

The U.S., the International Postal System, and the UPU: An Economic Framework

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A member of the Universal Postal Union (UPU) since its founding in 1874, the U.S. in October of 2018 submitted notice of its intention to withdraw from the organization. This action reflects the Administration's priority of achieving a U.S. role in the international postal system consistent with the vision articulated in the August 23, 2018 Presidential Memorandum, a vision that would advance the interests of the U.S. alongside those of a number of other countries.

The historic nature of the set of reforms to the international postal system to be undertaken by the U.S. in 2019 reflects the historic nature of the changes in the economics of the international postal system that have occurred in recent years. These reforms are poised to occur through steps taken by the U.S. upon its exit from the UPU in October 2019. In the event that the UPU passes reforms that fully effect the principles of the Presidential Memorandum before then, however, the U.S. could achieve its objectives without fulfilling its intention to withdraw. The U.S. stands therefore poised to adopt a remuneration system for items likely to contain goods that consists of nondiscriminatory "self-declared" rates that do not favor foreign mailers over domestic mailers or postal operators over non-postal operators. The only question is the compatibility of this achievement with U.S. membership in the UPU.

The U.S. commitment to ensuring the provision of the benefits the UPU originally intended to deliver at the time of its founding in 1874 has not changed. However, developments in the state of technology and the global economy have, in recent years, upended the economics of the international postal system. These changes have resulted in the UPU's "terminal dues" remuneration system imposing net costs on the national economies of certain member countries, including the U.S. While the costs imposed by the UPU's remuneration system for items likely to contain goods have in recent years increased for the U.S., the costs of exiting the UPU have decreased. As a result, the costs of U.S. membership in the UPU relative to its benefits has trended upward. In the spirit of Nobel Prize-winning economist Milton Friedman's admonition against the evaluation of "policies and programs by their intentions rather than results," the Administration's approach to the U.S. role in the international postal system reflects its prioritization of the results that the international postal system delivers.

The emergence of substitutes for some of the services provided by the UPU has lowered the cost of U.S. withdrawal from the organization. Technological change has created these substitutes. For example, the very first article of the Treaty of Bern that is the UPU's foundation

underscores the goal of creating of “a single postal territory for the reciprocal exchange of correspondence between their post-offices.” One plausible substitute for this function, e-mail, is estimated to generate over \$8,000 in value per year for the median consumer and is available to anyone with access to the Internet at a typical marginal cost of zero (Brynjolfsson et. al. 2018). A single substitute for the exchange of correspondence, then, appears to generate annual economic value for today’s median consumer in excess of the entirety of real U.S. GDP per capita in 1874 (Maddison Project 2018). Analysis of the international postal sector corroborates a direct link between global decline in volumes of letters since 1990 and the rise of technology like e-mail (Copenhagen Economics 2017). Due to technology, then, the “exchange of correspondence” across international borders could occur for the approximately 90 percent of American adults who use the Internet without access to the UPU’s single postal network (Anderson et. al. 2018). This decreases the cost of a prospective exit from the UPU relative to a world in which services like email could not substitute for international mail’s role in facilitating the exchange of correspondence.

While the costs of exit from the UPU have decreased, the costs attributable to its remuneration system for items likely to contain goods have not. The UPU’s existing “terminal dues” remuneration system determines the rates (i.e., prices) that one country’s designated postal operator receives from a foreign postal operator for completing the delivery of post originating in the foreign country. But these prices do not, under the status quo, need to have any relationship to either the cost the designated postal operator incurs for completing the delivery or to the prices that it would charge a domestic mailer (i.e., customer of the postal service) for completing similar services. This creates conditions ripe for prices deviating from what they would be in the world of “unrestricted and undistorted competition in the provision of international postal services” envisioned in the August 23 Presidential Memorandum. Under the status quo, for instance, foreign posts can pay prices that are a fraction of those offered to U.S. producers for the delivery of the same goods between the same two places by USPS (Fountain and Malone 2018; Navarro 2018).

Instead, the scope of the economic costs that the terminal dues remuneration system could impose has increased due to the increase in volumes of goods transiting the international postal stream in recent years (Copenhagen Economics 2017). With the introduction of goods into the international postal stream, distortions in the pricing of international postal services created by the UPU’s remuneration system can impose costs on producers and consumers who do not transact directly with any postal operator. These distortions in the pricing of international postal services for items likely to contain goods would be expected, like any set of price distortions, to lead to the type of misallocations of the factors of production that lower standards of living in both developed and developing countries (e.g., Jones 2013; Restuccia and Rogerson 2017). If, by contrast, the international post were exclusively letters (i.e.,

correspondence), these distortions of prices within the postal sector would affect only the postal operators and mailers of letters directly involved in postal transactions.

