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UNEVEN PRICE MARKUPS DISTORT POSTAL SERVICE MISSION

Executive Summary

The Postal Service prices its products above their production costs in order to meet overhead or common costs (i.e., costs not attributable to specific products). Products with steep markups bear disproportionately heavy shares of overhead costs while those with low markups bear light shares. Given the Postal Service's mission, how should markups vary across its products?

Congress has assigned the Postal Service the mission of collecting and delivering non-urgent letters throughout the nation at reasonable standardized rates while maintaining relatively uniform service. In light of that mission, the Postal Service should price its core products — of which the most important is first-class mail — as close as possible to their costs of production, and reserve higher markups for non-core products. By doing that, the Postal Service could lighten the burden on those products whose use it is supposed to facilitate.

In fact, however, the markup is high on first-class mail (nearly double production costs) and much lower on most peripheral products. These unequal markups place a disproportionately heavy burden on first-class mail consumers, contrary to the government agency's mission.

In fiscal year 2002, the markup on first-class mail, which is the Postal Service's main product and at the heart of the postal monopoly, was 87.6%, and that on standard mail, which is the Postal Service's next biggest product and also sheltered by law from direct competition, was 48.2%. Markups were relatively low on most other products. For example, the markup was negative (a loss) on periodicals, negative on e-commerce products, 8.5% on package services, 20.5% on international mail, 30.9% on priority mail, and 74.5% on express mail.

The pattern of markups at the Postal Service is the opposite of that at many private-sector businesses in regulated markets, where core service are made more affordable by setting higher markups on optional (often premium) products than on basic service.

The Postal Service claims overhead accounts for a surprisingly large share of its costs, about 40%. The agency calculates that its non-core products cover their own costs, but not by much. However, if some product-specific costs are incorrectly labeled as overhead, non-core products may actually be losing money and receiving cross-subsidies from first-class mail customers to cover the losses.

In considering proposals for Postal Service reform, two worthwhile objectives would be reducing the current unevenness in markups across products and taking steps to be more confident that product-specific costs are not miscategorized as general costs.

UNEVEN PRICE MARKUPS DISTORT POSTAL SERVICE MISSION

This paper briefly discusses many of the Postal Service's products and examines their markups, based on reported results in fiscal year 2002. The data on revenues and costs that are cited here were collected by the Postal Service.[1]

On average, the price that consumers are charged for sending a first-class letter greatly exceeds the cost to the Postal Service of handling the letter. The high price markup on first-class mail is especially striking when contrasted with the much lower markups on most other Postal Service products. Many of the products with low markups are in competitive markets, that is, markets outside the Postal Service's monopoly and in which the government agency faces direct competition from private-sector businesses offering similar products.

Product prices are marked up above product-specific costs to help the Postal Service meet its overhead expenses. Because price markups are so unequal, first-class mail customers pay a disproportionate share — over two thirds — of the Postal Service's overhead costs. A number of the Postal Service's products with low price markups contribute very little to overhead.

This arrangement places a substantial extra burden on first-class mail consumers because the Postal Service claims that so many of its costs are for overhead. The Postal Service's position is that about 40% of its spending is in the nature of overhead.

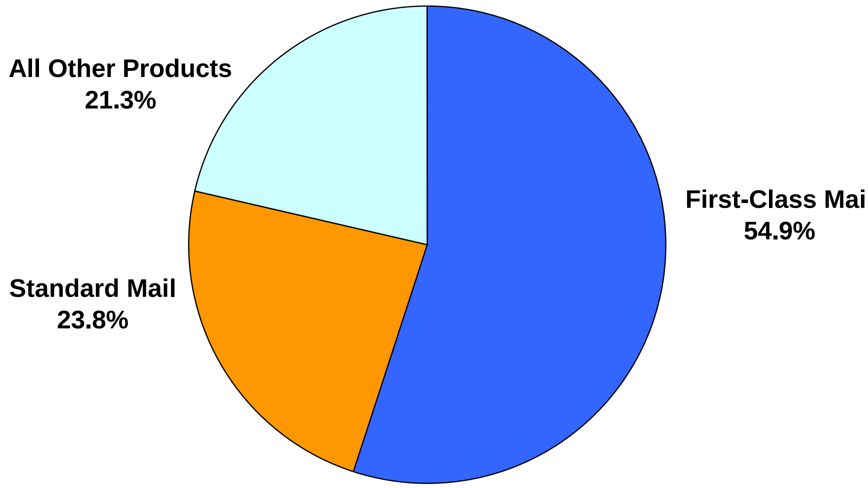
Some background

The markup on a product is defined here as the percentage by which a product's price exceeds its own (attributable) costs. For instance, if a product sells for $1.45 and the average cost of producing a unit of the product is $1.00, the markup is 45%.

