did not want to lose any of their postal revenues to Britain. Despite England's efforts to earn profits from its colonial postal system, it was unable to transfer any revenues to Britain before 1753.[20]

In 1754 a group of private Halifax businessmen set up the first post office in Canada to serve "gentlemen, merchants and others who want to send letters to any foreign port." The government post office did not recognize this privately owned post office and replaced it with one of its own the next year.[21] In 1756 the British government set up a monthly mail delivery service between Falmouth and New York for military and political purposes.[22] In 1763 independent riders, instead of the official post riders, carried much of the mail within the colonies. These independent private messengers looked like official post riders, but delivered newspapers in addition to carrying letters.[23]

The General Post Office appointed Benjamin Franklin and William Hunter joint deputy postmasters general of the British Post Office in North America on August 10, 1753. Franklin, who was responsible for the colonial system of Canada and the U.S., used efficiency measures to turn the post office around financially and was for the first time able to transfer revenues from the colonies to the British Treasury. This caused resentment, contributed to the American War of Independence, and spoiled Franklin's reputation in the eyes of some of the revolutionaries despite his later revolutionary zeal.[24]

The British, under General Wolfe, captured Quebec in 1759, and under General Amherst, Montreal in 1760. From the capture of the colony in 1760 until 1763 when the French gave Canada to Great Britain in the Treaty of Paris, the British military operated a postal service between Quebec, Montreal, and New York through Crown Point and Albany. In 1763 the British made Canada the northern extension of their North American colonies and integrated the two postal services. Soon after the British gained control of Canada from the French in 1763, Franklin visited Quebec City to study its postal service, extend service to Canada, and improve service throughout the colonies. On arrival, the post road between Quebec, Montreal, and Three Rivers, with its spaced post houses, impressed him. He promptly set up post offices in these three cities and began a monthly overland service between them and New York, where it joined a transatlantic mail service to Falmouth and New York.

Before leaving Canada in August 1763, Franklin and John Foxcraft appointed Hugh Finlay the first postmaster at Quebec and left him in charge of Canada's postal service. Finlay held office with the British Post Office in North America for 24 years, laid the foundation for Canadian postal services, and was a key figure in defining Canada's attitude towards Britain, the American colonies, Canada's role in the American Revolution, and U.S.-Canadian relations. Finlay's first responsibilities were to operate the service along the Quebec-Montreal road, run the post offices Franklin opened, and open new post offices at Berthier in 1771 and Kingston in 1780.

In 1764 Franklin asserted the control of the General Post Office in London over the British colonial post, which he divided into the northern and southern districts. The northern district extended from Quebec to Virginia; the southern district encompassed the Carolinas, Florida, and the Bahamas. Around New York the mail service was good, but it deteriorated to the south because of poor roads. In 1765 Parliament amended the British Post Office Act of 1710 to replace fixed flat postal rates with new rates based on the number of sheets of paper.[25]

Franklin understood the key to success was superior performance not the legal enforcement of a monopoly. He brought ingenuity to the job, sped up service, improved its regularity, and made it sufficiently attractive to gain the support of customers who had previously used private carriers. Only excellent postal service could command the loyalty of customers and insure a prosperous future for the government postal service. Despite Franklin's efforts, the King's officials still could not prevent the operation of private post riders who developed their business at the expense of the official system. Regular private post riders still attracted considerable business by charging lower rates. By 1776 private competition had reduced the Post Office's revenues to the point where government subsidies were required.

U.S. Reaction to British Postal Policy

In November 1772 Benjamin Franklin promoted Hugh Finlay of Quebec, already postmaster of Canada, to the position of surveyor (inspector) of the post offices and post roads for the entire North American continent.[26] From September 13, 1773, to June 1774, Finlay travelled from Quebec to Savannah, Georgia, exploring new trails and surveying the land of existing and prospective post routes and post offices.[27] Preceding the Revolution, Finlay met colonists who ignored the King's mail monopoly and sent their letters by private stage--

coaches.[28] Finlay also understood the ideas underlying the Revolution through his personal association with Franklin, and on January 31, 1774, he witnessed Franklin lose his job for his revolutionary sympathies, writings, and activities. Then Finlay, with John Foxcraft, accepted an appointment to Franklin's vacated position, in addition to the positions he already had.[29]

The colonists set up their own independent postal system in March 1774, before the First Congress met in Philadelphia September 5, 1774. Even though the First Congress assumed all government functions, it did not discuss postal matters at its first sessions.[30] In early March of 1775 Britain realized its post office in America was vulnerable and prepared to close it down. Finlay was present and involved in the crucial events when the American Revolution began to affect postal services on April 19, 1775.

For instance, Finlay was aboard the Falmouth-New York packet boat, *Kingfisher*, when the Americans tried to intercept it near Sandy Hook in May 1775.[31] The British Post Office stopped operating the Falmouth packets after the Declaration of Independence. In the spring of 1775, some Philadelphia merchants set up their own post office by subscription and appointed William Bradford as postmaster. In May 1775, when the New York Committee asked Postmaster Foxcraft why he had discharged the post riders, he answered that it no longer was safe for them to carry mail. Finlay realized the government post office could not continue. By the end of September 1775, the War Office withdrew all the packets from the General Post Office and armed them for war. The New York Committee then arranged for the dispatch of mail and issued a notice "to acquaint the public that a constitutional post office is now rising on the ruins of the parliamentary one."[32]

In May 1775 Congress formed its post office in opposition to the parliamentary post, and on July 26 appointed Benjamin Franklin as postmaster general of the United American colonies. After this some colonies barred the British Post from passing through their territory, while in other colonies the two services operated side by side. By December 1775 the British Post had closed many of its inland locations and halted mail service on the mainland because of frequent rebel attacks on its couriers.[33] On December 25, 1775, the British Post ceased delivering inter-colonial mail from New York. During the Revolution, the British terminated postal service between New York and Montreal and between Canada and the American colonies.[34] The British Post continued to operate intermittently during the war in those parts of the colonies that remained loyal to the Crown, until it ceased operations in 1783 when the Continental Army drove the British Post Office off the mainland.[35]

Congress formed its post offices and cross posts from Falmouth (Portland) in New England to Savannah, Georgia.[36] Congress used it first to communicate quickly with the revolutionary troops. The service lost money, and by 1777 it was in deep financial trouble.[37] After the withdrawal of the British Post Office, Congress wished to continue postal communications with Quebec and proposed a courier link via Lake Champlain. The Continental Army advanced into Canada and occupied Montreal from November 13, 1775, to June 1776. It set up its own post office in Montreal and placed George Measam, not Hugh Finlay, in charge. During the winter of 1775-1776, the Continental Army confined Finlay to Quebec and besieged the city.[38] In September 1776, when the Continental Army withdrew from Canada, Finlay reorganized the British Post Office.

Britain ceased operating the British postal system in the northern district of North America after the Treaty of Paris in 1783. At this time Hugh Finlay lost the deputy postmaster general job that he had taken from Benjamin Franklin. He was not, however, unemployed for long. After the American Revolution the British Post Office reorganized its operations in North America, extended postal services to new areas settled by the fleeing United Empire Loyalists, and appointed deputy postmasters over these new Canadian settlements. On March 3, 1784, the British Post Office appointed John Foxcraft as British agent at New York for the resumed packet boat service between Great Britain and the U.S. On July 7, 1784, they appointed Finlay deputy postmaster general of the province of Canada in North America.[39]

In March 1788 the British Post Office arranged for packet boats between Falmouth and New York to stop at Halifax. Hugh Finlay, the most experienced and senior deputy postmaster, reported that poor roads between Quebec and Halifax caused inferior overland postal service. He explained that there was not enough correspondence between these provinces to even pay postal expenses, let alone finance upgrading the roads. In his report he also complained that decentralized responsibility within the provinces contributed to poor postal service and recommended that one person direct the service. This personal ploy of Finlay's to consolidate postal control succeeded when, on April 5, 1788, the British Post appointed him deputy postmaster general for the provinces of Canada, Nova Scotia, and New Brunswick.[40] In 1797 there was weekly postal service between Montreal and Quebec. On October 18, 1799, the British Post Office dismissed Hugh Finlay for accounting and debt irregularities and replaced him with George Heriot who improved mail service in Upper Canada.

Early U.S. Mail Monopoly

The Confederation Post began in the United States on July 9, 1778, even though Congress did not pass the enabling legislation until October 18, 1782. The legislation which was an ordinance with supplements passed on October 28 and December 24, became the basic Law of Confederation. The colonies ratified the Articles of Confederation in 1781 and created a perpetual union of 13 states. The articles gave Congress the sole and exclusive rights and powers to establish and regulate inter-state mail and charge postage to pay expenses. These rights did not pertain to the collection and delivery of mail within a state, and the U.S.

post office was originally designed to be a post office for the country as a whole, but not for any one state or local area.[41]

Nor did the confederate fathers intend the mail monopoly to be comprehensive. The federal government at first extended the monopoly geographically by designating highways as post roads. Before highways could be called post roads and claim regular delivery, they needed to meet certain quality specifications. Many highways needed improving and government often used its funds to improve roads. Being designated post roads also subjected the highway to the government's mail monopoly. Revenues collected from customers for postal services along the upgraded road helped the government recoup its investment. The monopoly did not apply on highways not designated as post roads, nor prohibit the private delivery of mail. The restrictions focused only on where mail could be delivered and what routes the deliverer could take. On July 7, 1838, Congress exceeded its authority and passed an act declaring that all railroads within the U.S. were post roads. Private companies simply ignored it.

U.S. express companies date back to William Frederick Harnden (1813-45), an enterprising man who began as a conductor on the Boston and Worcester Railway, carrying small parcels on the side for a commission. He saw the potential for this business, resigned his job with the railway, and developed the package delivery trade — carrying parcels, collecting drafts and bills for commissions between Boston and New York — and it prospered. He associated with J. and G. Woodward and A.W. Godfrey, his agents in Saint John, New Brunswick, and Halifax, Nova Scotia, respectively. In July 1843 he advertised to carry parcels to any part of Canada.[42]

After 1842 many private local posts delivered mail house-to-house in larger cities. The independent letter mail companies successfully competed with the U.S. government by charging 6.25 cents when the U.S. post office charged 18.75 cents. On July 1, 1845, in retaliation Congress prohibited private companies from mail delivery where the government had an inter-city mail service. The postmaster general suppressed private service further in 1860 by declaring that all streets in New York, Boston, and Philadelphia were post roads. The express companies stopped general mail delivery and limited their business to delivering merchandise and funds and the business papers, drafts, invoices, and bills of lading accompanying them.[43]

While systematically crushing its competition for internal mail delivery, the U.S. government has advocated competition for international mail delivery. For instance, in 1817, when the British Post Office still charged a shilling per sheet, the first American packet line sailed from New York to Liverpool and carried any size letter for only 2 pence. The American service captured nearly all the transatlantic business, including that of British merchants, with superior service at low prices. By 1826 all British merchants, businessmen, and manufacturers sent letters to Canada by depositing them with American packets that travelled between Liverpool and New York. The British service ended in 1827.

The first English mail steamer, beginning on July 1, 1840, made the journey from Liverpool to Halifax, Canada, in almost 12 days, cutting ocean travel time by more than half.[44] The new steamship technology threatened to retire the American sailing packet fleet. Realizing it needed to use steam if it was going to keep its position in world shipping, the U.S. responded to this competition by sending the first American steamship carrying mail to Southampton in 1847.

Britain resented the American competition in transatlantic steamship mail transport and responded by charging extra postage for American mail travelling to the continent by way of England. The Americans considered this an unfair tactic and cut off free transit of Canadian mail through American ports. The U.S. and Britain treated Canada as a pawn in their struggle. A postal treaty in 1848 legitimized mail transport across the Atlantic to the U.S. or Canada by either a British or an American ship, and allowed for the transit of "closed mail" through each other's territory. Once again mail from Canada to Britain passed through Boston or New York.[45]

U.S. Attitude Towards Canada

The early U.S. contacts with Canada were premised on the hope that the Canadian provinces would join the American Revolution. When this did not happen, Americans hoped Canada would at least sympathetically join the union later. Disappointed again by Canada's rebuff, Americans still hoped for ultimate unification. This attitude governed the U.S. relationship with Canada and postal negotiations. For instance, at first, Canadians sending letters to the U.S. paid postage to take mail to the border but no postage for carriage and delivery in the U.S. On March 17, 1792, after the first postal convention between Canada and the U.S., Canadians still prepaid postage to the border, but for carriage and delivery within the U.S., there was a postage charge which could either be prepaid or collected from addressees. This change from the previous arrangement represented the reluctant recognition of Canada as a separate governmental unit. Letters sent from the U.S. to Canada, however, could be prepaid to the border or sent entirely unpaid. In both cases, the Canadian post office would act as agent for the U.S. post office in collecting the postage from the recipient, remitting 80 percent, and retaining 20 percent for its service. The U.S. post office refused to reciprocate by acting as an agent for Canada.[46]

On November 16, 1847, shortly after the U.S. first issued stamps on July 1, 1847, the Canadian post office ceased collecting American postal charges. After this Canadians could not pay the U.S. postage in cash at Canadian post offices. Canadians were required to prepay the U.S. charge on a letter sent from Canada to the U.S. by affixing U.S. stamps, as well as prepaying their own postage in cash for delivery to the border. This arrangement continued until April 6, 1851, when the U.S., the U.K., and Canadian colonies agreed to a single postage rate for letters sent into each other's country. While prepayment was optional, partial payment was not allowed. For 69 days between April 23 and June 30, 1851, it was necessary to affix both Canadian and U.S. stamps to the envelope for letters sent from Canada to the U.S.[47]

Private Mail Delivery in Canada

Private postal services were common in the colonial period. When Hugh Finlay inspected the postal routes in 1773, he found widespread competition with the British parliamentary post. In Newport, Rhode Island, for instance, he found "two post offices, the King's and Peter Mumford's."[48] When the government post office was not operating in the area, it left the private operators alone. In 1801 James Macklem operated the Niagara and Chippawa Stage. In the summer of 1801, when the British government set up post offices and postmasters in this area, it published an announcement in the *Niagara Herald* on August 1, 1801, stating that public coaches between Niagara, Queenston, and Chippawa could no longer carry mail. Before this, private stages carried mail bags and operated private mail businesses.[49]

The postal industry attracted exceptional private sector talent and several companies which entered this business then still exist. Several U.S. express companies operated in Canada in the 19th century. Pomeroy's Express operated to Canada from Buffalo in 1841. Burbank and Company's Express operated between Utica, New York, and Kingston, Ontario, in August 1844. Livingston and Fargo, formed in 1845, operated between Clifton (Canada West), Toronto, and Buffalo, and later changed its name to the American Express Company. In 1855 the National Express Company began operating between New York, Albany, Saratoga, Rutland, and Montreal. In 1854 John J. Vickers organized Vickers Express and secured a contract to carry packages on the Northern Railway and other Ontario railroads, including parts of the Canadian Pacific. His business was very good, and in 1888 he sold out to the American Express Company.[50] Henry Wells and William G. Fargo formed Wells, Fargo & Company in 1852 and set up an office at Victoria on Vancouver Island in 1858.[51] The quality and longevity of these private companies indicate the private sector's ability to adapt, service, and deliver the mail with or without government interference.

Without any overt co-ordination, private postal companies arranged to deliver each other's mail, and when profitable, they merged. In 1842 Pullen and Copp started a stagecoach express between New York, Albany, Troy, and Saratoga Springs. In 1843 this service connected with Virgil and Howard's Express at Albany and Troy which, in turn, operated to Burlington (VT), Plattsburg and Lake Champlain (NY), St. John's (NF), and Quebec, Laprairie, and Montreal (PQ). In 1844 these postal services merged to form Pullen, Virgil and Company's Express, and extended service to Toronto.[52] On the east coast, Hale and Company of Boston advertised regular mail service to Saint John, New Brunswick in July 1844. In 1846 Cheney and Company's Express operated in Massachusetts, New Hampshire, Vermont and across the border into Canada, with an office at Charles Seymour's in Montreal. It changed its name to Cheney, Fiske & Co. United States and Canada Express and carried money, invoices, bills, and receipts, but no letters. Canadians were not even reticent about using clandestine delivery means when it would improve service. For instance, during 1844-1845, travellers carried "bootleg mail" from Montreal and Toronto and put it into the post office at Howard's Hotel for delivery within New York City by the City Dispatch Post.[53] At the end of the 19th century, many local express companies still delivered packages and business materials.[54]

Without an effective government monopoly on mail delivery, private companies provided suitable services and adapted readily to changing needs and technology. In 1855 Cheney Rice and Company and the British and North American Express Company merged to become the British and American Express Company, which operated in the Province of Canada. In 1865 it became the Canadian Express Company. On September 1, 1921, the Canadian National Express Company assumed control of the Canadian Express Company. In 1924 the Canadian National Railway Company took possession of the company's properties. In this move the Canadian government nationalized a good deal of the delivery business in Canada, but just as these express companies disappeared when the government gradually forced them out of business, so they will crop up again throughout the country when Parliament rescinds the exclusive privilege.

Private entrepreneurs, not the government post office, were at the forefront of technology, leading the way in mail delivery. At the beginning of the 20th century, the development of aviation affected mail transport. On June 24, 1918, Captain Bryan Peck flew the first official airmail flight in Canada from Montreal to Toronto. On June 14, 1919, John Alcock and Arthur Whitten-Brown completed the first non-stop transatlantic airmail flight from St. John's, Newfoundland, to Clifden, Ireland.[55] In the early 1920s, the post office relaxed its monopoly provisions and allowed private aviation companies to carry letters. The post office still collected its regular postage, but took no responsibility for delivery. Private aviation companies charged a small fee of 5 to 25 cents per letter for this service which was indicated by a small semi-official airmail stamp on the back of the envelope. These private airmail carriers had no fixed schedules, carried mail at the sender's risk, and continued into the early 1930s.[56] In England, the U.S., and Canada, private firms have shown the government how to improve service.[57] In England and the U.S., the government used its monopoly to guarantee the confidentiality of politically sensitive and strategic communications. Later it helped to raise revenue and finally became a means to deliver political favours through cross-subsidies and the bestowing of economic rents.[58]

Original Social Policy as Justification for Continuing Government Post Office

Originally the government post office did not state its social policy nor use it to justify ownership and operation. The social policy objectives were pursued later as an afterthought and have been, for the most part, fulfilled long ago. What social policy did the government post office pursue in Canada? This section examines three areas of social policy: 1) transportation and land development, 2) organizational changes, and 3) improvements in service. The government post office also helped Canada to define itself as a country separate from the U.S.

1. Transportation and Land Development

Canada's Dependence on U.S. Connection for Overseas Mail

In addition to the official monthly New York to Falmouth packets, between 1759 and 1765, private ships carried mail from England to New York and Boston, and in summer, to Quebec and Montreal. To provide Canada to England mail service, the British Post set up a monthly overland service in 1763 to join Quebec and Montreal to New York and link up with the packets.[59] The packet service stopped in 1775 with the War of Independence, and resumed in November 1783 after the Treaty of Paris recognized American independence, but normal postal ties between the U.S. and Canada did not automatically resume.[60] To assert its independence and recognition, the U.S. insisted on a symbolic toll on mail from Canada passing through their territory to New York. Although in 1784 the overland trip from Montreal through Albany to New York took only 10 days, Hugh Finlay did not use it because he did not want to pay the toll.[61]

In 1788 the Falmouth packets stopped at Halifax monthly between March and October on the way to and from New York. In winter, Nova Scotia's governor operated a schooner to ferry mail between Halifax and New York.[62] To ease the transportation burden, in 1790 the British packet agent in New York sent Nova Scotia's mail to Boston so the Halifax schooner did not have to travel as far. On March 17, 1792, Timothy Pickering, postmaster general of the U.S., and Hugh Finlay negotiated the first postal convention between their two countries. This agreement permitted mail from England to Canada to travel to New York City where an American courier would collect it from the British packet agent and carry it to Burlington, Vermont, where he would transfer it to a Canadian courier bound for Montreal. In addition, Canadian mail sent to England could be shipped from New York City.[63]

Wars involving Britain frequently interrupted this service. For instance, during the War of 1812, the British packet service to the U.S. and Canada and the overland route to Halifax once again became the official route.[64] In 1826 British merchants, businessmen, and manufacturers customarily sent letters to Canada illegally by American packets travelling between Liverpool and New York. American agents also accepted letters destined for Canada in London or Liverpool. From 1840 the official mail route from England to Canada was by transatlantic steamers to Halifax, and from there to Picton, Nova Scotia, and Quebec City. After 1845, mail for Upper and Lower Canada once again travelled through Boston because this route was too slow. From 1847 Cunard steamers carried mail from England to Boston or New York.[65] In 1852, after the provincial government assumed control of the Canadian post office, it contracted with the Canadian Steam Navigation Company to carry mail twice a month in summer between Quebec City and Liverpool but soon cancelled the contract because service was not dependable.[66] In 1853 the U.S. Post Office Department hired steamboats to carry letters between Boston and St. John's, Newfoundland.[67] From April 1856 the Allen Line operated Canadian packets weekly between Canada and England from Riviere du Loup in summer and Portland, Maine, in winter. The Atlantic Royal Mail Steam Navigation Company carried mail from Canada to Galway via New York and Boston. This service stopped in 1861 and resumed in 1863 via St. John's, Newfoundland.[68]

Dependence on Routes Through the U.S. for Intra-Canada Mail

Eighty-five percent of Canada's population is within 200 miles of the U.S., where transportation and communication systems developed more rapidly. This enabled Canadians to speed up mail delivery by using U.S. routes. A dependency on the U.S. began early in Canadian postal history and persisted for a long time. In 1776 very few couriers travelled between Quebec and Halifax; most letters from Upper and Lower Canada to Halifax, Nova Scotia, went via New York. After October 1788, the Quebec-Halifax mail went via New York only in winter.[69] The Quebec-Halifax mail travelled from Montreal to Portland, Maine by rail after its completion in 1853. Beginning in November 1855, a steamer carried the Quebec-Halifax mail from the railway depot in Portland to St. John's, Newfoundland, to New Brunswick, and then on to Halifax. The steamer from Portland to St. John's sailed three times a week in summer, twice a week in winter.[70]

Routes through the U.S. were not only used to link Ontario and Quebec with eastern provinces. In 1819 settlers in Winnipeg also sent letters to Upper and Lower Canada and England via Prairie du Chien, Wisconsin, on the Mississippi, which was the closest settlement to Winnipeg. Only three deliveries per year took place in the west. From Prairie du Chien, the mail probably travelled through Chicago, Amherstburg, Toronto, and Montreal, although there may have been a more direct overland route to Montreal from Chicago.[71] In 1853 monthly service began between Winnipeg and Fort Ripley, Minnesota. In 1857 when the U.S. set up a post office at Pembina on the international boundary, mail service to and from Winnipeg increased.[72] Between 1858 and 1860, Winnipeg residents had two mail routes to Upper and Lower Canada: one through Canada and the other through the U.S. When Manitoba organized its government at Winnipeg, it arranged for closed mail bags to be sent from Windsor, Ontario, by the U.S. post office through Chicago, St. Paul, and Pembina, to Winnipeg.[73] In 1872 the Canadian postal service assumed control of the Manitoba and Northwest postal systems.[74]

Before 1858 mail from Upper and Lower Canada travelled a circuitous route to British Columbia and Vancouver Island. The U.S. government carried the mail first to New York where it met the United States Mail Steam Line, an American packet, which carried it to Colon and across the Isthmus of Panama to San Francisco. U.S. mail steamers picked it up there and took it to Olympia and Tacoma, on Puget Sound. From there the Hudson Bay Company Express boats carried the mail the rest of the way to Victoria and New Westminster. Until 1845 the Hudson Bay Company carried all mail free of charge.

In 1859 mailers from Upper and Lower Canada sent letters to British Columbia through Port Townsend, Washington Territory.[75] The letters travelled the same route as before, except from Port Townsend where a local steamer took them to Victoria and New Westminster instead of the Hudson Bay Company Express. After 1859 some mail sent from Upper and Lower Canada to British Columbia travelled across the U.S. by train to St. Louis and from there to San Francisco by express coach, although this route was unsafe during the American Civil War.[76] In August 1863 the postmaster general of Canada announced the only mail route open to British Columbia was the American packet route through Panama. The overland route resumed in 1869 when the transcontinental railway in the U.S. was completed. Mail from British Columbia then travelled from Victoria to San Francisco to Windsor or Hamilton in closed bags, although, as late as July 1871,[77] some mail still travelled from Ontario and Quebec to British Columbia by U.S. packet through Panama. A daily overland mail service within Canada between the East and Victoria did not begin until 1886 when the Canadian Pacific Railway was completed.

Old Crow is the only Yukon settlement within the Arctic Circle. Although it had no post office of its own, in the 1930s and 1940s a Wien-Alaskan plane under contract with the USPS brought mail to Old Crow once a month from Fairbanks via Fort Yukon. It also collected outgoing mail there from the Royal Canadian Mounted Police post. Both incoming and outgoing mail carried U.S. postage, although it travelled through Canadian territory.[78]

The Development of Transportation in Canada

The government post office had a role in opening up new areas, constructing and improving roads and highways, and encouraging new transportation modes. In initiating service to new areas, however, private couriers preceded the government post office in most situations. Before any government post office existed in Canada, private couriers carried mail along Indian trails on foot or along rivers in canoes.[79] Although Lanoullier built the first continuous road between Quebec and Montreal in 1734 for travel and mail delivery, it was not until 1763, almost 20 years later, that Benjamin Franklin built post offices at Quebec and Montreal. At first couriers carried mail along this road on horseback. Soon after, drivers carried mail across Upper and Lower Canada in horse-drawn coaches or sleds.

In 1791 the government extended this road to Kingston where there had been a post office since 1780. This extension, called the Lake Shore Road, followed the north shore of Lake Ontario to Ancaster where it connected with the road to Niagara which had a post office since 1789. The Niagara Post Road ran 11 miles from Chippawa to Queenston where there had been post offices since 1801. In 1793 construction began on Dundas Street which ran from Dundas to London and then east to Toronto. The government erected local post offices in each of these places in 1814, 1825, and 1800, respectively.[80]

Postal services, but not necessarily the government post, maintained communication between sparse populations in scattered settlements and their counterparts in the U.S., Great Britain, France, and the rest of the world. Efforts to improve postal service encouraged improvements in water transportation. Initially canoes were the most important mode of water transportation. In the early 1800s the York Boat — heavy, long, narrow, flat-bottomed wooden vessels, pointed at both ends and capable of being either rowed or sailed — carried men, mail, and goods. The Muskoka boat carried mail on the Muskoka Lakes. In British Columbia steamboats and paddlewheelers carried mail. On November 1, 1809, the first steamboat in Canada carried mail from Montreal to Quebec. The addressees met the steamers, picked up their mail from the captain's table, and paid the captain a gratuity. Private steamboat mail carriers operated between Three Rivers, Kingston, and Toronto. By 1835 the government Post Office Department estimated that it lost £2,500 in revenue annually as a result of this illegal carriage of mail by private steamboat carriers.[81]

The thousands of United Empire Loyalists who came to Canada between 1783 and 1820 needed postal service and demanded an extension of the same service quality that they had enjoyed in the more densely populated U.S. Settlers in the Niagara Peninsula petitioned the government for postal service to their area.[82] In 1783 the government opened the first post office in New Brunswick from which it dispatched outgoing mail to the U.S. or other British North American colonies. In 1801 Nova Scotia opened a post office at Charlottetown, Prince Edward Island, under Nova Scotia's jurisdiction. In 1827 it opened more post offices and three new postal routes.[83]

In 1856 the discovery of gold in the Fraser River, rather than loyalty to Britain or a desire to avoid participating in a revolution, attracted settlers from the U.S. to British Columbia. And, in July 1871 the promise of a transcontinental railway to transport mail and passengers enticed British Columbia to enter Confederation. Despite the promise, the Canadian government took until 1885 to complete the Canadian Pacific Railway to the Pacific.[84]

In 1873 the Canadian government induced Prince Edward Island to enter Confederation with the promise of improved boat service to the mainland to transport passengers and mail during both winter and summer. In the next ten years, the number of Prince Edward Island post offices increased from 180 to 252. In 1885 the Northwest Mounted Police began carrying letters to secluded Arctic settlements, using snowshoes and dog sleds. Fort Simpson, opened in 1913, was the first post office in this area; the second was at Fort Providence in 1914.[85] The federal government created Alberta and Saskatchewan in 1905. By 1908 there were 478 post offices in Alberta and 707 in Saskatchewan.[86]

Before the railways, couriers delivered mail on foot, by canoe, on snowshoes, or on horseback. Delivery was slow, undependable, and infrequent. The completion of the Canadian Pacific Railway changed this. On June 28, 1886, the first transcontinental train left Montreal with a mail car manned by railway mail clerks, and arrived at Port Moody, British Columbia, on July 4. The train stopped at large settlements to pick up and deliver mail. At smaller towns, clerks threw a locked mailbag from the moving train while snatching the outgoing mail from a catchpost with a hook.[87]

Enterprising private Canadian aviators greatly improved the long-range mail delivery capability to remote areas. The early bush pilots flew over unmapped territory and sometimes operated under appalling weather conditions.[88] Private commercial firms organized semi-official flights. Beginning in 1924 Laurentide Air Service Ltd. flew between Haileybury, Rouyn, and Three Rivers.[89] Most private companies issued their own stamps.[90] The contribution of private carriers to air mail delivery at this early period proves their ability to innovate and provide a necessary service.

The war years gave an impetus to technological improvements in aircraft which, in turn, made widespread airmail service possible. On March 1, 1939, daily airmail service began between Montreal and Vancouver. In January 1940 the post office extended this service to the Maritimes and in 1942 to Newfoundland.[91] In 1939 Pan American Air Lines began transporting airmail between Great Britain and Canada.[92] On Dominion Day 1948, Canada was the first to introduce "all-up" service, which involved transporting all domestic first class mail up to one ounce by plane, whenever space allowed.[93]

2. Organizational Changes

Most of Canada Post's problems stem from its current organizational form.[94] How did this structure evolve? The history of the Canadian post office is connected with the history of Canada. The Canadian post office was originally an extension of the British General Post Office Department and depended on the exchequer for its finances. How did the Canadian post office break away from British control so it could pursue its own destiny and fulfill its own social purpose for Canada? What was this social purpose and how was it fulfilled?

The British were interested in raising revenue from Canadian postal services rather than developing the country. They attached no social purpose to the post office. The frequent requests to the Canadian deputy postmaster from growing communities for improvements in postal services were routinely rejected. The British Post Office bound the deputy postmaster to a strict cost-benefit rule for extending service, and even prevented him from using the profits from one part of the country to subsidize services in another. For example, when Heriot asked to use surplus revenues from Upper Canada to extend and improve service elsewhere, the British Post Office refused. Service could be extended or improved only if future revenue would completely cover the resulting expense. Following the War of 1812, new communities demanded increases in postal services. The General Post still scrutinized new routes, approved accommodations, salary and staff increases, and faster transportation modes. Despite the efforts of the deputy postmasters general in Canada to extend and improve services, they still needed to demonstrate that any extension of postal services would be able to pay for itself or the British Post Office would deny it.[95] There was no concern for using the government-operated post office to help economic development. This intolerable treatment led the Americans to revolt. But Canadians had already declined to join one revolution and were unlikely to launch one of their own. These circumstances prolonged the British hegemony and prevented economic development.

How did Canada gain more flexibility in expanding its postal services? On April 5, 1828, the British Post Office appointed Thomas Allen Stayner deputy postmaster general of Canada and New Brunswick. When service requests became more frequent, it was impossible to refer them all to England for approval because of the distance involved. Stayner persuaded the postmaster general to give him some discretion in granting requests for service extensions. By judiciously using this freedom, Stayner slowly expanded postal routes and services.[96]

The 1827 Legislative Assembly of Lower Canada proposed that Great Britain and Canada share Canadian postal profits instead of sending them all to Great Britain. There was no response until 1832 when a British court forced the postmaster general to give the colonies all the surplus revenue. Despite this decision, Canada did not receive any surplus revenue until 1834. What the U.S.

gained in 1776 by revolution, Canada gained peacefully, 56 years later in 1832. While relinquishing some autonomy, the General Post Office still kept the power to appoint postal officers in Canada. The postmaster general believed the Canadian post office should be one organization instead of a collection of provincial post offices as the provincial governments had suggested.[97]

In 1835 a British bill proposed to change the Canadian post office. It provided for a post office in each province, directed by a resident deputy immediately responsible to the postmaster general in England. It also provided for uniform postal rates based on distance without regard for provincial boundaries or mail class. The provincial governments would receive surplus revenues or subsidize postal deficits. The bill granted franking privileges to certain government officials but did not pass in all provincial legislatures.[98]

In July 1846 Lord John Russell once again focused attention on the post office in British North America. His new postmaster general, Lord Clanricarde, sought to sever relations between the colonial postal systems and the General Post Office in England. In 1847 a committee of provincial representatives recommended that the Post Office Department in the provinces be distinct organizations, controlled by their respective provincial governments; that uniform postage rates prevail everywhere in Canada; and that franking privileges be abolished. This time, on July 25, 1849, the Imperial Parliament approved the bill which incorporated these recommendations, and the provinces of Canada, New Brunswick, Nova Scotia, and Prince Edward Island passed it.[99]

On April 5, 1851, the British government created an office of postmaster general for all Canada, and at the same time relinquished control of postal services to the provincial governments. The government of the United Provinces of Canada assumed jurisdiction on this date, and the provinces of Nova Scotia, New Brunswick, and Prince Edward Island followed the same year. Several provinces issued their own postage stamps at this time. In each province, the post office departments maintained their independence until Confederation in 1867 merged their operations into the Post Office Department of Canada.[100] Newfoundland, on the other hand, appointed its first postmaster in 1805, and by 1848 had set up its own self-contained system which it maintained until 1949. When Newfoundland entered Confederation, it had established 550 post offices.[101]

James Morris, Canada's first postmaster general, did not preside over a centralized monopolistic organization. His staff, which was the co-ordinating structure for all Canada, had only a few functions. It consisted only of the secretary's office, three surveyors, and an accountant. The secretary's office supervised the department and handled communications. The surveyors were inspectors who instructed and examined postmasters and mail contractors, searched for missing letters, and investigated robberies and misconduct complaints. They also received applications and made recommendations for new post offices, new routes, and improvements in existing routes.[102] The deputy postmasters general in each province performed the routine functions of collecting, sorting, and delivering the mail. As late as 1855, the British government still exercised some control over the system.[103]

On December 2, 1867, the post office became one of the first Canadian federal government departments and the first permanent civil service. It began operations April 1, 1868, under the new Post Office Act, and provided a uniform postal system throughout the new Dominion. The act reduced domestic postage from 5 to 3 cents per half ounce, and authorized post office savings banks in Ontario and Quebec. One of its main tasks, however, was to aid the economic development of Canada.[104]

In 1918 the government's failure to honour promises for increased wages and bonuses approved by Parliament upset the workers. Disappointed workers struck for the first time for about one month, mostly in the west, with some support in Toronto and Hamilton. In 1920 the government hired Griffenhage and Associates to examine the post office and make recommendations on its reorganization. The contractors said,

> ...the fundamental defect existing is that of loose organization of the department...and lack of effective co-ordination and control, not the fault of any individuals, but inherent in the system by which authority and responsibility are scattered among 37 more or less independent units, each operating without effective means to relate its activities with those of others.[105]

The consulting firm also recommended that the post office be organized in functional instead of geographical divisions. In September 1968 Postmaster Eric Kierans commissioned a series of studies to determine whether or not the post office should become a Crown corporation." It was not until October 16, 1981, however, that the Post Office Department became a Crown corporation.[106] Canada Post's current Crown organizational structure follows the British model and has failed to keep politicians from intervening in day-to-day matters.[107]

3. Improvements in Service

While many improvements in mail service have taken place through the years, Canada Post has made few, if any, recent significant improvements. In the past, some improvements resulted from technology changes and others were in response to different services desired by consumers. During recent years, however, delivery service overall has deteriorated, suggesting that we should look for an alternative organizational form to continue document delivery. A chronicle of service improvements nevertheless is useful.

Benjamin Franklin was the first postal innovator. While in the employ of the British Post Office he visited every colony, increased frequency and efficiency of mail deliveries, and to the detriment of his own reputation among American patriots, made the post office a financial success for the benefit of England.[108] An Imperial Act of Parliament, passed on July 28, 1849, enabled the colonies to establish their own inland posts. On February 1, 1855, the post office began selling money orders. In January 1859 it began accepting and delivering parcels. The Canadian post office introduced street mailboxes in Toronto in 1859, and in Montreal and Quebec City in 1860.[109] The post office introduced free letter delivery in Montreal in 1874. The Montreal post office first began using the electric cancellation machine in 1896.[110]

In 1839 Sir Rowland Hill started the penny post in England, and with the sale of stamps, placed the delivery cost on the sender rather than on the receiver of mail. The U.S. adopted the penny post in 1850. It was not until 1851 that England extended the penny post to Canada, where the cost was 3 pence. In the Confederation of 1867 the Canadian government made the mail service a government department and used it for patronage. Upon completion of the Canadian Pacific Railway in 1885, mail moved across Canada daily. In 1887 Canada set up the "imperial penny post," enabling Canadians to send a letter anywhere in the Empire for 2 cents Canadian or 1 British penny.

For a hundred years after Confederation the Post Office Department delivered mail, built post offices and, like its American counterpart, handed out graft and patronage in the form of postmasterships. Despite this agenda it still managed to deliver mail in most places twice daily, six days a week. Postal employees worked long hours for low wages in exchange for job security; an employee could be dismissed only through an order-in-council — an unlikely event.

In 1905 George Wilcox, an Oxford County, Ontario farmer who had lived in Michigan which had rural mail delivery, campaigned for rural delivery in Canada because he lacked information on market prices. Hog prices could rise for days before farmers heard about it. When they did receive price information from newspapers, it was out of date because newspapers took a week to be delivered. American farmers, on the other hand, received fresh news, current market quotations, and weather reports from rural mail delivery, and were able to make timely and profitable decisions on the best time to plant, harvest, and sell. Wilcox also noticed that farmers in western provinces allied themselves more with American farmers than their compatriots in eastern Canada because communications from the U.S. were better. For these reasons, Wilcox lobbied for rural postal services.[111]

In 1906 the *Hamilton Times* wrote, "it is a monstrous scheme which has a bad effect on morality...The rural free delivery shows promise of being the most far-reaching and potent in its malignant results."[112] While the public supported Wilcox, Liberals and Conservatives in Parliament and even the postmaster claimed that rural delivery costs would be prohibitive. In a bold change of opinion, Conservative Party Leader Sir Robert Borden embraced a limited version of free rural mail delivery, which he introduced on October 10, 1908.[113]

J.G. Lethbridge, master of Dominion Grange, a populist farm movement originally from the U.S. which had combined with the Canadian Council of Agriculture, wanted to see rural routes serve the entire rural population. In 1911 Borden expanded rural delivery to meet these requests. The rural mail delivery service was so successful it required a special branch to supervise it. On April 1, 1912, the Canadian government appointed Archelas Bolduc as superintendent of the new Rural Mail Delivery Branch and the Post Office Act was amended to include this service that same year.[114]

Beginning in 1854, trains pulled railway post office cars. Clerks sorted the mail in these special speeding cars stuffed with mailbags, opening tables, sorting cases, and other post office equipment. The railway mail clerks were an elite group who worked long hours with a high morale and sense of duty. Efficiency was a top priority with them. Their annual compulsory scheme examination scores were 99-100 percent. If they scored below 97 percent, they lost esteem in the eyes of their colleagues. If they scored less than 90 percent, they lost their annual salary increase.

Procedures at this time forced accountability on the part of everyone who handled the mail. For instance, if a clerk missorted a letter or sent it to the wrong address, not only was the letter's route retraced, the person who mishandled the piece was identified, and the error was recorded in his or her personal file. There were many railway mail clerks who, through a long and distinguished career, had almost no errors charged to their accounts. These post office employees could justly be proud of their record. By the early 1950s, the post office operated 177 railway post offices staffed by 1,368 railway mail clerks. By 1961, however, there were only 65 railway post offices with 647 clerks. On April 24, 1971, railway service ended.[115]

Railway mail clerks epitomize the apogee of Canadian postal service. Only a few services of minimal value were added later, while the overall level of postal service has deteriorated substantially. In October 1922 the post office initiated COD (cash on delivery), and in 1924, the business reply card.[116] In 1924 the post office introduced mechanical sorting equipment in Toronto, and in all larger cities by 1926. On May 1, 1942, the post office reduced the six-day-a-week delivery service from twice to once per day. In 1947 the post office restored twice-daily service, as soldiers returning from World War II filled the post offices' manpower needs. In 1951 the post office once again reduced letter carrier service to residential areas from twice to once per day. In 1970 the post office introduced the ingenious Canadian postal code in Ottawa. Its success there led to its use nationwide. On April 1, 1972, the government ended free franking, a privilege which government agencies and departments had enjoyed since 1868.[117]

Summary

An examination of postal history gives little or no support to those who would try to preserve the present government monopoly over first class mail. When mail was much more important to communications than it is now, there was no effective monopoly. Private mail services existed side-by-side with the government service. Private delivery systems adapted more quickly to changing market conditions and innovated first and most successfully. The government postal system usually followed private systems into new areas and in the use of new techniques. The necessity of competing with private carriers in quality of service and price usually disciplined the government postal service.

Although never very successful or admirable, the social purpose of the British government-run postal service in Canada was to exploit the colony for the benefit of the motherland. A secondary purpose may have been to enable Canada to maintain some political distinction from its neighbour to the south. Although the French obviously did not have the same sentiments as the fleeing United Empire Loyalists, when the British felt their moral obligation to these Loyalists had been fulfilled and the postal system in Canada was of no financial benefit to them, they turned it over to the provinces. While the postal system in Canada did maintain its organizational distinction from the U.S. postal system, for a long time it was heavily dependent on the U.S. system for transatlantic mail, and even for mail transit between regions of Canada.

Notes

1. *The Encyclopedia of British Empire Postage Stamps, 1639-1952*, "The Empire in North America," p. 98; *Postal Service Down the Centuries*, Canada Post Office, p. 7.
2. This brief discussion is based on Walter Stewart, *Uneasy Lies the Head: The Truth About Canada's Crown Corporation*, pp. 115-18; also on Douglas K. Adie, *Monopoly Mail: Privatizing the United States Postal Service*, ch. 2; Wayne E. Fuller, *The American Mail: Enlarger of the Common Life*; John Haldi, *Postal Monopoly: An Assessment of the Private Express Statutes*; and George L. Priest, "The History of the Postal Monopoly in the United States," vol. 18, no. 1, pp. 33-80.

   In 1693 the French government employed Pedro Da Sylva, a Portuguese citizen living in Quebec, to transport letter packets between Quebec and Montreal. There was no reliable public service, so on December 23, 1705, Intendant Raudot commissioned Da Sylva to also carry private letters and official dispatches within New France. He continued this service until his death in 1717, when his son, Jean Moran, replaced him; Hillman, *Records of the Post Office Department*, p. ix, 1.
3. Thomas A. Hillman, *Records of the Post Office Department*, p. 1; *Postal Service Down the Centuries*, Canada Post Office, pp. 7, 8; *The Encyclopedia*, p. 71.
4. *Postal Service Down the Centuries*, Canada Post Office, p. 19; *The Encyclopedia*, p. 16.
5. *Postal Service Down the Centuries*, Canada Post Office, p. 6; *The Encyclopedia*, p. 16.
6. *The Encyclopedia*, p. 19.
7. *Postal Service Down the Centuries*, Canada Post Office, p. 6.
8. *The Encyclopedia*, pp. 3, 5. Spain created the first Office of Postmaster General in the New World, not as a benevolent gesture of economic development but in order to communicate easily with its Latin American colonies. Spain regularly issued royal decrees to, and received communications from, its colonies. Spain improved mail service to the colonies because communications were vital to aid the military in subjugating and exploiting its colonies. For instance, by 1628 Spain built light vessels designed for transatlantic mail service to make service cheaper and faster. To protect the six mail ships per year, Spain often used armed convoys. The postmaster centralized collection of all correspondence and sent it by ship to America. By 1764 Spain formed a state-owned company to run mail service between post offices in Bilbao and La Coruna (Spain), Havana, and Culsa and Buenos Aires (Argentina). Carriers collected mail at Buenos Aires for bi-monthly shipment to Spain. The mail from Spain was dispatched through Buenos Aires along inland routes to its destination. Between La Coruna and Havana mail service ran 12 times a year. At Havana, carriers dispatched mail to destinations in Mexico, Guatemala, New Grenada, Panama, Columbia, and Venezuela.

   Alternately, the Spanish government privatized and nationalized the mail service to make it cheaper and faster. Spain absorbed the operating losses from the free mail service since it aided in the promotion of its colonies. The benefit from mail service to the economic development of the colonies was purely incidental. Spain's goal was to exploit the colonies for its own benefit.

Britain's behaviour towards its North American colonies appears reprehensible by today's heightened social standards, but it fares better in comparison with Spain's behaviour. England's exploitation of its colonies was not as vigorous as Spain's. In its relationship with its colonies, England's communications were not as urgent, so England could take a more casual attitude towards its mail service. Also, more consistent with its own commercial tradition, England regarded the mail service as a business that needed to stand on its own feet and yield a profit. An important difference, however, in addition to the moral dimension is that Britain dealt with former countrymen while Spain, through its colonists, dealt with the natives.

In any event, no government operated its postal system for the benefit of its colonies or colonists, but only for its own interests. Contrasted with today, there were far fewer restrictions on the monarch's ability to appropriate the residual from any government activity for himself. In earlier times governments did not pretend to exist for the benefit of their subjects, but simply pursued their own interests. This led to larger state investments in commercial activities than would have otherwise existed, because the state operated as a large corporation for the benefit of the monarch. The benefits to the colonies from the postal system were incidental rather than intentional, but nonetheless real. Whatever social purposes have become attached to postal activities were not present originally. The conclusion is that nothing in government's original establishment of colonial postal systems justifies their continued ownership and operation.

9. The King instructed Governor Dougan to set up a permanent post service in 1684. *Postal Service Down the Centuries*, Canada Post Office, p. 6; *The Encyclopedia*, pp. 3-4.
10. *The Encyclopedia*, p. 4.
11. In 1674 Connecticut had 24 post routes. *Postal Service Down the Centuries*, Canada Post Office, p. 6; *The Encyclopedia*, p. 4.
12. *The Encyclopedia*, p. 4.
13. *Postal Service Down the Centuries*, Canada Post Office, p. 6.
14. Ibid., p. 4.
15. *The Encyclopedia*, p. 4.
16. Ibid.
17. *Postal Service Down the Centuries*, Canada Post Office, p. 19.
18. Ibid., p. 7; *The Encyclopedia*, p. 17.
19. Alexander Spotswood's tenure as deputy postmaster general from 1730 to 1739 was the only exception to the poor service in this period. Hillman, *Records of the Post Office Department*, p. 1.
20. *The Encyclopedia*, p. 9.
21. *Postal Service Down the Centuries*, Canada Post Office, p. 9.
22. Ibid., p. 21.
23. *The Encyclopedia*, p. 5.

24. Ibid., p. 6.
25. Hillman, *Records of the Post Office Department*, p. 2.
26. Free housing in New York was a perquisite in this job. *The Encyclopedia*, p. 6.
27. *Postal Service Down the Centuries*, Canada Post Office, p. 8; *The Encyclopedia*, p. 6; "Journal Kept by Hugh Finlay," U.S. Post Office Library.
28. *Postal Service Down the Centuries*, Canada Post Office, p. 8.
29. Hillman, *Records of the Post Office Department*, p. 2; *The Encyclopedia*, p. 6.
30. *The Encyclopedia*, p. 10.
31. Ibid., p. 18.
32. Ibid., p. 7.
33. At this time, 25 percent of the colonists still supported the British. *Postal Service Down the Centuries*, Canada Post Office, p. 8; *The Encyclopedia*, p. 71.
34. *Postal Service Down the Centuries*, Canada Post Office, p. 8; Hillman, *Records of the Post Office Department*, p. 3.
35. *Postal Service Down the Centuries*, p. 9.
36. *The Encyclopedia*, p. 7.
37. Ibid., p. 10.
38. Finlay was still deputy postmaster general of the British Post Office in North America at this time, and he kept another very interesting journal during the period. *The Encyclopedia*, pp. 8, 71.
39. The British Post Office also appointed Christopher Sower as deputy postmaster general for New Brunswick on January 5, 1785; Thomas Uncle for Cape Breton on June 22, 1785; and Joseph Peters for Halifax, Nova Scotia, on January 18, 1786. Except for British Columbia and Vancouver Island, whose post had never been under British control, Britain controlled the service in all other British North American colonies until 1851. Hillman, *Records of the Post Office Department*, p. 3; *The Encyclopedia*, pp. 8, 9; *Postal Service Down the Centuries*, Canada Post Office, p. 8.
40. Hillman, *Records of the Post Office Department*, pp. 3, 4.
41. Ibid., p. 12.
42. Ibid., p. 110.
43. Ibid., pp. 110-12.
44. *Postal Service Down the Centuries*, Canada Post Office, p. 22; *The Encyclopedia*, p. 94.
45. *Postal Service Down the Centuries*, Canada Post Office, pp. 22-23.
46. *The Encyclopedia*, p. 107.
47. Ibid.
48. Brian Summers, "Postmen vs. the State," p. 23.
49. In the 1790s J. Fanning of Chippawa was the first to operate a stage coach between Chippawa, Niagara, and Fort Erie. S. Sills began the first private mail express company in December 1768. He carried parcels between Quebec, Three Rivers, Montreal, and any stop along the way. Fairbanks and Hinds carried letters on this same route in 1795 for 4 shillings per letter. Stephen Bates operated a private mail service in 1799-1800 between Niagara, Buffalo, Canandaigua, and other points in the U.S. *The Encyclopedia*, p. 109.

50. Ibid., p. 112.
51. Ibid., p. 111.
52. Ibid.
53. Alexander M. Greig and Henry T. Thomas set up the City Dispatch Post, a private company, to carry letters within New York. On February 1, 1842, it issued the first adhesive postage stamp in the United States. This innovation introduced anonymity in the posting of letters. *The Encyclopedia*, p. 112; Summers, "Postmen vs. the State," p. 24.
54. In 1871 there was the American Merchants Union Express Company of Brantford, Ontario, and Henderson Delivery Company of Toronto. In 1864 Bancroft's City Express of Montreal provided delivery service. It became Bancroft and Sharpe and, eventually, Sharpe's City Express, which continued until 1895. *The Encyclopedia*, p. 112.
55. His cargo was one passenger, 124 special envelopes, and a case of whiskey for a military wedding in "dry" Toronto. Hillman, *Records of the Post Office Department*, pp. 15-16.
56. The Yukon Territory did not receive airmail service until November 11, 1927, when White Horse-Mayo-Dawson, a private company, introduced the service. The service continued for about two years. *Postal Service Down the Centuries*, Canada Post Office, p. 39; *The Encyclopedia*, p. 91.
57. Robert Albon, *Privatize the Post: Steps Toward a Competitive Service*, p. 23.
58. Ibid., p. 27.
59. *The Encyclopedia*, p. 93.
60. Hillman, *Records of the Post Office Department*, p. 3; *The Encyclopedia*, p. 93.
61. The alternative round trip route through Canada from Quebec to Halifax took 105 days and was not financially viable.
62. *The Encyclopedia*, p. 102-3.
63. Hillman, *Records of the Post Office Department*, p. 4; *Postal Service Down the Centuries*, Canada Post Office, p. 21; *The Encyclopedia*, pp. 75, 93.
64. *The Encyclopedia*, pp. 72, 93.
65. Ibid., p. 94.
66. Ibid.
67. Ibid., p. 103.
68. On August 1, 1852, a postal convention between the U.S. and Prussia permitted the delivery of closed mail packets to Aachen. Postal clerks opened bags there and forwarded letters to destinations in Prussia and all states belonging to the German-Austrian Postal Union and to foreign countries beyond. This opened up communications from the U.S. and Canada to Europe and other parts of the world. Ibid., pp. 94, 98.
69. Ibid., pp. 75, 81.
70. Ibid., p. 103.
71. Ibid., p. 85.
72. *Postal Service Down the Centuries*, Canada Post Office, p. 11.
73. *The Encyclopedia*, pp. 88-89.

74. *Postal Service Down the Centuries*, Canada Post Office, p. 11.
75. In 1858 British Columbia became a Crown Colony.
76. *The Encyclopedia*, p. 92.
77. This is when British Columbia joined Canada.
78. *The Encyclopedia*, p. 91.
79. *Postal Service Down the Centuries*, Canada Post Office, p. 15.
80. The oldest highway in the U.S. is U.S. Route Number 1, called the Boston Post Road, which runs from Boston to New York along the New England coast. In 1673 the population north of Virginia was too small to support a post office, although there were post offices in other southern colonies. John Lloyd, who succeeded Hamilton as postmaster general in 1721, extended inter-colonial service from Philadelphia to Annapolis in 1727. Alexander Spotswood, deputy postmaster general from 1730-1739, extended service to Williamsburg, VA, in 1732, and later to Edenton, NC. Elliott Benger became deputy postmaster general in 1743 after Head Lynch extended overland service to Charles Town, SC. Despite service extensions, service south of New York was inferior in 1755 because of bad roads. After Benger died in 1753, the British Post Office made Benjamin Franklin of Philadelphia and William Hunter of Williamsburg joint postmasters general for the North American colonies. The early postal history in North America was chiefly one of building new roads, improving existing ones, and extending service into new territories. *The Encyclopedia*, pp. 4, 109; *Postal Service Down the Centuries*, Canada Post Office, pp. 7, 9.
81. How much is £2,500 in 1835 worth in today's dollars? In 1835 1 £ = U.S.$5, when the U.S. Index of Consumer Prices was 106. In 1988 when 1 £ = U.S.$1.50, the same index was 1413.36. Using these figures to convert the £2,500 into U.S. dollars yields U.S.$12,500 in 1835. In 1988 this was worth U.S.$166,670, or Cdn$222,221. For the U.S. Index of Consumer Prices, see Paul A. David and Peter Solar, "A Bicentenary Contribution to the History of the Cost of Living in America," p. 16.
82. The government opened post offices in Cornwall, Matilda, Augusta, and Niagara in 1789, Sandwich in 1801, Toronto in 1798-99, Queenston in 1801, Chippawa in 1801, Fort Erie in 1800-1801, Osnaburg in 1803, Brockville in 1810, and Gaspé in 1803. In Upper Canada the government opened post offices at Prescott, Newcastle, and Dundas in 1814. In Lower Canada the government post office opened offices at St. John's and Philipsburg in 1812, and Sorel and St. Denis in 1814. *Postal Service Down the Centuries*, Canada Post Office, p. 11.
83. Ibid., p. 11.
84. Ibid., p. 12.
85. Ibid., pp. 12, 13, 16.
86. Ibid., p. 13.
87. Ibid., p. 25; Hillman, *Records of the Post Office Department*, p. 12.
88. *Postal Service Down the Centuries*, Canada Post Office, pp. 39, 44.
89. In the next two years, Northern Air Service, Elliott-Fairchild Air Service, and Fairchild Air Transport operated on the same route. In 1926 Jack V. Elliott Air Service flew between Rolling Portage and Red Lake. Between March 1926 and

September 1927 Patricia Airways and Exploration flew between New York, Toronto, Red Lake, and Sioux Lookout. Other prominent services were Western Canada Airways Ltd. which operated from March 1927 to February 1930; Yukon Airways Ltd., from May 1929 to Februry 1931; Cherry Red Airline, from June 1929 to April 1931; and Canadian Airways Ltd., from December 1932 to November 1934.

In 1926 government flights began between Toronto, Sudbury, Sioux Lookout, and Red Lake. On October 4, 1927, the first contract airmail service began between Lac du Bonnet and the mines at Bisset and Wadhope in eastern Manitoba. Also, in 1927 the post office began air service between Quebec City, Montreal, Ottawa, and Rimouski, where planes met the steamers from Europe. By 1928 there was airmail service between Montreal and Toronto six days a week. The first international air route began in 1928 between Montreal and Albany (NY). In December 1929 airmail service began between Fort McMurray, Alberta, and Aklavik, Northwest Territories, cutting the travel time from 72 days to 48 hours. *Postal Service Down the Centuries*, Canada Post Office, pp. 41-42.

90. The Encyclopedia, p. 80.
91. *The Encyclopedia*, p. 80; *Postal Service Down the Centuries*, Canada Post Office, p. 43.
92. *Postal Service Down the Centuries*, Canada Post Office, p. 43.
93. *The Encyclopedia*, p. 80; *Postal Service Down the Centuries*, Canada Post Office, p. 24.
94. Postal history gives no compelling reason to maintain a government-owned and operated monopoly post office and recent organizational changes in the post office seem to be a prelude to privatization.
95. Hillman, *Records of the Post Office Department*, p. 105.
96. Ibid., p. 5.
97. Ibid., p. 6.
98. Ibid.
99. Ibid., p. 8.
100. *Postal Service Down the Centuries*, Canada Post Office, p. 23; Hillman, *Records of the Post Office Department*, pp. 8-9.
101. *Postal Service Down the Centuries*, Canada Post Office, p. 13.
102. Hillman, *Records of the Post Office Department*, p. 9.
103. *Postal Service Down the Centuries*, Canada Post Office, p. 11.
104. Ibid., p. 11; Hillman, *Records of the Post Office Department*, p. 10.
105. Hillman, *Records of the Post Office Department*, pp. 15-16.
106. Ibid., "Blueprint for Change," p. 21.
107. David Stewart-Patterson, *Post-Mortem: Why Canada's Mail Won't Move*, p. 285.
108. *The Encyclopedia*, p. 5.
109. Hillman, *Records of the Post Office Department*, pp. 9-10; *The Encyclopedia*, p. 74.
110. Hillman, *Records of the Post Office Department*, pp. 11, 13, 14.
111. *Postal Service Down the Centuries*, Canada Post Office, p. 35.

112. Hillman, *Records of the Post Office Department*, p. 14; *Postal Service Down the Centuries*, Canada Post Office, p. 37.
113. The stage road from the Hamilton post office to Ancaster, Ontario, was the first rural delivery route. On his first round the courier, travelling by horse-drawn wagon, stopped at every box along the route to deliver letters and newspapers and to collect mail, but he did not collect anything until the 25th stop. *Postal Service Down the Centuries*, Canada Post Office, pp. 37-38; Hillman, *Records of the Post Office Department*, p. 14.
114. *Postal Service Down the Centuries*, Canada Post Office, p. 38; Hillman, *Records of the Post Office Department*, p. 15.
115. *Postal Service Down the Centuries*, Canada Post Office, p. 27-28.
116. Hillman, *Records of the Post Office Department*, p. 17.
117. Ibid., pp. 17-21.

Chapter 3

Canada Post: An Instrument of Social Policy

Postal social policy is designed to serve the entire country as distinguished from providing service to individual postal patrons in exchange for a fee. The latter respects an agreement which, in a competitive atmosphere, results in benefits for both parties. Policy experts frequently recommend social policy when the service displays characteristics that are for the "public good." Unfortunately, many use the term, public service, without respecting the above distinctions. This chapter explores postal social policy and distinguishes it from serving the public.

History of Postal Social Policy

European mail service in the Middle Ages was exclusively private. Beginning in the late 15th century, Franz and Johann von Taxis organized their private postal system, which operated for more than four hundred years. Many private posts operated in the 16th and 17th centuries, sometimes competing and occasionally complementing each other. By the time of Henry VIII, even the government relied on private posts to carry their mail. In England an insecure government began using its own mail delivery service to protect national security rather than to replace private posts, but gradually imposed restrictions on private mail services.[1]

Despite the restrictions, private citizens continued to use private posts because the royal mail service was expensive and unreliable: the same reasons private mail services flourished throughout periods of Canada's history. Illegal private services forced the British government and Canada's post office to expand their services to meet private competition. In contrast to England, however, national security played almost no role in justifying Canada's government mail monopoly. No public service functions were present to motivate the original decision to create a publicly owned post office. England organized the service in Canada as a division of its own post office.

Benjamin Franklin articulated this social policy goal when he was postmaster of the entire British Post Office in North America serving both the U.S. and Canada, by defining the postal mission as binding society together through a reliable communications system. Postal service bound Canadians together in the vast, sparsely populated areas. After the American Revolution, however, the British Post Office also kept the Canadian provinces, which ultimately joined a confederation, distinct from the U.S.; it also supported incumbent politicians, provided well-paid patronage jobs for politically appointed postmasters, and subsidized activities that affected many groups. Politicians encouraged these activities with subsidies because the post office was a convenient low-visibility vehicle for subsidizing and redistributing. For example, it diffused knowledge, subsidized newspaper and magazine delivery, underwrote the building of stagecoaches, railroads, steamships and airplanes, and promoted business with cheap postage rates for advertising. Some argue that these activities, even though they ran contrary to free enterprise principles, bound the nation together and benefited all.

Whatever public service functions that may have been attributed to the post office have long since been accomplished. In the early days, the government encouraged education by subsidizing the mailing of papers, books, magazines, and letters. Although educational mail is still directly subsidized, no one would argue that it is the indispensable or predominant means of disseminating information. The educational system would barely notice it if Canada Post disappeared. All public service functions have been one-time achievements of a more-or-less permanent infrastructure and were completed at some time in the past, now making the governmental postal system obsolete.

The post office's universality of service also covered extending postal delivery to remote areas. This stimulated the construction of highways, road improvements, and linked rural Canadians to the rest of their country (the post office offered rural free delivery only where roads were good). Even those who do not send letters benefit from the reassuring sight of a letter carrier visiting the neighbourhood five days a week and many believe that this federal government presence is a vital connection that joins the nation together. Free rural delivery service at no extra cost has continued to this day. The government kept many small uneconomic post offices open to meet universality of service requirements. More recently, however, the telephone, telegraph, and other electronic communications have undermined the importance of postal services, if not threatened the post office's very existence.[2]

Although the small town post office may provide an important service, so does the pharmacy and the butcher shop. Which of these services we should treat as social services involves judgement. Some say mail delivery is essential, but so are food and drugs, although we do not subsidize grocery stores or compel them to operate in unprofitable areas. While redistributing wealth between groups is proper for the federal government, Canada Post performs this function inefficiently.[3] If we choose to subsidize rural mail delivery, perhaps municipal or county governments can do this more effectively than the federal government. Rural residents are understandably apprehensive of the effects of privatization may have on their delivery service, just as they were concerned about the effects deregulating the airlines would have on rural air service.

In the 19th century the post office was important for communicating, maintaining, and developing Canada's society and economy. It promoted the public interest as expressed through the political process by determining objectives, organizational structure, personnel policies, and rates. Prior to 1929, people believed government enterprises, such as Canada Post, developed land masses in remote regions, broadened regional economic bases, increased national cohesion, and reduced pressures toward integration with the U.S. Canada Post provided a communications link between disparate regions of the country, which was part of the infrastructure necessary for development.[4] The historical record in chapter 2, however, contradicts this view and indicates that private businessmen opened up communications services to new areas and the government postal service usually followed them.

The post office had accomplished the postal mission by the end of World War II when Canadians had received all the principal mail services they needed. Post roads to new settlements were no longer needed and it was only necessary to improve services and to keep the postal system functioning efficiently and cheaply, using up-to-date technology. (The post office, oddly enough, has not met this less dramatic challenge.) With the development of the telephone, radio, and then television, the urgency of the postal mission and the importance of the provision of its services has greatly diminished. New communications and transportation technologies not only have undercut the public service function as a mission but also have raised questions about the longevity of the post office itself. Parliament is less interested in the postal service, has weakened the public service mission as a policy guide, and has focused increasingly on alternative uses for the appropriated dollars. Postal executives seem to have grasped this radical change in policy, but the rank-and-file employees, their unions, and even the postmasters are still functioning under the mistaken concept of mission instead of the reality of present circumstances.

What is Canada Post's current public policy objective? Canada Post's mandate is to operate a postal service on a self-sustaining financial basis, while providing a standard of service that will meet the needs of Canadians. Are these public policy objectives still relevant, or should we reassess them in the context of changing market realities? The government formulated these objectives recently when it made Canada Post a Crown corporation, and they still apply in today's climate. Is a government enterprise, however, the most appropriate instrument for meeting these objectives?[5] Probably not, for a variety of reasons. These objectives do not require a government-owned monopoly. In fact, a private company operating in a competitive market could meet these objectives more easily and more successfully.

