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HOW DOES THE SALES DECLINE AT THE POSTAL SERVICE COMPARE TO THOSE AT LARGE PRIVATE-SECTOR BUSINESSES? HOW DO THE RESPONSES COMPARE?

Executive Summary

So far in fiscal year 2009, the Postal Service's mail volume has plunged 12.6%, and it's revenue is down 8.4%. It expects a yearly loss exceeding $7 billion. The recession is responsible for most of the decline, with electronic diversion also hurting.

Although the Postal Service has rarely confronted falling revenue in the past, sales declines are common at private-sector businesses, especially during nasty recessions. Among the large U.S. companies on the Fortune 500 list, 32% suffered revenue drops in 2008 and 25% lost money, with similarly bleak numbers expected for 2009. Taking the Fortune 500 as a benchmark, the Postal Service's numbers are worse than average, but it is far from alone.

Sales declines are almost always traumatic, and some Fortune 500 companies fail, but most pull through successfully. What can the Postal Service learn from the many Fortune 500 businesses that overcome revenue decreases?

The primary response of private-sector companies, especially during recessions, is vigorous cost management. Media reports and company announcements are filled these days with stories about belt-tightening by companies, their workers, and their suppliers.

The Postal Service is trying to follow this strategy and has reduced its 2009 spending by more than $6 billion, relative to earlier plans. However, political pressure and numerous restrictions written into law impede the Service's ability to rightsize its workforce, bring wages and fringe benefits into line with those in the private sector, and close or consolidate excess facilities. The Postal Service's leaders have done a remarkable job given the constraints, but the government enterprise lacks the cost-control tools it needs to be self-supporting while delivering affordable, reliable mail service.

Until now, a major, albeit de facto, pillar of the Postal Service's business model has been that revenue growth would compensate for inefficiencies that serve political ends but do not advance the agency's core mission. However, the growth-will-counterbalance-wasteful-spending pillar of the business model is now broken. The Service can be financially solvent while fulfilling its core mission, but only if Congress allows it to better manage its costs.

HOW DOES THE SALES DECLINE AT THE POSTAL SERVICE COMPARE TO THOSE AT LARGE PRIVATE-SECTOR BUSINESSES? HOW DO THE RESPONSES COMPARE?

For most of its history, the U.S. Postal Service has enjoyed the luxuries of continuously rising mail volume and increasing total revenue. From 1940 through 2006, mail volume at the Postal Service and its predecessor, the U.S. Post Office Department, climbed in 61 years and dipped in only 6, with all the declines related to recessions or the 2001 anthrax attacks.[1] Revenue over the same period was even more dependable, falling only in the post-World-War-II year of 1946.

Falling volume and revenue

Against that backdrop, the current deep recession has hit the Service's volume and revenue numbers like an earthquake. After peaking at 213 billion pieces in 2006, mail volume inched down by 0.4% in 2007, dropped by 4.5% in 2008, and has plunged at a rate of 12.6% in the first three quarters of 2009.[2] Several months ago, the Postal Service expected that mail volume for the full year would be "in the neighborhood of 180 billion pieces",[3] a level not seen since the mid 1990s, but the latest prediction is for an even sharper descent, down to about 175 billion pieces.[4]

Revenue is more prominent than volume in financial statements because revenue provides the money to pay the bills. (In assessing an organization's financial health, volume matters only insofar as it affects revenue and costs.) Until recently, the Postal Service's revenue had held up fairly well. Following a 4% rise in 2006, the Service's revenue increased 3% in 2007.[5] Revenue was flat in 2008, but that was better than the sharp declines seen at many private-sector businesses. Unfortunately, the picture is entirely different in 2009. In the first three quarters of 2009, the Service's revenue was 8.4% below what it had been at the same point last year.[6]

As distressing as these numbers are, the trends are even worse. Mail volume has been dropping since the second quarter of 2007, and, through the second quarter of 2009, the percentage decline in each quarter was larger than in the previous quarter.[7] Similarly, total revenue has been falling, at a rapidly accelerating pace, since the third quarter of 2008.[8] Given the trends, one must expect more bad news during the rest of 2009 and another grim year in 2010. Postmaster General Potter forthrightly warned Congress of this in testimony in March, "[W]e do not expect any near-term improvement. We anticipate continued volume decline and a loss of more than $6 billion for next year..."[9]

How much bleaker the volume and revenue figures become largely depends on the economy. Because economic activity is one of the principal drivers of mail use, one ray of hope is that mail demand will probably stabilize once the economy stops contracting. Furthermore, after a recovery begins (and it will eventually), experiences in past business cycles suggest that volume and revenue will start increasing again.

However, in contrast to every prior recovery (with the exception of an anemic semi-recovery in the mid-1930s), it is unlikely, this time, that mail use will fully regain the ground lost in the slump. One reason for continued weakness is that the recession has crushed the housing and finance industries. Those industries, which contributed significantly to mail demand in recent years, will be more selective in future mailings now that they are poorer, smaller, and no longer floating in speculative bubbles. A second factor is that people have become less dependent on hard-copy mail due to increasingly capable and user-friendly electronic alternatives. Electronic diversion is a long-term process, and its eventual impact on mail demand is not known. So far, it has most noticeably affected first-class mail, which historically has been the Postal Service's cash cow. Over the period 2001-2006, which predates this recession and, hence, abstracts from its effect, first-class mail volume fell at an average annual rate of 1.1% (although first-class mail revenue was still up slightly over the period).[10]

The recession is also battering large, private-sector companies.