The Postal Service has immense power over the pattern of markups across products. When the Postal Service, which is an arm of the federal government, wishes to change postal rates, it sends a rate request to a separate federal agency, the Postal Rate Commission (PRC). The PRC then holds a rate case at which it hears evidence from the Postal Service and other interested parties. Based on its findings and a number of statutory criteria[2], the PRC issues a recommended decision that accepts, rejects, or modifies the Postal Service's request. The new rates take effect, provided the Postal Service accepts the PRC's decision. Although the PRC usually slightly modifies the Postal Service's requests and has often in the past sought to reduce the markup on first-class mail, the rates it approves generally follow the pattern the Postal Service seeks. The PRC is aware that if it recommends markups and rates too different from those the Postal Service wants, the Postal Service can impose its own set of markups and rates if its Governors vote unanimously to do so.

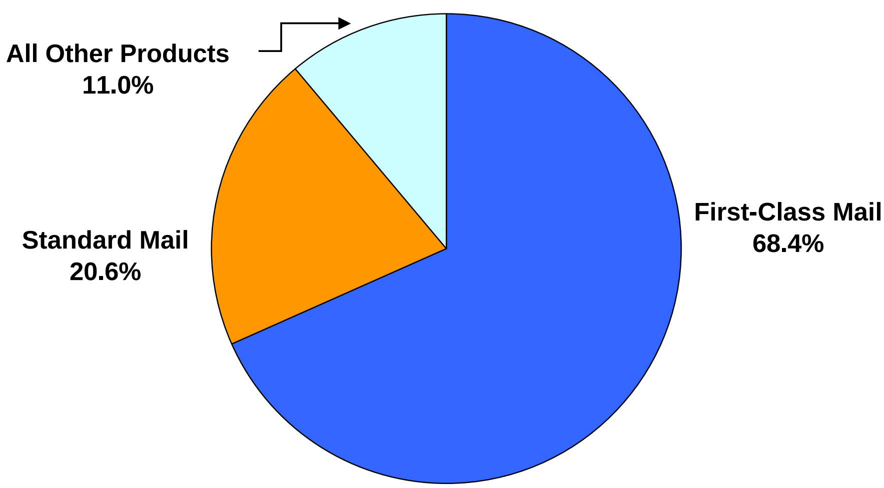
The Postal Service depends on markups to cover general costs that are not related to specific products. At the Postal Service, costs that are associated with producing specific products are called attributable or incremental costs. Costs that are not connected to specific products are called institutional costs, or, less formally, overhead, common, or general costs. The Postal Service characterizes institutional costs as expenses that are needed to maintain its national collection and delivery network and that are unrelated to the specific types of mail it carries or the quantities it handles. The Postal Service reported that it incurred total costs of $67.4 billion in 2002.[3] Of this total, $41.5 billion (61.6%) were attributed to specific products.[4] The remaining costs, $25.9 billion (38.4%), were supposedly unrelated to specific types or quantities of mail and were placed in the institutional or overhead category. The Postal Service does not have an incentive to work very hard at relating costs to specific products. If a particular cost is attributed to a specific product, the Postal Service loses the flexibility to control which product pays that cost because the Service is required to pay for a cost attributed to a product with revenues from

Chart 1a First-Class and Standard Mail Versus All Other Postal Service Products, as Shares of Total Sales Revenues



Data Source: U.S. Postal Service, "Cost And Revenue Analysis, Fiscal Year 2002," 2003, accessed on the Internet at http://www.usps.com/financials/_pdf/cra_fy02.pdf.

Chart 1b First-Class and Standard Mail Versus All Other Postal Service Products, as Shares of Contributions To Overhead



Data Source: U.S. Postal Service, "Cost And Revenue Analysis, Fiscal Year 2002," 2003, accessed on the Internet at http://www.usps.com/financials/_pdf/cra_fy02.pdf.

that product. On the other hand, if the cost is lumped into overhead, the cost is spread across all products, with the Postal Service able to influence how much of the cost is shifted to other products through the pattern of markups.

