IRET Congressional Advisory

INSTITUTE FOR RESEARCH ON THE ECONOMICS OF TAXATION

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February 15, 2007 **Advisory No. 219**

DOES THE GROWING NUMBER OF HOMES AND BUSINESSES HELP OR HURT THE POSTAL SERVICE?

Executive Summary

Most private-sector businesses would be delighted to be able to count on a steady, moderate increase in customers year after year. The U.S. Postal Service, in contrast, complains that its rising customer base is a crushing financial burden. Can the Postal Service's attitude – so different from that found in the private sector – be right?

The number of mailing addresses increases about 1.3% - 1.4% annually, with most of that due to the nation's growing population and the rest attributable to other factors such as higher incomes.

Servicing the continuing influx of new home and business customers does have costs. The Postal Service must process more mail and deliver it to more addresses. On the positive side, the added homes and businesses raise mail volume, and that boosts the government enterprise's revenues.

A realistic financial assessment of mailing address growth requires considering both the cost and revenue sides, and portraying them accurately. The Postal Service, however, exaggerates the costs while glossing over the revenues.

Rick Merritt, who was Executive Director of Postal Watch, often pointed out that new delivery points have relatively low costs, in part because of the Postal Service's moratorium on to-the-door deliveries for new residences, and generate healthy revenues. Economists at the Postal Rate Commission also concluded that the annual cost of adding delivery points is relatively small.

The Postal Service is worried about slow growth in total mail volume and an actual decline in first-class mail volume. New delivery points help counter those trends. Volume and revenue growth would be much weaker if not for the rising number of homes and businesses. Not every letter sent to or from a new address represents a net addition to the mail stream, but many do.

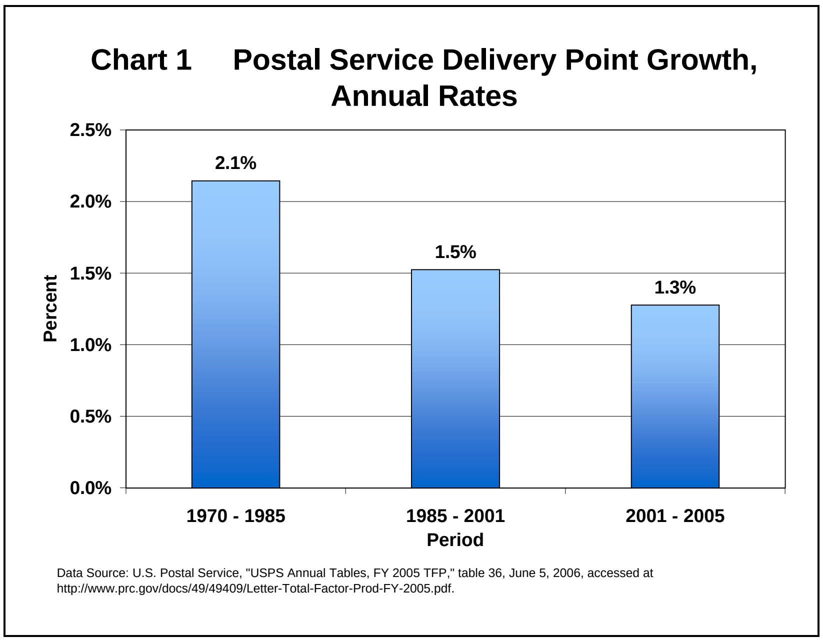
Because delivery-point growth is self-financing, it would not be an excuse for future postal rate increases to exceed the cap that is a key feature of recently enacted legislation.

The Postal Service should not try to garner sympathy by erroneously depicting added customers as a burden. They are an asset.

DOES THE GROWING NUMBER OF HOMES AND BUSINESSES HELP OR HURT THE POSTAL SERVICE?

This nation's population and wealth have expanded remarkably over time. One consequence is that the United States has many more homes and businesses than in the past. That trend seems likely to continue. A shift toward smaller families, which is partially due to higher incomes, has further boosted the number of homes.

For the U.S. Postal Service, more homes and businesses mean more addresses to which it delivers mail. The Service frequently depicts the rising number of delivery points as a serious and persistent financial drain. For example, when the Postal Service listed problems and opportunities in its *Strategic Transformation Plan 2006 – 2010*, it categorized the increasing number of homes and businesses to which it delivers mail as a liability – not an asset – declaring that the agency's "challenges are great, especially the declines in First-Class Mail and *continuing increases in the number of delivery points*. [Emphasis added.]"[1]



The government-owned Postal Service's attitude sharply contrasts with that found in the private sector, where new homes and businesses are viewed as opportunities. Almost anywhere in America, as an area is developed and its homes and businesses increase, merchants enthusiastically rush in to serve the influx of new customers. In most cases, attending to these new customers is not required by law and is not rewarded with government subsidies, but is done solely because it makes good business sense.