To gain a better perspective on the Postal Service's sales numbers and what they say about the organization's financial viability, it helps to look at private-sector businesses. In the private sector, revenue declines are unwelcome and stressful, but they are not uncommon. At a large, established private-sector business, sales numbers like the Postal Service's would be painful but probably survivable, especially if the business moves quickly and vigorously to reduce its costs.

Consider the Fortune 500, which is an annual listing of the 500 largest U.S. companies, with the companies ranked by their revenues.[11] If the Postal Service were a private-sector business instead of part of the federal government, it would be on that list. Only 22 Fortune 500 companies recorded more revenue in 2008 than did the Postal Service, and only one (Wal-Mart) had more employees.

Last year was a horrible year for Fortune 500 companies, as it was for businesses and individuals throughout the economy. As shown in Chart 1, of the 490 companies that were on the Fortune 500 list in 2008 and were also on the Fortune 500 or Fortune 1000 lists in 2007, 32% (155 companies) experienced revenue declines in 2008. The revenue drop was in the 0% - 5% range for 11% of those private-sector businesses (56 companies); in the 5% - 15% range for 12% of them (58 companies); and more than 15% for 8% of them (41 companies).

Before proceeding, a few caveats are in order. The Fortune 500 only includes the largest American businesses. The results discussed here are for a single (very atypical) year. The "year" is not exactly the same in all cases because many firms (and the Postal Service) use fiscal years that differ from the calendar year. Also, some of the revenue numbers are higher and others lower simply because of mergers and spinoffs, both of which may affect a firm's sales but in opposite directions. The sales figures would change a bit if, as a few examples, one looked at a different sample of firms, weighted the firms by market capitalization, or tried to net out the effects of mergers and spin-offs on revenue. However, the general results would remain the same.

A more important caution is that the bottom line is profit (or loss), not revenue. Again consider the 490 companies on the Fortune lists in both 2008 and 2007. A distressing one-quarter of them (124 companies) lost money in 2008.

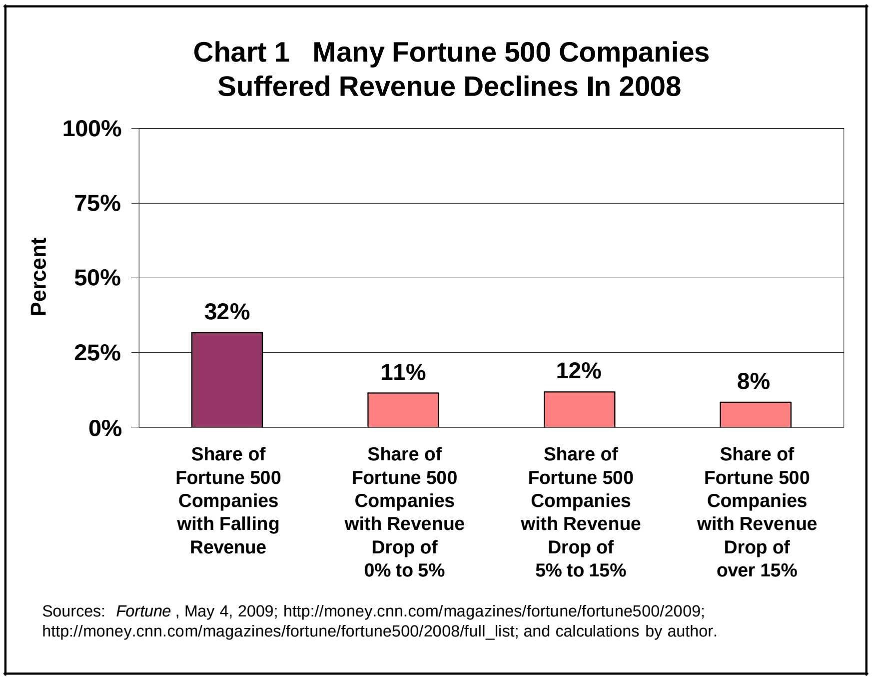
Red ink was much more likely, though, at companies that endured falling revenue (50% of them lost money) than at companies that scored revenue increases (14% of them lost money). Not unexpectedly, the weaker a company's revenue stream, the greater the odds that it posted a loss. In 2008, as shown in Chart 2, about 30% of the Fortune 500 companies with revenue decreases in the 0% - 5% range lost money; approximately half with revenue drops in the 5% - 15% range reported negative profits; and about three-fourths with revenue declines exceeding 15% spilled red ink.

