



# 100 Years of Parcel Post

December 20, 2013



Parcel Post wagon in Benton Harbor, Michigan  
Source: Smithsonian Institution [Postal Museum](#)



## EXECUTIVE SUMMARY

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Parcel Post was introduced in America 100 years ago to correct abusive practices in the parcel delivery market and transformed the national marketplace. Today, the way goods are bought and sold is changing again because of the Internet. The rapid growth of e-commerce is bringing expansion and disruption to the parcel delivery market. As this transformation continues, questions about the Postal Service's role as both a competitor in this marketplace and part of the government may logically arise. Should the Postal Service primarily provide last mile delivery for other carriers or should it compete vigorously with them on end-to-end service? What is the Postal Service's obligation to customers in hard-to-serve areas? The story of Parcel Post's introduction offers some useful insights to answer these questions.

For the first 14 decades of the country's existence, the Post Office was not in the package delivery business. Four express delivery companies, closely tied to the railroads, came to dominate the market for carrying packages long distances. The express companies avoided competing with each other, and eventually came to have interlocking ownership. They kept prices high and confusing, effectively forming a cartel that undermined efficient market forces. An investigation by the Interstate Commerce Commission revealed a pattern of abuse that the press attributed to collusion.

The successful introduction of rural free mail delivery in 1902 suggested that mail wagons could deliver parcels as well as letters, newspapers, and advertising catalogs. The posts in other countries all carried parcels, but the law did not permit it in the United States, and the

### Highlights

**When Parcel Post came to America in 1913, it was a deliberate government effort to inject competition into the parcel delivery market.**

**Parcel Post was an immediate success and transformed the commercial marketplace, particularly in rural areas.**

**Today, the Postal Service has a smaller role in the parcel market, with an emphasis on individual and small-business shippers and last mile delivery. Yet, the Postal Service provides additional competition in a market that would otherwise be a duopoly, and is the only provider of service without surcharges for out-of-the-way locations.**

**As the market for parcel delivery changes with the growth of e-commerce, questions may arise about the Postal Service's proper role in a competitive market. The reasons behind Parcel Post's initial introduction provide some insights.**

express companies were powerful enough to prevent Parcel Post legislation even from getting a hearing. By 1910, however, public opinion finally forced a nationwide debate on proposals for a “parcels post.” The principal argument was that competition from a public entity was the only way to keep the express companies in check. With the express companies largely discredited in the public’s mind, all political parties supported Parcel Post legislation in the election of 1912, and it became effective on January 1, 1913.

Parcel Post was an immediate hit with the public and businesses; more than 4 million packages were shipped on the first day. Parcel Post transformed the commercial marketplace, as companies like Sears, Roebuck and Montgomery Ward blanketed the country with mass produced goods that raised the national standard of living. The express companies failed to adapt and soon withdrew from rural areas altogether. A hundred years later, Parcel Post has evolved into a diverse set of package delivery services that are integral to the Nation’s lifestyle and commerce, including Priority Mail, Parcel Select, which allows mailers to enter discounted packages deep within the U.S. Postal Service’s network, and Standard Post, Parcel Post’s direct descendant. During this period, strong, new competitors to the Postal Service have emerged for parcel delivery, especially for business-to-business and business-to-customer deliveries. The Postal Service has generally focused on the parcel needs of individuals and small businesses and offering last mile delivery to the household for high-volume package shippers and consolidators, including its competitors.

The presence of strong competition for parcel delivery may logically raise the question whether there still exists a need for the Postal Service to provide parcel options beyond last-mile delivery. But it is worth remembering that Parcel Post was instituted precisely to correct the abusive effects of a lack of market competition that existed a century ago, and that it succeeded decisively where regulation alone had failed. Since the withdrawal of DHL from the North American market in 2008, package delivery has been overwhelmingly concentrated in a commercial duopoly plus the Postal Service. Moreover, as e-commerce grows, the parcel delivery market may enter a period of reorganization and change. Efforts to maintain competition may be needed to ensure that the market continues to be guided by efficient market forces, so that business success and failure is based solely on merit and market forces are not avoided through anti-competitive behavior or concentrated market power.

In addition, the Postal Service continues to be the only provider of universal service to out-of-the-way areas at prices without surcharges. And finally, it is worth considering that package shipping is the most significant postal product that is growing rather than shrinking in volume and revenues, driven primarily by Priority Mail, Parcel Select, and First-Class parcels.

The story of Parcel Post may also have broader lessons for how the Postal Service can use its existing infrastructure to benefit citizens and businesses. Parcel Post succeeded in 1913 because it used the Post Office’s unique capacities to satisfy the strong demand for package delivery and neutralize monopolistic abuse. Today, as digital technology transforms society and as data streams seek out new relationships with traditional matter streams, there may be new opportunities to use the Postal Service’s infrastructure to meet the Nation’s needs while further removing friction in commercial exchanges.