Despite the lesson that the private sector provides, only a few observers have questioned the Postal Service's position. The most thoughtful was the late Rick Merritt, who was Executive Director of PostalWatch. Another notable skeptic regarding the Service's insistence that more homes and businesses (i.e., more delivery points) is a problem is William Burrus, the President of the American Postal Workers Union (APWU). Less formally, one occasionally hears people who are knowledgeable about postal matters express a similar view in conversation, namely that extra customers would seem to be a benefit, not a burden.

This paper will review the Postal Service's claims that delivery-point growth hurts the organization. It will then evaluate those claims.

Delivery-point growth worries the Postal Service

The Postal Service reported that it delivered mail to 146.2 million addresses in 2006.[2] (The Service includes post office boxes in total delivery points. Total outside-of-post-office delivery points were 126.1 million in 2006, which is 14% less than the more publicized number.[3]) Compared to 2005, the number of postal addresses increased by 1.8 million, or 1.3%.[4]

Chart 1 looks at the growth rate of delivery points since 1970. As can be seen in the chart, delivery-point growth was especially rapid in the 1970 - 1985 period when the baby boom generation was reaching maturity. The growth rate slowed in the 1985 - 2001 period. It decelerated slightly more, to an average annual rate of 1.3%, in the 2001 - 2005 period.[5]

The Postal Service insists the increasing number of delivery points is a huge and growing burden. The Service's claims can be outlined as follows. First, it is expensive to add and service new delivery points. Second, the cost is especially high because the number of delivery points is growing rapidly and relentlessly. Third, the income sources on which the Service once relied to defray network-expansion costs are drying up. Statements from the Service often combine portions of the three arguments. In its narrative, the Service usually attributes no financial benefits to mailing-address growth.

On the first point, the Postal Service wrote several years ago, "Even modest growth in delivery points, as delivery service is extended to new households and businesses with the growth of the economy, will require significant additional investments."[6] In 2003, it declared, "The annual increase in delivery points puts considerable upward pressure on costs."[7] In 2006, it warned, "Continued growth in delivery points will be an ongoing source of pressure on Postal costs."[8]

On the second proposition, that the cost pressure is especially great because mailing-address increases are large, the Service recently wrote that the "new delivery points ... added to the postal network each year" are "equivalent to adding cities the size of Chicago and Baltimore" and expressed concern about "financing growth of the universal service network."[9] After describing delivery operations as "the Postal Service's single largest cost center," the Service declared, "Further, approximately 2 million new delivery points are added to the network each year."[10] The Service's 2005 *Annual Report* similarly highlighted mailing-address growth as a major problem when it pointed to "the price of fuel and the expansion of our delivery network" as areas of "significant cost growth."[11] Nor does the Service see any relief. "We expect the number of delivery points to continue to grow for the indefinite future as a result of population growth and continuing demand for new housing."[12]

The Postal Service's third proposition is that it has depended on rapid volume growth, which is no longer occurring, to give it the income to extend service to the constantly increasing number of home and business customers; providing service to the new delivery points is supposedly not self-financing. The Service's 2002 *Annual Report* claimed, "Historically, volume growth has financed the cost of our continuous delivery network expansion....However, mail volume has not grown sufficiently in recent years to provide the revenue that supports extension of our delivery and retail network."[13] More recent *Annual Reports* have asserted that the ability to finance added delivery points depends especially on First-Class mail, which has a high price markup and whose volume has declined slightly (probably in part because of its high markup).[14] (Inconsistently, until a few years ago, the Service occasionally cited *rising* mail volume as a financial strain, along with the growing number of mailing addresses.[15])

In its 2002 *Transformation Plan*, the Service wrote that people within the organization doubted whether future productivity gains could offset the expense of mailing address growth: "Managers and executives were in general agreement that the Postal Service cannot continue to improve productivity enough to finance ever-expanding universal service, particularly the increase in delivery points."[16] In its most recent *Annual Report*, the Service blamed the postal rate increase expected to occur in May 2007 on "continuing upward cost pressures" that result in part from "the continuous expansion of our delivery network..."[17]

Postal Service officials have often declared that in the absence of strong volume growth the agency needed a revised business model to cope with the increasing number of homes and businesses. In 2003, John Nolan, who was then Deputy Postmaster General, told the bipartisan President's Commission on the U.S. Postal Service that without a new business plan "declining volumes and revenues, combined with an ever-increasing delivery network obligation, [might] cause the Postal Service to become non-viable..."[18] In 2004, Postmaster General John Potter said in Congressional testimony that the "old business model" which "relied on continuing mail volume growth to generate the revenue necessary to fund the costs of expanding our network" had been "rendered obsolete".[19] In the agency's 2005 *Annual Report*, Richard J. Strasser, Jr., who was then Chief Financial Officer, presented a similar argument, "[T]he price-volume challenges we are experiencing today were not anticipated in the business model that was designed in 1970. The premise of that model ... was that moderate volume growth and postage rate increases at or below the economy's rate of inflation would finance universal service and the ever-expanding delivery network."[20]