First-class, standard, and periodical mail

First-class mail. First-class mail lies at the heart of the Postal monopoly. For fiscal year 2002, the Postal Service reported that the average postage on products within the first-class mail category exceeded their cost to the Postal Service by 87.6%.[5] As a result, first-class mail customers provided 54.9% of revenues from mail and service products and a whopping 68.4% of contributions to overhead.

Standard mail. Standard mail (formerly called third-class mail) consists primarily of advertising material. Federal statutes shelter it from direct competition, but it faces vigorous indirect competition from newspapers, television and radio stations, and other advertising media. In 2002, the average markup on products within the standard mail category was 48.2%. Standard mail customers provided 23.8% of the Postal Service's total revenues and made 20.6% of overhead contributions.

In 2002, first-class and standard mail provided 78.7% of sales and made 89.0% of overhead contributions. Meanwhile, all other products and services furnished only 21.3% of revenues and just 11.0% of overhead contributions. (See Charts 1a and 1b.)

Periodical mail. The Postal Service has helped distribute newspapers and magazines since colonial times. More recently, the mailbox monopoly has proven a formidable barrier to those who have tried to distribute periodicals in competition with the Postal Service. The combination of history and monopoly make periodical mail one of the agency's core services, along with first-class and standard mail. Historically, the markup on periodicals was kept low to facilitate nationwide communications, which was especially important in the era before the invention of most modern means of communication, when rapid transportation meant a stagecoach or sailing ship. That history and a continuing desire to facilitate the widespread distribution of hard-copy periodicals help explain why the markup on periodicals is still low. In 2002, a small positive markup had been planned, but periodical revenues fell short of attributable costs, and the markup was negative.

It is also conceivable that the Postal Service may favor a low markup to discourage competitors. Private-sector firms can deliver periodicals door to door provided they do not place them in people's mailboxes.[6] However, challenging the Postal Service in this market is extremely difficult when the inconvenience of working around the Postal Service's mailbox monopoly is combined with having to keep prices low enough to compete against the Postal Service's low rates on periodicals. In the mid 1990s, after the failure of an alternative delivery service for subscription magazines, then Postmaster General Marvin Runyon raised questions about the Postal Service's aggressive pricing when he chortled, "Remember the alternate delivery company called Publishers Express ... Eleven days ago, they quietly went out of business. They said that they were no longer needed. They had no more customers. We ran them out of business... I can't say that I am sorry to see them go."[7]

Price markups on other Postal Service products

The Postal Service offers many products outside its core market. With most of its non-core products, the Postal Service operates in competitive markets, where it faces direct competition from private-sector businesses selling similar products. The Postal Service's non-core activities are small relative to the agency's core business. They contribute relatively little to revenues and less to overhead.

In 2002, the Postal Service's average markup on all products other than first-class, standard, and periodical mail was 31.2%, which is only about one third of the markup on first-class mail and substantially less then the markup on standard mail. It might be helpful to look briefly at a number of the agency's non-core products and the markups they carry.

E-commerce. The Postal Service has tried to become a major presence in e-commerce, with such products as electronic bill payment, secure document transmittal, and on-line ordering of magazine subscriptions. Although the agency has not released detailed revenue and cost numbers on these forays, it is clear from the limited information made available that the financial results have been extremely disappointing.[8] The head of the U.S. General Accounting Office testified earlier this year that the Postal Service's e-commerce and other new ventures have lost money, meaning they have been cross-subsidized by the Postal Service's other products, especially first-class mail. "Although it was not possible for us to determine the extent of any cross-subsidy due to incomplete financial information, it was clear that, as of fiscal year 2002, the Service was not generating sufficient revenues to cover its costs related to these new product areas."[9]

Package services. For the majority of its history, the Postal Service did not have a separate package service and did not handle large packages; private express companies provided package services. The government agency entered this product line only in 1913. (Before 1913, it would only handle packages of up to four pounds, and it charged regular postage rates on them.) The majority of packages today are still handled by private-sector companies. The Postal Service today accounts for only one fourth of the ground delivery market, and its market share has slipped about 5 percentage points since 2000.[10] In 2002, the Postal Service's markup on package services was just 8.5%.

