

IRET Congressional Advisory

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IS THE POSTAL SERVICE ABOUT TO ELIMINATE ONE DAY A WEEK OF MAIL DELIVERY?

In every year since the mid-1980s, Congress has included language in appropriations bills directing the Postal Service to continue delivering mail six days a week.^{1, 2} At a Senate hearing in January, Postmaster General John Potter asked Congress to remove the mandate so that the Service, if it chose, could save money by switching to five-day-a-week delivery.³

Postmaster General Potter added that the Service wanted to have the option of curtailing deliveries but might not use it⁴ and that the day dropped would not necessarily be Saturday. (It might be a slow weekday instead.) He also said that the Service was not interested in moving to five-day-a-week delivery throughout the year but was only thinking of removing the sixth delivery day during the summer months, which is the Service's slowest time of year.

The hearing, held before a subcommittee of the Senate Committee on Homeland Security and Governmental Affairs, was called against the backdrop of a sharp decline in mail volume in 2008 and an even steeper drop expected in 2009. The weakness in mail demand is primarily due in the short term to the recession (economic activity is a major determinant of mail volume), but a longer-term problem is the diversion of much potential mail volume to electronic alternatives (e.g., e-mail, direct deposit, on-line bill payment). The Postal Service's revenue was flat in 2008, at \$75 billion, but it is falling in 2009 as a result of declining mail volume.⁵ The organization lost \$2.8 billion in 2008, and it

faces a much larger loss in 2009, unless it is able to implement significant cost savings.

The Postal Service has moved quickly to adjust to the smaller mail volume and trim its costs. However, the severity of the recession, which has shocked households and businesses throughout the economy, and the many constraints Congress has placed on the Postal Service's ability to manage its costs are making the adjustment especially challenging. The witnesses and several of the Senators at the hearing agreed that the Service could realize major cost savings by streamlining its nationwide network of facilities. It was also pointed out that a huge share of the agency's costs is for labor (about 80%) and that some of the Service's employee fringe benefits are generous even compared to benefits at other federal agencies.

The possibility of shifting to five-day-a-week delivery has been examined in the past. Most recently, in late 2008, the Postal Regulatory Commission (PRC) issued a major study on the Postal Service's universal service obligation (USO) and its statutory monopoly. The PRC Report included an analysis of the pros and cons of reduced delivery frequency, but did not make any recommendation regarding delivery frequency.⁶ However, the PRC concluded that delivery frequency is a legitimate issue to consider, and strongly recommended that the USO be interpreted flexibly in the future – as it has in the past – to help the Postal Service keep its costs aligned with its revenue so that

it can continue to provide affordable, reliable mail service.

The Postal Service also asks Congress for another form of relief

Although the possibility of reduced mail delivery understandably captured the headlines, Mr. Potter actually called it, in his oral testimony, the Service's "second priority" in terms of what he is requesting from Congress. The "first priority" is that Congress allow the Service to tap a fund created by the Postal Accountability and Enhancement Act of 2006 (PAEA) that is intended to pay for postal retirees' health benefits. In the Postal Service's plan, the funding relief would last for eight years and rise from \$2 billion in fiscal year 2009 to \$4.2 billion in fiscal year 2016.⁷ This would not reduce the Service's costs over time but would delay when some payments are due.

In addition to Mr. Potter, the witnesses at the Senate hearing were Dan Blair, who is Chairman of the PRC, and Phillip Herr, who is Director, Physical Infrastructure, at the Government Accountability Office (GAO). Mr. Herr agreed that the Service's payments for retiree health benefits should be changed, but he countered that "GAO believes" two years of relief "would be preferable" to eight years because it would give the Service short-term help while not creating a massive funding gap.⁸ It would also provide more opportunity for Congressional oversight and keep the Service on a shorter leash regarding concerns about its transparency. Mr. Blair concurred that allowing the Service temporarily to reduce its funding for retiree health benefits "would appear to be the most pragmatic approach for the short term,"⁹ and he agreed with GAO's plan for two years of relief, rather than eight years.