To be fair, the Postal Service is not alone in fearing that the growth of homes, businesses, and, hence, delivery points, may cause major problems. For example, the Government Accountability Office (GAO) wrote in a memo to Congress in November 2006, "The Postal Service's business model ... relies upon growth in mail volume to cover the costs of its ever-increasing nationwide delivery network to all homes and businesses."[21]

In December 2006, just before it adjourned, the 109th Congress passed legislation changing many of the rules under which the Postal Service operates (the Postal Accountability and Enhancement Act, P.L. 109-435).[22] The most prominent feature of the new system is rate-cap regulation: the Postal Service will have much more flexibility to alter postal rates, provided it does not increase the prices of market-dominant products faster than the inflation rate. More is said in a later section about whether delivery-point growth will be one of the problems with which the new regulatory system will have to cope.

Both revenues and costs matter

A basic rule in business is that one cannot judge whether a product is successful just by its revenues or just by its costs. Because income is revenues minus costs, both revenues and costs are important. It would be foolish, for instance, to assume that a product must be a success if it produces revenues. In reality, it will fail if its costs consistently outstrip its revenues. It would be equally foolish to assume that a product is a failure if it generates costs. Even a very profitable activity might seem to be a financial disaster if its costs are tallied but its revenues are disregarded. The key test is to weigh revenues against costs. Looking only at costs or only at revenues can be very deceptive.

Keeping in mind the need to examine both sides, let us now consider how the growing number of home and business mailing addresses adds to the Postal Service's costs but also enhances its revenues.

The Postal Service ignores the upside

Normal businesses regard added customers as a financial opportunity. The Postal Service, in contrast, stresses the additional costs of servicing more delivery points but virtually ignores the additional revenues. That is a distorted perspective, and it naturally produces a dire but misleading conclusion. New homes and businesses receive and send mail, which raises mail volume and revenues. Those revenues need to be considered in assessing the impact of mailing address growth on the enterprise's bottom line.

In Congressional testimony in 2005, William Burrus zeroed in on the government agency's one-sided perspective and also the conflict between its attitude and that of private-sector businesses:

> The addition of these new customers is presented as a negative; but any other business would welcome similar growth. General Motors would be thrilled by a projected growth of 1.8 million new customers each year. Yet ... [the Postal Service's] implication is that each of the new delivery points generates more costs than revenue. I have yet to see specific evidence to support this conclusion, but the idea contradicts the basic concept of capital expansion.[23]

A Postal Service that insists it is very worried about a possible decline in total mail volume in the future, and an actual decline in first-class mail volume since 2001, should be extremely grateful for a trend that supports mail volume and associated Postal Service revenues. Delivery-point growth is such a trend. While electronic alternatives to traditional mail, such as the Internet and telephone-based bill payment, depress mail volume,[24] additional homes and businesses bolster mail use. Unrealistically, the Postal Service, at least in its rhetoric, usually treats the growing number of delivery points as though it had no effect on mail volume.

Because the sender pays postage, the Postal Service might conceivably object that a new home or business is not a customer or revenue generator when it receives mail; only the sender is the customer and revenue source. If the Service wishes to make this argument, however, it would be akin to claiming that a local television station's customers are its advertisers, not its viewers. In reality, as local television stations fully understand and evidence with their careful attention to ratings, viewers most definitely are their customers, and so are advertisers. Advertisers only pay the stations in order to reach viewers. Similarly, mail senders only pay the Postal Service in order to reach mail recipients. Just as more viewers (i.e., higher ratings) generate higher revenues for television stations, more homes and businesses produce greater revenues for the Postal Service.

The number of delivery addresses is rising 1.3% - 1.4% annually. Population is growing about 1% annually.[25] Therefore, most of the growth in delivery addresses is due to increasing population, and about one quarter results from other factors.

The portion due to rising population will clearly lead to added mail volume and Postal Service revenues. The mail that the additional people send and receive is on top of mail use by the rest of the population.

Even the delivery-point growth caused by other factors will tend to increase total mail volume and revenues. Suppose, for instance, that a large family divides into two smaller families or a family buys a second home. Although much of the mail going to the second mailing address is not a net increase (it previously would have gone to the first residence), the second address generates extra mail in categories like utility bills, advertisements, and intra-family cards and letters.