The government nationalized businesses because some believed they could combine advantages from both public and private sectors.[6] For instance, the federal government originally acquired de Havilland and Canadair to gain control of the aerospace industry and develop its growth in Canada. In 1963 the government created Canada Development Corporation (CDC) to prevent foreign ownership. CDC became a "buyer of last resort" to prevent foreigners from gaining control of Canadian firms. The government nationalized some businesses to bail them out when they were in financial difficulty and to save jobs. It could see no benefits from bankruptcy as a normal and therapeutic adjustment process in a dynamic free enterprise economy. None of these reasons for nationalization, however, applied to Canada Post. Subsequent experience with the above nationalized companies, however, has not lived up to expectations. Recently the government privatized de Havilland and Canadair because the costs of pursuing these objectives through nationalized business was prohibitive.[7]

Canada Post supports its monopoly by the claim that letter delivery is a social service which it has some quasi-moral duty to provide. This argument takes no notice of the fact that most first class mail delivery is an intermediate service initiated by or for businesses, not ultimate consumers. Eighty percent of first class communications comes from either business or government and less than 20 percent of mail volume originates from members of the public. There is no economic or social justification for the letter monopoly.[8] That postal service is a social service is simply another myth used to perpetuate the monopoly.[9]

Justification of Nationalized Firms

Because of Canada's reliance on the free enterprise system, Crown corporations such as Canada Post derive their *raison d'être* from their public service function.[10] Their value lies in their ability to pursue social goals such as strengthening national unity, achieving higher living standards for its citizens, and establishing a more equitable distribution of income.[11] However, even when these social goals are being achieved, nationalization is not necessarily warranted. One should compare the extent to which they are fulfilled with the additional costs of operating a government enterprise.[12]

Crowns operating successfully under social policy objectives are immune from privatization. Their status as Crowns, however, allows them to defend that status by confusing their public policy and commercial objectives, extolling the conveniences of their government monopoly and appealing for support of their status to the vested interests who derive advantages from them.

While a government-owned monopoly is a poor tool for the execution of public policy, its costs are high for pursuing non-economic policy objectives and the public grossly underestimates them. Public corporations generally have successfully achieved public policy goals. And even granting that Canada Post may once have been instrumental in achieving social objectives, this is no longer the case. The importance of its social objectives have greatly diminished and its purpose has been redefined to provide fast, reliable, and inexpensive document delivery service. Although commercial losses might be defended when important social objectives are met, they are inexcusable when productivity is itself the goal, as is the case with Canada Post. Unfortunately the costs of providing this service through a Crown corporation are very high.[13]

In dynamic and rapidly growing industries such as transportation and communications in which Canada Post operates, prompt responses are required to changes in market conditions or the availability of new technology. Unfortunately Canada Post does not possess the freedom and flexibility required to successfully meet these changes. For example, the tax exemptions it receives and the artificially low borrowing rates it pays because its loans are backed by the good faith and credit of the Canadian government, cost taxpayers money. Although they cannot exercise direct control, all Canadians who are required to hold shares in public corporations and who would choose to invest their savings elsewhere if they could, bear a cost. Public ownership also imposes severe costs on the decision-making process of the government, as Crowns require substantial legislative attention.[14]

For instance, to defend their status, Crowns use patrons who enjoy subsidized rates, contractors who enjoy profitable relations, workers who are overpaid, and unions which occupy a privileged position. These groups, in turn, believe Canada Post still binds Canadians together, or that Canada Post promotes the general welfare by advancing the national economy through the communication of information and the transportation of goods.[15]

This amounts to Canada Post bribing taxpayers and postal patrons with their own money. Also, Crowns like Canada Post, having both commercial and public policy objectives, have two measurement standards for judging their performance. Although the commercial objectives are well defined, open-ended public policy objectives allow unlimited expansion. If Canada Post fails to measure up to its commercial standards — such as providing speedy, convenient service at reasonable rates without government subsidies — it can judge itself by the more nebulous public policy standard. For instance, Canada Post might say, "of course we lose money on rural or northern mail, but who puts a price on bringing Canadian culture and communication to the North?" Whatever legitimate public policy objectives existed in the past have all been essentially fulfilled and there are drastically diminishing social returns to continuing Canada Post's public policy which is also very expensive.[16]

The Economic Council of Canada reports, "While public enterprise has played a unique and perhaps important role in the development of Canada, Canadians should not be enslaved by their history. There is a need to examine the relevance of individual enterprises in the context of Canada's present social and economic needs."[17] This is precisely what we are doing in this study of Canada Post and find that it has outlived its usefulness as a government-owned firm.

The public is well ahead of the public policy experts on this topic. Recent opinion polls conducted by the Marchment Committee and more recently by Gallup (exclusively for Canada Post), suggest a favourable attitude towards privatizing Canada Post. Privatization can produce important gains in economic efficiency. The potential gains from public ownership restrictions and public policy obligations are even greater in the dynamic and rapidly growing communications industry. Privatization also relieves ministers and government officials from overseeing public corporations so they can devote their attention to more important policy matters. Privatization may be the only viable long-term solution to the problems of a publicly owned monopoly corporation, such as Canada Post.

1. Mail Monopoly

Canada Post's monopoly pertains to the delivery of first class mail. The Canada Post Corporation Act (sections 14 and 15) states that the corporation shall have the sole and exclusive privilege of collecting, transmitting, and delivering letters within Canada.[18] The exclusive privilege prevents potential competitors from entering the most lucrative and most important part of Canada Post's business, insulates it from competition, allows it to raise rates with impunity, to dissipate monopoly returns in excessive wages, and continue inefficient operations.

In defining mail monopolies, governments have focused on the contents of a letter rather than its dimensions, size, or weight. But what is a letter? It is just a folded piece of paper like a newspaper or a parcel. Unless the object requires special handling, the contents are unimportant for the provision of the service. Besides, the carrier is paid for carrying, not analyzing the contents. For many years all governments have sustained their statutory mail monopolies on these ill-founded principles. This type of legislation allows governments to discriminate between market segments and exploit this profitable monopoly.[19]

In the July 3, 1981, issue of *Canada Gazette*, Canada Post defined a letter as "any available matter in any form the mass of which, if any, does not exceed 500 grams, whether it is enclosed in an envelope, and intended for transmission to any destination or delivery to any address."[20] There were few exceptions to this definition. A heating oil company could leave a bill with its customer at the time of delivery, but other utilities, such as gas, electric, phone, or cable, could not bypass Canada Post. A secretary could not deliver a message to another company in the same building, nor could citizens pay bills at bank branches or automatic teller machines, or deliver their own party invitations to friends without violating the law. A Canada Post spokesman said a person who delivered his own check to a store to pay his bill would be "carrying something that Parliament intended to be sent by mail...We fully expect [customers] will adjust their activities to conform."[21]

Canada Post planned on enforcing its monopoly once the government accepted its definition. By proposing this legislation, Canada Post arrogated too much and provoked angry public reactions. Legislative representatives received 300 letters from their constituents complaining about Canada Post's letter definition. The government responded by exempting personal correspondence like Christmas cards, invitations delivered "occasionally" by a friend, cheques, and other forms of paying bills. Plumbers and electricians could also leave a bill at the time of performing their work.[22]

The British Post Office received a statutory monopoly on inland mail delivery in 1869. In 1880, four years after Alexander Graham Bell patented the telephone, the U.K. extended the monopoly to telephone service. For 40 years the post office granted licenses to private companies and municipal authorities but the system did not work. By 1912 the post office controlled all telecommunications suppliers except in Hull. In 1969 when the Post Office Department became a public corporation, it still had an "exclusive privilege" to run telephone networks and control premise equipment.[23]

In England the Post Office Act of 1953 and the Act of 1969 contained the letter monopoly. *The Economist* reported, "It is absurd that the Post Office should have a monopoly to carry letters in Britain..."[24] In 1975, Richard Wainwright, a Liberal member of Parliament, called for repealing the letter monopoly to encourage local experiments in competition.[25] The 1981 Act transferred the monopoly to the Secretary of State for Trade and Industry, the minister responsible for the British Post Office. Without further legislation or changing the basic structure, the minister can deregulate the British Post Office and liberalize the monopoly by suspending or curtailing the monopoly. He can grant licenses or allow private firms to provide services normally covered by the exclusive privilege. In November 1981 the minister permitted charitable organizations to deliver Christmas cards until the year 2007 and anyone to deliver time-sensitive mail whose postage was over £1. The Post Office could further reduce the minimum postage qualifying for exceptions to the exclusive privilege from £1 to 50p.[26]

Post offices everywhere remain government monopolies. All postal systems in the world are government-owned and, to some extent, monopolized.[27] In the U.S., the U.K., Australia, Sweden, The Netherlands, West Germany, France, and Japan, a government monopoly covers at least first class mail. Why has there been so little liberalizing of the mail monopoly or privatizing of the government postal services? Although Mrs. Thatcher's government has privatized nationalized industries, since 1979 the only relaxation of the mail monopoly has been to legitimize express carrier services and permit charitable organizations such as the Scouts to deliver Christmas cards.[28] Furthermore, in 1987 Thatcher explicitly ruled out privatizing the core of the mail service before 1991.

One can take two attitudes toward the mail monopoly: benign neglect or reformation. Abraham Rotstein is critical of those who want to reform quickly. Rotstein says we need to pause before we act on doctrinaire assertions of the virtues of competition because everything thrown into the neo-classical meat grinder comes out hamburger; that is, advocating more competition and markets. Rotstein complains that those who use "the market" or "competition" as the highest canon of economic achievement and promote privatization because it increases competition in the market are guilty of circular reasoning. All reforms proposed in the name of competition have not been beneficial.[29]

Tom Kierans says that deregulating and increasing competition for monopoly Crowns, such as Canada Post, can produce large savings. Rotstein, however, asks what the yardstick is "to measure competition?" John Vickers and George Yarrow answer that the yardstick is efficiency. Private ownership is most efficient in markets where competition prevails because competition provides the incentive for firms to allocate resources efficiently. Where monopoly exists, private ownership cannot lead to socially efficient results because allocative efficiency worsens and so loses some of its advantage over public ownership.[30] The substitution of private for public monopoly does not help much. In England the government needs to face the issue of competition before it sells shares in the second generation of privatizations to the public. The postal service, water companies, electricity, and railways are in this group.[31]

2. Is Postal Service a Natural Monopoly?

The mail monopoly is sometimes defended as a "natural monopoly" where a single supplier is the lowest cost way of delivering the mail.[32] Economies of scale in production are a necessary condition for a natural monopoly. The authors of *Minding the Public's Business* suggest government intervention is required when the technological conditions, called "increasing returns to scale," would naturally lead to a single firm — a natural monopoly.

Some argue that permitting entry into industries with economies of scale leads to undesirable duplication of fixed costs. This production condition is much less prevalent than economists have previously thought, however. Some believed the telephone industry had these characteristics although the Economic Council of Canada found little difference between the performance of public and regulated private telephone companies.[33] Melvyn Fuss and

Leonard Waverman found Bell Canada did not have economies of scale and so could not have had a natural monopoly on local, toll, or private line service.[34] No persuasive evidence suggests that a single firm can provide any or all telecommunication services more efficiently than several firms.

While economists once universally accepted that electric power companies were natural monopolies, now few believe electricity generation participates in economies of scale. The international evidence suggests that while many different companies, including nuclear power plants, produce electricity in many countries, no single firm enjoys clear cost-efficiency benefits because of its size. If electricity distribution took place under economies of scale, one would expect higher prices, poorer service, and less advanced technology than in areas serviced by more than one electric power company. Gordon Tullock claims there are 25 to 50 such towns in the U.S., the largest being Lubbock, Texas, a city of 100,000, where two sets of power lines are strung on the same poles so they are no more unsightly than in other communities. Here consumers can switch from one power company to another within three days and are very enthusiastic about their service. Rather than causing higher rates, competition in Lubbock led to improved service and efficiency.[35]

Cable companies also justify their protection from competition on the grounds that they are natural monopolies. In franchised cities legal manoeuvres keep out competitive firms or their technological rivals, such as satellite dishes or master antenna systems (which now serve hundreds of thousands of apartment and condominium dwellers).[36] From 1971 to 1984 consumers in Bryan and College Station, Texas, enjoyed direct competition for cable service, driving prices for basic programming to the lowest in the state. This contradicts the economies-of-scale prediction that prices will be higher if two firms offer the same service in a natural monopoly market. Where local government has not franchised a single cable company, cable markets have not been chaotic, nor have competitors wasted resources through needless duplication. Firms have not overbuilt, prices remain moderate, the video services and technology employed are state of the art, and there have been no consumer disasters. In open-entry localities, consumers can choose what they regard as the best service.[37]

Garbage collection does not display economies of scale, but waste water treatment and refuse energy do.[38] The water industry displays many of the characteristics of economies of scale. Competition, however, is still feasible at least along the areas bordering different water distribution companies, and potential competition can obviate the need for regulation.[39] The crucial question is whether postal service is like garbage collection or water treatment.

In the past 20 years technological changes have affected the inevitability and desirability of monopoly in telecommunications. Even though local telephone service, like electric and cable services, requires an extensive network of wire which is duplicated for multiple producers, studies still show consumers prefer the array of services competition produces. Long distance transmission by radio, satellite, or terrestrial systems makes competition even more feasible.[40] In addition, it is possible to bypass the Canadian telecommunications network altogether and route long distance messages through U.S. systems. This has also been done for Canadian postal service with considerable regularity. The provision of service by a single firm, even in markets that appear to be natural monopolies, may not be the most efficient arrangement available to society. Canada Post would have great difficulty trying to convince anyone that the quality of its service is superior to private companies already competing with it for second, third, fourth class and express mail, or that the service of potential competitors for first class would be inferior or more expensive.

Letter delivery is not a natural or technical monopoly because entry is cheap and simple. The existence of many carriers suggests there are no strong economies of scale.[41] The Bradley Commission in Australia rejected the natural monopoly argument because it was not convinced that economies of scale existed. They cited the growing number of carriers that compete with each other and duplicate Australia Post's facilities of collection, sorting, handling, transportation, and delivery, which still make a profit. Indeed, carriers compete in Britain, the U.S., Canada, and Australia. As an explanation, Robert Albon suggests that while a postman can deliver two letters to a house as cheaply as one, a natural monopoly is as likely to develop for mail service as for the distribution of parcels, milk, or bread.[42] Postal service is very labour intensive and requires few skills, so new companies can easily begin with unemployed workers.[43]

The Bradley Commission concluded that Australia Post's monopoly stemmed from the coercive power of the state rather than natural causes.[44] The monopoly was originally granted for the security of confidential, politically sensitive, and strategic material but came to be used to raise revenue and, finally, as a tool for bestowing political favours through cross-subsidies.[45] The monopoly on time-sensitive mail was relaxed, so why shouldn't the letter mail monopoly also cease?[46] Removing the exclusive privilege and exposing Canada Post to competition would improve service and speed up its commercial orientation.

It is unlikely that Canada Post will voluntarily give up its exclusive privilege. Senior management would oppose it on "cream-skimming" grounds which has been the prime argument for keeping the postal monopoly in place.[47] They would say that lost business would cause inefficiencies and necessitate raising prices for rural delivery service, or that the exclusive privilege is a necessary condition for universal service at uniform rates, or that urban customers should subsidize rural ones and first class customers other classes.[48]

The cream-skimming argument, however, is circular because people choose where they live and take different prices for postage, transportation, and housing into account. The rural resident pays more for one and less for the other than the urban resident. Vickers and Yarrow say that one should be sceptical of arguments for restricting entry based on cream skimming for the following reasons: First, natural monopolies are extremely rare; second, even if a firm is a natural monopolist, it is probably sustainable under competition; third, whether or not a natural monopoly is sustainable is irrelevant, unless competitors exist; and, finally, incumbent firms who use the cream-skimming argument to defend their own interests should always bear the burden of proof.[49]

Evidence in the U.S. suggests that the present government monopoly is so inefficient that a private delivery service can deliver third class mail to rural residents for less than the current government-subsidized rates. We will see in chapter 6 that the USPS is about twice as efficient as Canada Post, so this argument applies even more convincingly to Canada. While rural delivery is more costly than urban, a private company can provide it better and cheaper than the current subsidized service.[50]

Abolishing the postal monopoly would allow private businesses to compete for any mail service. Entrepreneurs believe they can do better than the government monopoly. They would enter the most profitable inter-urban mail routes quickly. However, in the U.S. they have even offered to deliver the least profitable and heavily subsidized third class ad mail.[51] Businesses would offer more choices at lower prices in larger cities and less choices to small towns and rural customers, but not necessarily less choice than they now have.[52] Private and government courier services charge uniform rates nation wide and use a rate scale divided by regions for package delivery services, without distinctions for urban or rural areas. Removal of the monopoly implies removal of the obligation of uniform rates but does not necessarily imply disparate rates.

The growth and dynamics in Australia's mail system is outside the government post office.[53] Australia's post is slow and cautious while private carriers are innovative and responsive. Eventually the protective monopoly will become irrelevant because it does not apply to electronic mail which will eventually replace most document delivery service. The development will jeopardize mail carriers' and counter clerks' jobs. Desirable as it is, abolishing the statutory monopoly is not the key issue in Canada. It is the survival of Canada Post in the face of the electronic revolution. The letter monopoly should be removed to test Canada Post's efficiency and ability to compete with new entrants. But privatization, which provides incentive and flexibility, is also essential because Canada Post has a better chance of surviving in a competitive market if it is privatized now, instead of clinging to its outmoded status until it is too late.[54]

In Canada, as opposed to the U.S., Parliament called this monopoly "a privilege," suggesting it is dependent on service performance and financial self-sufficiency and is subject to revocation if Canada Post does not measure up. The Marchment Committee suggested conditions for the perpetuation of the exclusive privilege after 1990. The continuance of this privilege depends on Canada Post's ability to provide reliable, efficient, and effective service, and to achieve financial self-sufficiency. The committee stated that the government would revoke this privilege if Canada Post fails in these two goals, or suspend it if unions conduct labour stoppages or Canada Post initiates lock-outs.[55]

Evidence suggests that Canada Post has already met the conditions for revoking the privilege. Its service is unreliable, subject to processing delays and damaged shipments, as well as frequent interruptions because of strikes. The numerous competitors (including airlines providing local, regional, national, and international delivery for parcels and correspondence listed in the yellow pages of metropolitan telephone directories) patiently wait for the opportunity to enter this industry. Canada Post's failure to convince its customers it can consistently deliver parcels and communications in a timely fashion has contributed to this condition. Under the act, only Canada Post can carry letters at first class rates, while other carriers who intrude into this exclusive privilege are subject to penalties. Removal of this exclusivity would permit private competitors to challenge Canada Post's service. Canada Post would then either make the changes necessary to meet the competition or shrink.

Private Firms' Complaints of Nationalized Firms

Private firms complain that government firms with which they compete have special privileges. Crown corporations such as Canada Post do not pay federal corporate income taxes, property or other taxes. Also, since their debt is ultimately a federal government liability, they can borrow at preferential rates, and even utilize the efficient New York City capital market. In addition, Crown corporations have legal immunities which place them above the law. Neither they nor their agents can be prosecuted for criminal activities, no matter what they do. Even statutes do not apply to them unless they are expressly named.[56]

These tax concessions, borrowing privileges, and legal immunities reduce the costs of Crown corporations pursuing aggressive policies. Government subsidies and access to the public treasury can be used to finance bad decisions and extreme forms of rivalry. Managers are not adequately disciplined for bad decisions, so there is no pressure on them to make good decisions and improve their performance. The aggressive behaviour of Crowns can drive private firms into bankruptcy without themselves facing the same threat. While it might seem that the privileges and freedoms should enable Crowns to execute public policy more effectively, they have inhibited management's ability to undertake initiatives to enhance performance. For these reasons the Canada Council suggests that government enterprises such as Canada Post should not receive special treatment from the law.[57]

The Accountability and Control of Nationalized Firms

Western European countries believed they could control their government enterprises. Their dismal financial performance suggested that they were wrong and led to a deep-rooted dissatisfaction with public enterprises' behaviour and the efficacy of controls. Governments' priorities and objectives have changed. Policy experts now scrutinize the rationales of public corporations more carefully because costs are higher than anticipated and policy objectives have not been met. These experts created fewer public corporations in the 1980s, sold some existing corporations, and scheduled others for privatization. Margaret Thatcher, who has privatized ambitiously, began this revisionism. The French government prepared 65 state-owned companies for privatization. In Canada, John McDermid reviews Crown corporations to identify promising candidates for privatization.[58] This reflects the changing objectives and priorities of government. Even citizens in many countries are questioning government's involvement in commercial activities.

When the government delegates decision-making responsibilities to government enterprises such as Canada Post, there is an acute accountability and control problem; namely, to ensure that the person to whom authority has been delegated acts faithfully on behalf of the party he is supposed to represent. Numerous reports have described the management and control problems of Canadian public corporations. There is a need for mechanisms to ensure managers or agents act on behalf of principals.[59] A monopoly public corporation may require, in addition to normal controls for a public enterprise, special administrative controls to ensure that directors and managers exercise authority appropriately to compensate for the absence of market controls. While market mechanisms exercise control in the private sector, what mechanism ensures that Canada Post managers will pursue government objectives?

Part XII of the Financial Administrative Act states that the government can issue directives, establish control mechanisms, and introduce reporting requirements to increase control of Crown corporations such as Canada Post. In addition, the cabinet must approve acquisitions and divestitures of a Crown's subsidiaries. This prevents Crowns from playing high-stakes financial games with taxpayers' money. Committees can also authorize serious, detailed studies of Crowns. These tools, while powerful, are heavy-handed, cumbersome, and not particularly effective for exercising control.

The government exercises more effective control of Crowns through corporate financing where the degree of independence that a Crown has from Parliament depends on how much approval is required for its operating and capital budgets. All federal corporations must receive formal approval for their capital budgets. Self-financing public corporations need not seek approval for their operating budgets, although they may be required to submit it for informational purposes only. These public enterprises, such as Air Canada, may also employ private firms to audit their books instead of the government auditor. (Canada Post was audited in fiscal year 1986-87 by Maheu Noiseux *and* the auditor general of Canada.)[60] Reporting requirements for public corporations are more onerous if they are dependent on subsidies than if they are self-financing. A Crown's spending budget must also be approved if it receives government appropriations. As Canada Post generates budgetary surpluses, it can seek more freedom under the applicable schedules of the Financial Administration Act and eventually be privatized as was Air Canada.

The differing levels of government scrutiny of self-financing and dependent Crowns may explain Canada Post's activities and priorities in the past few years. When it was a government department, Canada Post was heavily dependent on government subsidies. Since becoming a Crown it has tried to finance operations from its own revenues and has raised first class postage rates as much as needed to eliminate its deficit, while its capital budget has been minuscule.[61] This behaviour has enabled it to achieve greater independence from government scrutiny and control.

Can monitoring devices and managerial incentive systems linking compensation to the corporation's pursuit of policy directives improve control?[62] The surveillance of special legislative committees and the auditor general look only at process not bottom line indicators. There is a problem of getting good information when the only sources are the ones to be judged. How then do you keep corporate managers from pursuing their own agenda after giving them wide discretion for decision making, where they have a comparative advantage in expertise or information? The only answer is to strengthen managers' incentives for reliable and efficient performance, with rewards and penalties which can include promotions, demotions, bonuses, salary increases, and perquisites. The incentives need to be strong enough that management thinks of nothing else than pursuing the specified objectives. However, rewards are already high and the penalties low or nonexistent. These incentives also tend to become more generous as time passes, and it is difficult to compete with the rewards managers can give themselves. Only the severe continuance of negative sanctions seem to offer any hope and this is probably unworkable.[63]

Economic studies of private enterprises have examined many different incentive schemes linking management compensation to profits, cost reductions, and indicators of social welfare, but all are unsuccessful. These studies suggest that there is no form of compensation that can produce the desired results. A review of the compensation mechanisms suggests that only by allowing managers to appropriate virtually all the residual gains would they be induced to give maximum performance.[64] This conclusion undermines the public corporation as a useful and efficient tool of public policy. The problem is that the government often lacks the information required to exercise adequate control. Financial statements do not alert government to the corporation's financial difficulties in time to take pre-emptive action. The information which Canada Post compiles for assessing its own performance is insufficient and tends to be meaningless.

While the board may employ outside auditors and consultants to assess management information and control systems, the directors only test whether or not acceptable practices are being followed. The government can set up an independent commission to identify sources of waste and inefficiency, but it examines only behaviour not outcomes. The waste that it may uncover from the inefficient use of resources can be dwarfed by the forgone gains from management's inability or reluctance to innovate successfully.[65]

Chapter 7 estimates the annual cost of the exclusive privilege extracted from consumers in the form of excessive postage and poor service to be approximately $1.2 billion. Chapter 6 suggests that labour productivity at Canada Post fell by more than 50 percent between 1964 and 1984, while workers were overpaid by at least 30 percent. When wages and benefits are approximately 75 percent of total costs (more than $3 billion), this means annual cost overruns from excessive wages are approximately $675 million, and from the inefficient use of resources, approximately $1.5 billion. Eliminating the double counting between these two sources still leaves cost inefficiencies from excessive wages and inefficient use of resources of approximately $1.5 billion per year. This is slightly more than Canada Post extracts from consumers through the exclusive privilege. The difference of approximately $300 million per year is financed directly through taxpayer subsidies.

It has been suggested that ministers cannot properly account for their Crown corporations because the objectives and priorities of their corporations were inadequately specified; it is difficult to measure the attainment of social objectives; or political involvement in corporate decisions complicates control. Control is more difficult when the government compensates Canada Post for noncommercial activities because this requires the separation of costs attributable to the noncommercial activities. Canada Post itself cannot measure the costs of its commercial activities. It would be easier to measure Canada Post's performance if it did not have social objectives. For this reason, it is advisable to remove these social obligations and accompanying subsidies from Canada Post.

The Canada Council suggests that problems perceived to be stemming from bad management or ineffective control may actually result from the imposition of new public policy objectives or perhaps from attempts to use the corporation to capture gains for the participants. The council's studies also indicate the government has both the financial tools and the power to appoint board members and managers and does not lack the means to influence corporate managers. Experience has been disappointing because the government, directors, and managers lack incentive for the exercise of efficient managerial control.[66] These suggestions are important to the understanding of the control problem and will be discussed in chapter 4.

Regulatory commissions monitor output quality and costs of production and use the tools of price and rate of return regulations in order to control monopolies, but their experience has not been satisfactory.[67] Although the U.S. Postal Rate Commission (PRC) has relieved its government of administrative burdens, it has not successfully regulated the USPS. In Canada a research committee looked into the possibility of having a regulatory commission supervise Canada Post and recommended against it. A Prices Review Commission was nevertheless established.

Regulation and Deregulation

Economists and other social scientists believed that in industries such as telephone service, electricity generation, cable TV service, or even mail delivery, technology contributed to market dominance by a single firm or few firms to the detriment of consumers. Social policies reflect these perceived inadequacies of the market system and the desire to influence resource allocation and increase living standards and employment opportunities.[68] These policies proposed nationalization to deal with what was regarded as socially unacceptable results of the market. Also, where third parties not involved in the transaction enjoy benefits or bear costs, policymakers recommended that government enterprises could redistribute income and wealth more legitimately. Some believed postal service was an infrastructure service that could be provided most efficiently by a government monopoly such as Canada Post. Alternatively, industries classified as natural monopolies submitted to regulation in return for a government-granted monopoly. For more than one hundred years, economists, consumers, government, and business supported regulation because they believed it could deal with problems in markets.

Regulation monitors the conduct and prescribes actions instead of structurally changing the monopoly firm. In the absence of competition, it tries to establish appropriate incentives but faces some serious problems.[69] The objective is to direct managers to implement the socially optimal price-output plan without adequate information about industry conditions and firm behaviour while managers are much better informed.[70] In this context, regulation has become a game between the government and firms where firms behave strategically towards their regulatory authority while regulators try to discourage strategic behaviour. To do this the regulator needs information which it does not have on the relative costs of different services supplied by multi-product firms and the potential for cost reduction. The asymmetry of information between the regulator and the firm is the crux of the regulation problem. Firms who are more knowledgeable than the government and its regulators, usually will not divulge this information.[71] The regulators then design a mechanism to induce the firm to pursue the public interest without being able to observe the firm's behaviour. The firm utilizes "regulatory lag," which is the time period within which the firm can appropriate the benefits of improved cost efficiency before the next review reveals it and causes stricter regulation.[72]

Regulation, by definition, substitutes the judgement of the regulator for that of the market. Without a competitive market to give the regulators signals and good cost data, the price-setting function of regulation is illusory. Regulators, finding themselves in the uncomfortable position of having to rely on ad hoc methods of making price decisions, eventually lose credibility. After some serious soul searching, regulators themselves realized their well-intentioned and orderly views cause enormous distortions in productivity and service.

Such notable figures as George J. Stigler, a Nobel Prize winner in economics, parting company with his mentor and teacher at the University of Chicago, Henry Simons, argued that government regulatory bodies eventually become captives of the industries they regulate and create more inefficient operations than the market. For most industries, Stigler argued, the cost of government regulation far outweighs whatever benefits the public receives in return. Further, current technological innovations make the concept of natural monopolies virtually obsolete. Innovation plus competition, not regulated monopolies, afford the best possibility for providing goods and services to the public. In the U.S., regulatory reform began with the trucking industry and has significantly lowered transportation costs which figures into the price of most goods we purchase. This experience encouraged Canada to deregulate trucking too.

Dramatic technological advances in aerospace coupled with a rapid growth in air travel hid some of the inefficiencies sheltered by regulation in the airline industry. Nonetheless, in the mid-1970s, many persons noticed that the intrastate markets of Texas and California operated successfully with a minimum of regulation. A consensus emerged that the intrastate benefits enjoyed in the newly deregulated states could prevail nationally. Technological changes, political events, and a series of detailed economic studies, eventually led to deregulation. In late 1976 the Civil Aeronautics Board (CAB) relaxed some of its regulations and the results were positive and confirmed the Texas and California experience. Two years later in 1978, Congress passed the Airline Deregulation Act, which fostered competition on transcontinental and domestic routes, and created pressure for liberalizing the entire regulatory system. Canada did not respond as quickly to airline as it did to trucking deregulation. It took Canada until 1984 to liberalize its regional air policy. Amendments to the national transportation act eliminated regulation on fares, routes, origins, stops, destinations, type of aircraft, and the provision of 60 days notice before the cessation of routes. Moreover, it took two more years for carriers to gain the freedom to reduce fares, drop old routes, or add new routes more easily. Before this liberalization, carriers were obliged to justify all proposed changes on public interest grounds. Now the regulators have the burden of rejecting proposed changes.[73]

Both private and public air carriers existed together in Canada and carried out federal air policy although public carriers were not required to meet traditional federal air policy. Are public or private airlines more cost-efficient? A Canada Council study found Air Canada, the Crown corporation, less efficient than the privately owned CP Air, primarily because it had greater excess capacity.[74] There is no reason to believe private mail carriers would be any less effective in carrying out postal policy if Canada Post were privatized, nor would anyone argue that they would be less efficient.

After airline deregulation in the U.S., some feared that airlines would terminate air service to some smaller cities, but thus far this fear has been mostly unfounded. At first the U.S. government provided subsidies under the "essential" air services program, but has subsequently eliminated them. After the removal of regulatory restrictions, smaller private planes, operating low-volume routes without subsidies, serviced less-populated areas. In Canada when cross-subsidization of fares between high- and low-traffic routes ceased, both private and public firms terminated unprofitable routes after the relaxation of air regulations. The air policy goals of supporting federal employment and regional development have suffered, but these are minor policy objectives which can be better achieved with less costly methods. Although Air Canada played an important role in the goal of promoting bilingualism, this objective can be reached more directly and does not justify the public ownership of airlines. All the benefits of privatizing Air Canada apply *a fortiori* to Canada Post.

Perhaps the most significant benefit Canadians derived from public ownership of Air Canada was the national pride they felt when seeing the maple leaf embossed on the planes' sides. Even though this feeling of national pride associated with public ownership is expensive and difficult to measure except, perhaps, by opinion polls, it cannot be ignored.[75] The strongest reason for not privatizing Air Canada turns out to be a reason for privatizing Canada Post: years of deteriorating and unsatisfactory service, rate increases, strikes, and scandals destroyed the "public icon" motive for retaining Canada Post as a Crown corporation. Under government ownership, both employees and patrons are ashamed of Canada Post. Its employees go to great lengths to hide their affiliation. Privatizing Canada Post will not sacrifice any national pride. In fact, a privatized and reorganized Canada Post could reinstill pride in its employees and patrons. The Canada Council believes that as a privatized carrier, Air Canada can compete better without sacrificing important public policy objectives. While the arguments for privatizing Air Canada were strong, they are not as strong as those for privatizing Canada Post.

By watching the daily mail Canadians monitor the performance of Canada Post more closely than any other department. They judge the government by Canada Post because its shape is a symbol of Canada's government. The mail service indicates to them whether the federal government has its act together. Unfortunately, the poor showing of Canada Post reflects badly on the government. It also reflects badly on Canadians' national identity because of its lack of direction.[76]

In the U.S., under regulation, American Telephone & Telegraph (AT&T) manifested anti-competitive behaviour such as predatory pricing, exploitive interconnection fees, and pre-emptive patenting. AT&T demonstrated how an incumbent firm can inflict large losses on an entrant firm by aggressive or predatory pricing, even though it may lose some profits itself. Some economists believe predatory pricing is irrational and unlikely to occur because it hurts the incumbent as much as the entrant. If the incumbent's "war chest" is larger than the entrant's, the entrant will go into bankruptcy after a price war of finite length, and even regret having entered the industry, while the pain will be much less for the incumbent.[77]

"Interconnection" in telecommunication economics describes the terms on which firms obtain a necessary input from another firm, such as the access one phone company needs to another company's lines to enable its customers to complete their calls. Without government intervention, the dominant firm which controls the lines will set prohibitively high interconnection costs to exclude rivals from the market.[78] British Telephone (BT) and AT&T excluded competition by refusing to interconnect with rivals or charging exorbitant fees. Pre-emptive patenting occurs when an incumbent firm purchases or applies for patents on inventions it has no intention of using, merely to prevent its rivals from developing the technology to compete with it.[79]

In 1984 the U.S. court split AT&T into several regional companies and a long distance company to deal with predatory behaviour. This divestiture introduced and changed the incentives of the many separate companies to compete for long distance business and to co-ordinate their efforts to complete local calls. The U.K. government, on the other hand, instead of promoting effective competition through divestiture, privatized BT as a unit in November 1984.[80] It also made no attempt to restructure British Gas Corporation (BG) prior to its privatization. Senior managers of BG resisted any restructuring by threatening to delay and jeopardize privatization during Thatcher's term. By ignoring restructuring the British government sacrificed longer-term economic efficiency to political expediency.[81] Policy measures are needed to prevent powerful incumbents from preventing entry with predatory tactics. Contestability theory, which suggests the possibility of competition is sufficient to guarantee its results, is generally not applicable. A powerful incumbent firm, such as BT in the U.K. or Canada Post in Canada, which can thwart effective competition requires a strong competitive policy, such as the divestiture of AT&T, not yet tried in Britain or Canada.

In their careful study, *Minding the Public's Business*, the 14 members of the Economic Council of Canada advocated opening up Canada's economy to private enterprise. Only three members registered dissenting comments.[82] They rejected the tone of the report and the recommendations for privatizing Air Canada, Petro-Canada, and Canadian National Railways. They also feared that privatizing urban transit could lead to chaos. They feared that privatizing Air

Canada might lead to its financial collapse because many U.S. airlines had experienced financial difficulties after deregulation.[83] These fears are understandable for Pierre Fortin, a former director of the International Labor Organization. But the other two dissenters, Kaplansky and Bellemare, were academic economists who should understand how market prices co-ordinate and direct the use of resources through co-operation and rivalry, and that the threat of bankruptcy is a necessary though unpleasant discipline to efficiency.

In claiming that the report, particularly the recommendations for privatization, was based on "narrowly based economic analyses" and "trendy neo-conservative views,"[84] the dissenters misunderstand the recent history of deregulation. In the U.S., Teddy Kennedy, a liberal Democrat from Massachusetts, not a "trendy neo-conservative," pushed for the deregulation of trucking. He also sponsored deregulation of the airlines with the solid support of economic analysis.[85] Although begun in Canada and England, it has spread throughout the world, primarily in socialist countries with controlled economies. Even Soviet Russia and Communist China have privatized businesses and farms in recent years. The only successful privatization of a government-owned company at the national level in the U.S. is Conrail.[86]

The dissenters dispute the notion in the report that many of our politicians or public servants are governed only by self-interest or that government enterprises are intrinsically less efficient than their private counterparts.[87] Although the report is not based on this assumption, it does refer to the "public choice" literature developed by Gordon Tullock and James Buchanan.[88] Public choice theory assumes that politicians or public servants heed their own self-interest, not as a personal or moral criticism, but as a useful and fruitful hypothesis not unlike the assumptions pertaining to consumer or producer theory in economics. The theory reaches many interesting and testable conclusions and is useful for explaining many problems and what would otherwise be conundrums and enigmas. That government enterprises are less efficient than their private counterparts is the result of repeated empirical investigations, not ideological suppositions. This result is examined in chapter 4.

Despite the problems with regulation, Canada, the U.K., the U.S., and Australia have all sought to balance the monopoly power of their postal services with independent review agencies. In Britain the National Council handles complaints, advises on rate increases or service changes, measures the speed of delivery, and issues an annual report evaluating the postal service. In the U.S., the Board of Governors of the USPS is balanced politically and hires and fires the postmaster general. There is also the independent PRC which monitors rate setting. The PRC's investigative powers are limited because it has no subpoena power to compel attendance, testimony, or documents at hearings. The PRC often disagrees with the USPS[89] and makes non-binding "recommended decisions" on rates, classifications, and post office closures.[90] The Price Surveillance Authority reviews, can only advise and comment on, may slow down but not disallow, Australia Post's proposed first and second class rate increases. Since 1983 it has approved all rate increases.[91]

Under the Financial Administration Act, Canada Post reports to the government through a minister and must comply with all directives from the Governor in Council. It must submit through its minister for Treasury Board approval, annual reports, annual operating and capital budgets, and a five-year corporate plan with objectives and strategies. Canada Post must also submit an annual corporate plan, which the Treasury Board forwards with recommendations to the Governor in Council for approval. The Committee on Government Operations reviews Canada Post's activities and performance and, at least every five years, an external auditor examines Canada Post management efficiency, service quality, and compliance with laws and government directives.[92]

Before third-party review the federal cabinet approved postal rates on advice from Canada Post. The approval required an extensive examination of financial and operational detail. The act also required Canada Post to publish new or revised regulations in the *Canada Gazette*. Interested parties had 60 days to respond to the minister. After reconsideration, Canada Post's board of directors submitted its proposal to the Governor in Council who had 60 days to accept or reject it. No decision was regarded as acceptance. This process did not give public complaints adequate consideration.[93]

The "Regulatory Programs" report recommended a review of Canada Post's mandate and the existing regulatory process after the first five-year planning period. If service and financial performance did not improve, the report recommended that the government consider deregulation and market-oriented reforms or public utility regulation.[94] In 1985 the Marchment Committee recommended that "the corporation be regulated in its rate increases by a neutral third-party agent and that there be no appeal to Cabinet for [its] decisions..."[95] Also in 1985, the Nielsen Task Force said Canada Post's monopoly should be regulated like the telephone service and rate changes should be authorized only after public hearings, full financial disclosure, and accountability.[96]

Canada Post was the only government monopoly supplying a necessary service that did not have independent external regulation. Marchment was unwilling to challenge Canada Post's exclusive privilege because he believed that universal letter mail service at a uniform price depended on it. The Marchment Committee, however, strongly felt that Canada Post should not abuse its monopoly by subsidizing services that are supposed to be competing fairly in the open market. Despite the disappointing experience with regulation, the Marchment Committee still believed that controls rather than competition could provide the required discipline and that an independent body would improve on the functioning of Canada Post's monopoly.[97]

Harvie André, the minister of Consumer and Corporate Affairs who answers to Parliament for Canada Post, shares this view. He believes Canada Post should be removed from day-to-day political interference. He said,

> And yet they still have a monopoly, a state-run, public-service monopoly, and you don't have normal market discipline to regulate its behaviour. And so there seems to be a demand . . . for some sort of . . . vehicle to express their grievances . . . and right now, that's me. How do you keep hands off and by the same token fulfil your democratic responsibilities in responding to the concerns of the public?

In explaining his dilemma, André said,

> If I take on the unions, I'm a spokesman for the corporation. If I'm the spokesman for the corporation, who the hell's the spokesman for the clients, the customers? That's the problem. That's the procedural dilemma. I don't know. I don't have any answers.[98]

André's office, however, published the paper "Third-Party Review of Canada Post Corporation's Rates and Services" to encourage the erection of an independent review for Canada Post's rates and services. André advocated the idea of a permanent committee to review, comment on, and regulate specified activities of Canada Post.

The federal government wanted an independent body to decide periodic postal rate increases because each time the government approved an increase it took a loss in the public opinion polls. Since the Conservatives were elected in 1984, first class stamp prices have risen five times, from 32¢ to 39¢. The government believes an official channel for complaints and rate reviews might slow the growing political involvement in the daily affairs of Canada Post with its attendant negative political consequences.[99]

Before the current Prices Review Commission was established a number of policy questions were discussed. Should Canada Post be regulated by an existing commission or by a new regulatory body? Should the agency be advisory or regulatory? Should it review only the products and services pertaining to its monopoly, or just rates, or other issues also? What is the most appropriate appeal process? How should it be funded? Canadian regulatory agencies are generally more concerned with rates than services. They approve, adjust, or decide proposed price changes, rather than recommend, and their decisions are subject to judicial review and other appeal processes. They base their decisions on judicial hearings and sworn testimony. They usually have subpoena power and the ability to examine and cross-examine witnesses.[100]

Policies to Rehabilitate a Nationalized Firm

Short of privatization, there are only a few policies that try to deal with the problems of a nationalized firm: namely the use of an independent regulatory agency, contracting out, and internal reorganization. Contracting out is attractive because public firms perform many activities easily performed by private firms.[101] Competitive contracting can introduce some discipline to public firms and produce substantial savings. There is no incentive to pass the gains along to either taxpayers or patrons and so this represents only short-term gains which are eventually dissipated within the corporation. I have considered contracting out elsewhere in connection with the USPS and found it to provide only short-term relief.

Internal reorganization can be a never-ending job of tinkering. Ideally, the government's role in operating Crown corporations is to establish public policy objectives, to define precisely the noncommercial responsibilities, and to monitor the corporation's performance. The government alone should decide the public's preferences, identify all imposed obligations, and clearly specify corporate responsibilities in a printed statement of objectives. It should delegate authority to the board of directors, and responsibility to management for using their technical information or proficiency to determine how specific objectives can best be achieved and for conducting the operations. Boards should be composed of only those who, because of their experience or expertise with relevant technical matters, are highly qualified and can contribute to the monitoring function.

How should directors be chosen?[102] An independent commission of distinguished men and women should collect and maintain a list of knowledgeable and experienced candidates for the boards of public corporations. When a vacancy occurs they should submit a list of individuals they recommend, from which the minister should make a final appointment.[103] The Economic Council of Canada says a board should be given greater importance and power, including the power to appoint, reappoint, and terminate a chief executive officer and to set his compensation level. Under Canada's Business Corporations Act, the legal responsibility of a board is "to act honestly and in good faith with a view to the best interests of the corporation," where the interests of the corporation are identified with the "statement of objectives" tabled in the legislature.[104]

In actuality, however, public corporations' boards of directors have been public policy conduits rather than controllers. For reasons which will become clear in chapter 4, too much attention has been given to political credentials and not enough to other qualifications. Political appointees, special interest representatives, and even ministers on these boards have encouraged a policy orientation, rather than monitoring and control functions.

Acting for the government, the minister should be able to dismiss directors at any time for inadequate performance. In reality directors have too much security and are rarely dismissed. As an aid to control directors, the minister should be appointed for a fixed term and be eligible for reappointment. To compensate for the reduction in security, the expanded work load, greater time commitment, and to attract a higher quality of individual directors, they should receive fees comparable with the private sector.

Government representatives such as ministers or public servants or union representatives jeopardize the board's independence and should not be on boards. Although they are no longer present, the first board for Canada Post included labour leaders who were understandably concerned about policy rather than technical matters.[105] As representatives of their constituents, they jeopardized the board's integrity and paralyzed its decision-making process for a wide range of situations.[106] Although the Crown was to put the government at arm's length, it did not succeed because the board of directors allowed the government to usurp its functions.

Conclusion

It is no longer possible to believe the myth — that a universal postal system with uniform rates binds the nation together and fosters democracy — with anything more than detached nostalgia when we are, with telephone in hand, able to "reach out and touch someone" instantly, day or night. The advent of the telephone undermined the need for a universal post office and destroyed Canada Post's exclusive universality of communications. When this happened, Canada Post was no longer essential for democracy or for establishing Canada's national identity. This book works out the policy implications of this fact. As directed in its current mandate, Canada Post should forsake its mission of "binding the nation together" and concentrate its efforts on the humbler task of providing a postal service to meet the needs of Canadians on a self-sustaining financial basis.[107]

While some view Canada Post's mission-oriented public service functions idealistically in a poetic glow on a higher moral plane, and denigrate the humbler private provision of services in a free market by stigmatizing the pursuit of profit, this attitude is by no means universal. Others with equal fervor assert that postal functions are too essential to be left with the government to drift aimlessly in the accountability wasteland of a public corporation, but need to be performed responsibly by a vested interest operating in a competitive environment because only under these conditions will the best service be provided at the lowest possible cost. Suffice it to say, when a vision of the priority of public postal service blatantly conflicts with reality it must be laid aside, if not discarded. With the unmasking of the myth of the postal mission, the public service philosophy stands vacuous.

The Canadian government still pays Canada Post about four percent of its expenses to support the publishing industry, Northern parcel mails,[108] and parliamentary and blind persons' free mail. Those public services now performed by Canada Post which the government desires to continue could be provided on a contract basis by other government departments and agencies or private businesses. Whether Canada Post is privately or publicly owned, it would be good policy to remove these responsibilities from Canada Post with the accompanying subsidies, tax breaks, and financing privileges it receives. This would make possible a straightforward evaluation of how well Canada Post delivers the mail.

Paving the way for privatization might require some accommodation to the nostalgia of Canadian citizens, some of whom fondly remember the days when Canada Post served a more noble national purpose. The Canadian government has outpaced its neighbour to the south in this regard by opening a modest museum in Ottawa in the Sir Alexander Campbell Building at Post Office Headquarters at Confederation Heights. The museum displayed philatelic items, postal records and documents, tools, equipment, and other materials used to provide postal communication from the beginning of Canada's history. Other displays traced written communication and postal references back to ancient times. The museum housed the National Stamp Collection and collections of postage stamps of other members of the Universal Postal Union. The museum also served as a symbol and reminder of the thousands of postal employees who have devoted many years of dedicated service to the post office in Canada.

On June 28, 1984, the National Postal Museum moved to a more accessible location in the Wellington Building in downtown Ottawa across the street from the Parliament buildings, close to the National Archives and the National Currency Collection for the 25,000 members of the general public, school children, and philatelic researchers who visit the museum annually. The new location doubled the floor space to make room for approximately 250 new exhibits tracing the history of the mails from the first European settlements in New France and British North America. A postal library in the museum houses the finest collection of philatelic literature on British North America.[109] Canada Post subsequently gave the museum to the National Archives of Canada.

Regardless of the fate of document delivery service in the 21st century, Canada Post played an important role for a long time in the lives of many people and, indeed, in the life of the nation. It was fitting and appropriate to erect a museum where Canada Post's history is portrayed graphically with paraphernalia, audiovisual displays, other artifacts, and even wax figures. The memorial helps to preserve and perpetuate the memory of Canada Post and engender the appreciation and respect it deserves among the general public.

Notes

1. For instance, Henry VIII appointed Sir Brian Tuke to establish the royal post to carry sensitive government messages concerning the Crown's security. James I, Cromwell, and Charles II all restricted private posts to control communications and prevent subversion. In 1609 James I ordered his subjects to send all letters through the royal mail; in 1657 Cromwell strengthened the government's monopoly; and Charles II opened and resealed suspicious-looking letters. They justified this with "national security" considerations.
2. *Considerations Which Affect the Choice of Organizational Structure*, Report of a Study Group to the Postmaster General, pp. 8, 9, 39.
3. Ian Senior, *Liberating the Letter: A Proposal to Privatise the Post Office*, pp. 25-26.
4. *Minding the Public's Business*, Economic Council of Canada, pp. 9-10, 69.
5. *Considerations Which Affect the Choice*, Report of a Study Group, p. 27.
6. J.A. Corry, "The Fusion of Government and Business," vol. 2.
7. *Minding the Public's Business*, Economic Council, pp. 18, 27, 42, 74, 77, 139.
8. Senior, *Liberating the Letter*, pp. 6, 25, 26.
9. *Considerations Which Affect the Choice*, Report of a Study Group, p. 3.
10. Other instruments of public service are taxes, regulation, tariffs, subsidies, loans, loan guarantees, and public ownership. The discussion in this section draws heavily on material from the Economic Council of Canada's publication, *Minding the Public's Business*, pp. 6, 9, 10, 21, 69, 119, 139.
11. The government mail monopoly has conveniences which result from simplicity in posting mail, notification of address changes, and dealing with the International Postal Union, which prefers a single government entity and the quasi-official character of postmarks for timing communications.

    These same benefits are provided in the long distance telephone market where the carriers themselves manage most of the co-ordination. A private mail system which has the major conveniences from the monopoly can be designed.
12. *Considerations Which Affect the Choice*, Report of a Study Group.
13. From 1981 to 1987 the annual deficit measured as the cash deficiency paid from tax revenue averaged $480 million (see table 8-3 in chapter 8). From chapter 7 we learn that the cost of the government mail monopoly is about $100 million per month or $1.2 billion per year.
14. *Minding the Public's Business*, Economic Council, pp. 26, 88, 139, 140.
15. *Considerations Which Affect the Choice*, Report of a Study Group, p. 39.
16. Ibid.
17. Ibid., p. 146.
18. This privilege does not extend to magazines, books, parcels, and urgent messages for which carriers must charge at least three times the postage applicable to a 50 gram letter.
19. Senior, *Liberating the Letter*, pp. 21-22.
20. David Stewart-Patterson, *Post Mortem: Why Canada's Mail Won't Move*, pp. 240-42.
21. Ibid., p. 240.

22. Ibid., p. 241.
23. John Vickers and George Yarrow, *Privatization: An Economic Analysis*, pp. 202, 212, 218, 237, 268, 270, 271.
24. "School's Brief: Selling the Silver," *The Economist*.
25. Senior, *Liberating the Letter*, p. 33.
26. Robert Albon, *Privatize the Post: Steps Toward a Competitive Service*, pp. 9, 12, 13, 23.
27. There was no precedent for removing the exclusive privilege until March 1, 1989, when the Honorable Richard Prebble of the New Zealand government stated, "the New Zealand Government has just announced it is giving the International Postal Union notice that the New Zealand postal monopoly is ending at the completion of the present postal agreement." Quote from a letter to Michael Walker dated March 7, 1989. John Marcom, Jr., "Question of Privatizing the Mail Service," p. 12; Albon, *Privatize the Post*, p. 2; "Third-Party Review of Canada Post Corporation's Rates and Services," Consumer and Corporate Affairs, p. 3.
28. Senior, *Liberating the Letter*, p. 23.
29. The government's promotion and financing of two national railways and three national pay TV networks cost Canadian taxpayers considerable money and eventually collapsed, requiring government intervention. If this is the consequence of privatization, Rotstein suggests we forego it. Abraham Rotstein, "Privatization and the Canadian Tradition of Government Intervention."
30. Vickers and Yarrow, *Privatization*, pp. 80-426.
31. Albon, *Privatize the Post*, p. 1.
32. Ibid., p. 29.
33. Michael Denny, "Government Enterprise in Western Canada: Telecommunication;" Melvyn Fuss and Leonard Waverman, *The Regulation of Tele-communications in Canada*, report no. 7.
34. Douglas K. Adie, *Monopoly Mail: Privatizing the United States Postal Service*, p. 89; Fuss and Waverman, *The Regulation of Tele-communications*.
35. A similar transformation of opinion has occurred concerning the coal industry which economists no longer believe exhibits economies of scale. They believe that the most effective policy for fostering competition in the British coal industry is to reduce barriers to entry by lifting limitations on imports. This would decrease international coal prices. *Privatization: Tactics and Techniques*, pp. 60-61; Vickers and Yarrow, *Privatization*, pp. 33, 48, 299, 302.
36. Thomas W. Hazlett, "Those Catchwords of Cable," p. 16.
37. In the unincorporated areas of San Diego, Prima (Tucson) and Prince William (VA) where competition is open to all with a business license, numerous unfranchised cable firms serve consumers.
38. *Privatization: Tactics*, p. 84.
39. Vickers and Yarrow, *Privatization*, pp. 58, 387.
40. *Minding the Public's Business*, Economic Council of Canada, p. 41.
41. *Senior, Liberating the Letter*, p. 22.
42. Robert Albon, *Private Correspondence: Competition or Monopoly in Australia's Postal Services*; and *Privatize the Post*, p. 30.

43. Senior, *Liberating the Letter*, p. 22.
44. Albon, *Private Correspondence*.
45. Public figures in the U.K. defend the postal monopoly because it forces the urban residents to subsidize the rural ones. Albon, *Privatize the Post*, p. 28.
46. Instead, Canada Post would like to extend the monopoly to services where it currently competes. Michael Warren, when president of Canada Post, expressed this sentiment when he claimed that private carriers competed with Canada Post unfairly. He said, "UPS [United Parcel Service Canada Ltd] is using U.S. money to engage in predatory practices in Canada, just as they have eliminated their American competitors by undercutting the market until they have a monopoly position." Stephen Raikes, "Michael Warren's Biggest Turnaround," p. 61.
47. Cream skimming occurs when a rival takes the most profitable part of an incumbent's business, leaving him with the unprofitable remainder. The alleged undesirability of cream skimming is used as a justification for restrictions on entry. The argument runs that in the absence of the monopoly private mail services would skim the cream from the heavy traffic of large urban areas and neglect to serve the rural areas or charge them much higher rates. Stewart-Patterson, *Post Mortem*, p. 288.
48. "Third-Party Review," Consumer and Corporate Affairs, p. 3; Vickers and Yarrow, *Privatization*, p. 169.
49. Vickers and Yarrow, *Privatization*, p. 58.
50. Gene Del Polito of the Third Class Mail Association testified that lifting the private express statutes for third class mail in the U.S. would be a useful experiment. "If private third-class mail delivery proves to be a success, then one nation's policymakers will better know the benefits that can be derived from private sector alternatives. If private delivery proves to be a bust, nothing will be lost." The President's Commission on Privatization recommended, "the private express statutes on third-class mail should be removed immediately. There is no justification for the monopoly on third-class mail, and allowing private delivery would serve a useful test of the viability of a competitive postal system."

    The Commission further recommended, "the private express statutes should be repealed for rural delivery immediately." The reasoning is, "if the postal service is providing efficient service and heavily cross-subsidizing rural routes, then competing with USPS on these routes should be difficult. If, however, the private sector succeeds in serving the rural routes at prices no greater than under USPS, this strategy could go a long way toward calming the fears of rural America that postal privatization would leave them underserved." This challenge puts to rest the hoary myth that rural mail delivery is inherently unprofitable. President's Commission on Privatization, "Privatization: Toward More Effective Government," pp. 118-19.
51. Senior, *Liberating the Letter*, p. 28.
52. Stewart-Patterson, *Post Mortem*, p. 288.
53. Albon, *Private Correspondence*.
54. Senior, *Liberating the Letter*, pp. 5, 6, 7, 9, 20, 48.

55. These conditions for suspending the exclusive privilege have already been met since the CUPW, representing 23,000 indoor employees, had been staging rotating strikes across Canada for eight days. On October 6, 1987, postal employees were either on strike or locked out in 210 locations across Canada, including Montreal and Ottawa. *Mandate for Leadership*, Heritage Foundation, vol. I, pp. 21-22; "Canada Postal Strikes Face Legislation Threat," *Wall Street Journal*, p. 10.
56. From the standpoint of Canada Post it does not enjoy total freedom from government intervention. The government is the single shareholder and protects its interest in numerous ways. Canada Post has two audit firms, the private-sector firm, Maheu Noiseux, and the auditor general. It is also subject to "direction" from the minister for Consumer and Corporate Affairs, who currently is Harvie André. Even though this direction is supposed to be gazetted, it does not reduce the authority. Canada Post pays no taxes, but it does pay grants through the Public Works Canada system in lieu of municipal property taxes. Although it has favourable borrowing conditions, borrowing is restricted and subject to the approval of the minister of Finance — much less flexibility than is enjoyed by a private corporation. *Minding the Public's Business*, Economic Council, pp. 65, 135-136; Elaine Kirsch, "Crown Corporations as Instruments of Public Policy: A Legal and Institutional Perspective," p. 295.
57. For the past few years executives have disciplined managers and even fired them for what they regarded as bad decisions. This has had little, if any, effect on the performance of Canada Post, however. *Minding the Public's Business*, Economic Council, pp. 65, 119, 136.
58. *Minding the Public's Business*, Economic Council, pp. 2, 105; M.B. Beesley, A. Likierman and S. Bloomfield, "Controlling Public Enterprise in Europe."
59. For instance, in his 1976 *Annual Report*, the auditor general described the dismal state of financial management and control in federal Crown corporations. The Public Accounts Committee of Parliament, the Lambert Commission, and the government itself all reached the same conclusion. In the control of federal Crown corporations the government said that there were "significant and unjustified inconsistencies." *Report of the Auditor General of Canada to the House of Commons for the Fiscal Year Ended March 31, 1976; Report of the Standing Committee on Public Accounts to the House of Commons*, Public Accounts Committee of Parliament; *Final Report*, Royal Commission on Financial Management and Accountability, 4; *Crown Corporations — Control and Accountability: The Government of Canada's Proposals*, Privy Council Office.
60. *Minding the Public's Business*, Economic Council, p. 109, 112, 113, 114.
61. Keeping the capital budget small has been the result of several strategic decisions. Canada Post had too many post offices and buildings. It has recently contracted out many of its own services and functions and so needs fewer employees and fewer capital dollars. This trend is likely to continue. On the other hand, postal executives have capitalized certain expenses that auditors could question as not being of a true capital nature. The heavy electro-mechanical equipment installed in the late 1970s and early 1980s will eventually need replacing, but before this is done, a major reappraisal of the postal processing operation and the appropriate

equipment needs should be undertaken. The new investment in capital could be in excess of $1 billion. Successful innovation cannot take place in a totalitarian regime, but requires the right atmosphere of reciprocal trust between executives and managers. Given the "success" of the first mechanization effort, this is good reason to consider privatizing Canada Post now.

62. Control includes monitoring, gathering, and assessing information on activities of public firms such as Canada Post and then issuing directives to convey and enforce government demands. The board oversees management and reports information to the minister. In order to evaluate directors fairly, there needs to be performance measures indicating whether or not directors and other corporate officials are representing shareholders' interests.
63. *Minding the Public's Business*, Economic Council, pp. 22, 105, 120, 127, 128, 138.
64. Hugh S.E. Gravelle, "Incentives, Efficiency and Control in Public Firms," pp. 79-104; M.K. Berkowitz and Y. Kotowitz, "The Organization and Control of Crown Corporations."
65. Public choice theory suggests that even this waste would rarely, if ever, be uncovered because the directors would be co-opted by management and share in the gains from redistribution. *Minding the Public's Business*, Economic Council, pp. 105, 106, 107, 128.
66. In this same vein, the Wolff Commission in Saskatchewan said, "no Crown corporation escapes extensive and continuous political guidance," Crown Investments Review Commission, *Report* (Saskatchewan), December 1982, p. 8; *Minding the Public's Business*, pp. 106, 108, 115, 128.
67. Ibid., pp. 119, 135, 136, 138.
68. Ibid., pp. 9, 10, 21, 69.
69. Vickers and Yarrow, *Privatization*, pp. 80, 212.
70. The USPS chooses the data it will generate and release and denies the PRC and competing delivery systems its sensitive information. Although it is supposed to honour information requests from rate-case participants, it effectively denies them by dragging its feet or claiming not to have the data. Postal managers see their information as their exclusive domain. Even the PRC depends on the USPS's goodwill and informational beneficence. John T. Tierney, *The U.S. Postal Service: Status and Prospects of a Public Enterprise*, p. 153.

    Albon in *Private Correspondence* says that Australia Post's reluctance to reveal details of its operation is evidence that something is wrong.
71. For instance, in June 1987 British Gas reduced its customer prices 4.5 percent because of a decrease in wellhead gas prices. When the director general of Gas Supply requested information on the contract terms to review whether or not the size of the consumer price reduction was appropriate, BG claimed the information was commercially sensitive and refused to reveal it. Vickers and Yarrow, *Privatization*, pp. 99, 279.
72. Ibid., pp. 80, 81, 86, 99, 427.
73. *Minding the Public's Business*, Economic Council, pp. 49, 63, 64, 65.

74. D.W. Gillen, T.H. Oum and M.W. Tretheway, "Identifying and Measuring the Impact of Government Ownership and Regulation on Air Line Performance."
75. When less developed countries achieve independence and autonomy, this same pride among their citizens and government officials motivates them to achieve recognition by getting a seat at the U.N., building a nuclear reactor, gaining control of their currency by setting up their own central bank, and establishing a national airline. *Minding the Public's Business*, Economic Council, pp. 65, 66.
76. Stewart-Patterson, *Post Mortem*, pp. 13, 295.
77. Vickers and Yarrow, *Privatization*, pp. 58, 61, 62, 64, 66.
78. Ibid., p. 73.
79. Ibid., p. 64.
80. Ibid., pp. 212, 218, 237, 300.
81. When the government privatized express and local bus service, it removed the barriers to entry and encouraged competition. Lower fares and responsive service resulted, although some previously subsidized groups lost service. This experience, however, is an exception as the U.K. has failed in most cases to promote greater competition. Ibid., pp. 268, 270, 271, 278, 375, 382.
82. Namely, Diane Bellemare, Pierre Fortin, and Kalmen Kaplansky.
83. *Minding the Public's Business*, Economic Council, pp. 147, 148.
84. Ibid., p. 147. Kaplansky and Bellemare believe that "neo-conservative economists" are responsible for the general disillusionment with regulation and nationalized businesses. These economists, in their view, "appear to trust more the invisible..." Kaplansky and Bellemare are misinformed when they suggest that this policy rests only on faith buttressed by partisan politics. Many economists of varied political persuasions have studied the extensive U.S. regulatory experience. Conscientious and hard-working regulators have also experienced futility in their efforts. The trend to deregulation has been a non-partisan effort, solidly based on this experience and the best available academic research.
85. Airlines were regulated because it was thought that competition divided up a fixed-size market among many small carriers and led to wasteful duplication of services and facilities. Some monopoly power over routes would then promote better resource utilization. As the larger routes became self-sufficient, the airlines subsidized routes to smaller communities. Empirical research, however, gradually undermined this view. Lucille Keyes could find no public benefit from the government's restriction on entry. L.S. Keyes, *Federal Control of Entry into Air Transportation*.

    Richard Caves found no appreciable difference between the average costs of large and small airlines. This indicated there were few if any economies of scale and route choices could be determined competitively. Michael Levine and William Jordon described the success of unregulated airlines in California, where low-fare airlines were capable of successfully competing with established airlines. George Douglas and James Miller showed that regulation resulted in higher prices, excessive service competition, and more empty seats. George Eads even questioned whether regulation encouraged airline service to smaller communities. Senator Edward Kennedy's hearings, orchestrated and documented by Stephen Breyer, launched the legislative actions culminating in the Airline Deregulation Act of 1978. R. Caves, *Air Transport and Its Regulators: An Industry Study*; M. Levine, "Is Regulation Necessary? California Air Transportation and National Regulatory Policy," pp. 1416-47; W.A. Jordon, *Airline Regulation in America: Effects and Imperfections*; G.W. Douglas and J.C. Miller, III, *Economic Regulation of Domestic Air Transportation: Theory and Policy*; G.C. Eads, "Competition in the Domestic Trunk Airline Industry: Too Much or Too Little," pp. 13-54; U.S. Congress, *Oversight of Civil Aeronautics Board Practices and Procedures*.