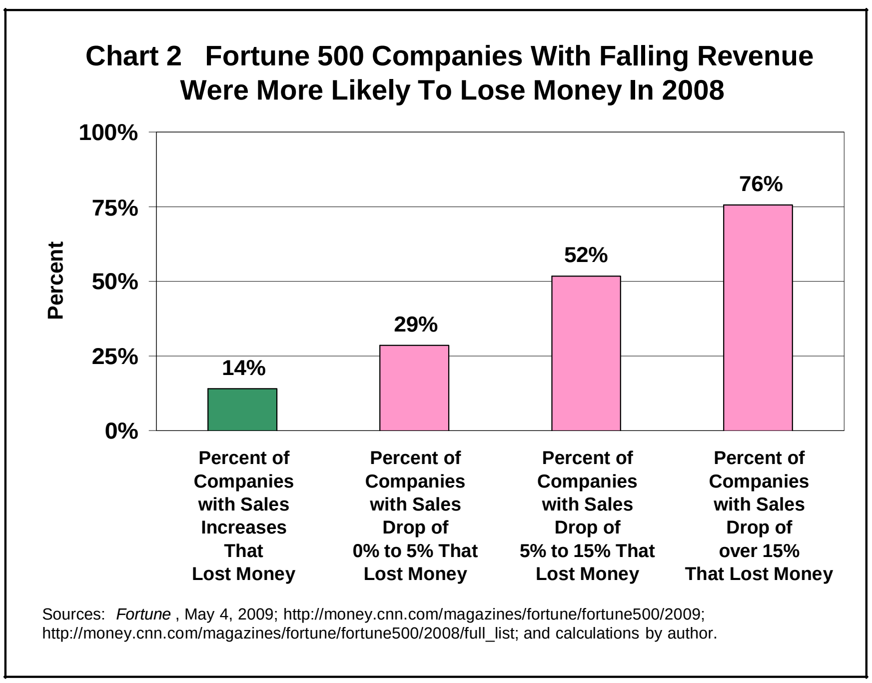
How do the Postal Service's results stack up against those in the private sector?

In comparison to Fortune 500 companies, the Postal Service's performance in 2008 was neither exceptionally bad nor outstandingly good. The Service's results were below average but not by much.

As can be seen from Chart 1, the Service's unchanged revenue in 2008 was somewhat below the median, but it held up better than revenue at a significant minority of large, private-sector businesses.

Turning to the bottom line, Chart 2 shows that the Postal Service had many money-losing companions in the private sector in 2008. Less encouragingly, most private-sector businesses that maintained their revenue stayed profitable, and so did many that suffered revenue declines. Moreover, the Service's loss, at $2.8 billion,[12] was large enough to be widely noticed, and it raised much concern. One recent newspaper article summed up the common perception when it stated, "USPS has been suffering financially for a while now, losing $2.8 billion in 2008..."[13] As explained below, however, much of the loss was due to an effort to quickly reduce a large unfunded liability for retiree health benefits that had been building for many years. If an adjustment is made for that special factor, the Service's financial performance in 2008 does not appear as shaky.





The Postal Service's results in 2009 are more distressing. Less than 15% of Fortune 500 companies in 2008 suffered percentage declines in revenue as large as the Postal Service has experienced so far this year. Like many companies with plummeting revenue, the Postal Service is also incurring a substantial loss. To be sure, the organization's deficit so far this year, expressed as a percent of revenue, is not that far from the average result for Fortune 500 firms with comparable or greater revenue drops in 2008 (excluding as horrendous outliers AIG and the government-sponsored enterprises Fannie Mae and Freddie Mac). Nevertheless, the magnitude of the Service's loss is so great – $4.7 billion through the third quarter of fiscal year 2009 and $7.1 billion predicted for the full fiscal year – that it is sounding alarm bells.[14] If losses of that size persist for several years, it is difficult to see how the Postal Service could escape an outcome no one wants: insolvency, sharply degraded service, and a major taxpayer bailout.

If misery loves company, the Postal Service can be consoled that some of the best-run firms in the private sector are also suffering precipitous revenue drops in 2009. For example, in the most recent quarter, IBM announced a 13% sales decline (compared to the same quarter last year), Microsoft experienced a 17% revenue decrease, GE reported a 17% revenue drop, and Weyerhaeuser, which is a supplier to the housing industry, was hit with a 36% revenue plunge.[15] Two of the Service's main rivals in the package and urgent delivery markets, UPS and FedEx, announced quarterly revenue decreases of 17% and 20%, respectively.[16] However, notwithstanding these revenue drops, all of which are much steeper than that at the Postal Service, four of the six companies succeeded in earning profits.[17]

The Postal Service's losses are not quite as bad as they look

The Service promises its workers generous health benefits in retirement, but until recently it put aside no money to finance this expensive fringe benefit. The result was that the Service accumulated a massive unfunded retiree-health-care liability. As part of the Postal Accountability and Enhancement Act of 2006 (PAEA), Congress ordered the Service to make contributions to reduce the unfunded liability.[18] The legislation specifies the contribution amounts from 2007 through 2016, and the sums are huge ($5.6 billion in 2008 alone), but more than half the payments come from pension-contribution savings. (PAEA and earlier legislation allow the Service to contribute less towards its employees' well-funded pensions.[19])

If not for the 2008 payment to the Retiree Health Benefit Fund (RHBF), the Postal Service would actually have reported a $2.8 billion profit last year. Skipping the payment altogether would have had the undesirable effect of further increasing the Service's unfunded retiree-health-care obligation, which is already north of $50 billion. However, contributing just enough to prevent the unfunded liability from rising would have narrowed the 2008 loss to $1.2 billion.[20, 21] Similarly, contributing just enough to hold the unfunded obligation constant this year would cut the Service's predicted loss in 2009 from about $7.1 billion to approximately $5.5 billion.

