The Challenge to the U.S. Postal Monopoly, 1839–1851

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Over the last decade, government postal systems around the world have been facing increasing competition largely stemming from the rise of alternative technologies. During the years 1839–1851, the United States Post Office was in a similar situation. Private competition arose that made effective use of railroad and steamship lines. This competition was so successful that a number of congressmen feared postal service was on the verge of an involuntary privatization. Because the monopoly profits garnered by the Post Office were important to politically powerful interest groups, the federal government did not allow postal service to be privatized. To eliminate private competition, however, the government was forced to reduce drastically postage rates and adopt many important reforms. The postal system arguably underwent more change in those 12 years than in the rest of its history.

The Post Office was the largest commercial enterprise in the antebellum United States. By mid-century, it employed 20,000 individuals. In 1831, three-fourths of all civilian federal employees worked for the Post Office. By the time of the Civil War, that fraction had risen to almost five-sixths (*Historical Statistics of the United States* 1960: 7, 710). Almost all of the employees were deputy postmasters or clerks. The majority were part-time. An even larger number of people worked under contract or for companies under contract to the Post Office. The contracts were mainly for transportation.

The Post Office's monopoly power allowed it to earn huge profits (or "rents") on important routes because few close substitutes for

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mail service existed. In many other countries, the national postal service earned significant revenue for the government's general fund. In Great Britain, the expenditures of the postal service during the 1830s yielded a profit of approximately 200 percent. The U.S. Post Office returned almost no revenue to the general fund. It usually reported losses. Large profits were being earned, but they were distributed internally. Giving out the postage revenues to groups with political power became the Post Office's second function. Measured monetarily, it was the Post Office's primary function. Thomas Jefferson, suspicious of the Post Office, had written:

> I view [the Post Office] as a source of boundless patronage to the executive, jobbing to members of Congress and their friends and a bottomless abyss of public money. You will begin by only appropriating the surplus of the post-office revenues; but other revenues will soon be called in to their aid and it will be a source of eternal scramble among the members, who can get the most money wasted in their states; and they will always get most who are meanest [Jefferson 1892–99: IX, 324–25].

The government resisted subsidizing the Post Office until the 1850s, partly out of fear of that which Jefferson prophesied.

The Post Office's large hidden profits caused very high postal rates relative to the cost of transportation. Before the first price reform in 1845, the average one-page letter cost 14.5¢ postage (Post Office Department 1844). It was often noted in the New York press that one could ship a 200-pound barrel of flour down the Hudson from Troy to New York City for less than one could send a one-page letter over the same route (*New York Tribune*, 30 October 1843). The high postage was felt to be oppressive—especially after 1839. In 1839, the British reformed their postage system, dropping the postage charges from an average of 15¢ American to a flat rate of 2¢ per letter. Even more important, it was in 1839 that the U.S. Post Office first came up against significant formal competition.

Private companies deliver mail efficiently and at low rates. To defeat the private mail and express companies, Congress was forced to lower postage rates. Rates were lowered to an average of 6.3¢ per half-ounce letter in 1845. Private competition and postal reform agitation were temporarily checked, but did not cease. In 1851, Congress lowered postage further, to 3¢ per half-ounce letter.

Congress managed to avoid the privatization of postal services. Private competition, however, permanently changed postal service in America. Not only did it cause a drastic reduction in price, but it proved the usefulness and profitability of new techniques and services—such as postage stamps and intra-city delivery—which the Post Office then copied.

Operation of the U.S. Post Office

The U.S. Post Office transported consumers' mail between post offices. On busy routes, mail was delivered once or twice a day, but in smaller towns mail might be delivered as seldom as once every other week. Mail service can be considered a special form of transportation. It was much more expensive than the transport of freight or people. The average cost of transporting a one-page letter in 1843 through the Post Office was 14.5¢. The average one-page letter weighed .25 ounce and traveled less than 500 miles, so the cost exceeded $35 per ton-mile (Post Office Department 1844) or about 140 times freight rates on New England stage coaches ("Post Office Monopoly" 1843: 484). Even the least expensive private mail companies never charged less than 2¢ on intercity mail.

The reason for the high cost of postal service was two-fold. First, high sorting costs and the obligation to run fixed routes at fixed times carrying nonoptimal loads raised the cost of all formal mail services. The greatest expense of regularity came in rural regions where a sulky or horseman was often dispatched with a handful of letters. A route that generated too little revenue compared with its expenses was supposed to be cut back or discontinued but, in practice, the decision to cut back or abolish a route was often political.

The second and most important reason for the high cost was that postage served as a tax. The Post Office may not have been designed with this purpose in mind, but collecting monopoly rents (i.e., revenues in excess of opportunity costs) for politically powerful interest groups soon became the Post Office's primary function. Six groups gained financially from the Post Office: (1) coach contractors, (2) rail and steamboat companies, (3) postmasters, (4) publishers of printed matter, (5) officials with the franking privilege, and (6) rural voters. The rents extracted by those groups accounted for most of the money paid for postage. In what follows, I present rough estimates of the magnitude of the rents.

Coaches

Coach contractors were a very influential lobby in Washington. On the surface, horse, sulky and stagecoach contracts were determined competitively. Routes were auctioned off for four years. Allegations were made, however, that the bidding on contracts was rigged. Government treated postal contracts as an unofficial means of subsidizing transportation. Where enough business existed, a coach line could transport more cheaply than horse or sulky. In Great Britain, where coach transportation was not subsidized, the average coach contract cost 5¢ per mile compared with 5.2¢ for an average horse or mail cart contract although the coaches generally carried more mail (Select Committee on Postage 1837–38: XX(2), 251–52). In the United States, coach contracts cost more than horse and sulky contracts. In 1838 the average coach route cost 9.2¢ per mile while the average horse or sulky route cost 7.2¢.