86. In the legislative battle to privatize Conrail, it was primarily liberals and Democrats (such as Representative John Dingell) who favoured a public stock offering with its benefits to individual investors. Robert W. Poole, Jr., "Stocks Populi: Privatization Can Win Bipartisan Support," no. 46, Fall 1988, p. 27. In dollar terms, the sales of federal loan portfolios were the largest U.S. federal asset sales.
87. *Minding the Public's Business*, Economic Council, p. 148.
88. James Buchanan also received a Nobel Prize in economics for this contribution.
89. Stewart-Patterson, *Post Mortem*, p. 286; "Third-Party Review," Consumer and Corporate Affairs, pp. 6, 21; Jeffrey Simpson, "A Postal Watchdog."
90. A unanimous vote of the Board can overturn PRC recommendations.
91. "Third-Party Review," Consumer and Corporate Affairs, p. 9; Simpson, "A Postal Watchdog."
92. "Third-Party Review," Consumer and Corporate Affairs, p. 10.
93. Ibid., pp. 10-11; "Independent Panel Suggested to Set Postal Rates," *Globe and Mail*, p. A5.
94. "Third-Party Review," Consumer and Corporate Affairs, p. 12.
95. Ibid., p. 11; Stewart-Patterson, *Post Mortem, p. 285*.
96. "Third-Party Review," Consumer and Corporate Affairs, p. 11.
97. The Nielsen Task Force also recommended that all subsidies to Canada Post be consolidated to make them more visible. Ibid., pp. 3, 12, 13.
98. Stewart-Patterson, *Post Mortem*, pp. 28, 280; Simpson, "A Postal Watchdog."
99. "Independent Panel Suggested," *Globe and Mail*, p. A6; "Third-Party Review," Consumer and Corporate Affairs, p. 22.
100. "Third-Party Review," Consumer and Corporate Affairs, pp. 15-16, 22.
101. Douglas K. Adie, "Why Marginal Reform of the U.S. Postal Service Won't Succeed," in *Free the Mail: Ending the Postal Monopoly*, Cato Institute.
102. According to the bylaws of the corporation, the minister appoints directors for one-, two- and three-year terms.
103. *Minding the Public's Business*, Economic Council, pp. 119, 123, 124, 137.
104. Ibid., pp. 123, 124, 128, 137.
105. Ibid., p. 124.
106. Ron Lang, a Canada Post board member and union leader publicly criticized Canada Post by saying it struggled from crisis to crisis. In late May 1986, Lang sued Marin and Lander under the Canada Business Corporation Act for denying

him information he needed as a director. He was subsequently dropped from the board, as was Derek Oland of Moosehead Breweries, who shared Lang's sentiments.

107. While Canada Post remains a Crown corporation the politicians have to respond to the electorate. When Canada Post withdraws postal service from any group of people they claim they are being treated like "second class citizens." Politicians faced with these complaints have a difficult time denying that Canada Post no longer "binds the nation together."

108. In the U.S., Bush Consolidators sends construction material through the mail. Each concrete block or bag of cement requires $4.33 in postage, but costs the USPS $50.94 in transportation costs alone to mail from Anchorage to Wainwright, an Arctic Ocean Eskimo community 90 miles from Barrow. Some of this excess cost is unnecessary. Instead of shipping the materials directly from Anchorage, the USPS trucks it to Fairbanks, about 360 miles away. The materials are then flown to Barrow in huge planes, transferred to small planes and flown to Wainwright in smaller loads under the "bypass program." This method of shipment costs the USPS 76 cents per pound instead of the 30 cents that a charter flight from Anchorage to Wainwright would cost. "Loophole Weighs Down Alaskan Mail Service," *Chicago Tribune*, p. 5.

109. Canada Post Corporation and Canada Post Office, *Annual Report, 1980*, p. 25; *1981*, p. 26.

Chapter 4

Public Choice Theory: How Canada Post Operates[1]

Introduction

Canada Post has service quality, labour relations, financial, and innovational problems. These problems have persisted through the years, worsened in many respects, and survived two organizational forms. Canada Post inflicts these problems on its patrons, taxpayers, competitors, and the government. This chapter asks what should be done and considers marginal and substantive reforms. It also argues that marginal reforms which preserve the government-owned monopoly will not succeed in dealing adequately with postal problems. To understand why this is so, this chapter uncovers basic motivations of the main participants and shows how they interact to produce the present problems. In addition, it illustrates how Canada Post might deal with its labour relations and innovation problems under a different organizational structure.

How Canada Post Functions[2]

Who controls Canada Post? Many people believe they own Canada Post, but the public does not actually possess shares or rights to receive specific benefits. By calling its citizens "owners" and at the same time denying them effective control, the government alienated them from normal owners' functions and made them "free riders." As free riders, they behave irresponsibly by not exercising their ownership rights and this contributes to a general erosion of responsibility with the public.

Because Canada Post has no tradeable shares it is more accurate to say that it is a "loose cannon on the deck of state" which nobody owns. This creates a responsibility and accountability vacuum for Canada Post. Unfortunately existing communication and control measures cannot force Canada Post to become profitable. How do tradeable shares influence the incentives of executives and managers in private corporations? When executives and managers of Abitibi, Stelco, or Eatons make poor decisions, or when workers work slowly, produce inferior products or services, or are inefficient, profitability suffers.

The owners who are shareholders express their dissatisfaction by selling their shares on the Toronto or Montreal Stock Exchange. The price of the shares falls and reflects adversely on management.

What happens under similar circumstances in Canada Post? When executives make poor decisions or managers or workers produce inferior postal services, there is no effective mechanism by which Canada Post's owners can express their dissatisfaction. Although the public owns Canada Post, it doesn't own shares of stock it can sell. Canada Post's inefficiency problem hinges on the nature of the incentive structure, institutional arrangements, and property rights concerning Canada Post, rather than on the characters or personalities of Canada Post's executives and managers.

How did the government overlook this glaring deficiency when it reorganized the POD into a Crown corporation in 1981? In the 30 years preceding this reorganization, economists believed the government could correct economic problems such as externalities, public goods, lack of competition, imperfect information, and natural monopolies. According to the prevailing view, although competitive markets allocated resources efficiently, the above mentioned problems frustrated optimal economic results. In this intellectual milieu, economists argued that a "natural monopoly" with increasing returns to scale would not produce "allocative efficiency" and "distributional equity," and proposed policies to ameliorate suboptimal free market outcomes, such as government control or ownership. For instance, in this period the U.S. post office justified its government ownership and monopoly by claiming natural monopoly status.[3]

After evaluating this experience economists noticed the government, instead of adopting the recommended proposals, often exacerbated the inefficiencies and inequities by its intervention. Economists discovered no consistent mechanism within Crowns such as Canada Post for achieving the allocative efficiency and distributional equity which had justified the government-owned and operated monopoly.

These perverse policy results undermined the reason for the government's ownership and control of business. Economists also asked why the government often adopted wasteful and inefficient policies when given such good policy advice. Public choice theory addressed this question by saying that the government was a set of processes by which people relate to one another through a political system that has no mind or conscience. If it turned out to be a device for correcting market failure this was fortuitous. A Crown corporation's internal mechanism is more apt to lead to more inappropriate production levels and less attractive distributions of economic benefits than that which spontaneously occurred in the private sector. This explains why the policies of nationalization and regulation are more likely to be counterproductive for achieving allocative efficiency and distributional equity.

How does Canada Post function and how does its functioning lead to inefficient results? Canada Post functions politically through interrelationships between citizens, politicians, its executives, managers, unions, postal workers, and directors. Beneath a facade of civility, self-interest motivates the players who seek personal wealth, power, and prestige, although not to the exclusion of benevolence. More specifically, politicians seek election victories; postal officials, discretionary budget increases; and large patrons, subsidized rates. The voters, on the other hand, who outnumber all other participants, care little about postal issues because they spend an insignificant proportion of their budgets on 39-cent stamps. Except at rate increase or strike time, postal issues hardly affect their welfare, and so individually command little attention. Remote rural residents, who depend more on postal service for a physical communication link, inform themselves more.

How does Canada Post function within this framework? Instead of effective control, Parliament delegated the Department of Consumer and Corporate Affairs executives and managers the responsibility of controlling and monitoring Canada Post. Crown corporations like Canada Post, however, seek to maximize their own rather than society's welfare, even at the expense of their customers and the public. James Buchanan says public officials pursue their private interests instead of the public's. Canada Post serves its own interest to the detriment of its customers when it escalates cost, lowers service quality, and treats customers arrogantly. Canada Post and its employees get away with this because public ownership fails to establish an incentive structure for making efficient decisions.[4]

Public managers benefit from the size of the unit they supervise and the rents they can capture for themselves, and so receive rewards as their establishments grow. Because bureaucrats' interests are connected to the size of a Crown corporation's budget, William Niskanen has suggested that the proximate goal of a Crown corporation is budget maximization, especially the discretionary portion. Participants affiliated with Canada Post desire to increase their budget which expands power, prestige, salary, and other benefits by enhancing the opportunities and resources.[5] In addition, larger budgets offer additional job security, promotional opportunities, potential salary and wage increases for managers and postal workers, and permit more office space, furniture, travel, and other resources that make the work environment more pleasant. Retaining the exclusive privilege in first class mail is important for increasing the budget. For this reason, postal workers, unions, managers, executives, and directors unite behind a strategy to increase Canada Post's budget because they expect to gain from it.

Although no one owns Crown corporations such as Canada Post, public servants, managers, or politicians control it and appropriate for themselves any financial residual it produces. Although they cannot legally appropriate the residual directly in money, they can appropriate it as higher wages, salaries, or more generous benefits, and a work reduction for themselves and their employees. This behaviour explains excessive postal wages and many postal inefficiencies. Special interests rather than sound economics dominate present postal policy.

Because Canada Post seeks to increase its budget, it uses more resources than it requires and so misuses resources. The net value to society of output produced by a government enterprise is less than is produced under private enterprise, with the same resources, the difference being social cost. The social cost of Canada Post from the inefficient use of resources is an astounding $1.5 billion annually.[6] Society receives only a change in the distribution of goods, services, and income for this social cost.

How does Canada Post change the distribution of income? Like other Crown corporations, Canada Post discriminates between its patrons by plundering one group for the benefit of another with its pricing and budget policies. Instead of delivering the mail faster, cheaper, and more reliably, it redistributes income from first class mailers to users of other classes; from urban to rural residents; from other workers to postal workers; and from producers of other goods and services to itself. Instead of transferring income from taxpayers to mail users as policy prescribes, Canada Post transfers from taxpayers *and* users to itself through discriminatory and monopoly pricing, subsidies, shirking, quality deterioration, budget allocations, and compensation policies. To make this transfer, the directors, executives, unions, and postal workers also lobby Parliament to preserve the exclusive privilege which eliminates competitors and even prevents private citizens from delivering their own first class mail without first paying postage. Resources used for this rent-seeking lobbying decreases further the real value of postal services produced.

In addition to wasteful rent-seeking lobbying activities and unsanctioned transfers, Canada Post wastes resources by not using them efficiently. For instance, while Canada Post's executives and small business owners both plan for their businesses, those who generate and use knowledge better will be more efficient.[7] Although each entrepreneur discovers only bits of knowledge, the spontaneous interaction of bidders in the market brings prices into correlation with costs, allocates resources efficiently, and maximizes welfare.[8] Smaller businesses undertake more profit-and-loss accounting, which is the economic calculation underlying the bidding process. The knowledge generated and used by many different entrepreneurs in the market brings about results that an executive in a single large corporation could match only if he had all the knowledge himself.

It is not that individual entrepreneurs are smarter than managers or bureaucrats of larger businesses but that, as rivals involved in the competitive process, they impart to each other information about relative prices that would not otherwise exist.[9] The judicious use of price information generated in the competitive process is crucial for profit-and-loss calculations and produces the efficient use of resources. Many individual entrepreneurs with access to markets discover knowledge of prices they would otherwise not get and use the additional knowledge to dovetail their plans with others.[10] Canada Post is a large business that encompasses most of the document delivery market. All its participants are on the same team and the competitive process is practically nonexistent. Successful planning requires enough price information and motivation for management to make good decisions.[11]

The defects of operating Canada Post as a government-owned and operated enterprise are lack of accountability, inefficiency of operations, excessive wages, salaries and benefits for employees and managers, misappropriation of resources, excessive output, loss in net value to society, and a mal-distribution of economic benefits. Although this policy inflicts small costs on the average citizen, indirectly it also affects the costs of many goods and services and, more importantly, the way we communicate. Postal policy, such as the exclusive privilege, drains our resources, diminishes our welfare, and constrains our freedoms.

Astute politicians could correct this policy easily were it not for the intense lobbying of special interest groups. Because the beneficiaries have a large personal stake, they are thoroughly informed and communicate how they feel and will vote to the legislators. They financially and personally support politicians who promote their interests, and oppose those who do not. Vote-seeking politicians, who gain little from advancing the interest of the largely uninformed and disinterested majority, heed these special interests which provide votes, campaign workers, and contributions to buy media time. Canada Post can also marshal its large patrons to influence the legislative process.[12]

Even before Canada Post became a Crown corporation, Parliament and the Department of Consumer and Corporate Affairs could not control postal costs. (Takeover and bankruptcy, two instruments of control, were absent for the POD and are still absent for Canada Post.) In an accounting sense, Canada Post has a bottom line, but because of social policy and its ability to raise rates with relative ease, this is not enough to judge its performance. Without competitive restraints, management can only make a limited difference. Increased independence as a Crown corporation gives Canada Post more insulation and makes control more difficult.

Externally, Canada Post's president and cabinet minister control Canada Post. Within Canada Post, control relies on agents internalizing public policy and this does not work well; users have no effective voice in its operations. Managers have no incentives to implement efficiency measures because they are unlikely to share the rewards if successful. In addition, efficiency measures often conflict with the managers' and workers' self-interest. For instance, open procurement threatens cozy relationships with equipment suppliers and contractors. Workers' rights and procedures receive a high priority instead of efficiency and this permits considerable laxity before discipline is exercised.

Excuses for not implementing efficiency measures are numerous and only the threat of competition and privatization prove to be effective motivators. Other threats can easily be counterproductive.[13]

Reforming Canada Post is made more difficult by the fact that the major source of information on Canada Post's performance is Canada Post itself, a biased source; it uses its information and disinformation to influence legislation and public opinion. For most of its history, Canada Post developed and controlled its service performance index (measuring speed and reliability of delivery). Postal managers took liberties with the figures to cover inefficiencies and pursue personal goals. This hindered the ministry and parliamentary committees in controlling postal costs. Postal actions of this type became so blatant the government felt obliged to employ an independent auditing firm, Clarkson Gordon, to assess postal performance. Even in the transition, however, performance standards were reduced to produce "better" results.

The fault in Canada Post lies not with the character of postal employees, who are no less energetic, competent, or committed to their work than others, but with the organizational structure. Canada Post's performance depends on how the rules influence the incentives of the directors, executives, managers, and workers, rather than on who holds office. The present incentive structure portends inefficiency. If functioning properly, Canada Post's efficiency would depend on a well-constructed order which channels the pursuit of self-interest into socially desirable directions, rather than on the benevolence of its participants. According to Adam Smith, we receive meat and bread not by the beneficence but the self-interest of the butcher and baker who produce and sell in a competitive economy. Postal customers, on the other hand, are often made to feel that they receive mail service through postal employees' beneficence, and are even obliged to tip them at Christmas.

The delivery system works better when those who pay for the service receive the benefits and have alternatives and those who supply the service experience the consequences of their actions. In the market for postal services the process does not function smoothly because the average citizen has no close substitute for a 39-cent first class stamp and postage is such a small fraction of his or her personal budget. Canada Post, on the other hand, does not suffer the adverse consequences of its mistakes. Successful reform depends on developing an organization that uses incentives to encourage desirable social behaviour instead of employing better persons in postal positions. If we don't get the structure right, special interests, bureaucratic inefficiency, and wasteful rent-seeking behaviour by postal officials will continue to victimize us.

The key to efficiency is control, and control is exercised through monitoring and incentive systems. Privatization changes ownership from the government to private individuals and organizations. A change in ownership changes property rights as well as the firm's behaviour and performance by affecting the owners' objectives and altering the incentive structure for decision makers and the systems of monitoring. For instance, privatization transfers the principal's objective from personal utility maximization to profit maximization and alters monitoring and incentive arrangements. Private firms generally provide better service at lower cost because of the difference in incentives.[14]

Private ownership will not be superior unless the incentive system is better. Private monitoring systems which affect incentives are generally more effective than public ones. The gains from private ownership are diminished, however, if there are massive economies of scale or scope, high entry barriers, or externalities. Available evidence supports a presumption in favour of the efficiency superiority of private ownership, but only when there is competition. If market power is significant and there is detailed regulation, the efficiency advantage of private ownership diminishes.[15]

What is Marginal Reform?

Marginal reform is any organizational change leaving the basic motivational system intact. There have been only a few marginal reforms suggested as possible remedies for the current postal malaise. They are: increasing the surveillance powers of the prime minister, the ministry, or the board of directors; the establishment of a regulatory commission; the installation of better managers; the initiation of a government review; or the increased reliance on contracting out postal services to private businesses.

The establishment of a regulatory commission or greater reliance on contracting out are the only serious marginal proposals. Those studying regulatory oversight saw how regulation worked elsewhere, and at first did not recommend it for Canada Post. Regulators try to reconcile the conflicting interests of the participants, but in the process enhance the interests of another group — themselves. For instance, consumers want lower prices. Canada Post and its unions who hope to appropriate some of the monopoly returns as higher wages, want rate increases. Regulators are more receptive to the arguments of managers with whom they have more contact and to whom they sometimes look for remunerative employment when they complete their regulatory service. In the U.S. where regulatory mandates are vague and the possibility of collusion exists, commissioners have utilized their discretion to help the firms they regulate.[16] Despite this negative experience, those advocating regulation eventually prevailed and Canada Post now has third party review.

Postal managers, on the other hand, have responded to their abysmal efficiency performance by franchising out operations to the private sector. At present Canada Post contracts with private carriers to deliver mail; with presorters, who receive a discount to provide sorting and transportation service; and with entrepreneurs to run postal stations. Private contractors also collect the mail from letter boxes, deliver parcels, distribute letter carrier bundles, and shuttle mail between the central and branch post offices. Compared to Canada

Post's own inefficient operations, these programmes are among the most successful and produce substantial savings even though the contracting itself is often done inefficiently. Large differences in prices paid for similar services indicate that Canada Post does not reap all the benefits from competition. Also some large contractors serve entire metropolitan areas while in others, smaller contractors share a common territory.[17]

In the U.S. the most outspoken advocate of contracting out is John W. Crutcher, vice chairman of the Postal Rate Commission. He recommends that the USPS maintain managerial control while contracting out postal functions to private businesses.[18] He points out that the USPS could substantially reduce costs if it contracted to private companies large segments of its operations, such as rural delivery.[19] Former Postmaster General Albert V. Casey charged 10 task forces to investigate ways to cut costs and improve service. Although the USPS did not release their reports, they recommended subcontracting.[20] The Heritage Foundation, a Washington "think tank," also recommended that the USPS subcontract another 7,000 rural routes and small post offices to private business.[21] The benefits from contracting out, whether in the U.S. or Canada, spring from the government corporation's inability to supervise, monitor, reward, and discipline its employees adequately, to produce a reasonably efficient operation. A private business running under the government monopoly can operate more efficiently and share its profits with Canada Post. The savings which flow to Canada Post, however, accrue to the remaining managerial functions and simply give Canada Post more relief from its budget constraint.

Can contracting out yield long-run overall efficiency? I doubt it. Because there was no incentive to do otherwise, in the past Canada Post used gains from efficiency measures to increase salaries and operate less efficiently in other areas. There is no incentive for managers to use the savings from contracting out in the public's interest by passing gains on to customers in the form of lower rates, or to taxpayers in the form of lower transfers from the federal government, or by reducing tax concessions. Although contracting out provides temporary savings to Canada Post, it does not offer hope for solving basic problems. Canada Post's managers are more likely to spend the savings on salary increases, subsidies for other inefficient operations, or increases in employment.[22]

Bert Ely opposes the piecemeal arrangements with private businesses. He argues instead that the U.S. government should sell the entire USPS. He believes the precise and timely co-ordination of UPS and Federal Express necessary for running tightly controlled delivery cycles in the handling of time-sensitive materials is not possible with contracting out.[23] However, the efficiency of the private cheque-clearing systems, which transfer cheques in the U.S. between more than 14,000 private commercial banks, show that a high degree of co-ordination is possible. Ely is correct, however, in his judgement that contracting out yields efficiency gains for the USPS only in comparison with the current rigid bureaucratic mode of operation.

Madsen Pirie, a privatization advocate, lists contracting out as a technique of privatization.[24] By simply listing and not evaluating it relative to other techniques, or discussing priorities among these techniques, he creates the impression that they are of equal value. To the contrary, contracting out in Canada Post is a marginal reform and of little value compared with selling the business. Furthermore, this technique is counter-productive in effecting substantive reform. Pirie's own frequently used analogy of privatizing a public corporation with defusing an unexploded bomb suggests this. In defusing a bomb (or privatizing a public corporation), the sequence is to remove the "cover plate," look at the "wires," study the whole thing, notice the various interest groups, how they interact, and where they draw benefit. Then one devises a strategy for disconnecting the wires in the correct order because ripping them out could lead to an explosion. The policy challenge is to conduct privatization with the support instead of the hostility of interest groups.

Public choice theory recognizes that employees try to maximize their welfare and will not support change unless they feel it is in their interest. To succeed, privatization needs to identify the interest groups involved in Canada Post's operation and construct policies to overcome or decrease their resistance. This is the key to the support or opposition of each interest group. These groups need to derive an advantage from the proposed privatization although a potentially hostile group may be deliberately excluded from sharing the benefits of the new policy.

Instead of waiting for the intellectual climate to change before they implement policy, policy experts can aid its implementation by formulating it to assuage the interest groups. If successful, the policy itself can change ideas. Contracting out unfortunately makes the eventual sale of the business less likely because it adds yet another interest group, private contractors, not previously in the picture, to the vested interests who desire to preserve the status quo. Canada Post's current private contractors and suppliers will oppose privatization because it is a threat to their highly valued relationships and their livelihood. For instance, airlines which contract to deliver mail for Canada Post oppose privatization because they fear it would end their affiliation. If Canada Post or a divested division provided its own national hub service, these relationships probably would end. These relationships make the substantive change to private ownership more difficult. Also, at present, independent truckers contract with Canada Post to move much of the intercity mail. A private postal company might want to operate its own trucks and aircraft, as do Federal Express and UPS. Privatization puts these contracts in jeopardy, and causes these truckers to object to privatization. Reducing the contracting out programme now would reduce such opposition.

What is Substantive Reform?

Substantive reform is at least deregulating and privatizing and preferably also divesting Canada Post. The most important part of deregulation is revoking the exclusive privilege. The key element of privatization is the transfer of ownership and control of Canada Post from the public to the private sector. Divestiture is dividing Canada Post into regional delivery systems, a clearing-house, a support services company, and a bulk-mail company.[25]

Privatization severs Canada Post's relationship with the government, releases it from the burden of the political fortunes of its overseers, and increases competition. Counter services, which already are provided by private businesses in England and Canada, demonstrate the superior efficiency of this arrangement. In England private companies run branch offices and are more efficient than government post offices because they combine postal with other services and utilize a closer correlation between effort and reward.[26]

The Kappel Commission, which reorganized the USPS in 1970, regarded the independent public corporation they created as a halfway house between a government-owned and a privately owned business, rather than as an end in itself. Their ultimate goal was a private postal service. The report said, "the possibility remains of private ownership at some future time," if the public considered it feasible.[27] In 1969, before a congressional committee, Frederick Kappel said,

> If I could, I'd make it [the post office] a private enterprise, and I would create a private corporation to operate the postal service, and the country would be better off financially. But I can't get from here to there. But we are trying to retain the efficiencies of a corporation and create minimal controls from Congress.[28]

Kappel made the USPS a public corporation as a provisional step because he was unable to privatize the Post Office. Kathleen Conkey says, "there should be little doubt that Frederick Kappel's postal excellence is private ownership of postal operations."[29] More recently in the U.S., Representative Philip M. Crane (Republican-Illinois), Christopher Elias, Daniel Oliver, Robert Poole, International Resource Development Inc., the *New York Times*, and the President's Commission on Privatization have all suggested transferring the USPS from the public to the private sector.[30]

What have the Reagan-appointed members of the Board of Postal Governors said on this question? As public choice theory suggests they have been co-opted by their own vested interests. The governors could reduce the USPS's monopoly by narrowing the definition of the private express statutes to grant waivers for certain geographical areas and types of mail, or by repealing the statutes, but they have not even discussed this topic seriously. Except for allowing private companies to carry a limited amount of first class material under tight restrictions, they have been mute.

John L. Ryan, vice chairman of the Board of Governors of the USPS, and member of the transition team when Reagan first became president, exemplifies how vested interests affect the attitudes and conduct of those connected with the USPS. At the beginning of his appointment, he was an outspoken critic of the USPS, advocating repeal of the private express statutes and publicly professing a predisposition for competition and economic freedom. Recently, however, when the governors should be seriously discussing and implementing deregulation, this freedom-loving member of the Mont Pèlerin Society has been silent. John R. McKeon, chairman of the Board of Governors of the USPS and another Reagan appointee, admitted his public corporation was not serving consumers well. When Doug Bandow challenged the governors to suspend enforcement of their monopoly provisions, if they really wanted to serve consumers, there was no response and there isn't likely to be any.[31] The governors' resistance to privatization policy is self-interested not ideological, as it even contradicts their expressed ideology.

In Canada, however, the Marchment Committee discussed the conditions for revoking the exclusive privilege. They said Canada Post should have five years, until 1990, to reach its self-sufficiency and service goals under its monopoly or privatization should be reconsidered. After 1990 any extension of the monopoly should depend on progress towards its goals.[32]

Problems with Labour Relations

Reorganizing Canada Post as a Crown corporation was supposed to increase management's ability to conduct wage negotiations more favourable to the interest of patrons and taxpayers because it made management responsible for new facilities and personnel. Subsequent experience, however, undermined hope. Reorganization gave management more freedom but did not create enough motivation for managers to risk bringing efficiency measures into Canada Post. More specifically, the Crown structure did not provide management with the incentive to negotiate in the public's interest with the postal workers and unions.

Canada Post's labour costs are 72 percent of total costs, which is high when compared to other service industries.[33] Cost cutting at Canada Post needs to begin with a consideration of labour's remuneration. In 1986-87 average annual salary and benefits for workers at Canada Post was more than $36,000. Although Canadian postal wages have not been studied as closely as those in the U.S., they too appear to be excessive by about one-third, compared to what Canada Post needs to pay to attract and hold a competent work force, or what postal workers of similar experience and education would get if employed elsewhere.[34]

How did this happen? Canada Post has failed to control supervisory and non-supervisory wages. From 1967 to 1987, when technology changed rapidly, labour costs still increased from 56 to 72.4 percent of total costs. In one-sided labour negotiations Canada Post gave the unions almost everything they wanted. Since reorganization, Canada Post has not redressed the inequity of excessive wages.[35]

What is the history of labour relations in Canada Post and how did this inequity occur? Has reorganization changed the labour relations climate permitting a correction? Will anything short of substantive reform redress inequity of excessive wages? Canada Post's exclusive privilege encourages overstaffing and high labour costs. Lack of competition prevents managers from controlling labour costs by shielding them from the necessity of pressing for economical wage settlements. The "cash cows" of first class postage can always finance cost increases. Under competition Canada Post would lose substantial volume and market share if it passed cost increases along to its users and this, and perhaps nothing less, would restrain postal workers' wage demands.

When the airline industry was highly regulated, labour costs grew excessively. Deregulation permitted new entrants to set their own fares. These non-unionized carriers kept costs lower and won market shares by offering inexpensive fares. The larger, unionized carriers lowered their fares to survive the competition, but needed to cut labour costs because they were the largest controllable outlay. For instance, Continental and other airlines used the bankruptcy law to abrogate labour contracts. Continental also offered its workers lower pay for more work or no jobs at all, while financially stronger companies offered job security for wage concessions. Other airlines formed non-union subsidiaries to offer equity participation in exchange for labour concessions. The Pilots Association at American Airlines accepted a two-tier salary structure, as well as new personnel policies that lowered costs to the level of the new entrant airlines and the reorganized established carriers.

Employees did not applaud the changes airline deregulation forced on all airlines to bring their costs in line with the low-cost carriers. At first they did not even understand the need for lowering costs to remain competitive and the function of profits. Now they understand their companies must make a profit or they will have no jobs. A new Federal Trade Commission report claims that since 1978 U.S. airline deregulation has saved consumers $100 billion and also enabled millions of travellers to fly who otherwise could not afford it. Also, despite the increase in traffic, both the accident rate and the absolute number of accidents have declined.[36]

Alfred Kahn, chairman of the Civil Aeronautics Board (CAB) and patriarch of airline deregulation said, "The purpose of deregulation was not to make life easy for the airlines. Survival is part of the discipline of the competitive process." William A. Niskanen, a former member of the President's Council of Economic Advisers said, "The only people calling for reregulation are the ones whose monopoly rents are being squeezed." Canada Post pays its employees excessive wages just as the airline industry did before deregulation. A competitive deregulated postal industry could adjust to improved efficiency and service just as the airline industry did. Although Canada Post, its workers, and their union representatives need freedom to work their own arrangements, experience in the airlines industry suggests patterns. Substantive reform is necessary, however, to correct these labour relations problems.

In spite of the increasing volume of mail, machines have enabled some reduction in the total postal work force. Unfortunately, Canada Post has not passed these gains on to the public as lower postage rates or by a cessation of all subsidies but, instead, has squandered them on other inefficiencies and wage increases for existing employees. In addition, Canada Post has not fully realized the gain from mechanization because letter-sorting machine operators often misdirect outgoing mail which lowers the delivery speed and requires resorting the same mail.

Postal jobs do not reward excellent performance with advancement but offer job security with a relatively easy work load. Only seniority or bargained increases result in pay raises. Although a merit system would provide more incentive for efficiency, many workers find the working conditions attractive, as evidenced by the low voluntary quit rate and high application rates for new positions. Postal workers should not be blamed for taking advantage of a favourable current work situation which they had no part in creating. They would support privatization if offered special incentives such as those offered to British Telecom workers, even though they fear massive layoffs, wage give-backs, and changes in work rules that would exact more effort from them. Many of them would choose an opportunity to own a part of a profitable business, as their counterparts in British Gas and British Telecom have done, when they realize that Canada Post's long-run viability requires timely, innovative responses. The privatization strategy proposed here would offer stock in the new company (or companies) for their support.

Madsen Pirie mentions a state-owned trucking company, 80 percent of which the government sold to its workers. The privatization produced an astounding change in the workers' attitudes towards their jobs and employer. Pirie says, "The workers, many of whom had mortgaged their houses and pooled their savings to buy the stock in the company, suddenly were no longer concerned about who does what and what their rights were. They were concerned about making money . . . We had expected that over time it would move toward profitability. We had not expected it to do so on the first day, which is what happened."[37] This example suggests a tactic for structuring Canada Post's privatization.

Divestiture of Canada Post into a number of regional operating companies would also simplify labour relations. Instead of dealing with all workers together, each regional company would conduct its own labour relations with its own employees and their representatives. Some of the postal operating companies might even reduce the scope of collective bargaining within their operations. While a strike or shutdown in one region can now halt mail service for that area and threaten the entire system, under the privatized, deregulated, and divested postal system, labour disputes in one area would not influence operations in any other or destabilize the whole system. Strikes are not the problem; it is the exclusive privilege that prevents other companies from stepping in and offering the same service. Under the privatized, divested, and deregulated regional postal system, area shutdowns would not be catastrophic but would merely halt the operations of one local carrier temporarily. Other local companies would pick up the slack and increase their market share.

Canada Post's recent labour struggles have been intense and costly. To reduce conflict, Canada Post has capitulated to most of the unions' demands because there is no incentive to do otherwise. With the monopoly on first class mail and the low elasticity of demand, giving in only requires increasing first class postage a few cents per letter. Under the privatized postal system, unions will still have the right to strike and to appeal to the same labour relations rules applying to all other private companies; employers will have freedom to negotiate and will negotiate only for their own companies. The important difference will be that management will have an incentive to negotiate diligently because it will be able to appropriate for the owners the residual profits, if there are any.

Would jurisdictional and factional struggles at the employer-employee levels increase under a privatized, divested, and deregulated Canada Post? Because each employer would be free to work out labour relations with the labour force, there could be more attention devoted to labour relations. Unions may or may not represent workers in regional companies, although in most they probably would. Although divestiture, privatization, and deregulation will lead to more negotiating activity, the struggles will not necessarily be more intense because both unions and management in each company will have a strong incentive to avoid strikes, work stoppages, slowdowns, or any diminution in service. Otherwise these disruptions will cause customers to shift their purchases to competing carriers who, when Parliament revokes the exclusive privilege, will be eager to take advantage of the situation. Work resumption may not automatically recoup lost business. A permanent loss of business and consequent layoffs could result. Workers' job security and employers' market share will depend on preventing work stoppages and improving service reliability.

Efficiency Failures

Several key machines including the multi-position letter-sorting machine (MPLS) can handle huge mail volumes quickly and efficiently with few employees. The MPLS can sort 36,000 pieces of mail per hour. One of 12 operators sends the letter to a destination bin by typing an area code on a keyboard as a letter moves into sight. Although introduced to Canada Post in 1972, these machines did not reduce manpower requirements for many years, or even speed up delivery. More recently these machines helped produce a slight reduction in workforce in the face of increasing volume, but why hasn't Canada Post passed these gains on to customers by lowering postage rates, or to the public by ending all subsidies? Vickers and Yarrow say it takes competitive threats to discipline internal efficiency. Instead Canada Post has squandered the small savings on wage increases for existing employees and other inefficiencies.

Canada Post had most of the parcel post business in 1960. Aided by deteriorating service its percentage of the parcel market fell to only 7 percent by 1984 and, in absolute terms, it carried less than half the parcels it carried in 1960.[38] While private firms introduced new services and processes, Canada Post did not even consider them.[39] Milton Friedman says we should not be surprised when a government postal monopoly is costly, inefficient and technically backward.[40] Michael Warren, president of Canada Post, responded to the loss of parcel post business in 1983 by proposing a $1 billion expenditure on new parcel handling and electronic mail equipment. Canada Post's board tried to promote it before the Marchment Committee but had conducted no market studies to indicate the feasibility of this investment and had not been able to forecast its market accurately. The Marchment Committee was unimpressed with the feeble documentation and the project in general.[41]

The presort programmes and contracting out of delivery routes and transportation services, which otherwise would be performed within Canada Post, produced efficiency improvements. The presort programme gives large mailers discounts to presort their mail by postal code and even mail it within their regions. The efficiency gains which result from this transfer of functions should not be surprising because they stem from Canada Post's own poor performance. Unfortunately, whatever benefits these efficiencies generated, Canada Post dissipated in higher wages, featherbedding, increased employment, or other inefficiencies.[42]

The operations of such private carriers as UPS, Federal Express, or Roadway Services suggest strategies for cutting costs. For instance, UPS, a privately held company, had a profit of $567.6 million in 1985 on revenue of $7.69 billion.[43] The U.S.'s largest package deliverer paid close attention to detail and closely scrutinized its 152,000 union employees through meticulous human engineering. More than a thousand industrial engineers use time study techniques to set standards for many closely supervised tasks. For instance, managers instruct drivers to walk to a customer's door at the brisk pace of three feet per second and to knock first to save seconds searching for the doorbell. While UPS drivers are all Teamsters who, with overtime, earn $35,000 to $40,000 per year, they give maximum effort for this compensation.

UPS has won most of the parcel business from the USPS in the U.S. and from Canada Post in Canada; it is competing with Federal Express, which earns annual revenues of about $1.5 billion for the overnight delivery business, and is experiencing an annual growth rate of 25 percent. In the overnight business, UPS also faces Purolator Courier, Airborne Freight, Emery WorldWide Air Freight, DHL, and others. While UPS is challenging the overnight carriers, it is itself being challenged in its own backyard for its package delivery business by Roadway Services, Inc., a very small eastern regional company. Roadway cuts its labour expenses by using independent drivers who operate their own trucks and by automating its package handling. Its package hubs use bar codes, laser scanners, computers, and special mechanical devices to sort packages, while UPS still uses workers in these functions. In its first year of operation Roadway lost about $14 million on revenues of $70 million but believes its prospects are bright.

Federal Express and UPS both transport their mail through national hubs. UPS routes its next-day air service and much of its second-day service through its hub in Nashville. Canada Post could reship bulk lots of mail in and out of an air hub near Toronto where it could sort bulk containers for sending and receiving between sectional centres. It could then provide one- or two-day mail service between the sectional centres and, where volume warranted, speed delivery by moving mail directly between centres instead of through the hub.[44]

Postal employees are not responsible for the specific efficiency failures or for inefficiency in general. The unmotivated and unambitious executives and managers at Canada Post find the non-pressure environment with tenure, status, and a fairly good salary almost ideal. Where could they find a better situation? Unfortunately, these same conditions produce inefficiency and need to be changed to reduce it. Responsible risk-taking requires conditions where those who are responsible suffer losses from their mistakes or enjoy the gains from their successes and these conditions exist only in private business. Protectionism, which Canada Post resorts to when faced with difficulties, cannot substitute for the incentives of ownership.

Canada Post's bureaucratic procedures and restrictions frustrate and limit the potential of its bright, competent executives and managers. Since their current job provides little challenge, there is little opportunity to reward their excellent performance. When privatized, Canada Post's managers would have more managerial flexibility to lead their companies into the dramatic new opportunities of the profitable telecommunications business.

After a long period of protection, exposure to competition with the prospect of painful dislocation might frighten Canada Post's managers, but Canada Post must experience this to mature. Despite the inevitable difficulties, courage can convert a negative, defensive reaction into a positive adventure, as happened when CAB deregulated the airline industry. The airlines responded positively when Kahn, who led CAB from 1977, used his authority to lessen regulation.

In the wake of deregulation the airlines, bus companies, steel firms, and AT&T abandoned plants, moved operations, opened new lines, specialized their products and services, created a new corporate mentality, and changed work rules: all to improve efficiency. Many of the arguments, techniques, and strategies used by these companies can be helpful and instructive to the postal executives of a deregulated Canada Post when they deal with adjustment problems.

Innovational Failures

There have been many technological innovations applicable to the postal service industry in the last 50 years, but Canada Post has not utilized them effectively. It still takes almost as much time to deliver a letter 500 miles today as it did 200 years ago on horseback. Appropriate responses to rapid changes in economic and technological conditions require the spur of competition. Large government-protected monopolies like Canada Post, supplying a service with few close substitutes, lack the incentive to innovate in the provision of new cognate services, to improve the quality of existing services, or to innovate in the use of new and improved equipment to produce existing services at lower cost because they are unable to appropriate the residual. Instead they concentrate their energies on preserving capital values, preventing other firms from entering, and even retarding innovations because these strategies are cheaper, less risky, and more profitable.

Not devoid of innovations, Canada Post has provided new services such as overnight delivery, an overseas instant communication system called INTELPOST, Telepost, EnvoyPost, Postpak, Certified Mail, a six-figure code, and new equipment, but have these innovations been successful? Some perhaps, but in most cases no. For instance, in 1974 the Treasury Board and John Mackay, deputy postmaster general, agreed to set up a four-man task force to make a joint study of the Post Office Department and postal managers' pay. The study group criticized Postpak, Certified Mail, and Telepost.[45]

Canada Post's marketing department introduced Postpak, Certified Mail, and Telepost which were not and perhaps could not be profitable. Postpak, for instance, was such an attractive low-cost parcel service it attracted business from its own higher-priced parcel service and even convinced some private companies to abandon their own shipping departments. Warren Knit Company, for instance, sold its trucks, laid off its drivers, and used Postpak. The reason was that Canada Post charged only $3.10 for a 35-pound box and $1.10 each for two 55-pound boxes, for a total of $5.30 to carry 145 pounds 400 miles. This was less than half the cost of shipping by parcel post or CN Express and even less than Canada Post's own transportation costs. The increased thefts from Postpak also resulted in high insurance claims. Another unprofitable innovation was Certified Mail which costs patrons only 40 cents, while the three minutes of a letter carrier's time required for processing cost 45 cents.

In 1985 the Marchment Committee harshly criticized Canada Post and rejected its plan to "revitalize" parcel post and expand its electronic mail. The committee recognized that Canada Post's market share had fallen from about 47 percent in 1968 to about 7 percent in 1985 because it couldn't compete and that its forays into electronic mail, namely, Telepost, INTELPOST, and Envoypost, were failures. Wiser than its U.S. counterpart, the Marchment Committee rejected investments in these programmes because it could not justify them on the basis of Canada Post's social policy.[46] Despite this, Canada Post still spent millions of dollars in these areas in defiance of the Marchment recommendations because it was not capable of making a strategic decision to withdraw from these activities.

Canada Post has not proved competent in planning, implementing, or marketing electronic services in a competitive and unregulated environment. A pattern of failures in innovations that should have succeeded does not bode well for the future of Canada Post in its present organizational form as it faces competition in a rapidly developing communications industry. This experience suggests to both postal management and employees that Canada Post needs a new form of organization to cope and respond in today's fast-moving communications industry.

Perhaps because of its failures in legitimate attempts to innovate, Canada Post used public relations techniques to persuade residents the Super Mailbox programme was a noteworthy innovation. It hailed the Super Mailbox programme as designed to improve the existing service of customers, while, in reality, it represented a reduction in service where customers lost home delivery. With this programme ending home delivery for new homes and phasing it out for some older homes too, centrally located Super Mailboxes may require a trip from home of a half mile or more.

Canada Post is not alone in its inability to innovate effectively. In the telecommunications industry before the AT&T break-up, knowledge and information expanded faster than AT&T could assemble, contain, and utilize it. Although AT&T was a profit-making business, there was still not enough motivation for it to implement existing technology as rapidly as it was developing because it had a virtual monopoly. Instead AT&T planned to preserve capital values and even retard innovation.

How did AT&T accomplish this? It used different rate schedules to delay the entrance of competitors and the use of new technology. Where competition surfaced, AT&T charged prices below its average costs. Because it was so large, it could maintain these low prices for a long time, if necessary, to drive almost any competitor out of business, even if it lost money itself. Because it had the resources to engage in protracted legal processes without suffering financially, AT&T could manipulate the regulatory system to its own advantage. AT&T's

size, not just its monopoly status, threatened smaller competitors and compounded the problem. A single national postal service could wield the same influence that AT&T did, while smaller regional companies would not be as formidable. The small local delivery firms, which often are the innovators, have a better chance of surviving if they can interconnect easily with a larger company, deal with several regional companies instead of one national company, or compete with one of several regional companies instead of a single, unified postal service.[47]

In the U.S. the Supreme Court's Carterfone decision permitted customers to connect non-AT&T equipment into the AT&T system. In a simple first step, Canada Post could similarly open up the Canadian market for mail service by declaring homeowner and business receptacles and post office boxes available for use in connection with any delivery system. Just as telephone customers can connect their own equipment to telephone lines, postal customers would be able to receive material from all delivery services in their own postal receptacles.[48]

In 1969 the Federal Communications Commission gave MCI the right to hook its long-distance network into local phone systems. The mail service counterpart to this change is the private mail delivery companies which presort, combine, and process mail for many smaller mailers. Until Parliament revokes its exclusive privilege, Canada Post can help competition by allowing easy access to presorters. Even under the exclusive privilege, this represents some opening of the postal services to competition.

Judge Greene prevented the Bell Operating Companies (BOCs) in the U.S. from diversifying into other lines of business with the capital they accumulated from their local telephone monopolies. In Canada, Parliament likewise discourages Canada Post from entering markets supplied by private competitors. If the monopoly BOCs or Canada Post squander the capital they earn through the provision of local telephone services or first class mail delivery on speculative business ventures, their customers will pay more through regulated rate hikes. Permission to enter new markets should accompany privatization and revoking the exclusive privilege. It is fair to allow a deregulated, privatized Canada Post to enter the market for telecommunications. This privilege should accompany divestiture, the other major element of the restructuring. Then Canada Post would compete on an equal footing with private business, free from public service obligations.

If Canada Post does not compete, it will soon become an anachronism. Home computers with print capability connected by telephone already divert first class mail, and consumers will pay more of their bills this way in the future. In time, increasing postal rates and the widespread availability of lower-cost technological alternatives will divert most first class business from Canada Post. Barring a reversal of this process, the public will escape from the "Canada Post problem," but the cost will be the demise of Canada Post.

To survive, Canada Post needs to replace revenues in declining markets with new services. This strategy, however, requires not only managerial skills and entrepreneurial abilities (that do not normally surface in nationalized businesses) but also the freedom and incentive to make changes. Canada Post and most Crown corporations have a poor record at innovating and Parliament cannot make them substantially more efficient with any marginal changes. If Canada Post makes some phase of its business more efficient through innovation or private contracting, it wastes the savings elsewhere in higher wages and salaries or reduced performance pressure because its owners cannot appropriate the profits. Canada Post is unlikely to propose rate reduction for first class mail and there are no other alternatives. This deficiency hinders Canada Post's ability to adapt to changing circumstances. A postal policy of divestiture, privatization, and deregulation will correct this defect.

A privatized Canada Post without the exclusive privilege would employ the innovative techniques other firms use in mail transport. The dynamics of competition would thrust Canada Post into the changes taking place in this industry by freeing it to participate and compete for any aspect of the message transmission business. The adoption of other cost-saving techniques, whether they be automation or the more efficient use of labour, could produce savings.

Canada Post might offer new services such as delivering advertising messages within small, targeted areas at reasonable costs, which bureaucratic rules at present prevent it from offering. At present newspapers and magazines cannot match this service, even with zoning or regional issues. This pinpoint direct-mail advertising, carried along with magazines or other delivered mail, would give merchants a cost-effective alternative to the high-priced advertising rates charged by the more general media in large metropolitan areas. The privatized companies could also offer a nationwide electronic mail service by combining their post office facilities in every town with an ability to reach every Canadian through hard-copy delivery.

In 1980 the communications equipment industry spent 5.2 percent of its net sales on research and development; the office, computing, and accounting machines industry spent 10 percent. In 1985-86 Canada Post spent less than 1 percent of its total revenue on capital investments. The research and development programme at Canada Post lacks the support of top management, adequate funding, and competent scientists and engineers. Under the present organizational structure, this may not be a bad strategy as it does not put public money at risk.

Canada Post, just like AT&T, trained its managers to excel in the regulated monopoly which operates hierarchically and functionally. Both attracted and retained managers who desired the security of a monopoly and have not functioned under competition. Deregulation is unleashing the enterprising spirit in the telephone industry and Canada Post desperately needs to catch this same breath of fresh air. Users and producers participate in competition that lowers the price of some services and equipment, while raising the price of others. Diversification and efficiency changes were painful at AT&T, as they will be for Canada Post.

Despite their lack of experience, AT&T's executives and managers adjusted quickly and well, after they were re-oriented, retrained, and redeployed. Postal executives and managers lack these same skills needed for competition and so will require similar preparation. Canada Post's managers have not inspired confidence in dealing with rapidly changing circumstances and have fallen behind with developments in its business. If Canada Post had any visionaries, the bureaucratic and political environment quickly calmed them. Altering the Bell culture from a telephone company monopoly to a competitive information-systems supplier was a difficult but not impossible task. A similar task awaits postmasters and postal executives when they are freed to compete.

The competitive marketplace is the only effective regulator of economic activity. Experience in the airline, telephone, transportation, steel, and auto industries teaches us that the market determines the most efficient way for producers to provide goods and services to consumers through a process of trial and error. The developments in the deregulated airline industry show that decisions needed to revitalize an industry and make it efficient are made only under the threat of extinction which occurs in full-fledged competition. It is futile to harangue postal managers. Innovative, hard-nosed, and enterprising decisions aren't made in the private sector without competition, so why should a government-owned corporation with many more obstacles respond any better?

Of course, competition has already affected the telecommunications sector of the communications industry. As airline competition hit bus transportation, so will competitive forces spread from telecommunications to mail delivery. Electronic mail and cheaper long-distance telephone service are working more slowly than the competitive forces cited above, but they are working as surely and will eventually force Canada Post to respond as deregulation of the airlines forced Greyhound and Trailways to respond. Airline industry experience also shows one cannot predict the results of deregulation precisely or how competition will affect an industry. Chronic inefficiency in Canada Post, however, raises a series of questions. Is there consistent petty sabotage on the part of the employees trying to protect jobs? Is management lax in its demands for performance? Is Canada Post jinxed when it implements a perfectly sound idea and sees it fall so far short of its potential? Whatever the reason, under a privatized Canada Post, managers would have enough incentive to find out what the problems are and solve them — or lose their jobs.

Notes

1. Some material in this chapter was prepared for presentation at the Cato Institute Conference; see Douglas K. Adie, "Privatization and the Postal Monopoly." Other material was taken from my book *Monopoly Mail: Privatizing the United States Postal Service*; my policy paper, "Deregulating, Divesting and Privatizing the United States Postal System;" and my testimony delivered before the President's Commission on Privatization, "Privatization of the United States Postal Service." James Gwartney and Richard E. Wagner's, "The Public Choice Revolution," pp. 17-26, has been helpful throughout this chapter. The author, however, remains solely responsible for the content.
2. The discussion of general principles in this chapter has benefited from Zane A. Spindler, "'Bricking-Up' Government Bureaus and Crown Corporations;" Roger L. Miller, *Economics Today: The Microview*, pp. 124-25; and Gwartney and Wagner, "The Public Choice Revolution," pp. 17-26.
3. The "natural monopoly" argument as a defense for the USPS's monopoly is, in my opinion, fallacious. The fact that the percent of its total costs remunerating labour rose from 81 to 85 percent during a period of technological innovation makes its claim ludicrous. Even in industries with high capital relative to labour costs, natural monopoly arguments are losing their relevance because of experience with competition and X-efficiency considerations. The President's Commission was not persuaded by the arguments claiming economies of scale or natural monopoly status for the USPS. President's Commission on Privatization, "Report of the President's Commission on Privatization," January 28, 1988, ch. 7, pp. 101-28, especially pp. 106-8.
4. John Vickers and George Yarrow, *Privatization: An Economic Analysis*, pp. 27, 29, 36, 123.
5. William Niskanen, *Bureaucracy and Representative Government*; Gordon Tullock, *The Vote Motive*, ch. IV.
6. Pirie says that costs of production in U.S. private industry are 40 percent lower than in the public sector. He also says that when the activities are contracted out, while the responsibility for the provision of services remains with the governments, immediate savings are normally in the 20 to 40 percent range. Adding the fact that U.S. postal employees are one-third overpaid and Canadian postal workers are not lagging behind the U.S. in wages, this suggests that a 50 percent savings from privatization would not be unreasonable. Poole says that private air traffic controllers can do their job for half the cost of the publicly managed air traffic controllers. Madison Pirie, *Dismantling the State*, pp. 8-53; Robert Poole, "Privatization From the Bottom Up," pp. 66-67. For further documentation of this figure, see ch. 7 of this book.
7. Friedrich A. Hayek, "The Use of Knowledge in Society;" and "Economics and Knowledge," pp. 50, 51, 79.
8. Don C. Lavoie, "Economic Calculation and Monetary Stability," p. 165.
9. Ibid., p. 164.
10. Of course the countervailing principle comes into play when economic activity occurs among many very small firms. Economies in these cases can sometimes

be achieved by reducing transaction costs when the participants operate within a single firm. For some economists, this principle explains the existence of firms. Armen A. Achian and Harold Demsetz, "Production, Information Costs and Economic Organization," pp. 777-95; Ronald H. Coase, "The Nature of the Firm," pp. 386-405.

11. Hayek, "The Use of Knowledge," p. 79; also Coase, "The Nature of the Firm," pp. 386-405.
12. As an example of this in the U.S., Melvin Laird, a member of the President's Commission on Privatization and also on the board of directors of *Reader's Digest*, a large postal patron, opposed holding hearings on the USPS for fear that the government would speed up the privatization of the USPS and remove the subsidy from *Reader's Digest*.
13. Robert Albon, *Privatize the Post: Steps Toward a Competitive Service*, p. 23; *Privatization: Tactics and Techniques*, p. 83.
14. Vickers and Yarrow, *Privatization*, pp. 23, 36, 37, 40, 44.
15. For instance, public utilities such as electricity and water, which if privately owned are regulated in detail, do not show significant efficiency advantages over public ownership. Private garbage collection firms operating competitively with minimal regulation exhibit greater efficiency than public firms because the less efficient private firms fail. Also because of competition, private airlines, ferry and hovercraft service, and appliance and steel manufacturing firms tend to be more efficient than public ones. D.W. Caves and L.R. Christensen argue that "public ownership is not inherently less efficient than private ownership" because the "oft-noted inefficiency of government enterprise stems from the isolation from effective competition rather than public ownership per se." Vickers and Yarrow, *Privatization*, pp. 40-45; Caves and Christensen, "The Relative Efficiency of Public and Private Firms in a Competitive Environment: The Case of Canadian Railroads," pp. 958-76.
16. Vickers and Yarrows, *Privatization*, p. 108.
17. Don MacCharles, "CUPW and Saturday Mail Service," pp. 7-8; *The Post Office*, Royal Commission on Government Organization, p. 351.
18. John W. Crutcher, "Privatizing the U.S. Postal Service," pp. 29-32; "The Privatization of the Postal Service;" and "Remarks at the First National Conference."
19. Phil Crane (Republican-Illinois) said that private carriers deliver rural routes at one-third the cost of the USPS and still make a profit. U.S. Congress, "Privatize the Post Office Through Employee Ownership."
20. Les Winke, "If Postal Service Gets 'Privatized,' What Will It Mean for Collectors?" p. 37.
21. In 1980 the Heritage Foundation questioned the need for a publicly owned and supported national document delivery company. More recently, however, the Heritage Foundation has backed away from this substantive reform and advocates instead that the USPS be converted into an umbrella organization responsible for postal service. It recommends, "Many of the actual services be provided by private sector contractors on a competitive basis...USPS would...turn over

operation of its collection, sorting, transportation, and distribution functions to private firms on a contract basis;" This amounts to only marginal reform as it leaves the government-owned monopoly intact. Stephen Moore, "Privatizing the U.S. Postal Service;" *Mandate for Leadership*, The Heritage Foundation, pp. 22-23, 30; Carlos E. Bonilla, "Postal System," p. 353.

22. In the U.S. savings were even used to finance graft and kickbacks. For instance, Peter Voss, a former governor of the USPS Board, pleaded guilty May 30, 1986, to accepting more than $20,000 in illegal payments from a Michigan-based public relations firm as part of a plan to steer $250 million worth of agency contracts to a Dallas-based manufacturer named Recognition Equipment, Inc. (REI). Former Postmaster General Paul Carlin claimed in an affidavit that, beginning in January 1985, he was pressured by Mr. Voss and another postal board governor, Ruth Peters, to make decisions favouring REI. Three former senior agency officials were convicted for participating in a multi-million dollar kickback and bribery scheme. Last April the governors limited the independent Postal Inspection Service's (PIS) access to tapes of closed board meetings which were needed to probe the Voss scandal.

The PIS investigated possible insider trading in the stock of REI, the bidder for the mail-sorting equipment contracts. A surge in REI stock trading occurred immediately after the closed door meetings of the Postal Service Board of Governors, where policy changes enhancing REI's chances of landing a lucrative contract were discussed. For example, on December 2, 1985, the day of the meeting, 19,600 shares were traded on the New York Stock Exchange, with a closing price of $12.375, while on December 3 and 4, there were 111,000 and 234,600 shares, respectively, traded with a closing price on December 4 of $13.625. The day after the closed January 6 meeting where the board, acting on the recommendation of Mr. Voss and another governor, decided to replace Mr. Carlin with Mr. Casey, trading of REI was 251,900 shares with a price closing of $15.125.

While a federal judge denied Carlin's injunction to stop the appointment of a new postmaster general, House Post Office Committee Chairman, William Ford (Democrat-Michigan), suggested that the board defer a decision on a successor to Mr. Casey until the investigation is completed. This advice was not taken.

Canada Post has connections to REI through AEG (Telefunken) Company, Germany, and its subsidiary AEG Bayly Engineering, Ajax, Ontario. Canada Post equipment decisions, however, are made by the corporation after reference to the minister responsible for the corporation. Jeanne Saddler, "Postal Official Was Asked to Quit Post," p. 12; and "Ex-Postal Chief Sues Service To Get Job Back," p. 19; Bruce Ingersoll, "Postal Unit Probes Trading Activity of Firm's Stock," p. 34; John T. Tierney, *The U.S. Postal Service: Status and Prospects of a Public Enterprise*, pp. 85-89.

When Albert V. Casey became postmaster general, he gave his old friend and Harvard Business School classmate, John T. Garrity, a no-bid contract for $900 per day to advise the USPS on a major reorganization, under which he was paid $156,000 over the next seven and a half months. As if this was not enough, in

November 1986 Casey gave him another no-bid contract to evaluate the recommendations he made under the first contract. Up to the middle of May 1987, Garrity had received $117,000 under this contract. The next postmaster general, Preston R. Tisch, continued Garrity's $900 rate even if he only worked one hour a day.

Senator David H. Pryor (Democrat-Arizona), chairman of a Senate Governmental Affairs subcommittee, asked Postmaster General Tisch to cancel Garrity's contract. Pryor said it was "bad enough" for Garrity to be paid $156,000 in salary and $14,000 in expenses for work that was actually done by a dozen or so senior postal officials. He said it "borders on the outrageous" for Garrity to be rehired so he can "pat himself on the back" for his earlier recommendations. There are Canada Post no-bid contracts similar in nature to those of Albert V. Casey. Howard Kurtz, "At USPS, a $900-a-day Consultant," p. A21.

23. Bert Ely, "Privatizing the Postal Service — How To Do It," p. 13.
24. Madsen Pirie, *Dismantling the State*, ch. 5, Method 8.
25. Douglas K. Adie, "Getting The Postal Service to Deliver: Privatization Would Work," p. 22.
26. *Privatization: Tactics and Techniques*, pp. x-xi, Albon, *Privatize the Post*, pp. 27-28.
27. President's Commission on Privatization, *Towards Postal Excellence*, vol. 5, p. 2.
28. U.S. Congress, *Post Office Reorganization, Hearings Before the Committee on Post Office and Civil Service*, p. 277.
29. Kathleen Conkey, *The Postal Precipice, Can the U.S. Postal Service Be Saved?* p. 45. Conkey's book is useful for tracing discussion on postal matters.
30. U.S. Congress, "Privatize the Post Office;" Christopher Elias, "Would Privatization Make Postal Service Letter-Perfect?" pp. 42-44; Federal Trade Commission, "Saving the Post Office," pp. 3, 4, 6, 8; Robert Poole, "Is This Any Way to Run a Postal Service? No;" "Teleprinting and Electronic Mail," International Resource Development Inc.; "Move The Mail, or the Postal Service," *New York Times* editorial.
31. Doug Bandow, "Postal Service Doesn't Deserve Monopoly."
32. David Stewart-Patterson, *Post Mortem: Why Canada's Mail Won't Move*, p. 265.
33. Wages make up only 62 percent of the payroll at UPS and 51 percent at Federal Express. John B. Judis, "U.S. Mail: Mission Impossible," sec. 6, p. 54.
34. For an evaluation of USPS wages see Joel L. Fleishman, *The Future of the Postal Service*, p. 12, fn. 31; Douglas K. Adie, "How Have Postal Workers Fared Since the 1970 Act?" ch. 5 of *Perspectives on Postal Service Issues*, pp. 74-93; Sharon P. Smith, "Commentary," pp. 94-98 and "Discussion," pp. 99-107; Adie, *An Evaluation of Postal Service Wage Rates*. Also see Smith, "Review of Labor Market. An Evaluation of Postal Service Wage Rates," pp. 122-23; her book *Equal Pay in the Public Sector: Fact or Fantasy?*; and "Are Postal Workers Over or Underpaid?"

    See also the USPS-commissioned study by Michael L. Wachter and Jeffrey M. Perloff, "An Evaluation of U.S. Postal Service Wages;" Perloff and Wachter, "Wage Comparability in the U.S. Postal Service;" Martin Asher and Joel Popkin, "The Effect of Gender and Race Differentials on Public-Private Wage Comparisons: A Study of Postal Workers;" Wachter and Perloff, "U.S. Postal Service Economic Presentation." Also Joel Popkin states that postal workers wages have risen approximately 0.7 percent faster than those of private nonfarm workers, which with annual compounding quickly becomes a sizeable number. For instance, in 10 years, say from 1954 to 1963, it would lead to a wage premium of 7.22 percent; in another 10 years to 1973, the premium would grow to 15 percent; in another 10 years to 1983, the premium would become 23 percent which is only slightly smaller than the approximately 30 percent premium most researchers claim the postal workers enjoy.

Jeff Perloff and I acknowledged a unanimity of conclusions in our testimony in hearings before the Subcommittee of Economic Goals of the Joint Economic Committee. U.S. Congress, *The Future of Mail Delivery in the United States*, pp. 282-99, 299-313, 323-24. For a general treatment of the literature discussing and evaluating postal worker wages see Alan L. Sorkin, *The Economics of the Postal System*, pp. 73-78, 85.

35. Recent Canada Post bargaining and negotiating strategies have weakened unions and produced advantages to management. The recent court-ordered amalgamation of the two major unions (CUPW/LCUC), which should strengthen the unions, has not been effective.
36. "Deregulation Said to Save Airline Consumers Billions," *Wall Street Journal.*
37. Twenty percent of the trucking company was sold to a merchant banking group. Vaughn Palmer, "Incentive is the Key to Privatization."
38. Stewart-Patterson, *Post Mortem*, p. 247.
39. Vickers and Yarrow, *Privatization*, p. 51.
40. Milton Friedman, *There's No Such Thing As a Free Lunch*, La Salle, Open Court, pp. 285-90.
41. Stewart-Patterson, *Post Mortem*, pp. 248, 254-56.
42. For a discussion of this thesis, see Adie, *Monopoly Mail.*
43. Daniel Machalaba, "United Parcel Service Gets Deliveries Done by Driving Its Workers," p. 1.
44. Ely, "Privatizing the Postal Service," p. 13.
45. Stewart-Patterson, *Post Mortem*, p. 64.
46. Canada Post Corporation, Review Committee on the Mandate and Productivity of Canada Post Corporation, vol. 1, pp. 9-10.
47. See discussion in Adie, "Deregulating, Divesting, and Privatizing," pp. 14-15.
48. Thomas Moore, a member of President Reagan's Council of Economic Advisors and head of the administration's interagency task force on privatization, is "cooking up a plan for ending the U.S. Postal Service's monopoly on first-class mail, first by allowing anyone to stuff material in private mailboxes and then by gradually eliminating the laws that created the monopoly..." Moore said proposals may follow and that they may start with a plan to abolish the law that prevents anyone except the postal service from putting material in boxes. See Bill Neikirk, "Putting Government on the Auction Block," Sec. 1, pp. 1, 18. The

President's Commission on Privatization recommended "the prohibition on private use of letter boxes should be repealed immediately. The letter box prohibition is an unnecessary barrier to competition and an imposition on the rights of citizens." President's Commission on Privatization, *Privatization: Toward More Effective Government*, p. 120.

Chapter 5

Mail Service at Canada Post

This chapter examines Canada Post's mail delivery services, their quantitative importance, and their relative importance as sources of revenue. This examination suggests the extent of cross-subsidization between classes of mail. Next, this chapter examines the relative importance of receipts and deliveries of mail in the provinces and the nature of mail flows between businesses and households. The pattern of flows has implications for the replacement of physical document delivery with electronic transfers and for Canada Post's ability to raise revenues through rate increases.

International mail is a small but important part of Canada Post's service. Canada Post serves other countries by delivering their mail destined for Canadian addresses and depends on their postal services to deliver abroad, mail originating in Canada. Canada Post has a jaded past in measuring its own delivery speed and reliability, and delivery speed is the primary quality of mail service. In addition, the results of measuring delivery speed have been and are abysmal. Survey results contained in the Marchment Committee Report show that both businesses and households hold a dim view of Canada Post's delivery quality. This chapter also discusses other aspects of mail service such as security, credibility, and innovation in new services. The general impression is that Canada Post's mail service is not satisfactory.

First Class Mail

First class mail is basic postal service for domestic and international letters, postcards, bills (or statements of account), receipts, messages, domestic first class parcels, and all items sealed against postal inspection. (The major users are households, businesses, governments, and non-profit organizations.) First class mail represents 54 percent of the volume of originating mail and about 60 percent of total postage revenue (see table 2). Between fiscal years 1984-85 and 1985-86, first class mail increased 7.9 percent primarily because of the increased business of large volume mailers who received an incentive rate.[1] This pre-sorted mail reduces Canada Post's costs and accounts for some of the recent efficiency gains.