The rise of e-commerce allows these price distortions within the postal sector to impose burdens on actors throughout the global economy. According to one survey of e-commerce consumers in 31 countries, 84 percent of cross-border goods purchased online are of the type that would be subject to the terminal dues system if delivered by a designated postal operator (International Postal Corporation 2018). Any economics textbook would lead to the conclusion that these distortions in the price of shipping, in a competitive e-commerce market, induce additional distortions in underlying economic activity. First, these differences in consumer prices could influence and distort outcomes within the e-commerce sector, in which the sensitivity of consumer demand to price differences can exceed its sensitivity during “brick and mortar” shopping (e.g., Ellison and Ellison 2009). Second, any distortions in the prices of e-commerce goods could induce substitution toward online and away from “offline” retail vendors. New evidence that consumers have rates of substitution between online and offline vendors comparable to their rates of substitution between offline vendors underscores the plausibility of distortions accruing through this channel (Dolfen et. al. 2018). And at least some offline establishments appear to generate positive local externalities or spillovers in terms of employment and output (e.g., Shoag and Veuger 2018), a condition that would both enlarge the magnitude of the aggregate costs that could be imposed by online-offline substitution and broaden the scope of who bears these costs to include workers and producers even in the non-tradable sector. Complementing this retail-specific evidence, Barrot et. al. (2017) demonstrates that the differences in the local exposure to the general import competition generated by differences in shipping costs can affect local employment, local output, and even household finances.¹

A paucity of data on the value of goods transiting the international postal system prevents estimation of the aggregate macroeconomic burden imposed by the price distortions that result from the terminal dues system for items likely to contain goods. Nonetheless, in the case of the U.S., the economics of the current U.S. role in the existing terminal dues system permits the inference that these distortions exist, and that the incidence of the burden they impose could fall on a variety of actors in the tradable and even non-tradable sectors. Given the upward trend over time in the share of e-commerce items in the international postal system, in the absence of a change to the remuneration system, these economic costs of the distortions it imposes would only increase (Copenhagen Economics 2017).

¹ The official trade data from the U.S. Census Bureau that informs the approach of Barrot et. al. (2017), however, would not capture information about any goods that enter the U.S. through the international postal system. Barrot et. al. (2018) details the methodology for constructing the data used in Barrot et. al. (2017), including the role of official trade statistics from the U.S. Census Bureau.

This Administration’s approach to the reform of the terminal dues system, while consistent with the spirit of U.S. concerns about the UPU’s relationship to “marketplace competition in international mail” expressed as early as the Reagan Administration, reflects the novelty of these developments in the international postal sector’s role in economic activity (Reagan 1986). The Administration’s attempts at terminal dues reform in 2018 amounted to a strategy of voice in the canonical “exit, voice, or loyalty” economics framework articulated by Hirschman (1970) for rational approaches for the redress of grievances from within an organization. But sufficient progress towards the realization of the vision laid out in the Presidential Memorandum has yet to materialize, and, per Hirschman (1970), voice and exit can be substitutes as well as complements. If negotiations continue to fail to yield sufficient progress, the U.S. stands poised to move forward on its path towards exit from the UPU rather than continue its strategy of voice from within.

The vision articulated in the August 23 Presidential Memorandum looks toward the international postal system’s future rather than its past. The UPU’s founders in 1874 spoke of an international organization that facilitated correspondence around the world. But since 1990 the volume of letters transiting the international postal system has trended downward, while the volume of items containing goods has trended upward (Copenhagen Economics 2017). Developing countries in particular seem to substitute electronic correspondence for letters (Copenhagen Economics 2017).

Given these changes in the international postal stream and its underlying economics, realizing the vision of “undistorted and unrestricted competition” articulated in the Presidential Memorandum would deliver benefits to both developing and developed countries, a reality reflected in the unanimous endorsement of the concerns voiced by the U.S. by the twenty-eight members of the Postal Union of the Americas, Spain, and Portugal (PUASP 2018). Other countries, including China and the Netherlands, seem to favor the UPU embracing a remuneration system for items likely to contain goods that dates to an era when the international post comprised many fewer goods and many more letters. To minimize the distortions created by postal remuneration policy given the underlying economics of the postal sector, the U.S. intends to adopt a system of self-declared and non-discriminatory rates of remuneration for items likely to contain goods. The U.S. would welcome the opportunity to realize this forward-looking vision for its role in international postal system as a member of the international postal union that it helped to found.

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