International mail. Unlike other types of mail, the Postal Service can set rates on international mail without seeking approval from the PRC, which means that those rates are essentially unregulated. Although international mail would seem to be a premium product compared to domestic mail, that is not reflected in its markup, which was 20.5% in 2002. This trailed the average for the Postal Service's non-core products, and was far below the markups on first-class and standard mail.

Priority mail. The Postal Service advertises priority mail as a premium product, and charges much more for it than for first-class mail (over ten times as much for a one ounce letter). Nevertheless, once costs are factored in, priority mail's margin in 2002 was only 30.9%, which trailed the margin on first-class mail and even that on standard mail. (A separate issue, but an important one for mail users, is whether priority mail lives up to its premium-service billing. In 2002, the Postal Rate Commission's Office of the Consumer Advocate found that priority mail was not appreciably better than first-class mail and that the Postal Service's advertising on behalf of priority mail "is misleading the public."[11])

Express mail. The Postal Service has been unable to become a major player in this premium market. Its market share of 6% in the overnight delivery business is dwarfed by those of the three market leaders.[12] In 2002, the Postal Service's markup on express mail was 74.5%. Although this is higher than the agency's margin on priority mail, it is still significantly below that on first-class mail.

In private-sector companies in regulated markets, the highest markups are usually reserved for non-core products

The pattern of markups seen at the Postal Service is the opposite of the model generally found at private-sector companies in regulated markets. For instance, the Postal Service is sometimes compared to telecommunications companies. Actually, they differ in many respects, and one of the differences is that telecommunications providers in regulated markets, such as local telephone companies and cable television companies, typically offer basic service at a low markup while earning higher margins on optional features.

Given that a key part of the Postal Service's core mission is to provide reasonably priced non-urgent-letter delivery service, one might expect that the markup on its central product, first-class mail, would be relatively low or at least not substantially higher than on other products. Instead, the Postal Service's pricing is consistent with the exercise of monopoly power, whereby it extracts an especially high margin from the consumers of the product most firmly within its monopoly. Of course, if the Postal Service were a private firm offering products in multiple markets, one would expect it to charge the highest markups in markets where it has the least competition and demand is least sensitive to price, and to charge the lowest markups where it faces the most competition. A private firm, of course, would not deliberately set the price so low in any market that it suffered long-run losses there because that would hurt its profits and conflict with the interests of its owners. In other words, the Postal Service's pricing behavior seems at odds with the task Congress gave it and suggests the government agency is forgetting why Congress handed it market power. Because of the Postal Service's pricing strategy, it is not surprising that many first-class mail consumers are trying hard to find lower-cost, non-mail alternatives to the Postal Service's cash cow, or that the Postal Service is upset when these consumers succeed.

Dubious arguments in favor of the current markup structure

The Postal Service's markup structure is sometimes defended with the argument that it is efficient to place high markups on products whose demands do not vary much with price, such as first-class mail, and low markups on products that are more price sensitive.[13] Such an argument is fundamentally wrong, however, when applied to the Postal Service. First, the demand for first-class mail is not naturally inelastic. The insensitivity of its demand to price is entirely artificial, in the sense that it springs not from normal market forces but from the government-imposed mail monopoly.[14] The government should not be exploiting the monopoly it created to hit first-class mail consumers with higher prices.

A related point, which makes the steep markup on first-class mail doubly wrong, is that Congress established the mail monopoly with the objective of helping the Postal Service deliver non-urgent letters and periodicals to customers throughout the nation at reasonable standardized rates while maintaining relatively uniform service. In light of the mission that Congress assigned it, the Postal Service should be striving to keep rates within the postal monopoly as low as possible, not looking for contrived arguments to rationalize high rates.

In other words, core products, those within the postal monopoly, are, by design, supposed to be the primary beneficiaries of the Postal Service. Loading a disproportionately large share of overhead costs on first-class mail — the most important core product — while giving many peripheral products an almost free ride in terms of overhead is directly contrary to the Postal Service's public policy objective. A markup rule more in line with the Postal Service's reason for existence would be to raise the generally low markups on non-core products, except in cases where a higher markup would decrease a non-core product's contribution to common costs. Empirical investigation would be needed to determine to which non-core products this exception applies. (The exception is most likely to be encountered when customers obtain no special value from a Postal Service competitive-market product and can easily shift to other sellers if the Postal Service raises its product's price even slightly.[15]) Congress's motivation in establishing and continuing the Postal Service indicates that if non-core products are offered at all[16], they should pay higher markups in order to lighten the burden on those core products, notably first-class mail, whose use the agency is supposed to facilitate.