Second Class Mail

Second class mail is sometimes called publishers' mail because it consists of newspapers, magazines, and other periodical mailings. It accounted for 7.2 percent of the volume of all mail pieces and 10.2 percent of total postage revenue during fiscal year 1988-89 (see table 2). The second class mail rate structure is the most complex of all mail categories because rates depend on the nature of the publication, the ratio of editorial to advertising content, the number of pieces mailed, the weight of the mailing, and the distance from the sender to the receiver.

Third Class Mail

Third class mail, which does not qualify as second class and weighs too little to be fourth class, is primarily advertising mail (admail). Patrons may send it with or without an address. Canada Post schedules it for deferred service. Individuals may send small parcels as third class, addressed mail. Organizations and businesses send limited distributions of parcels, catalogues, advertising, promotional material, and publishers' books by third class. Addressed third class mail accounted for 12.3 percent of the volume of all mail pieces and 6.9 percent of total postage revenues during fiscal year 1988-89 (see table 2).

Unaddressed mail is mainly bulk mailing of Admail and samples. Government agencies, institutions, and businesses that send 200 pieces or more, or 50 pounds or more of brochures, catalogues, and samples, use this service. Unaddressed third class mail accounted for 24.8 percent of the volume of all mail pieces and only 5.2 percent of total postage revenues during fiscal year 1988-89 (see table 2). As Canada Post has raised the price to deliver this mail, competition for this service has increased and restrained the growth of the post office in this area.[2]

Fourth Class Mail

Fourth class mail consists of merchandise and other matter not included in prior categories. It includes domestic parcel post (non-priority) up to 30 kilograms and international surface and air parcel post up to 10 kilograms. Canada Post competes directly for this business with parcel delivery companies and such companies as Simpson Sears which use their own mail system to distribute their catalogues to customers.

In 1971, when the Canadian post office noticed its parcel post business declining, it conducted a feasibility study with Eatons. As a result, Canada Post developed a new form of parcel service called Postpak to distribute consolidated parcels up to 66 pounds in weight (the existing limit for fourth class mail). When the consolidated packages reached their destination post office, mail clerks disassembled them and distributed the individual items. This new service, offered at a lower postage rate, was supposed to reduce Canada Post's handling costs.

In 1972 Canada Post offered Postpak nationally but not enthusiastically. Postpak was first offered from Halifax, Montreal, Toronto, Winnipeg, or Regina to 60 destination post offices which served the catalogue sales offices of Eatons and Simpson Sears. Despite initial strong demand because the rates were lower than common carrier freight and the paperwork was less, this service was not offered throughout the country. Canada Post discovered that, although it had gained back some of its lost business with the low-rate structure, the service was not profitable. In 1976, for the first time, postage rates for parcel post depended on the distance each parcel travelled.[3]

During fiscal year 1988-89, fourth class mail accounted for 1 percent of total mail volume and yielded 9.6 percent of Canada Post's postal revenues (see table 2). Canada Post's share of total parcel post volume is only 6 to 8 percent and has been declining since 1968 because of the faster, more reliable, and less expensive service offered by competitors.[4]

Special Services

Special services include Priority Post Courier, Registered Mail, Special Delivery, money packets, Certified Mail, cash on delivery (COD), and electronic mail. Products such as Registered Mail, Special Delivery, and COD, which all began before reorganization, have declined as consumers substituted Priority Post Couriers. Canada Post receives other revenues from a subsidy for cultural publication mailings, international settlements (revenues received by Canada Post from other postal administrations to deliver their originating mail), philatelic and retail sales, post office box rentals, money order fees, and other services. In fiscal year 1988-89 these special services comprised only 0.7 percent of the volume but they generated 7.9 percent of Canada Post's postage revenues (see table 2).

The United States prematurely announced that its Mailgram service was a success at the same time that Canadian telegrams were experiencing delivery problems. Both factors prompted Canada Post to sponsor a few studies which recommended that it set up an electronic message transmission service. The POD offered Telepost in 1972 as a joint venture with Toronto's CNCP Telecommunications which provided hardware and transmitted messages to the post office nearest the ultimate destination. The POD made hard copies and delivered them on a next-day basis.

Initially, customers needed to have Telex machines to initiate the service, but later Canada Post accepted counter or telephone orders. In the beginning, postal employees accepted this service reasonably well, but later it generated internal conflict. Communications problems and some confusion on the intentions of this service led employees to reject the service. Despite this, Telepost still enables the public to send messages electronically via phone, telex, or telegraph office for hard copy delivery by mail to any address in Canada or the U.S.

In late 1972 and early 1973 the POD first offered Certified Mail, which was not an immediate success. Contrary to expectations, demand did not shift from Registered to Certified Mail. Unlike the internal reception for Postpak and Telepost, Canada Post got co-operation and regional support for this service from its employees throughout the system, which reduced its problems.[5]

Canada Post's most successful programme has probably been its philatelic services. The customers in this market are not looking for quick, reliable, or even inexpensive service, but only for interesting, frequently changing issues minted in limited quantities. In 1973 the POD developed a market-oriented philatelic programme. From fiscal years 1973-75 revenues rose from $2.5 to $13.5 million. In fiscal year 1985-86 Canada Post's revenues from this programme were $21.4 million and $21.8 million, respectively.

In March 1983 Canada Post offered in conjunction with the TransCanada Telephone System a service called Telecom Canada. This service enabled subscribers of Telecom Canada Envoy 100 to reach any address in Canada through the mail delivery system. In fiscal year 1984-85 Canada Post expanded this service to provide nearly complete national coverage.

In 1980 the POD, Teleglobe Canada, and CNCP telecommunications started INTELPOST (international electronic post). This was the first service to send hard copy facsimiles between Toronto and London, England. Businesses used this service to send letters, photographs, drawings, and charts across country or abroad. In September 1980 New York and Washington were added to the network. On March 16, 1981, Halifax, Montreal, Ottawa, Winnipeg, Edmonton, Calgary, Bern, and Amsterdam were added. By the end of the year, after the reorganization, Vancouver joined. By 1985 this service had linked 25 cities in Canada with 22 countries around the world. In fiscal year 1985-86 a new electronic input option allowed customers with fax machines to access the INTELPOST network through a toll-free telephone link instead of having to deliver documents to a Canada Post office counter.[6]

Output Levels, Destination, and Interdependencies

Table 2 lists revenues and volumes of the various classes of mail Canada Post delivered in fiscal year 1988-89. Total mail volume was almost 8.3 billion pieces of which 4.5 billion or almost 54 percent was letters. After letters, Admail is the next largest mail category, of which the unaddressed part predominates. Total Admail is almost 3.1 billion pieces, with about 2.1 billion being unaddressed. Unaddressed and addressed Admail is 24.8 and 12.3 percent of total mail, respectively. There were 595 million publications which comprised 7.2 percent of the total mail volume. There were 144 million parcels and special services, amounting to less than 2 percent of the total mail volume.

Canada Post uses its exclusive privilege on first class mail, applying primarily to letters and addressed Admail, to raise 67.1 percent of its total postage revenues, almost the same percent of revenues the USPS raises with its first class monopoly (67 percent). The percentage of total mail volume which is first class mail in Canada Post is 2.8 percent more than at the USPS (54 versus 51.2 percent). Canada Post, however, uses it to generate about the same percentage of total revenue from postage (60.2 versus 60.4 percent). Third class mail composes about the same percentage of mail volume at Canada Post and the USPS (37.1 versus 38.8 percent). Third class, however, generates 21.3 percent of the total revenue from postage at the USPS and only 12.1 percent at Canada Post. (See tables 2 and 3.)

Table 2
Revenues and Volume of Mail Processed by Canada Post, 1988-89

	Revenues		Volume	
Mail Type	($ millions)	Percent	(millions of pieces)	Percent
Letters	1,907.0	60.2	4,464	54.0
Publications	332.0	10.2	595	7.2
Addressed Admail	218.0	6.9	1,017	12.3
Unaddressed Admail	65.0	5.2	2,048	24.8
Parcels	305.0	9.6	82	1.0
Special Services	251.0	7.9	62	.7
Total	$3,168.0	100.0	8,268	100.0

Source: Canada Post Corporation, *Annual Report, 1988-1989.*

Table 3
Revenues and Volume of Mail Processed by U.S. Postal Service, 1986-87

	Revenues		Volume	
Mail Type	($U.S. millions)	Percent	(billions of pieces)	Percent
First Class	$18,786	60.4	79.87	51.2
Second Class	1,368	4.4	10.32	6.7
Third Class	6,605	21.3	59.73	38.8
Fourth Class	840	2.7	.62	.4
Special Services	2,555	8.2	1.24	.8
Government Mail	935	3.0	3.15	2.1
Total	$31,090	100.0	153.93	100.0

Source: U.S. Postal Service, *Annual Report of the Postmaster General, 1987.*

These comparisons show that Canada Post receives about the same proportion of total revenue from its exclusive privilege as does the USPS from its private express statutes, and suggests that Canada Post subsidizes its third class mailers more with these monopoly revenues than does the USPS.

Regional Distribution of Mail by Provinces

In statistical appendix table 35, I have summarized postal revenues by province for three fiscal years up to 1979-80 from Annual Reports of Canada Post. Because postage rates are uniform in all provinces, the percentage breakdown of these revenues reflects mail volume by province. Although there are some slight differences in the percentages for each province over the three-year period, there are no changes in their rank ordering, which primarily reflects the size of population and the level of economic activity.

During the three-year period of fiscal 1978-80, British Columbia had the largest gain of 0.5 percent, followed by Alberta with a gain of 0.4 percent. Ontario had a gain of 0.1 percent which, when compared with its general level of 44 percent, is inconsequential. The percent of revenue in Newfoundland, Prince Edward Island, New Brunswick, Saskatchewan, and Yukon District showed no change during this period. Quebec had the greatest decline in postal volume of 0.6 percent, followed by Manitoba with 0.2 percent, and the Northwest Territories with 0.1 percent.

Mail Service Patrons

As early as 1978, an internal POD report stated 40 percent of all Canadian mail consisted of financial transactions. This mail was vulnerable to competition from electronic funds transfers (EFT) because of EFT's potential large cost advantages over physical processing. Pre-authorized bill payments and automatic deposit of payroll cheques, for instance, can easily be handled this way.[7]

What is the relative usage of postal services by households and businesses, its main consumers? Two studies examined the composition of U.S. mail in 1974 to determine the ease with which patrons could convert their communications from hard copy delivery to electronic transmissions. Table 4 summarizes the results of the first study which examined the origin and destination of government printed postcards. Households sent 57 percent of these postcards and businesses, the remaining 43 percent, while households received 62 percent and businesses, 38 percent.[8]

Figure 1 cross-classifies senders and receivers on the transmission of these cards and provides more information. Households sent 33 percent of total cards to other households and 24 percent to businesses, while businesses sent 29 percent to households and 14 percent to other businesses.

Table 5 and figure 2 display the results of a second study which examined the composition of first class mail for 1974. The results are similar to those using data on postal cards. In this study, however, households sent less mail (54 versus 57 percent), and businesses sent more (46 versus 43 percent). The use of cards instead of letters accounts for this difference. Further examination of table 5 indicates households received 66 percent of first class mail, while businesses received only 34 percent.

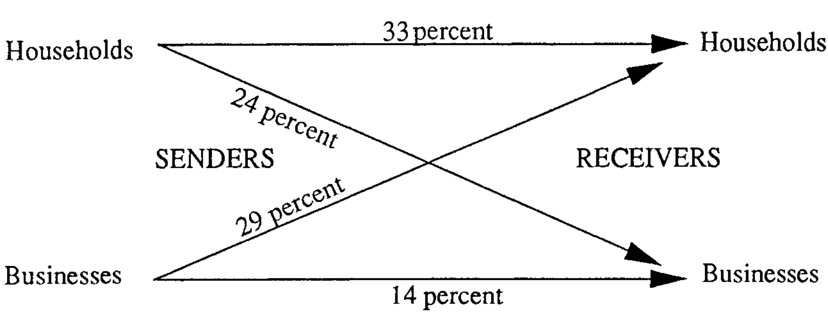
Figure 2 cross-classifies mail by sender and receiver and shows households sent 38 percent of mail to other households and businesses sent only 18 percent of mail to other businesses. Of the remaining 66 percent, businesses sent 28 percent to households and households sent 16 percent to businesses. Although these studies examine the composition of written communications 14 years ago in the U.S., the underlying structure may be similar today in Canada. If this is

Table 4
Analysis of U.S. Government Printed Postcards: Senders and Receivers, 1974

	Percent
Senders:	
Households	57
Businesses	43
Receivers:	
Households	62
Businesses	38

Source: U.S. Postal Service, "Potential Changes in Use of Post/Postal Cards Related to Assumed Changes in Postage Rates," 1975.

Figure 1
Analysis of U.S. Government Printed Postcards: Senders and Receivers, 1974



Source: Table 4.

so, these figures suggest why communications have not quickly converted to electronic transmission despite the availability of technology.

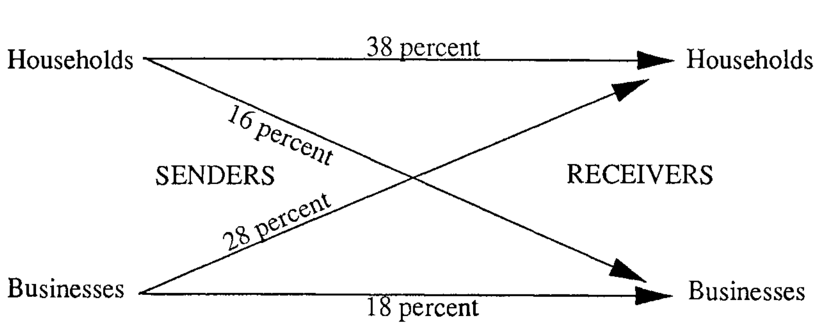
Businesses can easily convert to electronic transmission for the mail they send to other businesses, but this is only 14 to 18 percent of total mail volume. Businesses cannot communicate directly to households until they own computers with modems or fax machines. This represents a possible diversion of 28 to 29 percent of first class mail. Until the proportion of the population equipped to receive these communications reaches a critical threshold, businesses will probably not begin this conversion. When 50 percent of the population participates regularly in electronic transmissions, another 14 to 15 percent of the total mail volume can be diverted, which then can rise to 28

Table 5
Analysis of U.S. First Class Mail: Senders and Receivers (Estimated), 1974

	Percent
Senders:	
Households	54
Businesses	46
Receivers:	
Households	66
Businesses	34

Source: Charles Jackson, "What Will New Technology Bring?"

Figure 2
Analysis of U.S. First Class Mail: Senders and Receivers, 1974



Source: Table 5.

percent. Households, however, are the bottleneck retarding a quick and sizeable conversion of communications away from Canada Post to electronic transmission. The 33 to 38 percent of the mail that moves between households will convert slowly as households acquire the equipment and establish electronic communications with each other.

Fax is becoming as available and inexpensive as the calculator when it first appeared on the market, and fast becoming the electronic communication system of choice for both businesses and households. Growth in the use of fax in Canada is already sizeable so that its use in automobiles is not unusual. The Bell system is encouraging Canadians to combine fax and telephones as home use products through progressive rate reductions. The widespread use of these systems will spell the demise of Canada Post Corporation.

In their report, the Marchment Committee said business mail, which now is more than 80 percent of total mail volume, is vulnerable to technological change.[9] This statement somewhat overstates Canada Post's vulnerability because businesses will not send most advertising literature or magazines electronically as postal rates for this mail are either low or subsidized; nor is it possible to send materials such as parcels electronically. While businesses originate 52 percent of first class mail, they are not likely to send it electronically. Although businesses may be either the senders or the receivers of 80 percent of the mail, much less than 80 percent of total mail volume is inter-business first class mail, the prime target for conversion.

In addition to assessing the prospects for bypassing the physical document delivery system, tables 4 and 5 and figures 1 and 2 are useful for examining the potential impact of postage increases on businesses and consumers. Households or consumers send between 54 and 57 percent of first class mail and businesses, 43 to 46 percent. Although numerically fewer than individual consumers, on a per-capita basis businesses spend much more on mail than each consumer. A 1985 survey of Canadian businesses conducted by the Marchment Committee showed that each head office spent an average of $20,562 per year on all forms of correspondence transmission of which $10,113 or half was spent on postal services. On the other hand, each adult Canadian on the average sent 89 first class letters in 1985, while his counterpart in the U.S. sent about 240.

The Marchment Committee surveyed households to determine their frequency in sending personal mail (see table 6.) This table shows that although 1 percent of the households do not use postal service at all, 11 percent use it daily. For most households, the frequency of use is between several times a week to a few times a month. As receivers, 22 percent of households receive mail daily; 38 percent, several times a week. Regionally, fewer persons in Quebec than other Canadians received personal letters or cards and unaddressed householder advertising. Fewer persons in Quebec and the Maritimes than other Canadians received addressed householder advertising. Maritimers were also less likely to receive magazines or newspapers in the mail.[10]

Table 7 lists the types of mail used by businesses. Canada Post processes 75 percent of mail sent by businesses, while the remaining 25 percent goes through alternative carriers. Most business correspondence is first class mail (67 percent). Registered Mail, parcel post, Special Delivery, and Priority Mail together make up only 8 percent of business correspondence. Of the 25 percent of business correspondence travelling outside of Canada Post, private courier service is predominant and comprises 10 percent of all business correspondence. Telex electronic transmission accounts for only 4 percent of total business correspondence.

Table 6
Canadian Households: Frequency of Sending and Receiving Mail

	Frequency of Sending Mail Percent	Frequency of Receiving Mail Percent
Heavy — Daily	11	22
Moderate — Several times a week	31	38
— About once a week	20	14
Light — A few times a month	27	22
— Once a month or less	9	3
Don't use or receive postal service	1	0
Total	99	99

Source: Canada Post Corporation, Review Committee, vol. 2, p. 14, 15.

Table 7
Type of Mail Used by Businesses for Correspondence

Type of Correspondence	Percent Total Volume of Mail
First Class Mail	67
Registered Mail	2
Parcel Post	3
Special Delivery	2
Priority Post	1
Canada Post Total	75
Private Courier	10
Bus, Train or Express Parcel	2
Telex	4
Airline Courier	1
Company Messenger	2
Taxi	1
Other	5
Total	100

Source: Canada Post Corporation, Review Committee, vol. 2, p. 29.

On a regional basis, companies in Quebec are more likely to have used Registered Mail in the past month than companies in the rest of Canada (67 percent versus 53 percent). Also, companies in Quebec are least likely to have used private couriers in the past month (53 percent versus 74 percent), while businesses in Ontario and British Columbia are most likely to have used private couriers and Telex. Companies in British Columbia are the heaviest users of airline couriers. (See table 8.)

Table 8
Business Use of Private Transmissions by Region
(Percent in an average month)

Transmission Service	Ontario	B.C.	Other Regions	All Regions
Private Courier	84	92	—	74
Telex	38	39	26	32
Airline Courier	—	52	—	31

Source: Canada Post Corporation, Review Committee, vol. 2, p. 29.

International Mail

Canada Post receives international settlements (revenues) from other postal administrations to deliver their mail. This is compensation from foreign postal services to deliver the mail they ship to Canada and represents the import of mail and the export of mail service.[11] This compensation appears in Canada Post's accounts under international settlements (revenues) and represents the revenues received by Canada Post from other postal administrations to deliver their originating mail. Similarly, Canada Post pays foreign postal services to deliver the mail it ships outside Canada. This expense associated with the completion of foreign mail delivery (primarily to the U.S.) is international settlements (expenses) and represents the export of mail and the import of mail service.[12]

As shown in table 9, foreign mail either entering or leaving Canada made up 11.1 percent of total mail volume in fiscal year 1984-85 and 13.5 percent in fiscal year 1985-86. The number of pieces entering Canada from elsewhere is a little less than double the number of pieces sent abroad from Canada. Foreign mail, as a proportion of total mail, also seems to be increasing in importance. Table 10 contains revenue and expense figures for the export and import of mail services. Correspondence originating in the U.S. dominates the figures. The trade balance in postal services has varied between 44 million and 57 million throughout the period 1981 to 1986, but with no noticeable trend. Out of a budget of around $2.7 billion, this represents about 2 percent and so has only a small quantitative financial importance to Canada Post's budget.

Table 9
Composition of First Class Mail: International vs. Domestic
($ millions)

	1984-85	1985-86
International Settlements (Expenses)[a]	48	67
International Settlements (Revenues)[b]	96	11

	1984-85		1985-86	
	(millions of pieces)	Percent of Total First Class	(millions of pieces)	Percent of Total First Class
Pieces entering Canada from elsewhere	282	7.1	350	8.3
Pieces sent out of Canada	157	4.0	219	5.2
Total foreign entering and leaving Canada	439	11.1	569	13.5
Total first class	3,971	100.0	4,213	100.0

[a]If these expenses are primarily for first class mail delivered to the U.S., that figure divided by the rate per letter (U.S.$.22 x 1.387755 = Cdn$.305306) yields the number of letters sent out of the country. Divide that total by the total of first class pieces to yield the percentage of mail sent out of the country as a percentage of total first class mail.

[b]If this is primarily first class mail, dividing the total revenue by the rate per letter ($.34) yields the number of letters. This total divided by the total number of incoming foreign first class letters results in the percentage of total mail.

Source: Canada Post Corporation, *Annual Report, 1985-1986*, table 11A, pp. 17, 26; also U.S. Postal Service, *Annual Report of the Postmaster General*, 1986, p. 9.

Table 10
Canada Post
Importance of Exports and Imports
($1,000)

Year	Revenues (Exports)	Expenses (Imports)	Trade Balance
1985-86	119,387	66,663	52,724
1984-85	96,151	47,587	48,564
1983-84	88,536	44,805	43,731
1982-83	95,884	38,973	56,911
1981-82[a]	89,414	40,812	48,602
October 16, 1981-March 31, 1982	44,707	20,406	24,301

[a]Annualized from 5.5 months.

Source: Canada Post Corporation, *Annual Report, 1981* through *1986*.

Delivery Speed

The standard performance index for measuring postal services is the time required to move mail from sender to receiver on a consistent basis. This transmission speed is the most important aspect of service, followed by reliability, frequency, and cost of delivery. Reliability is influenced primarily by labour disruptions. In 1962 the Glassco Commission said the POD's service goal was to deliver all first class mail the day following its deposit in a post office, which it met with impressive regularity except where time and distance made it impossible.[13] Postal observer Walter Stewart reported that from 1963 to 1968 he regularly mailed manuscripts from Ottawa on one day by 3:00 P.M. for arrival the next day in Toronto by 11:00 A.M.[14] Service, however, steadily deteriorated until, in 1981, it could take a week to deliver first class mail. Letters travelling from Winnipeg to Halifax could take anywhere from three to 13 days.[15] It could take Canada Post weeks to carry several million pieces of mail from one end of Calgary to the other.[16] These are random observations, to be sure, but they indicate deteriorating service, a common complaint in many countries.

Robert Albon says that Australia's post office is slow and cautious, while new courier firms are innovative and dynamic.[17] In the U.S. the USPS is experiencing increasing difficulty in delivering the mail on time.[18] The service record in Great Britain, although good compared to other countries, also reveals a decline in speed and reliability of delivery.[19] In 1977, for instance, the Carter Committee said of the British Post Office, "sometimes its customers get the feeling that they are being graciously permitted to use the systems...[20] In England patrons complain it often takes longer for a letter to cross London than to travel to northern Scotland. Michael Corby found the British Post Office improved its on-time performance by easing its standards. It also cleared its mail boxes earlier in the day and reduced evening collections, so as to reduce pressure for speedy deliveries.[21] In 1980 the Monopolies and Mergers Commission, which investigates public corporations in Great Britain, reported poor mail service in London. However, by threatening to remove the Post Office's monopoly privilege, it persuaded labour to accept responsibility for work changes and productivity improvements.[22] In 1983 Ian Senior noted that speed and reliability of delivery had deteriorated in Britain, adding that although users were willing to pay more for better service, the Post Office had reduced service quality instead of raising rates.[23]

As Canada Post's mail delivery speed has worsened over the years, so have its standards also relaxed.[24] When Canada Post first became a Crown Corporation in 1981 its service objective was to deliver 90 percent of its letters on time. At that time "on-time delivery" meant that mail sent within cities would be delivered the next day, between most major centres in two days, and coast-to-coast mail within three days, maximum. During 1985, when Canada Post met its own service standards less than 80 percent of the time, what did it do? In 1986, in conjunction with its new five-year plan, Canada Post promised to achieve 90 percent on-time delivery by July 1987. At the same time, however, Canada Post reduced its standards for on-time delivery by one full day so that acceptable on-time delivery for local mail became two days; between cities, three days; and across the country, four days.[25] But, according to Canada Post's own studies, only 80 percent of local mail and 70 to 85 percent of out-of-town mail meets even these new lower standards.

Even these abysmal service statistics may be optimistic measures of Canada Post's actual performance. The Institute of Corporate Directors sent test letters 21 miles between Toronto and Oakville, and carefully observed the dispatch and arrival times of each piece. The letters took, on average, a little under five days.[26] Stanley Roberts, president of the Canadian Chamber of Commerce, Montreal, said, "service has to improve or we'll have to find other ways to communicate — as many of us already have. It can be a 10-day event to get a letter from Toronto to Calgary."[27]

In 1984 the USPS and Canada Post themselves noticed how poor service was between large metropolitan areas in their respective countries, and they pledged to improve service between key cities across the international border by 1986. The key cities were Vancouver, Calgary, Winnipeg, Toronto, Montreal, San Francisco, Los Angeles, Chicago, New York, and Boston. In particular they pledged to deliver mail between any of the two cities in two days or three at the most if the cities were distant. What was the result of this programme? A survey conducted in August 1986 showed service did not improve.[28] Mail from Chicago, Boston, and New York took five days to reach Montreal; mail from San Francisco and Los Angeles required eight days. Mail moved slowly in both directions despite the use of fast planes, mobile trucks, and over-staffed work forces on both sides of the border.[29]

Testing Delivery Speed

Canada Post has two methods to measure acceptable services: the Customer Co-operative Programme (COOP) and the National Evaluation of Postal Service (NEPS). COOP provides the data for the tests and checks Canada Post's service monthly by monitoring the mail received by 40 businesses in 20 major centres. NEPS, on the other hand, measures the speed of machineable test mail moving between the 35 largest postal plants and offices in Canada. For instance, according to Canada Post's own measures in April 1984, it delivered almost 75 percent of local letters in one day. By March 1986 this percentage had dropped to less than 60 (see figure 3). For business flat mail, the percentage delivered in one day fell from more than 70 in April 1984 to less than 50 in March 1986 (see figure 4). By almost any quality measure, service at Canada Post has declined.

The decline in service for out-of-town areas was as dramatic during this period. The percentage of first class letters delivered in three days fell from almost 90 percent to about 78 percent (see figure 5), while the percentage of business flats delivered within three days fell from about 93 percent to about 77 percent (see figure 6). All the lines on figures 3 through 6 exhibit a downward trend to the right, representing service declines.

In 1981 when the POD became a Crown corporation, Kenneth Dye, the auditor general, questioned the accuracy of the NEPS system for measuring delivery speed. The NEPS system used specially prepared letters, correctly addressed with the postal code and tested only perfectly machineable mail, while most of third class and half of first class mail had to be processed manually. Also, although NEPS measured on-time delivery, it paid no regard to how much time the late letters took to be delivered, and advertised the results as reflecting postal service generally. In addition, Canada Post administered the NEPS tests itself without outside independent checks.

The auditor general initiated his own three-month tests and found, as NEPS had, that only 50 percent of between-cities mail arrived on time. Local mail delivery, however, was considerably slower than NEPS claimed (see table 11). The auditor general said the differences were too large to be honest mistakes and that Canada Post lied with its figures and undermined its own credibility.

Table 11
Canada Post's Local On-Time Delivery

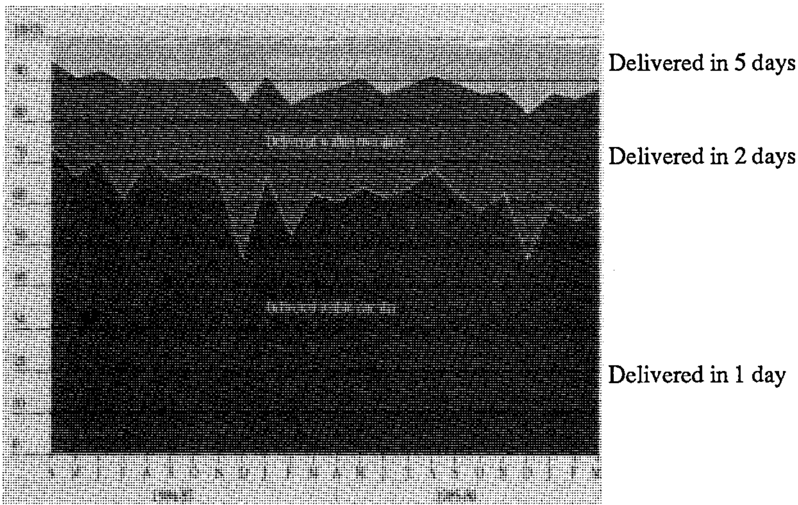
City	Auditor General (percent)	NEPS (percent)
Ottawa	85	90-93
Toronto	77-80	86-90
Vancouver	68-72	81-82

Source: Stewart-Patterson, *Post Mortem*, p. 25.

After the auditor general's tests, the Quality Assurance Branch of Canada Post performed its own tests in February 1982 and showed NEPS overestimated its on-time delivery by more than 15 percent for local mail and ten percent for intercity mail. In 1985 Lowenthal and Horvath investigated and substantiated charges of faked mail tests and uncovered Canada Post's improper practices. They said,

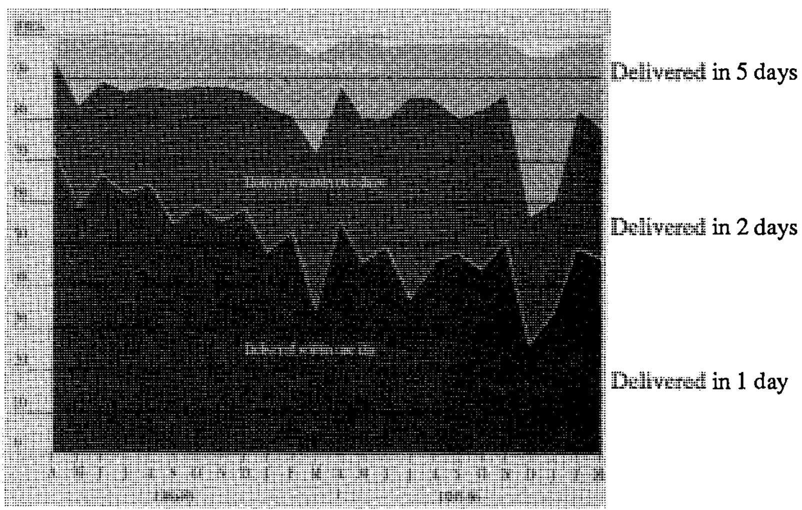
> NEPS letters were easily identifiable and some plants established procedures to ensure that these letters received priority treatment...pressure was felt by the supervisors in the plants, who were made accountable for achieving high NEPS test results...management may have unwittingly encouraged practices designed to inflate NEPS test results.[30]

Figure 3
National Service Performance
First Class Letter Mail — Local Service
Customer Co-operative Mail Test



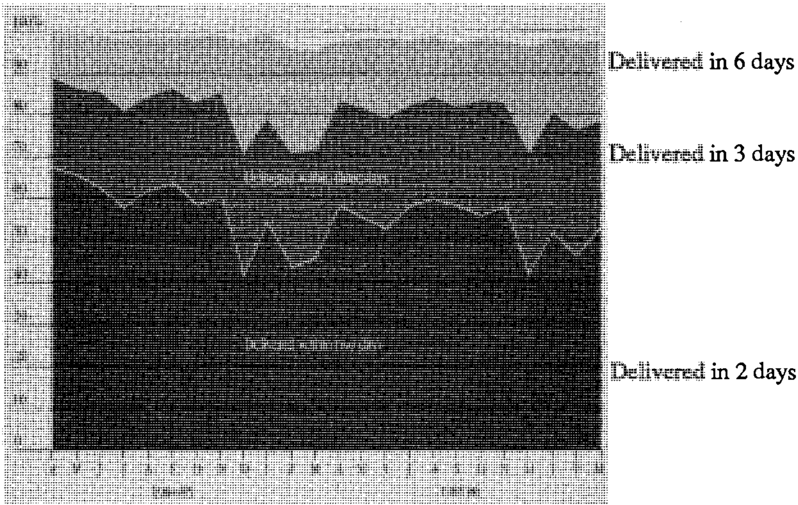
Source: Canada Post Corporation, *Annual Report, 1985-86*, p. 8. Reprinted with permission.

Figure 4
National Service Performance
First Class Business Flats — Local Service
Customer Co-operative Mail Test



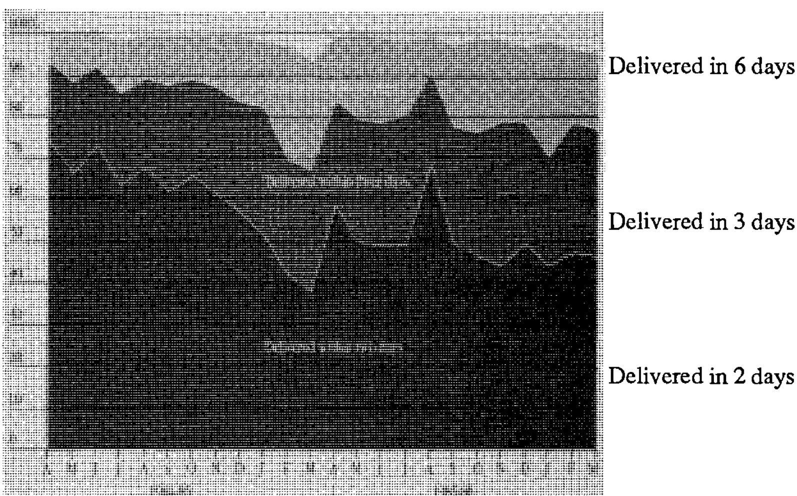
Source: Canada Post Corporation, *Annual Report, 1985-86*, p. 9. Reprinted with permission.

Figure 5
National Service Performance
First Class Letter Mail — Out-of-town Service
Customer Co-operative Mail Test



Source: Canada Post Corporation, *Annual Report, 1985-86*, p. 10. Reprinted with permission.

Figure 6
National Service Performance
First Class Business Flats — Out-of-town Service
Customer Co-operative Mail Test



Source: Canada Post Corporation, *Annual Report, 1985-86*, p. 11. Reprinted with permission.

On October 5, 1987, Canada Post handed the entire testing job to Clarkson Gordon, an independent auditor and member of Arthur Young International, which now conducts Canada Post's service measurements for first class mail. Clarkson Gordon underwent a name change in August 1989, and is now Ernst & Young. Ernst & Young measures the number of days for a properly prepared first class letter to arrive at its destination address from the time of deposit. A piece enters the system on the day it is deposited in a street letter box if it is posted before the latest collection time. A piece is considered delivered on the day the designated addressee receives it. Canada Post lowered its delivery standards again in 1986. For the quarter ending December 1987, even those lowered standards were met only 83 percent of the time for local delivery; 79 percent for provincial delivery; and 85 percent for inter-provincial mail. Now the relaxed standards for on-time delivery are two days in the same urban area, three days within the same province, and four days for mail between major urban centres in different provinces. Mail deposited or delivered outside of major urban centres is simply not covered by any standard. Even these relaxed standards are only met 97 percent of the time as of March 1990.[31]

Security of the Mail

Michael Ballard, security director of the Canadian Bankers Association, said that from 1975 to 1988 his members lost cash and valuables worth $2.7 million and incurred losses of another $2 million more because of fraudulent purchases on credit cards stolen in the mail. Ironically, many banks suffered their losses when they used the post office's own "money packets" which, unfortunately, clearly identified the valuables. To make matters worse, Canada Post refused to assume responsibility for the loss. Furthermore, when this matter reached court in January 1980, Montreal Judge Louis Marceau ruled against a claim brought by an insurance company against Canada Post for $342,000. Adding insult to injury, he ruled that "neither Her Majesty nor the postmaster general can be held responsible for mail lost or damaged."[32]

In 1978-79 victims reported 765 mail thefts which resulted in only 127 prosecutions of which 54 percent (68) were against postal employees. In the previous five years, mail workers were defendants in 66 percent of the prosecutions of mail theft. Quebec's post office general manager, Louis-Philippe Papineau, defended his workers by saying, "there's temptation working in the post office. It's just difficult sometimes not to pocket those $10 donations to St. Joseph's oratory."[33] In another incident, ten counter workers sold stamps and skimmed cash from the post office registers. When they were caught and suspended, Joe Davidson, their union leader, argued that they were the victims because the system should be secure enough to protect employees from their own evil desires. Although the POD fired them, they were reinstated six months later on appeal.

Since 1970, Canada Post investigators, who were ill-trained former clerks, have requested police status so they could halt growing mail theft by seizing stolen property and arresting suspects. Canadian National and Canadian Pacific Railways both have their own armed police forces with a total of 89 officers whereas Canada Post has only 75 investigators.[34]

Instances of theft, vandalism, and arson, particularly in enormous mail processing centres such as Mississauga, Ontario's Gateway Postal Facility, led to the Marin inquiry. In the summer of 1980, Judge René Marin conducted hearings into postal security measures to determine how Canada Post lost more than $2 million of patrons' valuables in fiscal year 1979-80.[35] The Marin inquiry concluded that the POD "has not been serious in its attempt to curb crime" and "there is considerable need for improvement" in the priority that postal management gives to security.[36] The postal unions, on the other hand, claim the statistics which show that postal workers perpetrate most postal thefts are misrepresentative. They oppose setting up a police force and improving the surveillance inside mail processing plants. They even forced the sorting centre in Ville St. Laurent near Montreal to gain approval before setting up a closed-circuit TV monitoring system. After the POD gained approval, a Quebec union spokesman warned that workers would strike if Canada Post turned its cameras on.[37]

Other aspects of service in addition to delivery speed and security have also deteriorated at Canada Post. From 1969 to October 1981, when Canada Post increased postage rates from 6 to 30 cents a letter, it also stopped Saturday deliveries, and allowed drug dealing and vandalism to increase. Don MacCharles blames the Canadian Union of Postal Workers (CUPW) for lowered service quality. He says reliability has deteriorated enough to cause some mail houses to close. Also, more mail is delivered to street boxes and less to households, and there are fewer deliveries per week to those households receiving delivery.[38] Canada Post forced many residents of Calgary and Edmonton to walk three or four blocks from their homes to reach the nearest letter box[39] and told rural residents that if they lived within 2.5 miles of a main country road, they would no longer receive delivery at the end of their driveways. Instead, they would have to go to group boxes which, unfortunately, freeze shut in winter, and in summer are easy for anyone to open with or without a key. In November 1986 Canada Post's attitude towards its patrons was "like it or lump it."

Survey Results of Canada Post's Mail Delivery Quality

How do the public and businesses compare Canada Post's quality of service with the POD's? Table 12 tabulates the Marchment Committee's responses to this question in its survey. Those who said service had stayed about the same after the change from the POD to Canada Post, or that they don't know, expressed no strong preference. More than 50 percent of the public and businesses, both nationally and in every region except British Columbia, expressed no strong preference. In British Columbia only 43 percent of businesses expressed no strong preference. One should hasten to add that 44 percent of British Columbia businesses said service quality had declined since the POD became a Crown corporation. This response was the strongest negative opinion on the quality of Canada Post's service for businesses in any region. The British Columbia public also had the strongest negative response. For all Canada, businesses said service quality had declined instead of improving by a 23 to 18 percent margin (a difference of five percentage points). The Canadian public said service quality had declined instead of improving by a 25 to 12 percent margin (a difference of 13 percentage points).

In all areas, the public believed service quality had declined from a margin of 28 percentage points in British Columbia to 5 percentage points in the Maritimes. Businesses in the Maritimes and Quebec believed the service quality had improved by margins of 12 and 13 percentage points respectively. Businesses in all other areas believed service quality had declined. The margin ranged from a low of 9 percentage points in Ontario to 31 percentage points in British Columbia. The general impression from the statistics is that the public and business both believe that service quality has deteriorated since the POD became a Crown corporation. The public holds this opinion more strongly than business, and business and the public in British Columbia, the Prairies, and Ontario (in that order) more strongly than in the Maritimes and Quebec.

Public Service or Service of the Public

Parliament gives a specific national mandate to each of Canada's Crown corporations. The more that mandate conflicts with profit maximization, the more difficult it is to assess performance because the fulfillment of social purposes is usually not measurable. If you can't judge Canada Post by its profits or losses, how do you evaluate its performance?[40] The survey results provide another indicator that shows Canada Post's service quality has steadily deteriorated.

Canada Post delays, bends, folds, mutilates, loses, or steals 1 to 2 percent (83 to 166 million) of the 8.3 billion pieces of mail it handles per year. The "Royal Canadian Air Farce," CBC's resident comedians, performed a post office skit that appealed to many Canadians as being accurate. One character says, "the post office just tested its new automated parcel-sorting equipment. Parcels were mangled, misdirected, lost and destroyed...Imagine — a machine that does the work of four men!"[41]

Before the reorganization of the POD into Canada Post, Pierre Trudeau said, "the situation in the post office is intolerable and has been for some time. Canadians are losing patience. They are increasingly fed up. So am I."[42]

Table 12
Survey Results: Change in Quality of Service Since the Post Office Became a Crown Corporation

Opinion	Total Canada	Maritimes	Quebec	Ontario	Prairies	B.C.
General Public (Percent)						
Improved	12	15	19	9	10	8
	)13	)5	)7	)21	)22	)28
Declined	25	20	12	30	32	36
Stayed the same	57	63	60	56	54	51
Don't know	5	3	9	4	4	5
Total	99	101	100	99	100	100
Business (Percent)						
Improved	18	27	23	16	16	13
	)5	)-12	)-13	)9	)10	)31
Declined	23	15	10	25	26	44
Stayed the same	55	55	62	55	54	43
Don't know	4	3	5	4	4	—
Total	100	100	100	100	100	100

Source: Canada Post Corporation, Marchment Review Committee, vol. 2, pp. 21, 36.

Michael Warren's mandate was to improve speed and reliability of service in relation to price, improve human relationships inside the POD, and make Canada Post financially self-sufficient.[43] What did he do? To cut costs, Warren began installing Super Mailboxes in 1983, but called them "community mail boxes." In 1985 this resulted in cost savings of $45 per day per carrier.[44] Canada Post mounted a public relations campaign to persuade customers that the Super Mailboxes were wonderful — even better than door-to-door service. The campaign ran into difficulty when the facts caught up with it. The Super Mailboxes had individual slots for letter delivery and a single compartment for all parcels. When a parcel was deposited in the common compartment, the carrier inserted a key to this compartment into an addressee's letter slot. Customers soon discovered some keys would open more than one box or the entire front of the Super Mailbox and allow access to everyone's mail.

Earlier, the POD engaged in a despicable practice called "productivity selling." The aim of this practice was clear: *"That plant efficiency is maximized by the mailing procedures of the customer"* [emphasis in original]. Canada Post sales people tried to convince major mail users that they would receive better service if they adopted procedures to improve productivity within *their* plants. Customers resisted and resented this message because they viewed the benefits offered as belonging to normal postal service. Canada Post tried to overcome customer resistance, not with discounts but with "aggressive and continuing sales effort" bordering on intimidation.[45] Also, although Canada Post could not demonstrate the benefits, their requests resulted in additional inconvenience and costs to postal patrons. In 1984, when Perrin Beatty became the minister in charge of Canada Post, he ordered a thorough review by a private sector committee headed by Alan Marchment, president of Guarantee Trust Company of Canada. Around this same time, Aditya Varma, a postal clerk, claimed that Canada Post granted untendered contracts, made bad management decisions, and fabricated the results of mail service tests. After Canada Post fired him, the prime minister, forced by a back bench attack led by Dan McKenzie, rehired him. The government, not trusting Canada Post's management, forced it to rehire Varma and to co-operate with a six-month Lowenthal and Horvath investigation into the accusations. The report reflected negatively on Canada Post but only substantiated the faked mail tests.[46]

Members of the Marchment Committee were generally unimpressed by Warren's presentations and his extensive use of audio-visuals. They felt they had been made a target for a "snow job." The presentations failed to cover the fact that the same abuses and fundamental problems which existed in the POD before reorganization were present in Canada Post. The Marchment Committee took note of this report and encouraged Warren to leave Canada Post.[47]

Warren emphasized style and sometimes spoke as though appearances were more important than actions.[48] Instead of focusing on service to the public, Warren stressed public service. For instance, he said, "we can't concentrate solely on bottom-line performance the way a private sector company can. We can't forget the vital socio-economic role the post office plays — for example, we deliver fresh groceries in the far north." Obligations to make regular fresh grocery deliveries in the far north, as well as deliver 43 million pieces of government mail per year to members of Parliament under their free franking privileges,[49] may have distracted Canada Post from its main business.[50]

Warren's affect on Canada Post Corporation's employees, managers, customers, and unions was not all negative. He believed that Canada Post could provide a social good in addition to on-time service to its customers for a reasonable price. While encouraging a positive morale is important, it is not enough to deal with Canada Post's problems. He erred in believing that service improvements would result merely from employees believing in themselves. Ultimately, he believed that in the long run, privatization with some employee ownership was the only route to success, but he could not gain the government's support for his plan.

In 1983, under Warren, Canada Post's marketing groups began new services such as meter-reading, selling travellers cheques and lottery tickets, collecting census information, renting lobby space, and electronic mail services, including bill printing at postal plants, banking services, electronic funds transfer, and the delivery of goods from stores to customer premises. Consumers Post, a creation of Canada Post, turned small rural post offices into catalogue stores for consumer distributing. At the local post office, customers browsed through catalogues, ordered goods, and picked them up. This made a large assortment of merchandise available to rural areas but was a threat to local retailers. Merchants who already provided similar services opposed this and complained that Canada Post's entry into their business territory represented unfair competition because monopoly profits from first class mail profits could subsidize new ventures.[51] Business owners complained to their politicians about unfair competition. Those politicians concerned about re-election heeded the pleas and terminated Consumers Post.[52]

Finally, Canada Post opened "New Direction" stores in shopping centres to encourage customers to spend more money on postal services. At these stores, customers could buy stationery, wrapping paper, and knickknacks, including the infamous "World's Greatest Postal System" baseball caps, when they mailed their letters. When this venture failed, the union insisted that the choice of inferior sites for its stores was politically motivated.[53]

Notes

1. Canada Post Corporation, *Annual Report, 1985 and 1986*, pp. 16-17.
2. In surprise testimony before the President's Commission on Privatization, Thursday, January 28, 1988, Dr. Gene A. Del Polito, executive director of the Third-Class Mail Association, requested that the private express statutes be limited to first class mail so as to allow all third class mail to be delivered legally by private mailers. Despite the risk to their subsidy, they feel their mail can be delivered cheaper by private carriers even in rural areas. George Johnson of Advertisers Distribution Service, Cambridge, MN, claims to be able to deliver advertising circulars in rural areas cheaper than the USPS, even at heavily subsidized rates.
3. Stanley J. Shapiro and J. A. Branhill, "The Post Office in the Market Place: A Ten-Year Retrospective," p. 59, 71.
4. Canada Post Corporation, Review Committee on the Mandate and Productivity of Canada Post Corporation, vol. 1, p. 9.
5. Shapiro and Branhill, "The Post Office in the Market Place," p. 60.
6. Ibid., p. 59.
7. *Considerations Which Affect the Choice of Organizational Structure*, Report of a Study Group to the Postmaster General, p. 36
8. This breakdown does not reflect the origination of all first class mail, where businesses predominate.
9. Canada Post Corporation, Review Committee on the Mandate and Productivity of Canada Post Corporation, vol. 1, p. 44.
10. Ibid., vol. 2, pp. 14-15.
11. Canada Post Corporation is a member of the Universal Postal Union which was established around 1883. It is now a United Nations Agency which facilitates the flow of international mails and assists in negotiations between countries on the division of postal revenues. Normally it promotes multi-lateral arrangements between its members for the delivery of each other's mail, and settles all accounts on the basis of the value of gold centimes. Canada Post Corporation, however, has preferred to deal with other countries on a bilateral basis and to negotiate settlements according to statistical measurements of mail volumes. This process, which Canada Post insists on, tends to be more of a "poker game," and has caused international discontent with Canada. This process may account for some of the favourable trade balance Canada Post has achieved in these accounts.
12. See table in U.S. Postal Service, *Annual Report of the Postmaster General, 1986*, p. 9.
13. *The Post Office*, Royal Commission on Government Organization, vol. 3, p. 312.
14. Walter Stewart, *Uneasy Lies the Head: The Truth About Canada's Crown Corporation*," p. 112.
15. Ibid., p. 111.
16. Stephen Raikes, "Michael Warren's Biggest Turnaround," p. 58.
17. Robert Albon, *Private Correspondence: Competition or Monopoly in Australia's Postal Services*.

18. Douglas K. Adie, *Monopoly Mail: Privatizing the United States Postal Service*, pp. 51-52.
19. Ian Senior, *Liberating the Letter: A Proposal to Privatise the Post Office*, pp. 6, 19.
20. Ibid., p. 33.
21. David Stewart-Patterson, *Post Mortem: Why Canada's Mail Won't Move*, pp. 27.
22. "Third-Party Review of Canada Post Corporation's Rates and Services," Consumer and Corporate Affairs, p. 7.
23. Senior, *Liberating the Letter*, p. 19.
24. Stewart, *Uneasy Lies the Head*, p. 112.
25. Stewart-Patterson, *Post Mortem*, pp. 24, 27.
26. Stewart, *Uneasy Lies the Head*, p. 112.
27. Raikes, "Michael Warren's Biggest Turnaround," p. 66.
28. Vic Baker, "USPS and Canada Post Service Across the Border Stinks," August 1986.
29. Ibid.
30. Stewart-Patterson, *Post Mortem*, p. 27.
31. Ernst & Young, *Performance Achievement of Canada's Mail Service*, March 1990, pp. 1-4.
32. Anne Bierne, "Sticky Fingers in the Bags."
33. Ibid.
34. The postal inspectors in the USPS comprise 3/5 percent of the labour force; in Canada Post, they are only 1/8 percent. In the U.S., they are almost five times as numerous relative to their respective labour forces. Stewart-Patterson, *Post Mortem*, p. 69
35. Bierne, "Sticky Fingers in the Bags."
36. Judge Marin became the first chairman of the board for Canada Post Corporation and was surprised to learn how few of his recommendations had been implemented. Needless to say, they were subsequently implemented. Raikes, "Michael Warren's Biggest Turnaround," p. 60.
37. Bierne, "Sticky Fingers in the Bags."
38. Don MacCharles, "CUPW and Saturday Mail Service," pp. 7-8.
39. David McFarlane, "Moving the Mail," p. 24.
40. Raikes, "Michael Warren's Biggest Turnaround," p. 60.
41. Peter C. Newman, "Why the Mail May Get Through," p. 42.
42. Stewart-Patterson, *Post Mortem*, p. 5.
43. Ibid., p. 196.
44. A carrier could deliver door-to-door mail to 450 addresses or deliver the same mail to addresses at 10 or 11 community boxes in one-fourth the time. Since daily carrier costs were approximately $60, this resulted in savings of $45 per day per carrier. Ibid., p. 276.
45. Shapiro and Branhill, "The Post Office in the Market Place," pp. 64-65.
46. Ibid., pp. 257-58.
47. Ibid., pp. 262-63.

48. Newman, "Why the Mail May Get Through," p. 42; and Raikes, "Michael Warren's Biggest Turnaround," p. 62.
49. Stewart, *Uneasy Lies the Head*, p. 114.
50. Shapiro and Branhill, "The Post Office In the Market Place," p. 71; Raikes, "Michael Warren's Biggest Turnaround," p. 61.
51. Stewart-Patterson, *Post Mortem*, p. 247.
52. Ibid., p. 246.
53. Ibid.

Chapter 6

Canada Post's Labour Force and Its Productivity

This chapter describes how the classifications of employees, work rules, and combative unions have gained workers' support, restricted management's flexibility, and even decreased productivity. The government ownership of Canada Post, the long purse of the government which covers deficits out of general revenues, and the government's difficulty in acting in a measured way in a politically charged atmosphere enabled the unions to do this. The excessive wages paid for low level skills and a work atmosphere not conducive to serious task performance contributed to the inefficiency. Negative labour relations have also seriously and adversely affected postal service quality, productivity, and efficiency. It is pointless to blame either management or workers because the present organizational structure provides no incentive to improve this situation.

Training

At Canada Post supervisors receive first priority in training. This was necessary because, when Canada Post first became a Crown corporation, unions communicated more effectively with workers than management and the workers knew more about the labour agreement than their supervisors. Jean-Claude Parrot, president of CUPW, even told Michael Warren, then president of Canada Post, not to talk to union members and offered to do it for him. Unions were so confident they told their members not to trust managers but to depend on them for reliable information. In 1983, to redress the situation, Canada Post adapted a ready-made programme to meet its needs called the Senior Seminar in General Management. This was a stopgap training programme until it could develop its own. Supervisors worked hard to train themselves and to modify the balance of power on the shop floor.[1]

In 1983-84 Canada Post set up its own two-day Action Programme to help supervisors understand the corporation's new direction, provide information and management tools, and improve communications with senior managers.

Also during 1983-84, senior management designed a two-week residential programme for supervisors to deal with the training needs uncovered in the Action Programme. In 1984-85 a thousand supervisors participated in this programme. In 1985 the main training for supervisors was the General Management Programme. Its primary purpose was to help the transition from a government department to a Crown corporation and help middle managers and supervisors improve their management skills.

Training improves labour quality. Annually, thousands of postal employees receive basic and technical training. In 1984-85 5,000 out of a total of 28,000 inside postal workers received skills testing, coder training, and remedial and manual-sort training through the Computer-assisted Learning Programme. The Travelling Micro version of the Learning Programme visited 3,000 offices across Canada and provided specialized training in marketing, sales, customer relations, official languages, pay and benefits, labour relations, security and investigations, and occupational health and safety.

Employee Occupations

Although Canada Post does not publish its employee roster by occupation, most employees are in production with some in management and administration.[2] Because the technology of mail handling is similar in both the U.S. and Canada, the distribution of USPS employees is useful for estimating the distribution of Canada Post's employees. In the USPS 11 percent of personnel are managers, less than 0.5 percent are headquarters employees, and the remaining 88.5 percent are production employees.[3] Also in the USPS, 15 percent of regular employees are executives, inspectors, managers, postmasters, supervisors, and technical personnel; 79.4 percent of the regular employees are clerks, mail handlers and carriers; the remaining 5.6 percent are building, equipment, and vehicle maintenance personnel (see table 13).

Table 13 lists the occupations with the number of employees in each for the USPS in 1985. The percentage distribution indicates the occupations with the greatest concentration of employees. For instance, clerks and mail handlers make up 33.5 percent of postal employees, followed closely by delivery carriers and vehicle operators, composing 24.1 percent of total employees. These are, by far, the largest categories and together make up 57.6 percent. Supervisors and technical personnel make up 6.2 percent; postmasters, 3.7 percent; and maintenance personnel, 3.8 percent of the total work force. All other categories have only small concentrations of employees. The interesting characteristic of these numbers is that despite the diffusion of mechanical devices and the introduction of new equipment which should have increased the demand for highly skilled personnel, no such demand occurred. About 80 percent of postal employees carry out low-skill-level tasks and these percentages and skill requirements have not changed very much in the last 20 years.[4]

Canada Post is the most extensive collecting, sorting, and disbursing mechanism in the nation. Mail handlers pick up mail from about 700,000 letter boxes across Canada and deliver it to processing plants.[5] These plants process almost 50 percent of Canada's mail with technologically sophisticated equipment. Mail handlers load, unload, and move bags of raw mail at 30 mechanized and about 400 non-mechanized processing plants. They separate the raw mail into matter suitable for mechanized processing and items of unusual size or shape that require manual handling. They sort mail not requiring scheme knowledge and operate certain mail-processing machines. They also cull out third and fourth class mail, send it to the AO sort (*autres objets*), send registered mail to registration, and non-machineable mail to a row of pigeon-holed cases where mail sorters hand sort it. In mechanized plants, they place bags on conveyors that sort mail according to class and category. They feed standard-size letters through a culler-facer-canceller that separates out unusual size envelopes, turns the remainder to face right side up, and looks for the fluorescent stripe that appears on every legal Canadian stamp. If properly stamped, it cancels it with a postmark and date.[6]

Table 13
Percentage Distribution of U.S. Postal Labour Force by Occupation, 1985

	Number of Employees	Percentage
Headquarters employees	3,077	0.4
Field regular employees:		
Regional and other field units reporting to headquarters	6,536	0.9
Inspection Service	4,370	0.6
Postmaster	27,811	3.7
Post Office supervisors and technical personnel	46,279	6.2
Post Office clerks and mail handlers	248,939	33.5
City delivery carriers and vehicle drivers	179,198	24.1
Rural delivery carriers	35,206	4.7
Special Delivery messengers	1,832	0.2
Building and equipment maintenance personnel	28,477	3.8
Vehicle maintenance facility personnel	4,218	0.6
Total regular employees	585,943	78.7
Total substitute employees	158,547	21.3
Total	744,490	100.0

Source: U.S. Postal Service, *Annual Report, 1985*.

At mechanized processing plants, conveyors forward cancelled letters to in-trays for internal distribution to clerks who either sort it manually by carrier route for delivery next day, if local mail,[7] or direct it by conveyor belt to an optical character reader (OCR), if non-local. OCRs, designed in Japan, process the mail of large volume mailers.[8] Laser-printed addresses, which some companies put on envelopes, give the codes good definition and allow the OCRs to index and process 30,000 envelopes an hour without rejections. Each second, the OCR sucks up eight letters one at a time from the input stack. As each letter passes before a prescanner, 128 light-sensitive diodes identify the area on the envelope containing the postal code made up of 6 characters divided by a space.[9]

The prescanned location sends the code to the main scanner so it can pick up a reflection from the light of a cathode ray on 4 photo-multipliers, which amplifies the signals and sends the patterns of light and dark to the computer. On comparing the patterns with its memory of alphanumeric characters, the computer chooses the most likely postal code and sends it to the video printer. As the edge of the letter passes before the printer's light beam, a stream of ink broken into tiny dots prints a series of bars across the envelope (corresponding to the postal code).[10] The OCRs now in plants can sort mail into 18 slots while the newest models can sort into 250 slots. If the OCR can't read the code, the bars are put on manually by an operator. Once the bars are placed on the envelope, it goes to its destination before it is checked. If there is an error in coding, it can involve substantial delays.

Bar code readers (BCRs) read the bar code and sort accordingly. Alternatively, letter sorting machines (LSMs), when available, process the mail. The LSMs have "sortation plans" that are programmed from a central computer (CPU) which correspond to the bar coding indexed by the group desk suites (GDS) or the OCR machines. Machines wait for the operator to set up the sortation plan in a very short time period (usually less than a minute since everything is pre-set). Clerks sort mail into sacks for other urban areas. Trucks, planes, trains, or boats transport the mail to destination post offices where clerks sort it again by carrier route for delivery.[11] Clerks sort letters manually in non-mechanized processing plants. If the postal code is illegible or improperly located, the OCR rejects the letter and sends it to the GDS for coding.

At the larger mechanized processing plants, keyboard operators sit in rows at GDSs. The letters accumulate in stacks over the GDS operator's head and drop one at a time to a viewing window at eye level. The operator reads the postal code on each letter and punches the alphanumeric-alpha postal code on the keyboard. The GDS prints a yellow bar code on the letters that the LSM reads for sorting for particular destinations. A good GDS operator can punch 2,000 postal codes an hour, although few do. The job demands focused attention, strains the eyes and back, and hurts the fingers.

Mechanization has not delivered the efficiency some expected. There are numerous reasons for this. For instance, workers at South Central in the Toronto area, the biggest letter processing plant in Canada, go to the washroom whenever they please and tend to go frequently when assigned to a GDS. Because of this, machines which the mechanics strive to keep 100 percent operable are sometimes in use only 50 percent of the time. The GDSs are often unused even though bags sit unopened on conveyor belts in the mail prep room. Another reason is that the rejection rate from machines to manual sort sometimes runs as high as 60 percent.[12] While mechanization has speeded up mail within plants, mail flows between plants and regions is still poor.[13]

Clerks manually sort non-standard size envelopes. A manual sort clerk said, "maybe 25 percent of the people here do a good half day's work each shift." Another employee took a sip of coffee and chuckled through a cloud of cigarette smoke at the notion that anyone who worked at South Central had cause for complaint. "With overtime and bonuses, I make $35,000 a year [1982] and I'm not worth it."[14] LSMs process letters with machine readable addresses and send them to 288 destination slots at a rate of 20,000 per hour. At a final grouping area, mail handlers divide letters according to destination and send them by truck, air, or rail for delivery to 8,000 postal facilities, although 80 post offices handle about 80 percent of the mail business and the remaining post offices handle 20 percent. From there letter carriers or contractors deliver mail to more than 10 million addresses in Canada.[15]

Not all mail passes through each stage of these processes. For example, letters addressed to boxholders do not require home delivery, and mailers often haul their own second class publishers' mail to the urban area where Canada Post delivers it. In addition to mail processing, window clerks at any of the 8,000 post offices offer a variety of services. They collect revenue for stamps, parcel post, permit mail, and special services. They are familiar with postal laws, regulations, and procedures and are supposed to maintain pleasant and effective public relations with patrons. Support functions, such as industrial management, research and development, accounting and finance controls, and general management and administration, aid the supervision and control of the mail flow.

A post office's work day focuses on two peak loads: one in the morning for incoming mail and one in the evening for outgoing mail. Processing at these two times differs. In the evening, clerks code mail and then schedule its transportation, while in the morning, clerks sort the carrier routes. (This sorting requires a detailed knowledge of "schemes" or distribution patterns.) Letter carriers sort, bundle, and bag their mail into house and street order and bundle it for transportation to the route boxes.

To accommodate these load peaks, there are three shifts in a 24-hour work day. Clerks working shift one (11:30 P.M. to 7:30 A.M.) process incoming mail. Clerks working shift two (7:30 A.M. to 3:30 P.M.) collect business mail, deliver mail, and process low-priority mail. Those working shift three (3:30 P.M. to 11:30 P.M.) process outgoing mail. Large fluctuations in outgoing mail volume and overlapping work assignments place the greatest strain on those working shift three. Supervisors assign employees to each shift as manpower needs require. The most experienced workers with the most seniority, however, select daytime work which allows them the most slack time.[16]

Because the post office cannot refuse to accept appropriately stamped and addressed mail, the public, instead of a post office, determines the volume of work. Given the workload, staffing needs are determined by established criteria which takes into consideration the volume of mail processed and the size and equipment of the installation. This leaves postal managers little control over the number of persons available to them for work. More recently, postal managers have gained some control over the number and type of personnel available through contract negotiation. The flexibility allows them to use casual or term employees to process peak loads at lower cost than the use of full-time workers at overtime rates.

City and rural letter carriers are about 29 percent of the total work force. They sort mail for their own delivery and receive less supervision than the clerks because they do most of their work individually outdoors. How is a letter carrier's route determined? It is delivery by its length, the hills and valleys of the terrain, the number and kind of mailboxes, and the average volume of mail. Once a route is defined as one day's work, however, the carrier is at liberty to collect his eight hours of pay and go home when he finishes, no matter how much actual time he spends on the job.

Some carriers do their routes slowly, while others walk fast, take short cuts, drive their cars between areas, and omit their negotiated breaks and wash-up periods.[17] Union members readily admit their routes can be done easily in six or seven hours. In 1981 Auditor General Kenneth Dye said a majority of letter carriers finished their daily routes in five to six hours, and an ambitious carrier could finish it in four. The Australian auditor general concluded that Australia Post's carriers could complete their routes in a little more than half the hours they were paid for.[18]

According to the labour agreement, Canada Post's full-time letter carriers have the right of first refusal to substitute for carriers who are absent because of vacation or illness. After they finish their own, carriers can deliver their colleagues' routes and receive pay at the rate of time-and-a-half for an additional day's work. The Marchment Committee noticed that letter carriers receive pay for the standard eight-hour shift while they often complete their own routes in four or five hours. After that, they deliver an absent colleague's route in three or four hours while earning time and one-half for an additional day.[19] This policy encourages absences and prevents Canada Post from replacing absent carriers with casual workers who are paid straight time at a lower wage. It also explains why workers take as much unpaid as paid leave. If supervisors do not grant leave, workers take it anyway and share the benefits.[20]

Independent contractors deliver mail in remote areas where service is difficult. Besides delivering mail, rural carriers provide retail postal services such as selling stamps and receiving parcels. Their workday ends when they complete their deliveries and a few clerical duties. Route length, the number of patrons served, and mail volume determine their pay.