Senator Thomas Carper (D-DE), the subcommittee's Chairman, and Senator Susan Collins (R-ME), the full committee's Ranking Member, expressed disappointment and concern that the Service's health-care-funding proposal would break a legislative compromise that had been negotiated

barely two years earlier.¹⁰ Nevertheless, given the severe and unexpected recession, they supported GAO's proposal in order to give the Service "some breathing room."¹¹

There are two reasons to suspect that the proposed reduction in mail delivery frequency is an example of the "Washington Monument" strategy,¹² with the Postal Service's real objective being to secure Congressional permission to draw on the Retiree Health Benefits Fund. One reason for suspicion is that, in response to a question during the hearing, the Postmaster General suggested the Service would not need to cut the sixth delivery day (at least for the time being) if Congress allows it to access the fund. A second reason involves simple arithmetic. The PRC has estimated that the Service could save \$1.9 billion by delivering mail only five days a week, but that estimate is for an entire year.¹³ Cutting delivery just during the summer months would save about \$475 million (assuming for simplicity each month's saving is 1/12th of the yearly PRC estimated total). That is much smaller than the health care funding relief that the Service requests. (Consultants to the Postal Service more optimistically estimate the annual gain would be \$3.5 billion, which works out to \$875 million for three months, but that estimate unrealistically assumes reduced deliveries would have no adverse effect on mail volume and revenue.¹⁴)

A thoughtful discussion of trade-offs

A valuable feature of the Senate hearing was that the three witnesses and several of the Senators talked intelligently and directly about the Postal Service's need to reduce costs, the unavailability of trade-offs, and the desirability of making sensible trade-offs.

The examination of trade-offs is welcome because, too often, it is implicitly assumed in political discussions that there is no need to give up anything, that lawmakers can banish trade-offs simply by saying "no". In reality, of course, trade-offs are often unavoidable as long as our resources of labor, capital, land, and time are scarce. The danger is that if less damaging trade-offs are rejected for political

or bureaucratic reasons or simply out of inertia, the choices that remain by default may cause unnecessarily great social and economic harm.

In the case of the Postal Service, if the agency succeeds in implementing changes that significantly lower costs without seriously compromising service quality, it will be better positioned to remain financially viable while keeping postal rates affordable and performance standards high. On the other hand, if the Service does not prudently trim its costs in the face of declining volume and revenue – or if Congress blocks its efforts – the unappealing choices that remain are much higher rates for mail users, much lower service quality, or the need for large federal appropriations, which would burden taxpayers. To his credit, Postmaster General Potter laid on the table one of the Postal Service's difficulties in making the best trade-offs when he noted that although "there is strong, overall stakeholder support for the general issue of improved postal efficiency ... [it] often weakens considerably when a specific change is proposed for a specific community."¹⁵

During the hearing, Mr. Potter defended reduced delivery frequency in the context of a trade-off among policy options. He claimed that if customers were forced to choose between one less delivery day or a rate increase, most would select five-day-a-week service. As it happens, two independent polls conducted several days later agreed with his assertion. In a USA Today/Gallup poll, individuals said, by a landslide ratio of 57% to 14%, that they would prefer reduced services if the alternative were significantly higher stamp prices.¹⁶ In a Rasmussen survey, individuals favored one less day of mail delivery over a higher stamp price by an impressive margin of 69% to 26%.¹⁷

Senator Carper forcefully recognized the existence of trade-offs when he observed, "[P]ostal management is likely to pursue dramatic cuts in service if we [in Congress] do nothing."¹⁸ Mr. Blair addressed trade-offs at two levels. Looking at the proposal to reduce delivery frequency, he pointed to

its costs and benefits and said they should be weighed carefully. At a broader level, he observed that there are many options for trimming the Postal Service's costs. He recommended they be thoroughly and openly evaluated, saying, "Is it a trade-off between an exigent rate case or a degradation in service delivery? These are things that need to be aired in the public..." Mr. Herr likewise recommended that the Postal Service lay out a comprehensive plan for the short- and long-runs so that Congress and the public can better understand "what other options [besides five-day delivery] are being considered," "what trade-offs are being made," and "how these pieces fit together."

