

# IRET Congressional Advisory

INSTITUTE FOR RESEARCH ON THE ECONOMICS OF TAXATION

*IRET is a non-profit 501(c)(3) economic policy research and educational organization devoted to informing the public about policies that will promote growth and efficient operation of the market economy.*

July 7, 2010

Advisory No. 267

## **THE POSTAL SERVICE ASKS TO ELIMINATE SATURDAY DELIVERY; CONGRESS STILL HAS QUESTIONS**

### *Executive Summary*

Since 1983, Congress has annually included a rider in appropriations bills requiring the Postal Service to deliver mail six days a week. This paper examines the main developments since early 2009, when the Postal Service requested authority to eliminate the sixth delivery day.

- The Service has fleshed out the details of its five-day-a-week delivery plan.
- It has updated its estimate of the expected net savings: \$3.1 billion yearly based on 2009 data and \$40 billion over the next 10 years.
- The Service recently asked its regulator, the Postal Regulatory Commission (PRC), for an advisory opinion on five-day delivery, and the PRC expects to issue its findings in the Fall.
- Plunging mail volume and huge losses in 2009 and 2010 intensify the sense of urgency.
- Studies commissioned by the Service predict that a continuing mail volume decline and a shift away from highly profitable first class mail will produce monumental deficits over the next 10 years unless the Service implements major changes. A Government Accountability Office (GAO) study concurs that the Postal Service's current business model is not financially sustainable.
- The Service has developed a 10-year business plan (the "Action Plan") in which five-day delivery is a key element, expected to close about one-third of the residual 10-year deficit.

The Postal Service has sensibly cast five-day street delivery in terms of trade-offs. Do the benefits of six-day delivery justify the costs? Would dropping Saturday delivery be less harmful than other policy alternatives? The Postal Service claims that five-day delivery would be among the least painful options for postal customers.

Alternatives to five-day delivery are hiking postal rates or in other ways boosting revenue, cutting costs beyond the savings contemplated in the 10-year plan, deferring costs (a temporary measure), borrowing (another temporary measure), or obtaining money from Congress (ultimately taxpayers).

The most attractive alternative, which would save more than enough to allow six-day delivery to continue, would be bringing postal wages and benefits more into line with those in the private sector and quickly rationalizing the Service's nationwide network of processing facilities.

Congress did not allow the Service to eliminate Saturday delivery last year and will probably not permit it this year. However, unless mail volume rebounds strongly (a longshot but not impossible), five-day delivery may be a matter of when, not if.

## **THE POSTAL SERVICE ASKS TO ELIMINATE SATURDAY DELIVERY; CONGRESS STILL HAS QUESTIONS**

In January 2009, Postmaster General John Potter shocked the postal community and made national headlines when he declared at a Senate hearing that the Postal Service might need to shift to five-day-a-week mail delivery to ease the agency's financial problems.<sup>1</sup> The change in delivery frequency would require Congress's permission because, in every year since 1983, Congress has included language in appropriations bills ordering the Service to deliver mail six days a week.<sup>2</sup> Although Mr. Potter and others at the Postal Service have continued to suggest moving to five-day-a-week mail delivery, and have done so with increasing urgency, Congress renewed the six-day requirement for 2010<sup>3</sup> and will probably do so later this year for 2011.

The argument Mr. Potter advanced in early 2009 for eliminating the sixth delivery day is straightforward. The agency is bleeding money, with the triggering event being a sharp drop in mail volume. Because mail carriers incur significant fixed costs when they travel their routes, the Postal Service could save several billion dollars annually if it eliminated the sixth delivery day. Further, people say overwhelmingly in public opinion surveys that they would rather lose a delivery day than pay higher postal rates, which suggests that dropping a delivery day would be one of the less painful cost-saving options for postal customers.

Since the Postmaster General first called for rethinking delivery frequency, significant changes have occurred that bear on this issue: the Service has refined its proposal; it has asked its regulator for an advisory opinion; mail users have provided additional information regarding their preferences; mail demand and the Postal Service's financial outlook have turned much grimmer; and major studies by consulting firms and the nonpartisan Government Accountability Office have concluded that the Service must change

its business model dramatically and as soon as possible.<sup>4</sup>

### **The Postal Service refines its plan**

When Postmaster General Potter first suggested moving to five-day delivery, many of the details were vague. The Service had not decided whether to end deliveries on Saturday or a weekday. It was unsure whether the change would be year round or only during the slow summer season. The Service was also unclear about whether post offices would be closed on the sixth day, how the change would affect post office boxes, whether Saturday mail collections would be curtailed, and what the impact would be on mail processing.

The Service has now fleshed out the plan, after listening to household and business customers and examining its own operational needs. Carrier deliveries would be eliminated on Saturday, which is the lightest delivery day and on which about one-third of businesses are closed. Mail would not be picked up from collection boxes on Saturday, and mail submitted at post offices on Saturday would not be processed until Monday (with the exception of express mail). The five-day-a-week schedule would be year round and permanent.

On the other hand, because Saturday is the most convenient day for many customers to visit the post office, post offices now open on Saturday would remain open on Saturday. The Service would also continue delivering mail to post office boxes on Saturday and allow customers to access their boxes then. The Postal Service's nationwide network of processing plants would remain in operation over the weekend. Bulk mailers could still submit mail at processing plants on Saturday and Sunday, but in some cases the incoming mail would not be

processed until Monday. In addition, the Service would continue delivering express mail seven days a week.<sup>5</sup>

The Service has added a section to its web site that discusses the proposed changes in detail and reviews the argument for eliminating the sixth delivery day.<sup>6</sup> The web pages explain that the Service hopes to move to five-day-a-week street delivery in fiscal year 2011, but cautions repeatedly that it must first seek an advisory opinion from its regulator and that Congress could block the proposed changes. (However, the web pages do not mention that Congress has been passing annual appropriations riders since 1983 prohibiting five-day delivery.)

### **How the public views five-day-a-week mail delivery**

When Postmaster General Potter first suggested moving to five-day-a-week mail delivery, he defended it in the context of a trade-off among policy options. He claimed that if customers were forced to choose between one less delivery day or a rate increase, most would select five-day-a-week service. Independent public opinion polls quickly confirmed the accuracy of his assertion about people's preferences. For example, in a USA Today/Gallup poll in February 2009, individuals favored reduced services over significantly higher stamp prices by a 57% to 14% margin, and in a Rasmussen survey, they chose one less delivery day over a higher stamp price by a 69% to 26% margin.<sup>7</sup>

Since then, independent surveys have consistently indicated that, given the Postal Service's budget problems, the public supports less frequent deliveries by an approximately two-to-one margin. For example, in follow-up surveys in March 2010, Gallup reported that Americans supported dropping Saturday delivery to reduce the Service's losses by a 68% to 31% ratio, and Rasmussen found that Americans endorsed one less delivery day as a deficit-reduction strategy by a 58% to 31% ratio.<sup>8</sup>

Consumers' openness to five-day street delivery may be partially due to the very volume decline that

is hurting the Postal Service financially. The value a consumer attaches to a delivery day will tend to fall as the amount of mail expected that day declines, especially if many communications have moved to non-mail alternatives, such as the telephone and Internet. The ongoing shift in the mail mix from first-class mail to standard mail (mostly advertising) also tends to lower the value to consumers of the sixth delivery day.

A weakness in the surveys, though, is that they do not specify how much of a rate increase would be needed to provide the same financial improvement as dropping Saturday delivery. Using mail volume and revenue numbers for 2009, taking the Service's updated estimate for the cost of Saturday street delivery (\$3.1 billion), and adjusting for lower volume due to higher prices, a rough estimate is that mail rates in 2009 would have needed to rise, on average, by about 5% solely to pay for Saturday delivery.<sup>9</sup> In other words, to offset the extra cost of Saturday delivery, the price of a first-class stamp would have had to climb from 44¢ to 46¢. Readers can decide for themselves whether they believe Saturday delivery is worth the added cost.