Maintenance employees repair automobiles, air conditioning, mail-processing equipment, elevators, and serve as janitors. Motor vehicle employees pick up and transport mail regularly in trucks along predetermined routes. Messengers deliver Special Delivery mail in vehicles. These groups make up about 5 percent of the postal labour force.

A job description, supplemented by manuals and letters of instruction, strictly regulates each occupation, describes the nature of the work and how it should be done. Employees are only responsible for performing their minutely described, routine jobs. Notwithstanding the increased use of machines for some operations, the technology is simple. The most stringent regulations affecting the largest number of employees are the skill requirements for scheme clerks who usually sort mail. Except for these and a small number of maintenance positions requiring mechanical or technical skills, the occupational requirements in postal crafts are not exacting.

The Postal Guide contains postal rates and regulations covering classifications of mail.[21] Officials receive documents from their superiors expanding their job descriptions which become the basis for further subdivisions of responsibilities to permit the assignment of tasks to subordinates. Officials subdivide tasks so no one carries out a complete unit of work.[22] Each person relates any particular circumstance to an existing regulatory framework covered by a rule. Nothing can be done unless there is specific authority for doing it. This description applies to the system when it is functioning satisfactorily. When discipline breaks down, it can be much worse.

Canada Post is a labour-intensive operation that depends more on how employees perform in individual and group tasks than on machines. Managers must hire, train, supervise, promote, and direct a large dispersed body of employees. In Canada Post, like the army, superiors state functions and procedures, apply rules, and delegate authority. Headquarters, however, delegates only limited authority. District directors require permission from headquarters to begin, extend, or end service, and for disciplinary actions. Today, postal executives and managers appear to be working under a totalitarian organizational structure where firing and employee abuse is present and fear is the main motivator.

Table 14
Canada Post's Labour Utilization and Salaries, 1982-86

Employee Classification	1982-1983 ($ Mil.)	1982-1983 Person-Years	1983-1984 ($ Mil.)	1983-1984 Person-Years	1984-1985 ($Mil.)	1984-1985 Person-Years	1985-1986 ($ Mil.)	1985-1986 Person-Years
Full-time	1,315	53,989	1,429	53,488	1,483	53,544	1,498	52,771
Part-time	127	5,122	136	4,967	137	4,956	143	4,999
Casual	37	1,623	40	1,499	55	1,972	56	1,831
Overtime	66	1,468	67	1,532	98	2,005	114	2,215
Benefits and Other	314	—	304	—	347	—	397	—
Total Salaries and Benefits	1,859	62,202	1,976	61,486	2,120	62,477	2,208	61,816

Source: A person-year represents number of hours of regular time worked by one person in one year. The number of positions abolished in a year does not coincide with the person-years saved, because a position abolished after the beginning of a year does not result in the elimination of a full person-year. Canada Post Corporation, *Annual Report, 1983-1984*, p. 30; *1985-1986*, p. 19.

Types of Postal Employees

Postal officials use three types of employees to fill manpower needs: full-time, part-time, and casuals.[23] (See table 14.) Postmasters, supervisors, rural carriers, and most clerks, carriers, and mail handlers are permanent full-time employees and comprise 85 percent of postal employees. In the USPS only 70 percent of the work force are permanent full-time employees. A high percentage of full-time employees forces managers to make more difficult choices in processing fluctuating quantities of time-sensitive materials in time-processing "windows." For instance, there is available processing time ("window") for pickup, transportation, sorting, et cetera. If the mail is not processed sequentially and on time in its window, it is delayed. Aircraft schedules and capacity, airline deliveries, and traffic surrounding metropolitan airports at critical times of the day impose further constraints on these windows.

Over a two-week period there might be a difference of 40 percent in daily mail volume between the lowest and highest volume days. The postal manager can pay a large enough staff of full-time employees to staff large-volume days promptly. This choice yields the highest on-time delivery but at the highest cost, as many full-time employees will be under-utilized much of the time. Another high-cost alternative is to pay regular full-time workers at the overtime rate of time-and-a-half to process the large volumes. Another choice is to use only enough full-time employees to handle the average mail volume, and process the high-volume mail the next day. This saves costs (manpower) but reduces on-time delivery. The most attractive and cost-efficient management choice is to use part-time and casual employees to process high-volume mail. Unions vigorously oppose this strategy and prevent management from meeting surges in mail volume and improving productivity by staffing positions economically.[24] Efficiency, costs, and speed of delivery are interwoven in this issue.

Union practices have also slowed the mail flow. For instance, according to work rules, inside sorters with the most seniority can choose their shifts. This encourages the more experienced sorters to choose day shifts, when very little mail is sorted, leaving the other shifts, when most of the mail is processed, to newly hired and inexperienced workers. To compound the inefficiencies of this "bidding down" system, the best managers leave the plants where their skills are needed to go to Ottawa where the salaries are higher.[25]

The British Post Office faces the same issue with its unions. In September 1988 the unions struck to curtail managers' ability to hire and use temporary staff to handle peak volumes. The Conciliation and Arbitration Commission, which settles labour disputes, sets wage guidelines, and arbitrates and negotiates work rules, supported cost-containment and an end to restrictive work practices. A British Post Office spokesman said that their agreement condoned the use of temporary staff, reasonable levels of overtime pay, and even the diversion of peak volume mail to offices that could handle it.[26]

Full-time employees receive salaries, so their earnings do not depend on the number of hours worked except for overtime. Once a manager assigns full-time employees to a post office, he cannot transfer them without consent and must give them priority in staffing. Superiors can fire them only "for cause," so they enjoy almost continuous tenure. Part-time employees provided only 8 percent of the labour services in fiscal year 1985-86. They have fixed work schedules which usually do not exceed 20 hours a week. Managers use casual employees to replace employees on summer vacation, to augment the regular work force during peak periods, and to meet the Christmas rush. Casual employees provided only 3 percent of the labour services in fiscal year 1985-86 and do not have fixed schedules.

Labour Relations at Canada Post[27]

After World War II, the department hired veterans as supervisors who ran the POD like an army. They put hidden cameras in washrooms to monitor employees who took excessive or unauthorized breaks and used peep-holes to spy on workers suspected of theft and mail destruction. These actions bred distrust, animosity, and paranoia among employees working long hours for low wages. Although postal workers had secure jobs, the work environment made them targets for unionization. Two unions, the Letter Carriers Union of Canada (LCUC) and the Canadian Union of Postal Workers (CUPW), gained recognition for outside and inside workers, respectively; CUPW introduced collective bargaining and legal strikes to civil service workers. The POD managers, unwilling to acknowledge what had happened, refused to deal with the unions and stalled contract negotiations. This behaviour of management encouraged the radicals to take over the unions' leadership.

In 1965 the unions asked for wage increases of $660 per year for their members, while the government offered $300 to $360. In Montreal, Toronto, and Vancouver union locals launched wildcat strikes. By July 1965 both unions called their members off their jobs and closed down service. Revenue Minister Edgar Benson declared the strikes illegal but offered immunity to the strikers who returned to work. Twelve thousand out of 22,000 strikers returned. Those staying on strike kept 70 post offices closed. Instead of firing the illegal strikers, however, the government appointed a commission to investigate the impasse and asked the workers to go back to work until the report was completed. Postal workers complied everywhere except in Montreal.

On August 4 the unions accepted the commission's recommended wage increase of $510 to $550 per worker.[28] By rewarding the unions for their belligerence, the commission strengthened the unions at the expense of management. Sharp cost increases for labour services followed. The department responded by contracting out as much work as possible to independent contractors with non-unionized workers. When the unions were unsuccessful in stopping this practice, they organized the workers of the independent contractors and raised their wages to remove the advantage to the POD from contracting out.

In 1969 in a celebrated case, the POD without competitive bidding gave a $3 million annual contract to Rod Service Ltd. to carry mail in Montreal. At the time, Rod Service's employees worked 75 hours per week at $1.67 per hour with no overtime pay differential.[29] The Confederation of National Trade Unions (CNTU) organized Rod Service workers and, after two strikes, won large raises and a 48-hour week with an overtime pay differential. Rod Service could not absorb the increased costs and went bankrupt. The POD then awarded its contract to G. Lapalme, a fictitious company named after the two Lapalme brothers, the union's business managers. On December 2, 1969, the government abruptly cancelled its contract with Lapalme and divided it among four new companies, none of which had any obligation to hire Lapalme's workers.

Postal unions protested this betrayal and struck and harassed the POD. They destroyed more than $3 million of POD equipment and de-stabilized postal operations in Montreal until 1972. The government appointed H. Carl Goldenberg to conduct an inquiry. He recommended that the POD drop the private contracts and hire Lapalme's unemployed truckers. The POD accepted the report, but hired only 257 of the 427 truckers and at lower wages than they had received with no union. CNTU first supported the truckers but later withdrew its support when its $20,000 strike contribution mysteriously disappeared.

Older postal supervisors resented younger, better-educated workers who, in turn, showed contempt for their elders. Labour-management relations in the POD worsened after this bad start. Unable to deal with labour relations problems, management tried to reduce labour costs by using automatic letter-sorting machines and attempted to convince workers they would gain more than lose from using the machines.[30] In March 1973 Canada Post bought 33 Nippon OCRs from Marsland Engineering for $379,000 each. Workers were sceptical and distrusted management's appraisal of the benefits this equipment could offer.

The Canada Labour Code allowed private, but not government, workers to bargain collectively on automation issues. So, legally the POD could and did refuse to consult with unions about these labour-saving machines. Instead, management introduced the machines into one plant at a time and tried to minimize the extent of the changes. As the union saw the mechanization programme expanding beyond what they were led to believe, they opposed it. Even the POD announcement that it would install the machines without laying off any current full-time employees during the present agreement did not change the union's position.[31] When Postmaster General Kierans cautioned employees that they might have to accept relocation, reassignment, and retraining, he raised workers' fears of moving. When introducing the machines, the POD blundered again by paying coding clerks less than manual sorters.[32] Postal clerks did not want the lower paying and more monotonous jobs of operating the sorting machines.[33] This converted all inside employees into enemies of automation.

To sabotage the mechanization programme, the union launched its own political programme. First it asked the public to boycott the postal code and even threatened to treat uncoded letters preferentially. This failed as the public continued to use the code. Second, the union encouraged some postal workers to wear obscene T-shirts.[34] The POD suspended those employees wearing the T-shirts indefinitely. The Montreal workers risked dismissal and illegally struck, closed, and occupied the Peel Street terminal. To save this ill-conceived and floundering effort, the Montreal workers beseeched their fellow postal workers across the country to join the strike. When they responded, a special mediator was appointed who proposed lifting the suspension, barring reprisals, and appointing a committee to settle the coding clerks' pay. The government and the union accepted this proposal.[35]

Postal workers protested violently and conducted wildcat strikes until in 1973, when an arbitration board recommended the formation of a labour-management committee to discuss labour issues connected with automation. The POD stalled the automation talks for two years while they continued automating. In April 1974 Montreal postal workers protested the installation of the machines. When the POD suspended 300 protesters, 2,000 union members walked out and stayed out until the government promised them that automation talks would begin. In early 1975, when the talks had still not begun, workers staged a slowdown.

To combat the slowdown, Postmaster General Bryce Mackasey fired 27 workers and suspended 700 more, which he replaced with 1,000 students. Union goon squads assaulted the students, slashed their tires, and vandalized their homes. When the police refused to protect them and their property while they moved the mail, the students quit. Unions continued to protest automation by conducting wildcat strikes, sabotage, assault and battery, slowdowns, and a total shutdown for three weeks in December 1975.

In 1974 Hay Associates surveyed 5,870 postal managers. Canada Post's managers were more negative about their working conditions than anyone Hay had ever surveyed. They did not rate any aspect of their job as positive or even average.[36] They complained of personal abuse, lack of administrative support, dishonesty, theft, and vandalism. Postal workers had become very sophisticated in the use of ploys to thwart their supervisors.[37]

For instance, postal executives told the manager at the Sherbrooke plant to build a discipline case against a trouble-making local union president. It took the manager two years to accumulate enough infractions to make a good case which finally resulted in firing. The manager could hardly contain his elation. He confided to the postmaster, "how delighted my wife is that guy is gone...For two years he and his two goons [hassled me]...one car in front, one car behind, bumping me down the highway."[38] In 1978 at the Gateway plant, discontented workers threatened and attacked supervisors, smashed their windshields, and bumped their cars. To show indignation at the workplace, one worker would stand on a supervisor's feet while another urinated on him.[39]

Managers complained that the administration did not support their disciplinary actions against workers. And, in fact, the POD was more responsive to its unions than to its managers. A western city manager suspended a letter carrier for regularly claiming overtime pay for a route that could easily be delivered in regular time. Although the manager even cleared the three-day suspension with the local union, the grievance committee cut the suspension to half a day and expunged the worker's record.[40] A Maritimes postal driver, convicted of drunk driving, lost his license. His union leaders advised him to keep his mouth shut and keep working. When the postmaster learned this he suspended him for three days. On appeal, the suspension was reduced to one day.[41]

Plant vandalism poisons the work atmosphere and causes supervisory problems. For instance, in 1978 at Gateway, workers called packages with "fragile" stamps, "air mail," and deliberately tossed and damaged them. Around Christmas, when gift boxes broke open, workers fought for the exposed items. Not all workers engaged in this destructive sport. Many just slept, played cards, smoked marijuana, or drank alcohol.[42] The Canadian Parliament stiffened its resistance to the postal unions in response to the 1978 strike, and passed a back-to-work law and jailed union leaders for not publicly supporting the law. Two vigilante patrons retaliated against the POD and the inside workers' strike by assaulting a Hamilton letter carrier.

In a multi-storied processing plant, moving mail depended on the elevator. Night shift workers frequently rammed their forklifts into the elevator doors "accidentally" to immobilize the elevators. This meant they could all go out for coffee. The accident statistics for Canada Post's processing plants, if they can be believed, indicate they are more dangerous than steel mills or coal mines. Canada Post employees are absent because of sickness or on-the-job injuries twice as much as employees of the USPS, and twice the regional level of both industry and the public service.[43] Horseplay accounts for some of the accidents. Others are for twisted fingers, which entitle workers to six weeks off.[44]

An unidentified Canadian postal worker said Canada Post is "ridiculous." Workers, like himself, were grossly overpaid. He said he saw workers playing football and hockey with parcels in the station. Workers spend more time on coffee breaks than at their posts. He said workers work four or five hours and get paid for eight. Furthermore, they receive more than the average steelworker, who works extremely hard. "It's just a honeymoon in there," he said. "You have people who can't read or write making $20,000 a year, and they're still not satisfied. If any private company ran a business the way that union runs it, it would be broke by now."

After spending $1.5 billion on automating equipment, the POD was machine-sorting only 45 percent of the mail. The Marchment Committee said that management created hostility unnecessarily with the clumsy introduction of the mechanization programme. Many believed that the POD could improve service, labour relations, and efficiency as a Crown corporation.[45] CUPW supported the Crown corporation in order to escape from the Public Service Staff Relations Act. CUPW believed it could bargain for better protection from automation under the more liberal Canada Labour Codes because, as a Crown, Canada Post would have to negotiate directly with employee representatives with the help of conciliation services specifically denied under the act.[46] In desperation, everyone pinned their hopes for improved postal service on the change to a Crown corporation.

How have labour relations fared at Canada Post since reorganization? In the spring of 1981 the government appointed Michael Warren president of Canada Post, but he did not take office until October 16, 1981, when the act became law and the government department, a Crown corporation. Warren escaped responsibility for the contract signed in August 1981 which settled the 42-day strike preceding the change, and gave most inside workers at South Central shift differentials and 17 weeks of paid maternity leave, in addition to almost $12 per hour including cost-of-living allowances. The early history of Canada Post since it became a Crown corporation coincides with Warren's tenure; Warren stayed in the job until mid-1985.

In 1982 a postal worker said,

> Michael Warren for all his good intentions doesn't stand a hope in hell. Nothing is going to change here unless there's a great, great revolution. They'd have to fire everyone to get it to work. And then they say, 'You can't fire anyone. It would be chaos.' Well, it's chaos now. It's an insane sort of thing that grows and grows.[47]

Another postal worker remarked, "there's nobody here to talk to. We really don't have a place to go and complain and get some action. There are too many chiefs, and it's called 'cover your ass and protect your job.'"[48] An anonymous postal worker at Toronto's South Central was bitter and angry because management either ignored his proposals for improvements or stole them.[49]

Warren believed the solution to the dreadful labour-management relations was to make Canada Post's employees proud of their employer. Many postal workers sense Canada Post's bad image, are ashamed to reveal their employer's identity to others, and sometimes go to extreme ends to conceal it. For instance, at the South Central facility, only shop stewards and mechanics wear the official pale blue shirts which identify Canada Post's employees. Instead, workers wear designer jeans and open-necked shirts and say, "for the government" instead of Canada Post if someone asks them where they work. One worker said the post office has such a bad reputation that "when people find out I work for the post office, the reaction is always the same: 'Oh, you're one of those.'" A young woman was so embarrassed by Canada Post that she wouldn't even tell her daughter where she worked: "When the post office improves its image, I will tell her."[50] In recounting a conversation with an employee, Warren said, "I was talking to an inside worker. He told me if asked at a party about where he worked, he'd always say 'with the federal government,' never at the post office. Well, that's one attitude I'm going to change."[51]

Postal employees blame the boredom, noise, bottle-necks, mis-sorts, management, unions, and the size of the postal facilities for the negative work environment. The South Central, Gateway, and St. Laurent plants process more than 60 percent of Canada's mail.[52] Even Warren jumped on this bandwagon and said these large plants are "breeding grounds for employee discontent...Some of the analysts say these plants are just too big and inhuman *to be* manageable."[53] It has become fashionable to blame these highly automated computerized facilities for postal problems, rather than to see them as part of the solution.

Warren had a mandate to take advantage of technological developments in communications.[54] At the beginning of March 1984, he and his board drafted a business plan to make Canada Post profitable in three years and threatened to privatize Canada Post's most profitable functions if he did not succeed. Warren said,

> The fundamental issue is to find ways of improving our productivity and sharing the result and the benefits with our employees, making certain they understand there is really no other way to ensure job security.

And he warned that,

> If the union leaders decide to strike a death blow at our plan, that would raise the spectre of privatization. If they cannot accept our policy of no layoffs but reduction through attrition, we may have to spin off the post office's profitable parts, leaving it as a small branch of government responsible for delivering health and welfare cheques to remote villages. Most of our people have enough common sense to know that what has been going on for the past 10 years can't continue forever."[55]

When William Findley, former executive vice-president of the comparatively moderate LCUC, heard about Warren's business plan he called it "trickery of the lowest order" and accused Warren of acting to feed "his [own] above average self-esteem."[56] Jean-Claude Parrot, head of the more militant CUPW, threatened "industrial chaos" if Warren did not modify the plan.[57] Unions responded to the mechanization programme with legal, wildcat, and rotating strikes and sporadic work stoppages.[58] The union's tactics will not destroy the market system, but they can destroy Canada Post.

In October 1987 the CUPW, representing 23,000 inside workers, staged rotating strikes for eight days because they had been without a contract since December 30, 1986. Harold Dunstan, labour-relations manager, said Canada Post made its final offer in October 1987.[59] On the second day of the strike, 600 workers walked off their jobs. More than 3,000 Montreal workers defied their union leaders who had told them to return, and continued striking. Canada Post replaced strikers with cheaper temporary employees and refused to allow the strikers to work immediately when they returned.

In 1987 the LCUC negotiated a paid lunch break for its members, provided they made up for the shorter hours with increased productivity. Forty-four hundred office workers also negotiated paid lunch breaks. A conciliation report recommended 1,400 technicians in the same union be given the paid lunch break, reducing their work week from 40 to 37.5 hours. Despite the report, Canada Post refused to give the technicians a lunch break. Negotiations collapsed in August 1988 and a strike ensued.[60]

Reorganizers of the POD hoped that changing to the Labour Code from the Employment Act would lessen, if not correct, labour relations problems.[61] Did the organizational change from a government department to a Crown corporation affect Canada Post's labour relations?[62] In 1985, four years after reorganization, the Marchment Committee unanimously stated they had never seen any labour relations more acrimonious than those existing between management and unions at Canada Post. "They are poisonous to the point of the potential destruction of the enterprise."[63] The lack of trust springs from class war rather than a recognition of mutual goals. The code gave postal workers job security related to hiring, firing, promotion, and demotion in labour union contracts and appealed to the unions. The postal unions' privileges have had a devastating affect on Canada Post's ability to do its job.[64] The unions have wrested control of the operation from management with strikes, walkouts, and slow-downs. The committee report also noted that although mail volume had risen only 25 percent in 20 years, operating costs (excluding personnel costs) expressed in constant dollars had increased by 75 percent.[65] Personnel costs rose much more rapidly, increasing by more than 300 percent in constant dollars in the same period.[66]

The total number of grievances is excessive and the ratio of disputes referred to arbitration is high.[67] Most grievers averaged two absent days per month for two years, had poor work records to begin with, and complained for personal reasons. Also, 3.5 percent of total union membership filed 45 percent of the grievances with 1 percent of the membership filing 28 percent of grievances. Perennial grievers and grievances about casual workers account for a substantial proportion of the total. Twelve percent of the grievances are complaints about losing the chance to work overtime because of casual workers.[68] The largest category of grievances, however, was responses to disciplinary action against employees.

How do these grievances arise?[69] In a counselling session, a supervisor may interview an employee who is often late, refuses to work properly, or takes days off without permission or legitimate excuse. If, after several sessions the employee does not change, he may be given a warning letter which goes into his file, or he may even be suspended. If he continues, he can eventually be fired, but not without a large body of evidence. The standard worker response to a warning letter, suspension, or firing is to file a frivolous grievance complaining about harassment, discrimination, and a violation of civil rights or privacy.[70]

The union escalates every dispute into a political problem because a political settlement is more advantageous to itself and its members. The government encouraged the use of this process by paying the full cost of arbitration for Canada Post employees while private sector unions and companies generally split the costs.[71] Also, wholesale quantities of grievances clog up the process, making discipline less certain.

Before 1989, eight bargaining agents represented postal employees in 26 units.[72] Because the bargaining units negotiated at different times, there was almost a constant strike threat. Since 1970, there has been an endless series of wildcat walkouts, strikes, and other labour disruptions. The history of strikes and work disruptions prompts many to ask whether postal workers should have the right to strike, and management the right to lock out. Most Canadians think strikes at Canada Post should be illegal.[73] Many people urged recision of the postal employees' right to strike. The Marchment Committee believed the present course "will in the end lead to the demise of Canada Post, as we know it. Such an outcome is inevitable unless the climate of labour-management relations improves. Everyone will lose." John Bullock, president of the Canadian Federation of Independent Business said, "I want to see one union and the elimination of the right to strike. CUPW is an anarchist rogue union whose leadership would be happy to see the whole market system collapse."[74] Labour peace is important, but it cannot be legislated.[75] Neither can marginal changes, such as abolishing the right to strike, correct Canada Post's labour relations.

Canada Post's labour relations strategy is to reduce its labour relations problem by reducing its labour force. Franchising stamp sales and counter operations to private businesses can ultimately eliminate 4,200 union jobs in Canada Post.[76] Canada Post plans to franchise many of its post offices and sub-post offices. A conciliator supported Canada Post's right to sell franchises so long as existing employees retained their jobs. This reduces labour problems and saves about 50 percent of its costs.[77] This strategy alarms union members who covet the easy jobs behind the wickets which this franchising eliminates.

In January 1988 postal workers picketed Canada Post's offices to disapprove privatization and rural post office closings. Canada Post warned them not to engage in activities "considered damaging to the corporation," including picketing which gives the corporation a bad name and affects its business, and notified them of possible disciplinary action. Speaking for CUPW, Deborah Bourque said Canada Post was trying to muzzle criticism by its employees and intimidate the union. Civil libertarians said that Canada Post's threats were an infringement of free speech and went beyond legitimate grounds for discipline.[78]

Although labour relations in Canada's postal system might be the worst among postal systems, these problems are by no means unique. Australia Post also has a poor labour relations record. John Vickers and George Yarrow suggest that competition is more important than ownership for labour relations questions.[79] The managers and public officials have little incentive and less political appetite to take a strong negotiating position which would restrain cost increases.[80] Robert Albon says the main cause of industrial disharmony is the monopoly which allows profits and slackness to prevail, while the unions seek the best settlements for their members. Wendell Cox says wages and benefit packages tend to be more costly in a non-competitive environment.[81]

In comparison with government-owned monopolies in other countries, the British postal system looks good.[82] David Stewart-Patterson suggests that if, in 1978, the government had threatened the striking Canadian postal workers with a back-to-work bill, the government would have needed to fire all the law breakers as Reagan did to the PATCO members in 1981. Arresting union officials would not have been enough.[83] In September 1988 Madsen Pirie threatened the striking British postal workers, "if the strike is still locked in by the weekend, ministers could turn their thoughts to licencing competition."[84]

Are the conditions at Canada Post hopeless? Would a private sector company be able to function opposite the postal unions?[85] People are divided on this question.[86] Instead of contracting out, the government could sell Canada Post to a private buyer. David Stewart-Patterson says privatization could end the labour relations problems but it might mean closing down the Crown corporation and letting private companies deliver the mail. This could be done through granting a single contract for the entire country, several regional contracts, or contracts for functional divisions such as sorting, transportation, and delivery. This new arrangement would replace current postal workers and their unions with cheaper labour. Madsen Pirie, however, is more optimistic on the prospects for the corporation if postal employees were given the opportunity to buy shares of Canada Post.[87]

How do private companies provide the same services cheaper than public companies, even though both have unions?[88] Robert Poole says that all business costs are not fixed, but are a function of the entrepreneur's skill and judgement. Private companies reduce costs over several years by using fewer people to do the same jobs and using a mix of full- and part-time people instead of all full-time employees. Employment reductions represent real cost savings when 200 people collect the garbage or distribute mail previously handled by 300 people.[89] In a 1976 National Science Foundation study of garbage collection, private firms saved 50 to 60 percent of public costs. James McDavid found similar cost savings from privatizing solid waste collection in Canada and says his findings are applicable to other municipal services as well.[90] What are the savings from privatizing other municipal services? Table 15 indicates that the mean cost saving from privatizing other municipal services is 58 percent. The largest municipalities are least likely to contract out services like solid waste collection, however, because they prefer to maintain their own operations.

Table 15
Results of 1984 Eco-Data Study of Southern California Municipal Services

Service	Municipal Cost Premium Over Private Firms Costs (percent)
Street tree maintenance	37
Street sweeping	43
Grass maintenance (parks, median strips)	43
Traffic signal maintenance	56
Building maintenance	73
Asphalt paving and repair	96
Mean	58

Source: *Privatization: Tactics and Techniques*, p. 85.

The Influence of Working Conditions

In March 1983 Herbert Northcott and Graham Lowe studied the effect of working conditions on the psychological and emotional state of Canadian postal workers.[91] They surveyed 1,529 Edmonton postal workers: 753 CUPW members (inside workers), and 776 LCUC members (outside workers), and also surveyed non-postal blue-collar and non-professional white-collar workers whose occupations approximated those found in the post office. They tried to distinguish significant differences of psychological distress among these three groups of workers: namely, "inside" and "outside" postal workers and non-postal workers. From the survey the average postal employee was 34 years old with 12 years of education, while comparable non-postal workers were slightly older, better educated, more likely to be working the day shift, but with less job seniority at their current jobs. These results suggest that because postal workers are younger but have more seniority than non-postal workers, turnover among postal workers is much less than among their private sector counterparts. Whatever distress postal workers suffer does not lead them to quit their jobs as much as comparable private sector workers, even though they are more likely to be working the afternoon or night shift. Anyone who has worked shifts realizes that this aspect alone can introduce considerable stress into one's life.

In the survey postal workers claimed to suffer more job stress and psychological distress than non-postal workers. Postal workers were less satisfied with their jobs (59 vs. 80 percent); more likely to report being under pressure at work (34 vs. 28 percent); and considered work pressures to be more problematic (32 vs. 22 percent). Also, fewer postal workers rated themselves as being in good mental health (64 vs. 88 percent). However, letter carriers complained of less job and psychological stress than inside workers. Among inside workers, those at automated letter sorting machines report the highest stress levels.

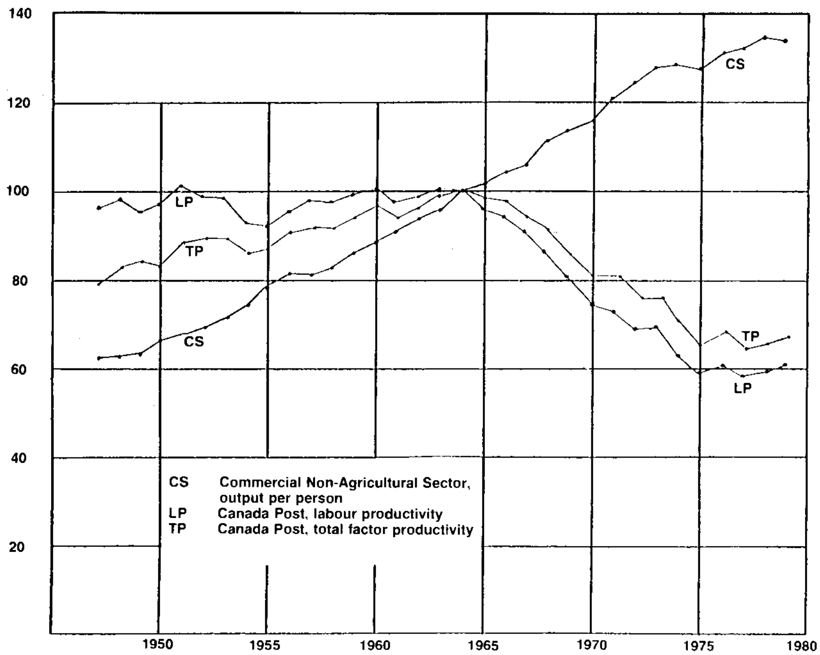
Taking these results at face value leaves many questions unanswered. If working conditions are so poor at Canada Post, why don't more employees quit?[92] In the 1950s when POD jobs did not pay well, turnover was much higher. Even in the 1970s, some plants had turnover rates of more than 100 percent. By 1985, however, attrition rates, which include voluntary quits and retirements, were at the ridiculously low level of barely 5 percent per year, with voluntary quits at about half that. And, in the Montreal post office, which leads the list of hotbeds of discontent, turnover was so low that retiring workers even passed jobs along to family members.[93] The explanation for this seeming anomaly is that the pay, benefits, job security, and work demanded are still very attractive. Who is responsible for the working conditions — management, union, or both? What role do employees play in determining their own working conditions? Postal workers' complaints about working conditions seem a little like a child convicted of patricide and matricide complaining that his jail sentence was too harsh for an orphan.

Output and Productivity of Labour

The most important input in the production of mail services at Canada Post is labour services. Almost 75 percent of total expenses at Canada Post are for salaries and benefits. How productive has labour been in providing mail services at Canada Post? The average product and the average revenue per employee answer this.[94] What was the average product per employee during this period?[95] The average product rose from about 105,832 pieces in 1968-69, to 146,298 pieces per employee per year in 1985-86. There was a gain of 38 percent over the 17-year period for an average gain in productivity of 2.24 percent per year. Measuring the annual gain in productivity would be more useful if service standards had remained the same or improved during the period. Unfortunately, this was not the case. Instead of measuring just productivity, this figure also includes some rent captured from postal patrons. The average revenue rose 655 percent over this 17-year period, from $8,000 in 1968 to $52,422 in 1985.[96] This income represents monopoly pricing, special programmes, curtailments of service, and a change in the composition of mail away from packages (more costly to handle) to flat mail (easier to handle).

L.M. Read compared total and labour productivity at Canada Post with labour productivity in the commercial non-agricultural sector for all Canada from 1947 to 1979.[97] From figure 7, Canada Post's labour productivity remained constant while its total productivity rose slightly from 1947 to 1964. In the 1950s, sorters led by the railway clerks had excellent reputations for accuracy in detailed scheme knowledge.[98] In the commercial non-agricultural sector, however, output per person rose strongly during this same period from about 63 to 100. Although productivity for the non-agricultural sector contin-

Figure 7
Productivity: Canada Post and Commercial Sector*



* 1964 Index numbers equal 100 and commercial sector excludes agriculture.

Source: L.M. Read, "Canada Post: A Case Study in the Correlation of Collective Will and Productivity." Reprinted with permission.

ued to rise at about the same rate after 1964, both measures of productivity for Canada Post declined abruptly. While postal labour productivity declined from 100 in 1964 to 60 in 1975, total productivity fell only slightly less. The astonishing fact surrounding this decline is that it occurred precisely during the period when inventors developed letter-sorting machines, bar code readers, and optical scanners, which have the potential for dramatically improving mail handling and sorting productivity.

The downward trend in labour productivity reported by Read was firmly established by 1968-1969 when the data in table 16 begin. The productivity trend continues until March 31, 1976, and falls an additional 27 percent, while Read's measure of Canada Post's labour productivity falls 29 percent. According to Read's figures, however, labour productivity continues to fall until December 1977, while the figures in table 16 show a turnaround after March 1976.[99] Even an internal POD study showed that postal productivity decreased 15 percent from 1971-72 to 1976-77 which is consistent with Read's figures and those in table 16. Don MacCharles says post office productivity was fairly constant until the mid-1960s. From 1964 to 1979, however, private sector productivity rose by 40 percent, while postal productivity fell by 40 percent, and postal workers' wages increased by 40 percent.[100]

What was responsible for the dramatic productivity decline from which Canada Post has still not recovered? The POD claimed that 2,000 man-years previously contracted out and not counted were reintegrated into the post office in 1972 and accounted for about 7.5 percent of the productivity decline. It also suggested that the expansion of suburbs and urbanization decreased productivity by increasing the required member of letter carriers without increasing mail volume.[101] MacCharles explains this phenomenon differently from Canada Post. During this period the postmaster general began a cost reduction-service improvement programme. He introduced new managerial controls and mechanized while the government gave the CUPW the right to strike. MacCharles says a private company could not have survived the productivity decline and cost escalation that resulted. Only government subsidies and monopoly price increases saved it.

To explain the productivity decline, Read suggests:

> The reasons for what happened at Canada Post are very complex as one might expect. However, two facts stand out as particularly important: a) an enhancement in worker alienation beginning in the 1960s; and b) a transition in labour organization from postal employees' association to full-fledged unions with the unions seeking to establish this new identity inclined to use the under-lying alienation to increase their own bargaining power.[102]

Even if the decline in productivity is overstated, what is the level of productivity of Canada Post compared to the USPS now? The Marchment Committee noted that total operating costs per million units of mail (average cost) more than doubled in constant 1960 dollars between 1964 and 1984 ($63,000 to $145,000). Although the USPS and Canada Post had the same labour productivity in 1972, the USPS was 50 percent more productive by 1985.[103] So Canada Post has not recouped its lost productivity. Pre-sorting, which allows large mailers to receive substantial postage discounts in exchange for sorting their own mail before delivering it to the post office, has also enhanced the productivity figures.[104] This happened despite or maybe because of the introduction of mechanization and pre-sorting in the mid-1970s. Canada Post, whose labour costs are close to 75 percent of total costs, has become less efficient as a result of the incorporation of expensive, sophisticated labour-saving mail processing equipment. All evidence points to labour relations obstructions, if not sabotage by members of the CUPW, who besides other actions, promote their "ban the code" campaign.

Table 16
Canada Post Productivity, 1968-86

Fiscal Year (ending March 31)	Average Revenue Per Employee[a] ($1,000)	Average Revenue Per Employee[b] ($1,000)
1968-69	105.8317	8.004228
1969-70	101.1473	9.329376
1970-71	95.00854	9.033052
1971-72	94.33925	10.09270
1972-73	91.00312	10.78704
1973-74	91.55374	10.66623
1974-75	88.29392	8.953514
1975-76	77.86007	8.953514
1976-77	110.4724	14.78456
1977-78	112.0335	17.76314
1978-79	114.1500	20.89501
1979-80	121.3389	28.08101
1980-81	121.8554	28.61384
1981-82	111.4537	30.82746
1982-83	124.8725	42.66451
1983-84	131.0081	45.87389
1984-85	137.5263	47.02543
1985-86	146.2979	52.42228

Source: appendix table 31.

[a] $\frac{\text{Quantity of Output}}{\text{\# employees}} = \frac{\text{Variable (16)}}{\text{Variable (4)}}$ [b] $\frac{\text{Quantity of Output}}{\text{\# employees}} = \frac{\text{Variable (5)}}{\text{Variable (4)}}$

Besides this documented productivity decline, there is the deterioration in postal service quality measured by average delivery time and the variance of the delivery time. The reductions in the number of home deliveries and post box pickups per week account for part of this. Strikes during this period stopped mail service completely and reduced businesses' reliability on the postal system for their commercial communications. Some businesses which depended on mail orders or receipts of payment through the mails faced bankruptcy as a result of strikes. The productivity measures do not reflect this important service deterioration.

The Marchment Committee said Canadian postal unions have been more successful in achieving gains for their members than unions found in comparable public service and private sector employment. The government responded to perceived public pressures and contributed more to the exorbitant wage gains than even the bargaining process. In effect, it gave away the store. Wage costs rose more rapidly than either mail volume or other costs.[105] Canadian union leaders justify this differential by the unique nature of the work, but the uniqueness lies in the contentious labour relations atmosphere pervading Canada Post, which is the ultimate irony, if not insult.

This chapter does not paint a pretty picture of Canada Post's labour force and its productivity. Canada Post's labour force productivity can only be called abysmal. Labour relations are acrimonious; wages, excessive; unions, disruptive; management, vindictive. Modern technologies have not been incorporated profitably. Any private business which assembled this record would have vanished long ago. This chapter describes how public ownership and bureaucracy can lead to the gross inefficiencies experienced in the POD and Canada Post. Only government subsidies and a heavy reliance on rate increases for Canada Post's monopoly first class mail enable it to remain in business. The irony is that the monopoly, more than anything else, is responsible for the continuation of the poor record of productivity. The reorganization has not brought the hoped-for changes. This record alone is sufficient reason for the substantive restructuring of Canada Post. Only substantive restructuring, including deregulation, privatization, and divestiture, offers any hope for productivity, labour relations, the future of the corporation, the security of its labour force, and a place for Canada Post in the 21st century.

Notes

1. David Stewart-Patterson, *Post Mortem: Why Canada's Mail Won't Move,* pp. 108, 231, 234.
2. Canada Post does not publish the characteristics of its employees such as educational levels, training, or experience. Sharon Smith, however, studied government employees in the U.S., and identified postal workers by personal characteristics. She found that U.S. postal employees had little education, but above-average experience because their quit rates were so low. The USPS provided only specialized training. Canada Post's work force probably displays similar personal characteristics.
3. U.S. Postal Service, *Annual Report, 1986*, p. 29.
4. Douglas K. Adie, *An Evaluation of Postal Service Wage Rates,* p. 25.
5. Canada Post constructed three large mechanized processing plants in the Toronto area: Gateway for processing letters, parcels and bulk mail; Scarborough and South Central for processing letters.
6. Mail handlers further stamp with footprints letters which fall on the floor around the culler-facer-canceller.
7. The hand distribution clerks must have "scheme" knowledge, i.e., a large number of destination and distribution points committed to memory. They separate incoming or outgoing mail in a terminal, airmail field, or other postal facility. These clerks take an examination covering every post office, station, and branch listed in a scheme. A city scheme examination requires knowledge of the local scheme. These clerks must receive a grade of 95 percent to pass.
8. Canadian postal engineers should be given credit for the many design improvements to the mechanized equipment (LSMs, GDS, OCRs, etc.). For instance, speed and customer-sensitive changes for which they are responsible include a presort code pre-printed on return envelopes which large volume mailers send out for cheques or subscriptions. The Canada Post engineers now know more about the machines they work with than ITT, Toshiba, or NEC, the original manufacturers.
9. In July 1971 postal officials decided to use the six-figure code, ANANAN, with three letters and three numbers, where A is a letter, N a number. Six letters, D, F, I, O, Q, and U are not used.
10. David MacFarlane, "Moving the Mail," pp. 28-29.
11. George M. Wattles, "Rates and Costs of the U.S. Postal Service," vol. 16, April 1973, p. 91.
12. One night a GDS worker punched in a particular postal code one too many times. For weeks afterward, he keyed in the same code repeatedly on everything with reckless abandon, until Canada Post finally fired him. MacFarlane, "Moving the Mail," pp. 28-29.
13. Jean-Jacques Blais encountered this when touring a sorting plant in Campbellton, New Brunswick. He noticed a large bag of mail under a sorting machine and asked what it was doing there. A mail handler replied, "Oh, that's the Montreal bag. It's aging properly! Anything going to Montreal has to be 'aged' before sending." Stewart-Patterson, *Post Mortem*, p. 178.

14. MacFarlane, "Moving the Mail," pp. 29-30.
15. Canada Post Corporation, *Annual Report, 1985-1986,* p. 6.
16. Alan L. Sorkin, *The Economics of the Postal System,* p. 18.
17. Stewart-Patterson, *Post Mortem,* p. 102.
18. Robert Albon, *Private Correspondence: Competition or Monopoly in Australia's Postal Services.*
19. Stewart-Patterson, *Post Mortem,* p. 103.
20. Ibid., p. 96.
21. *The Post Office,* Royal Commission on Government Organization, vol. 3, pp. 342, 348.
22. President's Commission on Privatization, *Towards Postal Excellence,* vol. 3, p. 38.
23. Canada Post measures manpower in person-years. A person-year is the labour from one employee working the number of days in a year for which he is normally paid. In 1985-86 this was 261 days, while in 1984-85 it was 2,088 hours. The POD measured its labour input by the number of its employees at fiscal year end on March 31. Canada Post divides the person-year figures into full-time, part-time, casual, and overtime, whereas the Department divided its employees into only full-time and part-time.
24. Stewart-Patterson, *Post Mortem,* p. 23.
25. Ibid., p. 66.
26. "Third-Party Review of Canada Post Corporation's Rates and Services," Consumer and Corporate Affairs, p. 8; "Postal Workers End Their Strike in Britain," *Wall Street Journal,* p. 30.
27. This brief discussion of the history of the POD labour relations is based broadly on Walter Stewart, *Uneasy Lies the Head: The Truth About Canada's Crown Corporation,* ch. 7, "I Wrote a Letter to My Love But the Damned Thing Never Arrived," pp. 118-22.
28. Except in Montreal where the workers protested by not voting.
29. Stewart, *Uneasy Lies the Head: The Truth About Canada's Crown Corporation,* ch. 7, "I Wrote a Letter to My Love But the Damned Thing Never Arrived," pp. 119-20.
30. This was a key machine for mechanizing the sorting process.
31. Stewart-Patterson, *Post Mortem,* pp. 47-49.
32. An experienced manual postal clerk classified at PO4 at that time made $3.69 per hour, while a coding clerk made only $2.94 per hour.
33. Stewart-Patterson, *Post Mortem,* pp. 50-51.
34. The T-shirts said, *Le code, je l'ai dans le cul,* which translated into English means, "F— the postal code."
35. Stewart-Patterson, *Post Mortem,* pp. 51-52.
36. Ibid., p. 22.
37. Walter Johnson describes the following ploys postal workers used in 1979 to thwart their supervisors: 1) Take unofficial 10-minute breaks every hour; 2) dodge supervisors in stairwells and washrooms; 3) to protest a supervisor pursuit, stage a "shit-in" — where everyone goes to the washroom at the same time; 4)

take drugs; 5) leave early and get someone else to punch a time card; 6) get a court clerk to state you were an uncalled witness and get a day off with pay; 7) use sick leave; 8) strike often and use days off as holidays; 9) take days off. Ibid., pp. 94-95.

38. Ibid., p. 70.
39. This abuse did not stop with the Crown corporation. In Vancouver union members broke car aerials and windshields and physically assaulted supervisors who stood up to them. The intimidated supervisors begged Warren for help: "We don't control that floor, they [the workers] do. So what we need are billy sticks or we need some security people down there or some goddam guns, that's what we need. So let's quit pissing around." Ibid., pp. 96, 233.
40. Ibid., p. 68.
41. Ibid.
42. Ibid., p. 96.
43. Unions contend sick leave is a negotiated benefit, that employees have a right to take it when they want it, and that employees who conserve it get no compensation for unused sick leave when they retire.
44. Stewart-Patterson, *Post Mortem*, p. 262.
45. Ian Urquhart, "A Step Removed Doesn't Guarantee a Step Improved," p. 15.
46. Under the Public Service Staff Act, which governed labour relations in the POD, the postal unions dealt with three parties: the Treasury Board, the legal employer; the POD which operated the business; and the Department of Finance which set financial constraints on negotiation. In addition, Parliament usually intervened and legislated a settlement to a dispute. Ibid.
47. MacFarlane, "Moving the Mail," p. 24.
48. Ibid.
49. In addition to others, Aditya Varma made this same charge against Canada Post. His reinstatement by the government with an inquiry after dismissal by Canada Post, sabotaged Warren's authority as president. In the U.S. Lawrence Cranberg brought a case against the USPS (Cranberg vs. U.S., case no. 417-81C) in U.S. Claims Court, Washington, DC, in which he claims he made proposals in 1975 for improvements in postal products and services which were rejected, but then utilized without recognition. Ibid., p. 22.
50. Ibid., p. 26.
51. Stephen Raikes, "Michael Warren's Biggest Turnaround," p. 62.
52. MacFarlane, "Moving the Mail," p. 24.
53. Raikes, "Michael Warren's Biggest Turnaround," p. 61.
54. Ibid.
55. Peter C. Newman, "Why the Mail May Get Through," March 5, 1984.
56. Ibid.
57. Ibid.
58. MacFarlane, "Moving the Mail," p. 24.
59. "Canada Postal Strikes," *Wall Street Journal*.
60. "Mail Strike Could Go On for Weeks," *Globe & Mail*.
61. Postmasters, on the other hand, preferred to remain with the act.

62. Darrell Tingley, first national vice-president of the CUPW, said labour relations at the post office are "the worst they've ever been." David Hatter and Jennifer Lanthier, "Ottawa Eyes Selling Post Office to Workers," November 1989.
63. Canada Post Corporation, Review Committee on the Mandate and Productivity of Canada Post Corporation, vol. 1, pp. 29-30.
64. Parenthetically, Madsen Pirie recommends that the unions be totally ignored in privatizing. Those conducting the change should go over their heads and appeal directly to workers.
65. Canada Post Corporation, Review Committee, vol. 1, p. 8.
66. Ibid., vol. 1, p. 36.
67. On November 1, 1989, there were 70,000 grievances outstanding. Drew Fagan, "André Likes Idea of Selling Shares to Postal Workers," November 1989, p. B1.
68. The union desires to eliminate casual workers entirely but has not been able to do so through bargaining.
69. Stewart-Patterson, *Post Mortem*, p. 124.
70. Ibid.
71. Ibid., pp. 71, 114, 123.
72. The two largest unions at Canada Post, CUPW and LCUC, have been forced to amalgamate, which they are doing in a relatively unfriendly way. Relations between the operating and delivery employees and their respective unions have not been good.
73. Raikes, "Michael Warren's Biggest Turnaround," p. 60.
74. The activity of Marxist-Leninist and Trotskyite groups within the union movement in Toronto and Montreal undoubtedly lend credence to this view. Ibid., p. 62.
75. *Considerations Which Affect the Choice of Organizational Structure*, Report of a Study Group, pp. 7, 15, 17; Stewart-Patterson, *Post Mortem*, pp. 5-7.
76. Stewart-Patterson, Post Mortem, p. 275; Peggy Berkowitz, "Postal Union Vows to Step Up Dispute with Canada Post," October 2, 1987.
77. In 1987 the unionized postal worker's average hourly wage was $13.42 in Canada, $10.45 in the U.S. Berkowitz, "Postal Union Vows," p. 4.
78. "Don't Knock the Outfit Postal Workers Told." *Hamilton Spectator*. January 21, 1988.
79. John Vickers and George Yarrow, *Privatization: An Economic Analysis*, p. 159.
80. *Privatization: Tactics and Techniques*, p. 217.
81. Wendell Cox in *Privatization: Tactics and Techniques*, p. 212.
82. Robert Albon, *Privatize the Post: Steps Toward a Competitive Service*, p. 19.
83. Stewart-Patterson, *Post Mortem*, p. 287.
84. John Marcom, Jr., "Question of Privatizing the Mail Service," p. 12.
85. Public firms have less incentive to resist union demands than private firms. Albon, *Private Correspondence*.
86. Stewart-Patterson, *Post Mortem*, pp. 287-188.
87. Vaughn Palmer, "Incentive Is the Key to Privatization."

88. Public employee unions are the only significant opposition to the privatizing of government services, even though privatization is not anti-union. Most privatized municipal services in the U.S. have union employees.
89. *Privatization: Tactics and Techniques*, pp. 93, 94, 97.
90. To soften the employment impact from contracting out, one can require winning firms to offer employment to current workers, and to promote and retain on the basis of their normal performance personnel evaluation system. A strict policy of no involuntary layoffs can soften the opposition to privatization. Excess workers can be dealt with through attrition or transfers. Robert W. Poole, Jr. and James McDavid, in *Privatization: Tactics and Techniques*, pp. 84, 95, 114, 117.
91. Herbert C. Northcott and Graham S. Lowe. "The Influence of Working Conditions on Psychological Distress in the Post Office," pp. 25-27.
92. In London and Southeast England, where uniform standard pay scales do not reflect huge disparities in living costs between the prosperous South and the rest of the country, postal positions turn over on average twice a year. In the prosperous areas where living costs are high and recruitment difficult, the British Post Office wants to pay bonuses to attract and retain workers. The unions oppose pay differentials and even went on strike for two weeks to prevent them. The strike agreement covered the use of temporary staff, overtime pay, and even some diversion of peak volume mail to other offices, but prevented the use of pay bonuses. Marcom, "Question of Privatizing," p. 2; "Postal Workers End Their Strike," *Wall Street Journal*, p. 30.
93. From my study of the U.S. Postal Service I calculated the following relationship between excessive wages (D) and the voluntary quit rate (Q): $D = 31.53 - 0.84Q$. If the voluntary quit rate is 2.5 percent ($Q = 2.5$) then wages are excessive by $D = 29.43$ percent. Douglas Adie, *An Evaluation of Postal Service Wage Rates*, p. 109; Stewart-Patterson, *Post Mortem*, pp. 34, 238, 243-44.
94. Both these measures are calculated using the data in appendix table 31.
95. From table 31 the average product is the quantity of output [variable (16)] divided by the number of employees [variable (4)] and is listed in column 2 of table 16.
96. The average revenue is the value of output [variable (5)] divided by the number of employees [variable (4)] and is listed in column 3 of table 16.
97. All three indices depicted in figure 7 began in 1964 with values of 100. Labour productivity is calculated similarly to the average revenue per employee in table 16. L.M. Read, "Canada Post: A Case Study in the Correlation of Collective Will and Productivity."
98. Some knew every street in Ottawa or every route in Manitoba, and didn't even need labels on their sorting cases. If the score on their annual proficiency tests was too low, they returned to the plants. Stewart-Patterson, *Post Mortem*, p. 88.
99. These are minor discrepancies easily accounted for by the different data periods used.
100. Don MacCharles, "CUPW and Saturday Mail Service," pp. 7-8.
101. *Considerations Which Affect the Choice of Organizational Structure*. Report of a Study Group, p. 4.
102. Read, "Canada Post: A Case Study," p. 131.

103. Canada Post Corporation, Review Committee Report, vol. 1, p. 36.
104. Canada Post enlists increasing numbers of mailers in this programme. Despite this change in the composition of mail, productivity remains at levels below those achieved before mechanization. Ibid., vol. 1, pp. 36-41.
105. The U.S. government mandates the USPS to compensate its employees at rates comparable to private sector wages for similar work. All studies today, however, show USPS wages are excessive by at least 30 percent. Canada Post pays its postal workers even more generously than its American counterpart.

Chapter 7

The Demand for First Class Mail and Some Supply Relationships

Introduction

Canada Post's demand and cost characteristics together with legislative and regulatory constraints are important for evaluating the pricing policy for postal services. Pricing policy for postal services, in turn, is important because it affects the production of many other goods and services.[1] If Canada Post does not price properly, resources will be misallocated or wasted. Also, as part of the information industry, postal services are experiencing upheaval because of technological change. Because improper pricing gives less useful information, postal prices are important signals to those deciding issues affecting the development of this industry. In addition, Canada Post has been making policy changes concerning the frequency of delivery, closing of post offices, and the introduction of Super Mailboxes, all of which affect the quality of service.

Because Canada Post is a Crown corporation, postal policy questions, such as revoking the "exclusive privilege," privatization, and divestiture, have a political effect. If pricing is not correct it is more difficult to resolve these questions properly. For all these reasons it is important to know the characteristics of demand and cost for Canada Post's services.

The Demand for First Class Mail

Canada Post is a government-owned, operated, and subsidized monopolist providing first class mail service. A monopolist faces a downward-sloping demand curve where price and quantity are inversely related and so cannot charge any price it chooses without experiencing at least some change in the quantity of services demanded. This is because there are alternatives such as phone calls, telegrams, face-to-face conversations, CB radios, and courier service. The more and better substitutes these are, the more elastic will be the demand facing Canada Post.

The relationship between the price and the total revenue Canada Post receives from first class mail is unique. On a straight line demand curve (see figure 8), the elasticity varies as one moves down along the curve from elastic to inelastic. Maximum total revenue occurs where the elasticity is unity and the marginal revenue equals zero (see figure 9). Profit-maximizing monopolists who can pick their own price-quantity pair and then appropriate the profit would never operate in the inelastic region of the demand curve if unrestricted. By raising the price in this region, they can increase profits by offering less service, reducing costs, and increasing revenues.

A natural monopoly arises when there are large economies of scale relative to the industry demand (see figures 10 and 11). This rare production pattern requires large capital investments so that the firm which develops first can serve a large portion of the market at a much lower cost than any new firm or combination of firms that might enter later. A natural monopoly does not need legal protection. It takes advantage of its declining long-run average costs (LAC) as scale increases and can undercut any potential competitors because of its sheer efficiency and force them out of the market. Some still ask if the USPS is a natural monopolist, but not Canada Post.[2]

Figure 8
Canada Post's Demand for First Class Mail Service

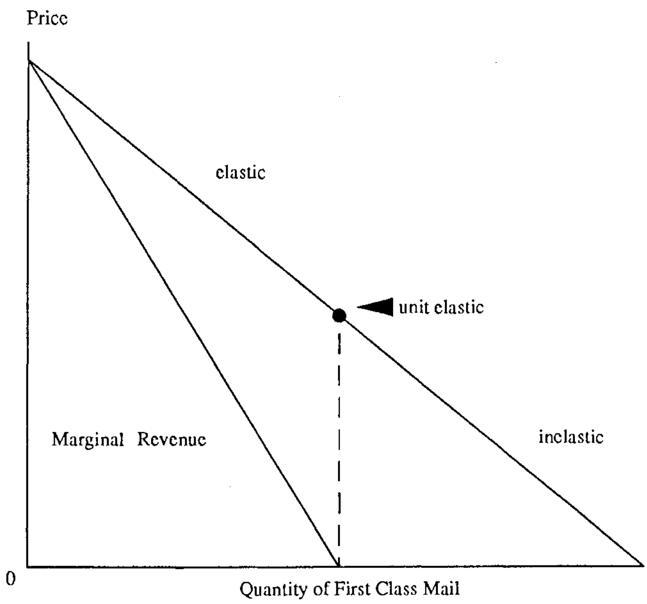


Figure 9

Canada Post's Total Revenue Curve for First Class Mail Service

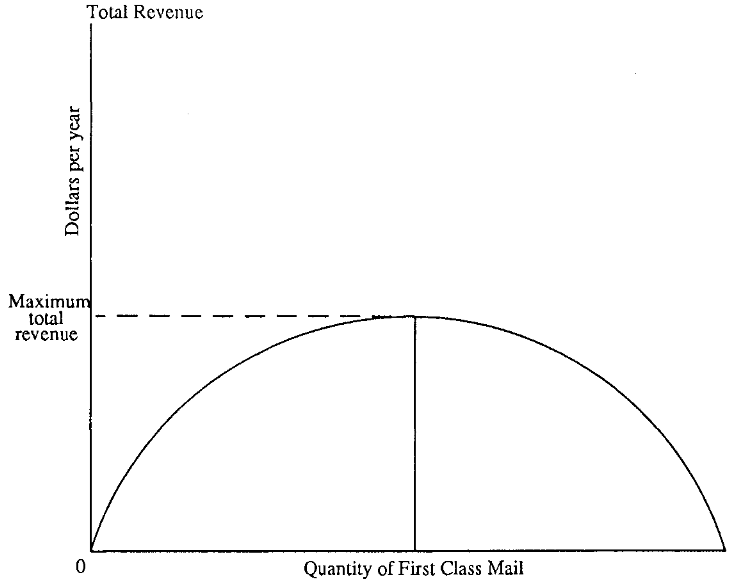


Figure 10

Demand and Cost Conditions for an Unregulated Natural Monopolist

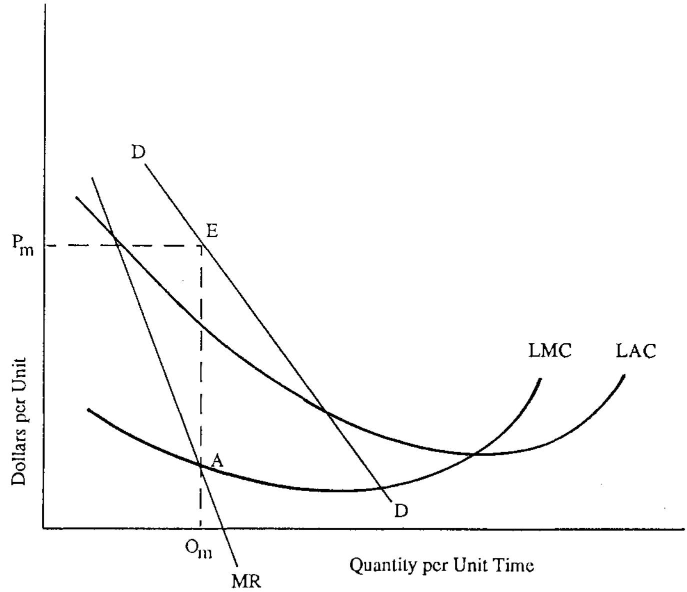
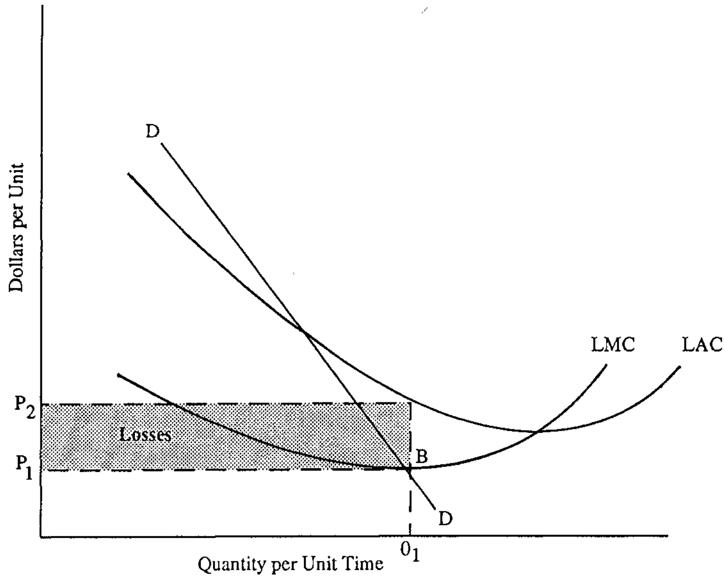


Figure 11
Demand and Cost Conditions for a Regulated Natural Monopolist



Mail service is a natural monopoly only if economies of scale exist, and if they do, the LAC decreases as output increases. Do the USPS and Canada Post have a downward-sloping LAC in the relevant range of outputs? Academic studies, including those done by the U.S. Post Office Department, Leonard Merewitz, Rodney E. Stevenson, and even the Department of Justice have found no evidence that economies of scale exist.[3] In the U.S. the President's Commission on Postal Organization rejected the view that the post office enjoyed economies of scale. Despite this overwhelming preponderance of evidence, the USPS Board of Governors believes the postal service is a natural monopoly. They said LAC declined as output increased throughout the relevant range of production because of increasing returns to scale, as depicted in figures 10 and 11.[4]

Despite mechanization programmes, postal operations in Great Britain, the U.S., and Canada depend on workers rather than machines. The percentage of total postal costs paid for wages, salaries, and benefits are 93 percent in Great Britain, 85 percent in the U.S., and 75 percent in Canada. Labour-intensive operations such as these are not candidates for economies of scale. The fact that productivity in Canada Post actually declined below that existing before mechanization is inconsistent with economies of scale as is the existence of profitable competitors to Canada Post, the USPS, and the British Post Office.[5]

When either a natural or legislative monopoly exists, the government tries to protect the consumer from higher-than-marginal cost prices through regulation. In figure 10 the monopolist is inefficient from society's viewpoint because P_M, the price it charges, is higher than LMC, the marginal cost or opportunity cost to society. Output is restricted and price is higher. Improper pricing causes a misallocation of resources because the public faces a price (P_M) that does not reflect the true marginal cost (A) of producing postal services. Other industries use more than optimal resources, and postal services use less. Because the post office has always been a government-owned and operated business, it has never operated as an unrestricted postal monopolist. However, figure 10 describes where it would operate if it had pricing freedom, if there was ability and incentive to appropriate the residual, and if its demand was above its LAC.

Regulators try to make the firm in figure 10 behave more competitively by lowering price (P) and increasing quantity (Q) as in figure 11. At point B where P = LMC (figure 11), and there is no waste from a misallocation of resources, the public's welfare from mail service equals the LMC of the resources to society. The regulator, however, must force the monopolist to produce at Q_1 and sell at P_1, which from earlier discussions of regulation is no simple matter.

The firm does not want to sell output Q_1, at price P_1 which is below LAC because at this point it suffers a loss. Thus regulation which forces the natural monopolist to price its services so as to use resources efficiently inflicts losses on him.[6] If the natural monopolist cannot avoid the regulation, its best policy is to cease operations and let the government have the business. On the other hand, having created intolerable conditions, the government could subsidize the monopolist to keep it in business. For instance, the government could give the monopolist a per-unit subsidy (P_2 - P_1) allowing it to break even, including a normal rate of return on investment (see figure 11). Another form of relief for both the USPS and Canada Post would be to allow the monopolist to discriminate between the charges to groups of customers who have different elasticities of mail service demand.[7]

To discriminate, the monopolist charges a lower price to those who have a more elastic demand and a higher price to those who have a less elastic demand. The group with the inelastic demand pays a higher price than otherwise, helping the monopolist to subsidize those with a more elastic demand. Some misallocation of resources results because of this, but it is less than that occurring without price discrimination. Price discrimination, however, creates new equity problems. It is unfair for one group which has fewer substitutes and alternatives to subsidize another only because the latter has more bargaining power or leverage. A uniform price, on the other hand, does not necessarily show an absence of price discrimination. Charging all customers the same price where production costs vary for different groups of customers may also be a form of price discrimination.[8]

In Great Britain the Post Office practices the uneconomic policy of cross-subsidizing different types of mail.[9] In Australia the first class mail monopoly generates 50 percent of postal revenues and profits which it uses to subsidize the other classes of mail.[10] Most post offices regard a uniform rate for first class mail to be sacrosanct. This, however, produces a de facto subsidization of higher cost delivery (e.g., rural) at the expense of lower cost delivery (e.g., urban). The "Rowland Hill principle," which states that different rates should not be charged where overburdening the system with administrative costs more than offsets any value from differential rates, has been misinterpreted as requiring uniform rates. While this principle may lead private carriers to charge uniform rates for all first class domestic deliveries, even the post office differentiates between parcel rates on the basis of weight, size, and distance.