Most businesses and government agencies that promise retiree health benefits do not set aside any money for the promises. Nevertheless, advance funding is an excellent business practice because it makes the costs more visible when they are promised, avoids shifting costs associated with current services to future customers, and reduces the danger that enterprises will build up ruinously large unfunded obligations. For these reasons, it is commendable that Congress ordered the Postal Service to fund its retiree-health-care promises – and regrettable the funding did not begin decades ago.

Unfortunately, the contribution schedule specified in the legislation, with a $5.4 billion payment due in 2009, is proving too aggressive, especially during a severe recession. The Service will run out of cash at the end of September, unless Congress reduces the 2009 contribution.[22] Carolyn Gallagher, Chairman of the Postal Service's Board of Governors, used the analogy in congressional testimony that sticking to the old payment schedule "is like planning to add a new room to your home when the house is on fire."[23]

The Postal Service has asked for 10 years of relief. The Government Accountability Office (GAO) countered that two years of reduced contributions would soften the financial squeeze during the recession while allowing better oversight and putting less of a dent in the Service's funding of the retiree-health-care fringe benefit.[24] Both the House and the Senate are now working on bills that, while differing in details, roughly follow GAO's recommendation for giving the Service some breathing room with short-term relief. (H.R. 22 is the House bill and S. 1507 is the Senate bill.)

If a Fortune 500 company were in a similar financial bind, it would certainly reduce its annual contributions during the recession. More fundamentally, it would think long and hard about trimming the enormously expensive retiree-health-care fringe benefit.

How do Fortune 500 companies react to weak or declining revenue?

The main response, especially during a recession, is to reduce costs vigorously and quickly. Prodded by the carrot of profits and the stick of losses, with the threat of bankruptcy in extreme cases, firms intensely reexamine their labor and capital expenditures. Private-sector businesses know that if their costs outrun their revenues, they will lose money and, if the shortfalls continue, go broke.

With regard to labor costs, the business press is currently filled with stories of companies laying off workers, furloughing workers, shifting some workers from full-time to part-time status, delaying raises, seeking pay concessions, trimming pension plans, scaling back health insurance coverage for current workers and retirees, restricting employee travel, and offering early retirement packages. Turning to supplies and capital expenditures, private-sector companies frequently achieve large cost savings by renegotiating terms with suppliers, cancelling some orders, delaying or scrapping some investment projects, running production facilities for fewer hours, and closing or consolidating facilities that are unneeded, inefficient, or in relatively expensive locations. As a strictly temporary measure, firms sometimes postpone routine maintenance.

Company managements often announce explicit cost-reduction goals, such as trimming costs by 10%, both to set an understandable target within the organization and to communicate clearly with investors.

In addition, companies with weak sales look for ways to bring in more money. Private-sector firms with pricey assets that are more highly valued elsewhere in the economy often raise cash by selling the assets. As consumers know from experience, many businesses run deep and frequent sales if their products are moving slowly. Disappointing revenues often spur businesses to reexamine their product lines, looking for modifications to increase the appeal of existing products and searching for appealing new products.

Several cautions should be mentioned, however. When cutting costs, it takes great skill to trim fat while sparing muscle and bone. When hunting for revenues in new products, businesses need to be careful because sometimes sales fail to materialize and sometimes revenue-rich products entail ruinous costs, as happened at once-proud Fortune 500 companies such as AIG, Merrill Lynch, and Bear Stearns. Also, because the ultimate objective is profit, not revenue, companies with falling revenue often axe money-losing products; doing so helps the bottom line despite further reducing sales.

How does the Postal Service's response compare to that at well-run Fortune 500 companies?

The Postal Service is a government enterprise and effectively has two managements: its internal managers, who have performed superbly, and the U.S. Congress, which is better at oversight than business management but does both.