A trade-off not explicitly discussed at the hearing but worth keeping in mind is that the more support the Service has from Congress as it tries to rationalize its network and reduce its labor costs, the less need it will have to scale back delivery frequency.

Delivery days will not be reduced this year but may in the future

To answer the question posed at the start of this paper, the sixth day of mail delivery will almost certainly will not be dropped in 2009 or 2010. Instead, Congress will probably enact legislation allowing the Service to draw on its health benefits fund. Senator Carper tried unsuccessfully to attach two years of reduced fund payments to the stimulus bill, and he will likely continue his efforts. Granting funding relief also has backing on the House side, where Representatives John McHugh (R-NY) and Danny Davis (D-IL) have introduced a bill (H.R. 22) modeled on the Postal Service's original request.

Nor does Congress appear inclined this year to drop the appropriations rider mandating six-day delivery. Representative José E. Serrano (D-NY), who is Chairman of the House Appropriations Subcommittee on Financial Services and General Government, vowed to retain the requirement "in my [appropriations] bill",¹⁹ and Senator Susan Collins informed the Postmaster General at the January

hearing that she is on the Senate Appropriations Committee and is "rather fond" of the current language.

No one truly likes the idea of moving to five-day-a-week mail delivery. However, if mail volume continues falling, the argument for eliminating the sixth delivery day will become progressively stronger, and the proposal will return in future years. An added consideration regarding affordability is that although mail volume per delivery point is still considerably higher than it was prior to the mid-1980s,²⁰ a smaller share is lucrative first-class mail

and more is lower-margin advertising mail. Accordingly, it is useful that the Postmaster General has publicly raised the issue of whether the Postal Service should continue delivering six days a week. To help in making the right choice, the Postal Service, households, and commercial mailers should engage in a dialogue about whether dropping the sixth delivery day would be more or less disruptive to mail users and the Service than other options for bringing costs into line with revenue.

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This is another of a continuing series of IRET papers examining the U.S. Postal Service. IRET began its work in this area in the mid 1990s. Norman Ture, the organization's founder, believed that growth and prosperity are advanced by restricting government to a limited set of core functions. From this perspective he was concerned about the activities of government owned and sponsored businesses. The Postal Service stands out among government businesses because of its size — it employs about 30% of the federal government's civilian workforce. For many years — but fortunately much less so under the current Postmaster General — it was also notable for aggressively trying to expand beyond its core mission.

Endnotes

1. Congress stipulates that one of the requirements for the Postal Service to receive its revenue foregone appropriation, which mainly reimburses the Service for the cost of free mail for the blind, is "[t]hat 6-day delivery and rural delivery of mail shall continue at not less than the 1983 level..." Although it might seem that the penalty for discontinuing six-day delivery would be relatively small (the revenue foregone appropriation for fiscal year 2008 was only \$117.864 million), both Congress and the Service read between the lines and regard the stipulation as a stern admonition to maintain six-days-a-week mail delivery.
2. As clarification, the Postal Service delivers to most addresses six days a week but has never delivered with that frequency to every address. It delivers less frequently to some rural addresses, does not deliver at all to some addresses (providing a free post office box instead), and delivers on five days to the many businesses that are closed on the sixth day. The appropriations bill rider recognizes that by referring to the standard in force in 1983.
3. John E. Potter, Postmaster General, "Statement," before the Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, Senate Committee on Homeland Security and Governmental Affairs, January 28, 2009, accessed at http://www.usps.com/communications/newsroom/testimony/2009/pr09_pmg0128.htm.
4. Mr. Potter explained that, under his proposal, the number of delivery days would only be curtailed if the Postal Service's Board of Governors voted to do so. The Chairman of the Postal Regulatory Commission (PRC), Dan Blair, was also a witness at the hearing. He added that even if the appropriations rider were dropped, the Service would still have to go before its regulator before cutting the sixth delivery day.
5. In the first quarter of fiscal year 2009 (October 2008 - December 2008), mail volume was down by 5.2 billion pieces (9.3%) and revenue was down by \$1.3 billion (6.3%), both compared to the fourth quarter of fiscal year 2008.