Ian Senior says it is unjust to allow the post office to provide subsidized parcel service in competition with private carriers.[11] Nevertheless, it is done in Canada, the U.S., and elsewhere. A revenue surplus from first class mail offsets substantial losses on other classes of service. Making a precise determination is complicated because different classes of mail share common handling, workforce, and other costs, making it difficult to attribute per-unit costs to each type of mail.[12] Vickers and Yarrow claim that, more than anything else, using uniform rates and providing uniform service quality where costs differ accounts for the post office's poor financial performance because this policy prevents it from responding to changing technologies and demand.[13]

Canada Post employed a new pricing strategy when it became a Crown corporation. It increased prices, especially for first class mail — its chief monopoly revenue raiser, high enough to cover expected expenses, together with the capitalization of other highly questionable items. It did not, however, raise revenue to replace long-term assets such as buildings or automated machinery. Raising first class stamp prices enough to do this would have been too politically negative for the government. This pricing strategy continues despite the report of the new Marchment Prices Review Commission.

In addition to a questionable pricing strategy, postal regulation has adversely affected mail service quality. While the quality of service will fall whether prices rise or not, if regulation restrains price increases, quality of service will fall even faster, raising price per constant quality unit.[14] While regulators are concerned about quality, the varying dimensions are too difficult to monitor or measure. For this reason, mail regulation deals with the prices charged rather than characteristics of service quality, such as twice-a-day delivery, Saturday delivery, waiting time for counter service, number and location of retail outlets, convenience of hours, convenience of deposit boxes, home delivery, care and privacy of service, speed and reliability, and rigidity of envelope and parcel specifications. Regulators find it possible to regulate price per unit but impossible to prevent quality from deteriorating. This is unfortunate because many

Canadians would prefer to pay more for a first class letter if they could receive the service quality they enjoyed 30 years ago.

Why do mail patrons resist major price changes for first class service —even though the letter might be transported three thousand miles across Canada, while at the same time they willingly pay 50 to 75 cents for a cup of coffee with little protest?[15] Patrons have few alternatives and no competition for first class mail service because of the monopoly and so do not view mail service as simply another purchased service. The government bans all competitors for this very inelastic mail service and the public regards the price charged as just another tax.[16] This is why there is emotional resistance to major price increases for first class stamps. Estimates of the parameters of both the demand and cost relationships can help to clarify the nature of the empirical situation Canada Post faces.

The Demand for First Class Mail in the U.S. and Data[17]

An examination of the demand relationship between the quantity and price for first class mail and other related variables is helpful. The results of a study of the USPS's demand is useful if the demand for mail service facing Canada Post does not differ significantly from that facing the USPS.[18] The study of the USPS's demand assesses the strength of the first class mail monopoly and the postal service's ability to raise revenues through rate increases. The results estimated the coefficients of the USPS's demand function for the fiscal years 1977-82.

The law of demand states that the quantity of a good or service demanded varies inversely with its price if one holds constant other variables such as quality of service, income, population, the price of other goods, technology, and consumer tastes. A change in any of these variables causes the demand curve to shift, making the estimation of the relationship between the quantity demanded and its price more difficult and less accurate. To account for shifts from other sources, the model includes some of the variables which are not constant through time — such as income, other prices, and population.[19]

The quantity of first class mail handled per month is the dependent variable, while the real postal rate, real personal income, real price of a toll telephone call, and the U.S. population are independent variables. To account for any inflation or deflation which may have occurred during the period of analysis, the price and income figures are in 1967 dollars.[20] The postal rate in the months when the rates changed was a weighted average with the weights being the number of days at each rate. The Bureau of the Census reports the monthly population figures on the first of each month. These figures were used to estimate the population for the previous month. For example, the population estimate reported for June 1, 1982, was 231,298,000; this number is used for the population for May 1982. The indices of prices of intrastate and interstate telephone calls were components in the CPI which referred to all urban consumers. The price of a telephone call (TEL) is the average of the index for intrastate and interstate toll calls.

Monthly data from December 1977 through November 1982, listed in appendix table 32, are used to estimate the parameters of the demand function. The postal service keeps records for the volume of mail delivered in consecutive 28-day periods. To make the quantity data compatible with that for other independent variables, it required transformation from the original 28-day accounting period to regular monthly form.[21]

The quantity of first class mail was adjusted for seasonal variation by regressing the quantity of mail per month with 11 dummy variables (January was the reference month). The residuals for each month were added or subtracted from the mean of the quantity of mail for January to get the de-seasonalized data. A more useful quantity variable for first class mail might have been a "service unit" which recognizes the quality dimensions.[22]

Because delivery times have been steadily increasing, current prices adjusted for delivery time understate the true price increases. This leads to an underestimate of the demand elasticity, because for a given measured price-quantity pair, the true quality-adjusted quantity is lower at the higher price. Although this treatment of the price and quantity variables is more elegant, the detailed speed of delivery information necessary to compute the index number is not available now, so the adjustment was not possible and the price elasticity is probably understated. This factor probably affects the Canadian more than the U.S. data, because from 1968 to 1985 the Canadian speed of delivery has fallen more rapidly than the American.

Empirical Demand Equation

There are two functional forms used to estimate the demand for first class mail, namely:

$$Q = a + bP_R + cPOP + dINC_{t-4} + eTEL_{t-4} \qquad (1)$$

and

$$\ln Q = \ln a + b\ln P_R + c\ln POP + d\ln INC_{t-4} + e\ln TEL_{t-4} \qquad (2)$$

where Q indicates the quantity of first class mail delivered per month in millions; P_R, the postal rate; POP, the population; INC, total personal income; and TEL, an index for the price of a long distance telephone call. The subscript, t-4, represents a lag of four months for aggregate personal income (INC) and the index of long distance telephone charges (TEL) to account for the adjustment period when these variables change.

The results of estimating equations (1) and (2) by the ordinary least squares regression method are listed in table 17. The interpretation of each variable's coefficient from table 17 assumes the other variables do not change. For instance, from equation (1) a rise in the postal rate of 1 cent (U.S.) in 1967 dollars — or a rise in the postal rate of about 3 cents in current dollars — will

Table 17
Regression Results
Demand for First Class Mail — United States

Equation	Dependent Variable	Coefficients of Independent Variables: Constant a	P_R b	Pop c	Inc_{t-4} d	TEL_{t-4} e	R^2	Adjusted R^2	D-W
1.	Q	-16230.19	-189.07	0.0825	3.257	25.63	.71	.69	1.89
		(4808.21)	(51.00)	(.0192)	(1.688)	(13.80)			
		ln[a]	$\ln P_R$	lnPop	$\ln Inc_{t-4}$	$\ln TEL_{t-4}$			
2.	lnQ	-38.08	-.228	3.45	.560	.196	.71	.69	1.86
		(10.37)	(.061)	(.827)	(.289)	(.115)			

Source: Monthly data from appendix table 32, December 1977-November 1982.

cause a decrease of 189,074 million pieces in the quantity of first class mail delivered per month, if all other variables remain constant. A rise in the U.S. population by 100,000 will cause the dependent variable to increase by 8.25 million pieces per month. So, the quantity of first class mail will increase by 82.5 letters per month for each additional person. The coefficient of the income variable, 3.257, means an increase in income of $1 billion in 1967 dollars, or a $3 billion in current dollars, resulting in an increase for first class mail delivered per month of 3.257 million pieces. Finally, should the real price index of long distance telephone calls rise by 1 unit, the quantity of first class mail will increase by 25.630 million pieces per month. In table 17 figures in parentheses beneath the coefficients are the standard errors.

Using a one-tailed t-test, all the coefficients of the variables in equation (1), except INC_{t-4} and TEL_{t-4}, are significantly different from zero at the 99 percent confidence level; these latter two variables are significantly different from zero at the 90 percent confidence level. The Durbin-Watson (D-W) statistic is sufficiently close to two (1.89) to indicate an absence of serial correlation in the residuals of the model. Furthermore, R_2, the unadjusted coefficient of determination, is the percent variability of the dependent variable accounted for by changes in the independent variables, and indicates that the regression equation explains about 71 percent of the variation in the quantity of first class mail delivered each month. The partial first difference factor used in estimating both equations is zero.

The logarithmic version of the above model, estimated in equation (1), gives much the same results but in addition yields the elasticities directly.[23] Also for equation (2), the values in parentheses beneath the coefficients are the standard errors. Using a one-tailed t-test, all coefficients of the variables in equation (2) except INC_{t-4} and TEL_{t-4} are significant at the 99 percent level; these latter two variables are significant at the 90 percent confidence level. The D-W statistic is 1.86 and is sufficiently close to 2.0 to deny serial correlation in the residuals. R_2, the unadjusted coefficient of determination, shows that the regression equation explains about 71 percent of the variation in the monthly quantity of first class mail.

Price Influence

Consumer reactions to rate changes, as shown by the price coefficient in the demand function for first class mail, measure the effects of postal rate changes on the quantity of first class mail and total revenues. In figure 8 the price elasticity applies to the point on the demand curve where Canada Post is producing. The price elasticity of demand for first class mail in the U.S. estimated from equation (2) in table 17 is -0.228.[24] The price elasticity for first class mail facing the British Post Office has also been estimated between -0.2

and -0.3.[25] The demand is inelastic if there are only a few substitutes for a service, and the demand elasticity is between 0 and -1.

The U.S. figure, which can be used to estimate the demand elasticity for first class mail service in Canada, means that a 10 percent increase in the postal rate would cause first class mail volume to decrease by only 2.28 percent. Every business hopes to face an inelastic demand because that enables it to raise prices with only a slight loss in sales. The USPS, the British Post Office, and perhaps to a lesser extent, Canada Post, have room to increase first class postage and to raise revenues, at least in the short run (see figure 9). Volume increases resulting from increases in the growth factors, population and income, will in all likelihood compensate for volume declines resulting from rate increases.

The low value of the price elasticity, -0.228, (close to other estimates, Sobin, -0.25, Postal Service, -.10) raises questions in the context of figures 8 and 9. Why would a monopoly operate in this unprofitable region of its demand when, by raising its rate, it could increase profits by raising total revenue and lowering costs because of volume cutbacks?[26] The only plausible answer is that the government is looking out for the public's interest by restraining rate increases and keeping monopoly profits low. How much more revenue could the post office raise if it did not have this constraint?

Because the price elasticity is only -0.23 and postage does not influence the quantity demanded much, the USPS could raise roughly $750 million for every 1 cent increase in first class mail rates. Similarly, in 1985 Canada Post could increase total revenues by $38 million for each 1 cent increase in first class rates with little noticeable effect on mail volume. Of course, because demand is downward sloping, quantity demanded does decrease but population and income increases compensate for the volume decrease.[27] For the fiscal year 1985-86 at USPS, volume of first class mail was 76.2 billion pieces, yielding revenue of about $18.0 billion when postage rates were 22 cents per letter. A rise in postage rates of 1 cent reduces volume of first class mail by only 800 million letters, i.e., from 76.2 to 75.4 billion letters.

Monthly data from December 1977 to November 1982 are used to estimate equation (1). Using values for November 1982,[28] this equation becomes

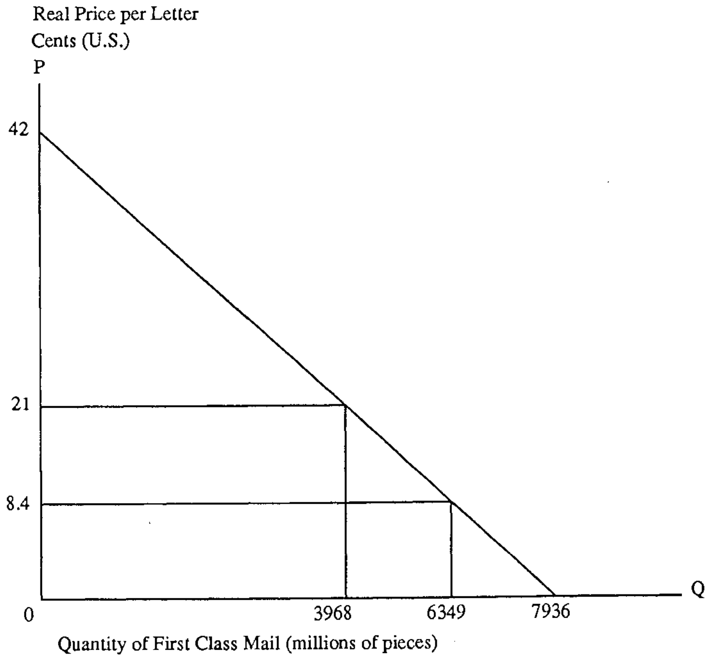
$$Q = -16{,}230.2 - 189\,P_R + 23{,}072.14$$

or

$$Q = 6{,}842 - 189P_R \qquad (3)$$

where Q is in millions of pieces per month. When $P_R = 0$ in equation (3) the Q intercept, 6,842, is approximately 25 percent greater than the actual value, 5,475 million. P_R, the real postal rate, is about 7 cents which is one-third the nominal rate. To update equation (3) to fiscal year 1985-86, the actual first class mail volume averaged 6,349 million pieces per month. The Q intercept as depicted in figure 12 is then 7,936 million pieces per month. The P_R intercept is $7{,}936/189 = 42$. At 6,349 million pieces per month, the real rate is 0.084 cents which is equivalent to about 25 cents nominal per letter.

Figure 12
Demand for First Class Mail, USPS, 1985-86



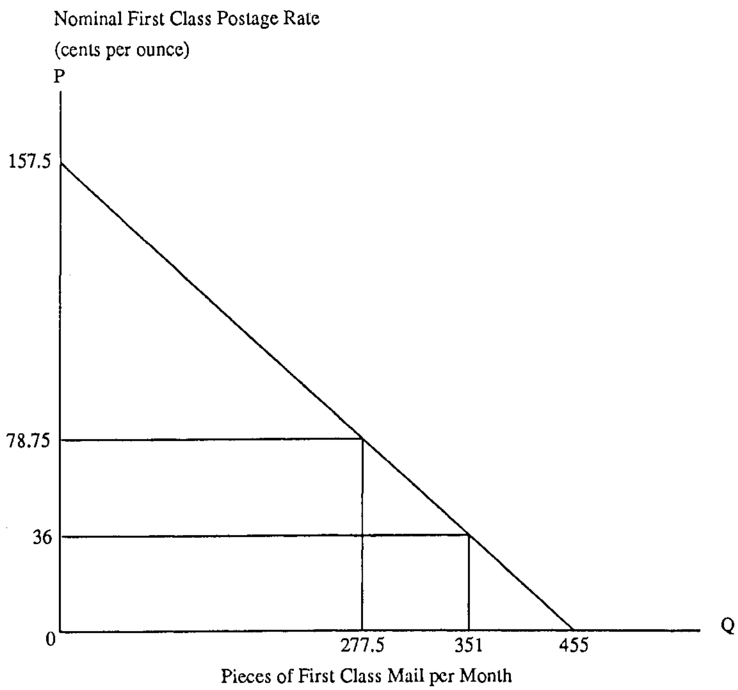
In fiscal year 1985-86, the USPS would realize its maximum revenue from raising rates without restraint when it delivered 3,968 million letters per month at a real rate of 21 cents per letter or a nominal rate of 63 cents per letter. The total monthly revenue would then be $2.5 billion as opposed to the $1.5 billion per month it received in fiscal 1986. The monopoly privilege in the U.S. is then worth $1 billion per month or $12 billion per year if it could be used without restraint. Besides this revenue gain, the USPS could save 37.5 percent of first class mail delivery costs by reducing mail deliveries from 6,349 to 3,968 million pieces per month which would generate an additional monthly profit of $375 million or $4.5 billion per year, for a total increase in net revenues of $16.5 billion per year. Using an 8 percent discount factor, the value of the first class mail monopoly is about $206.25 billion.

The government postal monopoly has always prevented good, inexpensive local service. Part of the cost of this monopoly to consumers is called the consumer surplus loss. Alfred Marshall, a 19th century English economist, strongly advocated a competitive postal system and ridiculed the arguments used to support the monopoly. Marshall was the first to estimate England's consumer surplus loss from its postal monopoly as £4.5 million per year.[29]

The Cost of Canada Post's Monopoly

The simplest and easiest way to convert the estimates of the cost of the U.S. postal monopoly to the Canadian experience is to assume that P_R, the intercept from figure 12, is the same for Canada. On this assumption, the nominal price intercept in figure 13 for Canada Post is US42 cents (real) x 3 (price index) x 1.25 (exchange rate factor) = Can157.5 cents per letter. Also, in fiscal 1986, Canada Post delivered 351 million pieces of first class mail at the rate of 36 cents per letter.[30]

Figure 13
Canada Post's Demand for First Class Mail, 1985-86



From figure 13, an unconstrained monopolist would charge at least 79 cents per letter. Because Canada Post is a monopolist, it can solve its revenue problems by forcing prices to monopoly levels. The recent rapid rise in first class rates is the effect of this effort. Canada Post, however, can also adjust by providing less service at the same price. If Canada Post has successfully completed the adjustment to 79 cents per letter through a combination of price increases and quality decreases, then full rent dissipation is now taking place and the potential cost of the monopoly is also the actual cost to the taxpayer.

What is the full value of the monopoly? Canada Post maximizes its total revenues where its nominal first class postage rate is 79 cents, achieved through either rate increases or service decreases. At this rate, in figure 13, the volume of first class letters in fiscal 1986 would be 227.5 million instead of 351 million per month. The total revenue from first class mail would be \$184.3 million instead of \$135.3 million per month, or \$2.21 billion instead of the \$1.62 billion per year it received.[31] Relaxing restrictions on pricing would enable the USPS to increase revenues by about 67 percent; however, such a relaxation would only enable Canada Post to increase its revenues by an additional 32.5 percent. The reason is that Canada Post has already raised its real rates higher than the USPS (after adjusting for the exchange rate).

Because of its exclusive privilege, Canada Post's potential or observed annual monopoly rents for fiscal year 1986 because of its exclusive privilege is, at a minimum, \$2.2 billion – \$1.62 billion = \$590 million per year. As we learned from chapter 4, managers and employees seek to capture these rents. How can they do so in this situation? One way is to raise first class rates from 36 cents to 79 cents per ounce as soon as practicable, and use the increased revenues for wage and salary increases. This scenario will take place if we are in the process of moving to an equilibrium of 79 cents per ounce for first class mail. A second way to capture rents is by offering inferior service. This suggests that we may already be in an equilibrium in which the higher price is being charged, not in terms of cents per ounce for first class delivery, but in terms of a constant service quality unit. The quantity adjustment results because of decreases in quality. In this situation, the rents are dissipated within Canada Post in ways discussed in earlier chapters. The potential costs of Canada Post's monopoly, \$590 million per year, would then be the actual costs which include lost service.[32]

In addition to the consumer surplus loss of \$590 million per year, which Canada Post extracts from consumers by reducing its service volume and raising its price, Canada Post also reduces its costs because it is processing less mail. By reducing first class mail deliveries from 351 to 227.5 million pieces per month, Canada Post could save a minimum of 35 percent of the costs of first class mail delivery which should generate additional monthly profits to Canada Post of approximately \$50 million or \$600 million per year. The addition of these two sources yields an annual gain of \$1.19 billion per year, the annual value of the monopoly to Canada Post. Using an 8 percent discount factor, the value of the exclusive privilege in perpetuity is worth \$14.875 billion. Furthermore, this is not a static figure. As the demand curve shifts out in response to population and income increases, the value of the exclusive privilege, representing losses to the taxpayer, increase in proportion.

Price of Long Distance Telephone Calls

Long distance telephone calls are a substitute service for some first class mail. The cross-elasticity of demand measures the responsiveness of the demand for first class mail to changes in the price of long distance telephone service. This cross-elasticity estimated from equation (2) is +0.196.[33] This value of about +0.20 means that for a 10 percent decrease in telephone rates, the volume of first class mail will decrease by 2 percent as customers shift from the use of the mail to the telephone. Businesses might send a message through a telephone wire between fax machines instead of through the mail. A 2 percent decrease in first class mail volume in the U.S., however, amounts to only 1.52 billion pieces of first class mail (less than half the yearly gain in first class mail owing to population increases). In fiscal 1986 a two-percent decrease in first class mail volume in Canada was only 84.26 million pieces of mail, and in fiscal 1987, 87.5 million pieces.

The Marchment Committee reported that 31 percent of businesses chose the telephone as a permanent substitute for first class mail, and 13 percent did so on a temporary basis.[34] From the committee's survey, 12 percent of businesses have permanently substituted telex for first class mail, and 6 percent on a temporary basis. Canada Post had a plan to spend $791 million to expand their electronic mail services. If Canada Post is as successful as the USPS, it will lose its investment, lose money on the service, and end up trying to sell this portion of the business at bargain basement prices.[35]

Electronic mail has replaced first class mail, but not at the pace one would expect, considering the advanced state of the technology and Canada Post's shoddy service. Fax machines and computers using communications software, modems, and telephone wires send electronic messages instantaneously. These machines have the potential of replacing most first class mail between businesses. With low-cost equipment, decreasing long distance telephone rates, and the superior reliability and speed of this technique, the pressing question is why this form of communication has not already replaced more first class mail service.[36]

Income

The income elasticity of demand estimated in equation (2) is +0.560. This means that while first class mail service is normal, it is not a superior service. First class mail volume grows at half the rate of income when all other variables are constant. A 10 percent increase in income will increase first class mail volume by only 5.6 percent. This effect together with the population effect, however, raises first class mail volume each year. Real income in the U.S. increased an average of 2.8 percent per year from December 1977 to June 1982. This change in income, coupled with the income elasticity, produced an increase in first class mail volume of 1.57 percent or an increase of 1.2 billion pieces of first class mail, generating additional income of $264 million per year in 1986 when USPS volume was 76 billion pieces.

Applied to Canada Post, this demand analysis yields a similar result. For instance, between 1968 and 1985, the average annual growth in real Canadian GNP was 3.85 percent. Using this figure and the income elasticity of +0.560 suggests that if everything else is held constant, first class mail volume increases on the average by 2.17 percent per year from this source, which in fiscal 1986 is about 91 million pieces per year. At a first class postage rate of 36 cents per piece, this would generate an additional $33 million per year in revenues. This effect also shifts the demand curve depicted in figure 13 to the right and raises the cost of the monopoly.

Population Growth

Of all the variables analyzed, population growth has the greatest positive impact on the demand for first class mail. The amount of first class mail service purchased per month is highly sensitive to population changes. For instance, in the U.S. a 10 percent increase in population results in an astounding 35 percent increase in first class mail volume. While the U.S. population was about 248.5 million in 1988, the USPS delivered about 80 and 84 billion pieces of first class mail in fiscal 1987 and 1988, respectively. This amounts to 338 first class letters per person per year, or 28 letters per person per month. For an increase in population of 1 percent (the annual U.S. population increase is approximately 1.15 percent), the volume of first class mail rises 3.5 percent or almost three billion pieces per year. At US25¢ per piece this generates approximately US$750 million in additional revenue. A 10 percent increase in population which would occur in less than nine years causes a 35 percent increase in first class mail volume.

In 1987 the Canadian population was about 26 million, and Canada Post delivered about 4.4 billion pieces of first class mail. This means each person received about 170 first class letters per person per year, or 14 letters per month, half the U.S. amount. This suggests that Canada Post has appropriated the monopoly rents from its exclusive privilege more aggressively than the USPS. It has done this through larger rate increases and decreases in service quality. For a 1 percent increase in population (the annual increase in the Canadian population is about 1.25 percent), the volume of first class mail rises by 3.5 percent, or about 150 million pieces of mail per year. At 36 cents per piece this generates $54 million additional revenue per year. Population increases shift the demand curve in figure 13 to the right and raises both the cost of the monopoly to consumers as well as the potential monopoly rents which Canada Post can appropriate through rate increases and/or service quality decreases. Each year, increases in Canadian income and population growth generate an additional $87 million in revenues. This raises the annual cost of the monopoly to consumers and the potential monopoly rents for Canada Post, without the use of service declines and rate increases.

Other Couriers

An inspection of the yellow pages of metropolitan telephone directories in both the U.S. and Canada shows that courier service has been growing. Many businesses have resorted to frequent courier use because regular mails have not been providing a timely and dependable service. In its survey, the Marchment Committee found that many Canadian companies shifted their communications transmission from first class mail to private courier service. The committee found that within a month's time 74 percent of all businesses used private couriers to carry 10 percent of their total mail volume and transmitted 20 percent of their total correspondence by carriers other than Canada Post.[37]

Businesses had little confidence in Canada Post to deliver important correspondence or documents in a timely fashion. Sixty percent of all businesses surveyed reported that they were using first class mail less and 78 percent said they were using private couriers more. Fifty-two percent of businesses surveyed almost never used first class mail for important correspondence. Instead, they depended on couriers because Canada Post was slow, unreliable, and even lost first class mail.[38]

Canada Post's share of parcel post has been declining since 1968. In the U.S., UPS has captured nearly 80 percent of the parcel post business and currently delivers parcels within about 53 percent of Canada and is rapidly expanding its territory. Canada Post delivers only 6 to 8 percent of the total parcel post volume.[39] Canada Post's plan to regain its parcel delivery business, despite its $191 million expenditure, has about as much chance of success as the USPS's bulk-mail centre programme.[40]

Canada Post's Demand for First Class Mail and Total Mail Volume

Demand is a relationship between price and quantity. Appendix table 31 lists the quantities of the various types of mail service provided by Canada Post. This section estimates demand relationships between Canada Post's total first class mail volume and the real first class postal rate, real income and population, using the following equations:

$$\ln y_1 = a + b_1 \ln x_1 + b_2 \ln x_2 + b_3 \ln x_3 \qquad (4)$$

$$\ln y_2 = a + b_1 \ln x_1 + b_2 \ln x_2 + b_3 \ln x_3 \qquad (5)$$

where the definitions of variables y_1, y_2, x_1, x_2, and x_3 are in table 18. Table 19 lists the estimated values of the parameters of equations (4) and (5).

From table 19, the coefficients of the price and income variables for equation (4) are both positive (0.32 and 0.48) and statistically significant. The adjusted R^2 of 0.88 shows these two variables alone capture most of the variation in the volume of total mail. The coefficients of the price and income variables in equation (5) are also positive (0.14 and 0.50) and statistically significant. The adjusted R^2 of 0.93 shows these two variables alone capture most of the variation in the volume of first class mail which is the dependent variable.

Stephen Easton points out that these estimates for the price elasticities, +0.32 and +0.14, are downwardly biased to the point of being positive instead of negative, because the quantity variable for mail does not combine the number of days a standard piece took to arrive with the volume figures to create a "service unit." If one adjusts the quantity variable for the "service unit," the true quality adjusted quantity is lower than the measured quantity that was used to estimate the parameters, including the price elasticity. While the consumer does not care how much mail the post office handles, he does care how speedy its delivery is. Because the average delivery time has been rising, as shown in chapter 5, nominal and real prices understate the true price increases. Omitting this factor leads to an underestimate of the elasticity of demand for a given measured price-quantity pair. In either case, the price elasticity of demand is underestimated so much as to yield a positive instead of a negative sign.

Table 18
Definition of Variables — Canada Post

Variable	Definition
y_1	Total volume of all classes of mail (variable 16 in appendix table 31)
y_2	Volume of 1st class mail (variable 10 in appendix table 31)
y_3	Points of call (variable 2 in appendix table 31)
y_4	Total costs in ($1,000) (variable 8 in appendix table 31)
x_1	Real postal rate for 1st class mail where the real postal rate is the postal rate for 1st class mail (variable 17) divided by the CPI (variable 18, both in appendix table 31)
x_2	Real income which is GDP for Canada divided by the CPI
x_3	Canadian population
x_4	Canada Post employment (variable 4 in appendix table 31)
x_5	Time (variable 1 in appendix table 31)

Table 19
Canada Post's Demand for First Class and Total Mail Service, 1968-85

Equation	Dependent Variable	Independent Variables (standard errors): Constant	$\ln x_1$ – Real Postal Rate – 1st Class Mail	$\ln x_2$ – Real Income	R^2	Adjusted R^2	D-W
(4)	$\ln y_1$, total mail volume	12.4	.32	.48	.90	.88	1.02
		(.88)	(.09)	(.10)			
(5)	$\ln y_2$, 1st class mail	11.4	.14	.50	.94	.93	2.58
		(.55)	(.06)	(.06)			

Source: Data are 18 annual observations from appendix table 31.

Table 20
Canada Post's Production and Cost Relationships, 1968-1985

Equation	Dependent Variable	Constant c	Employment $\ln x_4$	Time $\ln x_5$	Total Mail Volume y_1	$\ln y_1$	R^2	Adjusted R^2	D-W
		Independent Variables (standard errors)							
	TOTAL MAIL VOLUME								
6 a.	$\ln y_1$	-44.64	-.092	.031	—	—	.91	.90	1.39
		(6.46)	(.16)	(.004)					
b.	5.70	.90			—	.52	.49	.36	—
		(2.36)	(.21)						
	POINTS OF CALL								
7 a.	$\ln y_3$	-42.99	.285	.028	—	—	.995	.995	.99
		(1.56)	(.038)	(.001)					
b.		2.56	1.18	—	—	—	.74	.72	.15
		(1.93)	(.18)						
	TOTAL COSTS								
8.	y_4	3,606,449	—	—	.883	—	.92	.92	1.34
		(375,729)	—	—	(.064)				
9.	$\ln y_4$	-44.83	—	—	—	3.783	.90	.89	1.08
		(5.01)	—	—	—	(.32)			

Source: Data are 18 annual observations from appendix table 31.

Supply and Cost Relationships at Canada Post

Where there is a presumption that a business is operating efficiently under competitive conditions, the costs and scale can be determined by analysing cost and production data. Competition and the threat of bankruptcy provide the incentive for the firm to reduce costs. A monopolist, on the other hand, can remain in business even without minimizing costs. If, in addition, the government owns and subsidizes the monopolist with tax revenues, he has a second crutch. Inefficiency, then, does not result in bankruptcy as it does for a competitive firm. When we draw an average total cost curve (ATC) or estimate a total cost function (TC), we assume that this represents the lowest ATC or TC at each output.[41] For a monopolist, this may not be the case. If the government owns and subsidizes the monopolist, it is even less likely because the monopolist lacks motivation for efficiency. Harvey Leibenstein said, "monopoly enjoys organizational slack because it lacks serious competition." He called the organizational slack which a government-subsidized and protected monopoly enjoys, "X-inefficiency."[42]

If Canada Post lost its "exclusive privilege," it would have to improve its efficiency and lower its costs or lose its business. Without its government-protected monopoly on first class mail, private competitors would enter the most lucrative postal service markets and "skim the cream." Competitors appear on the scene, depress the price, extract as much profit as possible, then leave the market if economic profits disappear. That's why there is no cream in a competitive market. Canada Post is vulnerable in these areas because its uniform pricing policy hides discriminatory pricing.

For Canada Post, losing its monopoly would be a frightening prospect, because at present it needs its "exclusive privilege" to survive. Instead of becoming more efficient, Canada Post expends resources to protect its privilege. From society's viewpoint, this resource use is pure waste, which raises its cost curves in the same way as advertising. However, because advertising shifts the demand curve, one can determine an optimal expenditure for advertising where its marginal revenue equals its marginal cost. Resource use to protect a monopoly, however, is more like insurance premiums made to purchase protection against losing the "exclusive privilege."

Although Canada Post does not minimize its costs, its data can still be used to estimate what would otherwise be the parameters of the production function. Two measures of the supply of postal services are the total volume of mail delivered per year, y_1, and the number of points of call, y_3. These two are dependent variables, while the number of employees, x_4, and the time trend, x_5, are the independent variables. The two production relationships are:

$$y_1 = c + b_1x_4 + b_2x_5 \tag{6}$$

$$y_3 = c + b_1x_4 + b_2x_5 \tag{7}$$

where the definitions of the variables are in table 18.

The numerical estimates of the parameters of equations (6) and (7) are in table 20. There were two problems with equations (6b) and (7b): namely, low R^2s and the very low D-W statistics which indicate severe serial correlation in the residuals. An inspection of the residuals for equations (6b) and (7b) showed a strong time trend which suggested the inclusion of the time variable. Including the time trend variable in equations (6a) and (7a) reduced the serial correlation and the coefficients of $\ln x_4$ in both equations (6b and 7b). The adjusted R^2s of 0.90 and 0.995 for equations (6a) and (7a) indicate that the independent variables, employment and time, explain most of the variation in the dependent variables, the total volume of mail and the points of call. Other statistics are equally impressive. The surprising result from equation (6a) is that the relationship between total mail volume and employment is negative. The coefficients of time in both equations (6a) and (7a) show that both total mail volume and the number of points of call increase at about 3 percent each year regardless of employment.[43]

Despite the fact that Canada Post does not minimize the total costs of producing its output, its data can still be used for illustrative purposes to estimate what would otherwise be the parameters of a total cost function. Extreme care, however, must be used in interpreting the coefficients, since the usual assumptions underlying the total cost function are not met. Equations (8) and (9) relate Canada Post's total cost data, y_4, to the total pieces of mail processed, y_1, as follows:

$$y_4 = a + b\,y_1 \tag{8}$$

$$\ln y_4 = a + b \ln y_1 \tag{9}$$

where the definitions of variables are in table 18. Table 20 lists the numerical estimates of the parameters of equations (8) and (9). The R^2s, 0.92 and 0.90, and the standard errors indicate that statistically the equations fit the data well.

From equation (8) the predicted marginal cost is 88 cents per piece. Equation (9) becomes:

$$\ln y_4 = 44.83 + 3.783 \ln y_1$$

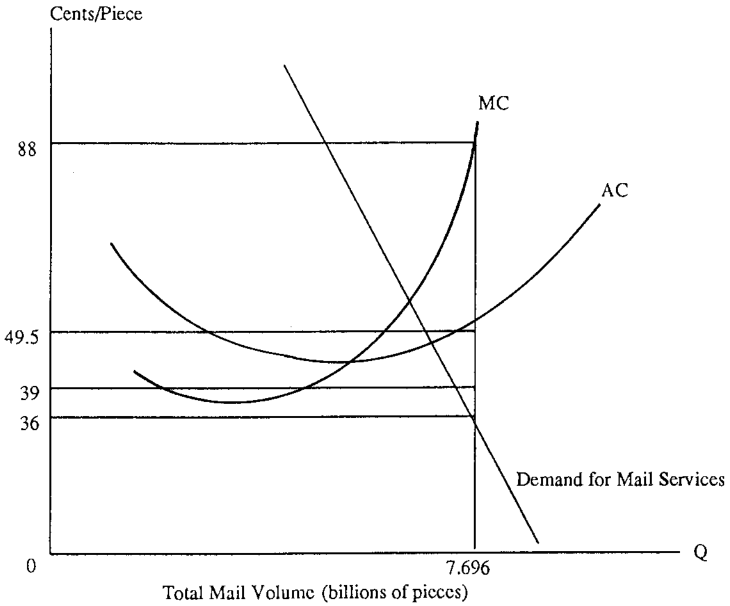
or

$$y_4 = \alpha y_1^{3.783} \tag{10}$$

where $\alpha = 3.393 \times 10^{-20}$

Now, according to the functional behavior of equation (10), predicted average cost for fiscal 1985-86 is 49.5 cents.[44] From table 31 in the appendix, actual average cost in fiscal 1985-86 was 39 cents per piece. Part of this discrepancy may result because the total cost data used to estimate equation (10) are nominal rather than real values; part because Canada Post had improved its efficiency somewhat over that which was expected from previous experience. Actual average revenue (price) per piece for fiscal 1985-86 was 36 cents,[45] which is on the demand curve. Figure 14 summarizes all these numbers for fiscal 1985-86 when Canada Post suffered a loss of 3 cents per piece of mail processed. While this analysis is conjectural, the numbers and figure 14 suggest that Canada Post would still like to raise prices, decrease service quality, and diminish quantity.

Figure 14
Cost and Demand for Total Mail Volume, FY 1985



Conclusion

This chapter suggests that the monopoly which the Canadian government has bestowed on Canada Post was worth about $1.2 billion per year in fiscal 1986. In addition, this value rises by about $100 million per year as a result of increases in real income and population. This privilege allows a redistribution of income away from consumers and taxpayers through non-competitive pricing in terms of higher than competitive postage rates for first class mail, and in the deterioration of the quality of first class mail service. Also, a monopoly price for first class postage which is higher than the competitive price sends the wrong signals to those making decisions affecting development in the information industry. There is a cost for this behaviour, and the cost is large and increasing.

Notes

1. Bruce M. Owen and Robert D. Willig, "Economics and Postal Pricing Policy," p. 227.
2. After studying Canada Post, Shapiro said, "there are few economies of scale," p. 72. This was the reason that marketing could not make the same contributions that it could in capital-intensive firms having large fixed costs. No significant volume increases result from management's efforts to market their services. Instead, at Canada Post, a labour-intensive, high-cost production machine waits to process a highly variable volume. Serious inefficiency results from the inability to alter the labour input to match volume changes. Economies of scale are not consistent with this situation.
3. *Summary Report of Cost System Task Force on Incremental Costs,* U.S. Post Office Department; Leonard Merewitz, "Economies of Scale in Postal Service," pp. 78-90; Rodney E. Stevenson, "Postal Pricing Problems and Production Functions"; *Changing the Private Express Laws,* U.S. Department of Justice.
4. David F. Linowes in President's Commission on Privatization, "Privatization: Toward More Effective Government," pp. 106-8; Alan L. Sorkin, *The Economics of the Postal System,* p. 135; U.S. Postal Service, *Statutes Restricting Private Carriage of Mail and Their Administration,* pp. 9-10, 93-96; James L. Miller, "Postal Monopoly," vol. 5, no. 1, p. 150.
5. UPS competes successfully with both the USPS and Canada Post. In the U.S. third class mailers, the American Postal Systems, Independent Postal Service of America, Private Postal Systems of America, and Rocket Messenger Services all compete with the USPS for the unprofitable third class "junk mail."
6. If the monopolist is not experiencing returns to scale, then its LAC will be horizontal or rising and regulation will not necessarily produce losses.
7. Was the above rationale used to justify subsidies for USPS and Canada Post through the years? No, and furthermore, the fact that the USPS and Canada Post are not natural monopolies is good reason for both governments to cease their subsidies.
8. In the USPS and Canada Post, first class mail subsidizes second class mail, and urban residents subsidize rural delivery, though the rates are the same. Both postal services have used this form of relief, but it is now legally prohibited under the reorganized USPS.
9. Other uneconomic practices engaged in by the public post offices of Canada, the U.S., Great Britain, and Australia are uniform nationwide pay scales in excess of what the labour market requires, and inadequate innovation. Is this a coincidence or are there reasons these public corporations behave this way? This book suggests the latter.
10. Robert Albon, *Private Correspondence: Competition or Monopoly in Australia's Postal Services.*
11. Ian Senior, *Liberating the Letter: A Proposal to Privatise the Post Office.*
12. Douglas K. Adie, *Monopoly Mail: Privatizing the United States Postal Service,* pp. 83-84.

13. John Vickers and George Yarrow, *Privatization: An Economic Analysis*, p. 47. This inefficient pricing structure rather than the pursuit of public interest objectives is responsible for the poor financial performance of most public corporations.
14. The structural inefficiencies of the exclusive privilege and contracting out affect the quality of service adversely. Also, utility maximization of those who make decisions outweighs productivity gains from management.
15. Walter Stewart, *Uneasy Lies the Head: The Truth About Canada's Crown Corporation*, p. 113.
16. Vickers and Yarrow, *Privatization*, pp. 406, 423.
17. Barry Freeman, Lori Oeffner and Guimin Feng helped with the computations of this section.
18. Adie, *Monopoly Mail*, "Appendix: The Demand and Supply."
19. Consumer tastes were omitted from the equation because it was difficult to find an adequate proxy for them.
20. To express real variables in constant purchasing power of 1967 dollars, the postal rate, personal income, and the index of telephone calls were divided by the consumer price index and then multiplied by 100.
21. Because there are only 364 days (28 x 13) in 13 accounting periods — as opposed to 365 days in a normal year — the beginning and ending dates of an accounting period change from year to year. Furthermore, leap years also cause a shift in the annual beginning and ending dates of the accounting periods. The following steps were taken to convert the volume of mail — measured in millions of pieces — from accounting period to monthly form. First, to get the average number of letters mailed per day for the accounting period, the quantity of first class mail per accounting period was divided by 28 — the number of days in each period. Second, to get a partial total of the volume handled during the month, this quantity figure for the accounting period was multiplied by the number of days in each month during the accounting period. Third, to get the quantity of first class mail for the month, all the partial monthly totals from the accounting periods were added. For example, accounting period 6 in fiscal year 1978 ran from February 25 through March 24. The volume of first class mail for the period was 4449.9 million pieces. This figure was divided by 28 to give an average daily figure of 158.925 million pieces. For the period, there were four days in February and 24 days in March. Multiplying four days by 158.925 yields a subtotal of the quantity of mail for the four February days of 635.7 million pieces. Similarly, I computed the figure for the 24 days in March as 3814.2 million pieces. This process was repeated for all the accounting periods adding the monthly subtotals to get the monthly figures. There were no USPS data for accounting period 12 in fiscal years 1978, 1979, and 1980. To get the data for this period, the figures for accounting period 11 were multiplied by one plus the growth rate between accounting periods 11 and 12 for the fiscal year 1977.
22. For instance, if monthly figures were available on a consistent basis for the average delivery time, an index number could have been created for each month. An index number reflecting speed of delivery might be the inverse of the number

of days a standard piece of mail took to be delivered normalized to "1" for the first month. The "service unit" would then be the product of the quantity and the index number.

Alternatively, instead of adjusting the quantity, the price could have been adjusted for speed of delivery. In this case the quality adjusted price would be the real price divided by the index number.

23. An elasticity is the percentage change in one variable that results from a 1 percent change in another variable.
24. In 1976 Bernard Sobin, working for the USPS, computed the elasticity for first class mail as -0.25, which is very close to the estimate made here. Sobin's estimates of the elasticities for the other classes of mail were: -0.57 for third class bulk circulars, -0.22 for parcel post, -0.31 for special rate fourth class, and -0.23 for second class. U.S. Postal Rate Commission, "Postal Rate and Fee Increases," p. 127; Sorkin, *The Economics of the Postal System*, p. 61.
25. Senior, *Liberating the Letter*, pp. 43, 45.
26. The POD and Canada Post Corporation have both used strikes to reduce costs and raise total revenue to cover poor management, irresponsible spending, and political expediency. During a strike, costs are greatly reduced, while Canada Post still receives prepaid revenue advantages. When service is resumed Canada Post can operate at a steady higher level of production for some time without a commensurate increase in costs.
27. The elasticity of demand with respect to population is 3.45, and since population increases about 1 percent per year, first class mail volume rises almost 3.5 percent per year due to population increases (i.e., 2.7 billion pieces per year as opposed to a volume decrease of 800 million pieces in response to a 1 cent increase in first class rates).
28. From appendix table 32, POP = 232493 thousands, INC_{t-4} = 885.8 ($ billion real) and TEL_{t-4} = 39.31 (real index number).
29. Albon, *Privatize the Post*, p. 6; Ronald H. Coase, "The British Post Office and the Messenger Companies," pp. 12-50; M.J. Daunton, *Royal Mail: The Post Office Since 1840*, p. 54.
30. The equations describing the demand relationship underlying the demand curve for Canada Post in figure 13 are: P = 157.5 - 0.346Q, or Q = 455 - 2.89 P, where Q is the volume of first class mail per month and P is the nominal per-ounce first class postage rate.
31. During fiscal 1986, Canada Post delivered an average of 351 million pieces per month at a rate of 36 cents per first ounce. Its monthly revenue was $135.3 million. The average postage per piece was 38.5 cents, which is 2.5 cents more than the rate of 36 cents per ounce. Flat mail which requires more than 36 cents because it weighs more than an ounce accounts for this 2.5 cents. To calculate the revenue at the maximum revenue point on figure 13, I added 2.25 cents to 78.75 cents to get 81 cents. I then multiplied this rate by 227.5 million pieces per month to get $184.3 million revenues per month.
32. This second way of capturing monopoly rents (which I believe is most plausible) explains why estimated price elasticity is less than unitary, and for Canada Post's

data analyzed later in this chapter, positive. Stephen Easton, who has rendered many helpful comments at crucial places in this manuscript, suggested this explanation.

33. The existence of cross-elasticities between classes of mail is part of the reason that Congress has discouraged the USPS from using the Inverse Elasticity Rule (IER) in setting rates. The use of IER assumes that the cross-elasticities between the different classes of mail are zero, or nearly zero, which is unlikely to be the case. In the demand function estimated here, however, the cross-elasticity between first class mail and telephone service is low. Joel L. Fleishman, *The Future of the Postal Service,* pp. 230-33.
34. Canada Post Corporation, Review Committee on the Mandate and Productivity of Canada Post Corporation, vol. 2, p. 33.
35. The USPS ended its E-mail service in 1987.
36. In the U.S. there were one million fax machines sold in 1987, 1.5 million in 1988, and 2.5 million anticipated sales in 1989.
37. Canada Post Corporation, Review Committee, vol. 2, p. 29, 33.
38. Ibid., vol. 2, p. 31.
39. Ibid., vol. 1, p. 9.
40. It was a $1.5 billion flop for the U.S.
41. The TC specifies in dollars the lowest cost at which any given output can be produced. The ATC curve describes the lowest average cost (TC divided by output) for each output.
42. Harvey Leibenstein, "Allocative Efficiency Versus X-Inefficiency," pp. 392-415; "Competition and X-Inefficiency: Reply," pp. 765-77.
43. Of all the variables available in appendix table 31, the budget deficit is most closely correlated to the number of employees. The simple correlation coefficient between these two variables is 0.58, which suggests a political instead of an economic explanation for the number of workers at Canada Post.
44. In fiscal 1985 when total mail volume was y_1 = 769,600 (1,000s), predicted average cost $AC = \frac{y_4}{y_1} = \alpha y_1^{2.783}$

    or AC = (3.393)(1.46) 10^{-20} x 10^{19} = $0.495 or 49.5 cents per piece.

45. In fiscal 1985 average revenue was: $AR = \frac{2757674}{7696000}$ = $0.36 or 36 cents per piece.

Chapter 8

Some Financial and Other Policy Issues

Canada Post's Expenditures

There are three reasons for examining Canada Post's budget. The first is to see where Canada Post spends its revenues. It is useful to compare the percentages in Canada Post's categories with similar categories for the USPS. Second, Canada Post's mandate is to operate a postal service on a self-sustaining basis. An examination of the budget can help to determine whether Canada Post has met this mandate and, if so, how. Finally, capital expenditures reflect the priority Canada Post places on mechanizing if not automating the document-handling functions. Although an examination of the budget does not deal with specific postal operations already covered in earlier chapters, it can indicate Canada Post's priorities.

The amounts and percentages for Canada Post's expense categories are listed in table 21. The percentages by category have been relatively constant during the period 1984 through 1986. The most noticeable change has been in salaries and benefits which increased from 70 percent of operating costs in 1978 to 73.2 percent in years 1984 and 1985, and to 74.4 percent in 1986. What accounts for this change? From 1968 to 1976 postal wages increased 120 percent. While this was not excessive compared to other wages, total public service wages increased only 107 percent in this same period, and all industry and service industry wages, 125 and 128 percent, respectively.[1] In the balance of the period from 1977 to 1986, however, the eight militant postal unions produced the result discussed in chapter 6.

The only other category that increased its share of expenses was international settlements. From 1985 to 1986 it increased from 1.6 to 2.2 percent. The reason for this was given in chapter 5. The greatest declines were in accommodations, from 5.2 to 4.6 percent, and in computer, security, and professional services, from 1.8 to 1.1 percent. Advertising and publication, a small part of the budget, fell by almost half between 1985 and 1986.

Table 21
Canada Post's Expenses, 1983-86

	1983-84		1984-85		1985-86	
	($1,000)	Percent of Total	($1,000)	Percent of Total	($1,000)	Percent of Total
Salaries and Benefits	$1,975,710	73.2	$2,120,040	73.2	$2,208,379	74.4
Transportation, Travel, and Communications	316,619	11.7	337,888	11.7	342,047	11.5
Accommodation*	143,862	5.3	149,812	5.2	136,088	4.6
Depreciation	71,025	2.6	77,287	2.7	79,534	2.7
Computer, Security, and Professional Services	38,860	1.4	51,532	1.8	32,402	1.1
International Settlements	44,805	1.7	47,587	1.6	66,663	2.2
Materials and Supplies	50,838	1.9	44,639	1.5	45,633	1.5
Commissions and Fees	30,093	1.1	31,145	1.1	31,293	1.1
Advertising and Publication	9,372	0.4	15,682	0.5	7,593	0.3
Rentals, Repairs, and Maintenance	8,237	0.3	9,708	0.3	9,066	0.3
Other	11,069	0.4	9,997	0.3	9,403	0.3
TOTAL	$2,700,490	100.0	$2,895,317	99.9	$2,968,101	100.0

*For description of this category, see Canada Post Corporation, *Annual Report, 1982-1983*, note 10(a).

Source: Canada Post Corporation, *Annual Report, 1985-1986*, p. 27; *1984-1985*, p. 31.

How does Canada Post's distribution of expenses compare with those of the USPS? The expense categories for these two government-owned businesses are similar but not identical. They can be compared in tables 21 and 22. First, the USPS spends 83 percent and Canada Post 74.4 percent for salaries and benefits.[2] Which budget categories at Canada Post have relatively higher percentages than the USPS to compensate for this 8.6 percent differential? Even though the categories are not directly comparable, Canada Post spends proportionally more for the next three categories listed in tables 21 and 22. That is, Canada Post spends 11.5 percent on transportation, travel, and communications, compared with 8.68 percent for the USPS; 4.6 percent for accommodations, while the USPS spends only 2.46 percent for rent, communications, and utilities; and 2.7 percent for depreciation, while depreciation and write-offs are only 1.29 percent of the USPS's budget. Also, Canada Post spends only 1.1 percent on computer, security, and professional services, while the USPS spends 2.5 percent for other services. Both Canada Post and the USPS spend about the same percentage of their budgets on materials and supplies (1.5 percent for Canada Post and 1.43 percent for the USPS). Canada Post spends about 2 percent for remaining categories, and the USPS about 0.7 percent.

Table 22
U.S. Postal Service
Analysis of Expenditures, Fiscal Year 1986

	$U.S. Million	Percent of Total
Salaries and Benefits	$25,479	82.95
Transportation and Travel	2,666	8.68
Rent, Communications, and Utilities	756	2.46
Depreciation and Write-Offs	396	1.29
Other Services	768	2.50
Materials and Supplies	439	1.43
Interest on Notes, Mortgages, and Bonds	114	.37
Insurance Claims and Indemnities	52	.17
Painting	46	.15
Total	$30,716	100.00

Source: U.S. Postal Service, *Annual Report of the Postmaster General, 1986*, pp. 22, 24.

Is there any explanation for the broad differences between Canada Post and the USPS in these expense categories? Canada's population is about 26 million compared with 240 million in the U.S. The USPS's budget is more than ten times as large as that of Canada Post, although the area Canada Post services is 3.8 million square miles compared with 3.6 million square miles for the USPS.

The percentage of population distributed between urban and rural areas, however, is about the same in Canada and the U.S. (76/24 for Canada; 77/23 for the U.S.), and about 85 percent of the Canadian population lives huddled within 200 miles of the U.S. border. While both Canada Post and the USPS need to maintain a transportation network across the entire width of the continent, Canada Post serves only one-tenth the population. Given this discrepancy in area per-capita, it is not surprising to find the relative costs of transportation and accommodation are higher at Canada Post than at the USPS. The costs of maintaining a national postal service independent of the U.S. are here. The USPS's other services are higher than the cost of Canada Post's computer, security, and professional services, which may reflect a greater reliance in the USPS for contracting out these functions.

On the revenue side, first class mail provides 63 percent of Canada Post's revenue and only 60 percent of the USPS's. While this difference by itself may not seem significant, it is when coupled with the composition of mail. In the U.S. 74 percent of the pieces of mail delivered are first class, while in Canada only 51 percent are. What does this difference mean? Glenn Smith, president of United Parcel Service Canada Ltd., says that Canada Post uses its first class monopoly revenues to support its competition with private delivery companies for other classes, particularly parcel post. He says,

> There's no bottom-line accountability at the post office...[The post office should] develop a cost-accounting system to tell exactly how much of a deficit each operation — mail delivery, parcel handling, etc., — was running, and then...trim the fat so that greater efficiencies could be realized. The post office should be concentrating on the one area in which it has a monopoly...it now uses revenues from mail delivery to offset deficits it runs in ancillary operations such as parcel delivery.[3]

The figures support this conclusion.

Dependence on Government Financing

Canada Post receives three annual payments from the Consolidated Revenue Fund of the Government of Canada. The first two are subsidies: one pays for reduced postage rates on second class publishers' mail, northern parcel mail, parliamentary free mail, and blind persons' mail;[4] the other subsidizes the infrastructure to offset facilities and equipment costs required in handling second class mail. (Canada Post reports these first two payments as corporate revenue on its accounts, rather than as subsidies.) The third payment Canada Post receives from the government makes up the difference between all revenues (including corporate revenues) and expenses, and is a pure subsidy.

The first method for calculating the deficit, Deficit (1), actual funding provided, is this third payment and is listed in table 23. The second method, called Deficit (2), counts all three payments from the government. As a part of the plan for reorganizing the Post Office Department into Canada Post, Deficit (1), as measured by actual funding provided, was to cease in the fiscal year 1986-87, when Canada Post became self-sufficient.

From 1900 to 1958 the post office ran a deficit only 14 times, although it was always supposed to break even. During 1947 to 1961, the post office earned surpluses for ten years and suffered deficits for five years. However, substantial costs of its operations were borne by other government departments and some revenues for mail delivered for other departments did not appear in its accounts. After adjustments for these, postal operations were substantially less profitable than the figures suggest. Because of this, reserves in 1958-59 were about $7.5 million less than recorded. By 1974, however, the order of magnitude of the annual deficit changed. In this year the deficit was $177 million, from which it rose steadily to $575 million in 1977.[5]

What produced this larger deficit? Militant unionists, knowing the government could not go bankrupt, pushed for higher wages without regard for the post office's deficit. Union members also knew they would not be fired no matter how much damage their strikes inflicted.[6] In addition to higher wages, heavy spending on equipment contributed to the deficit.

When Canada Post became a public corporation, it was given five years to break even. To meet this goal the government increased first class postage rates from 17 to 30 cents before setting up the corporation, although the increase didn't go into effect until January 1, 1982, months after the reorganization.[7] Making deficit reduction an important objective was intended to motivate controlling labour costs.[8] Only Michael Warren's public relations skills stood in the gap between the public's expectations for improved service and Canada Post's performance. He skilfully designed his presentation of facts to create the illusion of improvement, even though mail delivery lagged just as before reorganization.[9]

The Australian government also wanted to quit paying postal subsidies. The Bradley Commission criticized Australia Post's inefficiency and uneconomic use of equipment in New South Wales, and recommended better use of prime real estate sites in major urban areas, contracting out of counter services, and franchising post offices and community mail agencies to private businesses.[10] In the United Kingdom the first class letter mail monopoly, together with some other monopoly activities, enabled the Post Office to earn profits of 5 percent of revenues without any subsidy. Also, during the last ten years, first class rate increases were kept to less than the rate of inflation.[11]

From its first year of operation in 1981-82, Canada Post reduced Deficit (1) from $588 million (based on one year's operation of which only five and one-half months was as Canada Post Corporation) to $347 million in 1984-85,

Table 23
Government Funding of Canada Post Corporation's Deficit
($ millions)

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
Total Expenditures	2,346	2,549	2,700	2,895	2,968	3,099
Forecast Deficit Funding	300	400	300	350	200	None
Deficit (1) (Actual Funding Provided)	588	262	306	347	184	129
Deficit (2) (Cash Deficiency Paid From Tax Revenue)	874	483	529	573	40	383
Deficit (2) (As Percent of Total Expenditures)	37%	19%	20%	20%	14%	12%

Source: Canada Post Corporation, Review Committee, vol. 1, p. 7; vol. 2, p. 6; Canada Post Corporation, *Annual Report*, *1986-87*, p. 15.

$184 million in 1985-86, and $129 million in 1986-87. Canada Post's Deficit (1), however, did not include $55.7 million in publisher subsidies (to offset low rates charged for second class mail) and the $170 million in infrastructure payments, which were supposed to cease after fiscal year 1986-87.

Deficit (2), which includes all payments Canada Post receives from the government, is considerably higher. It also has decreased, however, from $874 million in 1981-82 to $383 million in 1986-87. According to this measure of the deficit, the government only partly finances Canada Post, but its financing is a significant proportion of the total budget. In fiscal year 1981-82 Canada Post's cash deficiency (covered by Parliament and paid out of tax revenues) was $874 million, 37 percent of Canada Post's total expenses (see table 23). This was a period of transition from a government department (April 1 to October 15, 1981) to a Crown corporation (October 16, 1981, to March 31, 1982). For the next three years, Deficit (2) was about 20 percent of total expenditures. In fiscal year 1985-86 it declined to 14 percent and to 12 percent in 1986-87. In absolute terms, Canada Post reduced its postal deficits from about $1 billion per year before the Crown corporation, to $184 million. Productivity increases, which were about 1 percent for inside workers and 4 percent for letter carriers, had little to do with this. Nor did the slight reduction in absenteeism. Financial improvement resulted primarily from rate increases. First class mailers, whose rates rose to cover these lost subsidies, paid for the taxpayers' savings.[12]

First class rates rose from 5 cents per letter in 1968 to 36 cents per letter in June 1985, a 720 percent increase (see column 17 of appendix table 31). The largest increase, from 17 to 30 cents, took place on January 1, 1982, to help the new Crown corporation become self-sufficient. The consumer price index, on the other hand, rose only 335 percent during the same period (see column 18 of table 31). In addition to deficit reduction, where did the increased revenues go? Increases in salaries and employee benefits rose 563 percent during this period (see column 16 of table 31). At the same time, the work force expanded by 55 percent, despite major technological improvements financed by the $1 billion automation programme of the early 1970s.

How does the subsidy the Canadian government gives Canada Post compare with the subsidy the U.S. government gives to the USPS?[13] From 1971 to 1981, total government appropriation to the USPS ranged between $1.25 billion and $2.8 billion with a mean of about $2 billion per year. The average annual expenditure during this period was about $15 billion, showing an overall postal deficit of 13.3 percent of total expenses paid by taxpayers.[14] The subsidy to the USPS has also declined since 1981. In one year the USPS even ran a surplus. Instead of improving efficiency, the USPS has also used increases in first class postage, on which it has a monopoly, to finance the deficit reduction. The USPS is almost financially self-sustaining because it raised rates and reduced service.

The Marchment Committee believed that following the American example would be an improvement.

Capital Expenditures

Donald H. Lander, president and chief executive officer of Canada Post, said, "mail processing plants and equipment have become outdated and obsolete due in part to a lack of an awareness of the need for appropriate capital investment..." This assessment is supported by table 24, where capital expenditures, either (1) or (2), exceeded depreciation in only one year (1983-84). What was the reason for this?

Table 24
Capital Expenditures at Canada Post

	1981-82	1982-83	1983-84	1984-85	1985-86
Depreciation ($ millions)	30	68	71	77	80
Capital Expenditures (1) ($ millions)	—	40	82	37	55
Capital Expenditures (2) ($ millions)	39	41	77	30	—
Capital Expenditures (2) (as a percentage of total revenues)	1.7	1.6	2.8	1.1	—

Source: Capital Expenditures (1), Canada Post Corporation, *Annual Report, 1985-86,* p. 20; Capital Expenditures (2), Canada Post Corporation, Review Committee, vol. 2, app. p. 6.

Internal bureaucratic rules and regulations impeded the capital spending process before Canada Post became a Crown corporation and remained essentially the same afterwards. The signing authorities didn't change. The capital budget for Canada Post Corporation required government approval even after reorganization. The government's directives for capital spending and investment imposed through the Department of Finance and the Treasury Board impeded investment planning, although Canada Post was not able to spend effectively even what was allocated to them. The shortfalls in capital budget spending embarrassed Canada Post because they raised numerous questions. The reason these shortfalls existed was that executives would not trust middle management and employees to use existing delegated authority. Even less would they contemplate increasing this authority to realistic levels to permit managers to complete their capital spending tasks. All contracts exceeding $500,000 were tendered to the board of directors for approval. The board reviewed all contracts and received all non-competitive bid contracts.

Although reorganizing Canadian postal services into a public corporation did not improve the capital budgeting process, privatizing British Telecom (BT) did. Before privatization, the Treasury told BT how much money was available for its capital projects. BT could ask the minister for more, but had little control over this decision. Once BT received its allocation, its engineers ranked possible investment projects in order of preference and funded them until the funds were gone. After implementing the projects they could ask for more money and repeat the process. Since privatization, the system has changed substantially. BT now compares the net present value of each investment project with its internal rate of return. If the internal rate of return exceeds the weighted average cost of capital it funds the project; otherwise not.[15]

In 1980 the communications equipment industry spent 5.2 percent of its net sales on research and development; the office computing, and accounting machines industry spent 10 percent (see table 25). In 1981 Canada Post spent only 1.7 percent of its revenues on investment (see table 24). The research and

Table 25
Corporate Spending on Research and Development

Year	Industry	Percent of Total Sales
1980	Communications Equipment	5.2
1980	Office, Computing, and Accounting Machines	10.0
1985	IBM	3.8
	AT&T	3.9
	ITT	9.1
	General Electric	3.8
	Eastman Kodak	9.2
	Digital Equipment	10.7
	3M	6.5
	Sperry	8.8
	Honeywell	6.8
	Canada Post (Capital Expenditures)	1.1
1981	U.S. Postal Service	0.1

Source: Kathleen Conkey, *The Postal Precipice, Can the U.S. Postal Service Be Saved?* pp. 385-86; *Wall Street Journal*, Nov. 10, 1986, p. 5D; Canada Post Corporation, Review Committee, vol. 2, p. 6.

development programme at Canada Post lacks adequate funding, competent scientists and engineers, and the support of top management. One good thing about this is that under the present organizational structure, and with Canada Post's exceptionally poor record at innovating, it does not put public money at risk. It is doubtful that Canada Post could make its operations more efficient with any innovations. The productivity data in chapter 6 suggested that unions performed sabotage on a grand scale to prevent successful implementation of cost-saving technologies. In addition, the Canadian government insulates Canada Post from normal business risk by covering deficits with annual appropriations. Government restrictions protect permanent workers from lay offs. Together with the monopoly on first class mail, these protections create an artificial environment not conducive to making good business decisions.

The Information Revolution

Electronic mail is the long-run challenge to Canada Post's document delivery service, as it is capable of replacing the demand for much of the first class mail services. Many electronic transfers are already taking place between banks, directly between facsimile machines or computers using modems and telephone lines, and indirectly between computers using modems and telephone lines via an electronic mailbox. About 60 percent of all letter mail involves financial transactions, such as bills and payments which are easy to convert to electronic transfers. Canada Post stands to lose up to 60 percent of this exclusive privilege mail. It is unthinkable to contemplate Canada Post's monopoly encompassing electronic transfers when that business is progressing so satisfactorily, and Canada Post is doing so poorly at simply delivering mail promptly, reliably, and cost effectively. Canada Post's role will dwindle as this technology replaces document deliveries, but the effect of electronic competition on mail volume has not been noticeable up to the present time.

With its current organizational structure, Canada Post should not participate in the electronic transfer market. It is not fair to make private businesses compete with a Crown corporation which has a monopoly in first class mail from which it can divert profits.[16] Also, under the present organizational form, the prospects for successful innovation are not promising. As a privatized and deregulated business, however, Canada Post could use electronic technology to deliver messages within small targeted areas at reasonable costs. This type of advertising would be more effective than newspapers and magazines, even if they used zoned or regional issues. This pin-point direct-mail advertising, carried along with other mail, could give vendors a cost-effective alternative to the high-priced advertising rates charged by more general media in large metropolitan areas. Direct-mail houses and mail-listing brokers would also benefit from this service which would boost the attractiveness of direct mail as an advertising medium. At present, bureaucratic rules prevent Canada Post from exploiting this competitive advantage, whereas a privatized postal system would not have these hindrances.