The majority of mail volume involves commercial mailers as senders or recipients, and the loss of a delivery day would force many of them to adjust their schedules. Therefore, an important question is how commercial mailers would respond. The answer was uncertain in early 2009 but has become clearer since then. Commercial mailers have a variety of needs and do not speak with one voice. However, most understand the problems caused by plunging volume and seem to have concluded that while losing Saturday street delivery would be inconvenient, higher postage rates would be worse. For example, in congressional testimony on behalf of the Association for Postal Commerce (PostCom), James O'Brien, a Time, Inc. Vice President, said, "[V]olume is declining and may never return to prior levels... [T]he dire straits in which the Postal Service now finds itself require that mailers work with the Postal Service on developing a delivery day solution."<sup>10</sup> Similarly, a Netflix executive expressed support, telling Congress that Netflix did not reach

its decision "in a vacuum" but concluded that five-day delivery is "a reasonable proposal in light of the very difficult challenges facing the Postal Service."<sup>11</sup> In discussions with a variety of mailers, the Postal Service reported that most thought five-day delivery would have some adverse impact on them, but they were prepared to accept the change, although many wanted more details and an adequate lead time.<sup>12</sup>

However, many mailers oppose dropping Saturday delivery, among them Hallmark, eBay, Amazon.com, and CVS. An Amazon executive warned in congressional testimony, "[E]limination of Saturday street delivery will cause us to shift a significant fraction – approximately a sixth – of our current USPS business to other carriers."<sup>13</sup>

Of course, some mail users would be inconvenienced more than others. Among those most often mentioned are people who order movies by mail and want them to arrive on Saturday for weekend viewing; individuals who order medicine by mail and would sometimes have to wait until Monday; and the publishers and readers of some local newspapers that are sent by mail and now timed to arrive on Saturday. All these groups could adjust, but doing so would require extra effort and expense. Until very recently, another prominent group on the list would have been the millions of seniors who sometimes receive their Social Security checks in the Saturday mail and would not want to wait until Monday. However, in a sign of changing times (and decreased mail use), the government has announced that it plans to phase out mailed Social Security checks over the next three years in favor of electronic payments.<sup>14</sup>

One group of businesses, the nation's private-sector mail and package centers, would seem to have reason to object on the ground that the Postal Service's implementation of its five-day plan would place them at a competitive disadvantage. The problem is that the Postal Service proposes to deliver mail on Saturday to its own post office boxes but not to the boxes rented by its competitors. That Postal-Service-controlled difference in service would make

it harder for private-mailbox businesses to attract and retain customers, especially customers who value Saturday delivery highly. Earlier this year the Service itself called attention to competition in the mailbox market when it asked the PRC to reclassify boxes at 49 post offices that are "within a half mile of a *competing* box service provider" as competitive postal products, not market dominant products.<sup>15</sup> [Emphasis added.] The PRC agreed and approved the Service's request.<sup>16</sup> Perhaps hoping that the Service is not deliberately trying to disadvantage its rivals, an association representing private-sector mail centers has not so far opposed the five-day initiative but instead filed a short comment with the PRC urging that the Postal Service deliver on Saturday to its competitors in the mailbox market.<sup>17</sup>

### **The regulator begins its examination**

The law requires the Postal Service to seek an advisory opinion from its regulator when it "determines that there should be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis."<sup>18</sup> Because a shift from 6-day to 5-day delivery would most definitely be a major, nationwide change in service, the Postal Service cannot implement five-day-a-week delivery without first asking the Postal Regulatory Commission (PRC) for an advisory opinion (even if Congress were to drop the current six-day requirement).

When the Service first asked Congress to allow five-day delivery, it had not yet submitted its request to the PRC, and it did not do so until March 30, 2010 (PRC Docket No. N2010-1). The PRC has begun its proceeding, which includes hearings in Washington and seven field hearings across the nation. PRC Chairman Ruth Goldway expects the process to take six to nine months, which would push the decision into fiscal year 2011.<sup>19</sup>

The case will provide a public forum for interested parties to air their concerns and seek more information and for the PRC to offer an independent assessment of how the proposed change would affect the quality of mail service and the Postal Service's

finances. In an examination of the universal service obligation (USO) and postal monopoly in 2008, the PRC left the door open for five-day delivery when it wrote, "It is the Commission's judgment that a minimum frequency of delivery for a postal operator that is obligated to provide universal coverage of delivery addresses is 5 days per week."<sup>20</sup> However, that passing comment does not necessarily indicate how the PRC will rule in the current case, in which five-day delivery is the central issue.

### **Estimates of net savings**

The Postal Service originally estimated that it could save \$3.5 billion annually by discontinuing Saturday mail delivery.<sup>21</sup> At about the same time, the PRC also estimated the potential saving. The PRC's number, \$1.93 billion annually, is large but substantially less than that of the Postal Service.<sup>22</sup>

One reason for the differing estimates is that while both agencies believe there are significant fixed costs every time a carrier travels a delivery route, the Postal Service thinks the fixed costs of traveling the route are higher than does the PRC. A second reason for the differing estimates, accounting for about \$0.6 billion yearly, is that the Postal Service assumed it would not lose any mail volume if it reduced delivery frequency while the PRC more realistically assumed that customers would respond to less frequent delivery service by mailing somewhat less.

This year, the Postal Service issued a revised estimate that five-day delivery would strengthen its bottom line by \$3.1 billion annually based on 2009 data.<sup>23</sup> The Service claims the new estimate is based on an improved methodology, and it incorporates a mail-volume effect. Relying on extensive surveys and interviews with a variety of mailers and mail recipients, the Service now predicts that ending Saturday carrier-route deliveries would result in a 0.7% drop in mail volume.<sup>24</sup> (The volume effect lowers the Service's estimated saving from \$3.3 billion to \$3.1 billion.) The Service has also provided more details on how the change would reduce its costs. If it removed a delivery day, it

would need about 40,000 fewer workers, mostly carriers.<sup>25</sup> Some non-career employees would be laid off or work fewer hours, but the cuts for career employees would be primarily through attrition, not layoffs. The Postal Service additionally projects that shifting to five-day delivery would save it a total of \$40 billion over the period 2011-2020.<sup>26</sup>

The Postal Service's estimate is still significantly higher than the PRC's, but regardless of whether the yearly swing in net income would be \$3.1 billion or \$2 billion, the estimates agree that the positive impact on the Service's bottom line would be very large.

Some critics of five-day-a-week delivery contend, however, that the volume effect would be much worse than either the Postal Service or the PRC recognizes negating most or all of the expected cost savings. For example, the National Association of Letter Carriers (NALC) argues that five-day delivery would throw away a "key strategic advantage [of USPS] over its private competitors ... drive customers away ... [and] prompt the emergence of new competitors."<sup>27</sup> Consistent with that position, some newspapers, magazines, and advertisers have threatened to explore non-mail methods of hard-copy delivery if they lose Saturday service. The highest profile example is a test of hand delivery by the *Economist*.<sup>28</sup> These warnings should not be dismissed, but they are not supported by the comments of most consumers and mailers, which point to a modest volume effect. Additionally, NALC alludes to a piece of real-world evidence that actually weakens its case: the Service's rivals in competitive markets do not normally deliver on Saturday. (They will for a surcharge.) Because the Service's rivals would quickly make Saturday a regular delivery day if market conditions (i.e., the interplay between their costs and customers' demands) justified doing so, their behavior suggests that delivering on Saturday at standard prices does not make good business sense. Nevertheless, to obtain more accurate estimates based on real-world experience, it might be useful for the Postal Service or the PRC to examine what happened to mail

volume in countries that moved to five-day delivery, such as Australia in the 1970s (for most of the country) or Canada in 1982.

Another objection is that eliminating Saturday delivery would lower costs by approximately 5% but supposedly reduce service by about 17%, which would seem to be a bad bargain.<sup>29</sup> It is certainly true that delivery frequency would fall by one day out of six. However, all mail not collected or delivered on Saturday would be collected or delivered on other days.<sup>30</sup> Hence, the issue is one of timing; the decline in service quality depends on how much customers value having mail collected and delivered on Saturday. If customers generally regard Saturday deliveries as urgent, the hit to service quality could be even higher than 17%. If customers are generally satisfied with Monday deliveries, the drop in service quality could be considerably under 5%. The surveys and interviews mentioned earlier suggest most, although not all, mail recipients and senders view the potential loss of service quality as small. (If perceived service quality depended solely and linearly on delivery frequency, customers should be happy to see all postal rates increase by, say, 10% in return for Sunday delivery. In reality, very few customers would desire that outcome.)

Critics of five-day delivery also contend that when a seller has declining sales, it should expand service to attract more customers rather than retrench, which will further depress sales. However, the Postmaster General responded in congressional testimony that reducing service to staunch losses is a common business practice, citing many well-known companies that reacted to losses by "selling a portion of their assets, closing locations, or ... laying off employees."<sup>31</sup> One can cite numerous additional cases. For example, Four Seasons Hotels has a business model that depends on offering premier service. Nevertheless, it will be displaying fewer cut flowers, doing less laundry in-house, and closing some hotel restaurants on slow nights.<sup>32</sup> The chain believes it has identified services that are costly to provide relative to their value to customers.