By late 2007, the Postal Service realized the economy was weakening, and its management team saw the need to trim costs, although, like most business leaders, they did not fully anticipate the severity of the recession. Some of the agency's actions in fiscal year 2008 were to freeze hiring at headquarters and headquarters field units, offer early retirement to many workers (a few thousand accepted), continue efforts to close and consolidate excess "backroom" mail processing facilities, and reduce overtime. Postal Board of Governors' Chairman Gallagher later said in congressional testimony, "[T]he Postmaster General and his team responded quickly and decisively" and, for fiscal year 2008, "eliminated 50 million ... work hours, the equivalent of 25,000 employees, and reduced costs by over $2 billion, more than double their initial plan."[25]

In September 2008, when the recession abruptly worsened, the Service again moved with alacrity. Within days, Postmaster General Potter had personally explained the gravity of the financial challenge to commercial mailers and to the leaders of postal unions and postal management associations.[26]

Accompanying these stakeholder communications, the Service expanded its efforts to shed costs. Among its initiatives, it extended the hiring freeze to all employees, reduced authorized headquarter's staffing levels by 15%, eliminated 6 (out of 80) District offices, cut over 1,400 management positions at mail processing facilities, froze executive salaries at 2008 levels, suspended new facility construction, tightened travel budgets, reached an agreement with the National Association of Letter Carriers (NALC) to expedite delivery route adjustments, sought to renegotiate contracts with suppliers, continued to restrict overtime, continued to try closing or consolidating excess facilities.[27] In the latest action to reduce its cost base, the Service has begun offering $15,000 buyouts to thousands of employees.[28]

Mr. Potter recently told Congress, "Based on the severity of the economic slowdown, our plan for 2009 calls for an unprecedented reduction of $5.9 billion in additional costs. We are on track to exceed this goal, ending the year with more than $6 billion in cost reductions."[29] Most of the savings are due to decreased work hours, which is understandable given that nearly 80% of the Service's costs are labor related. The Service's Chief Financial Officer, Joe Corbett, reported that the organization had cut 88 million work hours (8.4%) in the first three quarters of fiscal year 2009 (ending on June 30) and expected "to meet our goal of reducing work hours by more than 100 million for the entire year."[30]

For clarification, these "savings" do not mean the Postal Service will spend $6 billion less this year than it did last year. The $6 billion refers to the savings from reduced work hours and other actions relative to what costs would be without those actions. (For the first three quarters of fiscal year 2009, operating expenses are only down by $1.3 billion, or 2.2%, compared to last year.[31] Without the large reduction in work hours, though, they would have risen.)

Of course, slashing costs is no trick if one also slashes product quality. What is impressive about the Postal Service's effort is that statistical measurements and consumer surveys indicate the quality of mail service has so far remained good.

The Service's performance is especially praiseworthy because Congress has withheld from the agency numerous cost management tools considered vital at private-sector businesses. The agency's control over compensation packages is limited by a statutory requirement that when the Service and a postal union cannot reach a collective bargaining agreement, an outside arbitrator intervenes and sets wages, fringe benefits, and work rules.[32] In addition, Congress has restricted the Service's control over fringe benefits with a statutory requirement that fringe benefits be at least as generous than they were at the start of the 1970s, in the last days of the old, deficit-riddled U.S. Post Office Department.[33] As mentioned earlier, Congress also specifies the schedule of payments into the fund for retiree health benefits, which has created a near-term cash flow problem although it does not increase long-term costs. Yet another limit on cost management has been in the news recently: for the last quarter century, Congress has inserted a rider into annual appropriations bills requiring six-day-a-week mail delivery.[34] Congress also subjects the enterprise to a number of other statutory provisions that push up costs, such as the Davis-Bacon Act, which boosts construction costs. [35]

As a result of arbitration decisions, the Service's weakened bargaining position in labor negotiations due to the mere threat of arbitration, other congressional requirements, and perhaps a desire by postal officials not to push too hard against powerful unions, most postal workers receive higher pay and much more generous fringe benefits than comparable workers in the private sector,[36] and, in addition, most career postal employees cannot be laid off or furloughed.

Beyond specific legislation, Congress frequently pressures the Postal Service to incur unnecessary costs. For example, although Congress declared, "[T]he Postal Service has more facilities than it needs and the streamlining of this distribution network can pave the way for ... the elimination of excess costs,"[37] members often fight to preserve local postal jobs and facilities, viewing their efforts as a constituent service. As another example, when the Service attempted to contract out some new delivery routes to private-sector businesses, which would have yielded large cost savings per route, many members of Congress objected and several filed bills or resolutions to ban the practice.[38] The Postal Service soon backed down.

Consider the impact of these restrictions during the current recession. While a private-sector company with the Postal Service's overcapacity would seriously contemplate layoffs and furloughs, those options are mostly closed to the Service. In addition, the wishes of Congress explain why the Service, although fully aware of the vast excess capacity in its nationwide mail processing network, has moved much more slowly than a Fortune 500 company to close or consolidate unneeded facilities. Also, a typical private-sector company, not needing permission from Congress, would have promptly modified retiree health funding, reducing the contribution in the short term and likely taking the program's huge expense as a signal that future retirees need to be asked to pay more themselves. Similarly, although Congress hesitates to let the Service drop the sixth delivery day, many top businesses would probably side with the Postal Service, given the recent plunge in mail volume and the preference of most mail users for reduced delivery frequency over a price hike. (Insisting on the sixth delivery day increases the odds that the Postal Service will seek an emergency rate hike in 2010.)