A third problem with continuing to apply so high a markup to first-class mail based on the inelastic-demand argument is that first-class mail's demand has become more elastic (i.e., price sensitive) than it used to be due to increased competition from alternative means of communication, such as e-mail.

The Postal Service's generally slim margins on its competitive-market products are at odds with confident statements from current and former Postal Service officials that the agency can flourish in competitive markets, can use the healthy profits it earns in those markets to help support its core operations, and should expand its competitive-market activities to lend greater financial assistance to its core activities. The narrow margins that the Postal

Service has actually recorded in competitive markets are more consistent with the predictions of those who have warned that the agency will encounter great difficulties in those markets. Dryly noting the Postal Service's "dubious success in the past" when it has tried to "aggressively explore new products and services in pursuit of new revenue streams," the bipartisan President's Postal Commission recently concluded that the agency, based on its record, should concentrate more on its core products.[17]

Concern that the allocation of costs between attributable and overhead may be inaccurate

It might seem that as long as a product has even a low markup, it at least covers its own costs. But that need not be true for three reasons. First, low-markup products may incur losses in some years (e.g., periodicals lost $105 million in 2002) due to even small variations in revenues and costs. When that happens, the Postal Service does not attempt to recover the loss from the product responsible for the loss. Instead, the loss is added to the general revenue requirement in the next postal rate case and recovered from all products. Because first-class mail pays about two thirds of general costs, it pays about two thirds of the loss recovery charges that result from losses on low-margin products.

Second, one product may pay the cost of another product if the costs of the second product are incorrectly attributed to the first. Third, costs actually related to products may be misreported as general overhead costs (i.e., costs unrelated to specific products). In light of the numbers reported by the Postal Service, this is potentially the largest source of mischief. Evidence suggests that the Postal Service has seriously exaggerated its general overhead costs.

For example, researchers J. Gregory Sidak and Daniel F. Spulber report that until the PRC forced the practice to be ended in 1979, the Postal Service had classified advertisements for express mail (a specific product) as general overhead costs.[18] Currently, the Postal Service classifies most of the costs of its sales representatives as common costs.[19] In reality, because sales representatives are often trying to sell specific products or an assortment of specific products, it would be reasonable to assign a large portion of their costs to those products. As another example, one would expect that an organization's need for supervisors and technicians would largely depend on the products produced and the quantities of those products. However, if the numbers generated by the Postal Service are to be believed, 47% of the $3.6 billion it spent on that cost segment in 2002 were general costs, unattributable to specific products.[20] Similarly, one would think that the time mail carriers need to complete their routes depends importantly on the types and quantities of mail they carry. To be sure, some time is needed to cover the route even if the amount of mail is minimal, but it seems extreme to claim that 66% of the $10.1 billion spent on city carriers' out-of-office costs in 2002 were unattributable to specific products.[21] Over the years, the PRC has often urged the Postal Service to work harder to attribute costs. If not for those efforts, the Postal Service would probably assign even more costs to the overhead category than it does now. Unfortunately, the PRC operates at the disadvantage that the Postal Service develops the underlying cost data.[22]

As an illustrative example, suppose that unattributable costs are actually closer to 15% of total costs than the 40% now reported, and the costs attributable to specific products are actually about 85% of total costs, not the 60% now reported. The result in this illustration would be to understate own-product costs by about $16 billion in 2002. A further result would be that products with reported markups of 10% or 15% which seem to meet their own costs and contribute small amounts to overhead are, in reality, failing to cover their costs.

The Postal Service is already contradicting its public service mission by placing such a high markup on first-class mail and forcing it to bear such a large share of the Postal Service's common costs. The Postal Service's deviation from its mission will be even greater if it is suffering loses on its non-core products and using cross-subsidies from first-class mail to offset the losses.

The danger that low-markup products are actually losing money and receiving hidden cross-subsidizes from first-class mail consumers would be less severe if markups were not so unequal across postal products or if the share of total costs classified as unattributable overhead were not so high.