Vertical Disintegration — Contracting Out at Canada Post

What employment opportunities does Canada Post provide directly and indirectly to the Canadian economy? In fiscal year 1968-69, Canada Post directly employed 46,838 person-years. In 1975-76, employment reached a peak of 63,460 person-years from which it declined slightly to 61,816 in 1985-86.[17] Because of Canadians' need for a more dependable document delivery service, Canada Post has indirectly fostered employment through many express delivery services. Canada Post also indirectly creates employment opportunities by contracting out mail delivery, transportation, and window service to the private sector. Canada Post claims that franchising is necessary for it to achieve financial self-sufficiency by March 1989 as mandated by law. Jean-Claude Parrot, president of the CUPW, is committed to fight this pseudo-privatization because he calculates that just franchising window service would eliminate 4,200 *union* jobs.[18]

While contracting out reduces inefficiencies, it produces only temporary savings for the overall organization. Canada Post intends to use these savings to replace government subsidies which are scheduled to be phased out by March 1989. This is the pretext for Canada Post's planned "vertical disintegration" of Canada Post. This reorganization of functions has nothing to do with economies of scale or the implementation of new technology. Instead, it stems from two factors: first, a realization that Canada Post, as a government corporation with little accountability is unable to supervise, monitor, reward, and discipline its employees adequately to produce a reasonably efficient operation, while a private contractor can appropriate the residual and share its profits with Canada Post. Second, by phasing out the subsidies, the government hopes to give Canada Post enough motivation to resist the union's exorbitant demands.[19]

Private retail franchises in convenience stores provide counter service 24 hours a day, seven days a week. Franchises can also provide post office boxes on the same basis, or deliver several times a day. Franchise carriers already serve rural routes, as they do in the U.S., at a fraction of the cost paid by Canada Post. As independent contractors, rural mail carriers bid with Canada Post for rural routes. The LCUC tried to make these rural carriers "employees" or dependent contractors under LCUC control. If it had succeeded, the $55 million per year costs of this delivery function would have tripled. To thwart the LCUC's efforts to unionize these carriers, management improved the terms and conditions of their contracts. These developments are attractive for obvious reasons. In the process, however, contracting out has led to the disintegration of mail delivery services.

While this disintegration is taking place at Canada Post, large corporations have been reintegrating mail service into their operations. Because 80 percent of postal volume is business related, most of Canada Post's services are intermediate instead of final. When Canada Post provided the delivery function for all businesses, it did not siphon off jobs from them because they did not originally provide their own document delivery service. This was Canada Post's contribution to the economy.

In the last 10 years, however, businesses desired a greater degree of reliability and promptness in their communications than Canada Post could offer; they turned to other (higher priced) courier services and even performed some deliveries themselves.[20] For example, some utility companies deliver their own bills with meter checks, some publishers deliver their own magazines, and some companies transport their own written communications. This change represents a vertical reintegration of a function not originally performed by business, instead of a vertical disintegration. The reason for this is noteworthy, however; it is the unacceptable and substandard service provided by Canada Post. Although mail delivery, as a separate and identifiable service, is ancient, Canada Post has unintentionally spawned courier services and reintegration because its own service is unreliable. This development is not positive but defensive, stemming from Canada Post's deteriorating mail service.

Income Distribution Effects of Canada Post and the Bimodality Hypothesis

Has the growth of postal services had any effect on income distribution by province, and if so, what has it been? While income figures for postal employees are not available by province, postal revenues are a good proxy for income because 73 percent of postal expenditures are for salaries and benefits, and the workload is directly related to revenues and staffing. Postal revenues are available by province for a limited period. As a bench-mark, total postal revenues for all Canada were about 0.5 percent of the national gross domestic product (GDP) during the period 1968-80.[21] As they have been 0.78 percent of Gross National Product (GNP) in the U.S. for at least 15 years, this indicates that Canada spends proportionately less on postal service than the U.S. From 1981-82 to 1985-86, however, Canada's postal revenues increased from 0.49 percent in 1980-81 to 0.58 percent in 1985-86. The number of pieces of mail per person in 1985 was approximately 256,[22] less than half the U.S. figure of 614 pieces of mail per person per year.[23]

If Canada Post has any effect at all, it seems to be altering the distribution of national income in favour of those provinces where postal revenues as a percentage of GDP are greater than the national average and redistributing income away from those provinces where postal revenues as a percentage of GDP are less than the national average. This, however, is not a deliberate policy, but an unintended result of policy determining workload and quantity of services on the basis of demand at uniform rates across Canada.

Where do Canada Post's postal revenues come from and where do they go? Canada Post reported its revenues by province from 1968 to 1980 (Appendix table 33 lists these figures). Total postal revenues as a percentage of GDP for each year in each province during this period are Canada Post revenues divided by GDP for each province (figures in table 33 divided by figures in table 34). The postal revenues as a percentage of GDP in table 36 show that for all Canada and each province individually, the amount spent on postage has always exceeded 0.2 percent of GDP. As a percentage of provincial GDP, postal revenues are lowest in the Yukon Territories which reflects the lack of use of postal services. In Alberta the share has fallen from 0.355 percent in 1968 to 0.25 percent in 1980, which may reflect the increase in wealth and income from oil, relative to economic growth in the other provinces.

From 1968 to 1980 Canada Post consistently redistributed income to Manitoba. Which provinces provided this income? Prince Edward Island, Saskatchewan, British Columbia, Alberta, Newfoundland, and the Territories received less in income from Canada Post as a percentage of their GDP than the national average and so subsidized primarily Manitoba and occasionally another province.

What effect, if any, has the growth of Canada Post had on personal income distribution? Canada Post is a special case because it is a nationalized industry. Although the growth of service industry employment might produce "bimodalism,"[24] Canada Post has certainly not contributed to increasing incomes at either tail of the distribution. The reason is that Canada Post's workers are low-skilled but highly paid relative to their skill level. If anything, Canada Post takes workers who would otherwise tend towards the lower end of the income distribution and moves them towards the middle. In this respect, Canada Post directly counteracts bimodalism.

While Canada Post has not created differences and disparities between rural and urban dwellers, it has created disparities between its employees' incomes and the wages of those with the same skill levels living in the same rural area or small town. The policy of a uniform wage scale is responsible for this. This policy requires Canada Post to pay workers in small towns, where market conditions are weak and living costs are lower, the same wage as workers in high-cost areas where there is much more competition for labour. Because of Canada Post, postal workers in rural areas are among the highest paid, although their neighbours who perform the same or even higher skilled work for another employer receive much lower wages.

Summary

Canada Post's revenue and expenditure patterns confirm the broad outlines of its problems, not all of which are of its own making. Canada Post spends 73 percent of its expenditure on labour, while the USPS spends 83 percent. Canada Post also spends less on security, but it spends more on transportation and infrastructure expenses to enable it to serve fewer people over a larger geographical area.

Canada Post receives about 0.58 percent of GDP as total revenue to deliver approximately 256 letters per person per year. The USPS received about 0.78 percent of its GNP to deliver 614 letters per person per year. The USPS received 50 percent more of the total national product as revenue than Canada Post to deliver 240 percent more mail on a per-person basis. This startling comparison confirms the extent of Canada Post's inefficiency measured in chapters 5, 6, and 7. While both Canada Post and the USPS receive about the same percentage of their revenues from first class mail (63 percent for Canada Post and 60 percent for the USPS), the big difference lies in the percentage of mail deliveries that were first class (only 51 percent for Canada Post and 74 percent for the USPS). This comparison indicates that Canada Post engages in much more cross-subsidization of other mail classes with revenues raised from first class rates.

How important have government subsidies been to the revenue of both Canada Post and the USPS? On average, the U.S. government has contributed 13 percent of the USPS's revenues in subsidies. Canada Post has been much more dependent on subsidies. Its subsidies ranged as high as 37 percent of expenses and were frequently more than 20 percent before the conversion to a Crown corporation. Since reorganization, Canada Post has reduced its annual deficit primarily through first class rate increases and decreases in service quality.

Canada Post does not have a good record for innovating. Conversion of mail handling from manual sorting and handling to mechanization has taken place with little noticeable effect on productivity. If any, the effect has tended to be negative. This is a remarkable accomplishment bordering on the miraculous, when one grasps the fact that the technology has such obvious potential for reducing manpower needs and speeding delivery. The monopoly on first class mail and the annual subsidies to cover the deficit insulated Canada Post from business risk, protected it from making tough decisions on resources, and protected workers from lay offs. The artificial environment did not encourage good business decisions.

Canada Post has not been able to make good decisions on the acquisition and implementation of technology and capital equipment. The executives distrust their own managers and are unwilling to give them sufficient authority. Bureaucratic procedures pose obstacles; there is little incentive, and organized labour resists labour-saving technology. Perhaps the low expenditure on capital equipment is a blessing in disguise, as it does not put public money at risk. When privatized, Canada Post might expand its task and equip itself more effectively.

Canada Post gives direct employment to a sizeable part of Canada's labour force — approximately 62,000. Indirectly it employs another 5,000 to 8,000 through franchising and contracting out of postal functions. Poor service at Canada Post has also encouraged the growth of carrier service and the reintegration of the mail delivery function into some businesses.

Although Canada Post has no explicit policy for redistributing income, its policies and actions nevertheless have distributional consequences. For instance, it redistributes income to Manitoba from Prince Edward Island, Saskatchewan, British Columbia, Alberta, Newfoundland, and the Territories. The amount is small and this redistribution is a result of the variation in mail business and staffing needs among the provinces. Canada Post makes no contributions to the supposed phenomenon of bimodalism, where growth in the service industries produces extremes of high and low wages for highly skilled and unskilled workers. Instead, Canada Post pays its primarily low and unskilled workers mid-range incomes, which tends to support the normal bell-shaped distribution of income. Canada Post's uniform wage policy, which pays workers the same wage regardless of labour market conditions and living costs, produces serious inequities in local areas. Postal workers are often the highest paid in rural areas, while their neighbours who perform the same or higher skilled work, receive less.

Notes

1. *Considerations Which Affect the Choice of Organizational Structure for the Canada Post Office*, Report of a Study Group to the Postmaster General, p. 4.
2. In Great Britain, 93 percent of postal costs are wages, pensions, and national insurance contributions; Ian Senior, *Liberating the Letter: A Proposal to Privatise the Post Office*, p. 17.
3. Stephen Raikes, "Michael Warren's Biggest Turnaround," p. 62.
4. An example of the abuse of U.S. subsidized mail was uncovered by the Associated Press. An Anchorage Alaska building materials supplier, Sam Krogstad of Bush Consolidators, individually mailed 6,000 concrete blocks and 4,600 bags of cement to Wainwright, an Arctic Ocean Eskimo community 700 miles from Anchorage and 90 miles southwest of Barrow. Each block or bag of cement weighed just under the parcel post limit of 70 pounds and cost Krogstad $4.33 in postage, although transportation alone cost the USPS $50.94. The USPS, however, did not transport the materials in the least-cost way, which would have been to use a direct charter flight from Anchorage to Wainwright for 30 cents a pound. Instead, it processed the packages as "bypass mail" to clear the local post office floor quickly. This involved trucking them to Fairbanks about 360 miles away. Then from Fairbanks, the USPS flew them to Barrow on large cargo planes and from there transferred them to smaller planes to fly to Wainwright. Along this more circuitous route the transportation costs alone were 76 cents per pound. "Loophole Weighs Down Alaskan Mail Service," *Chicago Tribune*, p. 5.
5. David Stewart-Patterson, *Post Mortem: Why Canada's Mail Won't Move*, p. 283; *The Post Office*, Royal Commission on Government Organization, vol. 3, p. 320.
6. Stewart-Patterson, *Post Mortem*, pp. 166, 283.
7. Before reorganization, Parliament fixed first and second class postage rates while the postmaster general fixed all other rates and charges. It has been suggested that if the POD had been given the rate increases Canada Post has received, it would have produced a surplus years ago. The reason for this is that the start-up costs, high-salaried personnel additions, and in-house systems development costs essentially duplicate existing government services and consume millions of dollars per year while rendering no appreciable increase in either performance or service. Public choice theory in chapter 4 suggests that this opportunity might also be used by Canada Post to capture some rents for itself.
8. The Canada Post Corporation Act enjoins Canada Post to manage its human resources "in a manner that will both attain the objects of the corporation and ensure the commitment and dedication of its employees," neither of which it has been able to accomplish. Although Canada Post has treated its employees generously, it has fallen into the "Dutch uncle" syndrome. Nobody loves a rich uncle. If he gives you nothing, he is stingy. If he gives you everything, he is merely correcting past injustices because he had no more right to this fortune in the first place than you. Douglas K. Adie, "Freedom First, Last and Always!" p. 54.
9. Stewart-Patterson, *Post Mortem*, pp. 8, 224.

10. Robert Albon, *Private Correspondence: Competition or Monopoly in Australia's Postal Services.*
11. Robert Albon, *Privatize the Post: Steps Toward a Competitive Service*, p. 18; Senior, *Liberating the Letter*, p. 17.
12. First class rates are not the only ones that have risen, but it is the rise in first class rates which generates the bulk of the revenue increase. Each 1 cent increase in first class rates raises approximately $42 million with no discernible decrease in mail volume. The plan to become self-sufficient also motivated service decreases such as the use of community cluster boxes called Super Mailboxes, and some rural delivery cutbacks.
13. Before their reorganization, Canadian postal officials believed that the USPS was making satisfactory progress towards self-sufficiency and was willing to imitate it. *Considerations Which Affect the Choice*, Report of a Study Group.
14. Douglas K. Adie, *Monopoly Mail: Privatizing the United States Postal Service*, table 1.
15. *Privatization: Tactics and Techniques*, p. 123.
16. In the U.S. the PRC's administrative law judge concluded in Docket R74-1, "the postal service has become a tax collecting agency, collecting money from first class mailers to distribute to other favored classes;" U.S. Postal Rate Commission. *Postal Rate and Fee Increases. Opinion and Recommended Decision*, Docket no. R74-1, vol. 1, pg. 13. Leonard Waverman, "Pricing Principles: How Should Postal Rates Be Set?" p. 21.
17. Canada Post, *Annual Report, 1985-1986*, p. 19, and table 1.
18. Peggy Berkowitz, "Montreal, Victoria Mail is Disrupted as Strikes Begin," p. 28; "Canada Postal Strikes Face Legislation Threat," p. 10; "Postal Talks in Canada Resume; Strikes Continue," p. 22; "Canada Introduces Legislation in Bid to End Mail Strike," p. 2; "Canada's Big Postal Union Calls Strike to Protest Bill," p. 30; "Postal Employees in Canada Begin Return to Work," p. 20.
19. Unionization (leading to high wages), stringent work rules, and poor service led to contracting out. When the POD handled mail service the government was a "patsy" for extracting benefits for workers and passing the costs on to the public.
20. The Crown corporation's experience with handling the mail has not been favourable. Canada Post's unreliable service has encouraged the reintegration of messenger service into some companies.
21. This is calculated in appendix table 36.
22. 7.69 billion pieces with a population of approximately 26 million.
23. Total number of pieces of mail in the U.S. was 147.4 billion in fiscal year 1986, and U.S. population was 240 million.
24. The bimodality hypothesis suggests that the growth of service at the expense of the manufacturing sector employment, in conjunction with technological improvements, creates very high- and very low-skill jobs with high and low incomes rather than medium-skill jobs with middle incomes. If true, this phenomenon produces a bimodal distribution of income, with fewer middle range incomes.

Chapter 9

Canada Post: A Crown or a Private Corporation?

Introduction

The title of this chapter represents the most important policy question facing Canada Post today. Previous chapters examined service, labour force, financial operations, early history, and the use of Canada Post as an instrument of social policy. Public choice theory explains the modus operandi of non-private institutions of which Canada Post is a prime example. Demand analysis renders an estimate of the annual cost of keeping Canada Post as a government-owned and operated monopoly. This chapter faces the policy question of whether Canada Post should be privatized soon and, if so, how.

In deciding to privatize and then following through in privatizing, much can be learned from previous experience. This chapter explores the privatization experiences in Britain, other European countries, and Canada, with a view to answering the question whether to, and how to, privatize Canada Post. Next, it addresses the pressing concern from rural mail patrons who fear a service loss in privatizing Canada Post. Survey results of urban areas show an overwhelming support for privatizing Canada Post now. Finally, it examines the question of how to privatize Canada Post within the structure of Canada's privatization procedures.

British Privatization Experience

The British government maintains that the main purpose of privatization is not to raise money but to increase competition and efficiency for the benefit of consumers.[1] The British government has not been able to control its nationalized industries including the Post Office. It could not function at arm's length with them, nor could it intervene effectively to make them operate efficiently. Instead, the government intervened to influence detailed operational matters for political purposes. To deal with this problem, the government issued a series of White Papers in 1961, 1967, and 1978 which recommended reducing managerial control while maintaining political discretion. This separation of functions did not help the corporations, nor could it be maintained. Control problems persisted which required a radical shift in the relationship between the government and its public corporations. The government's failure to correct the control problem and to force its corporations to behave efficiently strengthened the case for privatization which became the chief policy instrument in 1979.[2]

With this experience in mind, John Moore, financial secretary to the Treasury, correctly noted that the state is even more likely to abuse its monopoly power than a private corporation. Unlike a private business which has the threats of competition and bankruptcy to force it to behave efficiently, the government guarantees the indebtedness of its own companies which cannot go bankrupt.[3] As an additional reason for undertaking privatization, Madsen Pirie argues that other restraint programmes such as lay offs and wage freezes, failed to reduce deficits, cut the budget, or slow the growth of government because they imposed costs on important constituencies. For instance, in these programmes bureaucrats lost freedoms; civil servants, their wage increases or jobs; and the public, its services. British privatization, on the other hand, succeeded because it insured that all interest groups would gain more than they would lose. By offering discounted shares, it allowed interest groups to capitalize from their uncertain flow of benefits. This key persuaded interest groups, workers, and bureaucrats to support privatization.[4]

From 1979 to 1987 privatization raised £23 billion from the sale of all or part of 13 companies. The government privatized its remaining stake in Cable and Wireless, British Airways (BA), the National Bus Company (first to be split into regional companies lest it swamp smaller competitors), Short (aircraft manufacturing), Unipart (British Leyland's component division), Rolls-Royce (aero-engine company), and Royal Ordnance Factories (munitions supplier to the military). Privatization raised £12 billion from home and land sales alone. Estimates differ on how much Prime Minister Thatcher plans to sell in the coming years. On the lower end it is claimed that she plans to sell £7 billion of state-owned assets per year for the next three years.[5] On the high end Oliver Letwin says she is planning to transfer £20 billion per year from the public to the private sector over the next five years. If privatizations of this magnitude take place, it would represent a remarkable capital market development.[6]

How does Margaret Thatcher intend to achieve this result? To date, privatization has reduced the government's percentage of GDP from 16.5 to 7.5 and transferred 500,000 jobs from the public to the private sector.[7] By the next election the British government plans to reduce the proportion of GDP accounted for by state industries further to 6.5 percent and transfer an additional 600,000 jobs to the private sector.[8] The government intends to privatize British Gas Corporation, the British Airports Authority (BAA), and even water, although it believes them all to be natural monopolies. It is even searching for ways to privatize prisons, health care services, and schools.[9]

Despite a few setbacks, privatization has been generally supported. Even the Labour Party has changed its position from opposition to acceptance of privatization's inevitable benefits. Pirie says that if the privatization is done properly, unemployment increases slightly at first, but afterwards, job security depends on profitability and competitiveness. In the beginning the offer of early retirement can ease the transition for surplus workers.[10] In many instances the government still regulates the service levels of privatized companies. For example, the law mandates the telephone company to provide rural service and restrict rate increases to the inflation rate.[11]

Great Britain learned about privatization from Canada's experience with British Columbia Resources Investment Corporation (BCRIC), a government-owned mutual fund company. The BCRIC experience taught the British government how to influence the privatized corporation and to avoid xenophobia and other limitations on shareholding. The largest privatization of the British government and the largest public offering ever made was the sale of 50.2 percent of British Telecom for £3.9 billion in 1984. Fearing the embarrassment of an unsuccessful sale which would jeopardize future sales and the entire programme, the government enhanced the prospects of success by increasing the demand for its shares.[12] British Telecom's share price rose 90 percent from its issue price on the first trading day.

In England, privatization sparked a social revolution because it transferred immense power and property from the government to the people. It increased the percentage of British shareholders from 3 percent in 1979 to 20 percent of the U.K. population in 1987. The government believes privatization is good because it broadens ownership and encourages public interest in the commerce and industry of the country.[13] In the autumn of 1986 Jaguar workers were able to sell their shares purchased when Jaguar was privatized in 1985, and take their gains, but none chose to do so.[14] The holding of shares encourages workers in privatized companies to work more diligently.[15] In addition, allowing people to own property which pays them a return, and which they can bequeath to their heirs, gives them a greater stake in the system.

In the same period privatization increased home ownership from only 48 percent in 1979 to 66 percent in 1987. The sale of public housing to occupants at discounted prices won Thatcher votes from opposition parties. Privatizing public housing has been so popular that the Labour Party would support its continuance if it assumed power. Madsen Pirie believes that privatization has permanently reversed the growth of the public sector.[16]

Privatized companies have generally, but not uniformly, improved their performance in the private sector. British managers are enthusiastic about privatization because it frees their decisions from political considerations. Sir Eric Sharp, Jaguar's president, said, "privatization opened the gate and let us fly." Employees who bought shares in National Freight Consortium in February 1982 saw their value increase 5700 percent by the end of 1988. As a result of privatization, BAA's financial position improved from a £545 million loss in 1981-1982 to five consecutive years of profit. Several companies, including Britoil, British Telecom, and Amersham, which made profits as nationalized businesses, improved their profitability following the 1980-81 recession.[17] Cable and Wireless, also in this group, more than quadrupled its earnings since being privatized. Jaguar increased its profits 142 percent to £173 million from 1982 (its last year as a nationalized business) to 1985, by increasing its productivity through lay offs.[18] Since 1988, it has experienced some difficulties as have most automobile manufacturers.

Opponents of privatization have criticized its results, its goals, and its methods. Its results have not been uniformly beneficial to the privatized businesses, some of which have not succeeded in the private sector. Readheads Shipyard, for instance, was commercially unsound. After its employees bought it in 1983, it survived for a little while and then went bankrupt early in 1987. British Ports also did not fare well; after tripling its profits the first year after privatization, it lost £6.4 million before taxes in 1986. Critics of privatization such as *The Economist* claim Mrs. Thatcher's true motive is to raise money for the treasury rather than to increase company efficiency. They say selling state assets is akin to "selling the family silverware," a short-term way of raising money to finance tax cuts that will leave the treasury poorer in the long run.[19]

The most important criticisms, however, focus on two weaknesses in conducting the privatizations, namely, the issuance of shares and the neglect of competitive policies. By privatizing quickly, the government neglected sufficient consideration for underwriting, competition, and regulatory policy.[20] In defense of the British privatization effort, however, little was known about privatization in advance. To undertake a process of privatization with no experience and little knowledge required a leap of faith to begin and flexibility to proceed. Also, the British government conducted this policy despite opposition from the industries themselves, the civil service, the financial markets, and academia.

The City of London's financial community had a conflict of interest as the government's advisors and as underwriters of the issues which encouraged them to recommend underpricing. First, the government conducted a competition among investment bankers who made elaborate presentations to provide the government advice on privatization. This "beauty contest" culminated in a fee-bargaining session after which the government chose the advisor and lead underwriter. The issues were not underwritten on a fixed-price basis where the underwriters received a percentage of the gross receipts for accepting the price risk. Instead, the underwriters helped the government choose a price for the shares and then were offered 55 percent and 25 percent of the shares of British Telecom and BAA, respectively, on the grossly underpriced shares. Firms that participated in the underwriting received a proportion of the shares they underwrote. If the issues moved to a premium in the market, the value of their shares, and consequently their compensation, increased.

With the help of their advisors and no other input, the U.K. government determined the value to be placed on the privatized corporation under this arrangement. The underwriters' profits were not 1 percent (which could have been even lower with multi-lateral bargaining), but 11 percent, with a maximum of 33 percent to the lead underwriters of British Telecom. With British Petroleum (BP), the government had the whole issue underwritten and then underpriced it, which was expensive and unnecessary. Because of this underpricing, the government did not maximize the revenues received, but certainly enlisted the financial community's support of privatization.[21]

Although an objective of the British government is to foster competition in its privatizations, it has not always pursued this policy consistently. For instance, the airline industry is heavily regulated for safety, security, and the environment, in addition to economics. Privatizations of the air and road transport industries were accompanied by deregulation of coach and bus services and liberalization of domestic and international air services, respectively, which widened competition. However, when the government privatized BAA, it could have increased the effectiveness of regulation and improved competition if it had separated the ownership of BAA's monopoly airports from its other functions, but it did not. The government also could have dismantled most of the economic regulation, but did not. Instead, it transferred an existing monopoly with valuable property assets to private owners.

In privatizing a business with monopoly power, the government faces a trade-off between competition and revenue maximization. In the BAA case, the desire to enlarge the proceeds from privatization and to gain the support of management influenced it to refrain from more competitive policies. The government viewed management's co-operation as essential for rapid privatization, allowed management to co-opt the company, and sacrificed the longer-term gains of economic efficiency for short-term political advantage.[22]

The British privatization experience demonstrates that private ownership can reap immediate benefits when there is competition, as was the case in the oil industry. The change of ownership brought improvements in internal efficiency. To realize the benefits from competition, the coal and electrical industries require restructuring before privatizing. While the profit motive can encourage internal efficiency, these industries also need the spur of competition first.[23]

The Post Office Department (POD), a state-owned monopoly, ran telecommunications from 1912. In 1969 the British government converted the POD from a department to a public corporation. The purpose of the reorganization was to free management from the government's day-to-day supervision while the government maintained control of broader policies. However, the objectives of a public corporation to operate efficiently, break even, and avoid showing preferences — stated in the statutes in general terms only, offer little guidance to management. The vague imprecision allows, if not invites, managers and politicians to pursue their own objectives under the guise of the national interest. To simplify the control and efficiency problems which the POD continued to have, the British Telecommunications Act of 1981 separated the General Post Office into the POD and British Telecom, and paved the way to privatize British Telecom in November 1984.[24]

After the privatization of British Telecom, the government divided the POD into four potentially marketable divisions along the lines suggested by the Adam Smith Institute.[25] Although the postal service is such an obvious candidate for privatization, which would be in the interest of users and workers, it has not been mentioned in current discussions.[26] It would be fitting for Britain to lead the way in privatizing its post office because it was primarily responsible for spreading the government postal monopoly around the world through its colonies — the U.S., Australia, Canada, and New Zealand. Except for New Zealand, governments everywhere still own a monopoly on first class mail delivery.

Dividing the POD into divisions and privatizing Counters and Girobank is preparation for privatizing British mail. Mr. Paul Channon, secretary of state for Trade and Industry, wrote to Sir Ronald Dearing, chairman of the POD, that he welcomed setting up the Girobank as a corporation. The Girobank was converted into a corporation and privatized by auction. Mr. Channon encouraged Sir Dearing to do the same with Counters and the other parts of the POD. By June 1989 private operators supplied 92.5 percent of the retail counter service which some regard as a partial privatization. The government is expected to privatize the remaining parts, Parcels and Letters.[27] The Parcel division could and should be privatized separately, leaving only the Letter division under government ownership. The letter monopoly should be removed and the Letter division privatized shortly thereafter. This would open up the letter market to parcel delivery services, such as Securicor and Security Express, which might provide national trunk networks linking local collection and delivery companies. Paul Morehouse said TNT's Mailfast service would invest substantial amounts to provide letter service equivalent to the post office, if permitted. Other courier services and even milk delivery companies would be candidates for local mail delivery service.[28]

European Privatization Experience

Europe, Japan, and the developing countries have privatized companies.[29] Socialist and conservative governments everywhere from Sweden to Spain have sold state-owned businesses. Privatization changes ownership from bureaucracies devoted to social goals to shareholders who monitor profits. This, in turn, alters the firm's behaviour. For instance, managers of private businesses are far freer to buy companies, sell subsidiaries and reduce overstaffed work forces. They raise capital for expansion by selling stock, as well as borrowing funds. As citizens become shareholders, their attitudes towards business and profits change.[30]

Felipe Gonzalez, Spain's socialist president, sold SEAT to Volkswagen for $600 million. He also sold Campsa, the state-owned oil company. Sweden sold 30 percent of its state-owned steel company, SSAB, to private Swedish insurance companies. During the last four years, Italy's holding company, IRI, sold more than 20 companies, including its unprofitable auto maker, Alfa Romeo, to Fiat. The Alfa Romeo sale shows that profitability should not necessarily be a precondition of privatization. Many state-owned and operated businesses are unprofitable because they are nationalized. Privatization is the remedy for their plight, rather than a process which can only be undertaken when they become profitable. Not to privatize them may be to doom them to extinction. IRI, also, raised $3.6 billion to expand its remaining businesses by selling minority positions in subsidiaries including Alitalia, the state airline.[31]

The French government sold shares of its conglomerate, Saint-Gobain, much like the British sold British Gas. It spent $6 million on advertising and marketed shares through 20,000 bank and post offices. Jean-Marie Messier, of the Ministry of Finance says the French government plans to sell 65 companies worth $45 billion by 1991. Nine industrial companies, including Bull, a computer manufacturer; Phone-Poulenc, a chemical producer; Elf Aquitaine, an oil company; Renault, the auto maker; and Thomson, an electronics firm; insurance companies; a TV network; and an advertising agency are all privatization prospects. The French government also plans to privatize 35 banks, including Crédit Lyonnais, Société Générale de Banques, and Banque Nationale de Paris.[32]

Canadian Privatization Experience

Governments everywhere are privatizing. Mrs. Thatcher, who privatized $59 billion of state assets, inspired British Columbia's Social Credit Premier Bill Vander Zahn and his ministers.[33] The provincial governments of British Columbia, Alberta, Saskatchewan, and Quebec have sold Crown corporations to private individuals and businesses. How did the provinces accumulate companies and what prompted their privatization? Quebec, for instance, created SOQUEM, a Quebec mining company, in 1965 to help Quebec master its own destiny. As SOQUEM gained experience, it lost public support for public ownership and government protection. The government transferred selected assets, including a gold mine, from SOQUEM to Cambior, a shell company, whose shares were then sold to the public.[34]

How did the federal government collect 60 Crown corporations with 117 subsidiaries having assets of about $60 billion and employing almost 190,000 employees — one-third of whom work for Canada Post? Defunct economic theories claimed that essential economic activities would not be performed if the government did not undertake them. Fifty years of empirical evidence from many of these businesses, however, indicate that they were neither necessary nor good business ventures. Today, economists, government officials, and the public notice that government regulation and unfair competition from the public sector hampers private sector efficiency.[35] They also believe that the private sector is the principal stimulant to economic growth and is better suited to encourage responsible risk taking for new ventures.[36] The federal government of Canada has privatized 17 companies since 1985 including Air Canada (see table 26 for a chronicle of this privatization). In addition, Petro-Canada and Radiochemical, a subsidiary of Atomic Energy of Canada, Ltd., are serious candidates for privatization.

Madsen Pirie, a privatization advocate, says it is inefficient and unnecessary for the government to try to achieve social goals by running a business. If achieving social goals such as providing mail or airport service to outlying regions is important, it is cheaper to buy them than provide them. Crown corporations that provide social services could operate more effectively as private businesses. Canada and the U.S. do not operate grocery stores and sell food at subsidized prices because the poor cannot afford to pay market prices. Instead, they subsidize the needy. Similarly, by inviting private businesses to bid to provide other services at the least cost, the government can better control the service quality.

Critics of Canadian privatization complain either that privatization has been too fast and thoughtless or too slow and thoughtful. The first group, for instance, faults the government for not clarifying its motives or stating its policy purposes clearly before selling Teleglobe Canada. They believe the Canadian government should stamp its own distinctive character on its privatization programme, as Mrs. Thatcher did.[37] Liberal MP Brian Tobin, a privatization critic, says the Canadian government seems to privatize for cash flow and philosophy.[38] An investment dealer who is another privatization critic said the big problem is that there is no Canadian ideological, economic, or pragmatic rationale, and that the sale of Teleglobe, which reduced the deficit by $469 million, was like "selling family heirlooms to buy groceries."[39] These critics also point to the haphazard manner in which the first sales took place, and the wholesale changes Barbara McDougall subsequently made in privatization procedures, as evidence that she made serious mistakes.

These criticisms, however, raise two important issues. The first is where the burden of proof should rest for maintaining government-owned and operated businesses. The second is a question of priorities: which is preferable — a sensible policy having helpful results which the government implements without a clearly articulated rationale, or a policy whose rationale the govern-

Table 26
Canadian Government's Privatization Experience

Crown Corporation	Sale Date	Purchaser	Proceeds of Sale	Number Employed Before Sale
Northern Transportation Company Ltd (Freight transportation and Northern Canada and Arctic Resource Development)	07/15/85	Consortium of Anuvialuit Development Corp. and Nunas Corp.	$17 million plus $267 repayment of debt	564
de Havilland Aircraft of Canada Ltd (Aircraft manufacturing)	01/31/86	The Boeing Co.	$90 million cash plus $65 million in notes	4,405
Pecheries Canada Inc. (Fish processing)	04/18/86	Purdel Cooperative agro-alimentair	$5 million	575
Canada Arsenals Ltd (Medium and large calibre ammunition manufacturing)	05/09/86	The SNC Group	$92.2 million	878
Nanisivik Mines Ltd (Zinc and lead mining)	10/28/86	Mineral Resources International Ltd	$6 million	194
CN Route (Trucking and distribution service)	12/05/86	Route Canada Holdings Inc.	$29 million	2,522
Canadair Ltd (Aircraft Manufacturing)	12/23/86	Bombardier Inc.	$120 million cash, $173 royalties on future sales, $3 million dividend	4,667
Northern Canada Power (Generation, distribution, and sale of electrical power in Yukon and the Northwest Territories)	03/31/87	Yukon Power Corp. owned by Yukon Territorial Government	$19.5 million in cash. $46 million note, $40 million note	34

Table 26 (continued)
Canadian Government's Privatization Experience

Crown Corporation	Sale Date	Purchaser	Proceeds of Sale	Number Employed Before Sale
Northern Canada Power (Generation, distribution, and sale of electrical power in Yukon and the Northwest Territories)	03/31/87	Yukon Power Corporation owned by Yukon Territorial Government	$19.5 million in cash. $46 million note, $40 million note	34
Teleglobe Canada (Overseas telecommunications services)	04/03/87	Memotec Data Inc.	$488.3 million in cash, $406 million dividend, $16.6 million preferred shares	1,110
Fishery Products* (Seafood harvesting, processing, marketing)	04/15/87	Public share issue	$177 million	8,650
CN Hotels (Lodging)	1988	Canadian Pacific Ltd	$265 million	3,000
Northwest Inc.	1988	BCE Inc.	$200 million	467
Terra Nova Telecommunications Inc.	1988	Nfld Tel. Co. Ltd.	$170 million	412
Northern Canada Power Commission (NWT) (Generation, distribution, and sale of electrical power)	1988	Government of NWT	$53 million	322
Air Canada (Air travel)	1988-89	Public share issue	$708 million	22,000
CNCP Telecommunications	1988	Public share issue	$361 million	3,000

*Sale of 14 onshore plants.

Source: "Privatization to Date," Office of Privatization and Regulatory Affairs, "Privatization to Date" (no date); Urlocker, "Privatization: MP's Begin Hearings Today," October 31, 1989.

ment clearly articulates, but whose results are counterproductive to economic welfare?

Concerning the first issue, Warren Nutter argues that the government has created many economic problems because of its interference with the market. The basic problem is too much government, not too little. The burden of proof, he maintains, lies with those who desire to maintain the status quo of nationalized businesses, rather than with those who wish to preserve competitive markets. Advocates of nationalized industries wish to reverse the burden of proof, and then rule all possible refutations of their position inadmissable. They should not be permitted to shift the burden, for it rests on them. They need to prove that a business would perform better under government ownership.[40]

Concerning the second issue, bureaucrats and politicians who implement privatization, perhaps because of its success elsewhere, may not have experienced, analysed, or prioritized the effects. While this indicates shortcomings from inexperience, it does not discredit the policy.[41] The British privatization critics also criticized Mrs. Thatcher for selling the family heirlooms, as if raising money to reduce the deficit, in addition to the many other helpful results flowing from privatization, should discredit the policy for not measuring up to their solipsistic notions of purist morality.

Madsen Pirie is part of a second group of critics who criticize Canada for just talking rather than implementing privatization. Privatization is itself a learning process whereby one learns by doing. If 100 nations can privatize successfully, convert their public corporations into profitable private businesses, and increase their economic wealth, so can Canada, whose privatization experience, according to Pirie, is not unique.[42] Kenneth Stein, head of the Privatization Branch of the Office of Privatization and Regulatory Affairs (OPRA), is more sensitive to the first group of critics and disagrees with Pirie's criticism and approach to privatization. He says Canada has an unusual history of nationalization and privatization which goes back to World War II. Over a long period, the Canadian government deliberately developed a reasoned approach which uses standardized criteria to make a privatization decision, which is consistent with the original reasons for the nationalization. Stein also claims that his office proceeds with privatization at about the pace the electorate wants.

After World War II, C.D. Howe, who was minister for Reconstruction, said,

> If a private industry is not well managed — and plenty are not — it will go broke in a short time, be reorganized, and put under more efficient management. Under public operation that usually does not happen. It goes steadily down grade. It is allowed to go down grade, unless it becomes enough of a scandal, when the government is very apt to get rid of it and pass it to private hands.[43]

In fact, most wartime corporations were closed down or privatized. Stein says Canada has been privatizing for a long time and the Fraser Institute published the first book on this subject in 1980.[44]

Unlike other countries, Canada did not create Crown corporations under a broad nationalization effort. Except for Saskatchewan in the 1940s and Quebec in the 1960s, there was no ideological bias towards state ownership for its own sake. Instead, the Canadian governments created Crown corporations to pursue real or perceived policy objectives that they felt the private sector either could not or would not undertake. For instance, in 1932 Conservative Prime Minister R.B. Bennett created the Canadian Broadcasting Corporation because it was thought that the private sector would not support a national radio network. The government created Air Canada to promote east-west travel, when economic forces encouraged north-south travel. In 1946 the government created the Canadian Mortgage and Housing Corporation to help returning veterans purchase homes. The federal government purchased over-extended or bankrupt firms in key industries to salvage the firms and jobs and revitalize the industries. For instance, the government nationalized the Canadian National Railway in 1919, Cape Breton Development Corporation in 1967, de Havilland in 1974, Canadair in 1976, and Fishery Products International and National Sea Products in the 1980s.[45]

The Canadian approach to privatization starts with and recognizes government ownership, in addition to its legislation, regulations, taxing, and spending, as a legitimate instrument of public policy which may or may not be appropriate to achieve specific objectives in particular circumstances. This posture, just as with the initial nationalizations or Crown creations, is not ideological.[46] The government carefully assessed all instruments in terms of their contributions to national objectives. In deciding whether or not to privatize, the key questions are: does the Crown still have a public policy objective, and, if so, is government ownership the best way to achieve it? Canadians are not generally dissatisfied with their Crowns corporations, except for a few, which they find intolerable. Kenneth Stein claims that the federal and provincial governments are privatizing at a pace the public finds appropriate because there is no ground swell of populist sentiment demanding quicker action.[47]

There are three rationales for privatization, namely, the priority of the private sector, fiscal relief, and efficiency.[48] The priority of the private sector maintains that government should not be a competitor. It did not originate with the recent neo-conservative movement: Adam Smith clearly states this in *The Wealth of Nations* (1776). More recently, however, in response to the experience of the past 50 years, the public choice literature developed by Nobel Prize-winning economist James Buchanan and his colleague, Gordon Tollock, has restated the proposition.

Many Crown corporations, including Canada Post, vie directly with private businesses. Except for first class where it holds a statutory monopoly, Canada

Post competes with private companies for all other types of mail, an unfair practice as private competitors cannot use tax revenues to subsidize their mistakes or poor judgement calls while Canada Post can.

Privatization for the fiscal relief motive raises revenue to reduce the federal deficit. Crown corporations usually depend on tax revenue to support them. The financial history of the POD shows to what extent this has been true. Since the reorganization, sharp increases in the postage rates for first class mail have shifted the burden away from a reliance on taxes and more to first class mailers, but the potential to require tax revenues is still there. When the government sells Crowns to the public instead of giving shares away as BCRIC did in British Columbia, raising revenue is a by-product. Whether or not revenue is raised depends on how the government distributes shares to the public.

The efficiency rationale states that private ownership will make Crown corporations more efficient and competitive. Barbara McDougall says practical assessment rather than ideology provides this motivation. The government claims to be privatizing to increase the vitality and efficiency of the Crown corporations and the economy in general. Many Crown corporations are not as effective in servicing their clients as private sector competitors. Whenever Canada Post goes head-to-head with private business it loses, whether in parcel post or overnight mail. The only reason it retains first class mail is because of the government-granted monopoly embodied in its exclusive privilege.

The public choice literature clarifies how each of these two types of business organizations function. Crown corporations and private businesses have different goals. Crown corporations such as Canada Post lack accountability, and redistribute income from one group to another much less efficiently than government itself. The special quality of redistribution that Crowns manage efficiently is to conduct the redistribution in such a way as to disguise who the real beneficiaries are. Private businesses are efficient, because when they maximize profits under competitive conditions, they promote public welfare. Privatizing Crown corporations puts them under the test of the market and improves their efficiency.

Also, because Crown corporations use tax revenues, they decide more slowly and deliberately so as to avoid risk. Efficiency in today's communications industry requires quicker adaptation to changing technologies and market conditions. A business such as Canada Post is primarily, if not exclusively, devoted to document delivery service. Since the communications industry has been greatly affected by telecommunications, there is a need for astute managers to calculate risks and make good business decisions. Otherwise Canada Post could simply fall into disuse in the 21st century.

Whatever the motives — private sector priority, fiscal relief, or efficiency — privatization is a priority with the Canadian government. Although the Conservative government has not come out for wholesale privatization, it believes that many Crown corporations would be better off as private companies. Officials at OPRA work steadily to transfer Crown corporations to the private sector. As an indicator of success, McDougall cited the number of companies privatized.

Although the preferred method of transferring ownership is through a wide public offering, it was not feasible in 1979 when the British government began privatizing because only 3 percent of the U.K. population held shares. In 1987, however, 20-25 percent of Canadians held shares, making an immediate, wide distribution share offering possible.[49] A management-employee buy out is a second choice in transferring ownership if it can raise enough cash. Managers and employees are most familiar with the business and have a personal stake in its operations. This added incentive increases the probability that the business will be viable in the private sector.

The direct sale of a Crown corporation to a firm or institution is the least preferable option but may be necessary under special circumstances. This type of transfer reduces competition and causes market concentration if the Crown is purchased by a firm in a related business, which is most probable. Also, the purchaser, who usually realizes he is the last alternative, tries to extort costly conditions from the government, such as financial restructuring involving debt write-offs and labour force reductions. However, this might still be the only viable option if the Crown is in financial difficulty with an uncertain future.[50]

By selling its first 11 Crown corporations to single buyers, the government simplified the process and avoided the risk of a public stock issue.[51] Many, however, prefer public stock issues. The federal government nationalized Fishery Products International because it was over-extended and financially bankrupt. Apart from a public offering for Canada Development Corporation, the joint privatization of Fishery Products with the province of Newfoundland was the first public offering.[52] The government could have raised more revenue if it had sold the shares in the U.S., but was unable to because the SEC required a forecast of its future operations in a prospectus, which was not feasible.[53] To encourage Newfoundlanders to participate in this local enterprise, the government implemented an employee ownership programme with profit sharing.

The federal and Newfoundland governments raised $177 million by selling 14.2 million shares in Fishery Products at $12.50 each, when they could have gotten $13.50 to $14.00 a share. Robert MacLellan, vice president for McLeod Young Weir, Ltd., the leading underwriter for the issue, said investors purchased the shares as soon as they were issued. Investment dealers Dominion Securities, Inc., Wood Grundy, Inc., and Richard Greenshields of Canada, Ltd. criticized the government for not having a pricing policy.[54] The government sold Fishery Products at only nine times its annual per-share earnings of $1.40, while National Sea Products, a comparable publicly traded company, sold at 14 times earnings.[55] Although pricing an issue below market value draws people into the stock market, it does not raise the maximum return for the government and taxpayers. McDougall, however, said pricing depended on market conditions and was the last decision.[56] Also, the success of the sale influenced whether or not to privatize Air Canada or Petro-Canada with public offerings. The public offering of Fishery Products included a special allocation for retail investors in Newfoundland, the details of which MacLellan refused to disclose.

Why should Ottawa own Canada Post, Air Canada, or Petro-Canada? The onus is on the government to justify dominant participation in private markets.[57] Despite selling 17 Crown corporations in five years, large privatizations present added problems and some doubt the government can accomplish it.[58] Some Crown corporations have special problems which require internal adjustments, special handling and dismantling, and so cannot be sold as is.[59] Twenty Canadian investment dealers advised the federal government on privatizing larger Crown corporations, but the Mulroney government has not implemented the policy.

Air Canada is the 14th largest airline in the world. Some considered it a risky privatization because it needed re-equipping and was struggling to cope with deregulation measures. William Stanbury said there is no excuse for the government to keep Air Canada and to do so jeopardized airline deregulation. Instead of a clean privatization, however, he feared a "classic Canadian compromise" in which the government retained legal control, sold some shares to employees at a discount and the rest to the public.[60] The Canadian Senate, however, approved privatizing Air Canada with a share offering. In the first installment of 45 percent, underwriters RBC Dominion Securities, Inc. and Wood Grundy, Inc. sold 30,769,469 shares and kept 3.5 million at the attractive price of $8 per share. The issue was heavily over-subscribed so institutional investors got only half the shares they requested.[61]

Although the Canadian government retained 55 percent, it pledged to vote its shares with the majority of private shareholders and recently sold its interest. Air Canada stock was not offered originally in the U.S. or other foreign markets, but foreigners can buy the issue on the Toronto Stock Exchange. Ownership by a single shareholder is limited to 10 percent and total foreign ownership is limited to 25 percent. In April 1988 outside auditors found irregularities in the books of Gelco Express, Ltd, a courier division of Air Canada. Air Canada is considering selling Gelco and EMS Group, its messenger subsidiary.[62]

Petro-Canada, Canada's largest retailer, is an integrated oil company consisting of exploration, production, pipeline, refining, and retail divisions, and is another major privatization candidate. It has served its primary goal of increasing Canadian ownership in the petroleum industry and no longer has an urgent public purpose. It will shortly need to raise capital. More importantly, however, it badly needs the discipline of private ownership. Finance Minister Michael Wilson says the government should privatize Petro-Canada because it is Canada's least efficient large oil company.[63]

Because the price of oil can fall quickly and depress oil stocks, Petro-Canada stock should not be sold to inexperienced investors. Even though Petro-Canada stock would be a relatively large offering of $5 billion, there are enough sophisticated investors who have bought oil stocks, especially if Petro-Canada is sold in an international offering which includes the U.S.[64] Radio-Chemical, another Crown corporation, irradiates food as part of its business. There is some controversy about the desirability of processing food this way, the outcome of which would affect the value of the company. Because of the special nature of this risk, Radio-Chemical might best be sold to another similar business that could diversify this risk.[65]

Fear of Losing Rural Service

Residents of small rural communities in the U.S. opposed airline deregulation because they feared it would adversely affect air service to their communities. For similar reasons, rural postal patrons, afraid that privatization might leave them with a more expensive and poorer quality postal service, might oppose postal reform. Here, the airline deregulation experience can be a helpful example to guide policy in the privatization and deregulation of Canada Post. An examination of airline service shows that travellers in many small communities now have better access to air travel than before deregulation because commuter carriers have replaced local airline service.

For instance, when Congress passed the airline deregulation bill, many in Fort Wayne, Indiana, worried that curtailment of air service by major carriers, particularly United Airlines, would leave their city without regular service to Chicago and Cleveland. Two years after deregulation, the number of seats was 12 percent greater than the pre-deregulation level. While United Airlines left the market, Delta stayed and American entered. Air Wisconsin, a regional airline, however, grew and became important to Fort Wayne. Dayton, Ohio, is another example. Immediately after deregulation, the number of daily flights to Dayton plummeted from 100 to 50. Soon after, however, Emery Worldwide Air Freight began using Dayton as its major hub and expanded. Piedmont also made Dayton its midwest hub and Dayton's flights increased to 140 a day. The scenario is the same for the Quad Cities area where jet service to Chicago ceased after deregulation. Eventually these cities gained service when three commuter airlines, Britt, Mississippi Valley, and Air Midwest, expanded the number of flights to Chicago and St. Louis.

Under the essential air services programme, 150 communities served by the smallest air fields received $109 million per year in subsidies in 1980, and $45 million per year in 1985. The subsidies were supposed to end in 1988, but as of January 1989, they were still being paid to commuter air services in rural Kansas and West Virginia. While regularly scheduled airline service to some of these small communities was supposed to diminish under the programme as subsidies decreased, small towns such as Williston, North Dakota, Ft. Dodge, Iowa, and Hayes, Kansas, still had local service February 12, 1988.[66] While no system is convenient for everyone, this illustrates that the increased number of individuals and families who now find it possible to travel long distances because of lower fares surely outweigh a few relatively minor inconveniences. It is also costly for society to spend tens of millions of dollars to provide air transportation for a relatively few people.

Policy for servicing smaller communities with air transportation after deregulation suggests that competition will benefit rural and remote mail delivery service as it has small community air service.[67] The policy for servicing rural or remote areas is likely to follow a similar pattern should the government privatize and deregulate Canada Post. Harvie André, the minister responsible for Canada Post, recalls that rural residents' fear of service cuts after Canadian airline deregulation proved unwarranted too. "Fears of cuts in rural service aren't always realized. All kind of airlines have sprung [up] and, if anything, the air service to smaller communities is better." As a second example, André pointed out that privately owned government-regulated utilities such as Bell Canada and electric companies provide reliable, affordable service to Canada's remote areas. The implication for mail service is clear: there should be no fear of losing mail service in rural areas.[68]

Collection and delivery of mail are more expensive in rural areas because population density and postal traffic is lower and distances between stops are greater. Rural residents worry they will lose service under privatization. To calm those fears, measures to protect rural dwellers need to accompany deregulation and privatization, as they did with airline deregulation in the U.S. If mail delivery is an essential service, the government can invite private companies to bid against each other for the right to provide rural delivery for the least subsidy. The government then provides a direct subsidy to rural mail deliverers and the competition for the least subsidy satisfies rural residents.[69]

Once Parliament revokes the exclusive privilege, many entrants would offer postal services in heavily populated areas while fewer would in thinly populated areas. At present, these areas do not generate enough postal revenue to cover costs of delivery. This, however, is no gauge of the ability of an efficient privatized Canada Post. In any event, if the government desires to maintain uniform rates, it could use some form of transfer payments.

What are the relevant costs for mail delivery in urban and rural areas by private and government carriers? In the U.S. the USPS spends $8.5 billion out of a budget of $32.5 billion or 26 percent of its total costs for delivery. Of this $8.5 billion, $1.4 billion, or 4.3 percent of total costs, is spent for rural delivery, and $7.1 billion or 21.8 percent of total costs, for city delivery. Now private deliverers can save 47 percent of the USPS costs for rural delivery, and 53 percent of the USPS costs for urban delivery. Private deliverers could save 52 percent of what the USPS pays for its own rural and city delivery service (see table 27).

Although delivery costs in rural areas are 44.7 and 62 percent greater for both the USPS and private contractors, respectively, the more important comparison is that private delivery in rural areas is still 23.5 percent less expensive than city delivery performed by the USPS (see table 28). Since Canada Post's efficiency is less than that of the USPS, the prospects for cost savings from privatization would seem to be even greater for Canada Post. Although Crown corporations are less efficient than private businesses, many people do not grasp that the order of magnitude is around 50 percent. For Canada Post that amounts to approximately $1.5 billion per year. Rural residents underestimate the costs of government-provided service and have exaggerated fears that competition will raise rates and reduce services. If competition reduces the overall level of postal costs by 50 percent, all consumers, including rural ones, will benefit. In addition, experience from deregulating trucking and airlines suggests that fears of significant reductions in rural service as a result of competition are unjustified.[70]

Table 27
Average Mail Delivery Costs per Box per Year
(U.S. Dollars per Year in Fiscal 1987)

	U.S. Postal Service	Private Contractors
City	$ 79.64	$37.63
Rural	115.25	60.96

Source: U.S. Postal Inspection Service, "Costs of Public and Private Postal Delivery," internal study, 1988, pp. 3-5.

Table 28
Percent Change in Average Mail Delivery Cost per Box per Year
(Using USPS City Costs as a Base)
U.S. Postal Service, Fiscal Year 1987

	Percent	
	U.S. Postal Service	Private Contractors
City	0	- 52.7
Rural	+ 44.7	- 23.5

Source: table 27

Who Should Operate Canada Post?

The Review Committee commissioned surveys of businesses and households to determine the type of organization postal patrons wanted for Canada Post. They surveyed a random sample of 1,515 adult Canadians aged 18 years and older, representing all regions except the Yukon and the Northwest Territories, from Tuesday, September 3, to Thursday, September 19, 1985. Table 29 contains the responses to the question: Who should operate the post office?

Table 29
Who Should Operate the Post Office?
(Percent of Responses)

	Users		
Options	Business	Households	Heavy Users
1. Privately owned business	49	31	44
2. Crown corporation	21	24	—
3. Government department	14	28	—
4. Other	1	1	—
5. Don't know	15	16	—
Total	100	100	

Source: Canada Post Corporation, Report of the Review Committee on the Mandate and Productivity of Canada Post Corporation, vol. 2, pp. 20, 35.

Response 3, "government department," referred to the organization that existed before the government created the Crown corporation. Despite the annoyance, frustration, exasperation, and deep customer dissatisfaction that led to the formation of Canada Post, the subsequent service deteriorated so much after only four years that households preferred this former discredited alternative to the Crown corporation by a 28 to 24 percent majority. What does this imply about the public's sentiment towards the present Crown corporate structure?

How did the public compare the Crown corporation with a hypothetical private post office? The survey did not suggest a structure for a privately owned business and so this alternative was unclear. Despite the uncertainty, 31 percent of households preferred this untried and unspecified alternative to all other options. When the survey tabulated the results for only the households that were heavy mail users, 44 percent said that a privately owned business should operate the post office. Among households this is the highest percentage for any of the alternatives in the survey.

These results are staggering and suggest strong support among households and particularly heavy mail users for a private post office. The public knows this is the only alternative yet untried, and displays considerable trust in private enterprise operating in a free market to provide reliable mail service at reasonable prices. Households also are willing to take a chance on the structure of this alternative which emerges. It's almost as if they are saying, "anything is better than what we've already had."

How did businesses respond to these same questions? From table 29 businesses are even more emphatic in their preference for a privately owned and operated post office than either the public or heavy mail users. Because they understand their own motivations and how they operate their own businesses, perhaps they believe that this alternative holds the brightest prospects for improving the efficiency of operations and the quality of service. Whatever the reason, 49 percent of businesses said they preferred a privately owned post office. This percentage is more than twice that of the next preferred alternative, the Crown corporation, which is preferred by only 21 percent of the respondents. Only 14 percent of the businesses preferred to go back to the government department. These results indicate that both households and businesses prefer an unseen, untested, untried and unspecified privately operated post office above all other alternatives, including the present Crown corporation. Policy makers should accommodate this strong mandate for reorganization.

For both households and businesses, the responses "other" and "don't know" are one percent and 15 or 16 percent, respectively. "Other," which is unspecified, is insignificant. "Don't know" is a potential source of support for the "privately owned business" alternative which could transform its plurality status into a majority one. Without doubt, if the survey had omitted these last two alternatives, a majority, not merely a plurality, of businesses would have preferred the "privately owned business" alternative.

The only interesting question posed by the survey is a trivial one for policy purposes concerning the second choice preference. Why do businesses prefer the Crown corporation to the government department (21 to 14 percent), and households the department to the Crown corporation (28 to 24 percent)? I suggest each is trying to make a statement and that the statements are relatively similar. Households are trying to say that they despise the present Crown corporation even more than the department, which everyone knows was an unacceptable alternative. Knowing how difficult it is for the government to take decisive action, many households believed a privately owned post office to be politically unattainable (even though 31 percent still expressed that preference). Businessmen, on the other hand, might be more optimistic about the political possibility of reorganizing the Crown corporation once again, this time into a privately owned business. Although they may be no more satisfied with the service they receive from Canada Cost than from the POD, they may believe it would be easier to reorganize the Crown corporation into a privately owned business than a government department. In summary, this survey indicates a strong sentiment among businesses and the public for a privately owned and operated post office in Canada. An editorial in the Toronto *Globe and Mail* asked the question, "should the post office be taken private?" to which the answer was, "well, I'm game. We've tried everything else."[71]

From April 5 to 8, 1989, Gallup Canada, Inc. surveyed 1,037 adults, 18 years or older, to measure their attitude towards privatizing Crown corporations. The survey indicated that Canadians prefer to privatize some Crowns while keeping others intact. Air Canada, which has already been privatized, received the most support for privatization (see table 30). Of those expressing an opinion an overwhelming 71 percent favoured selling Air Canada.

Table 30
Should Crowns Be Privatized?
(percent)

Crown Corporation	Favour	Oppose
1. Air Canada	71	29
2. Canada Post	55	45
3. Petro-Canada	54.4	45.6

Source: Lorne Bozinof and Peter MacIntosh, *Public Backs Air Canada Sale; Against Privatization in Most Other Areas,* pp. 1-2.

Of the remaining Crowns, the public favoured most the privatization of Canada Post, followed closely by Petro-Canada. Fifty-five percent of those expressing an opinion believe Canada Post should be privatized and 54.4 percent favoured Petro Canada's privatization. These results constitute a public mandate for privatizing both Canada Post and Petro-Canada.

Canada's Privatization Rationale

Each country has its own rationale for undertaking privatization. To advance social policy goals, the government's policy tools are to tax, spend, and regulate, or own and operate. The Canadian government considers the use of these policy tools and the effect they might have, not only in accomplishing social policy goals but also on individual entrepreneurship and creativity. Because the last two tools severely limit freedom and demean individual entrepreneurship and creativity, which the Canadian government appreciates, it is committed to meet social policy goals with less restrictive tools where possible.[72] Where it cannot, the government still questions whether the social policy goal is worth the cost in resources, freedom and quality of life. If the answer is negative, privatization may still be suitable.

Why do governments privatize? There are many reasons. The Canadian government has announced the following goals for its privatization programme:

- First, to reduce the role of the state in the economy and make private markets fairer and more competitive.
- Second, to create jobs and opportunities to participate in the wealth-creating process and economic growth.
- Third, to cut government costs,[73] turn losses into tax revenues,end destructive political divisions within the government, and manage the remaining Crown assets and its other responsibilities more efficiently.[74]

The Canadian government employs about 183,000 workers in 58 Crown corporations with assets valued at $60.6 billion.[75] In the May 1985 budget, the federal government said these Crowns would be candidates for privatization if the government no longer needed them to attain national and regional policy goals; or if it could meet its goals through taxation, spending, or regulation. The government intends to use ownership and control to advance only the most important goals when no other tools are effective. This statement acknowledges a priority among policy tools from the least to the most restrictive, with public ownership and control being the latter.

OPRA's Five Criteria for Privatizing

In August 1986 the prime minister set up the Cabinet Committee on Privatization, and designated Barbara McDougall, minister of state (privatization), its chairperson. In December 1986 the minister set up OPRA (the Office of Privatization and Regulatory Affairs), which reported to her, to carry out the government's privatization policy.[76] Periodically the government reviews and ranks all Crown corporations as candidates for privatization according to five key criteria.[77] It is useful to consider Canada Post as a serious candidate for privatization in the light of these criteria. What are the criteria and how does Canada Post measure up to them?

First, is government ownership of Canada Post necessary to achieve national and regional policy goals? Someone might argue a historical case that Canada Post or its predecessor, the POD, *was* essential to provide universal service at a uniform price to unify the country. Before widespread use of telephone, fax machines, computer networks, and easy transportation, mail was an essential mode of communication aiding the development of modes of transportation and the economy. These tasks, however, have been accomplished. The advent of electronic communications has reduced the urgency of the postal task. The remaining task is simply to provide the best service at the lowest price without draining the public treasury, and this is largely a private sector role.

How would the sale of Canada Post affect regions and communities? Almost all areas would benefit from the more reliable and responsive service that private postal companies operating in a competitive market could provide. Residents of remote rural areas might fear that they would lose local service. To ease those fears, Parliament could mandate service levels or subsidize delivery to remote areas. Subsidization calmed the fears of rural residents concerned about the possible loss of local air service under airline deregulation. The $3.5 million per year subsidy is modest compared to the total postal budget and is a small price to pay for the much larger $1.5 billion per year savings from privatization.

Second, can Canada Post be a viable business in the private sector? Canada Post is extremely inefficient. There is no incentive for Canada Post to behave efficiently or earn profits because no one can capture the gains from this efficiency. Salaries, benefits, and other "perks" for the chairman, president, vice presidents, and other top officials have increased compared to those existing when Canada Post first became a Crown corporation. Even though this remuneration is related to performance, and some incentive exists to earn "profits," it is not sufficient to induce efficient decisions. When Canada Post earns profits, they cannot legally be appropriated. Instead they are paid to the government as a dividend or may be retained to be reinvested in capital projects. Until recently, Canada Post did not need to compete. It surrendered its market for parcel post, subsidized second and third class mail, and paid its bills and covered its mistakes with revenue from the first class mail monopoly.

Rather than being a precondition for privatization, Canada Post's viability should be considered in plans for its restructuring before privatization. Even though Canada Post may be sluggish and prone to error in its present form, that form is the most important cause of its failures. When the incentive structure changes, its potential to compete in the market will improve. Trucking companies, AT&T, and major airlines adjusted to competition; so can Canada Post. Numerous private businesses, from couriers to UPS, function well in competition with Canada Post for the non-monopolized parts of its business. Canada Post's presence in every community of the country, its national network, specialized postal equipment, trained staff, and accumulated experience gives it an advantage over private competitors. It has recently become profitable. All it needs is the incentive of repeal of the exclusive privilege to make appropriate adjustments. In the absence of the exclusive privilege, there is every reason to believe that Canada Post would make the changes necessary to survive.

The government mandated Canada Post as a Crown corporation to become financially independent and it has dramatically reduced its deficit. With its non-taxed monopoly status, Canada Post recently earned a profit.[78] Of course, an important factor in assessing the profit potential is the removal of the exclusive privilege. This would allow any firm to compete with the privatized Canada Post for any aspect of its business. It has the promise of being profitable if privatized, even if the government removes its exclusive privilege and other benefits, and forces it to compete in the market. The competition would eventually reduce the profit potential for Canada Post, but it would also provide the competitive spur to lead to continuing significant cost-reducing innovations.

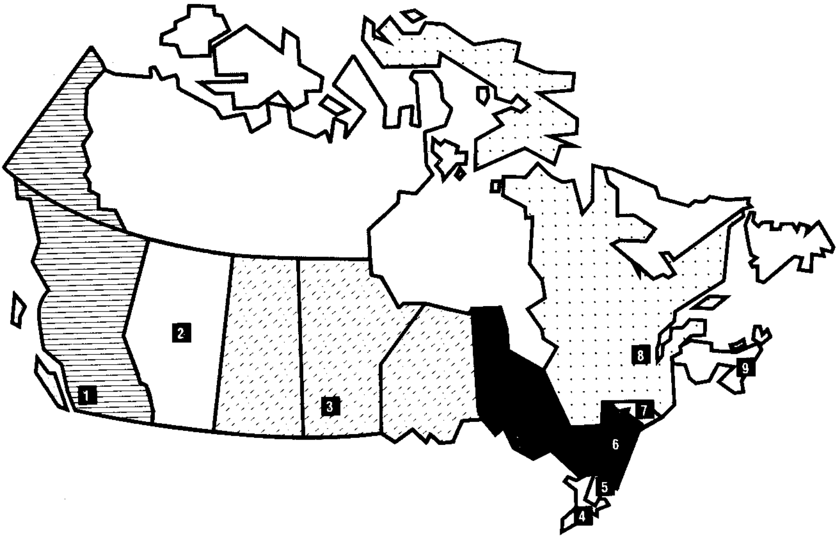
If Parliament privatized Canada Post there would be more opportunity for making profits. For instance, if revenues remained the same, private owners and managers could cut costs significantly. Labour costs account for 73 percent of total costs. There is, then, plenty of room to cut costs through mechanization, reorganization of functions, liberalization of work rules, and introduction of incentive systems into the wage and salary scales, instead of the severe compression now existing. A pay system based on merit rather than on seniority would also provide more incentive for efficiency. If postal workers agreed to adjustments that bring their wages in line with those for similar tasks in the private sector, this would cut more than one-third of labour costs. In turn, these employees would benefit from dividends paid out of profits generated in the privatized company under a plan where employees gained part ownership.[79] A recent offer by United Airlines pilots to cut their own salaries by 25 percent as part of an employee buy out plan illustrates the feasibility of such a procedure. An inspection of UPS, Federal Express, or Roadway Package System will suggest other strategies for cutting costs.