The layoff protection and the belief that Congress will bail out the Service if it would otherwise go bankrupt reduce the Service's leverage in trying to renegotiate collective bargaining agreements, with the result that the Service has obtained far fewer labor concessions than many private-sector companies. For instance, at YRC Worldwide, a shipping company in the Fortune 500 that has laid off many employees amid a steep revenue decline and deepening losses, union workers reopened their contract and agreed to a 15% pay cut and an 18-month termination of pension fund contributions in an effort to avoid the company's possible bankruptcy and further job losses.[39]

President Obama recently gave the Postal Service some unwelcome publicity when he said, "I mean, if you think about it, UPS and FedEx are doing just fine, right? No, they are. It's the post office that's always having problems."[40] What Mr. Obama did not mention is that one of the main reasons for the Service's financial difficulties is that it is often prevented from economizing and forced to spend money wastefully.

The assertion is sometimes made that the Postal Service's higher costs stem from the universal service obligation (USO) of providing mail service to people throughout the nation. However, most of the restrictions mentioned here, which collectively boost the Service's expenses by billions of dollars every year, do not support its core mission. In fact, they interfere with the Service's mission by forcing it to charge higher postal rates than otherwise, deliver lower quality service, or both. The one exception is the sixth delivery day, which is generally classified as part of the USO. However, it does not appear to be an essential part of the USO, in that most mail users are willing to drop the sixth delivery day in order to avoid a rate increase.

On the revenue side, the Postal Service has launched several initiatives, most notably a "summer sale" that provides a 30% rebate to qualified commercial mailers on increased mailings during the summer.[41] The sale was made possible by PAEA, which gave the Service more flexibility to adjust its rates, subject to a price cap on market dominant products and regulation by the Postal Regulatory Commission (PRC) to protect mail users. While the sale demonstrates entrepreneurial thinking, lifts morale, and has been enthusiastically received in the postal community, it also shows why most of the Service's response to its volume and revenue decline needs to be on the cost side: if the "summer sale" bolsters revenue by $70 million, which is roughly the midpoint of what the Service predicts,[42] it will only increase the agency's revenue by about one dollar in a thousand. That is helpful but relatively small; cost savings must do the heavy lifting.

Conclusion

Fortune 500 companies often suffer revenue declines, sometimes steep ones, especially in recession years such as 2008 and 2009. Sales decreases are painful, and some Fortune 500 companies experiencing them fail (including icons like General Motors), but most pull through successfully. The key survival strategy, particularly in the short run, is to prune back expenses and strive for greater efficiency. Vigorous cost management has allowed many Fortune 500 businesses with falling sales to remain profitable, return to profitability, or at least narrow their losses.

The U.S. Postal Service is similar to the largest Fortune 500 companies in terms of size, but, unlike them, it could until recently rely on continuously increasing revenue over time. However, now that mail volume and revenue are falling, the Postal Service has an urgent need to shed unnecessary costs and to downsize. The government enterprise's management recognizes the problem, and, after removing tens of billions of dollars of excess costs over the last decade, has increased its cost-saving efforts this year and last.

The Postal Service's projected deficit of over $7 billion dollars this year, with a similar loss expected next year, show those savings are not enough. The agency has identified areas where it could achieve large additional savings in labor costs and its facility network, but political resistance and special provisions in postal laws interfere with prudent cost management and make it harder for the agency to carry out its core mission of providing affordable, reliable mail service.

Until now, a major, though de facto, pillar of the Postal Service's business model has been that revenue growth would partially compensate for inefficiencies that serve political ends but do not advance the agency's core mission. However, due to the recession currently and electronic diversion in the long run, the growth-will-cover-up-for-wasteful-spending pillar of the business model has broken.

In 2006, as part of PAEA, Congress attempted to reform the Postal Service's by granting it more pricing flexibility. Unfortunately, Congress did not tackle the true weakness in the government enterprise's business model, which is that the Service has been discouraged or prohibited from using many of the cost management tools essential to following best business practices. If the goal is having a financially solvent government-run mail system that fulfills its core mission, Congress will want to give the Postal Service more control over its costs.

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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. The numbers in this paragraph are based on U.S. Postal Service and U.S. Post Office Department, *Annual Reports*, various issues. The years are fiscal years.

2. See U.S. Postal Service, *Annual Report 2008*, p. 63, accessed at http://www.usps.com/financials/_pdf/annual_report_2008.pdf; and U.S. Postal Service, "Quarterly Statistics Reports (QSR), Postal Quarter III FY 2009," accessed at http://www.usps.com/financials/_pdf/QSR_FY09QT3.pdf. The years are Postal Service fiscal years, which end on September 30.

3. John E. Potter, "Remarks," at the National Postal Forum, Washington DC, May 18, 2009, accessed at http://www.usps.com/communications/newsroom/speeches/2009/pr09_jepnpf_0520.pdf .

4. Phillip Herr, Director, Physical Infrastructure Issues, Government Accountability Office, "Broad Restructuring Needed to Address Deteriorating Finances," GAO-09-790T, July 30, 2009, Highlights page, accessed at http://federalworkforce.oversight.house.gov/documents/20090730131116.pdf.

5. U.S. Postal Service, *Annual Report 2008, op. cit.*, p. 66. Again, the years are Postal Service fiscal years. Unless otherwise indicated, the years and quarters in this report refer to fiscal years and quarters.

