**SOCIALISM: Case study examples – Soviet Union and the UK??**

Socialism is where the state/Government provides goods or services in the economy. The Soviet Union 1922-1991 is today called Russia but during this time it was entirely a socialist state. However the UK is not considered to be a “socialist” state. Although some goods or services are provided or run by the Government – e.g. NHS and elements of the Royal Mail, the majority of the economy is provided for by private firms and therefore could be argued to be more “Capitalist” in nature.

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**The failure of state-run firms in the UK? The Royal Mail**

**Can the Royal Mail continue to provide a universal postal service?**

Adapted from Geoff Riley for his Economics blog - Monday, October 27, 2008

The Royal Mail is a mail network that has come under huge pressure from increasing competition within the market of delivering parcels etc. Twenty years ago, the Royal Mail was the sole provider of this service in the market and was run through the Government by their USO (Universal Service Obligation). Under the USO the Royal Mail must deliver mail to every UK address every working day and provide appropriate collection points for mail across the UK. In addition the Royal Mail must charge the same price for a letter regardless of the distance it travels. The price of a first class stamp for a letter from London to Oxford is the same as one from London to Inverness. In other words the Government has interfered with the market and set a price cap. However recently the Government has allowed competition from other private firms (deregulation) because the Royal Mail were inefficient because of a lack of competition. However the Royal Mail’s “universal service obligation (USO)” continues to act as a major drag on the costs of the business.

On the other side of the coin, the USO can be useful for providing a reliable postal service and is an essential part of the economic and social fabric of a community providing the necessary oil in the wheels for thousands of smaller businesses who rely on an efficient postal system to keep their firms ticking over. But for the Royal Mail it acts as a huge financial constraint. And then add in the pressures created by a shift towards email, internet advertising, and rival operators such as Business Post and UK Mail who are now handling almost one letter in every three posted in the UK.

The universal service provision inevitably means that the royal mail postal service runs at a loss. The longer-term competitive threats to the Royal Mail are now accentuated by the recession. Mail volumes are likely to decline as businesses and individuals cut their costs and there is a downturn in the direct-mail industry.

**Royal Mail: Universal Failure**

Adapted from Eben Wilson for the Adam Smith Institute (a right wing think tank) - December 2009

The universal service obligation (USO) is interesting, not because of the arguments to support it, but because there shouldn’t be any arguments like this at all!!!! The universal service is a nonsense! It breaks all tenets of successful business enterprise and is in dire need of reform. So why does the government insist on its continuation?

If you were offered some shares in a national enterprise with good “capital”, a trained workforce, and dedicated management you might invest. But if you were then told that it had to sell its products at the same price to everyone (stamps etc), and any price changes needed government approval, you would rightly be dubious! Government interference through price controls and regulation are killers to enterprise and capitalism. Product innovations make enterprises learn and grow.

The Royal Mail has, in my view, been failing for decades; essentially since the 1960’s when mechanized services became the norm. As a business model, the idea of hand-delivering a physical product everywhere at the same price is clearly madness!! On the way, it also missed out on its biggest chance of success – the internet and on-line delivery of services. It has allowed this competitor to enter its market and hasten its decline. As it has declined, its workforce has been holding on to its privileges by using collective worker power through trade unions. This has distorted the way it operates and increased costs. Also, it is unable to manage its way out of its past, surviving only on handouts from the Government (subsidies) which only help to make its operations more inefficient as there is no incentive to cut costs and become efficient.

The Royal Mail is a marvellous case study in the causes of failure if a Government decide to run the distribution of a good or service. The USO rule is 170 years old – time enough for numerous negative effects to emerge. Here are just three killer effects:

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| **The Post Office is losing money!** | **Innovation simply has not taken place.** | **Politicians protect their interests** |
| 170 years ago the postman in a rural area would have been paid about five pence a day. Delivering fifty letters by hand and on foot would have made the post office 45p in margin. That would have paid for his uniform, his local sorting office and its staff and a contribution to the long distance postal network.  On a rough estimate, today’s postman costs around £150 a day in wages, tax, van depreciation and other costs such as uniform and staff support services. He needs to deliver upwards of 500 items to earn that amount of revenue. Are there ten times as many homes? Is ten times as much mail delivered per household? Of course not. | The Royal Mail’s Post Office operation is a bizarre business - or perhaps it should be a bazaar business – as anyone who goes into a Post Office knows. It offers a diverse range of products and services, mostly delivered at their point of issue by expensively trained human beings fiddling with sticky bits of paper. There appears to be no rationalization of the service processes. The queuing, the fiddling about with stamps and stickies, the puzzling over forms and handing over of cash are all endemic to a not-very-efficient output system that generates thousands of small payments.  Innovation has simply not happened, except perhaps for the silly mail pricing structure; what other organization would get away with charging £1.78 to do something and make you buy tokens in £1, 50p, 2 x 10p, 1 x 5p, 1 x 2p and 1 x 1p denominations to achieve a result? | Why do politicians cling onto their silly romanticism about the Royal Mail and its Universal Service. Essentially, because they look at the problem the wrong way; seeking to see what can be “done” about it, rather than what needs to be undone. Politicians love to be seen to be practicing discretion and judgment with the appearance of great wisdom. In doing so, they pander to misguided consensus; that postal services should be available to all, that post offices should be kept open, that the elderly and poor somehow rely on the post office, that stamps are important, that prices need to be controlled. All of these things are badly judged and unwise. They allow the Royal Mail labour force to become part of the institutional fabric resisting change (while in fact promoting their own financial interests) and they prevent the Royal Mail from finding out what is for. |