When postage rates were lowered in 1845, the new law also did away with transportation subsidies. The Post Office was still given discretionary powers in determining the minimum amount of equipment necessary to carry out a given contract, but for the following two years the agency seems to have carried out the spirit of the law. The New England and New York contracts were renogotiated in 1845. The new contracts dropped the cost of horse, sulky, and coach transport by 45 percent per mile. The cost of coach transportation fell 49 percent from 7.3¢ per mile to 3.7¢ per mile. Lower-grade horse and sulky transportation fell 21 percent from 4.4¢ per mile to 3.5¢. Moreover, coach transportation, which had been used on 76 percent of the routes, was now used on only 49 percent of the routes (Post Office Department 1846). Extrapolating from those results, the Post Office predicted that $1 million could be saved by ending the transportation subsidy; that is, nearly half of what was being spent for horse, sulky, and coach transportation. The saving of $324,000 produced in the West the following year—somewhat more than predicted—confirmed the projection. There was some deterioration in service. The Postmaster General reported that deductions from the pay of contractors for failures and irregularities in 1846 totaled $26,273, which was significantly more than normal (Post Office Department 1847).

Railroads

The federal government had an unstated policy of subsidizing railroad and steamship companies. Railroads dramatically lowered transport costs for the private sector, but the construction of railroads actually raised the price of mail transportation. In 1838, Congress passed a law requiring the Post Office to make use of railways as long as their charge was no more than 25 percent above the charge of coaches offering similar service. Railroad companies further argued that coaches could not offer "similar service" because they were slower than trains. Some railroad companies, therefore, claimed that they were legally entitled to 25 percent more than a coach would charge if it could travel as quickly as a train (Post Office Department 1842). In 1843, the Post Office compiled statistics comparing the price paid for the first year of service on all existing rail lines and the last year of coach service on the line before the railroad took over. On average, railroads cost 87 percent more than the coach service they replaced. The increase in costs was highest in the South, where the price rose 181 percent.

Railroads were facing a private sector with elastic demand. Although hauling freight by wagon cost about 15¢ per ton/mile, railroads charged the private sector only about 5.5¢ per ton/mile (North 1973: 108). The government's demand was extremely inelastic. Officials believed they had a duty to transport mail by railroad or steamboat wherever possible to speed delivery. Otherwise, communications might fall into the hands of the private sector. The money that was spent simply came out of other groups' rents—groups that may have had less political pull than the railroad and steamboat companies.

To estimate how much this transportation cost, I use figures collected by the Post Office in 1843. In 1843, the Post Office spent $800,000 on rail and steam service. Government statistics show the Post Office transported 2 million paying letters and 4.3 million newspapers (including 160,000 pamphlets) in October of 1843. Letters weighed approximately .25 ounce and newspapers 2 ounces, so that the Post Office was transporting 284.4 tons of newspapers and paying letters that month. As explained later in this section, the Post Office also transported about 15 tons of franked material per month, so assuming October was typical, the Post Office was transporting a total of almost 300 tons of material each month. If one very generously assumes that the average pound of mail traveled 500 miles and half this distance was covered by railroad or steamboat,[1] the Post Office would have been paying the railroad and steamboat companies an average of 88¢ per ton/mile—16 times the common rate for freight. The postmaster general stated that mail was shipped no differently than freight (Post Office Department 1846). Route agents were on some important lines by 1837. They sorted mail and thus required additional space (Scheele 1970: 43). Even if one assumes that transporting mail cost 50 percent more than shipping freight, the real cost of transportation by rail and steam would have been only $74,500. Private express companies, which competed with the Post Office, paid nowhere near as much as the Post Office. For service between

[1]Fewer than 20 percent of paying letters traveled more than 400 miles. More than half traveled fewer than 150 miles (Post Office Department 1844).

Washington and Cincinnati or Washington and St. Louis in 1849, express companies charged customers less than 4¢ per ton/mile (Senate Committee on the Post Office and Post Roads 1849–50: 7).

Patronage

In the 1840s, over 80 percent of the nonmilitary personnel working for the federal government were postmasters or postal clerks. The fact that each new administration caused heavy turnover in employees strongly suggests that service with the Post Office offered more than market wages. Postmasters were offered a proportion of the gross receipts at their post office and the ability to frank mail. In the case of small offices, the ability to frank was often worth more than the salary (*Congressional Globe* 1846–47: A21). In some cases, a businessman in town would use his political connections to gain the position of postmaster simply for the frank. Then he would turn over the work to an assistant who would work for the salary (House Committee on the Post Office and Post Roads 1843–44b: 9). Some postmasters made profits (political, social, or economic) by franking mail for acquaintances. Competition for the rents gained through a postmastership often was vigorous.

When postage rates were lowered, the deputy postmasters' commission was not changed. The amount they received per letter fell by more than half and they lost their franking privilege. Many of the deputy postmasters would not accept this cut and resigned. The postmaster general adopted temporary measures to raise pay. In 1847, Congress set up the new commission schedule. Under this schedule, payments to postmasters across the board dropped about 30 percent from the pre-1845 level. The Post Office had no problem finding men who would work for those rates. Postmasterships continued to be counted valuable spoils. Lincoln was accused of being more concerned with filling postmasterships than with prosecuting the Civil War (Fuller 1972: 292).

Printed Matter

Subsidizing newspapers was a government policy. It was publicly argued that the cheap transmission of public information was necessary to inform and educate voters. More cynically, the newspapers' influence on public opinion gave great political power and, thereby, encouraged the subsidy. Naturally, the public debate, which took place in newspapers, hardly questioned the desirability of low newspaper postage.