6. U.S. Postal Service, "Quarterly Statistics Reports (QSR), Postal Quarter III FY 2009," *op. cit.*

7. U.S. Postal Service, "Quarterly Statistics Reports (QSR)," various issues, accessed via http://www.usps.com/financials/qsr/welcome.htm.

8. *Ibid.*

9. John E. Potter," Statement," before the Subcommittee on Federal Workforce, Postal Service, And the District of Columbia, House Committee on Oversight and Government Reform, March 25, 2009, accessed at http://www.usps.com/communications/newsroom/testimony/2009/pr09_pmg0325.htm.

10. U.S. Postal Service, *Annual Reports*, various issues. In comparison, from the first three quarters of 2008 to the first three quarters of 2009, an interval during which the recession gathered force, first class mail volume and revenue dropped by 8.9% and 6.7%, respectively. (See U.S. Postal Service, "Quarterly Statistics Reports (QSR), Postal Quarter III FY 2009," *op. cit.*) A further indication that most of the recent slide in mail volume is due to the recession, not electronic diversion, is that package services volume has actually fallen at a faster clip during the recession than first class mail volume. (*Ibid.*) Package services are highly sensitive to economic conditions but less subject to electronic diversion than letters. Indeed, the Internet actually boosts the demand for packages when people buy merchandise on-line and then need the products physically shipped to them.

11. For 2008 data, see "The Fortune 500 Lists," *Fortune*, May 4, 2009, p. F1 - F61. Also see http://money.cnn.com/magazines/fortune/fortune500/2009. For the Fortune 1000, see http://money.cnn.com/magazines/fortune/fortune500/2009/full_list. Data for 2007 can also be accessed from these web sites. The numbers mentioned in the remainder of this paper for Fortune 500 companies were calculated using these data sets.

12. U.S. Postal Service, *Annual Report, 2008, op. cit.*, p. 66.

13. Susan Ferrechio, "Post Office To Get Hit With 'High Risk' Rating As Business Keeps Falling," *The Washington Examiner*, July 28, 2009, accessed at http://www.washingtonexaminer.com/opinion/blogs/beltway-confidential/Post-Office-to-get-hit-with-high-risk-rating-as-business-keeps-falling-51872987.html#.

14. U.S. Postal Service, "Postal Service Ends Third Quarter With $2.4 Billion Loss," *Postal News*, August 5, 2009, accessed at http://www.usps.com/communications/newsroom/2009/pr09_066.pdf; and Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, House Committee on Oversight and Government Reform Committee, "Subcommittee Oversight Panel Holds Hearing on U.S. Postal Service Consolidation Initiatives," July 29, 2009, accessed at http://federalworkforce.oversight.house.gov/story.asp?ID=2561, which cites a letter to Congress from Postmaster General John Potter dated July 14, 2009.

15. IBM, "IBM Reports 2009 Second-Quarter Results," July 16, 2009, accessed at http://www-03.ibm.com/press/us/en/pressrelease/28019.wss; Microsoft, "Microsoft Reports Fourth-Quarter Results," July 23, 2009, accessed at http://www.microsoft.com/msft/earnings/FY09/earn_rel_q4_09.mspx; GE, "GE Reports Second Quarter 2009 Earnings," July 17, 2009, accessed at http://www.gereports.com/ge-reports-second-quarter-2009-earnings; and Weyerhaeuser, 2009 Q2 Financial Results (Unaudited), July 30, 2009, accessed at http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTE3OTF8Q2hpbGRJRD0tMXxUeXBlPTM=&t=1.

16. UPS, "UPS Announces 2Q Results," July 23, 2009, accessed at http://investor.shareholder.com/ups/news/releasedetail.cfm?ReleaseID=398499; and FedEx, "FedEx Corp. Reports Fourth Quarter And Full Year Earnings," June 17, 2009, accessed at http://news.van.fedex.com/node/13850/print.

17. IBM, Microsoft, GE, and UPS stayed profitable. FedEx registered a loss due to writing down goodwill in two acquisitions. Weyerhaeuser also reported a loss, although a surprisingly small one given its sales decline. (*Ibid.*)

18. P.L. 109-435, sec. 801-805.

19. The earlier legislation was the Postal Civil Service Retirement System Funding Reform Act of 2003 (P.L. 108-18). Pensions and retiree health care are different fringe benefits, although postal workers receive both in retirement.

20. See U.S. Postal Service, *Annual Report, 2008, op. cit.*, p. 37. In 2008, when the Service contributed $5.8 billion to the Retiree Health Benefit Fund, its unfunded liability fell by $1.6 billion. Suppose the Service’s contribution had been $1.6 billion less. In that event, its unfunded liability would have held steady, its reported expenses would have been $1.6 billion less, and its reported loss would have been $1.2 billion instead of $2.8 billion.