## Mail demand

Although large and sudden sales drops often occur at private-sector businesses, they have been very rare at the U.S. Postal Service, which enjoys a statutory monopoly on non-urgent letter delivery. Mail demand sometimes fell in past recessions, but the declines were modest and quickly followed by growth and new volume records. Furthermore, until recently, postal revenue had not declined since 1946. In the latest recession, mail demand initially seemed to display its usual durability. Mail volume declined by only 0.4% (0.9 billion pieces) in 2007 and by 4.5% (9.5 billion pieces) in 2008.<sup>33</sup> Postal revenue rose in 2007 and was flat in 2008.<sup>34</sup>

However, in his testimony in early 2009, Postmaster General Potter delivered the unsettling news that the Service expected a much larger volume plunge in 2009: "12 billion to 15 billion pieces, based on actual mailing activity during the first quarter."<sup>35</sup> That seemed pessimistic at the time, but the Service soon had to lower its estimate even more as new data arrived. The actual mail volume loss in 2009 proved to be 12.7% (25.6 billion pieces),<sup>36</sup> and the Service estimates that volume will descend another 6.2% (11 billion pieces) in 2010.<sup>37</sup> Moreover, postal revenue plummeted by 9.1% (\$6.9 billion) in 2009, and is expected to fall another 3.2% (\$2.2 billion) in 2010.<sup>38</sup> The last time mail volume and revenue suffered an implosion of the current magnitude was in the years 1929-1933, as the nation descended into the Great Depression.<sup>39</sup>

In 2008, with weak volume and flat revenue, the Postal Service lost \$2.8 billion. That was worrisome, but partially due to a special expense. In addition to providing its retirees with generous pensions, the Postal Service also gives them excellent health benefits. Because those promised health benefits were not funded as they accrued, they grew into an enormous unfunded obligation (currently exceeding \$50 billion). To reduce the unfunded obligation, Congress included a provision in PAEA establishing a new Retiree Health Benefits Fund (RHBF) and set

out an aggressive schedule of Postal Service payments into the fund, with average yearly payments of \$5.58 billion from 2007 through 2016.<sup>40</sup> If the Service had contributed just enough to the RHBF in 2008 to prevent its unfunded liability from growing, it still would have lost money but not nearly as much. However, as mail volume plunged in 2009, the Service was staring at a potentially catastrophic loss of \$7.8 billion and an inability to pay all its bills, despite vigorous and skillful cost cutting. On the very last day of fiscal year 2009, Congress granted one year of relief, reducing the required RHBF payment for 2009 from \$5.4 billion to \$1.4 billion.<sup>41</sup> The Service finished 2009 with a loss of \$3.8 billion.

Mail volume normally bounces back after recessions, although with some lag. The latest preliminary data released by the Postal Service underscore the steepness of the current slide but hint that the rebound has begun or is close at hand: through the first eight months of fiscal year 2010, mail volume was 5.1% below the same period last year but 3.0% above plan.<sup>42</sup> However, most observers expect the rebound to be weak because of the extraordinary inroads made by electronic diversion as more individuals become comfortable with the Internet, broadband access expands, and more businesses and government agencies use carrots and sticks to push bill payments, financial statements, and other communications online.

Trying to predict mail demand several years out is highly uncertain. In a study it performed for the Postal Service, the Boston Consulting Group deliberately avoided projecting future demand based on past historical trends, arguing that the Internet is a game changer, and instead used "interviews [with mailers and consumers], surveys, BCG expertise, benchmarks from other [developed] countries, and commercial research."<sup>43</sup> Boston Consulting projects that mail volume will never return to its "high-water-mark of 213B pieces in 2006" but will suffer a "steady decline" to "around 150B pieces in 2020."<sup>44</sup> Moreover, Boston Consulting projects that the decline will be concentrated in highly profitable first-class mail, with the result that by 2020 "real

revenue per delivery point will decline almost 50% from 2000."<sup>45</sup>

Volume and revenue per delivery are falling rapidly. The Postal Service reports that volume and revenue per delivery point on delivery days averaged 5 pieces and \$1.80 in 2000, fell to 4 pieces and \$1.40 in 2009, and, according to Boston Consulting's projection, will descend further to 3 pieces and \$1.10 in 2020.<sup>46</sup> The Service regards six-day delivery as financially unaffordable given this trend. It adds that dropping Saturday delivery would boost volume and revenue on the remaining delivery days, which would help financially.

Given current information, Boston Consulting's forecast is reasonable and thoughtful, but it is not a certainty. Kevin Kosar, an analyst at the Congressional Research Service, noted in congressional testimony that although the World Wide Web has been present since the mid-1990s, mail volume climbed until 2006; the decline roughly began when the economy weakened. Therefore, while Boston Consulting may be correct, Kosar thought it prudent also to acknowledge the possibility "that the economic downturn, not electronic migration, was the more significant factor in instigating the sudden mail decline of the past two years...[I]f that is the case, then arguably the USPS's mail volume might rise again as the economy improves."<sup>47</sup>

The Postal Service warns that the growth of delivery points adds to its problems. "Mail volume ... is declining dramatically" it reports, while "the cost of delivering mail to an expanding number of addresses continues to grow. As a result, the Postal Service's ongoing ability to finance universal service is at great risk."<sup>48</sup> On the matter of delivery point growth, the Service is too pessimistic. When both revenue and costs are considered, new addresses actually help the Service's bottom line, by boosting revenue more than expenditures.<sup>49</sup> The people moving to new addresses usually generate healthy revenue because many of them have higher incomes, which is positively correlated with mail volume, or are new households, which is a magnet for

advertising mail. The Service is correct that new delivery points entail costs. However, new addresses are some of the least expensive to serve. They usually receive cluster-box or curbside deliveries, which are much less costly than the to-the-door delivery commonly provided at older addresses; they often "in-fill" existing routes, which allows the Service to achieve greater economies of density; and they are often serviced by rural carriers, whose labor costs are lower, on average, than city carriers.<sup>50</sup> In short, new addresses are more a plus than a minus for the Postal Service. (Ironically, if new addresses were a burden, the Service would have obtained relief in recent years because the rate of delivery-point growth has fallen in each year after 2005; in 2009, it was less than half what it had been in 2005.<sup>51</sup>)

### **A GAO study and the Postal Service's "Action Plan" look at the Service's financial problems and its business plan**

Since Postmaster General Potter first recommended eliminating the sixth delivery day, both the Postal Service and the Government Accountability Office (GAO) have issued major studies that examine the Service's short- and long-term financial challenges. Both see an urgent need to revise the agency's business model.

The Postal Service announced a 10-year business plan, called its "Action Plan", on March 2, 2010.<sup>52</sup> The plan was developed with the help of three respected consulting firms (the Boston Consulting Group, McKinsey & Company, and Accenture). Boston Consulting began by developing a 10-year volume projection, which was described in the previous section. McKinsey then used Boston Consulting's projection, Postal Service data, and its own expertise to construct a 10-year financial forecast.<sup>53</sup> McKinsey predicts that if the Service were to seek no further productivity improvements and make no adjustments whatsoever for declining volume and a changing mail mix, it would lose nearly one-quarter *trillion* dollars during the next decade.<sup>54</sup>

Fortunately, the Postal Service thinks it can take actions on its own initiative to close over half the deficit.<sup>55</sup> Most of the actions would reduce costs (e.g., adjust delivery routes, consolidate administrative functions, continue rightsizing the processing network, increase the use of part-time workers), but some would be on the revenue side (e.g., new postal products, better marketing of existing products). At most government agencies, talk of vast new savings should be greeted with skepticism, but the Postal Service has built a record of credibility under Postmaster General Potter. Notably, the Service reduced its total workforce (career and noncareer) by almost 200,000 between 1999 and 2009 (from about 906,000 to about 712,000, with 53,000 of the reduction occurring in 2009), while maintaining service standards.<sup>56</sup>

Unfortunately, even if the Service is fully successful with all the adjustments under its control, that still leaves a projected 10-year residual deficit of \$115 billion.<sup>57</sup> To deal with the \$115 billion shortfall, the Postal Service requests a number of changes that would require the approval of Congress, the PRC, or both. One of the "Action Plan's" key elements is five-day-a-week mail delivery. It would close about one-third of the residual 10-year gap, according to the Service's numbers.<sup>58</sup>

As with the Boston Consulting projection on which it partially relies, the McKinsey forecast is an effort to see into an uncertain future and could be too optimistic or pessimistic.<sup>59</sup> However, the forecast of a \$115 billion loss is not unreasonable, given current knowledge. (The much larger \$238 billion projection relies on the implausible assumption that the Postal Service will suddenly and totally stop responding to changing market conditions, but it forcefully drives home the message that doing nothing is not a viable option.)

Nevertheless, given the enormous size of the projected losses, it might be helpful if the PRC or GAO reviewed how they were derived. Such a second opinion by a neutral government watchdog would serve the public interest by increasing

transparency and addressing the concern of some members of Congress that the large numbers might be, in part, a scare tactic.<sup>60</sup> (When the PRC issues its advisory opinion on five-day delivery, it could call for opening a separate docket to review the 10-year projections. Members of Congress interested in the issue might wish to request such a proceeding.)