Conclusion

Price markups differ dramatically across products at the Postal Service. Although some products lose money and most others enjoy low price markups, consumers of the agency's flagship product, first-class mail, are hit with a very high price markup. This pattern of markups is the opposite of what might be expected in order that the Postal Service meet its goal of providing postal consumers with essential service at reasonable rates.

Postal reform may provide an opportunity to revise the pattern of markups and refine the procedures for allocating costs. Improvements in these areas should be among the criteria used in evaluating various ideas for reform. Proposals that would reduce the inequality in markups would move in the correct direction, those that would leave markups unchanged would miss an opportunity, and those that would allow the Postal Service more leeway to widen markups would move in the wrong direction. Likewise, proposals that would subject to greater scrutiny the division of costs between attributed costs and overhead by requiring the Postal Service to furnish fuller and more transparent information would be positive, while any initiatives leading to less disclosure and transparency would be negative.

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Endnotes

1. The source for all the revenue and cost numbers cited in this paper, unless noted otherwise, is United States Postal Service, "Cost And Revenue Analysis, Fiscal Year 2002," 2003, accessed on the Internet at http://www.usps.com/financials/_pdf/cra_fy02.pdf. These revenue and cost numbers are used to calculate the contributions to overhead and markups that are also discussed. The Postal Service reformats the data slightly in a version it submits to the Postal Rate Commission (PRC). The USPS and PRC versions have minor differences on the cost side in their numbers and terminology. For example, the Postal Service uses the term "incremental cost" to mean the costs associated with a specific product class while the PRC uses the term "attributable cost". The differences are small enough that employing the PRC version instead of the USPS version would not appreciably change this paper's results.

2. The criteria the PRC must follow are specified at 39 USC, Sec. 3622.

3. To reconcile total revenue and total costs in the Postal Service's Cost And Revenue Analysis with operating revenue and operating expenses in its *Annual Report*, see Cost And Revenue Analysis, *op. cit.*, note 3.

4. Attributable costs can be further broken down between attributable costs that are affected by small changes in product volume ("volume variable" attributable costs) and attributable costs that are incurred in producing the product but not affected by small volume changes. The difference between total attributable costs and volume variable attributable costs is minor according to the PRC but larger according to the Postal Service. The computations in this paper use total attributable costs.

5. This and other markups would be higher if they were computed using the mail category's volume variable attributable costs instead of its total attributable costs, but the pattern of markups across products would be almost the same.

6. An exception to the Postal Service's monopoly use of mailboxes is that anyone can deliver mailable items to mailboxes themselves provided they still pay postage. (See 18 USC, Sec. 1725.) The mailbox access granted by this exception indicates that the objective of the mailbox monopoly is not the security of home and business mailboxes, but the revenues of the Postal Service.

7. Marvin Runyon, "Remarks by Postmaster General Marvin Runyon before the NAPUS Leadership Conference," Washington, D.C., February 20, 1996, originally accessed on the Internet at http://www.usps.gov/news/speeches/96/022096sp.htm. In discussing the demise of Publishers Express, Postmaster General Runyon claimed the Postal

Service crushed its rival "by improving service and keeping costs low!" (*Ibid.*) He mentioned neither the mailbox monopoly nor the low markup on periodicals.

8. The Postal Service announced in November 2002 that because the customer base it expected never materialized, it will soon discontinue three of its e-commerce services: electronic bill payment, a money transfer service, and a service that electronically pays a bill only after product delivery is confirmed. (See U.S. Postal Service, "Update To Report on Nonpostal Initiatives," Submission to Postal Rate Commission, November 14, 2003, accessed on the Internet at http://www.prc.gov/docs/39/39466/NoticeUpdateReport.pdf; and Melissa Campanelli, "USPS To End Online Bill-Payment Service," *DM News*, Nov. 20, 2003, accessed on the Internet at http://www.dmnews.com/cgi-bin/artprevbot.cgi?article_id=25672.)

9. U.S. General Accounting Office, Statement of David M. Walker, Comptroller General of the United States, Testimony Before the President's Commission on the United States Postal Service, "U.S. Postal Service: Key Postal Transformation Issues," GAO-03-812T, May 29, 2003, p. 13, accessed on the Internet at http://www.gao.gov/new.items/d03812t.pdf.

