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Translated Article

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MAIN INFORMATION

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The authors of *Liberalization and Public Services: Postal Economics* set out to provide a complete and comprehensive economic study of the challenges and possibilities engendered by the liberalization of the French Postal Service. Using experiences from other countries and industries, as well as taking into account the specificities of France's postal service, the authors have used economic studies to provide an exhaustive account of what the contours of the postal service of the future may be.

A foreword by Jean-Paul Bailly, the President of the Groupe La Poste provides a panorama of the current challenges and regulatory environment facing the group he leads, and salutes the authors' work, for postal economics are indeed the key to understanding La Poste and allow La Poste to understand its own missions and possibilities for future growth and change.

A preface by Jean Tirole, professor of economics, also examines the effect of liberalization and reform on La Poste's activities, from a point of view of law, economics, and politics. In an area as clearly identified with the provision of a universal public service as the postal service, these three subjects are inextricable from each other.

These two preliminaries provide a general overview of the topics addressed by the more detailed, academic articles that are found within this work.

CONTEXT AND SUMMARY

This book is divided up into four chapters, and each chapter is divided up into articles written or co-written by authors François BOLDRON, Claire BORSENBARGER, Denis JORAM, Sébastien LÉCOU, and Bernard ROY, along with other contributing authors, who are credited in each piece.

The first chapter, entitled "Foundations of Public Intervention in the Postal Sector", begins with an introduction that defines the logic of public intervention as preoccupying itself with notions of *equity* and an attempt at returning to an ethic of *efficacy* in the state's actions concerning this industry. This second preoccupation must be considered in the context of market imperfections deriving from the fact that consumption of this service by one economic agent, much like the consumption of music or information, does not preclude other economic agents from its consumption; this is to say, supplying the product offered by the postal service is not grounded on the dynamics of production and demand in the same way as other industries.

However, when weighing options as to the best way of averting major obstacles to universal service, one must be careful not to assume that government intervention is the best alternative; state intrusion could engender even greater inefficiencies than that created by the market itself. A major way of ensuring efficiency and easing the stress of change brought on by public intervention is to remain committed to low cost and cost efficiency, as well as market competitiveness. This means that, in any state intervention, a commitment to private sector principles of economic health and stability for the postal service should remain a priority; each article in this chapter will continue discussing this two-sided nature of the postal service market.

The first article contained in this chapter is "Social Costs and Benefits of the Obligations of Universal Service in the Postal Market" by Jacques Cremer, De Donder, Boldron, Joram and Roy, and involves a discussion of the rationality of a universal postal service, both in terms of European member states' 3rd postal directive regarding the perimeters of the guarantee of a universal service and the financing of this directive, as well as the way each member state transposed and applied it. Remaining faithful to the classic justification of collective well-being as the cornerstone of any intervention, the authors re-affirm universal service in terms of re-distribution of cost (in regards to more costly clients versus less costly clients). They conclude their discussion by arguing that continued universal service is in line with the principle of efficacy argued for in the chapter's introduction, as universal service will ensure all territories are covered, and that consumer interests in the postal service market are protected.

The second article, "Accessibility of the Postal Network: Social Cohesion and Economic Development", by Boldron, Dewulf, Joram, and Panet, takes an empirical approach to the question of accessibility and social and territorial cohesion as a pillar of EU policy and universal postal service. They maintain that the postal network is more accessible than any other public service in rural France (with the exception of primary schools), and set out to study the influence of the postal service's presence on rural economic development. They show a correlation between accessibility of public services such as the postal service and increased commercial activity. Such activity, according to the authors, offsets the net cost of the service on the French economy, and increases efficiency in the private sector through the provision of a low-cost, universal service to rural businesses.

The third article, "External Network Factors and Obligations of Universal Service: A Two-Sided Approach", by Boldron, Cremer, De Donder, Joram and Roy, continues discussion on the importance of dual participation of public and private actors in ensuring universal service. Studying external factors in the sending and receiving of mail demonstrate that such factors have an influence on the optimization of aggregate social good and on other solutions aimed at equilibrium. The results of their modeling confirm the importance of these external factors on the determination of price of equilibrium and territory coverage in terms of quality of service. The authors argue that such external factors justify the obligations of universal service and public intervention.