GAO also studied the Service's short- and long-run problems. Congress had included a provision in PAEA that directed GAO to issue a report by the end of 2011 examining "options and strategies for ... long-term structural and operational reforms..."<sup>61</sup> The intent was to help the Postal Service and Congress better understand the mail system's long-term challenges in order to develop a business model for the future. Because of the Postal Service's plummeting volume and deepening losses, GAO accelerated its schedule and issued the report in April 2010.<sup>62</sup> GAO had previously placed the Service on its high risk list in July 2009.

GAO's findings are grim but not unexpected. "USPS's business model is not viable due to USPS's inability to reduce costs sufficiently in response to continuing mail volume and revenue declines... Given its financial problems and outlook, USPS cannot support its current level of service and operations."<sup>63</sup> GAO also warned, "If no action is taken, risks of larger USPS losses, rate increases, and taxpayer subsidies will increase."<sup>64</sup>

Per Congress's statutory request, GAO laid out a range of ideas for lowering the Service's costs and bolstering its revenues. The largest cost savings could be realized by dealing with the Service's high labor costs and rigid work rules (nearly 80% of the Service's total expenses are still labor related despite billions spent on automation and a dramatic reduction in the total workforce), but GAO mentioned a number of other possibilities, including reducing delivery frequency from six days a week to five.<sup>65</sup> GAO noted that dropping Saturday delivery would, on the plus side, bring large cost savings. On the negative side, the change would hurt some mail users and might erode a competitive advantage the Service currently possesses. GAO did not attempt to weigh

the pros and cons but suggested the PRC's public proceeding would assist in airing the issues.

## Responses from Congress

When Postmaster General Potter first asked Congress to give the Service the option of eliminating the sixth delivery day, the most common reactions on Capitol Hill were surprise, unhappiness, skepticism, and caution. Members of Congress are no longer surprised, but most have not been won over; their reactions range from strong opposition to reluctant support.

In 2009, for example, Representative Jose E. Serrano (D-NY) said, "People depend on regular mail delivery and would be greatly inconvenienced by missing a day's delivery."<sup>66</sup> As chairman of the House Appropriations Subcommittee on Financial Services and General Government, he vowed to "retain the prohibition on service cuts in my [appropriations] bill,"<sup>67</sup> which he did. Rep. Serrano recently said, "While I understand the seriousness of the Postal Service's fiscal issues, I remain supportive of a six-day delivery schedule."<sup>68</sup> In 2009, Representative Sam Graves (R-MO) introduced a House Resolution declaring, "[T]he United States Postal Service should take all appropriate measures to ensure the continuation of its 6-day mail delivery service." (H. Res. 173). The resolution continues to circulate, and a majority of House members (225, as this is written) have now signed on as cosponsors.

At a hearing this April, when Mr. Potter again urged that Congress not require Saturday delivery, Representative Diane Watson (D-CA) replied, "Please, please, please – I would strongly suggest that you continue Saturday deliveries."<sup>69</sup> Representative Judy Chu (D-CA) asked, "Once we go down this road [of reducing delivery frequency], where does it end?"<sup>70</sup> Committee chairman Edolphus Towns (D-NY) wrote several days later, "We still need to get a firm handle on how much would be saved by eliminating a day of delivery and a better understanding of the impact of this proposal on customers and the postal workforce."<sup>71</sup> Senator Susan Collins (R-ME), who has worked diligently on

postal matters in the past, worries that five-day delivery might not be in the agency's best interest: "[T]he USPS will have to present a compelling case that cutting services, such as reducing delivery to five days a week, will not further decrease volume, drive more customers away, and set off a death spiral."<sup>72</sup>

Some members would prefer to start with a more modest reduction in delivery frequency. For instance, Representative Jason Chaffetz (R-UT), the ranking member on the House Subcommittee on the Federal Workforce, Postal Service and the District of Columbia, calls Saturday delivery a "competitive advantage" and suggests the Service instead drop only 12 delivery days a year.<sup>73</sup> Senator Richard Durbin (D-IL), the chairman of the Senate Appropriations Subcommittee on Financial Services and General Government, suggests a small-scale test of 5-day delivery to help evaluate whether to implement it nationally.<sup>74</sup>

To be sure, a few people on Capitol Hill are saying that the time may have come to end Saturday delivery to avoid or mitigate worse problems. One of them is Senator Thomas Carper (D-DE), chairman of the Senate subcommittee with primary responsibility for postal issues. At a recent hearing, he stated:

"It would be irresponsible, then, to ignore or significantly delay the more difficult changes that need to occur. One of those changes could be the elimination of Saturday delivery... We need to spend some time examining the details of what the Postal Service has put forward but I'm not aware of any changes, structural or otherwise, that would save this much money and help the Postal Service preserve the quality of service it provides throughout the week."<sup>75</sup>

A significant political hurdle to dropping Saturday street delivery is that postal workers adamantly oppose the change, and they are present and active in every congressional district. Another consideration is that the elimination of Saturday

delivery would be highly visible to voters. Accordingly, even if members of Congress are inclined to heed the Service's request, they might decide to wait until after the November election.

Predicting what Congress will do is an uncertain business, but the odds seem high that Congress will renew, for fiscal year 2011, the appropriations rider requiring six-day-a-week mail delivery. While many members acknowledge the Postal Service's dire financial condition, most are reluctant at this point to let the Service adjust delivery frequency.

### **Other options**

In discussing the possible elimination of Saturday delivery, the Postmaster General and others at the Service have consistently presented reduced delivery frequency in the context of choosing between that and other options, such as higher postal rates. In emphasizing the need for policy choices, postal officials deserve credit for talking intelligently and directly about the Postal Service's losses, the unavailability of trade-offs, and the desirability of making sensible choices. GAO has also highlighted trade-offs in the GAO study mentioned earlier and in its testimony before Congress.

The examination of trade-offs is especially welcome because, too often, it is implicitly assumed in political discussions that there is no need to give up anything, that lawmakers can banish trade-offs simply by saying "no". In reality, trade-offs are unavoidable as long as our resources of labor, capital, land, and time are scarce. The danger is that if less damaging alternatives are rejected for political or bureaucratic reasons or simply out of inertia, the choices that remain by default may cause unnecessarily great social and economic harm.

If the Postal Service's general analysis is correct, a decision by Congress to continue Saturday delivery would create a financial hole of several billion dollars yearly. The Postal Service might attempt to fill the hole by enhancing revenue, cutting other costs, deferring costs, borrowing, or receiving taxpayer dollars.

The revenue side. The main candidate here is higher postal rates. That option was discussed above. A variant with both pros and serious cons is raising rates on all money-losing products, some of which could be accomplished by abolishing the nonprofit discount. Another revenue-based option is seeking income from new postal products and improved marketing. A recent success story was the introduction of priority mail flat rate boxes, which gave customers a product they value while helping the Service's bottom line. Unfortunately, the new-product option cannot offset the cost of Saturday delivery because the Service already has ambitious targets in this area and already counts the expected income in the "Action Plan". (Occasionally, once-troubled businesses introduce new products that quickly earn billions in profits, with Apple Computer being the premier example today, but such occurrences are rare.) Another possibility is that the Service might simultaneously generate net income and assist the public by offering convenient access to a variety of government services, such as the passport services it now provides. Making greater use of post offices as government contact points should be encouraged, but the net income would probably be in the millions of dollars, not the billions of dollars needed to offset the cost of Saturday delivery. One more revenue option the Service considered is venturing into non-postal markets. However, the Service responsibly concluded it would be a bad idea because the up-front costs could easily be billions of dollars (money the Service does not have), the ventures could take many years to begin paying off, and the Service's prior ventures in non-postal markets generated disappointingly little revenue and usually lost money.<sup>76</sup>

The cost side. Alternatively, the Postal Service might try to counterbalance the expense of Saturday delivery with cost savings elsewhere. The main problem with this approach, ironically, is that the Service has pursued cost savings adroitly and vigorously during the last decade and set out ambitious goals for further cost savings in its 10-year "Action Plan". Consequently, much of the low-hanging fruit has already been picked or targeted for picking.

Some ideas that could achieve large savings, such as adding a day or two to delivery times or replacing existing to-the-door deliveries with curbside or cluster-box deliveries, have been rejected because mail users indicated such changes would seriously degrade service quality.<sup>77</sup> If Saturday delivery cannot be dropped, however, the Postal Service might give a second look to perhaps-more-damaging alternatives like these.

Some very large cost savings have been politically out of reach until now. For most postal workers, although not all, the Service pays wages that are higher than those of similarly skilled workers in the private sector, provides fringe benefits that are much more generous, and is constrained by work rules that are more rigid.<sup>78</sup> Statutory provisions and political pressure have limited the government agency's ability to better control wages, fringe benefits, and work rules. Additionally, the Service has enormous excess and misallocated capacity in its nationwide network of processing plants. The Service has been rationalizing the network, but the pace has been slow because the agency usually encounters ferocious political resistance whenever it tries to close or consolidate facilities.