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# 100 Years of Parcel Post

## Introduction

An enduring theme of American political discourse is where the line should be drawn between the roles of public and private enterprise in the national economy. When the U.S. Post Office Department inaugurated a parcel delivery service on January 1, 1913, it marked the first deliberate government incursion into a market dominated by private sector enterprise with the explicit purpose of providing competition as an antidote to corporate predation. The great national debate that culminated in the decision to authorize Parcel Post is no longer familiar to the American public, yet it is worth remembering in an era when important changes are occurring to the way people buy and sell goods and the proper realm of the Postal Service is once again a matter of national concern and debate. One hundred years later, Postal Service package delivery service still competes with powerful private companies that handle most package deliveries, raising once again the question of whether a government service provider is needed.

Parcel Post came to America much later than to other developed economies. Elsewhere in the world, the common pattern was for government control of basic transportation and communications infrastructure, but in the United States it was private companies that successively developed the stagecoach, steamship, railroad, telegraph, telephone, and airline industries. Although the government-run posts in other countries expanded their delivery service from mail to packages as a matter of course, package delivery service in the United States was also a private sector activity carried out locally through merchant wagons and nationally through express companies that were closely aligned with the railroads. By the time Congress first held a hearing on the proposal for Parcel Post in 1910, Montgomery Ward had been in business for 38 years and Sears, Roebuck and Company for 23. Only a small fraction of their business — 8 percent for Montgomery Ward — went through the mail, however, since postage was charged by the ounce at expensive rates and no parcel could weigh more than 4 pounds.<sup>1</sup> That changed when Parcel Post legislation passed in 1912, but only after a seriously conducted public debate. While practical considerations of who would lose and who would gain were of course present, a leading scholar of the issue observed that the debate involved “fundamental questions about the proper sphere of state action.”<sup>2</sup> Parcel Post was an

**Parcel Post was late to arrive on the American scene, where package delivery was a private sector enterprise until 1913.**

<sup>1</sup> Parcels of up to 11 pounds could be sent to other countries though because of international postal agreements. Kielbowicz, *Postal Enterprise: Post Office Innovations with Congressional Constraints, 1789-1970*, prepared for the Postal Rate Commission, May 2000, [http://www.prc.gov/\(S\(ax5khp45zsmv1i55gi15nog5\)\)/prc-docs/library/refdesk/techpapers/Kielbowicz/enterprise.pdf](http://www.prc.gov/(S(ax5khp45zsmv1i55gi15nog5))/prc-docs/library/refdesk/techpapers/Kielbowicz/enterprise.pdf), p. 24.

<sup>2</sup> Richard B. Kielbowicz, “Government Goes into Business: Parcel Post in the Nation’s Political Economy, 1880-1915,” *Studies in American Political Development*, 8 No. 1 (Spring 1994): p. 150.

immediate success and transformed national commerce. Today, it is part of an integrated national delivery system that takes advantage of the Postal Service's unique capability to provide universal service to every address in America.

This paper presents the remarkable events around the start of the 20<sup>th</sup> century that led to the Postal Service finally being allowed to effectively provide package delivery service. It is a story with applications to the present time as the Postal Service strives to enter new markets to bolster its business base and provide essential, economy stimulating products to the Nation. The paper concludes with a summary of the key role that Postal Service package delivery services now have for citizens and businesses and some insights for the future.

## The Years before Parcel Post

From the early beginnings of nationhood, the Post Office was conceived of and became a national instrument of political education.<sup>3</sup> Congressional mail was free under the franking privilege allowed to members of Congress. Newspapers were granted extremely low concessionary postage rates and dominated mail volume. Letter postage was prohibitively expensive until 1845, and even when lowered to 3 cents per half ounce in 1851, it continued to subsidize the distribution of newspapers and magazines, which were valued for their educational content, even as they carried more and more advertising. Some merchants began to take advantage of the near-negligible rates charged for printed media to distribute advertising messages that had no relationship to informing the electorate. The Mail Classification Act of 1879 imposed some order on the situation by defining four classes of mail: first class for letters at 3 cents a half ounce; second class for periodical publications at 2 cents *per pound*, reduced in 1885 to 1 cent; third class for transient publications, pamphlets, and advertising at 1 cent for 2 ounces (eight times the second class rate);<sup>4</sup> and "as an afterthought," a catch-all category of fourth class for mail matter not fitting in one of the other classes, for 1 cent an ounce up to a limit of 4 pounds.<sup>5</sup>

**The Post Office conceived of itself as a deliverer of messages, not packages. A package weighing less than 4 pounds could be mailed, but the cost was prohibitive.**

Although the Post Office did not conceive of itself as a package deliverer, a patron could use the fourth class category to mail a parcel weighing no more than 4 pounds. The cost was exorbitant, however: at 16 cents a pound, it was 16 times what newspapers were charged. A merchant seeking to

deliver a purchased item to a customer either used a local wagon, or, for longer distances, the services of an express company. "If he attempts to use the mails,"

<sup>3</sup> U.S. Postal Service, *Postal Service Contributions to National Infrastructure*, Report No. RARC-WP-12-012, July 9, 2012, <http://www.uspsoidg.gov/sites/default/files/document-library-files/2013/rarc-wp-12-012.pdf>, p. 2.

