

POSTAL NEWS

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- 1. Eye Opener: Postmaster General On Obama's Postal Comments. Aug 20, 2009.**
- 2. A Public Option Isn't a Curse, or a Cure . Aug 15, 2009.**

1. Eye Opener: Postmaster General On Obama's Postal Comments

Happy Thursday! Postmaster General John Potter weighed in on President Obama's recent comments about the Postal Service on Wednesday afternoon, doing his best to boost morale amid the mail service's worsening financial condition.

In his message to employees, Potter recounted that Obama and lawmakers have invoked the Postal Service's financial woes as an example of the possible perils of government intervention with the nation's health care system.

Postmaster General John Potter (Getty)"Unfortunately, an analogy about the Postal Service has become popular which suggests that government entities, such as a proposed government-run health insurance program, wouldn't pose a competitive threat to private companies. This analogy says that the Postal Service has trouble competing with FedEx and UPS. You know, as I do, this is not the case," Potter said in his message.

Despite the comparisons and suggestions that the Postal Service lags behind UPS and FedEx, Potter noted that the two leading shipping companies fly most domestic mail while postal carriers deliver UPS and FedEx throughout rural America.

"It is a good model of efficient public-private service," Potter said.

"While we are currently going through a rough patch due to the economy, and the news about our finances won't be good for a while, be assured that we are striving every day to become a better organization, and an even greater asset to the American public and all who count on our service."

Potter's letter to employees comes after a major postal union sent a letter to Obama last week expressing disappointment with the statements he made about the Postal Service last week in New Hampshire. White House Press Secretary Robert Gibbs said Tuesday he had no reason to believe the president regretted his remarks, since he later repeated them.

2. A Public Option Isn't a Curse, or a Cure

By RICHARD H. THALER

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WE clearly don't need any more distractions from the two main issues of health care reform: how to deal with our large uninsured population and how to make the entire system more cost effective. So, for now, let's ignore the shouted rhetoric about whether "death panels" want to kill off Grandma or whether President Obama wants to turn the country into a socialist state.

But even if we discard these absurdities, and tune out the raucous scenes at town-hall meetings, one big distraction remains: the question of whether a "public option" should be part of the health care solution. To me, the issue is a red herring, and is getting in the way of genuine reform.

In debating the public option — that is, an insurance option run by the government — the politicians themselves are making exaggerated claims about its pros and cons. We hear from the right that an insurance plan run by the government will drive all private-sector insurers out of business and be the first step toward socialism, if not communism. The left claims that only a public option can give evil insurers the competition they need to create much-needed reform.

To evaluate these contentions, we need to know some details about how a public option would work in practice. And those details have been missing.

For example, President Obama has said that the public plan would be required to break even financially, but Congress hasn't decided how to make that happen. (Of course, the poor may have to have their health insurance subsidized, but those subsidies could go to both public and privately operated insurance companies.) Nailing down this detail is crucial. If the public option does not have to break even — if, in fact, it is to receive government subsidies — then it is correct to worry that it would destroy competition, not foster it. If the public plan runs a deficit, who will fix it? If it is Congress, we have to worry that what should be economic decisions will turn into political battles.

A second detail is whether the government will grant the public plan the power to impose special deals with suppliers like hospitals and drug companies — a move that would dampen, not enhance, competition with the private sector.

But let's assume that the public option does have to break even and can't make any special deals. What should we expect to happen?

Here is a thought experiment: Can you think of a domain where a government-run business competes successfully with private-sector companies? In a town hall meeting last week, President Obama mentioned one such example: the market for overnight shipments. This market now has two main private suppliers, FedEx and UPS, and one public one, the United States Postal Service. When you have to send something overnight, which one do you use? Most shippers choose one of the private companies. (Indeed, even the idea that we need a government-run postal service is doubtful.

Sweden has successfully privatized its postal service. Sweden! And the European Union will open mail service to competition in 2011.)

The Postal Service offers another instructive lesson. When it periodically starts running deficits (as it is now) and proposes cost-saving measures like eliminating Saturday delivery or closing tiny post offices, Congress often intervenes under pressure from predictable interest groups like bulk mailers, the 600,000 postal employees, and the users of those tiny offices.

More generally, it is hard to find examples where government-run businesses compete with private companies and win. One reason is that governments are not very good at innovation. As the great 19th-century economist Alfred Marshall wrote, “A government could print a good edition of Shakespeare’s works, but it could not get them written.”

But what about the often-stated fact that Medicare has much lower operating costs than private insurance companies? Won’t this allow the public option to compete successfully? As Victor Fuchs, the dean of American health economists, recently argued in *The New England Journal of Medicine*, this is not an apt comparison because the new public plan would have marketing and other administrative costs that don’t apply to Medicare with its captive market.

ALL of this leads me to conclude that if we impose sensible rules on the public option, it will neither save nor destroy the health care system because it will simply not get much market share. And if we do not impose those rules, the public option will hurt rather than help.

So here’s some free advice to members of Congress: While you are enjoying your August recess and town hall meetings, instead of arguing about whether to have a public option, argue about the ground rules.

To the Republicans, I say this: If you can get real assurances that the public option has to break even, and that it will get no special deals from suppliers, let the Democrats have it but ask for concessions on tort reform in return. (That could actually save some money.) The resulting public plan will be too small to notice.

To the Democrats, I say this: If you want competition in health care, you won’t get it if the public option can make deals its competitors can’t. So either give the Republicans hard assurances that the public option would have to break even and not get special treatment, or, better yet, just give it up to ensure that some useful health care reform is passed. A public option is neither necessary nor sufficient for achieving the real goals of reform, and those goals are too important to risk losing the war.

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