The "Action Plan" calls for savings in these areas and asks Congress to help by making modest statutory changes, such as directing arbitrators to consider the Service's financial condition when setting wages, fringe benefits, and work rules in collective bargaining disputes. Congress could facilitate much larger savings if it removed more of the statutory constraints that limit the Service's control over compensation and if it made its own political intervention the exception rather than the rule as the Service realigns its "backroom" network of processing and distribution facilities. The savings would grow over time and be more than sufficient to cover the cost of continued Saturday delivery. This approach would promote a more efficient use of resources, be consistent with the Service's core mission of delivering mail reliably and economically throughout the nation, and help the Service meet its expenses through its own revenues. The savings would also allow the Service profitably to introduce

new and innovative postal products at lower prices than otherwise. That would benefit postal consumers while bolstering mail volume. The problem is that many members of Congress view the Postal Service as a federal jobs machine – although that has nothing to do with its core mission – and they fight to preserve postal jobs and facilities in their districts and states. In addition, postal unions and management associations, which have a concentrated interest and favor high wages and benefits, have been a stronger political force in Washington than the general public and postal customers, whose interests are more diffuse. The many members of Congress who are concerned about future mail volume and the Postal Service's finances should remember that the organization's ability to grow mail volume depends crucially on its ability to manage costs.

Deferring RHBF contributions. The actual policy choice Congress made in 2009 was to defer \$4 billion of the Service's contribution toward postal retiree health benefits but to continue requiring six-day delivery. Perhaps Congress will decide to do the same this year. By deferring more of the RHBF contribution than otherwise, Congress can partially offset the saving it denies the Service by requiring Saturday delivery. One shortcoming of this approach is that it does not reduce the Service's costs over time but only postpones some of them. That places a greater burden on future mail users who will be forced to pay for some worker-related costs accrued today and increases the odds that the Postal Service will eventually need a taxpayer bailout. (Some rescheduling of the retiree health payment is unavoidable: the Postal Service simply does not have the money to keep up with the aggressive funding schedule Congress legislated in the prosperous year of 2006.) The rescheduling buys time for the Postal Service and will be most effective if, contrary to expectations, mail demand quickly rebounds and the Service is soon in much better financial shape. A second problem is that the 10-year "Action Plan" already assumes Congress will approve a large reduction in future RHBF contributions (but without any cut in postal retirees' future health benefits.)<sup>79</sup>

Because reduced RHBF payments are already counted in the "Action Plan", they are not still available to offset the cost of continued Saturday delivery.

The Postal Service's Office of Inspector General (OIG) has introduced a wild card by claiming that the government has made the Service pay too large a share of certain postal retirees' pension costs, resulting in a \$75 billion overcharge.<sup>80</sup> Based on that conclusion, the OIG wants the U.S. Treasury to transfer \$75 billion to the Postal Service. Although pensions and retiree health care are separate fringe benefits, the OIG further recommends that the Service use the \$75 billion to fund the RHBF, which would end the Service's worries about how to pay for retirees' health benefits. An independent actuarial consultant that the PRC hired to take a "'fresh look' without an objective of consistency with prior laws or practice," concluded that the Service could be deemed to have overpaid \$50-55 billion if allocation rules common in 2010 were applied to the Postal Service retroactively back to the early 1970s.<sup>81</sup>

The Postmaster General told Congress that while he thinks five-day delivery is "inevitable", a \$75 billion payment from the U.S. Treasury could delay it for years.<sup>82</sup> A key question regarding the "overcharge", however, is whether the amounts charged to the Service were consistent with the rules and obligations Congress set out in law. If the law was misinterpreted and the Service paid more than its statutory liability, then it should receive a refund. (It is not clear, though, if the refund should be retroactive to the early 1970s, which is what the OIG demands.) The case for a \$75 billion credit is much weaker, though, if the assessments were accurately computed based on the law but the OIG regards the law as inequitable. (The OIG report uses words like "equitable" and "fair" a great deal but phrases like "contrary to law" rarely.) Normally, if Congress decides that a law is unfair, it changes the law prospectively but does not give retroactive refunds, certainly not refunds stretching back more than a generation.

Borrowing. Another way to buy time would be to let the Service borrow more from the Treasury, in the hope that mail demand will soon strengthen. The Service is close to its congressionally-imposed \$15 billion borrowing limit, but Congress could raise the cap if it chose. The danger in this approach is that as the Service's debt mounted, so would the odds it would eventually need a bailout.

Taxpayer dollars. If Congress decides to continue Saturday delivery without allowing the Service to offset the cost elsewhere, that would increase the possibility of a government bailout. Deputy Postmaster General Patrick Donahoe pointed to this possibility in a radio interview when he said, "You either move from six to five days, or you have a substantial postage rate, or some type of bailout from the government."<sup>83</sup> Taxpayer dollars could alternatively enter the picture if Congress chooses to offset the cost of Saturday delivery by granting the Postal Service a congressional appropriation of several billion dollars yearly.

Some people believe that a government-run mail service can provide a variety of social benefits and, therefore, merits taxpayer subsidies.<sup>84</sup> Whether that argument is correct or not, it does not follow that Saturday delivery deserves subsidies, in that most of the alleged benefits could still be furnished if the Service delivered five days a week instead of six. A drawback to federal subsidies is that they would probably lead to more congressional micromanagement of postal operations, which would almost certainly reduce the Service's efficiency. Another problem with taxpayer subsidies is that they would grow the federal deficit and worsen the burden on current and future taxpayers.

### **Is the Postal Service proposing to end Saturday delivery to persuade Congress to help it in other ways?**

On Saturday, April 13, 1957, the old Post Office Department refused to deliver mail, saying it was losing too much money.<sup>85</sup> Three days later a new federal law boosted its Congressional appropriation, and Saturday delivery returned. (In the 1950s, the

Post Office Department ran huge deficits, averaging 20% of its costs, and was heavily dependent on money from Congress. In contrast, one of the U.S. Postal Service's goals is to be self-supporting.)

In April 2001, expecting a large loss for the year, the Service's Board of Governors ordered an immediate study of shifting to five-day delivery.<sup>86</sup> In July 2001, the Board announced it was withdrawing the idea based on "preliminary findings".<sup>87</sup> Critics, although only able to speculate, charged that the five-day study was a "charade" from the start, intended to weaken opposition to various legislative changes the Service desired.<sup>88</sup>

When the Service's asked permission in January 2009 to eliminate the sixth delivery day, was its real goal to obtain concessions elsewhere? The Service's request invited suspicions because it was an almost complete surprise, the plan's details were initially unclear, and Mr. Potter called it the Service's "second priority" in terms of legislation.<sup>89</sup> The "first priority", he testified, was that Congress provide relief from the front-loaded RHBF contribution schedule it had mandated in 2006. In addition, while Mr. Potter believably explained that five-day delivery might be a sensible choice at some point, he hedged on whether we had yet reached that point.<sup>90</sup>

Regardless of what the Postal Service's strategy may have been at the start of 2009, the continuing plunge in mail volume was a seismic event that firmly convinced the agency's leadership that the time for five-day-a-week mail delivery has arrived. The Service probably would have dropped Saturday delivery by last summer, thereby narrowing its 2009 loss by hundreds of millions of dollars, if Congress had allowed it more operational flexibility to exercise its best judgment. Further evidence of the agency's seriousness is the time it has spent developing its 5-day delivery plan, the plan's integration into the proposed business model the Service unveiled in March, the Service's request for an advisory opinion from its regulator, and the agency's consistent advocacy of the plan in public and private forums.

Of course, it is simultaneously possible that the Postal Service's leadership perceives its request as a bargaining chip. As long as Congress insists on maintaining six-day-a-week mail delivery, the presence of the issue may give the Service greater leverage when it requests other forms of congressional aid.

At present, Congress does not appear willing to permit the Postal Service to eliminate Saturday delivery. Members want to see the PRC's advisory opinion first and many hope to get past the November election without doing anything controversial.

However, unless mail volume and revenue rebound much more strongly than the Postal Service expects (a longshot but not impossible), this issue is not going away. If mail volume follows the trajectory the Postal Service foresees, six-day-a-week street delivery will become increasingly difficult to defend, and five-day delivery will probably be a matter of when, not if.