The Postal Service, to its credit, furnishes an example of how second homes offer additional business opportunities. In 2005, the Service launched a Premium Forwarding Service (PFS) as an experimental product. People who are temporarily at a second address and want to receive promptly the mail sent to their primarily address can now, for a fee, have all their standard mail, periodicals, and first-class mail forwarded weekly in a priority mail package. During the first eight months of availability, almost 60,000 customers signed up, on average for 6.5 weeks, and the Postal Service generated $4.5 million in extra revenue. Innovative, value-added postal products such as this are a win-win: they enable the Service to strengthen its bottom line while better serving the growing number of delivery points.[26]

Another factor responsible for some of the increase in mailing addresses is people's rising incomes. Higher incomes have two important implications that are relevant here. One is that income growth results in more mailing addresses because it enables people to live in smaller families and afford more second homes. A second is that income growth generates more mail use because it gives people greater spending power, and the added spending leads to receiving and sending more mail.

The Postal Service is well aware from experience and polling data that mail use rises with income. For instance, in a survey in 2005, households with a median income of $25,000 reported receiving less than 12 pieces of mail a week, while households with a median income of $78,000 reported receiving 45 or more pieces a week.[27] This country's long-term upward trend in income is one of the reasons for its long-term upward trend in mail use.[28] Perhaps the Postal Service would be happier if climbing incomes somehow pushed up mail use without also increasing mailing addresses, but more mail use and more mailing addresses come as a package when incomes rise. Thinking of the higher-income people who often move into new developments, Rick Merritt argued that the net effect benefits the Postal Service, "[M]any of these new addresses are newly constructed homes occupied by affluent homeowners who represent the Postal Service's most profitable mail recipients as they are disproportionately targeted by advertising mailers."[29]

To summarize this section, the forces responsible for the growing number of homes and businesses, and, hence, mail delivery points, unequivocally create added mail volume and added Postal Service revenues. It is simply incorrect to attempt to evaluate the financial impact on the Postal Service of the rising number of mailing addresses without considering the related boost in mail volume and Postal Service revenues.

Costs

Of course, revenues are only half the story. Costs are the other half. Meeting customers' needs entails significant labor and capital expenditures. If servicing new addresses has inordinately high costs compared to older addresses, the increasing number of delivery points might hurt the Postal Service financially, despite the added revenues.

Far from being unusually expensive, however, deliveries to new addresses tend to be relatively economical. With older residences, the Service often delivers mail to the door. With new residences, the Service usually refuses to do that and instead saves money by insisting on curbside mailboxes or still less costly deliveries to cluster boxes (mailboxes grouped in central locations).[30, 31]

The Postal Service itself recently commented that new delivery points tend to be relatively economical. "Delivery point growth is concentrated in *lower cost* rural and contract delivery, which accounted for 72 percent of the new deliveries. [Emphasis added.]"[32] Moreover, population growth, which is the main reason why mailing addresses are increasing, often converts extremely rural delivery routes into less rural routes. That is helpful on the cost front because moderately rural and suburban routes have much lower costs per dollar of revenue than extremely rural routes.[33]

Hence, new addresses are often financial successes for the Postal Service because they combine healthy revenues with relatively low delivery costs. Mr. Merritt referred to several of the cost and revenue effects in the following illustrative example:

> [Suppose] a developer purchases a tract of land with a single farmhouse and ... then builds 100 homes and installs a highly efficient cluster box at the entrance to the community...[W]hile 100 affluent, high-volume and super efficient addresses came online, one low volume and very inefficient delivery address came offline. The mail carrier now travels the same distance, but carries significantly more revenue-generating mail over that distance.[34]

If the Postal Service were a small organization, suddenly trying to create systems to handle 1.8 million new customers would be a daunting challenge. However, the Postal Service is a gigantic organization. It already has in place systems to manage 146 million delivery points, 213 billion pieces of mail, and $73 billion of revenues. Building on that foundation, it should be able to add customers and delivery points at a rate of about 1.3% annually without great difficulty.

In testimony before the bipartisan President’s Commission on the U.S. Postal Service, Robert Cohen, who was then Director of the Postal Rate Commission’s Office of Rates, Analysis and Planning, provided further evidence, based on the Postal Service’s own data, "The USPS estimated that the cost of new delivery stops in 2003 was $176 million..."[35] That is a small fraction of the normal year-to-year increase in the Service’s expenses and, as Mr. Cohen noted, minuscule compared to the gigantic enterprise’s total expenses: only "two-tenth of one percent of total costs."[36]

In addition, the Postal Service has a safety valve regarding mail deliveries. If it believes that delivering mail to a particular address would be excessively costly, it has the option of instead providing a free post office box. The cost to the Postal Service of furnishing the box is relatively small, and it avoids the expense of an out-of-office delivery. Furthermore, if the Service really finds growth in the number of delivery points so challenging, why doesn’t it seek to relax its mail monopoly in order to stabilize or reduce the number of delivery points for which it is responsible, instead of vigorously enforcing the monopoly?