The fourth article, "The Economic Foundations of the Mission of Banking Accessibility", by Boldron, Joram, Lecou and Roy, examines the rationale for banking accessibility in universal service—in keeping with the implementation of increased accessibility to individuals that are vulnerable to exclusion because of severe handicap, critical financial situations, and insufficient income, by offering services that fulfill these goals such as the provision of the *Livret A* (a tax-free savings account) as offered by *La Banque Postale* (French postal bank)—in this context.

The fifth and final article of this chapter, "Sustainable Development at the Heart of the Postal Sector" by Boldron, Defaye-Geneste and Prot, investigates other forms of public intervention that impact *La Poste*, and the implementation of the missions behind such interventions. They give a panoramic snapshot of the regulatory environment and initiatives being implemented within *La Poste*. They then describe the methods that economists use for selecting internal initiatives, which allow public powers to transform global sustainable development goals into best practices for enterprises.

The second chapter in this book addresses the cost and financing of public service obligations, namely the designation of service providers to carry out public service obligations. In awarding contracts, a commitment to cost efficiency should remain a priority in choosing which bid should be accepted, but it is important to keep in mind that certain situations, such as instances of collusive behavior between providers and/or a low number of bidders, could make this approach inefficient. However, because of *La Poste's* historic position, breaking up the national service into regional services and awarding contracts to local providers would be fruitless, because the broader

objective of ensuring national coverage requires retaining *La Poste* in its current form, as it is the most well-connected provider, the most efficient model for coordinating all local service, and the most efficient way of adhering to the universal service directive. In postal service liberalization, partial government subsidization should be considered, and the articles contained in this chapter weigh the best ways to balance public subsidies with free market strategies in finding solutions to cost inefficiencies.

The first article, "Financing the Cost of Universal Service in a Liberalised Postal Sector", by Borsenberger, Cremer, De Donder, Joram and Roy, tax and accounting methods in different parts of a universal service network are analyzed for their impact on cost efficiency and quality of service.

The second article, "International Comparison of Optimal Frequency of Carrier Distribution", by Borsenberger, Joram, Magre and Roy, provides a counterfactual scenario in which reduction in services among thirteen countries—from six to between three and five times per week—is studied in relation to possible gains in cost efficiency and implications for affected enterprises.

The third article, "A Dynamic and Endogenous Approach to the Question of the Financing of Universal Service Obligations in a Liberalised Environment" by Boldron, Borsenberger, Joram, Lécou and Roy, the endogenous or inter-dependent nature of questions of cost and financing are explained as the determination of one implies the parameters of the other: cost is partly determined by the method of financing, and financing can not be determined without having some idea of how much money is needed to begin with.

The fourth article, "From the Magnitude of Constraints to the Costs of Obligations of Universal Service", by Boldron, Joram, Martin and Roy, provides a counterfactual scenario in which service to rural areas would be reduced to three times per week, based on models from five countries, compared with scenarios with five and six distributions per week. It analyses the total effect on cost and market efficiency, as well as quality of service, taking into account demography and population density.

The fifth article, "Financing the French Press" by Cremer and Malavolti-Grimal, theorizes the problem of cost inefficiency in delivery of print media and the need for state subsidies in a competitive market.

The sixth article, "Quantitative Analysis of External Economic Factors on the Print Media Market: The French Case", by Borsenberger, Ivaldi, Malavolti-Grimal and Vibes, is an econometric study of the two-sided nature of the French Print Media which analyses the type of aid afforded to enterprises within this industry and evaluates the validity of such aid when it does not influence their economic behavior.

The seventh article, "Allocation of Costs Between the Service of General Economic Interest and Competitive Activities: The Example of the Postal Service Branch Network", by Lécou and Roy, addresses the inter-connectedness of public service and competitive commercial activities in terms of cost and combined approaches to market efficiency, and engender a justification for the creation of the Postal Bank.

The third chapter includes articles that discuss classical questions of monopolistic behavior and regulation of the relationship between the postal service and routers (companies that do part of the preparative work for post offices before distribution). The articles analyze the use of tariffs, access to certain aspects of the historical postal sector infrastructure, and governmental regulation of the relationship between various parts of the universal service in terms of impact on quality of service and economic health in a liberalized market environment.