10. Rick Brooks, "New UPS Delivery Service Sends Packages Through The Post Office," *Wall Street Journal*, November 6, 2003, pp. A1, A6.

11. Postal Rate Commission, Office of the Consumer Advocate, "Report Of The Consumer Advocate On Quality Of Services Provided By The Postal Service To The Public," Docket No. R2001-1, March 6, 2002, quote from p. 4, accessed on the Internet at http://www.prc.gov/OCA/papers/quality/oca-quality-report.pdf. The Office of the Consumer Advocate concluded that for "truthful representation ... Priority Mail should be advertised as 2-5 day service," with "2-3 days for most locations" appearing in parentheses if the Postal Service wants. (*Ibid*., p. 20.)

12. See Matthew Karnitschnig, "Deutsche Post Girds For Battle," *Wall Street Journal*, October 6, 2003, p. A14.

13. This approach to setting markups is known in the technical literature as Ramsey pricing or the inverse elasticity rule. It makes some sense when applied to regulated natural monopolies, but there is nothing natural about the Postal Service's monopoly.

14. If other enterprises were not prohibited from competing directly with first-class mail, any company that raised the price of its "first-class mail" would find that demand for its product was relatively elastic as customers switched to rival producers. The mail monopoly substitutes a relatively inelastic industry demand curve for a more elastic firm demand curve.

15. Because the Postal Service frequently emphasizes volume and sales revenues, it is worth pointing out, as a technical note, that the price at which overhead contributions are maximized is higher than the one at which sales revenues are maximized. To maximize sales revenues, a product's price should be increased only so long as a given percentage increase in price induces a smaller percentage decrease in quantity. (Economists say the demand curve is inelastic in this region.) But to determine what is happening to net income and contributions to overhead, demand tells only half the story; one must also look at the cost side. Because each unit of output costs something to produce, the lower quantity demanded resulting from higher price reduces total production costs. Hence, even in cases where demand is elastic and a higher markup decreases sales revenues, net income will rise as long as the drop in sales revenues does not exceed the fall in costs. For illustration, suppose that higher price and lower quantity cause sales revenues to drop by $50 but total costs to fall by $100. Then net income on the product and its contribution to overhead will rise by $50.

16. This caveat is mentioned because there are many good reasons why the Postal Service should not be in competitive-product markets, much less trying to expand in those markets. For a discussion of these problems, see Michael Schuyler, "Empire Building At The Postal Service," *IRET Policy Bulletin*, No. 87, May 19, 2003, available on the Internet at ftp://ftp.iret.org/pub/BLTN-87.PDF. From the perspective of the Postal Service's own finances, an especially strong case can be made for discontinuing products that cannot support higher markups and, therefore, cannot contribute much to common costs.

17. President's Commission on the United States Postal Service, *Embracing The Future; Making The Tough Choices To Preserve Universal Mail Service*, July 31, 2003, accessed on the Internet at http://www.treas.gov/offices/domestic-finance/usps/pdf/report.pdf, p. 75.

18. J. Gregory Sidak and Daniel F. Spulber, *Protecting Competition From The Postal Monopoly*, (Washington, DC: The AEI Press, 1996), p. 110.

19. I thank Robert H. Cohen, Director, Office of Rates, Analysis and Planning, Postal Rate Commission, for confirming this on December 3, 2003, in response to a telephone inquiry.

20. See U.S. Postal Service, "Cost And Revenue Analysis, Fiscal Year 2002 — PRC Version," pp. 4-6, accessed on the Internet at http://www.prc.gov/docs/37/37466/cra-draft.pdf.pdf, which breaks down costs by segments and components. Sidak and Spulber also discuss this problem, using data for 1993 (*Protecting Competition From The Postal Monopoly*, pp. 110-113.)

21. *Ibid*.

22. The PRC issued a rule in November 2003 that directs the Postal Service, over the Postal Service's objections, to provide more information in future Revenue And Cost Analyses regarding the underlying data and methodologies used to derive estimates of costs. (See Postal Rate Commission, "Final Rule On Periodic Reporting Requirements," Docket No. RM2003-3, November 3, 2003, accessed on the Internet at http://www.prc.gov/docs/39/ 39414/RM2003-3.pdf.) This is a promising step. However, because no Revenue And Cost Analysis has yet been produced in accordance with the new rule, it is too soon to judge how successful this regulatory action will be in the future in increasing transparency.