



The Daily Dish

Whither the Post Office?

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The Wall Street Journal had a nice [editorial](#) summarizing the evidence that the United States Postal Service (USPS) is a broken business model doomed to financial failure and arguing that Congress should permit it to be run like a private-sector business. The former is a self-evident truth. The latter raises an important question: Why isn't it a private-sector business?

The economic test for whether something is provided by the government goes like this. First, does that good or service have the characteristics of a public good - a technical term for those situations where one person's consumption of the good or service does not preclude another's consumption as well. Private markets are good at providing Twizzlers because if Eakinomics pays for and eats them, you cannot. You have the option of outbidding Eakinomics in order to eat them, and this rivalry is how value gets revealed.

That doesn't work for national security; if it is provided to you, it is provided to all. Accordingly, everyone has an incentive to free ride and let others pick up the tab. Private markets will not be able to charge enough to provide the efficient level of national security.

A less extreme version of public goods is externalities, where one person's consumption spills over to other parties. The textbook negative externality is pollution, where the production of Twizzlers has a detrimental effect on others' environment, while the textbook positive externality is a vaccine for a transmissible disease that improves the health of the recipient *and* those around her. Market prices will capture the individual's value, but miss the positive or negative spillovers to others.

For public goods or in the presence of externalities, there can be a presumption that leaving it to private markets will get the wrong outcome. Step two in the test is, if the government provides the good or service, will it do better than private markets (even if it is not exactly perfect)? If the answer is "yes," the government gets the job. Otherwise, provision stays in

the private sector.

So, does delivering mail belong in the government? No. Not a chance. Unfortunately for humanity, economists do not run the world. In this case, there is the pesky [Constitution](#). Article I, Section 8 reads in part that the Congress shall have the power “To establish Post Offices and post Roads.”

So, we are stuck with providing mail service. But, that does not mean that the government has to produce mail service. It doesn't need to employ postal workers or own and operate thousands of post offices, fleets of mail trucks, and billions of dollars of equipment. It could - and should - hire private-sector firms to do that.

Congress could focus its attention on deciding what, exactly, it is hiring these firms to do. How many days a week? To how many locations? Physically or digitally? And at what price to senders (or receivers) of mail versus taxes and appropriations?

The federal government is in the mail business. But there is still room for, and a desperate need for, a complete re-thinking of what that means in the 21st century.