21. It is beyond the scope of this paper, but a question raised by the Postal Service Office of Inspector General (OIG) will be mentioned. By law, the U.S. Office of Personnel Management (OPM) estimates the expected size of the future liability. Because of the power of compounding, the estimate is extremely sensitive to the growth rate of health care costs. OPM assumes a 7% growth rate, based on recent experience. OIG recommends using a lower growth rate, 5%, that is closer to the assumption made by many employers offering retiree health benefits. If OIG is correct and medical-cost-growth suddenly decelerates, the Postal Service could sharply reduce its contributions to the RHBF and still adequately finance its obligation. The Postal Regulatory Commission (PRC), which also commissioned a study, takes a middle ground. See Postal Service Office of Inspector General, "Final Management Advisory Report – Estimates of Postal Service Liability for Retiree Health Care Benefits (Report Number ESS-MA-09-001(R))," July 22, 2009, accessed at http://www.uspsoig.gov/foia_files/ESS-MA-09-001R.pdf; and Postal Regulatory Commission, "Review of Retiree Health Benefit Fund Liability as Calculated by Office of Personnel Management and U.S. Postal Service Office of Inspector General," July 30, 2009, accessed at http://www.prc.gov/Docs/63/63987/Retiree%20Health%20Fund%20Study_109.pdf.

22. See John Potter, Postmaster General, U.S. Postal Service, "Statement," before the Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, Senate Committee on Homeland Security and Governmental Affairs, August 6, 2009, accessed at http://www.usps.com/communications/newsroom/testimony/2009/pr09_jpotter0806.htm.

23. Carolyn Gallagher, Chairman, Board of Governors, U.S. Postal Service, "Statement," before the Subcommittee on Federal Workforce, Postal Service, and The District Of Columbia, House Committee on Oversight and Government Reform, March 25, 2009, accessed at http://www.usps.com/communications/newsroom/testimony/2009/pr09_bog0325.htm.

24. See Phillip Herr, Director, Physical Infrastructure, U.S. Government Accountability Office, "U.S. Postal Service: 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, January 28, 2009, accessed at http://www.gao.gov/new.items/d09332t.pdf.

25. Gallagher, "Statement," *op. cit.*

26. See Dan Friedman, "Postal Service Freezes Hiring, Promotions," *Government Executive*, September 23, 2008, accessed at http://www.govexec.com/dailyfed/0908/092308cdam1.htm; and William Burrus, President, American Postal Workers Union, "USPS' Bleak Financial Picture And the Presidential Election," *Burrus Update*, No. 11-08, Sept. 30, 2008, accessed at http://www.apwu.org/news/burrus/2008/update11-2008-093008.htm.

27. Mr. Potter refers to many of these initiatives in John Potter, "Statement," before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, House Committee on Oversight and Government Reform, March 25, 2009, *op. cit*.

28. See U.S. Postal Service, "Postal Service Continues Cost-Cutting Actions," *Postal News*, August 25, 2009, accessed at http://www.usps.com/communications/newsroom/2009/pr09_073.pdf.

29. John 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, August 6, 2009, *op. cit*.

30. Postal Service, "Postal Service Ends Third Quarter With $2.4 Billion Loss," *Postal News*, August 5, 2009, *op. cit*.

31. Postal Service, "Financial Conditions & Results (Form 10Q), Postal Quarter III FY 2009," p. 3, accessed at http://www.usps.com/financials/_pdf/FinalQuarterIIIFY0910Q.pdf.

32. Postal Reorganization Act of 1970 (P.L. 91-375), sec. 1207.

33. Postal Reorganization Act of 1970, sec. 1005(f).

34. Postal Reorganization Act of 1970, sec. 410.

35. For a discussion of the postal pay premium, see Michael Schuyler, "The Postal Wage Premium: No Wonder The Postal Service Loses Money," *IRET Congressional Advisory*, No. 131, July 24, 2002, available at http://iret.org/pub/ADVS-131.PDF.

36. PAEA, sec. 302(c).

37. Expressing their disapproval, in the 110th Congress, Representative Albio Sires (D-NJ) introduced a resolution (H.Res. 282) that quickly gathered 256 cosponsors (a majority of the House), Senator Tom Harkin (D-IA) offered a bill (S. 1457, the "Mail Delivery Protection Act of 2007") that collected 38 cosponsors (almost two-fifths of the Senate), and Representative Stephen Lynch (D-MA) introduced a broader bill (H.R. 4236, the "Mail Network Protection Act of 2007") that gained 144 members cosponsors.

38. For background, see Matt Glynn, "Teamsters At YRC Worldwide Face 2nd Pay Cut," *The Buffalo News*, August 7, 2009, accessed at http://www.buffalonews.com/145/story/753575.html.

39. See Ed O'Keefe, "The President And The Postal Service," *Washington Post*, Federal Eye column, August 11, 2009, accessed at http://voices.washingtonpost.com/federal-eye/2009/08/the_president_and_the_postal_s.html?hpid=news-col-blog.

40. For details, see U.S. Postal Service, "Notice Of Market-Dominant Price Adjustment," before the Postal Regulatory Commission, Docket No. R2009-3, May 1, 2009, accessed at http://www.prc.gov/Docs/63/63005/Notice%20of%20Price%20Adj.SummerSale.pdf.

41. *Ibid.*, p. 6.