<sup>4</sup> Richard B. Kielbowicz, *A History of Mail Classification and Its Underlying Policies and Purposes*, prepared for the Postal Rate Commission's Mail Reclassification Proceeding, MC95-1, July 17, 1995, <http://www.prc.gov/Docs/40/40518/PRC-LR-2.pdf>, pp. 45 and 47.

<sup>5</sup> Kielbowicz, "Government Goes into Business," p. 156.

explained an article in *The Cosmopolitan* in 1904, “the rate of sixteen cents per pound is prohibitive, while the fact that the bulk is limited to four pounds is almost equally so.”<sup>6</sup>

## The Express Industry before Parcel Post

The express companies got their start in the 1830s when a few enterprising travelers found that people would willingly pay them to carry letters and packages in their carpetbags from place to place. Men such as Henry Wells, William G. Fargo, and Alvin Adams easily undercut high Post Office rates on well-traveled routes, and the companies they soon founded provided cheaper and surer services on routes that grew as the railroads spread throughout the country following the Civil War.<sup>7</sup> Their competition was serious enough to persuade Congress to pass laws greatly reducing letter postage costs and giving the Post Office an enforceable monopoly on letter mail, but the laws did nothing to restrain their package delivery business.

Following the Civil War, the express industry evolved into an oligopoly of four dominant companies: Adams Express, American Express, Wells Fargo, and United States Express.<sup>8</sup> While nominally competitive, the four companies found it advantageous to cooperate rather than compete vigorously against each other, and they effectively formed a cartel. Over a period of several decades toward the end of the century, their common interests came to outweigh their differences, and in fact they came to have interlocking ownership through purchases of stock in one another.

**Four express companies, closely aligned with the railroads, dominated national parcel transport, but they delivered only to the depot and felt little need to respond to the needs of customers.**

Although they were closely aligned with the railroads, the express companies maintained separate corporate structures. This was something of a sham: A Senate report in 1910 revealed that in addition to the express companies owning millions of dollars worth of stock in each other, railroads owned \$20.7 million of stock in the express companies, and express companies owned \$34.5 million in railroad stock.<sup>9</sup> The relationship ensured that express shipments travelled with passenger trains that were twice as fast as freight trains, and kept actual transportation costs low. The express companies paid railroads an average of 0.74 cents a pound to carry their packages, while the government itself was paying 4.06 cents a pound for carrying the mail under the same or inferior conditions.<sup>10</sup> While transportation cost the express companies less and less over time, there was no market incentive to pass savings on to the consumer and the express companies refused to do so.

<sup>6</sup> John B. Walker, “Who Will Be Benefited by a Parcels Post?” *The Cosmopolitan*, 36 (March 1904) as reprinted in *Selected Articles on the Parcels Posts*, compiled by Edith M. Phelps, Debaters’ Handbook Series, (Minneapolis: The H.W. Wilson Company, 1913), p. 74.

<sup>7</sup> Wayne E. Fuller, *RFD: The Changing Face of Rural America*, (Bloomington, Indiana: Indiana University Press, 1964), p. 201.

<sup>8</sup> Greg Niemann, *Big Brown: The Untold Story of UPS*, (New York: Jossey-Bass, 2007), p. 44.

<sup>9</sup> Kielbowicz, “Government Goes into Business,” p. 159.

<sup>10</sup> *Ibid.*, p. 160.

Much of the political history of the late 19<sup>th</sup> century revolves around the railroads and the sometimes brazen high-handedness of the “robber barons” who ran them. The express companies earned some of the same criticism, but they were partly shielded from scrutiny by their separate corporate structures and by the fact that railroads were more visible in disputes with communities, western settlers, and organized farm interests. Most of the express companies’ direct customers were merchants shipping goods, and their charges were collected at the front end rather than from the recipient. When the railroads were brought under federal regulatory jurisdiction by the Interstate Commerce Commission in 1887, the express companies were not included because of their separate corporate structures.

The four dominant express companies divided up the country in complicated and opaque ways that served their own interests better than those of their customers. Rates were separately determined from each of 35,000 originating locations to every other, with various routing differences but without a regulator or the discipline of real competition. Critics noted that this system required over 600 million rates, and few shippers had the knowledge to keep the charges honest or to negotiate discounts. Of even greater concern to rural customers, moreover, was that millions of Americans lived a long distance from a train station, and the express companies delivered their goods only to the depot in rural areas.<sup>11</sup>

## Post Office Delivery Service

Of course, delivery to a pickup point was also true of the U.S. Mail in rural areas through all of the 19<sup>th</sup> century. Before 1863, actual delivery of the mail to a home or business was not part of regular postal service anywhere in the country. Postage paid only for the delivery of letters from one Post Office to another, although residents in some urban areas could pay extra to have their mail picked up and delivered to their home. But beginning in 1863, Congress authorized address delivery in cities where postage revenues could cover the costs, and within 18 months there were 65 such cities. By the end of the century, delivery to the door was established in 796 cities. But it still did not apply to the rural areas where two-thirds of American lived and paid the same postage as urban customers. They had to pick up their mail in a town, often miles away over rudimentary roads. The common pattern was that a merchant would establish a fourth-class Post Office within the general store he owned.<sup>12</sup> The merchant/postmaster made little money from selling postage and renting Post Office boxes, but benefitted from constant traffic in the store, which charged relatively high prices for a limited inventory of essential goods. These country merchants were a powerful local political voice, at the center of a distinctive rural culture.<sup>13</sup>

Merchants and fourth-class postmasters fought hard against rural free delivery (RFD), recognizing that delivery of mail to outlying areas would cut into their business traffic.