Applying OPRA's third criterion for privatization, we ask if Canada Post is ready for privatization now or does it require preliminary reorganization? After creating Canada Post the government was supposed to remove itself from the day-to-day decisions concerning the provision of mail services, while maintaining responsibility for its deficit, overall evaluation, and disposition. The government's main link to Canada Post was supposed to be through approval of the Corporate Plan and directives which, according to the Crown Corporations Act, must be gazetted so they will be publicly recorded. Control did not work this way. Instead, the government directed Canada Post covertly. A new reorganization is required which will improve accountability.

The government also needs to create an incentive structure to encourage Canada Post to provide postal services efficiently with prices reflecting costs. Private ownership will encourage a stronger link between reward and effort throughout the business. Owners have a more focused interest and this provides the incentive for closer monitoring. Although the incentive for control is not as strong in a large as in a smaller, privately owned business, it is closer than in a government organization. If management does not perform well in larger businesses, the prospect of a takeover acts as a disciplinary force on management. These disciplinary measures are not present in government-owned corporations.[80]

The value to the government of selling a monopoly Crown corporation is greater than that of selling the business as a competing firm suddenly exposed

Figure 15
How to Privatize Canada Post: Postal Regions and Offices
June 1, 1988



1
Pacific Division
1010 Howe Street
Vancouver, British Columbia
V6B 4Z3

2
Foothills Division
9828-104 Avenue
Edmonton, Alberta
T5J 2T0

3
Mid-West Division
266 Graham Avenue
Winnipeg, Manitoba
R3C 0K0

4
Huron Division
955 Highbury Avenue
London, Ontario
N5Y 1A3

5
York Division
7029-20 Bay Street
Toronto, Ontario
M5J 1A1

6
Rideau Division
2733 Lancaster Road
Ottawa, Ontario
K1A 0C1

7
Montreal Division
715 Peel Street
Montreal, Quebec
H3C 2H0

8
Quebec Division
1535 Chemin Ste Foy
Quebec City, Quebec
G1S 2P0

9
Atlantic Division
1713 Bedford Row
Halifax, Nova Scotia
B3J 2B1

Head Office: Confederation Heights, Ottawa, Ontario, K1A 0B1

Source: Canada Post Corporation, *Annual Report, 1987-88,* p. 19. Reprinted with permission.

to competition.[81] This incentive might tempt the government to show a benign neglect towards competitive policies. This neglect might also be supported by the simplistic notion of privatization which holds that the effects of a change in ownership on performance is independent of all other economic conditions.[82] This, however, would be a grave mistake. Competition needs to be considered and this clearly means revoking the exclusive privilege, or privatization will simply transfer a government monopoly to the private sector.[83]

Vickers and Yarrow and Oliver Letwin say that competition must be considered along with privatization, as the public will not support privatization for long when important businesses are left as monopolies without the introduction of competition.[84] In addition, it is important to increase effective competition. Competition will not be effective if the incumbent firm being privatized has a dominant market share and is not divested into units that can subsequently compete with others. Only if that doesn't work, should the government regulate to contain monopoly power. In this case, price regulation may be necessary to restrain monopoly pricing. These complications make some privatizations more difficult than others.[85]

Restructuring is warranted along with privatization in the utility industries. In the natural gas industry, for example, privatization will work better if the distribution companies were privatized first, while the national transmission systems were kept under public ownership. In the electricity supply industry it is advisable to privatize the local distribution and the generating plants first, while keeping the national transmission grid public. Some serious restructuring may also be necessary for airports, the water industry, and Canada Post before the public can realize the advantages from privatizing.[86]

What kind of restructuring is advisable before privatizing Canada Post? The government needs to divest Canada Post into three regional delivery companies, a clearing-house support services company, and a bulk-mail company before selling it to the private sector. The bulk mail company should be sold separately and first. The centralized administration would become a clearing-house support services company. The country could then be divided into three postal regions, each serviced by a regional company.

For instance, Canada is divided into nine postal divisions: Pacific, Foothills, Mid-West, Huron, York, Rideau, Montreal, Quebec, and Atlantic (see figure 15). In addition, the post offices at Montreal, Toronto, Winnipeg, and Vancouver are the largest in the country. The first of the three regional companies would be the western division and would include the Pacific, Foothills, and Mid-West sections; the second would be the central division and include the Huron, York, and Rideau sections; and the third, the eastern division, would include the Montreal, Quebec, and Atlantic sections.[87]

How would the fragmented system of regional companies work? The three regional distribution companies, each comprising three adjacent districts, would collect and sort outgoing mail, and sort and deliver incoming mail. These regional companies could provide complete delivery between any two points within their region. Private haulers could compete to carry mail between the local delivery areas within a region and charge by weight. Alternatively, the regional operating company could provide this service itself.

Where volume warranted, the regional companies would transport letters collected in their own region to another company in another region with which it had a bilateral arrangement and pay for this delivery. Postal companies would have to transport mail to the destination region for deliveries outside their region and have an arrangement with the regional company to deliver the mail to the destination address. Alternatively, regional operating companies could transport mail to be delivered in other regions to the hub of a clearing-house support services company. At the hub, the clearing-house would sort bulk containers for sending and receiving between regional centers, facilitating the transaction of bulk mail between regional companies. The arrangements need not be either costly or complicated. The clearing-house system works well between members of stock and commodity exchanges and also between banks involved in speedy cheque clearing processes. Regional companies could then provide one- or two-day mail service between the sectional centres.[88]

Do workers and managers need a public relations effort to prepare them for privatization? They probably need some preparation and discussion of the changes. Divestiture would simplify the labour relations problems because the regional companies would each conduct their own labour relations with their employees and employee representatives. As disconcerting as strikes are, they are not the source but a symptom of Canada Post's problem. It is the exclusive privilege that prevents other companies from stepping into the gap and offering postal service. Under the privatized, divested, and deregulated regional postal system, strikes and work stoppages in one region need not influence operations in other regions. Regional strikes and shutdowns would take only one local carrier out of the picture temporarily and give competitive local companies an opportunity to increase their market share.

The fourth criterion: is privatization of Canada Post compatible and consistent with other government policies? Privatization signifies the government's withdrawal from the public service aspects of mail service and is a natural extension of the policy to convert the POD into a Crown corporation. The latest statement of public policy objectives recognizes that Canada Post's mission is the provision of prompt, efficient, and reliable document delivery service for the lowest postal rate, without public treasury support. Privatizing Canada Post would be a continuation of the government's distancing itself from mail service and the acknowledgment of the changing economic role of mail delivery. This consistency argues for the privatization of Canada Post.

The fifth criterion: in privatization the Canadian government deals with the Crown's managers, workers, customers, the financial community, media, taxpayers, and potential investors. It views privatization positively and emphasizes the potential benefits it brings to employees, patrons, and taxpayers.[89] To improve the chances for success in the privatization, policy makers should enlist the support of these different groups. To do this, policy makers determine the enemies of privatization and make them allies by identifying all objections to privatization and devising policy to deal with them in advance. Ad hoc measures designed to deal with objections can be written into the privatization bill. This can be done by writing legislative preconditions into the privatization act which a company must meet in the future, such as the effect of future inflation on prices and remedies for ownership falling into foreign hands.[90] It is easier to enlist support for future privatizations if the groups that derive benefits from public ownership don't see their benefits simply cancelled, even if those benefits are unjust. Instead, the government can buy these benefits as part of the privatization.

How will Canada Post's privatization affect interested parties? Businesses and householders ranked "private business" first among alternative business forms for Canada Post in the Marchment Committee's survey. More recently, Gallup's survey indicates Canada Post ranks first on the public's list of Crowns to be privatized. When the government privatizes Canada Post, it might mandate the new corporation to provide universal postal service at uniform rates to all Canadians. Alternatively, it could provide subsidies for making deliveries in remote areas.

What would be the impact of the sale of Canada Post on government finances and taxpayers? As taxpayers, Canadians also prefer a privatized postal service. Privatization of Canada Post would stop the annual drain on the public treasury and reduce the taxpayers' burden. In addition, the sale might raise as much as $5 billion, which could be applied to the annual deficit or the federal debt. These features make Canada Post an attractive privatization candidate.

Canada Post's competitors for services where it does not own a monopoly have several concerns. They favour privatization because it removes Canada Post from the unlimited source of public treasury funds used to subsidize its mistakes and gives them the opportunity to compete with Canada Post without the exclusive privilege for first class mail. On the other hand, they might fear competition from a revitalized private Canada Post not encumbered by rigid decision-making processes.

Contractors who provide services to Canada Post might regard privatization as a threat to their livelihood because it would jeopardize their contracts. While providing a quick fix to certain limited areas of postal operations, contracting sets up an interest group that opposes privatization to protect its own business interests. On the other hand, some contractors might welcome privatization because it provides the opportunity to enter the mail delivery business in the absence of the exclusive privilege.

The Canadian government addresses the concerns of postal workers directly. The jobs of postal employees are already at risk from technology. Even though they resist change, postal workers have a better chance of maintaining jobs in a competitive industry if they begin working for a privatized company before it is too late.[91] The federal government can minimize the transitional problems of privatization by enlightening the corporation's workers.

The experience in England prepares us to structure the privatization to win the support of employees. This concern does not so much enter the discussion of *whether* to privatize, as *how* to privatize. British employees became supporters of privatization when the government made the terms sufficiently attractive. Employees find it advantageous to capitalize and appropriate their uncertain stream of future benefits with an attractive share ownership plan. The privatized firm appeals to its workers by offering them free share issues and the option to purchase additional shares at a discount.[92] For offerings such as this, the acceptance rate has exceeded 90 percent of workers. The privatization plan also recognizes employee concerns for pensions and benefits. Workers will be much more co-operative if they can be assured their accumulated pension rights will be protected in the privatization. The privatized company continues the pension plans for employees making the transition on at least as generous a basis.[93]

The government deals with unions differently, however. They usually are implacable foes of the privatization and tell their members to oppose it under any and all conditions. The technique for dealing with unions is not to deal with them at all. Long, involved negotiations with unions about the privatization process merely gives them unwarranted power. Appealing directly to their members with incentive schemes reduces their influence in the process.[94] Once union members embrace the offer, union leaders' attitudes change. In some countries union leaders have themselves become major employee shareholders. This method of dealing with employees and unions has the potential for changing voting patterns and radically transforming union-management relations.

The government also works with management to produce an effective transition to the private sector.[95] All existing employees and company assets and liabilities are placed under new management. Labour contracts may need to be renegotiated.[96] Usually there are few disruptions to employment conditions during the privatization because the privatized company remains intact. When the government first privatizes a company it may eliminate some jobs, but this must be done without mass lay offs. Policy makers do not need to make decisions with negative political consequences. In any event, workers on the payroll at the time of the privatization do not lose their jobs, because the labour force shrinks only through normal attrition or attractive early retirement programmes. The privatized corporation can remove desk-bound bureaucrats quickly and efficiently by offering voluntary early retirement on generous terms. After privatization, the growth opportunities in the private sector for some companies improve compared to the Crown corporation and increase the number of jobs.

Canada's Privatization Procedures

Within OPRA, the government regularly reviews Crown corporations, including Canada Post, against the above five criteria to identify privatization candidates. The cabinet's view of which are likely to perform better under private ownership is important. The changing political environment will affect the prospects and timing of the privatization of Canada Post. As postage rates increase and service and reliability decline, privatization becomes more feasible politically. Strikes and labour disruptions merely increase the political viability of privatization. It is hard to imagine any Crown corporation performing worse than Canada Post.[97] In the Marchment Committee survey, households preferred the POD to the current Crown corporation, even though their first choice was a private post office. Because of the disarray in Canada Post, privatization represents little potential risk. Crowns such as Canada Post whose privatization prospects are favourable are selected for in-depth review.

Some privatizations are more difficult than others. To improve the chances of success for the policy of privatization, it is better to privatize the easy ones first and use the success and popularity of those to gain support for the more difficult ones. In privatization, regard must also be given to the riskiness of the issue and the ability of potential investors to deal with risk. For instance, British Telecom and British Gas were blue chip utilities which could be sold to first-time investors. Oil companies, such as Britoil and Enterprise Oil, had considerably more risk and so were sold by tender to sophisticated investors.[98] With restructuring and eliminating the exclusive privilege, privatizing Canada Post is at least medium difficulty.

To consider a serious candidate for privatization, OPRA forms a team of government officials, Crown corporation officials, and private sector advisors to examine all issues associated with the privatization of a selected Crown corporation and to prepare options for cabinet consideration. The private sector advisors on the team aid in first analysing the corporation in detail, and then providing advice on financial, communications, and legal issues. The team reports to the minister who prepares and presents recommendations to the cabinet for discussion and approval.[99]

When the Canadian government decides to privatize the Crown, it takes a series of legal, financial, and legislative steps in carrying out its strategy.[100] It is useful to consider Canada Post as a serious and eminent privatization candidate in light of these steps.

In the beginning, the policy of privatization itself was somewhat speculative and fragile. When Britain first began privatizing no one really believed it could succeed, let alone articulate a coherent policy or strategy for overcoming inertia and bureaucratic obstacles. Before 1983 Britain privatized a few businesses, but the important ones occurred later. If each privatization bill had to go through Parliament where all members could amend it in the interests of their districts and electors, British privatization would never have occurred.[101] These phenomena explain some of the generous terms offered in a privatization that was tailored to win the support of some of the interest groups.

Investment bankers are in the business of winning support for the purchase and sale of companies. The government does not need to perform this function for itself. Business has been doing it in the private sector and can manage it professionally for the government. By hiring investment bankers, brokerage houses, public relations firms, and advertising agencies, the government enlists their expertise on behalf of the privatization, wins the support of the financial community, and, in effect, privatizes the privatization process. Privatization then has a better chance of success.

Normally the chief function of underwriting is to transfer price risk from the issue to the underwriter. In normal financings, the purchasing of underwriting services makes sense only if the underwriters are less averse to risk than the issuers. In privatizations, however, the government is better able to bear more price risk than any private investment banker. Why, then, did the government spend so much on underwriting fees?[102] It is not so much to transfer the price risk of the issue as it is to transfer the risk of the process of privatization to the private sector.

Vickers and Yarrow have been highly critical of the British government's policy of share distribution. In their opinion the government has unnecessarily reduced its proceeds by hastily selling all shares at once, rather than in portions. They also dispute the need for underwriting at all, and claim that investment bankers have benefited too much and that the underpricings have been too large.[103] They notice that the premium is substantially greater for government than for private shares and the larger the issue, the more divergence is likely to exist between issue and after-market price. Even though the government cannot fine-tune the pricing to eliminate the average premium, it could still reduce it.[104]

How is an issue priced? It is difficult to price a Crown corporation. Financial analysis on discounted cash flows, price-earnings ratios, book value assessments, and market surveys can be helpful. Ultimately, one guesses and then hopes the market validates the estimate. There is a built-in bias to underprice shares in the distribution associated with privatization. The share distributions of public privatizations need to succeed. If the government overprices the issue, someone has unanticipated shares left over, the price in the after-market falls below the issue price, and the government perhaps suffers the irreparable embarrassment of a failed issue. Neither the government nor the policy of privatization could withstand this political catastrophe.[105] Although underpricing means reduced proceeds for the government, it yields immediate windfall profits to shareholders. The successful applicants for shares, including some foreigners, receive an immediate gain, know they have gained, and support the privatization. The taxpayers, however, are the losers but they do not know they have lost.[106]

Canada has various means of privatization at both the federal and provincial levels. For instance, the government can sell a Crown corporation in a share offering to a third party which may be a business firm, the Crown's management, its employees, or to the public.[107] Conrad Black, chairman of Ravelston Corp, Ltd., Toronto, suggested, "perhaps the post office could be offered for sale to Canadian Pacific, if it was given sufficient tax incentives to accept it."[108] By doing this, it transfers the entire operation to the private sector. Despite its history of annual losses, Canada Post would be an attractive candidate for sale as a going concern because it has enormous potential as a private business.

Could the stock market handle a public offering for Canada Post? Assuredly so, but the offerings could be aided by an interim government corporation, called Canada Post Investment Corporation (CPIC), similar to Canada's British Columbia Resources Corporation (BCRIC), which could handle the privatization. CPIC would appoint temporary boards of directors before the stock distribution. Following the sale, large stockholders would elect the board members. The newly elected board would then be responsible for hiring and firing top management which, in turn, would operate the company. The total public offering in Canada Post would be \$2 to \$5 billion. The sales of British Gas and Nippon Telephone during 1987 were larger.

In the financial structuring of Canada Post's privatization, establishing an equitable sale price can be a difficult job. When selling the corporation through a general share offering, issuing the shares in stages will minimize error in setting an initial offering price. The public reaction to the small initial public offering will allow sellers to gauge the after-market reaction and suggest a basis for setting share prices in subsequent offerings. There are techniques for holding back a portion of shares and selling them later if the price rises. Portions of an issue should be sold leisurely, rather than all at once, and this reduces expenses.[109] Some shares could even be given away. A small portion of shares could be tendered even if the entire company was going to be offered to a single purchaser. This technique reduces the risk of having a major portion of shares issued at prices too distant from the market price. To maintain investor confidence, however, it is important that the government follow through and offer 100 percent of the shares within a reasonable time period.[110]

If the government transferred Canada Post to the private sector, who would buy this bureaucracy with its troublesome work force and inefficient methods? The possibilities are: a) parties who now have an interest in the existing operation either as managers, large patrons, contractors, employees, or employee unions; b) private-sector corporations or individuals interested in a negotiated purchase; c) individuals and corporations who might make a tender offer or bid at auction; and d) the investing public through a public stock offering. CPIC could employ one or more investment bankers to solicit bids for large blocks of stocks. Major users such as mail order houses would buy enough shares to gain seats on the board of directors. Postal executives and staff would also buy shares at a discount. Individuals should be offered ownership in the privatization.

CPIC should sell some stock to Canada Post employees and to their "employees stock ownership plan" to insure their co-operation and to provide them an incentive to work constructively and efficiently. CPIC would raise $180 million if, on the average, each employee bought $3,000 worth of stock. This should be possible if CPIC makes a special stock offering to employees which would allow them to buy up to this amount at a discount of 15 to 20 percent off the public offering price. CPIC could then sell the remaining stock and debt to the public. These figures are tentative but represent a model for discussing many of the practical issues involved in privatizing Canada Post.

If Canada Post evaluated its assets and liabilities on a commercial basis, it would have a net worth of more than $2 billion. CPIC might raise $250 million by selling excess fixed assets not needed in the private operation of Canada Post. This might include all bulk mail-handling facilities involved in parcel post delivery. These estimates are conservative but indicate the potential of a postal service with a network of offices and facilities to operate like a business spurred by competition.

If maximizing sale values is the sole criterion in privatizing a public corporation, exempting and protecting it from competition will accomplish it. However, these conditions severely detract from the social benefits of the privatization. The government should not follow the simple goal of maximizing the sale value. The privatization should also recognize the sentimental attachment Canadians have for a corporation such as Canada Post which is so much a part of the country's history. Despite its long and distinguished historical record, it is problematic, however, how much of this sentiment Canada Post still retains. Nevertheless, for this and other reasons, foreign control of Canada Post may not be politically acceptable. Shares might be made available through a general stock offering, giving priority to Canadians. This is a restriction only on acquisition. Restrictions on ownership will impede the operation of market controls and reduce the social gains from the privatization.[111] After the sale, the government solicits opinions of employees, management, customers, and suppliers to learn from their experience so it can conduct future sales more smoothly.

In the 1970s Canadians became frustrated with their postal system. Frequent labour strife and interruptions to services hurt businesses and brought some to the edge of bankruptcy. Studies were initiated to find a solution. Some recommended converting the POD to a Crown corporation. On October 16, 1981, by an act of Parliament, Canada Post Corporation succeeded the POD. This organizational change mimicked a similar change in the U.S. when its Post

Office Department became the U.S. Postal Service (USPS) on July 1, 1971. A chief difference is that the Postal Rate Commission (PRC) regulates the USPS, while Canada Post was not subject to this type of surveillance.[112] Also, in the U.S., but not in Canada, the law forbids postal workers to strike. Although the U.S. postal experience since reorganization has been a failure, it has been much less so than the Canadian experience. In light of this, some propose that a third party regulate Canada Post to provide users an early warning of impending rate increases.[113] Recently, a government agency was set up to regulate Canada Post much as the PRC regulates the USPS.[114] Although regulation might produce some helpful effects, it won't solve Canada Post's problems.

Instead, the solution is to be found in the overall structure of the industry. While many small firms constitute many service industries, this is not true of the postal service industry. Canada Post Corporation is one large firm — a nationalized industry with a statutory monopoly for first class mail — whose demand is inelastic. The cost of this to the Canadian public is $1.5 billion per year. In a government-owned and operated business with a monopoly on its most important service, there is no group which can exercise effective control and appropriate the residual revenues. Consequently, there is no incentive to operate efficiently. Although private owners do not yet operate a national postal system, policy analysts are seriously considering this in both the U.S. and Great Britain.

Because the basic problem is structural, the policy solution must of necessity be structural too. In 1984 Perrin Beatty, André's predecessor, asked Michael Warren, president of Canada Post, to list the options for the post office. At one end of the policy spectrum, Warren said Canada Post might aggressively solicit new business such as electronic mail, expand its retail activities, and try to regain its lost parcel business. Alternatively, Canada Post could abandon its parcel business, invite private companies to bid for franchises to serve major areas, remove the exclusive privilege, and become the carrier of last resort. Warren himself wanted to start selling shares of Canada Post to employees and as much as 10 percent of the corporation to the public within three years. René Marin supported Warren's plan when he was chairman of the board, but Beatty opposed it and lost an opportunity for meaningful restructuring.[115]

Shortly after taking office as minister responsible for Canada Post Corporation, Harvie André quickly noticed that Canada Post was a political problem waiting to be managed. Long-term stability required a radical change in structure.[116] In June 1989, after Canada Post announced it had earned a profit, Mr. André affirmed his position of neither confirming nor denying any privatization plans for Canada Post. "All options are under consideration," he said. He noted, however, that competition ensures a constant search by management for productivity and service improvements, and makes a corporation sensitive to its customers. Also, privatization eliminates political meddling, and makes share-owning employees more dedicated to the corporation and less likely to blindly follow militant union leaders. For these reasons, he said, "privatization and/or removal of the exclusive privilege are options worthy of consideration."[117] There is an opportunity once again to set the postal industry straight. We can all hope it isn't missed.

Notes

1. "School's Brief: Selling the Silver," *The Economist.*
2. John Vickers and George Yarrow, *Privatization: An Economic Analysis*, pp. 125, 127-31.
3. "School's Brief," *The Economist.*
4. Vaughn Palmer, "Incentive is the Key to Privatization."
5. Shawn Tully, "Europe Goes Wild Over Privatization."
6. Oliver Letwin in *Privatization: Tactics and Techniques*, p. 51.
7. Vickers and Yarrow, *Privatization: An Economic Analysis*, pp. xi, 1.
8. "School's Brief," *The Economist.*
9. Palmer, "Incentive is the Key to Privatization."
10. Ibid.
11. Ibid.
12. For instance, the government (1) conducted a £7.6 million television and newspaper advertising campaign; (2) offered bonus shares to employees who bought shares; and bonus shares or vouchers for telephone service to small investors who kept their initial shares for three years; (3) allowed investors to purchase their shares in installments; (4) restricted initial allotments to pension funds and other financial institutions that could raise the price by buying shares in the market; "School's Brief," *The Economist.*
13. Before the British Telecom sale, only 3 percent of the population owned shares of companies as compared to 20 percent in the U.S; ibid.
14. Palmer, "Incentive Is the Key to Privatization."
15. "School's Brief," *The Economist.*
16. Ibid.
17. Ibid.
18. Tully, "Europe Goes Wild."
19. "School's Brief," *The Economist.*
20. Vickers and Yarrow, *Privatization: An Economic Analysis*, pp. 315, 428; *Privatization: Tactics and Techniques*, pp. 50-51.
21. In France the company to be privatized performed more of the privatization functions. For instance, Saint-Gobain marketed its own shares domestically and internationally. More recently the government has introduced an arrangement in underwriting where it invites underwriters to tender for a portion of the offer. Under this arrangement commissions have fallen from three to one-third percent of revenues. Oliver Letwin in *Privatization: Tactics and Techniques*, pp. 19, 33, 34, 37, 39, 41, 42, 136. Vickers and Yarrow, *Privatization: An Economic Analysis*, p. 193.
22. They were, however, careful to point out the risks of the airline business, and sold shares only to existing owners of shares rather than new shareowners. Vickers and Yarrow, *Privatization: An Economic Analysis*, pp. 341, 342, 344, 351, 354, 359, 366, 428.
23. Ibid., pp. 322, 336, 339.
24. Although the unions officially opposed privatization, 95 percent of BT's employees supported and took advantage of the government's offer of £70 worth

of free shares, two free shares for every one they purchased up to a maximum of £300, and a 10 percent discount on a final installment of shares up to a maximum of 1600 shares. Ibid., p. 197; *Privatization: Tactics and Techniques*, pp. 26-31.

25. The divisions are: (1) Girobank, a bank which operates through postal counters; (2) Counters, a network of Crown and agency post offices that provides counter service to the other three divisions and other government departments; (3) Parcels, a package delivery service; and (4) Letters, which handles collection and delivery of letters. U.S. Congress, "Privatize the Post Office Through Employee Ownership;" Robert Albon, *Privatize the Post: Steps Towards a Competitive Service*, p. 41.
26. During the 1987 election campaign, Mrs. Thatcher ruled out privatizing the Post Office. Albon, *Privatize the Post*, pp. 2, 4, 5; Ian Senior, *Liberating the Letter: A Proposal to Privatise the Post Office*, p. 11.
27. Albon, *Privatize the Post*, pp. 14, 39.
28. Vickers and Yarrow, *Privatization: An Economic Analysis*, p. 169; Albon, *Privatize the Post*, pp. 33, 35; Senior, *Liberating the Letter*, p. 39.
29. Other than Conrail, there has been almost no federal privatization in the U.S. The U.S. has deregulated, while other countries have privatized. Robert Poole, Oliver Letwin, and Madsen Pirie in *Privatization: Tactics and Techniques*, pp. 17, 81, 128, 135.
30. Tully, "Europe Goes Wild," pp. 68-70.
31. Ibid., p. 69.
32. Ibid., p. 68.
33. Palmer, "Incentive Is the Key."
34. Pierre Matuszewski in *Privatization: Tactics and Techniques*, pp. 185, 191.
35. Warren G. Nutter, *Political Economy and Freedom*; Douglas K. Adie, "Freedom First, Last, and Always!" pp. 50-59; "Excerpts from Statements Made by the Honorable Barbara McDougall on the Reasons for Privatization," Office of Privatization and Regulatory Affairs, p. 2.
36. "Excerpts," Office of Privatization and Regulatory Affairs, p. 1.
37. Thatcher states that she desires to restructure the economy and perhaps society more generally. Some Canadians wish their government would be as forthright.
38. Cathryn Motherwell, "Privatization Trend Faces Test Over Big 3."
39. Ibid.
40. Adie, "Freedom First, Last and Always!" p. 56.
41. This dilemma, similar for someone just entering the job market, can be stated as follows: "How can one get a job without experience, and how can one get experience without a job?" The solution, of course, is to first get a job that does not require any experience. This is what the Canadian government has done in privatizing the easier businesses first.
42. *Privatization: Tactics and Techniques*, pp. 121-122.
43. Ibid., p. 72.
44. Ibid., pp. 73, 121. The first book on the subject was *Privatization: Theory and Practice*, T.M. Ohashi, et al., eds.
45. *Privatization: Tactics and Techniques*, pp. xi, 70, 71, 144.

46. In the U.S. Democrat mayors are contracting out municipal services. For instance, Terry Goddard, mayor of Phoenix, contracted out services because it was cost effective and consequently good for taxpayers.

    This view of regarding privatization as ideologically neutral is not universally accepted. Thomas Kierens, for instance, views privatization as a minor economic policy subcomponent in a larger policy set that is geared to strengthen the market at the expense of the state. Oliver Letwin, who shares this perspective, says there is no dispassionate position from which one can view government and private ownership and ask which is the better system. In the provision of local services there are a large number of cases of both kinds from which you can make comparisons. On the federal level, however, there are not enough comparisons of large organizations to make judgements. So you say, "which do I believe is most likely to work? Do I trust or distrust civil servants to control companies in a way that will maximize efficiency." Ibid., pp. 72, 73, 92, 123, 141.
47. Ibid., pp. 121, 178.
48. Motherwell, "Privatization Trend Faces Test," who calls the three rationales "the conservative ideology," the "profit motive," and "efficiency." "Excerpts," Office of Privatization and Regulatory Affairs, pp. 2-4.
49. Oliver Letwin in *Privatization: Tactics and Techniques*, p. 128.
50. Ibid., p. 66.
51. See table 26 (Canadian Federal Government's Privatization Experience).
52. Bruce Little, "Eager Investors Scoop up FPI Share Offer."
53. *Privatization: Tactics and Techniques*, pp. 144-45.
54. Little, "Eager Investors."
55. Ibid.
56. Motherwell, "Privatization Trend Faces Test."
57. "Selling Points," *Globe and Mail*, April 7, 1987.
58. Motherwell, "Privatization Trend Faces Test."
59. *Privatization: Tactics and Techniques*, pp. xii, 178.
60. In the British experience, retaining some control for a limited time has not been abused. In fact, the "golden share agreement" — which allowed the government to block anyone building more than a 15 percent stake in privatized companies — has not been directly used and has even been retired in the case of Amersham International. Ibid; "Privatized U.K. Firm Loses Special Takeover Defense," *Wall Street Journal*.
61. *Privatization: Tactics and Techniques*, p. 147; "Air Canada Group of Underwriters Set Accord on Stock Sale," *Wall Street Journal*; John Urquhart, "Canadian Senate Clears Bill to Take Air Canada Public," p. 4.
62. "Air Canada Considers Selling Its Messenger Courier Subsidiaries," *Wall Street Journal*.
63. Horst Heise, "Petro-Canada Could Bring Good Price."
64. *Privatization: Tactics and Techniques*, pp. 148, 152.
65. Ibid., p. 149.
66. The matter of scale in dealing with the airlines industry is quite different in postal services. While Fort Wayne is a small community for airline service, it is a large

community for postal services. Even the small towns of Williston, Ft. Dodge, and Hayes, which might lose direct air service because they are small in the airlines industry, are not small for postal service communities since they have populations between 13,000 and 29,000. There would be virtually no possibility of their losing local postal service. Michael Edgerton, "Regional Airlines Help Keep Small Cities on the Wing," sec. 7, p. 23. In January 1989 the government planned to cut subsidies for some flights that averaged about one passenger per flight. Jeff Barker, "DOT Reconsidering Cutback in Rural Air Service, Senator Says," p. 3B.

67. Two specific questions on this same subject were addressed to me after I spoke to the National Association of Postmasters of the United States (Washington, DC, February 20, 1984): Question: "What bothers me is that once upon a time United Parcel delivered parcels in Alaska and then they found out it wasn't profitable and they had problems. Since it wasn't profitable they ceased that delivery. We still deliver parcels in Alaska. How would you handle a situation like that?" Northwest Airlines Air Cargo will take packages to Anchorage for $1.41 per pound and to Fairbanks for $1.30 per pound, while the USPS charges $2.40 for up to two pounds, $4.40 for up to three pounds, and $1.00 per pound for each thereafter.

Another postmaster concerned about the airlines said, "Then you talk about deregulation. I live near Bismarck, North Dakota, 100 miles northwest. Before deregulation, I flew into Washington, DC, for $219 and now pay $606. We've lost our major airlines. They're no longer there." For reservations made 30 days in advance and including travel on at least one Saturday, the round trip fare between Bismarck and Washington is $258 on either Republic or Northwest Orient, otherwise the round trip fare is $442. If you live 100 miles from the airport, there would be a two-hour car ride to the airport. Leonard J. Doerhoff, "The Shape of Things to Come?" pp. 5-7.

In my discussion with postmasters, I detected a posture resembling that of other businesses which are very, very large and able to exercise power. A former General Motors president who became Secretary of Defense said, "What is good for General Motors is good for America." Lee Iaccoca attempted to do this with Chrysler. The postmasters combined patriotism, national security, and their own self-preservation in order to justify their privilege and their exercise of power. I believe this is a dangerous infringement on freedom. People, like the Brennans of Rochester, were run out of business because they ran afoul of the public express statutes.

68. Mike Urlocker, "Privatization: MP's Begin Hearings Today on Future of Canada Post," p. C4.

69. Albon, *Privatize the Post*, p. 2; *Privatization: Tactics and Techniques*, p. 9; Senior, *Liberating the Letter*, p. 39.

70. While competition in airline and trucking industries resulting from deregulation has been substantial and beneficial, all regulatory experience has not been so favourable. The railroads, for instance, have been substantially deregulated since passage in 1980 of the Staggers Rail Act, reducing the Interstate Commerce

Commission's authority over industries and spawning many competitor firms. The railroads have consolidated from 12 to seven major interstate lines and could shrink further to five. James L. Miller, "End the Postal Monopoly," p. 154; Douglas K. Adie, "Abolishing the Postal Monopoly: A Comment," pp. 657-61; *National Journal*, Oct. 5, 1985, p. 2243.

71. Walter Stewart, quoted from an editorial, *Globe and Mail*, August 24, 1985.
72. "Letter of Introduction to Information Kit on Government's Privatization Program," Privatization and Regulatory Affairs, pp. 1-2.
73. In California and Massachusetts voters passed property tax reductions (Proposition 13 in 1978 and Proposition 2½ in 1981, respectively) to force government to limit property taxes. This action caused fiscal pressure on the government which encouraged the exploration of new ways to provide public services. Privatization of government services lowered the fiscal deficits, reduced the need for tax revenues, and increased economic growth which ultimately led to an increase in tax receipts. So, from the standpoint of government's budget, privatization is helpful. Robert Poole in *Privatization: Tactics and Techniques*, pp. 56, 82.
74. Vickers and Yarrow believe that while economic analysis may not affect a particular policy decision, it can affect the climate of public opinion which can influence decision making generally. For instance, economic analysis is concerned primarily with measuring and evaluating the internal efficiency of the firm, the allocative efficiency of the market place, and alternative ways of organizing economic activities. Privatization is a process which changes ownership of an endeavour from the public to the private sector. Vickers and Yarrow regard the improvement of industrial efficiency as the primary criterion for judging whether privatization has been a success. They believe privatization should be judged on its contribution to economic efficiency. Other goals such as extending share ownership or raising revenue for the government are secondary. John Vickers and George Yarrow, *Privatization: An Economic Analysis*, pp. 2, 3, 425.
75. *Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada*, Government of Canada, vol. 3.
76. Currently John McDermid is minister of state for privatization.
77. For a list of Crown corporations and some pertinent financial and operational information, see *Annual Report to Parliament on Crown Corporations*, Government of Canada, vol. 3.
78. In fiscal year 1988-89, according to the plan approved by the government, Canada Post earned a profit of $96 million. This figure, however, does not account for the $251 million subsidy the government gives Canada Post for specified mail services. Jean-Claude Parrot, president of CUPW, said, "I've got a government complaining about the deficit, but every time something makes a profit, they sell it." The answer to Parrot's enigma is right here. The inefficiency (e.g., deficit) is a reason for privatizing while the viability (e.g., profits) are a condition for privatizing. Urlocker, "M.P.'s Begin Hearings," pp. C1, C4.

79. An earlier plan contained the provision of share participation by employees, but was deemed ludicrous by Marchment and others acting as advisors to the government, and was not supported. This reaction contributed to the subsequent departure of Michael Warren from Canada Post.
80. Albon, *Private Correspondence*, and *Privatize the Post*, pp. 23, 26.
81. *Privatization: Tactics and Techniques*, p. 133.
82. Vickers and Yarrow, *Privatization: An Economic Analysis*, p. 9.
83. *Privatization: Tactics and Techniques*, p. 142.
84. Ibid., p. 57.
85. Vickers and Yarrow, *Privatization: An Economic Analysis*, pp. 4, 53, 426.
86. Ibid., pp. 429, 430.
87. Some form of transfer payments might be necessary to encourage the servicing of sparsely populated areas. Alternatively, an annual charge to the residents of these areas for home delivery service or post office box delivery would enable the continuance of a uniform rate. See figure 15 (How to Privatize Canada Post Postal Regions).
88. Douglas K. Adie, "Avoiding Half Measures in the Plan to Privatize Canada Post," p. 46.
89. "How Privatization Works," Office of Privatization and Regulatory Affairs, p. 1.
90. Madsen Pirie in *Privatization: Tactics and Techniques*, pp. 4-9.
91. When asked how he would privatize Canada Post, Michael C. Burns said, "I think I might buy every business in the country a fax machine." *Privatization: Tactics and Techniques*, p. 183.
92. Senior, *Liberating the Letter*, p. 7.
93. "Meeting the Needs of Employees," Office of Privatization and Regulatory Affairs, p. 2.
94. Oliver Letwin in *Privatization: Tactics and Techniques*, p. 63.
95. "Meeting the Needs of Employees," Office of Privatization and Regulatory Affairs, p. 1.
96. Madsen Pirie in *Privatization: Tactics and Techniques*, p. 21.
97. In 1989 Via Rail received subsidies in excess of $600 million. Some think it performs less effectively than Canada Post.
98. *Privatization: Tactics and Techniques*, pp. 10, 12.
99. "How Privatization Works," Office of Privatization and Regulatory Affairs, p. 2.
100. The government (1) values the company; (2) announces the sale; (3) requests bidders; (4) tables a bill in Parliament to effect the sale; and (5) selects a bid or issues shares to the public. Ibid., p. 1.
101. Oliver Letwin, Madsen Pirie and Pierre Matuszewski in *Privatization: Tactics and Techniques*, p. 66.
102. *Privatization: Tactics and Techniques*, p. 13; Vickers and Yarrow, *Privatization: An Economic Analysis*, p. 183.
103. Vickers and Yarrow, *Privatization: An Economic Analysis*, p. 192.
104. *Privatization: Tactics and Techniques*, p. 55; Vickers and Yarrow, *Privatization: An Economic Analysis*, p. 178.
105. Vickers and Yarrow, *Privatization: An Economic Analysis*, p. 172.

106. Ibid., pp. 172, 180; *Privatization: Tactics and Techniques*, p. 10.
107. "Meeting the Needs of Employees," Office of Privatization and Regulatory Affairs.
108. Stephen Raikes, "Michael Warren's Biggest Turnaround," p. 62.
109. The British government at first sold only part of BT. Then when the shares were trading in the market, it sold the rest. *Privatization: Tactics and Techniques*, pp. 10, 55; Vickers and Yarrow, *Privatization: An Economic Analysis*, p. 184.
110. *Minding the Public's Business*, Economic Council of Canada, p. 144.
111. Ibid., pp. 66, 67, 142, 143.
112. Recently introduced legislation set up a commission with Alan Marchment as head to regulate Canada Post; see analysis of Postal Rate Commission in chapter 4.
113. *Mandate for Leadership*, Heritage Foundation, vol. 1, pp. 27-28.
114. Section 17 of the Canada Post Corporation Act allows the corporation to set rates that are fair and reasonable so as to provide revenue, together with any revenue from other sources in amounts sufficient to defray the entire costs of Canada Post. The corporation is required to publish each proposed rate change so interested persons can comment on it to the minister responsible for the corporation. The minister subsequently submits the rate proposal to the governor in council for approval or refusal. Canada Post Corporation, *Annual Report, 1982-1983*, p. 37.
115. Stewart-Patterson, *Post Mortem*, pp. 254, 256.
116. Ibid., p. 286.
117. Harvie André, "Notes for an Address by the Hon. Harvie André, P.C., M.P., Minister Responsible for Canada Post Corporation to the Canada Post Privatization Symposium," pp. 14-15.

Statistical Appendix

Description of Canada Post Data

Canada Post is the only source of data on itself. It publishes statistics on its performance in its annual reports, the only continuing source of information. There have been many changes in the data collected, the greatest being the Parliamentary reorganization from a Post Office Department to a Crown corporation on October 16, 1981. The definitions of the data categories and the changing nature of the organization itself make the it necessary to adjust time series data to make series continuous.

The basic data on which the Marchment Committee issued its report were not made available for this study. Results from this study will be cited where relevant. Despite requests, pleas and the auspices of this study, no other data except those published in the annual reports were made available. I have taken the data from the annual reports, compiled them by year, and used index number splicing techniques for consistency when definitions of the series changed and used these adjusted data in time series analysis.

Problems in acquiring data on postal affairs are not unique with Canada Post. The USPS which seems to be more co-operative in providing data has also been unwilling at times to furnish them, especially when it suspects that the efficiency of operations will be subjected to a thorough examination. The USPS has even refused to provide data to the U.S. Postal Rate Commission, despite regulatory responsibility assigned by the Congress. On occasion, "the postal service had clearly and consistently refused to provide the commission any information on any substantive issue..."[1]

Canada Post/Post Office data are listed in table 31. The data in column (1) are collected on a fiscal year basis, with the last year ending March 31. Column (2), points of call, shows the number of stations served in delivery and is an important aspect of the service. Column (3), number of post offices, is another aspect of service and an input into the production process. Column (4), number of employees, is the most important input factor in the production process. Figures for person-year utilization were available only for years 1981-85; the number of personnel figures were available for most previous years. Available data for both the number of personnel and person-year utilization for fiscal years 1978-79, 1979-80, and 1980-81 were used to create a consistent series throughout the entire time period.

Column (5) furnishes total revenues and column (6) lists costs, salaries, and employee benefits, both expressed in thousands. In column (7) costs of professional services (purchased outside Canada Post, representing another part of labour expenses) are also shown in thousands; non-labor costs are not included. Total costs, however, are expressed in thousands in column (8). The difference between total revenue and total costs, when negative, is the deficit in thousands in column (9).

The Canada Post Corporation Act provides that where annual revenues of the corporation are insufficient to permit the corporation to pay all its operating and income charges, the amount of the deficient shall be included in the form of an appropriation in the next estimates laid before Parliament. By arrangement with the Government of Canada, the annual deficit appropriation comprises the loss from operations as reflected in Canada Post's financial statements, adjusted for the difference between depreciation and capital expenditures.

Columns (10) through (16) are mail volume figures in thousands of pieces per year for first, second, third and fourth class, special, government, and total mail. For fiscal year 1971-72, the category for volume of government mail was inflated because mail from first, third, and fourth class associated with the election were put in the category of government mail. This excess from the government was redistributed to the other categories to make the figures comparable with other years.

Column (17) lists the standard postage rate in cents for a first class letter. Where postal charges changed within the year, the rate for that year was found by taking a weighted average of the two rates for the year, weighted by the proportion of the fiscal year when each of the rates was in effect. The first class postage rate is the most important, because 55 percent of mail is sent at this rate, and as much as 70 percent of revenues are raised by first class mail charges.[2] All years that have a whole number in cents for the first class rate did not contain a change. All years where first class rates contain fractional cents had changes in postage rates. Columns (18) and (19) contain the consumer and wholesalers price indices, respectively.

Notes

1. See *United States of America vs. United States Postal Service*, December 30, 1981, p. 9.
2. For the USPS in 1984, 52 percent of pieces of mail generated 62.3 percent of revenues. U.S. Postal Service, *Annual Report of the Postmaster General, 1984*, pp. 28-29; *Annual Report, 1985-1986*, Canada Post Corporation, p. 17.

Table 31
Canada Post/Post Office Data

(1) Fiscal Year	(2) Points of Call	(3) Number of Post Offices	(4) Number of Employees	(5) Total Revenues ($1000)	(6) Costs, Salaries, & Employee Benefits ($1000)	(7) Costs of Professional Services ($1000)
1968-69	4030651.0	10450.0	46838.0	374902.0	299146.0	19970.0
1969-70	4203322.0	9575.0	47599.0	444069.0	313005.0	20281.0
1970-71	4384947.0	9000.0	47924.0	432900.0	332373.0	21321.0
1971-72	4613865.0	8564.0	49958.0	504211.0	410750.0	1540.0
1972-73	4802186.0	8684.0	52207.0	563159.0	470000.0	2106.0
1973-74	5083024.0	8710.0	55421.0	591133.0	544229.0	2840.0
1974-75	5236834.0	8665.0	60208.0	617743.0	668895.0	4829.0
1975-76	5508928.0	8506.0	63460.0	568190.0	797561.0	6216.0
1976-77	5700000.0	8392.0	66762.0	774860.0	1006957.0	6711.0
1977-78	5755033.0	8289.0	67086.0	945763.0	1148013.0	10515.0
1978-79	5929124.0	8230.0	66847.0	1108543.0	1207110.0	10922.0
1979-80	6232283.0	8257.0	66552.0	1483211.0	1352176.0	10761.0
1980-81	6337012.0	8275.0	65690.0	1529839.0	1537911.0	12494.0
1981-82	6552263.0	8238.0	65676.0	1669800.0	1710741.0	21746.0
1982-83	6724263.0	8200.0	63538.0	2258403.0	1883570.0	30998.0
1983-84	6859876.0	8125.0	63403.0	2400351.0	1975710.0	38860.0
1984-85	6925713.0	8100.0	62456.0	2500248.0	2120040.0	51532.0
1985-86	7107213.0	8075.0	61372.0	2757674.0	2208379.0	32402.0

Table 31 (continued)

Fiscal Year	(8) Total Costs ($1000)	(9) Deficit ($1000)	(10) Volume of Mail 1st Class (1000)	(11) Volume of Mail 2nd Class (1000)	(12) Volume of Mail 3rd Class (1000)	(13) Volume of Mail 4th Class (1000)
1968-69	465233.0	90331.0	2733421.0	673133.0	1425339.0	85556.0
1969-70	497017.0	52948.0	2915001.0	518583.0	1257705.0	80459.0
1970-71	533500.0	100600.0	2939464.0	504710.0	994476.0	74304.0
1971-72	581204.0	76993.0	2936000.0	448000.0	1206000.0	82000.0
1972-73	654056.0	90897.0	3141000.0	444000.0	1007000.0	98000.0
1973-74	768305.0	177172.0	3347000.0	447000.0	1144000.0	76000.0
1974-75	938682.0	329939.0	3504000.0	445000.0	1223000.0	73000.0
1975-76	1114392.0	546202.0	3244000.0	434000.0	1135000.0	62000.0
1976-77	1353610.0	578750.0	3687000.0	455000.0	1515000.0	66000.0
1977-78	1505046.0	559283.0	3610000.0	483000.0	1736000.0	60000.0
1978-79	1594106.0	485563.0	3725000.0	487000.0	1705000.0	62000.0
1979-80	1762670.0	279459.0	3906000.0	501000.0	1877000.0	56000.0
1980-81	2016986.0	487147.0	3845000.0	519000.0	2014000.0	54000.0
1981-82	2294993.0	388834.0	3480000.0	490000.0	1946000.0	47000.0
1982-83	2573000.0	290520.0	3984000.0	522000.0	1973000.0	45000.0
1983-84	2700490.0	300139.0	3956000.0	536000.0	2229000.0	45000.0
1984-85	2895317.0	395069.0	3971000.0	547000.0	2640000.0	46000.0
1985-86	2968101.0	210427.0	4213000.0	572000.0	2751000.0	57000.0

Table 31 (continued)

Fiscal Year	(14) Volume of Mail Special (1000)	(15) Volume of Mail Government (1000)	(16) Volume of Mail Total (1000)	(17) Postage Rate 1st Class (cents)	(18) Consumer Price Index	(19) Wholesale Price Index
1968-69	31094.0	8513.0	4956946.0	5.420	43.20	60.30
1969-70	34016.0	8727.0	4814511.0	6.000	45.20	62.10
1970-71	31100.0	9135.0	4553189.0	6.000	46.40	63.80
1971-72	31000.0	10000.0	4713000.0	7.000	48.10	65.10
1972-73	33000.0	38000.0	4751000.0	8.000	50.50	67.90
1973-74	36000.0	24000.0	5074000.0	8.000	54.90	75.50
1974-75	40000.0	31000.0	5316000.0	8.000	61.00	89.90
1975-76	40000.0	26000.0	4941000.0	9.170	67.30	100.00
1976-77	47000.0	34000.0	5804000.0	10.170	71.90	105.10
1977-78	44000.0	32000.0	5965000.0	12.000	77.90	113.40
1978-79	42000.0	35000.0	6056000.0	14.000	85.00	123.90
1979-80	42000.0	27000.0	6409000.0	16.250	92.90	141.80
1980-81	45000.0	38000.0	6515000.0	17.000	102.90	160.90
1981-82	42000.0	32000.0	6037000.0	17.000	115.50	177.20
1982-83	46000.0	40000.0	6610000.0	28.080	126.90	NA
1983-84	44000.0	45000.0	6855000.0	32.000	133.50	NA
1984-85	57000.0	51000.0	7312000.0	32.000	138.80	NA
1985-86	56000.0	47000.0	7696000.0	33.530	144.50	NA

Table 31 (continued)

Fiscal Year	PROD	PROD1
1968-69	8.004228	105.8317
1969-70	9.329376	101.1473
1970-71	9.033052	95.00854
1971-72	10.09270	94.33925
1972-73	10.78704	91.00312
1973-74	10.66623	91.55374
1974-75	10.26015	88.29391
1975-76	8.95351	77.86007
1976-77	11.60630	86.93568
1977-78	14.09777	88.91572
1978-79	16.58329	90.59494
1979-80	22.28650	96.30064
1980-81	23.28877	99.17796
1981-82	25.42481	91.92094
1982-83	35.54413	104.0322
1983-84	37.85864	108.1179
1984-85	40.03215	117.0744
1985-86	44.93375	125.3992

Notes to Table 31:

1. All figures are for fiscal years which end March 31.
2. The number of post offices for FY 1981-82 is estimated by multiplying the previous figure for 1980-81 by the average growth rate of the previous three periods. The following figures are calculated by adding the changes for subsequent years to this figure.
3. The number of post offices for FY 1981-82 is an average of the number for the previous and subsequent years. The numbers for FY 1984-85 and 1985-86 are estimates.
4. The number of employees for FY 1981-82 through 1985-86 are derived by adjusting the figures for person-year utilization by the average ratio of personal/person-year utilization of FY 1978-79, 1979-80 and 1980-81.
5. For FY 1981-82 the figures for the cost of salaries and employee benefits, professional services, total costs, and the budget deficit are interpolated by averaging the previous and subsequent figures.
6. Actual first class postage rates were as follows:

From	Rate	From	Rate
April 1, 1954	$.05	April 1, 1978	.14
November 1, 1968	.06	July 1, 1979	.17
July 1, 1971	.07	June 1, 1982	.30
January 1, 1972	.08	February 1, 1983	.32
September 1, 1976	.10	June 24, 1985	.34
March 1, 1977	.12		

Table 32
U.S. Postal Service Data

Date	Q	PR	POP	INC	TEL
12/77	5054.04	6.985	220995	873.186	53.735
1/78	4993.48	6.944	221145	869.925	53.312
2/78	4918.25	6.900	221308	872.028	52.707
3/78	4987.42	6.849	221504	876.396	52.397
4/78	4850.51	6.789	221689	880.888	52.037
5/78	5117.44	6.829	221890	879.928	51.526
6/78	5079.12	7.680	222095	880.748	51.024
7/78	4880.63	7.626	222317	887.595	50.636
8/78	4694.73*	7.583	222572	890.597	50.404
9/78	4769.78*	7.526	222794	892.022	50.050
10/78	4924.32*	7.466	223003	896.565	49.627
11/78	4972.99	7.426	223195	900.743	49.381
12/78	5099.11	7.393	223392	908.477	49.409
1/79	5068.34	7.328	223577	905.423	48.754
2/79	4982.93	7.243	223744	903.042	48.069
3/79	5214.57	7.174	223941	904.735	47.585
4/79	5208.09	7.092	224137	899.385	47.045
5/79	5118.23	7.006	224352	894.816	46.474
6/79	5148.92	6.925	224567	891.921	46.076
7/79	5216.74	6.852	224803	897.807	45.614
8/79	5043.07*	6.784	225056	896.924	45.228
9/79	5242.67*	6.714	225287	894.091	44.718
10/79	5134.87*	6.655	225509	894.765	44.389
11/79	5071.82	6.593	225732	894.154	43.934
12/79	5440.67	6.525	225938	892.649	43.475
1/80	5266.36	6.432	226127	890.470	42.560
2/80	5434.88	6.345	226300	881.768	41.498
3/80	5291.37	6.255	226505	875.396	40.909
4/80	5267.94	6.186	226686	865.155	40.474
5/80	5245.80	6.125	226955	860.637	40.159
6/80	5294.08	6.058	227156	857.431	40.206
7/80	5449.82	6.053	227363	872.680	40.577
8/80	5423.57*	6.014	227595	875.421	40.457
9/80	5076.23*	5.959	227805	878.029	40.167
10/80	5264.78*	5.908	228014	880.977	39.819
11/80	5212.88	5.855	228177	882.201	39.481

Table 32 (continued)

Date	Q	PR	POP	INC	TEL
12/80	5499.34	5.805	228339	883.514	39.222
1/81	5630.91	5.758	228486	886.027	38.925
2/81	5434.88	5.699	228626	885.296	38.564
3/81	5291.37	6.035	228788	887.099	38.287
4/81	5301.91	6.747	228948	884.424	37.825
5/81	5363.56	6.691	229123	884.040	37.468
6/81	5375.11	6.635	229307	887.864	38.375
7/81	5295.26	6.560	229533	889.548	38.915
8/81	5219.97	6.510	229760	887.443	39.169
9/81	5462.72	6.445	229982	888.603	39.675
10/81	5449.63	6.431	230170	890.274	39.544
11/81	5503.42	7.125	230339	887.247	39.751
12/81	5142.94	7.105	230511	884.637	40.000
1/82	5277.01	7.080	230669	887.015	39.820
2/82	5465.16	7.057	230810	889.650	40.163
3/82	5451.37	7.065	230969	891.840	40.239
4/82	5507.65	7.035	231120	890.352	39.934
5/82	5391.07	6.966	231298	883.104	39.470
6/82	5338.87	6.882	231479	885.797	39.305
7/82	5393.66	6.845	231708	NA	NA
8/82	5854.76	6.831	231909	NA	NA
9/82	5684.70	6.819	232114	NA	NA
10/82	5462.50	6.800	232317	NA	NA
11/82	5474.98	6.812	232493	NA	NA

* = Estimated.
Q = In millions of pieces, seasonally adjusted.
PR = In real 1967 cents per 1st class letter.
POP = Population in thousands.
INC = Real personal income in billions of 1967 dollars.
TEL = An index number for the cost of long distance telephone calls.

Source: *Monthly Labor Review*, various issues; *Survey of Current Business*, various issues; U.S. Bureau of the Census, *Current Population Reports*, pp. 25, 926.

Table 33
Canada Post Postal Revenues
Total and Provinces
(in $1,000s)

YEAR	TOTAL	Newfoundland	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba
1968	374902.0	3308.0	852.0	8678.0	7056.0	82709.0	149462.0	16997.0
1969	444069.0	3920.0	1005.0	9748.0	8188.0	97177.0	179220.0	20457.0
1970	432911.0	4434.0	1022.0	10208.0	8561.0	93367.0	177370.0	20569.0
1971	504211.0	5250.0	1277.0	12057.0	9785.0	107702.0	206843.0	23981.0
1972	563159.0	6267.0	1560.0	14239.0	11679.0	124017.0	250579.0	27565.0
1973	591133.0	6752.0	1676.0	15199.0	12081.0	130943.0	260051.0	28610.0
1974	617743.0	7194.0	1791.0	15563.0	12439.0	132226.0	266108.0	29816.0
1975	568190.0	6925.0	1696.0	14334.0	11256.0	122782.0	249914.0	27748.0
1976	774860.0	9325.0	2215.0	19774.0	13586.0	172070.0	333952.0	36111.0
1977	945763.0	11915.0	2792.0	24932.0	16997.0	212633.0	404593.0	45607.0
1978	1108543.0	13706.0	3317.0	28172.0	19745.0	241792.0	468082.0	50731.0
1979	1483211.0	16502.0	3972.0	33275.0	23829.0	291795.0	570311.0	62288.0
1980	1529839.0	16720.0	3971.0	33394.0	24158.0	291807.0	572266.0	60822.0

Table 33 (continued)

YEAR	Saskatchewan	Alberta	B.C.	Northwest Territories	Yukon Territory	SUBT	HMI	SOD
1968	1153.0	21051.0	31783.0	215.0	220.0	334184.0	29304.0	11414.0
1969	13199.0	25565.0	38517.0	312.0	269.0	397577.0	33063.0	13429.0
1970	13858.0	26812.0	39177.0	393.0	318.0	396089.0	22186.0	14636.0
1971	15828.0	31173.0	47261.0	481.0	356.0	461994.0	24716.0	17501.0
1972	17936.0	36245.0	55972.0	693.0	436.0	547188.0	10574.0	5397.0
1973	18363.0	38625.0	59527.0	774.0	468.0	573069.0	12708.0	5356.0
1974	19816.0	39856.0	60860.0	808.0	481.0	586958.0	24668.0	6117.0
1975	18518.0	38178.0	56540.0	763.0	471.0	549125.0	12200.0	6865.0
1976	25231.0	53541.0	78000.0	1113.0	645.0	745563.0	21557.0	7740.0
1977	31413.0	69381.0	98839.0	1409.0	842.0	921353.0	14766.0	9644.0
1978	36741.0	82737.0	115445.0	1559.0	1031.0	1063058.0	35991.0	9494.0
1979	43924.0	103028.0	145648.0	1780.0	1208.0	1297560.0	40010.0	9641.0
1980	44562.0	107892.0	150257.0	1818.0	1287.0	1310054.0	59956.0	13529.0

Source: Canada Post Corporation, *Annual Report.*

SUBT: Subtotal of all provinces

HMI: Revenue collected by headquarters and miscellaneous items

SOD: Services to other Departments

Table 34: Canadian Gross Domestic Product
Total and Provinces (in million of current dollars)

obs	Canada	Newfoundland	Prince Edward Island	Nova Scotia	New Brunswick	Quebec
1961	NA	513.0	116.0	1073.0	801.0	10607.0
1962	NA	545.0	123.0	1135.0	833.0	11573.0
1963	NA	601.0	130.0	1186.0	890.0	12298.0
1964	NA	668.0	143.0	1278.0	1002.0	13645.0
1965	NA	729.0	161.0	1371.0	1096.0	14970.0
1966	NA	829.0	178.0	1512.0	1222.0	16642.0
1967	NA	877.0	180.0	1644.0	1288.0	18018.0
1968	75418.0	990.0	196.0	1816.0	1399.0	19195.0
1969	83026.0	1081.0	219.0	2059.0	1538.0	21081.0
1970	89116.0	1204.0	241.0	2219.0	1666.0	22485.0
1971	97290.0	1307.0	257.0	2386.0	1823.0	24271.0
1972	108629.0	1369.0	286.0	2735.0	2080.0	27217.0
1973	127372.0	1610.0	368.0	3124.0	2424.0	30928.0
1974	152111.0	1943.0	424.0	3496.0	2836.0	36341.0
1975	171540.0	2229.0	461.0	3894.0	3112.0	40943.0
1976	197924.0	2647.0	571.0	4521.0	3652.0	47695.0
1977	217879.0	2997.0	602.0	4916.0	3962.0	52210.0
1978	241604.0	3223.0	682.0	5569.0	4458.0	58125.0
1979	276096.0	3907.0	786.0	6092.0	5384.0	64936.0
1980	309891.0	4094.0	846.0	6292.0	5019.0	72220.0
1981	355994.0	4642.0	1009.0	7345.0	5953.0	81515.0
1982	374442.0	5035.0	1055.0	8473.0	6519.0	85916.0
1983	405717.0	5467.0	1169.0	9625.0	7501.0	91480.0
1984	445604.0	5964.0	1297.0	10714.0	8369.0	100474.0
1985	479446.0	6236.0	1317.0	11631.0	8823.0	108625.0
1986	509898.0	NA	NA	NA	NA	NA
1987	547196.0	NA	NA	NA	NA	NA

Table 34 (continued)

obs	Ontario	Manitoba	Saskatchewan	Alberta	B.C.	NOYU*
1961	16673.0	1848.0	1604.0	3222.0	4039.0	90.0
1962	18055.0	2047.0	2061.0	3469.0	4362.0	94.0
1963	19296.0	2133.0	2423.0	3736.0	4695.0	100.0
1964	21238.0	2326.0	2340.0	4018.0	5210.0	108.0
1965	23360.0	2493.0	2531.0	4432.0	5488.0	142.0
1966	26182.0	2669.0	2964.0	5016.0	6539.0	155.0
1967	28426.0	2893.0	2721.0	5380.0	7113.0	171.0
1968	31395.0	3200.0	2897.0	5934.0	7789.0	197.0
1969	34717.0	3462.0	3122.0	6556.0	8863.0	227.0
1970	37131.0	3689.0	3042.0	7097.0	9317.0	263.0
1971	40574.0	3937.0	3450.0	7787.0	10349.0	282.0
1972	45719.0	4340.0	3562.0	8067.0	11880.0	346.0
1973	52736.0	5165.0	4514.0	11241.0	14708.0	449.0
1974	61599.0	6123.0	6070.0	15746.0	17437.0	577.0
1975	68165.0	6915.0	6906.0	18598.0	19486.0	595.0
1976	78188.0	7864.0	7860.0	21320.0	22989.0	609.0
1977	84661.0	8304.0	8130.0	24423.0	25649.0	759.0
1978	92408.0	9210.0	9260.0	28969.0	28734.0	861.0
1979	104367.0	10323.0	10468.0	35479.0	33362.0	1028.0
1980	114992.0	11193.0	12404.0	43145.0	38242.0	1233.0
1981	131831.0	13156.0	14342.0	49937.0	44702.0	1215.0
1982	137102.0	14015.0	14809.0	52924.0	45874.0	1441.0
1983	151469.0	14961.0	15245.0	55523.0	48186.0	1583.0
1984	170771.0	16612.0	16509.0	58320.0	51127.0	1847.0
1985	184354.0	17993.0	17297.0	61968.0	54103.0	2019.0
1986	NA	NA	NA	NA	NA	NA
1987	NA	NA	NA	NA	NA	NA

*NOYU = Northwest and Yukon Territories

Table 35
Canada Post's Postal Revenue
(revenue by province)

	1977-78		1978-79		1979-80	
	($1,000)	Percent	($1,000)	Percent	($1,000)	Percent
Newfoundland	$ 11,915	1.3	$13,706	1.3	$16,502	1.3
Prince Edward Island	2,792	.3	3,317	.3	3,972	.3
Nova Scotia	24,932	2.7	28,172	2.6	33,275	2.6
New Brunswick	16,997	1.8	19,745	1.9	23,829	1.8
Quebec	212,633	23.1	241,792	22.7	291,795	22.5
Ontario	404,593	43.9	468,082	44.0	570,311	44.0
Manitoba	45,607	5.0	50,731	4.8	62,288	4.8
Saskatchewan	31,413	3.4	36,741	3.5	43,924	3.4
Alberta	69,381	7.5	82,737	7.8	103,028	7.9
British Columbia	98,839	10.7	115,445	10.9	145,648	11.2
District of Yukon	842	.1	1,031	.1	1,208	.1
Northwest Territories	1,409	.2	1,559	.1	1,780	.1
	$921,353	100.0	$1,063,058	100.1	$1,297,560	100.0

Table 36
Canada Post's Provincial Postal Revenues
(as a percent of GDP)

YEAR	TOTAL	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALB	BC	*NOYU
1968	.497	.334	.435	.477	.478	.431	.476	.531	.409	.355	.408	.221
1969	.535	.363	.459	.473	.473	.461	.516	.591	.423	.390	.435	.256
1970	.486	.368	.424	.460	.460	.415	.478	.558	.456	.378	.420	.270
1971	.518	.402	.497	.505	.505	.444	.510	.609	.459	.400	.457	.297
1972	.518	.458	.545	.521	.521	.456	.548	.635	.504	.409	.471	.326
1973	.464	.414	.455	.487	.487	.423	.493	.554	.407	.344	.405	.277
1974	.406	.370	.422	.445	.445	.364	.432	.487	.326	.253	.349	.223
1975	.331	.311	.368	.368	.369	.300	.367	.401	.268	.205	.290	.207
1976	.391	.352	.388	.437	.437	.361	.427	.459	.321	.251	.339	.289
1977	.434	.398	.464	.507	.507	.407	.478	.549	.386	.284	.385	.297
1978	.459	.425	.486	.506	.506	.416	.507	.551	.397	.286	.402	.301
1979	.537	.422	.505	.546	.546	.449	.546	.603	.420	.290	.437	.291
1980	.494	.408	.469	.531	.531	.404	.499	.543	.359	.250	.393	.252

Source: Table 33 divided by table 34.

*NOYU = Northwest and Yukon Territories

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