Before 1845, newspapers paid 1¢ postage for distances under 100 miles and 1.5¢ for distances over that amount. In addition, newspapers exchanged between printers went free.[2] The average newspaper cost 1.1¢ and weighed 2 ounces. Letters that weighed about one-eighth the average newspaper weight cost up to 16 times as much to mail. In 1843, more than twice as many newspapers were sent through the mail as were letters, and these were almost 97 percent of the paying mail by weight (Post Office Department 1844). Newspapers, however, paid less than 15 percent of the total postage ($536,547 out of $4,249,333). The Postmaster General informally estimated that newspapers had more than half their cost subsidized by letter mail (Post Office Department 1841). The First Assistant Postmaster General estimated in 1848 that the newspapers paid two-thirds of their cost (*New York Evening Post*, 26 December 1848). Any estimate of newspaper cost must be speculative. In view of the above figures, however, the First Assistant's estimate seems reasonably low—1.6¢. If newspapers had been required to pay their proportion by weight of just the transportation cost (not including the rents), newspaper postage would have averaged more than 2.25¢.

Franking

The most constant complaint in the press was the franking privilege of the government and particularly Congress. Because postage could be paid by the sender or receiver, mail was franked to and from Washington. Few could see the need for franking except members of government who described franking mail as an onerous duty. Addressing envelopes took a large chunk of time. As early as 1816, John Randolph described the House of Representatives as a "bookbinder's shop" (McMaster 1883–1914: IV, 360).

The frank was blamed for filling the mails with tons of useless speeches and other usually unread political material. Furthermore, those possessing the frank were often accused of abusing it for personal matters. Supporters back home would sometimes route their private correspondence through their congressional office. Members of Congress would accept and forward letters using the frank as a constituent service ("Post Office Reform and Uniform Postage" 1844).

Two attempts were made to estimate the amount of mail franked in the early 1840s. In October of 1843, records were kept indicating that 130,744 letters were franked by deputy postmasters, 18,558 were franked by members of Congress, and 85,339 were franked by other government officials. Congress was not in session during that month, so congressional franking was low. While Congress was in session

[2]Exchanging newspapers was the primary source of obtaining nonlocal news before wire services were created.

during 1841, a three-week survey of the outgoing Washington, D.C., mail showed that members franked 20,363 letters and 392,268 documents (mainly speeches). Using the 1841 figure to estimate mailing within an average 33-week session, and the 1843 figure to estimate extra-sessional mailing, I estimate that members franked approximately 300,000 letters and 4.3 million documents per year. Deputy postmasters franked 1.5 million letters, and other government officials franked 1 million letters. Persons "well qualified to form an opinion on the subject" believed that half the mail by weight went free ("Post Office Reform and Uniform Postage" 1844). If one includes newspapers, that estimate is untrue. If, however, one is speaking solely of letters and documents, such estimates were fairly accurate. Assuming the average single-page letter weighed .25 ounce and October was a typical month for paying letters, the weight of that class of mail sent in 1843 was 190 tons. Government documents were estimated to weigh 1.25 ounces, so the weight of franked mail sent was approximately 180 tons.

Franked mail took as much effort sorting as regular letter mail. Sorting newspapers was much easier. If one assumes that a newspaper could be sorted at only a quarter of the cost of a letter, then the 7.15 million franked items accounted for $160,000 of the total $990,000 handling costs. Assuming the ton/miles of franks equaled that of letter mail, the cost of transporting franked mail by rail or steam would have been equal to the cost of transporting letter mail—$6,500. There is no good estimate of total transport costs for franked mail. Given the estimate that 2-ounce newspapers (with little handling cost) cost 1.6¢ each, the transport cost of the 1.25-ounce documents probably would have cost at least .5¢ each, for a total of $21,500. Total cost of franked material would, thus, be estimated at $188,000. The estimate is a bit low because there is no information on letters received by Congress.

Rural Voters

The subsidy of rural routes excited much controversy. Living in thinly populated areas entails higher transportation and communication costs. It is a common government policy to subsidize the higher rural costs. High-volume routes between the cities and large towns of the Northeast made sizable profits that were partially spent by politicians in creating and maintaining unprofitable low-volume routes for rural voters. Many, if not most, postal customers lived in rural areas, so monopoly rents distributed in this fashion helped offset the rents those customers were paying to other rent-seeking groups. Some rural customers may have collected more in rents than they paid out to other groups, but the real cost of service in even the most rural state was but 60 percent the postage raised within that state.

Rural subsidy became an important regional issue. In the North the relatively industrial states were profitable, while in the South all states but Louisiana lost money. In 1843, the Post Office was showing a profit of $372,892 in the relatively urbanized state of New York. This represented a profit ratio of 62 percent. Meanwhile gross revenues of $75,503 in North Carolina and $125,862 in Alabama covered only 50 percent and 58 percent of total expenditures respectively.[3] That phenomenon led Northern radicals to count high postage rates as another oppression perpetrated by the Southern slavocracy (*Cincinnati Weekly Herald*, 6 September 1843, 17 November 1843, 16 August 1844; and *Rochester Daily Democrat*, 16 July 1844).

There is no accurate way to determine by how much urban areas subsidized rural areas. The postal statistics collected for Congress do record the amount of subsidy the more urbanized states of the Northeast were providing the rest of the country. In 1843, the seaboard states from Massachusetts to Maryland earned a total revenue of $1.92 million. Expenditure in the region was only $1.28 million. Thus, 33 percent of what postal patrons paid in postage was a subsidy to the remaining states. The remaining states earned only $1.79 million, to offset just 74 percent of their expenditures of $2.42 million (Post Office Department 1847–48).

Totaling the Rents

The estimates I have made are rough. They suffice to show the general magnitude of the rents distributed, which is all that can be done given existing data. Evidence from the post-1845 cost reductions indicates that horse, sulky, and coach contractors received prices that were at least 90 percent above market prices as a subsidy. Railroad and steamboat companies received much greater subsidies. Even if one assumes that something special about mail caused it to cost 50 percent more than regular freight to ship, the companies would still have been exacting rents 1,000 percent over costs.