Mr. Merritt observed that new delivery points cannot be "the insurmountable burden postal executives would have us believe" when, over the period 1999-2002, the number of letter carriers ("the only significant cost center impacted by increasing delivery points") fell 1% even though the number of delivery points rose 4%.[37] The Postal Service itself inadvertently made the same point when it reported, "Career staffing has declined to the extent that it now stands at pre-1985 levels, when the Postal Service delivered 57 percent less mail than today."[38] Delivery-point growth does somewhat increase total costs, other things equal, but if it were a dominating cost driver, the large inverse movements in delivery points and employees would not have been possible

To be sure, new delivery points frequently have start-up costs that occur before the delivery points have produced much revenue. However, those initial costs are an easily handled timing issue, not a crushing problem. If the Service has some free cash flow, it can use part of that to pay the up-front costs of servicing the new addresses and repay itself out of the subsequent revenue inflow. Alternatively, it could tap a very small portion of its credit line at the U.S. Treasury to finance the initial costs and repay the borrowing with the later revenue inflow.[39]

What about economies and diseconomies of scale?

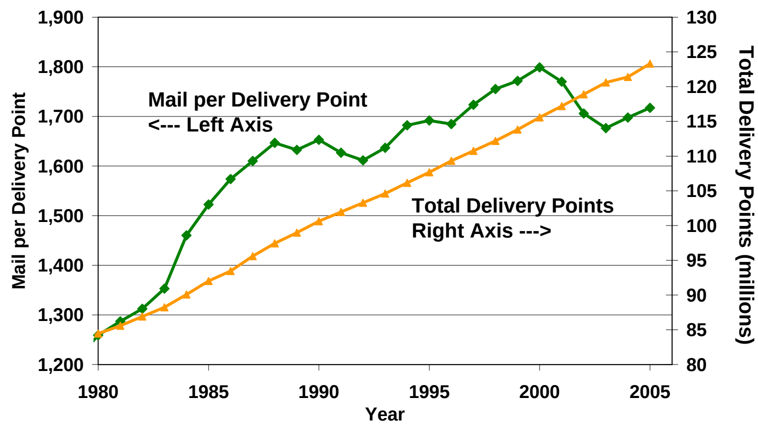
The Postal Service often claims that higher volume produces substantial economies of scale, meaning that per-unit costs supposedly fall as mail volume rises. In fact, however, the organization is already so enormous (bigger than all but a few Fortune 500 companies) that it has already captured most significant size-based economies.[40] Accordingly, although mail volume is certainly higher because of the growing number of mailing addresses than it would be if mailing addresses were stagnant, that volume growth most likely does not generate significant economies of scale. Nevertheless, given the Postal Service’s position that economies of scale are hugely important, it is most puzzling that the agency ignores economies of scale when discussing delivery-point growth. If the Postal Service truly believes it can realize further cost savings through economies of scale when volume rises, it should be rejoicing over added mail volume due to the increasing number of homes and businesses, not complaining.

In one area, though, economies of scale and its inverse, diseconomies of scale, might be an issue.

Modest economies of scale are present on the postal carrier's trip to the mailbox. The per-letter cost of the trip to the mailbox is lower, for instance, when the carrier places six letters in the mailbox rather than only two letters. If the growth of mailing addresses produces a drop in letters per delivery, it could cause some diseconomies of scale.

Although there are certainly many cases in which one family divides into two and mail per address declines, the overall problem does not appear to be serious. First, the fixed cost of the trip to the mailbox is relatively small at new residential addresses because they generally do not receive to-the-door mail delivery. That reduces the size of any potential diseconomy if mail per address were to decline. Second, most delivery-point growth is due to rising population, which creates new mail volume, not cannibalization of existing volume among more addresses. Third, some of the remaining delivery-point growth results from higher income, and higher income increases mail volume. It is not clear a priori whether the net effect of higher income is to raise or lower mail per address.

Chart 2 Total Delivery Points And Average Pieces Of Mail Per Delivery Point



Data Source: U.S. Postal Service, "USPS Annual Tables, FY 2005 TFP," tables 35-36, June 5, 2006, accessed at http://www.prc.gov/docs/49/49409/05GFY-Tbl-R.pdf. The data set measures out-of-post-office deliveries, which excludes post office boxes.