See U.S. Postal Service, Quarterly Financial Report, Postal Quarter I FY 2009 (Form 10-Q), February 6, 2009, accessed at http://www.usps.com/financials/_pdf/FinalQuarterIFY0910Q.pdf.

6. Postal Regulatory Commission, "Report On Universal Postal Service And The Postal Monopoly," December 19, 2008, accessed at <http://www.prc.gov/prc-docs/home/whatsnew/USO%20Report.pdf>.

7. See Phillip Herr, Director, Physical Infrastructure, Government Accountability Office, "Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs," before the Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, Senate Committee on Homeland Security and Governmental Affairs, GAO-09-332T, January 28, 2009, p. 7, accessed at <http://www.gao.gov/new.items/d09332t.pdf>. Mr. Herr amplified on GAO's recommendations in his oral remarks.

8. *Ibid.*

9. Dan G. Blair, Chairman, Postal Regulatory Commission, "Statement," before the Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, Senate Committee on Homeland Security and Governmental Affairs, January 28, 2009, accessed at [http://www.prc.gov/prc-docs/home/whatsnew/Senate%20Hearing%202009%20\(AF%20MC\)%20\(FINAL3\)%20\(3\).pdf](http://www.prc.gov/prc-docs/home/whatsnew/Senate%20Hearing%202009%20(AF%20MC)%20(FINAL3)%20(3).pdf).

10. Senator Thomas R. Carper, "Statement," Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, Senate Committee on Homeland Security and Governmental Affairs, hearing on "The Impact of Economic Crisis on the U.S. Postal Service," January 28, 2009, accessed at http://hsgac.senate.gov/public/_files/TCStatement0.pdf; and Senator Susan M. Collins, "Statement," Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, Senate Committee on Homeland Security and Governmental Affairs, hearing on "The Impact of the Economic Crisis on the U.S. Postal Service," January 28, 2009, accessed at http://hsgac.senate.gov/public/_files/CollinsStatment.pdf.

11. Senator Carper, "Statement," *op. cit.*

12. For example, the Interior Department might oppose a reduction in the appropriation for the National Park Service by claiming that it would need to close the Washington Monument, rather than a far-less-visited site.

13. PRC, "Report On Universal Postal Service And The Postal Monopoly," *op. cit.*, p. 120.

14. *Ibid.*

15. Potter, "Statement," *op. cit.*

16. Dennis Cauchon, "Postal Service Seeks To Weather Economic Storm," USA Today, February 2, 2009, accessed at http://www.usatoday.com/news/washington/2009-02-02-postal_N.htm.

17. Rasmussen Reports, "69% Would Rather Cut Mail Delivery Than Pay More For Stamps," February 05, 2009, accessed at http://www.rasmussenreports.com/public_content/lifestyle/general_lifestyle/january_2009/69_would_rather_cut_mail_delivery_than_pay_more_for_stamps.

18. Carper, "Statement," *op. cit.*

19. Joe Davidson, "Five-Day Mail Delivery? Not So Fast," *Washington Post*, January 30, 2009, page D03, accessed at http://www.washingtonpost.com/wp-dyn/content/article/2009/01/29/AR2009012903745_pf.html.

20. Data on mail volume is available in Postal Service Annual Reports. For a long time series on delivery points, see U.S. Postal Service, "USPS Annual Tables: FY 2007 TFP," Table 36, April 3, 2008, accessed at http://www.prc.gov/Docs/59/59511/USPS_Annual_Tables.pdf. (This table differs from the delivery point data in recent Postal Service Annual Reports because it is limited to outside-of-post-office deliveries and, therefore, excludes post office boxes.)