Finally, politically appointed deputy postmasters were receiving commissions 30 percent greater than those later found sufficient. Those figures assume that after reform (1) coach contractors and postmasters were no longer receiving sizable rents and (2) deterioration in service was insignificant. Table 1 shows that given those

[3]These Post Office figures count the rents extracted by the other rent-seeking groups as expenditures.

TABLE 1

BREAKDOWN OF COSTS AND RENTS IN 1845[a]

Rent Seeker	Total Received	Costs	Rents
	All Mail		
Horse, sulky, and stage contractors	$2,025,000	$1,025,000	$1,000,000
Rail and steam contractors	881,000	80,000	801,000
Post office employees	1,414,000	990,000	424,000
Total	$4,320,000	$2,095,000	$2,225,000
	Letter Mail		
Horse, sulky, and stage contractors	$1,525,000	$ 525,000	$1,000,000
Rail and steam contractors	809,000	8,000	801,000
Post office employees	980,000	556,000	424,000
Newspaper publishers	259,000	–	259,000
Officials with frank	178,000	–	178,000
Total	$3,751,000	$1,089,000	$2,662,000

[a]The total received for all mail is taken from the 1845 report of the Postmaster General. The method for determining how much of the total is rent is that used in the text. Costs and rents for letter mail are figured using the following assumptions: (1) the average letter postage is 14.5¢, (2) the average newspaper postage is 1.1¢, (3) twice as many newspapers as letters are mailed, (4) newspapers can be handled for a quarter of the cost of either letters or franks, (5) each newspaper is subsidized .5¢, and (6) there are 7.3 million pieces of franked mail.

estimates, almost 59 percent of letter postage paid went as rents to the three groups.

The total effect of the subsidy of printed matter and franking was that the 25.9 million letters, weighing 190 tons and paying $3.76 million, had to support 59 million more items, weighing 3,407 tons and only paying $569,000. This situation amounted to at least a $437,000 subsidy, which was an additional 11.7 percent of letter postage.

Thus, more than 71 percent of the consumers' letter postage (including the rural voters) was being distributed as monopoly rents. Due to the subsidy paid rural states, monopoly rents were at least 81 percent of the postage paid in the seaboard states from New Hampshire to Maryland. Even in the remaining rural states, 61 percent of the postage paid was monopoly rent being distributed to one of the five groups (not including rural voters).[4] The rents the U.S. Post Office was distributing, relative to its size, were similar in magnitude to the profit the pre-1839 British postal service produced more openly. The fact that the Post Office was extracting the rents made it possible for smaller companies to compete successfully in mail delivery.

The Challenge to the Post Office

The Post Office had always faced informal competition. As steamboats and railways spread, the competition intensified. Very often, people with letters to send would go to the railroad station or the steamship dock. They would find a respectable-looking gentleman going the same place as the letters they wished to send and ask him to carry them. He would either drop them at the post office where they could be picked up for a penny apiece or else leave them at some other central location agreed upon where they could be picked up without cost (House Committee on the Post Office and Post Roads 1843–44c: 3; Post Office Reform and Uniform Postage 1844). In that way, there was no tax to pay, the sender bore the sorting cost himself, and there was no extra cost of sending a man with a non-optimal load. For the convenience of their customers, hotels and taverns would set out boxes in which letters for various cities could be deposited. The boxes would then be sent along with travelers ("New Rates of Postage" 1843: 510; *Rochester Daily Democrat*, 2 April 1844).

Informal mail service was also important for personal letters traveling between the East and the frontier. Long-distance postage was 25¢ per sheet and Midwestern farmers were often strapped for cash. Personal letters were kept until an acquaintance happened to be traveling the right direction and then entrusted to him (*New York Evening Post*, 25 November 1843).

Among businessmen in big cities a semiformal system developed in which any businessman sending an employee to another city would put up a sign notifying others who would bring over their mail. Large merchants could send mail almost daily between Boston and New York by those mutual agreements. The *New York Evening Post* (16 February 1843) reported: "Merchants of standing declare that of all the letters they receive from Boston, Albany and Philadelphia, four-

[4]This assumes that the proportion of costs to rents was constant across states.

fifths come by private hand, free of expense, and not by mails or expresses."

Private mail contractors were legal as long as they did not compete with Post Office routes. The Post Office did not service areas that were too thinly populated. A writer in the *New York Evening Post* describes how his rural neighborhood had hired a contractor to pick up mail in the nearest town and deliver it weekly. In Wisconsin, the Post Office had refused a route to a still thinly populated area so a group of individuals agreed with the Post Office to manage the route themselves in return for the postage the route earned (*New York Evening Post*, 29 January 1844). In the western United States, it was common for express companies to open up mail routes to mining camps and isolated towns in advance of the Post Office (Scheele 1970: 30–31).

The U.S. Post Office began facing formal competition in 1839. A convenient rail and steamship route had recently been opened and William F. Harnden began a New York to Boston express. Harnden's enterprise proved a success and within months a number of other express companies, using primarily rail and steam routes, had opened in imitation. Business focused on the densely populated Northeast but quickly spread to major cities throughout the United States and Canada. Originally, the expresses specialized in transporting money and packages. That was legal. Soon, however, letters were being sent piggyback within packages of goods, and boxes of letters were being shipped between cities. The express companies themselves began to accept "packets" that were essentially equivalent to letters. Their service was cheaper and reputedly quicker and safer (*New York Evening Post*, 18 February 1843 and 2 October 1843). In November 1843, Adams and Co. were brought to court on the charge of transporting letters outside the mail. The law, being written before the age of steam, was aimed specifically at private foot and horse posts. In a controversial decision, the judge ruled that the law did not apply to rail and steamship posts (*New York Tribune*, 12 April 1844). This decision was immediately hailed as a triumph for free enterprise and later heralded as the beginning of "a new era in our Republic" (*Boston Evening Transcript*, 27 July 1844). Private mail companies began to be formed openly.