Chart 2 indicates that if more mailing addresses have any negative effect on mail per address, the effect is minor and swamped by other factors.[41] The chart shows pieces of mail per address from 1980 to 2005. Delivery points were increasing throughout the period, and for the most part, so were pieces of mail per address. Between 1980 and 2005, the number of address rose about 50% and mail per address rose about one-third. The small decline in letters per address in 1991-1992 was probably due to the 1990-1991 recession. The larger decline that began in 2001 was almost certainly caused by 9/11, the anthrax attacks, and the 2001 recession, along with greater use of electronic alternatives. Since 2003, the number of letters per address has been rising.

In short, despite the agency's protestations to the contrary, delivery-point growth does not endanger the Postal Service and actually seems to be a net plus.

Mailing address growth and the new postal law

Supporters of the Postal Accountability and Enhancement Act (P.L. 109-435) believe it will create a business and regulatory climate conducive to maintaining both reasonable postal rates and acceptable service. One of the new law's signature features is an inflation-based rate cap on market-dominant products. Proponents of the legislation claim that rate-cap regulation will give the Postal Service the flexibility to operate in a more business-like manner while providing financial discipline. But will the Postal Service's ongoing need to provide service to additional customers make it harder for the new law to work as intended?

The act does nothing to change the fact that delivery points are increasing and does not alter the rate of increase. Therefore, if the Postal Service were correct that its new customers are a financial hardship, they would continue to be a drag on the organization, regardless of whether the Service operates under new law or old. A special concern is that the extra costs due to mailing address growth might force the Service either to break the rate cap or to compromise service. The most that could be hoped for is that the new law might strengthen the Postal Service in other ways so that it could better deal with the burden of added customers. Indeed, that was one of the arguments advanced on behalf of the legislation.

Fortunately, the reality is that mail delivery to new homes and businesses pays its own way and is probably beneficial. It remains to be seen whether the Postal Accountability and Enhancement Act will deliver all the benefits that its proponents expect, but at least the act's positive features will not be undercut by the "burden" of more customers and the extra business they bring. Because new customers do not weaken the Postal Service's bottom line, they exert no upward pressure on the rates the Service needs to charge. Hence, mailing address growth does not jeopardize the rate cap. The main threat to the rate cap is escalating labor costs, many of which Congress has placed beyond the Service's control.

Conclusion

The good news is that delivering mail to an increasing number of homes and businesses is not the devastating cost burden the Service often claims. Delivery-point growth is self-financing. The added costs are modest, and are more than offset by the extra revenues from new customers.

Moreover, if the agency is worried about a possible decline in mail volume due to electronic alternatives, it should be grateful that mailing addresses are increasing. The rising number of homes and businesses helps support mail demand. Instead of complaining about having to service new addresses at a time when first-class mail volume has declined by several percent from the peak it reached in 2001, the Postal Service should recognize that new homes and businesses are providing additional demand to prop up first-class mail volume and prevent it from falling further.

Unfortunately, the Postal Service's emphasis on the pseudo-problem of delivery-point growth diverts attention from the agency's genuine challenges and opportunities, such as Congressional restrictions that limit its ability to control its labor costs. The Postal Service should concentrate on its real burdens and better explain where changes are truly needed. The Service should not try to garner sympathy by erroneously depicting added customers as a burden. They are an asset.

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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 nearly one third of the federal government civilian workforce — and its efforts over the years to expand.

Endnotes

1. U.S. Postal Service, *Strategic Transformation Plan, 2006–2010*, September 2005, p. 4, accessed at http://www.usps.com/strategicplanning/stp2006_2010/STP05R.pdf.

2. U.S. Postal Service, *Annual Report, 2006*, p. 59. The Postal Service *Annual Reports* cited in this study can all be accessed from http://www.usps.com/financials/ar/welcome.htm.

3. *Ibid.* Prior to 2004, the Service also (over)counted its delivery points by including addresses on rural and highway routes that were not receiving any mail either because they were vacant or because the mail was instead going to post offices boxes. (See U.S. Postal Service, *Annual Report, 2004*, p. 33.)

4. U.S. Postal Service, *Annual Report, 2006*, p. 59.

5. Chart 1 is based on a long-run data series that only counts out-of-post-office delivery points. (U.S. Postal Service, "USPS Annual Tables, FY 2005 TFP," table 36, June 5, 2006, accessed at http://www.prc.gov/docs/49/49409/05GFY-Tbl-R.pdf.) The exclusion of post office boxes does not have much effect on the growth rate over time, although it significantly reduces the number of reported delivery points in any given year.

6. U.S. Postal Service, *Five-Year Strategic Plan, Fiscal Years 2001-2005*, September 2000, p. v, originally accessed at http://new.usps.com/history/five-year-plan/fiveyear.pdf.

7. U.S. Postal Service, *Five-Year Strategic Plan, 2004–2008*, September 2003, p. 44, accessed at http://www.usps.com/strategicdirection/_pdf/FiveYearPlan2004-2008.pdf.