Michael Schuyler  
Senior Economist

*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. John E. Potter, Postmaster General, "Statement," before Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, Senate Committee on Homeland Security and Governmental Affairs, January 28, 2009, accessed at [http://www.usps.com/communications/newsroom/testimony/2009/pr09\\_pmg0128.htm](http://www.usps.com/communications/newsroom/testimony/2009/pr09_pmg0128.htm).
2. Congress stipulates that one of the requirements for the Postal Service to receive its revenue foregone appropriation, which mainly reimburses the Service for the cost of free mail for the blind, is "[t]hat 6-day delivery and rural delivery of mail shall continue at not less than the 1983 level..." Although it might seem that the penalty for discontinuing six-day delivery would be relatively small (the revenue foregone appropriation for fiscal year 2010 is only \$118.328 million), both Congress and the Service view the clause as a de facto directive to maintain six-day delivery. (It should be noted that the Postal Service currently delivers to most addresses six days a week but delivers less frequently to some rural addresses, does not deliver at all to some addresses (providing free post office boxes instead), and delivers on only five days to the many businesses that are closed on the Saturday.)
3. See "Consolidated Appropriations Act, 2010," which became P.L. 111-117 on December 16, 2009.
4. An earlier IRET paper examined the Postal Service's proposal as it looked in Spring 2009. See Michael Schuyler, "Is the Postal Service About To Eliminate One Day A Week Of Mail Delivery?" *IRET Congressional Advisory*, No. 253, March 17, 2009, available at <http://iret.org/pub/ADVS-253.PDF>.

5. See Postal Service, "Five-Day Delivery," accessed at <http://www.usps.com/communications/five-daydelivery/welcome.htm>. Also see Postal Service, "Delivering the Future: A Balanced Approach; Five-Day Delivery Is Part Of The Solution," March 2010, accessed at [http://www.usps.com/communications/five-daydelivery/plan/5day\\_plan\\_delivery.pdf](http://www.usps.com/communications/five-daydelivery/plan/5day_plan_delivery.pdf).
6. *Ibid.*
7. See Dennis Cauchon, "Postal Service Seeks To Weather Economic Storm," *USA Today*, February 3, 2009, accessed at [http://www.usatoday.com/news/washington/2009-02-02-postal\\_N.htm](http://www.usatoday.com/news/washington/2009-02-02-postal_N.htm); and Rasmussen Reports, "69% Would Rather Cut Mail Delivery Than Pay More For Stamps," February 05, 2009, accessed at [http://www.rasmussenreports.com/public\\_content/lifestyle/general\\_lifestyle/january\\_2009/69\\_would\\_rather\\_cut\\_mail\\_delivery\\_than\\_pay\\_more\\_for\\_stamps](http://www.rasmussenreports.com/public_content/lifestyle/general_lifestyle/january_2009/69_would_rather_cut_mail_delivery_than_pay_more_for_stamps).
8. Lymari Morales, "Americans Back Five-Day-Per-Week Mail Delivery," Gallup, Inc., March 26, 2010, accessed at <http://www.gallup.com/poll/127013/Americans-Back-Five-Day-Per-Week-Mail-Delivery.aspx?version=print>; and Rasmussen Reports, "58% Support Postal Service's Plan To End Saturday Delivery," March 04, 2010, accessed at [http://www.rasmussenreports.com/public\\_content/business/general\\_business/february\\_2010/58\\_support\\_postal\\_service\\_s\\_plan\\_to\\_end\\_saturday\\_delivery](http://www.rasmussenreports.com/public_content/business/general_business/february_2010/58_support_postal_service_s_plan_to_end_saturday_delivery).
9. The volume and revenue numbers for 2009 are found in U.S. Postal Service, *Annual Report, 2009*, pp. 74 and 77, accessed at [http://www.usps.com/financials/\\_pdf/annual\\_report\\_2009.pdf](http://www.usps.com/financials/_pdf/annual_report_2009.pdf). The average rate increase would be 4.6% if one assumes, unrealistically, that a price hike would not depress mail volume. The author made a rough volume adjustment using the simplifying assumption that all mail has a price elasticity of -0.2. If mail demand is more elastic than this, a larger price increase would be needed than is reported in the text. (More realistically, elasticity varies among categories of mail. Hence, the estimate could be refined by separately computing the volume feedback for each category of mail.) A further adjustment was made because the Service's operating costs would fall a bit due to the price-induced drop in mail volume. It was assumed here for simplicity that the average cost saving per piece of mail no longer sent would equal the average attributable cost of a piece of mail in 2009. (The average attributable cost of a piece of mail in 2009 was calculated using data from Postal Regulatory Commission, "Annual Compliance Determination, Fiscal Year 2009," p. 30, accessed at [http://www.prc.gov/prc?docs/home/whatsnew/ACD%20Report\\_2009\\_FINAL\\_Combined\\_747.pdf](http://www.prc.gov/prc?docs/home/whatsnew/ACD%20Report_2009_FINAL_Combined_747.pdf). Again, the estimate could be refined by examining each category of mail separately.) If one were to perform a similar calculation for 2010, the average rate increase would need to be somewhat higher because of the continued decline in mail volume.
10. James O'Brien, on behalf of the Association for Postal Commerce, "Testimony," before the House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service and the District of Columbia, May 20, 2009, accessed at <http://oversight.house.gov/images/stories/documents/20090520142619.pdf>.
11. Andrew Rendich, Chief Service and DVD Operations Officer, Netflix, Inc., "Written Testimony," Joint Hearing before the Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security and the House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, June 23, 2010, accessed at [http://hsgac.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore\\_id=cb650226-e448-42f0-8770-24b15e606257](http://hsgac.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=cb650226-e448-42f0-8770-24b15e606257).
12. See Postal Service, "Delivering the Future: A Balanced Approach," *op. cit.*, pp. 32-35. Perhaps in response to the concerns about lead time, the Postal Service has announced that it would "provide at least six months notice." (*Ibid.*, Executive Summary.)
13. Paul Misener, Vice President for Global Public Policy, Amazon.com, "Statement," Joint Hearing before Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security and House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, June 23, 2010, accessed at [http://hsgac.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore\\_id=db53566d-1694-44b0-b9d7-eb746108aeef](http://hsgac.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=db53566d-1694-44b0-b9d7-eb746108aeef).

14. See Michelle Singletary, "U.S. Aims To Switch Millions Of Benefit Recipients To Electronic Payments," *Washington Post*, April 22, 2010, accessed at <http://www.washingtonpost.com/wp-dyn/content/article/2010/04/21/AR2010042104780.html>.
15. U.S. Postal Service, "Post Office Boxes Face Competition; Postal Service Seeks Change In Service Classification," *Postal News*, March 12, 2010, accessed at [http://www.usps.com/communications/newsroom/2010/pr10\\_025.pdf](http://www.usps.com/communications/newsroom/2010/pr10_025.pdf).
16. Postal Regulatory Commission, "Order Approving Request To Transfer Selected Post Office Box Service Locations To The Competitive Product List," Docket No. MC2010-20, June 17, 2010, accessed at [http://prc.gov/Docs/68/68507/Order\\_No\\_473.pdf](http://prc.gov/Docs/68/68507/Order_No_473.pdf).
17. Associated Mail & Parcel Centers (AMPC), "AMPC Comments to PRC Docket N2010-1," April 16, 2010, accessed at <http://prc.gov/Docs/67/67710/AMPC%20Comments%20to%20PRC%20Docket%20N2010-1.pdf>. In its comment, AMPC also points out that its members, by acting as consolidators, save the Postal Service money: it costs the Service much less to deliver a large quantity of mail to a private-sector mail and package business than to deliver the same quantity of mail to many different household and business addresses.
18. USC 39, sec. 3661. This requirement dates from the Postal Reorganization Act of 1970 (PL 91-375, sec. 3661).
19. See Ruth Y. Goldway, "Testimony," before the Senate Homeland Security and Governmental Affairs Committee, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, April 22, 2010, accessed at [http://www.prc.gov/prc-docs/home/whatsnew/Chairman%20Goldway%20Senate%20Testimony%204%2022%2010%20FINAL\\_869.pdf](http://www.prc.gov/prc-docs/home/whatsnew/Chairman%20Goldway%20Senate%20Testimony%204%2022%2010%20FINAL_869.pdf).
20. Postal Regulatory Commission, "Report On Universal Postal Service And The Postal Monopoly," December 19, 2008, pp. 123, accessed at <http://www.prc.gov/prc-docs/home/whatsnew/USO%20Report.pdf>.
21. The number came from a study the Service produced in 2008 on its USO and mail monopoly. See U.S. Postal Service, "Report On Universal Postal Service and The Postal Monopoly," October 2008, p. 55, accessed at [http://www.usps.com/postallaw/\\_pdf/USPSUSOReport.pdf](http://www.usps.com/postallaw/_pdf/USPSUSOReport.pdf). The Service derived its estimate using a detailed financial model of the organization developed by a consultant (IBM).
22. As mentioned earlier, the PRC also produced a report on the Service's USO and mail monopoly in 2008 (PRC, "USO Report," *op. cit.*). The PRC study, which was mandated by Congress (PAEA, sec. 702), included its own estimates of the potential financial benefit to the Service from reducing delivery frequency (PRC, "USO Report," *op. cit.*, pp. 123-131.) The PRC developed its estimate with the help of a team of consultants affiliated with George Mason University who have extensive prior experience with the Postal Service and the PRC.
23. U.S. Postal Service, "Delivering The Future: A Balanced Approach," *op. cit.*, p. 23. In the first year, the Service estimates the gain would actually be \$3.0 billion because the move to five-day-a-week delivery would cost \$100 million to implement.
24. *Ibid.*, pp. 20-23.
25. *Ibid.*, pp. 14-16.
26. U.S. Postal Service, "Delivering The Future: Delivery Frequency," March 29, 2010, accessed at <http://www.postcom.org/public/2010/Delivering%20the%20Future%20-%20FINAL.ppt>.
27. National Association of Letter Carriers, "Fundamentally Flawed: The Postal Service's Proposal To Drop A Day Of Delivery Is Not The Solution To Its Financial Problems," accessed at <http://www.nalc.org/postal/reform/index.html>.
28. For instance, see Tom Wakefield, "Highlights Of The Postal Regulatory Commission's Dallas Field Hearing On Five-Day Delivery," *PostalMag.com*, May 17, 2010, accessed at <http://postalmag.com/dallas-field-hearing.htm>; and Alan Robinson, "Smart Post - What Does Its Success Suggest For Letter And Flat Mailers," *Courier, Express, and Postal Observer*, April 30, 2010, accessed at <http://courierexpressandpostal.blogspot.com/2010/04/smart-post-what-does-its-success.html>. If these warnings are correct, the Postal Service is between a rock and a hard place in that substantial price hike, which might be the alternative to five-day delivery, could also chase away some of these mailers.