The most controversial business was the American Letter Mail Company, organized by Lysander Spooner. Spooner was not a businessman but a radical political reformer. He set up a mail service between New York, Boston, Philadelphia, and Baltimore partly to make money but mainly as a challenge to the constitutionality of the postal monopoly. The Articles of Confederation of 1778 had vested the Congress with the "sole and exclusive right [of] . . . establishing and regulating post offices" (Art. IX). The Constitution had simply granted "the power to establish post offices and post roads." This language led many, including Justice Joseph Story, to doubt whether the power the Constitution gave to set up posts and post roads was intended to be exclusive (Spooner 1971: I, 21; Priest 1975: 45–46). Spooner argued the postal monopoly was unconstitutional and in his newspaper advertisements he offered to cooperate with the government in bringing the issue in front of the Supreme Court if the government would leave his company unmolested until the issue was settled (*New York Tribune*, 20 January 1844). The Postmaster General was unwilling to cooperate, and Spooner was driven out of business after six or seven months due to fines, legal expenses, and the irregularity of his mail caused by government seizure (Spooner 1971, I: 14). Spooner also may have lost business to more efficient firms. While he riled the federal government with his "impudence" (House Committee on the Post Office and Post Roads 1843–44a), other mail companies—more intent on making a profit than making a point—kept a low profile and flourished.

The most successful private mail company was that of James W. Hale. Hale first worked for an express company on the Boston-New York route and formed his own post office about the same time as Spooner formed his. Hale, Spooner, and most other private mail carriers charged 6.25 cents per stamp or 20 stamps for $1.00. Unlike the Post Office, which did not use stamps, private companies required payment of the *sender*. Hale's area of delivery was New England and the Eastern Seaboard as far south as Baltimore. In January 1845, after a year in business, his company had grown to 84 post offices and had 260 employees (*Boston Evening Transcript*, 10 January 1845). This was still much smaller than the Post Office, which had 1,700 offices in New England alone. Many small imitators of Hale existed in the New England area. A contemporary visiting Boston in August 1844 reported: "All along Court street on both sides of State street, and almost cheek by jowl with the government post office, you see these private establishments for the transmission of letters and printed intelligence between the chief cities on the sea board, and from them to the principal towns far in the interior" (*New York Evening Post*, 3 September 1844). Mail companies sometimes cooperated. Small companies would maintain ties with big companies to enlarge the area of service (Bulkey 1978: 477–81).

Henry Wells, later of Wells Fargo, ran the most extensive service in upstate New York in company with Pomeroy and Livingston. In this area, letters to New York City had generally cost 25¢ per sheet.

The new price of 5¢ generated great enthusiasm. Meetings were held in Lockport and other towns calling for a boycott of the Post Office until it quit harassing the private carriers and lowered its own rates to a competitive level (*New York Evening Post*, 8 August 1844). Henry Wells's company faced charges in the circuit court. The Post Office obtained convictions against Hale and Spooner in Pennsylvania and Maryland, but no jury in New York or New England would convict. Southern and Western cities were already served by express companies (*New York Evening Post*, 28 July 1843), but Wells's Letter Express Company was the first company specializing solely in letters to extend beyond the Northeast. For 10¢ per letter, it served the cities adjoining the Great Lakes as far as Duluth, Minnesota (Stimson 1851: 62–63; *Scott's 1992 Specialized Catalogue of United States Stamps* 1991: 283).

Rising competition stirred up calls for postage reform. State legislatures had been petitioning for postage reform as early as 1838. The postal reform movement became important after its first big New York City meeting in November 1843 (*New York Tribune*, 25 November 1843 and 27 November 1843). The reform movement among consumers, primarily businessmen, was strongly influenced by events in Britain.

The British postal service had ceased to grow after 1815. Private postal service had become widespread. In 1838, Rowland Hill caused a stir by proposing that the government adopt one low postage rate for all distances based on weight. He further proposed that postage be paid with the purchase of a stamp. Hill argued that the postal monopoly was not maximizing its profits. He argued that a drop in postal rates to a penny (2¢ American) would increase volume to such an extent that within a few years, profits would rise. His plan seemed to offer great benefits to consumers without serious harm to government profits. In 1839, British postage was cut to 2¢ for .5 ounce. The following year the volume of mail increased by 122 percent and then continued to rise. Costs increased only 13.5 percent the first year. The postal service remained profitable, but its gross receipts per capita did not regain their 1839 level for over a decade.

Post Office officials argued that postage could not be lowered in the United States because the population was much more dispersed than in Britain. The British postal service was cushioned by its large profits, but a fall in revenue in the United States would force a cutback in rents. The Post Office proclaimed that the first rent-seeking group cut would be the rural voters in the South and West. If that did not balance the budget, the shortfall would be made up by higher tariff rates. Such tactics won the Post Office strong support in many rural states. Consumer groups countered by pointing out that the proliferation of private mail services already was causing a great drop in revenue. The government might have the legal power to shut down those services, but it was unwilling to face the political ire such an action would incur (House Committee on the Post Office and Post Roads 1843–44c: 5). The consumer groups welcomed such services but preferred a cheap universal government service. Reformers insisted that demand for postal service was elastic and promised that low postage rates would cause revenues to increase over the long run. Any immediate shortfall could be met by eliminating patronage and the frank (*New York Tribune*, 8 December 1843, 15 January 1844, and 6 December 1844).