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<sup>11</sup> Fuller, p. 203.

<sup>12</sup> Fourth-class Post Offices were the smallest category by volume and revenue. Fourth-class postmasters were paid based on commission rather than receiving a salary.

<sup>13</sup> Fuller, p. 89.



Nevertheless, after a long period of experimentation and political perseverance by farmers' organizations, particularly the National Grange, rural free delivery of the mail was finally inaugurated as a government service on July 1, 1902.<sup>14</sup> Only when RFD had been achieved did serious attention begin to turn toward the question of extending delivery service to parcels through the post.

## RFD Opened New Possibilities

RFD proved immensely popular and quickly began to transform rural culture. The daily arrival of the mail wagon brought mail, magazines, and newspapers, of course, but also catalogs from the growing mail order industry. These were shipped very cheaply at third class rates. Farm families were exposed to a vastly expanded inventory of goods available at competitive prices and made even more attractive by rapid advances in the sophistication of advertising both in newspapers and in catalog copy and illustrations.

But there was a problem in delivering the goods: Very little could be sent by mail, because the price was high and the weight limit only 4 pounds. For most merchandise, the choice was between railway freight and railway express. The mail order houses tried to overcome this by trumpeting the fact that "railroad companies usually charge no more for carrying 100 pounds than they do for 20 pounds," and suggesting that neighboring customers could combine orders to save on shipping. This converted customers into sales agents for more orders.<sup>15</sup>

**When RFD introduced daily mail wagons to rural areas, some carriers began to pick up and deliver packages from railway depots, suggesting an unexploited business opportunity.**

Still, there was no private express delivery service from the railway depot in rural areas. But the daily appearance of the mail carrier quickly suggested that he could use extra space in the wagon to perform errands in town for customers and thus save them trips. Along with orders for prescriptions, groceries, and even spirits, picking

up packages at the depot was an obvious need that the rural carrier could fill, for a reasonable charge in cash or barter. Some carriers established a small business in providing such services, but the government was capturing none of the revenue from goods carried outside the mail, even those within the 4-pound weight limit. Congress changed the law in 1904 to curtail the practice, but the experience proved to be an eye-opener to the fact that half-empty mail wagons were an unexploited business opportunity for the Post Office.<sup>16</sup>

<sup>14</sup> The National Grange, founded in 1867 and still active, was a prominent citizens organization when the United States was a predominantly agricultural nation.

<sup>15</sup> Kielbowicz, *Postal Enterprise*, p. 24.

<sup>16</sup> Fuller, pp. 206 and 208.

## The Political Debate over Parcel Post

Although postal officials had pointed out for years that the United States was unique in the developed world for lacking a Parcel Post (except, ironically, to overseas destinations), it was a Republican postmaster general, John Wanamaker, who first made a serious proposal in 1891. As a department store magnate, he understood the express package market and saw in it a way of reducing the perennial postal deficit. In his 1891 report to the President, he wrote: “In point of fact, there are but four strong objections to the parcel post, and they are the four great express companies.”<sup>17</sup>

This proved to be opposition enough for two decades, however. Members of Congress could be reluctant even to introduce bills, and Congress paid no attention even then, declining to hold a hearing until 1910.<sup>18</sup> As pointed out by postal historian Wayne Fuller, more than enough power to block the measure was held by New York Senators Thomas Platt, who was also president of the United States Express Company, and Chauncey M. Depew, former president and (then) still director of the New York Central Railroad, and others with similar corporate links.<sup>19</sup> Iron-handed Speaker of the House Joseph Cannon assigned Parcel Post bills to hostile committees for burial.

Once RFD became established, political support for a Parcel Post began slowly to grow outside of Congress. A reformist crusader named James T. Cowles, a journalist once called “The Fighting Father of Parcel Post,” organized a Postal Progress League in 1902 to push the issue and soon enlisted allies in the agriculture movement — such as the National Grange, which had worked so successfully for RFD. The national press began to take up the issue, partly as a reform measure but also because a new source of postal revenue held the promise of reducing pressure to raise postage rates on newspapers and magazines, a large contributor to the Post Office deficit. Early on, support centered on a rural rather than a general Parcel Post, because the farming areas of the country were most affected by dependence on the express companies.

Persistent high-handed behavior by the express companies kept them under scrutiny by the national press. When the Interstate Commerce Commission (ICC) continued to cite lack of jurisdiction over them because they were legally distinct from the railroads, Congress finally moved to bring them under ICC jurisdiction by passing the Hepburn Act of 1906 with only three dissenting votes. Finally armed with authority, and with national political sentiment turning in a reformist direction, the ICC mounted the first ever

**An investigation by the Interstate Commerce Commission revealed a pattern of high-handed abuse by the express companies.**

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<sup>17</sup> Ibid., p. 204.

<sup>18</sup> Ibid., p. 205, and Kielbowicz, *Postal Enterprise*, p. 30.