8. U.S. Postal Service, *The Household Diary Study; Mail Use & Attitudes in FY 2005*, April 2006, p. 12, accessed at http://www.usps.com/householddiary/_pdf/USPS_FY2005.pdf.

9. U.S. Postal Service, *Strategic Transformation Plan, 2006–2010*, *op. cit.*, p. 6.

10. U.S. Postal Service, *Comprehensive Statement On Postal Operations, 2005*, February 2006, p. 40, accessed at http://www.usps.com/strategicplanning/cs05/cs2005.pdf.

11. U.S. Postal Service, *Annual Report, 2005*, p. 5.

12. U.S. Postal Service, *Annual Report, 2006*, p. 36. The Service also used the same words in its *Annual Report, 2005* (p. 35).

13. U.S. Postal Service, *Annual Report, 2002*, p. 19.

14. The following appears in the *Annual Report* for 2006 (p. 36): "Historically, First-Class Mail volume and the growth in contribution it has produced have financed the cost of operating and expanding our universal delivery network. During the last several years however, the volume of First-Class Mail has declined while the number of delivery points in our network has continued to increase." Very similar language appears in the *Annual Reports* for 2005 (p. 35), 2004 (p. 33), and 2003 (p. 20).

15. For instance, the Postal Service's 2001 *Comprehensive Statement* declared, "The FY 2001–2005 Strategic Plan focused on three major strategic challenges resulting from an increasingly uncertain economic environment. These challenges were: 1. The increasingly difficult task of maintaining postal prices at competitive levels as postal workload (*mail volume* and delivery points) and associated costs increase... [Emphasis added.]" See U.S. Postal Service, *Comprehensive Statement On Postal Operations, 2001*, May 2002, pp. 3-4, accessed at http://www.usps.com/history/cs01/cs2001.pdf.

16. U.S. Postal Service, *United States Postal Service Transformation Plan*, April 2002, p. J-12, accessed at http://www.usps.com/strategicdirection/transform.htm.

17. U.S. Postal Service, *Annual Report, 2006*, p. 37.

18. John Nolan, "Postal Service Competition with the Private Sector (Deputy Postmaster General John Nolan)," provided in response to a request from Commissioner Joseph Wright, April 2, 2003, Presidential Commission on the United States Postal Service, accessed on the Internet at http://www.treas.gov/offices/domestic-finance/usps/docs/response_to_wright.doc.

19. John E. Potter, Postmaster General, U.S. Postal Service, "Testimony," Before a Joint Hearing of the Committee on Government Reform, United States House of Representatives, And the Committee on Governmental Affairs, United States Senate, March 23, 2004, originally accessed at http://reform.house.gov/UploadedFiles/USPS%20-%20Potter%20Joint%20Testimony.pdf.

20. U.S. Postal Service, *Annual Report, 2005*, pp. 14-15.

21. U.S. Government Accountability Office, "Potential Oversight Issues," GAO-07-235R, November 17, 2006, p. 18, accessed at http://www.gao.gov/new.items/d07235r.pdf.

22. A earlier paper in this series provides an overview of the legislation. See Michael Schuyler, "Congress Delivers Postal Service Legislation," *IRET Congressional Advisory*, No. 216, January 8, 2007, available at ftp://ftp.iret.org/pub/ADVS-216.PDF.

23. William Burrus, President, APWU, "Setting The Record Straight On Postal Reform," Submitted to Senate Homeland Security and Governmental Affairs Committee, April 14, 2005, accessed at http://www.apwu.org/postalreform/testimony/ref-testim-050414.pdf.

24. The effect of non-mail electronic technologies on mail volume is not all negative. First, most of the growing quantity of merchandise that is ordered online needs to be delivered physically. That helps the package-delivery market, and the Postal Service has a share of that market. A second feedback is more subtle but very important. Households and businesses send and receive more mail as incomes rise (more catalogs, more financial statements, etc.). Because electronic technologies like the Internet strengthen the economy, they generate a positive income effect on mail volume that partially offsets the negative effect when people substitute electronic alternatives for traditional mail use.

25. For the underlying population data, see U.S. Council of Economic Advisers, *Economic Report of the President*, February 2006, p. 323, accessed at http://www.whitehouse.gov/cea/erp06.pdf.

26. See U.S. Postal Service, "Premium Forwarding Service (PFS) Experiment, First Semi-annual Data Collection Report, August 7, 2005 – March 31, 2006," Submitted to Postal Rate Commission, Docket No. MC2005-1, June 9, 2006, accessed at http://www.prc.gov/docs/49/49440/PFS_First_report_.pdf. The data release does not provide an estimate of costs. Without that information, one cannot determine profitability, although the fees ($10 to enroll and $10.40 for each week of forwarding) would appear sufficient to cover costs.