In March 1845, Congress passed a law that lowered postage rates to 5¢ per .5 ounce under 500 miles and 10¢ per .5 ounce over 500 miles. Those were roughly the rates private companies charged. The law also closed loopholes to more effectively protect the government monopoly and tripled the fine for violations. The new system went into effect July 1, 1845. The express companies announced they would no longer handle letters (*Daily Picayune*, 8 July 1845). Most of the private mail companies seem to have gone out of business. Reports of continued private service included companies that delivered between large cities and the surrounding towns for 2¢ (*New York Evening Post*, 29 November 1845), a fast high-price letter express linking markets in New York City and New Orleans (*New York Evening Post*, 29 January 1845; Post Office Department 1846), and private routes in New Hampshire (House Committee on the Post Office and Post Roads 1847–48: 27).

One type of private mail company remained legal. That was the city dispatch or penny post. Post roads ran between cities, not within them, so private mails delivering intracity mail were legal. An earlier intracity post had been established in late 1839, but it did not deliver to and from the post office and soon failed (Abt 1949a). The first such successful American company was the City Despatch Post in New York City. This company was opened by Alexander M. Grieg in February 1842 and was purchased by the government after a few months in operation. In June 1844, John Boyd opened another private intracity delivery service. He began with twice-daily door-to-door deliveries and soon expanded to four. He collected from over 200 drop stations, gradually increasing the number to approximately 2,000. He undercut the City Despatch Post's price by a penny and soon drove them out of business. Boyd's intracity delivery service, along with that of D.O. Blood in Philadelphia, became a model for hundreds of similar services. In the late 1840s, a dozen services were competing for business in New York City alone. At this time, having a letter picked up and delivered cost only 2¢. Having a letter taken to or delivered from a post office cost a penny (Abt 1949b, Abt 1950).

Sometime during the late 1840s, express companies once again began delivering letters between major cities in the Northeast (Post Office Department 1849). They now provided the service for 2¢ per letter (*Congressional Globe* 1850–1851: 234–36). I found no details concerning this service. Earlier experience had taught private mail services to be very discreet. In spite of the renewed private service, Post Office revenues were increasing. Patronage, franking, and transportation subsidies had been trimmed. Congress was pleased with the increase in revenues brought about by the 1845 price cut and was worried private competition might once more begin to flourish. In 1851, therefore, Congress once more cut postage—this time to 3¢ per .5 ounce for any distance (except mail to and from the West Coast). The Post Office was given the right to declare city streets post roads. Almost all private intracity delivery was eliminated by 1860. The business established by Boyd in New York is possibly the only exception (Abt 1950: 371–80).

The Effects of Competition

The U.S. Post Office found the express and mail companies a serious threat. The Committee on Post Office and Post Roads reported in May of 1844:

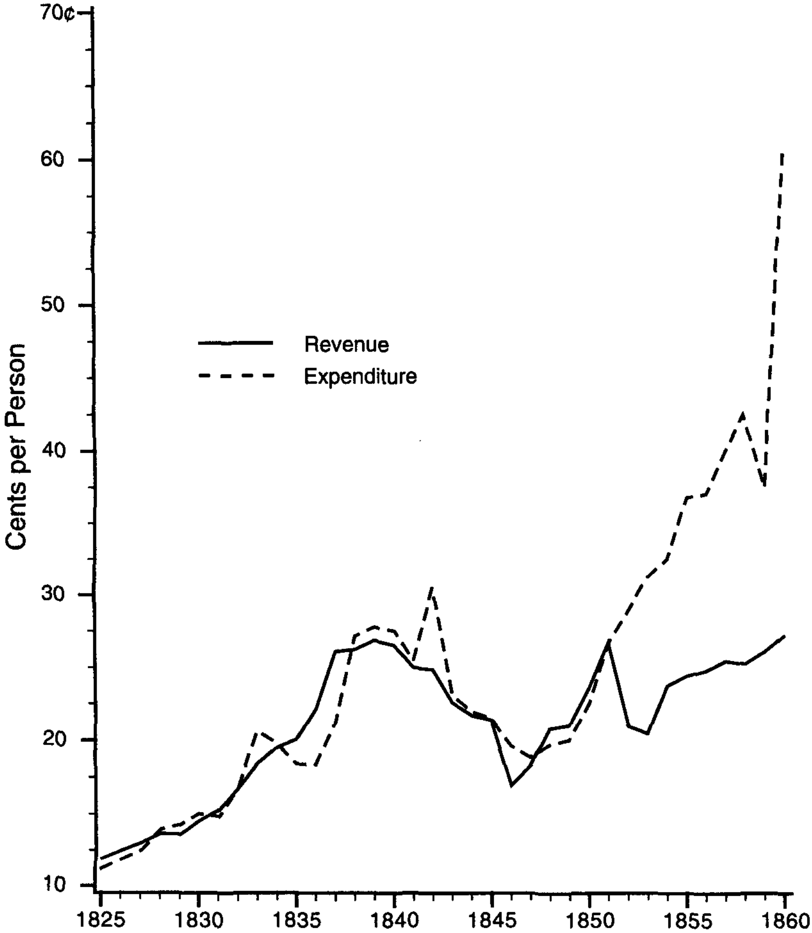
> Events are in progress of fatal tendency to the Post Office Department and its decay has commenced. Unless arrested by vigorous legislation, it must soon cease to exist as a self-sustaining institution, and either be cast on the treasury for support, or suffered to decline from year to year, till the system has become impotent and useless [House Committee on the Post Office and Post Roads 1844: 2].

The pressure of competition from private firms was responsible for bringing about lower postage rates. It was also responsible for changing the nature of postal service. Private companies introduced payment-by-weight, prepayment, postage stamps, and home delivery to the American market. Those reforms were adopted afterward by the Post Office.