The first article, "Linear and Nonlinear Tariffs of Preparatory Projects: a Calibrated Model", by Billette de Villemeur, Boldron, Cremer and Roy, shows that tariffs based on ECPR or Efficient Component Pricing Rule, which is based on costs avoided by a historical operator, are not efficient. They show that adopting non-linear cost models would help generate important gains for the postal operator and for society at large.

The second article, "From Theory to Practice: Vertical Relations in the French Postal Sector" by Ambrosini and Klargaard, further investigates the question of the relationship between routers and postal operators, and argues that the two have a historical relationship and a common interest in the development of the postal market, and that it is not in the interest of the operator to limit competition in the upstream segments of the market.

The third article, "Advantages and Limits of Nonlinear Tariffs: The Commercial Contract in the Postal Sector" by Cremer and De Donder, provides a detailed study of nonlinear tariffs. The authors show that the use of sophisticated tariff policies better permit the achievement of fixed objectives, whether they have to do with optimizing the public good through quality of service or with optimizing benefits. However, these nonlinear tariffs are impossible when routers have access to the same tariffs as direct clients.

The fourth article, "Access to Certain Services or Elements of the Postal Sector Infrastructure" by Fratini, Roy and Vantomme, studies access, not in terms of operator distribution network, but of indispensable means: certain rights accorded to the postal service, like mailboxes, change of address information, re-routing, etc., would need to be made accessible to private competitors in a liberalized market.

The fifth article, "Transfer Price and Governance in the Postal Sector" by Lécou and Roy, studies the setting of tariffs on access to certain infrastructures of the historical operator. It differs in that it studies the relationship between a entities in a chain (between corporate and individual branches) in a company, and shows that regulating prices on internal transfers comes to disrupt the primary objective of ensuring good general governance.

In the fourth and final chapter, consecrated to the analysis of demand and costs in the postal sector, the authors present articles dealing with market forces and dynamics from electronic communication, the cost of distributing marketing materials, and possible tariff implementations that could bring about important revenues, demographic impact on delivery cost and its relation to mail traffic, and cost according product format and weight.

In the first article, "Dynamic Models for Postal Service Market Demand: The French Case" by Boldron, Cazals, Florens and Lécou, the authors present the first elements of a response in terms of the existence of an electronic substitution in France, and establish an econometric model of postal service market demand between 1996 and 2007 that defines the impact of electronic communication on price elasticity.

In the second article, "Selling by Correspondance: A Conceptual Approach" by Ambrosini, Bréville, Cornée and Klargaard, shows that a better understanding of postal service market demand could be used in creating specialized direct marketing volumes. They describe tariff and non-tariff implementation strategies to be used both to generate traffic and supplementary revenues.

In the third article, "Cost of Distribution II: A Return to Parametric Models" by Cazals, Fève, Florens and Roy, the authors continue a 2001 study of external work projects and price elasticity, which changes based on a "U" curve depending on demographic density. At the bottom of this "U" intermediate density price elasticity shows no variation, eliminating traffic as a cost factor in this case.

In the fourth article, "Determination of the Impact of Format and Weight of Postal Objects on Manual Process Costs" by Bernard, Gomez, Martin and Roy, the authors occupy themselves with questions of cost control and efficiency, but focus less on environmental characteristics or mail volume and more on size and letter format. They discover that changes in the size of mail and packages from current standards had a 2 and 15-fold impact on marginal costs, and analyses the concurrent impact of weight, along with format, on these costs—an experimental study that goes to the heart of cost efficiency in the postal sector.

Links with other documents in the same sector

BRIEF COMMENTARY

This study is one of the most comprehensive and conclusive ever carried out in France on the postal industry.

Indeed, the largest remaining state monopoly faces great challenges due to the decline in volume of mail, increasing regulatory constraints, and fickle political winds that impose unstable liberalization, often modify subsidies, and continue to increase obligations without providing more pricing freedom as a counterpart.

To understand and cope with these changes, La Poste, as a historical monopoly, has a limited understanding of its cost structure and economic reality, and therefore requires economics and economists to enable it to successfully navigate its transition towards a market enterprise entrusted with the provision of a universal public service, in competition with other carriers. The role of economics should therefore not be underestimated either in its importance to La Poste, nor in its capacity to enable scholars to understand the huge complexities, but also enormous future potential, of La Poste, and all other national postal services.