<sup>19</sup> Fuller, p. 205.

major investigation of the express companies. Although the companies hindered the regulators by providing inaccurate and incomplete reports on their operations, the ICC finally gathered enough information for a comprehensive report in 1912.<sup>20</sup>

The ICC report was a sweeping indictment of an industry that had grown cavalier in its treatment of customers and almost totally immune from marketplace discipline. The express industry was found to have manipulated its incomprehensible rate structure to overcharge and doublecharge many customers, sent goods by roundabout routes to inflate charges, and discriminated among customers. The muckraking press attributed all this to collusion.<sup>21</sup>

Ignoring appearances, the express companies doubled down on high-handedness. According to postal historian Fuller, the express companies “seemed to have a compulsive urge to commit suicide. Under attack, they tended to become arrogant and to pile abuse on abuse until at last they were completely at odds with the general public.”<sup>22</sup> For example, oblivious to the spotlight of public scrutiny, Wells Fargo declared a 300 percent dividend on invested capital from accumulated reserves for its stockholders in 1910.

## The Political Climate Finally Changes

In addition to alienating the public, by 1910 the express companies had lost much of their political clout. Senator Platt withdrew and Senator Depew was defeated for re-election in 1910. On the House side, Speaker Cannon was deposed even before the 1910 election put the Congress in progressive hands for the first time in the century. A majority of the House signed a petition for hearings on Parcel Post legislation, and within a month of Cannon’s ouster the first hearings were held, this time before a committee of supporters. President Taft endorsed Parcel Post, and candidate Woodrow Wilson did as well, pointing out the irony that Americans “have no parcels post until you

**A broad national debate preceded the decision to launch Parcel Post specifically to compete against the private sector express companies.**

reach the ports,... but you can’t have them inside the United States. Because — may I conjecture the reason — because there are certain express companies which object.”<sup>23</sup>

Although the political tide was turning, the specific nature of a government parcel delivery enterprise was very much up in the air following the 1910 election, and a lively intellectual contest took place over the next two years. Thousands of high schoolers throughout the country argued either the affirmative or the negative side of whether the Post Office should inaugurate a “parcels post.” Professor Richard Kielbowicz provides a comprehensive

<sup>20</sup> Ibid., p. 221.

<sup>21</sup> Kielbowicz, *Postal Enterprise*, p. 29.

<sup>22</sup> Fuller, p. 221.

<sup>23</sup> Ibid., p. 219 and 224.

analysis of the national debate that ultimately resulted in “arguably the deepest federal thrust into public enterprise in the early 1900s.”<sup>24</sup>

As Professor Kielbowicz describes it, the fundamental conflict was an ideological one. On one side (“corporate liberalism”), with the tide of more than a century of progress under capitalist and corporate development, was the home grown presumption that government should be limited to support for, and if needed, some regulation to restrain the harmful practices of big business. The other side leaned toward a more collectivist vision of positive government initiative for the common good, and a tolerance for state enterprise along lines found elsewhere in the world.<sup>25</sup>

Corporate advocates argued that the express market would continue to thrive as a private sector endeavor, and that judicious regulation could curb any excesses that unfettered capitalism engendered. By 1911, however, this side was in retreat. Bringing the express companies under the jurisdiction of the ICC had led to the revelation but not correction of abuses by the railroads and their express off-shoots. A Postal Savings Bank had been authorized, modestly addressing a market failure of the big banks, another unpopular industry. Parcel Post seemed certain to be established in some form. Opposition continued from interests aligned with established commercial distribution channels — including well-placed country merchants and smaller newspapers that depended on them for advertising. Their arguments tended toward the “slippery slope” variety, warning that Parcel Post would be an opening for broader inroads into the economy by government enterprise, and the beginning of the end of rural life as it was then known.

As the debate progressed in Congress, two major divisions emerged over what form Parcel Post would adopt. John A. Moon of Tennessee, chairman of the House Post Office Committee, proposed using the postal clause of the Constitution to take over the express companies by expropriation and have Parcel Post administered by the Post Office as a government monopoly, just as letter mail was. With the support of the Postal Progress League and drawing on the prevailing European model, this option was not as radical as it might seem. The express companies had a relatively small capital investment since the railroads provided most equipment and organization, explaining why the express companies earned profits, in 1909 alone, amounting to 69 percent of their investment in property and equipment.<sup>26</sup> Compensation for their investment would not be terribly expensive.

**Parcel Post legislation finally passed in 1912. Even the express companies preferred competition to a government takeover.**

The option that emerged in the Senate under the committee chairmanship of Jonathan Bourne of Oregon was the alternative of government-sponsored competition as a means of keeping the express companies honest, extending service to the areas they found

<sup>24</sup> Kielbowicz, “Government Goes into Business,” p. 150, fn. 2.

<sup>25</sup> Ibid., pp. 151-152

<sup>26</sup> Ibid., p. 167.

unprofitable to serve, and moderating their rates. Bourne distrusted monopolies whether by the government or the private sector.