Private expresses bit into Post Office revenues almost immediately. Post Office revenues per person peaked in 1839 and continued to decrease until after the 1845 reform. Determining how much of the decrease was caused by private competition and how much was caused by the 1839–43 recession is not possible. From 1830 to 1839, Post Office revenue per person grew by 7.2 percent per year. By 1839, it reached 26.9¢ per capita. It fell to 21.3¢ in 1845 when government postage was finally lowered (see Figure 1). Unfortunately, there is no direct evidence as to the amount of mail delivered privately, so any estimate of the scale of private mail service must be speculative. If one assumes that overall postal services per person did not grow at all from 1839 to 1845, the figures would show that private enterprise had taken over 20 percent of the market as measured by revenue (at U.S. Post Office prices). If one assumes that the lower price of private mail stimulated the market for mail service so that it grew 5 percent per year, for example, then the figures would show that private enterprise had gained a much greater 40 percent market share. From 1839

FIGURE 1

REVENUE AND EXPENDITURE OF THE POST OFFICE, 1825–1860



to 1844, revenue in all regions suffered. As shown in Table 2, revenue from the Gulf states fell farthest. Until the early 1840s, the Gulf states spent more money on postage per free individual than any other region. A high percentage of Gulf mail was to and from the Northeast. Before the advent of the express companies, the Post Office probably faced less informal competition on those long routes than on the shorter Eastern routes.

Private mails began to flourish toward the end of fiscal year 1844 and lasted through fiscal 1845. The drop in Post Office revenue per capita during that year centered in New York and included other Mid-Atlantic states and southern New England. Although the economy was strong in that year, New York State postal revenues dropped approximately 10 percent.

The lowering of postage rates in 1845 from an average of 14.5¢ to an average of 6.3¢ caused an immediate drop in revenue per capita of only 21 percent. Within three years the Post Office was running a surplus and within five years postal receipts per capita were back at the 1845 level. From 1846 to 1851, postage revenue per capita grew 9.7 percent per year. The short-term fall in revenues put the squeeze on those who were capturing rents from the postal system. Of them, only the newspapers gained. (Newspapers delivered less than 30 miles became postage free. That privilege was revoked in 1847.) Publishers had generally supported lower postage and had either convinced lawmakers that what was good policy for letters would also be good policy for printed matter, or else had simply impressed lawmakers with their political influence. Railroad and steamboat companies also managed to maintain their rents, as did rural voters. The groups that suffered were the stagecoach contractors, government officials outside of Congress, and deputy postmasters. As previously noted, reform meant an end to the official policy of subsidizing transportation. Such subsidies were not ended completely, but they were drastically scaled back in the Northeast and West and were trimmed elsewhere. The political power of the coach contractors seems to have been eclipsed by that of the railroads. Congress also ended franking privileges for all groups except themselves. Deputy postmasters were hit hard by the reform. They were paid by commission. Their earnings per letter declined with the cost of postage.

The second reform, in 1851, was not as evidently successful. In 1845, growth in postal revenues per capita had been in decline with little hope for reversal without major reform. In 1851, in spite of renewed complaints against private express companies, Post Office business was booming. The cut in rate to 3¢ for all letters again caused only a 21 percent drop in revenues. Revenue per capita returned to

TABLE 2

REGIONAL DIFFERENCES IN POST OFFICE NET REVENUE PER FREE PERSON[a]

Year	Northern New England	Southern New England	New York	Middle States	Northern Interior	South Atlantic	Southern Gulf	Interior
1825	4.8¢	12.8¢	11.3¢	9.6¢	3.1¢	9.8¢	18.6¢	5.0¢
1835	9.8	23.1	20.7	15.9	8.6	16.7	35.6	11.4
1839	13.4	29.2	29.4	21.4	14.0	20.6	57.4	18.4
1841	12.8	28.7	29.0	19.9	11.7	19.7	36.9	15.9
1843	13.3	28.1	27.8	18.3	10.1	18.3	33.4	13.9
1845	13.0	26.2	22.7	17.0	10.6	17.2	33.8	13.4
1847	11.5	22.2	17.2	12.3	7.8	10.4	18.4	7.8
1849	13.5	26.8	23.0	14.8	9.3	12.4	22.4	9.4
1851	17.1	32.9	29.5	17.1	12.5	15.5	25.2	11.8

[a]Northern New England: Maine, New Hampshire, Vermont. Southern New England: Connecticut, Massachusetts, Rhode Island. Middle States: Delaware, Maryland, Pennsylvania, New Jersey. Northern Interior: Illinois, Indiana, Michigan, Ohio. South Atlantic: Georgia, North Carolina, South Carolina, Virginia. Southern Gulf: Alabama, Florida, Louisiana, Mississippi. Interior: Arkansas, Kentucky, Missouri, Tennessee.

its 1851 level by 1860, and the price cut was hailed as a success. If the government's goal, however, was to maximize revenue or hidden profits, it is not evident that this price cut succeeded.

The price cut in 1845 showed that demand was least elastic in the South. Revenue fell much more sharply here than elsewhere (see Table 2). Overall, there appear to have been fewer substitutes for Post Office service in the South. The industrial states' subsidy of the more rural Southern routes became larger after 1845, but Southern politicians were unhappy with the cutback in transportation subsidies. Reformers realized that the quick growth of postal revenue made getting another reform bill through Congress much more difficult.

To sidestep opposition by rent-seeking groups, the law included a section directing the Postmaster General not to cut back services. Any shortfall in revenue was to be met by money from the general fund (House Committee on the Post Office and Post Roads 1847–48: 73). The new law broke down the firewall that had restricted rents and gave the rent-seeking groups access to the general revenue. Jefferson's fears proved true. Transportation expenditures, particularly in the South, rocketed. In 1845, opponents of postal reform had predicted that cheaper postage would mean throwing the support of the Post Office on the Treasury. The *Charleston Mercury* had prophesied that this change would destroy the Post Office's financial responsibility and that "in ten years you will have it cost you ten millions of dollars" (House Committee on the Post Office and Post Roads 1847–48: 26).