29. For example, at a PRC field hearing in Sacramento, John Beaumont, president of the of the California State Association of Letter Carriers, testified, "Cutting collection and delivery service by one-sixth or 17 percent for a small and uncertain level of savings makes no sense." (Postal Regulatory Commission, Transcript of Sacramento Field Hearing, May 12, 2010, Docket No. N2010-1, pp. 54-55, accessed at <http://www.prc.gov/Docs/68/68195/Sacramento%20field%20hearing%20transcript.pdf>.)
30. The fact that the Postal Service would still collect and deliver all mail explains why the drop in costs would be much smaller than the drop in delivery frequency.
31. John E. Potter, Postmaster General, "Statement," before the Senate Committee On Appropriations, Subcommittee On Financial Services And General Government, March 18, 2010, accessed at <http://appropriations.senate.gov/ht-financial.cfm?method=hearings.download&id=16d01492-7381-4b80-acfa-0bdae84d5edc>.
32. See Kris Hudson, "Luxury Chain Cuts The Flowers, Sends Out Wash at Some Hotels," *Wall Street Journal*, June 1, 2010, accessed at [http://online.wsj.com/article/SB10001424052748704366504575278450170941876.html?mod=WSJ\\_article\\_LatestHeadlines#printMode](http://online.wsj.com/article/SB10001424052748704366504575278450170941876.html?mod=WSJ_article_LatestHeadlines#printMode).
33. Postal Service, *Annual Report, 2009*, *op. cit.*, p. 74. All data on volume and revenue refer to fiscal years. (The Postal Service's fiscal year begins on October 1 and ends on September 30.)
34. *Ibid.*, p. 77.
35. Potter Testimony, January 2009, *op. cit.*
36. Postal Service, *Annual Report, 2009*, *op. cit.*, p. 74.
37. Postal Service, "Integrated Financial Plan, Fiscal Year 2010," *op. cit.*, p. 2.
38. Postal Service, *Annual Report, 2009*, *op. cit.*, p. 77; and Postal Service, "Integrated Financial Plan, FY10," *op. cit.*
39. Postal Service, *Annual Reports*, various issues.
40. PAEA, sec. 801-805.
41. See Postal Service, *Annual Report, 2009*, *op. cit.*, p. 65.
42. Postal Service, "USPS Preliminary Financial Information (Unaudited), May 2010," June 2010, accessed at [http://prc.gov/prc-docs/home/whatsnew/MAY-10\\_PRC\\_-\\_Final\\_1107.pdf](http://prc.gov/prc-docs/home/whatsnew/MAY-10_PRC_-_Final_1107.pdf).
43. Boston Consulting Group, "Projecting US Mail Volumes To 2020: Final Report – Detail," March 2, 2010, p. 2, accessed at [http://www.usps.com/strategicplanning/\\_pdf/BCG\\_Detailed%20presentation.pdf](http://www.usps.com/strategicplanning/_pdf/BCG_Detailed%20presentation.pdf).
44. Boston Consulting Group, "Projecting US Mail Volumes To 2020," March 2, 2010, p. 2, accessed at [http://www.usps.com/strategicplanning/\\_pdf/BCG\\_Narrative.pdf](http://www.usps.com/strategicplanning/_pdf/BCG_Narrative.pdf).
45. Boston Consulting, "Projecting US Mail Volumes To 2020: Final Report – Detail," *op. cit.*, p. 18.
46. U.S. Postal Service, "Ensuring a Viable Postal Service for America: An Action Plan for the Future," March 2010, p. 4, accessed at [http://www.usps.com/strategicplanning/\\_pdf/ActionPlanfortheFuture\\_March2010.pdf](http://www.usps.com/strategicplanning/_pdf/ActionPlanfortheFuture_March2010.pdf).
47. Kevin R. Kosar, Congressional Research Service, "Statement," before the House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, April 15, 2010, accessed at [http://oversight.house.gov/images/stories/Hearings/Committee\\_on\\_Oversight/2010/041510\\_Postal\\_Service/TESTIMONY-Kosar-CRS.pdf](http://oversight.house.gov/images/stories/Hearings/Committee_on_Oversight/2010/041510_Postal_Service/TESTIMONY-Kosar-CRS.pdf). Boston Consulting admits it's projection may be wrong, but it asserts that 150 billion mail pieces in 2020 is more likely to be too high than too low. Its worst case, based on mail declines in EU countries with high broadband penetration, is 118 billion pieces in 2020. (Boston Consulting, "Projecting US Mail Volumes To 2020: Final Report – Detail," *op. cit.*, p. 8.)
48. U.S. Postal Service, "Ensuring a Viable Postal Service for America: An Action Plan for the Future," *op. cit.*, p. 1.

49. For a fuller discussion, see Michael Schuyler, "Does The Growing Number Of Homes And Businesses Help Or Hurt The Postal Service?" *IRET Congressional Advisory*, No. 219, February 15, 2007, available at <http://iret.org/pub/ADVS-219.PDF>.
50. New customers sometimes force the Postal Service to construct new facilities, modify carrier routes, and make other adjustments, especially in areas of rapid expansion. However, these short-run costs will usually be more than offset by added revenue in the long run.
51. Postal Service, *Annual Report, 2009*, *op. cit.*, p. 76.
52. Postal Service, "Action Plan," *op. cit.* Also, a new page on the Service's website provides links to additional information about the "Action Plan". See <http://www.usps.com/strategicplanning/futurepostalservice.htm?from=home&page=EnvisionFuturePostalService>.
53. McKinsey & Company, "USPS Future Business Model," March 2, 2010, accessed at [http://www.usps.com/strategicplanning/\\_pdf/McKinsey\\_USPS\\_Future\\_Bus\\_Model2.pdf](http://www.usps.com/strategicplanning/_pdf/McKinsey_USPS_Future_Bus_Model2.pdf). Also see McKinsey & Company, "Envisioning America's Future Postal Service: Options For A Changing Environment," March 2, 2010, accessed at [http://www.usps.com/strategicplanning/\\_pdf/McKinsey\\_March\\_2nd\\_Presentation2.pdf](http://www.usps.com/strategicplanning/_pdf/McKinsey_March_2nd_Presentation2.pdf).
54. McKinsey, "USPS Future Business Model," *op. cit.*, p. 18.
55. *Ibid.*, pp. 21-27; and Postal Service, *Action Plan*, *op. cit.*, pp. 9-10.
56. Postal Service, *Annual Report, 2009*, *op. cit.*, p. 75; and U.S. Postal Service, *Annual Report, 2003*, p. 58, accessed at <http://www.usps.com/history/anrpt03/2003ar.pdf>.
57. McKinsey, "USPS Future Business Model," *op. cit.*, pp. 27-28.
58. A \$40 billion net saving is 35% of \$115 billion. Alternatively, if one uses the PRC's estimate of the budget effect of dropping Saturday delivery, the change would handle about one-fourth of the 10-year gap, which would still be a significant contribution. (The PRC does not provide a 10-year estimate. However, if one takes the Service's 10-year estimate and scales it down by the ratio of the PRC's 1-year estimate to the Service's 1-year estimate, the result is \$27 billion, which is 24% of \$115 billion.)
59. Boston Consulting admits it's projection may be wrong, but it asserts that 150 billion mail pieces in 2020 is more likely to be too high than too low. It's worst case, based on mail declines in EU countries with high Internet use, is 118 billion pieces in 2020. (Boston Consulting, "Projecting US Mail Volumes To 2020," *op. cit.*, pp. 10-11.)
60. One of the most vocal skeptics in Congress regarding the projections is Rep. Gerald Connolly (D VA). See American Postal Workers Union, "Rationale for Five-Day Delivery Shattered At House Hearing," APWU Web News Article 031-2010, April 16, 2010, accessed at [http://www.apwu.org/news/webart/2010/10-031-hearing\\_5day-100416.htm](http://www.apwu.org/news/webart/2010/10-031-hearing_5day-100416.htm).
61. PAEA, sec. 710.
62. Government Accountability Office, "U.S. Postal Service: Strategies And Options To Facilitate Progress Toward Financial Viability," GAO Report GAO-10-455, April 2010, accessed at <http://www.gao.gov/new.items/d10455.pdf>.
63. *Ibid.*, Highlights page 1.
64. *Ibid.*
65. *Ibid.*, Highlights page 2 and pp. 37, 54.
66. Joe Davidson, "Five-Day Mail Delivery? Not So Fast." *Washington Post*, January 30, 2009, D03, accessed at [http://www.washingtonpost.com/wp-dyn/content/article/2009/01/29/AR2009012903745\\_pf.html](http://www.washingtonpost.com/wp-dyn/content/article/2009/01/29/AR2009012903745_pf.html).
67. *Ibid.*
68. By Jackie Clews, "End To Saturday Mail Faces Resistance," *Government Executive*, April 5, 2010, accessed at [http://www.govexec.com/story\\_page.cfm?articleid=44967&dcn=todaysnews](http://www.govexec.com/story_page.cfm?articleid=44967&dcn=todaysnews).