Bourne's vision was the one finally adopted as the 62<sup>nd</sup> Congress drew to a close, supported even by the railroads and express companies (quietly, since they had been widely discredited by the ICC and continued vilification from the national muckraking press) who calculated that competition was less damaging to their business than government takeover. The Parcel Post legislation was added as an amendment to the postal appropriations bill after both major political parties had endorsed it in their platforms, and signed into law by President Taft on August 24, 1912, to take effect on January 1, 1913.

## Parcel Post Had an Immediate Impact

As enacted, Parcel Post fell short of the dreams of its most ardent supporters for a flat rate shipping system to anywhere in the country. In a concession to the opposition, the weight limit was raised only to 11 pounds, the international minimum, and rates were graduated by distance from the point of origin so that local merchants could ship their goods more cheaply than the national mail order houses. But in a grant of executive discretion that was unusual for the time, the law provided that rates, zones, and weight limits could be adjusted by the Post Office with the agreement of the ICC, rather than by cumbersome legislation.

Despite its early limitations, Parcel Post was an instant hit with the public and businesses. On the first 5 days it was offered in 1913, more than 4 million packages were sent by an excited public through city Post Offices. In the first 6 months, the Post Office handled approximately 300 million parcels.<sup>27</sup> Moreover, the Post Office proved able to handle the flood adeptly, and several newspapers publicized comparative tests that showed Parcel Post, notwithstanding its much lower price, provided faster service than the express companies. President Taft's outgoing Postmaster General proclaimed the successful launch of Parcel Post "the greatest and most immediate ever scored by any new venture in the country," and recommended to his successor about to be appointed by President Wilson that weight limits be raised and rates lowered to make the system even more accessible.<sup>28</sup> Postmaster General Omar Burleson took these actions before the year was out.<sup>29</sup> By 1920 the weight limit was 50 pounds to anywhere and 70 pounds within three zones.<sup>30</sup>

**Parcel Post was an immediate popular success.**

<sup>27</sup> National Postal Museum, "Precious Packages — America's Parcel Post Service," [http://www.postalmuseum.si.edu/exhibits/2b2f\\_parcel.html](http://www.postalmuseum.si.edu/exhibits/2b2f_parcel.html).

<sup>28</sup> Fuller, p. 229, and Kielbowicz, *Postal Enterprise*, p. 35.

<sup>29</sup> Kielbowicz, *Postal Enterprise*, p. 36.

<sup>30</sup> Fuller., p. 254.

## A Profound Effect in the Longer Term

As had been foretold by its critics, Parcel Post had a profound effect on rural culture. Postal historian Wayne Fuller wrote, “The decline of the old general store began the day parcel post went into effect.”<sup>31</sup> Parcel Post opened up a national marketplace for mail order goods, and customers gained access to a much broader variety of high quality merchandise. Sears, Roebuck took the greatest advantage, shipping five times its 1912 volume in 1913, and in 5 years tripling its 1912 revenue. Montgomery Ward tripled its revenues from 1913 to 1920. By that year, on average, 17 packages were delivered by Parcel Post to every rural address, about one every 3 weeks.<sup>32</sup> When weight limits were raised to 70 pounds in 1920, Parcel Post also became a favored option for in-town deliveries by city stores.

**Parcel Post opened up a national marketplace for mail order goods.**

Parcel Post also transformed the transportation market, though not entirely as foreseen by opponents. To be sure, the express companies proved unwilling or unable to survive in a competitive market where their oligopolistic business practices hindered adaptation. By February 1913 the value of their securities had dropped by \$32 million. Within a year

**The express companies failed to adapt to competition and eventually went bankrupt.**

they stopped shipping to many small towns. When the government took over railroad operations during World War I, the express companies gave up even the appearance of competition and consolidated into the American Railway Express Company, which finally went bankrupt as the Railway Express Agency in 1975.<sup>33</sup> New companies emerged, such as United Parcel Service (UPS) and Federal Express, with adaptable and successful business models that served primarily large commercial shippers and businesses shipping to each other and to households, eventually dominating all but the single-package market.

While the decline of rail transportation and growth of both road and air transportation played a role in the relative decline of Parcel Post in the package delivery market from its early years, Congress too undermined its competitive vigor. Congress required the Post Office to go through the ICC to adjust rates, zones, and weights, a cumbersome process. In large part to protect the interests of private carriers, including the Railway Express Agency, and to fix below-cost rates, Congress also raised the rates on its own or required rate increases in 1928, 1948, 1950, and 1958, combined with a legislated reduction in weight limits, each time with negative effects on volume and investments needed to keep Parcel Post competitive.<sup>34</sup> In 1966 Congress reversed course again and raised weight limits back to 70 pounds, but by then the damage had been done. The author of the corporate history of UPS asserts that “United Parcel Service rates were lower than the U.S. Post Office Department in all categories. This was the case despite

<sup>31</sup> Ibid., p. 257.

<sup>32</sup> Ibid., pp. 252 and 254.

<sup>33</sup> Kielbowicz, *Postal Enterprise*, p. 36.