27. See U.S. Postal Service, *The Household Diary Study; Mail Use & Attitudes In FY 2005*, *op. cit.*, p. 12.

28. Because of mail volume's slow growth in the last few years due to electronic diversion and the temporary drop in mail use after 9/11 and the anthrax attacks, it is easy to forget that mail volume is much higher now than it was several decades ago, even adjusting for population growth. For example, mail volume per capita rose over 50% from 1980 to 2006 (based on mail volume data from the U.S. Postal Service and population data from the U.S. Bureau of the Census.)

29. Rick Merritt, "Keeping The Postal Service Focused On Its Mission; Top Ten List: Dispelling Postal Myths," Presentation at luncheon hosted by Citizens Against Government Waste, March 30, 2004, originally accessed at http://www.postalwatch.org/pw2004/2004_03_30_pb_cagw.pdf.

30. Although curbside deliveries and cluster boxes save the Postal Service money, they can be inconvenient for recipients, especially people with busy schedules or limited mobility. Taking a cue from Premium Forwarding Service, the Postal Service might be able to benefit all parties by offering to-the-door delivery as a value-added service in cases where it would otherwise not be available. The fee could be set high enough to cover the Service's extra costs, and people who greatly value to-the-door delivery could then obtain it.

31. In rapidly growing areas, costs are often further reduced, at least on a temporary basis, because the Postal Service tends to be slow to add staff and facilities, forcing customers in those areas to endure long post-office lines and less reliable mail-delivery schedules. (One can find many examples of this. See, for instance, David Hasemyer, "'Nor Gloom Of Night'? Not Quite; Late Mail Deliveries Have Become Common Problem Countywide," San Diego Union-Tribune, December 18, 2005, accessed at http://www.signonsandiego.com/news/metro/20051218-9999-1n18mail.html.) Although the Postal Service's sluggish response to new customers does save it money and reduces the expense of new delivery points, it is not official agency policy and is not desirable in terms of service quality. The

Service probably does not treat new customers more attentively because it is a large government bureaucracy, which slows its reaction time, and because it possesses a statutory monopoly, which breeds complacency.

32. U.S. Postal Service, *Strategic Transformation Plan, 2006-2010; 2006 Annual Progress Report*, p. 14, accessed at http://www.usps.com/strategicplanning/2006apr/tplan06.pdf.

33. See Robert H. Cohen, William W. Ferguson, and Spyros S. Xenakis, Office of Technical Analysis and Planning, U.S. Postal Rate Commission,, "Rural Delivery And The Universal Service Obligation: A Quantitative Investigation," July 31, 1992, published in Michael A. Crew and Paul R. Kleindorfer, Ed., *Regulation and the Nature of Postal and Delivery Services* (Kluwer Academic Publishers, 1993), accessed at http://www.prc.gov/tsp/29/rural.pdf.

34. Merritt, *op. cit.*

35. Robert H. Cohen, Director, Office of Rates, Analysis and Planning, Postal Rate Commission, "Testimony Before The President's Commission On The Postal Service," February 20, 2003, accessed at http://www.treasury.gov/offices/domestic-finance/usps/testimony-docs/Cohen.pdf. In his next sentence, Mr. Cohen correctly brought additional revenues into the analysis, "This cost does not take into consideration any new revenue that would offset some or all of the cost increases due to new delivery points."

36. *Ibid.*

37. Rick Merritt, Executive Director, PostalWatch, "Comments to the President's Commission on the United States Postal Service," February 12, 2003, accessed at http://www.ustreas.gov/offices/domestic-finance/usps/comments/organizations/comments_PostalWatch.doc.

38. U.S. Postal Service, *Strategic Transformation Plan, 2006–2010*, *op. cit.*, p. 25. With regard to the staffing reduction, it should be added that although a sensible and well engineered belt-tightening would not be unusual at a private-sector company, but it is extraordinary at a government agency. Mr. Potter and others at the Postal Service can justifiably be proud of this achievement.

39. For a fuller discussion of this issue, see Michael Schuyler, "Empire Building At The Postal Service," *op. cit.*, esp. pp. 11-13.

40. In obtaining financing, the Postal Service has the advantages over normal businesses that it never has to worry about finding a lender and never has to pay a high interest rate. As part of the federal government, it enjoys guaranteed access to funds at the U.S. Treasury, and it pays a government-based, low-cost interest rate.

41. The author calculated mail per delivery point as total mail volume for the year divided by the total number of delivery points. The source data is found in U.S. Postal Service, "USPS Annual Tables, FY 2005 TFP," *op. cit.*, tables 35-36. A change occurred in how delivery points were reported in the data series, starting in 2001. Accordingly, the author adjusted delivery points in pre-2001 years, based on the ratio of delivery points in 2001 as measured by the old and new methodologies.