69. Diane Bartz, "US Post Office Finances Dire But Service Cuts Hurt," *Reuters*, April 15, 2010, accessed at <http://www.reuters.com/assets/print?aid=USN1523340120100415>. The comments were made at a joint hearing of the House Committee on Oversight and Government Reform and its Subcommittee on the Federal Workforce, Postal Service and the District of Columbia on April 15, 2010.
70. Kate Muth, "USPS And Congress Trade Barbs," *DMNews*, April 16, 2010, accessed at <http://www.dmnews.com/usps-and-congress-trade-barbs/article/168161>.
71. Edolphus Towns, "The Postal Service's Fiscal Crisis And Future Viability," *The Hill*, April 20, 2010, accessed at <http://thehill.com/blogs/congress-blog/campaign/93289-the-postal-services-fiscal-crisis-and-future-viability-rep-edolphus-towns>.
72. Susan Collins, "Déjà Vu: The Postal Service's Economic Troubles," Weekly column by Senator Susan Collins, March 19, 2010, accessed at <http://senatorcollins.blogspot.com/2010/03/deja-vu-postal-services-economic.html>.
73. Brandon Loomis, "Chaffetz: Don't Ditch Saturday Delivery," *The Salt Lake Tribune*, April 6, 2010, accessed at [http://www.sltrib.com/portlet/article/html/fragments/print\\_article.jsp?articleId=14834100&siteId=297](http://www.sltrib.com/portlet/article/html/fragments/print_article.jsp?articleId=14834100&siteId=297).
74. See Gregg Carlstrom, "Lawmaker Suggests Test Of Five-Day Mail Delivery," *FederalTimes.com*, March 19, 2010, accessed at <http://www.federaltimes.com/article/20100319/DEPARTMENTS02/3190301/-1/RSS>.
75. Senator Thomas R. Carper, "Opening Statement," before Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, April 22, 2010, accessed at [http://hsgac.senate.gov/public/index.cfm?FuseAction=Files.View&&FileStore\\_id=00d5f512-5985-4aaa-9b0a-15fcd911f4c](http://hsgac.senate.gov/public/index.cfm?FuseAction=Files.View&&FileStore_id=00d5f512-5985-4aaa-9b0a-15fcd911f4c).
76. This option is briefly discussed in Postal Service, "Action Plan," *op. cit.*, p. 16. For an examination of some prior Postal Service forays into non-postal markets, most of which ended badly, see U.S. General Accounting Office, "U.S. Postal Service: Development And Inventory Of New Products," GAO/GGD-99-15, November 1998, accessed at <http://www.gao.gov/cgi-bin/getrpt?GAO/GGD-99-15>; and Michael Schuyler, "Postal Service Cancels Some Electronic And Financial Services Products; Should Cancel More," *IRET Congressional Advisory*, No. 167, March 19, 2004, available at <http://iret.org/pub/ADVS-167.PDF>.
77. Postal Service, "Action Plan," *op. cit.*, p. 16.
78. For a fuller discussion of the postal pay premium, see Michael A. 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>.
79. Postal Service, "Action Plan," *op. cit.*, pp. 10-11.
80. U.S. Postal Service Office of Inspector General, "The Postal Service's Share Of CSRS Pension Responsibility," Report No. RARC-WP-10-001, January 20, 2010, accessed at [http://www.uspsoig.gov/foia\\_files/RARC-WP-10-001.pdf](http://www.uspsoig.gov/foia_files/RARC-WP-10-001.pdf). For an opposing view, see John O'Brien, Director of Planning and Policy Analysis, U.S. Office of Personnel Management, "Statement," Before the House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, April 15, 2010, accessed at [http://oversight.house.gov/images/stories/Hearings/Committee\\_on\\_Oversight/2010/041510\\_Postal\\_Service/TESTIMONY-OBrien-OMB.pdf](http://oversight.house.gov/images/stories/Hearings/Committee_on_Oversight/2010/041510_Postal_Service/TESTIMONY-OBrien-OMB.pdf).
81. The Segal Company, "Report To The Postal Regulatory Commission On: Civil Service Retirement System Cost And Benefit Allocation Principles," June 29, 2010, p. 9, accessed at [http://prc.gov/prc-docs/home/whatsnew/Report%20on%20CSRS%20Cost%20and%20Benefit%20Allocation%20Principles\\_1122.pdf](http://prc.gov/prc-docs/home/whatsnew/Report%20on%20CSRS%20Cost%20and%20Benefit%20Allocation%20Principles_1122.pdf).
82. John E. Potter, "Statement," before the U.S. Senate Homeland Security and Governmental Affairs Committee, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, April 22, 2010, accessed at [http://www.usps.com/communications/newsroom/testimony/2010/pr10\\_pmg0422.htm](http://www.usps.com/communications/newsroom/testimony/2010/pr10_pmg0422.htm).
83. Jed Boal, "Postal Service En Route For Five-Day Delivery," *KSL Broadcasting (Salt Lake City UT)*, April 6, 2010, accessed at <http://www.ksl.com/?nid=148&sid=10287635>.

84. See, for example, Nancy Pindus, The Urban Institute, "Business Or Public Good: It's Not Just About Saturday Delivery," undated, accessed at <http://www.urban.org/uploadedpdf/901350-business-public-good.pdf>.
85. U.S. Postal Service, "Delivery: Monday Through Saturday Since 1863," accessed at [http://www.usps.com/postalhistory/\\_pdf/DeliveryMondaythroughSaturday.pdf](http://www.usps.com/postalhistory/_pdf/DeliveryMondaythroughSaturday.pdf).
86. U.S. Postal Service, "Postal Service Board Of Governors Directs Studies On Five-Day Delivery, Postal Facility Consolidations," News Release No. 01-036, April 3, 2001, accessed at [http://www.usps.com/news/2001/press/pr01\\_036\\_print.htm](http://www.usps.com/news/2001/press/pr01_036_print.htm).
87. U.S. Postal Service, "Statement Of Robert F. Rider, Chairman, Board Of Governors, United States Postal Service," News Release No. 01-068, July 10, 2001, accessed at [http://www.usps.com/news/2001/press/pr01\\_068\\_print.htm](http://www.usps.com/news/2001/press/pr01_068_print.htm).
88. See Ben White, "Saturday Delivery Of Mail To Continue; Postal Service Idea Was A 'Charade', Critics Say," *The Washington Post*, July 11, 2001, p. A17.
89. John Potter, Oral Testimony, before Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, January 28, 2009.
90. In January 2009, Mr. Potter testified, "[I]t is *possible* that the cost of six-day delivery may simply prove to be unaffordable. *If* that should occur, it could become necessary to temporarily reduce mail delivery to only five days a week... Any such action would be taken ... *only when absolutely warranted* by financial circumstances." [Emphasis added.] (Potter written Testimony, January 2009, *op. cit.*)