<sup>34</sup> Ibid., pp. 37-38, 64-65.

the fact that government's parcel post was running at a loss and needed to subsidize package delivery to keep the rates as low as they were."<sup>35</sup>

## Postal Package Services 100 Years Later

The Parcel Post of 1913 has evolved into a diverse set of package delivery services that are integral to the Nation's lifestyle and commerce. These services include Priority Mail packages, including flat rate boxes, Parcel Select, Media Mail, and Bound Printed Matter in addition to the direct descendent of Parcel Post, now offered as Standard Post. Also, with the flexibility offered by the Postal Accountability and Enhancement Act of 2006, pricing for most parcels as competitive products is responsive to costs and market conditions, and can be tailored to specific mailer characteristics through Negotiated Service Agreements. These products now are mainstays of postal shipping and package operations, which are the primary areas of growth in Postal Service volume and revenue. The importance of these outgrowths of Parcel Post is seen in the commitment to continue to provide Saturday delivery for packages even if letter mail becomes a 5-day delivery product. It is particularly evident in the emphasis on maintaining 6-day delivery of medicines and other time sensitive packages. It not only provides a competitive advantage to the Postal Service, but also recognizes the crucial role the low cost universal delivery of parcels provides to the economy and well-being of individual citizens.

**Parcel Post has evolved into a diverse set of package delivery services that are integral to the Nation's lifestyle and commerce.**

The current Postal Service shipping and package delivery products are important to many businesses just as Parcel Post was to Sears and Montgomery Ward in the years after its introduction. Large business mailers shipping to households utilize Parcel Select, under which private-sector consolidators handle shipments to Postal Service facilities for final delivery. Small businesses as well as individuals often use end-to-end Priority Mail service, which accounted for 873 million pieces in fiscal year (FY) 2013.<sup>36</sup> As sales through the Internet grow, the availability of these shipping alternatives is becoming more central to the national economy.

The direct descendent of the 1913 breakthrough product, single-piece Standard Post, now represents only a minor share of the package delivery marketplace both within the Postal Service and in the package delivery industry as a whole. By volume, in FY 2010, the single-piece market share for Parcel Post was 17.6 percent of the ground package retail market for individuals and small businesses, and only 1.1 percent of the broader ground package market.<sup>37</sup> The 71 million packages sent in FY 2012 were about

<sup>35</sup> Niemann, pp. 108-109.

<sup>36</sup> U.S. Postal Service, Final Revenue, Pieces, and Weight, Fiscal Year 2013, <http://about.usps.com/who-we-are/financials/revenue-pieces-weight-reports/fy2013.pdf>.

<sup>37</sup> Postal Regulatory Commission Order No. 1411, "Order Conditionally Granting Request to Transfer Parcel Post to the Competitive Product List," Docket No. MC2012-13, July 19, 2012, [http://www.prc.gov/Docs/83/83756/Order\\_No\\_1411.pdf](http://www.prc.gov/Docs/83/83756/Order_No_1411.pdf), p. 5.

1.1 percent more than in FY 2011.<sup>38</sup> Moreover, the attributable costs for handling these packages exceeded revenues.

These key numbers were determinative in the Postal Service's request to transfer single-piece Parcel Post from the list of dominant products to the list of competitive products. The request was unopposed, and eventually granted by the Postal Regulatory Commission (PRC) on July 19, 2012, conditional on a "competitive price adjustment" that will prevent subsidizing the service by revenues from monopoly products and permit the product to make a positive contribution to institutional costs. (Alaska Bypass Mail was retained as a market dominant product.)

On January 27, 2013, the Postal Service dropped the Parcel Post brand name altogether, renaming the service Standard Post. Standard Post is available only at the retail counter of Post Offices, with the obvious intention of limiting it to non-commercial users of the mail. Coinciding with the name change was a price increase of 21 percent. While Priority Mail is a lower cost alternative to Standard Post for some small packages and short shipping distances, Standard

**Parcel Post is now Standard Post, a competitive product aimed at non-commercial users.**

Post still provides the lowest cost option for individual heavier weight packages or those going long distances to rural locations. Thus it remains an essential shipping option for many price-conscious people.

## Does the Country Still Need Parcel Service by the Postal Service?

The presence of strong parcel competition by thriving commercial carriers and the relatively small size of the single-piece market may logically raise the question whether there still exists a need for the Postal Service to provide parcel options beyond last-mile delivery. Privatization is the course several European nations have pursued, and it has always had a certain appeal in this country among those who think that the private sector is inherently more efficient than government. History provides some perspectives, however, that should be borne in mind with regard to the Postal Service's involvement in package delivery.

First, it should be remembered that Parcel Post was instituted precisely to correct the market-distorting effects of a lack of competition in package delivery that existed a century ago, and that it succeeded decisively where regulation alone had failed. Since the withdrawal of DHL from the North American market in 2008, package delivery has been overwhelmingly concentrated in a commercial duopoly plus the Postal Service. Although the government has more powerful tools to combat corporate collusion and predatory behavior than it had in 1913, competition has proven its effectiveness as a brake on commercial exploitation. Moreover, the parcel delivery market is changing

<sup>38</sup> U.S. Postal Service, Final Revenue, Pieces, and Weight, Fiscal Year 2012, <http://about.usps.com/who-we-are/financials/revenue-pieces-weight-reports/fy2012.pdf>.



because of the rapid growth of e-commerce. As a result, it could enter a period of reorganization and change. In this environment, the need to foster and maintain competition may become more important to ensure that efficient market forces rather than other factors such as market concentration determine winners and losers. Even if market concentration does not become a problem, the possibility of a nationwide strike, like the one that shut UPS down in 1997, should point to the value of a public sector alternative from package acceptance to delivery.