The prediction of the *Mercury* was made true after the 1851 reform. The Post Office's expense was $9.97 million in 1855. By 1860, postal expenditures of $19.2 million dwarfed the $8.5 million earned. East of the Mississippi, transportation costs per mile had risen from 5.9¢ in 1850 to 10.0¢ in 1860. The 1851 reform fundamentally changed the nature of the postal monopoly. Before 1851, the six rent-seeking groups drew their money from high postal prices that acted as a tax on letter writers. After 1851, the money was distributed through the Post Office but came largely from the general revenue. The great increase in subsidies the change entailed indicates that the political cost of redistributing money from the general revenue was significantly less than taking it directly from letter writers.

Besides driving down Post Office prices, private companies introduced a number of reforms that originated in Great Britain. Private mail companies first introduced to the United States the practice of charging mail by weight. This practice was imposed on the Post Office in 1845, although the Postmaster General remained uncomfortable with the new principle (Post Office Department 1846). An important aspect of the pay-by-weight plan adopted was that the generous

.5-ounce allowance for single postage made the widespread use of envelopes possible. Another innovation was a simplified scale of postage. Hill had pointed out that the cost of transporting mail in bulk over large distances was extremely low so charging by distance was not cost effective (Coase 1939). Great Britain, therefore, adopted a flat 2¢ rate. Private mail companies in the United States began with a flat rate and moved to a two-tier system. In 1845, the Post Office began imitating that system and in 1851 adopted a flat rate.

The simpler rate system combined with prepayment led directly to the use of stamps. Prepayment had been optional and little used in the United States. Complaints of letters not reaching their destination were common and payment on delivery was an incentive to better service. Private mail companies insisted on prepayment. They thus lowered handling costs by using stamps and avoided the loss due to unclaimed letters. Customers accepted prepayment in a competitive system. If the company failed to deliver, the recourse was to give someone else one's business. After 1847, the Post Office began to use stamps, but stamps did not become standard until 1856—one year after prepayment was made obligatory.

Finally, private mail companies began home and office deliveries. In the United States, government letter carriers delivered out-of-town mail in the largest cities for 2¢ per letter, but the first intracity mail services were private. Private intercity mail companies made a practice of delivering door-to-door free within the towns and cities they served. Private mail companies could not afford small rural post offices, so to extend their coverage they offered to deliver to any residence within 30 miles of one of their post offices for an extra 5¢ (*Rochester Daily Democrat*, 13 August 1844). Between 1851 and 1860, the Post Office gradually took over the intracity business in the most populous centers. Door-to-door delivery was eventually made free and extended to large towns. The Post Office did not imitate the rural service of the private companies. Rural delivery was not attempted until the turn of the century, when it was finally offered as a free service.

Conclusion

In the first half of the 19th century, the federal government's legal monopoly over the mail was a monopoly over all intercity communication. Informal and illegal channels of communication had always existed, but their inconvenience and limited scope allowed the Post Office to earn huge monopoly profits. The government's policy of running the Post Office on a "nonprofit" basis simply channeled the rents (profits) to powerful political groups who were in a position to draw directly from the Post Office coffers. Those profits gathered from the U.S. Post Office were of the same magnitude as the profits earned more openly by the British postal service.

The transportation revolution lowered the cost of intercity transportation and communication in the 1830s and 1840s. Private companies met the change by offering low-cost transportation and communication. The Post Office, facing no formal competition, at first kept its prices fixed. As costs dropped, monopoly profits increased. The profits became large enough to draw competitors despite the legal risk. That competition, and pressure from consumer groups, caused the Post Office to lower its rates in 1845 and 1851 by 79 percent.

The effect of private competition went beyond the drop in postage rates. An equally important effect was the introduction of new techniques into the U.S. market. The most important innovations were prepayment with stamps and intracity pickup and delivery. The Post Office showed no sign of adopting such innovations until they were successfully used by private companies.

A private postal system was probably not a realistic possibility. Privatization would have led to an 80 percent cut in federal civilian employees and the loss of thousands of lucrative transportation contracts. Some rural areas may have faced higher postage prices, and politicians played that threat to the hilt. If rent-seeking groups could have been bought off with side payments, private companies might possibly have made communications in the United States more efficient; such side payments were never attempted.

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Order Out of Anarchy: The International Law of War

Gary M. Anderson and Adam Gifford Jr.

War is often assumed to be the paradigm of anarchy, the Hobbesian state of nature in practice. War, in that view, is merely the predictable violent breakdown of law and order that follows from the lack of a world government.

However, that view ignores an interesting and important aspect of the "anarchic" international order. A complex system of norms, including both cultural and legal institutions, exists and functions to constrain warfare. In fact, the idea that the conduct of armed conflict is governed by rules appears to have been found in almost all societies, without geographical limitation (Roberts and Guelff 1982: 2).[1] These rules do not work perfectly. But they clearly restrain the behavior of nations at war, at the margin.

The use of violence to transfer resources from one party to another—the central feature of war—is an externality. Because warfare destroys resources in the process of transferring them, it is also a negative-sum game. Historically, the purpose of the constraints on war was not to eliminate the basic externality resulting from the coercive transfer itself but, more modestly, to make the sum of the game less negative. The resources destroyed during war can be thought of as the transactions costs of war. The cultural and other constraints on war, including what we now call the laws of war, then, reduce the

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[1]Such has been the case since ancient times. For example, during the Egyptian and Sumerian wars of the second millennium B.C., the combatants observed formal rules limiting acceptable behavior during warfare (Friedman 1972: 4). The Greeks and Romans observed a multitude of limitations on combat, and during the Middle Ages, "a law of arms was developed in Europe to govern discipline within armies as well as to regulate the conduct of hostilities" (Roberts and Guelff 1982: 3). Those early rules and limitations reflected the same basic principles found in modern laws of war.