Second, despite the dominance of large commercial shippers in the parcel market, the Postal Service continues to be the only provider of universal service to out-of-the-way areas at prices without surcharges. Although they no longer constitute a majority of the country as was true 100 years ago, millions of residents of rural areas with limited retail outlets still depend on the ubiquity of the Postal Service for sending and receiving packages. The Postal Service's need to deliver at rates without surcharges to isolated areas as well as its past inability to offer individual discounts to large customers have always provided part of the explanation for the loss of market share to UPS and FedEx over the years on the less costly business and urban routes. While it is true that UPS and FedEx claim to cover the whole country, they do not do so at the same rates they reserve for large shippers and concentrated locations. According to the Parcel Shippers Association, the Postal Service's competitors apply costly surcharges to more than 23,000 rural and suburban ZIP Codes (ranging from \$1.70 to \$2.75 per package) and to residential deliveries (UPS charges \$2.20, FedEx \$2.50), not to mention "remote area" surcharges ranging from \$6 to \$11 in Hawaii and \$15 to \$30 in Alaska.<sup>39</sup>

**Only the Postal Service delivers to all areas of the country at a uniform price.**

Given the Postal Service's economy of scope over the "last mile" of delivery to every address in America, there should be little surprise that both of its competitors are in fact customers for this service. The Postal Service delivers more than 400 million parcels for UPS and FedEx annually.<sup>40</sup> FedEx Ground, for example, turned over more than 35 percent of its total volume to the Postal Service for final delivery at the beginning of 2013.<sup>41</sup> The existence of worksharing arrangements like the Parcel Select category provides a third reason why the Postal Service should not abandon its own parcel delivery products. All of these products help sustain the daily trip by the letter carrier. Particularly as letter and periodical mail have declined, parcel products are becoming a new "anchor" of delivery. Over the years a most efficient service mechanism has evolved which allows each type of organization to focus on what it does best — the private sector on upstream consolidation and transportation, the Postal Service on universal service and the last mile of delivery. The government-run postal system

<sup>39</sup> "Parcel Shippers Association Comments on the United States Postal Service Request to Transfer Commercial Standard Mail Fulfillment Parcels to the Competitive Product List," Postal Regulatory Commission Docket No. MC2010-36, September 24, 2010, <http://www.prc.gov/Docs/70/70299/PSA%20TRANSFER%20COMMENTS.pdf>, pp. 9 and 13-16.

<sup>40</sup> U.S. Postal Service, *Postal Facts 2013*, <http://about.usps.com/who-we-are/postal-facts/postalfacts2013.pdf>, p. 12.

<sup>41</sup> Alan Robinson, "USPS Delivered a Record Share of FedEx Ground Shipments," *Courier Express and Postal Observer*, March 20, 2013, <http://cepobserver.com/tag/fedex-ground/>.

shares the primary national interest in maintaining the most efficient delivery mechanism and not just the best return on equity.

Finally, it is worth considering that package shipping is the most significant postal product that is growing rather than shrinking in volume and revenues. Driven by the continued growth both in e-commerce and in workshare arrangements, total shipping and package revenues increased by 8.0 percent in FY 2013 to \$12.5 billion, and overall volume was up 6.0 percent to 3.7 billion pieces.<sup>42</sup> The increase was led by Parcel Select and First-Class packages. The placement of Standard Post as a competitive product means that it can be managed with much more flexibility than has been the case during the past century as Parcel Post.

**Package shipping is the most significant postal product that is growing rather than shrinking.**

## Lessons for the Future

Beyond the parcel market, the 100-year history of Parcel Post offers some valuable lessons for future postal services. Parcel Post was a widespread success in 1913 because it made use of the unique infrastructure advantages of the Post Office network to offer services that were strongly desired by citizens and businesses. The Post Office Department was already sending wagons to deliver mail in rural areas. Adding packages was such an obvious step that many rural carriers undertook it on their own, picking up and delivering parcels for a small fee. When Parcel Post was finally implemented, its effects were transformational. The mail-order business was galvanized by the presence of better shipping options, and new ways of buying and selling goods changed rural life and culture. Over time, however, the Postal Service gradually lost much of its parcel business to more nimble competitors as it was unable to adapt to changing circumstances.

Today, there may be new opportunities for the Postal Service to use its existing infrastructure to provide services for citizens and businesses, especially as e-commerce continues to grow. If these services use the Postal Service's unique capacities to meet extensive needs that other providers cannot, they could prove as transformational as Parcel Post. As with Parcel Post, though, infrastructure advantages do not necessarily guarantee long-term success. The agility to adapt as circumstances change is also critical for success.

<sup>42</sup> U.S. Postal Service, 2013 Report on Form 10-K, <http://about.usps.com/who-we-are/financials/10k-reports/fy2013.pdf>, p. 25.

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