IRET *Congressional Advisory*

INSTITUTE FOR RESEARCH ON THE ECONOMICS OF TAXATION

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January 13, 2012 **Advisory No. 281**

MOST FOREIGN POSTAL SERVICES ARE PROFITABLE; THE U.S. POSTAL SERVICE LAGS

Executive Summary

The U.S. Postal Service has lost over $25 billion since fiscal year 2006, with deficits of $8.5 billion in 2010 and $5.1 billion in 2011. It forecasts a $14 billion loss in 2012.

Have postal operators in other countries struggled as much financially as the U.S. Postal Service? They have also faced the challenges of electronic diversion, which is occurring worldwide, and the last recession, which rocked much of the world.

For a broad perspective, this study uses financial data that an international postal agency, the Universal Postal Union (UPU), collects on postal operators in most countries and some territories. The study examines the period from 2007 to 2010 (the last year in the UPU data set). For comparability to the U.S. Postal Service, the emphasis is on postal operators in high-income jurisdictions.

UPU data indicate that, in each year, the majority of posts in high-income jurisdictions were profitable. Declining mail demand was stressful, though: the share of posts reporting losses increased from less than one in ten in 2007 to more than one in three in 2010. Nevertheless, few posts lost money consistently: under 20% over the period 2008-2010 and under 10% over the period 2007-2008, which suggests most foreign posts reacted quickly and effectively to financial setbacks. The good news is that posts can adjust to change and remain financially viable. Unfortunately, USPS is among the posts with consistent losses.

Further, UPU data show that, in each year, more than half the reporting posts in medium-income jurisdictions were profitable. Few spilled red ink year after year.

This study's findings are simultaneously heartening and discouraging. Foreign evidence demonstrates that postal services can continue to deliver the mail and supply the public with postal access while remaining financially viable. The results are disturbing, however, because they emphasize that although the U.S. Postal Service is among the world's great postal services in many respects, it is badly underperfoming most others financially. A future paper will analyze why the U.S. Postal Service has been less successful financially than all but a few foreign posts and suggest some potential remedies.

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MOST FOREIGN POSTAL SERVICES ARE PROFITABLE; THE U.S. POSTAL SERVICE LAGS

The U.S. Postal Service last turned a profit ($900 million) in fiscal year 2006. Since then, it has been hammered by losses of $5.1 billion in 2007, $2.8 billion in 2008, $3.8 billion in 2009, $8.5 billion in 2010, and $5.1 billion in 2011.[1] The deficits total over $25 billion, with no end in sight. The Postal Service is currently forecasting a $14 billion loss in 2012.[2]

Three major events since 2006 help explain the Postal Service's shift into the red. First, an extraordinarily severe recession began in December 2007. Although the recession officially ended in June 2009, the recovery has been anemic, and the unemployment rate is currently worse than at the bottom of all but two recessions since 1950.[3] The weak economy hurts the Postal Service because economic activity is one of the main drivers of mail demand, especially for advertising mail.

Second, electronic diversion, which had slowly been encroaching on hard-copy mail use for many years, suddenly accelerated at about the same time the recession hit. In 2002, for example, U.S. households paid 75% of their bills by mail and 17% electronically. By 2010, however, U.S. households paid less than half their bills (47%) by mail and submitted 48% electronically.[4] The diversion has been greatest for first-class mail, which has badly hurt the agency's bottom line. The Service has long used first-class mail as its cash cow, with each piece of first-class mail generating approximately three times as much income as each piece of standard mail. Between 2006 and 2011, first-class mail volume fell 25.0% while standard mail volume declined 17.3%.[5]

A third factor is that before enactment of the Postal Accountability and Enhancement Act of 2006 (PAEA), the Service had been promising generous retirement health benefits to its workers without ever setting aside any money to fund its promises. (Note that retiree health benefits are a different fringe benefit than pensions. Eligible postal workers receive both fringe benefits in retirement.) The unfunded retiree health care obligation had mushroomed to $74.8 billion by September 30, 2006.[6] Because the Service was ignoring this expensive fringe benefit on its income statement, its reported costs were artificially low and its reported income artificially high. PAEA changed that. Concerned that the enormous unfunded liability would eventually require a massive taxpayer bailout if left unaddressed, PAEA's authors prudently directed the Service to begin making contributions to a newly created Retiree Health Benefits Fund (RHBF). Unfortunately, influenced by the Postal Service's record-setting volume in 2006, PAEA's authors chose an aggressive, front-loaded contribution schedule. When mail demand plummeted due to the recession and electronic diversion, the schedule quickly became unaffordable. Contributions should still be made (a prolonged contribution holiday would almost guarantee the need for a large, future taxpayer bailout), but the schedule should be stretched out, perhaps using the term of a normal home mortgage as a guide. Up to now, Congress has made two, temporary modifications to the schedule. It reduced the 2009 contribution from $5.4 billion to $1.4 billion, and it postponed the $5.5 billion contribution originally due in 2011, adding it to the total amount due in 2012.[7] If not for the postponement, the Postal Service would have lost $10.6 billion in 2011, instead of $5.1 billion.

Foreign posts are also under stress

Two of the three challenges mentioned above have occurred worldwide. Although the recession began in the United States, it quickly spread to Europe and other parts of the world. In fact, the downturn was worse in Europe than the United States, with the Organisation for Economic Co-operation and Development (OECD) reporting that real gross domestic product (GDP) fell 2.0% in the

27-nation European Union over the period 2007–2010, compared to a 1.0% drop in the United States.[8] Electronic diversion is also a global phenomenon, and is actually further advanced in a number of countries than it is here. For example, the Chairman of the Postal Regulatory Commission, Ruth Goldway, observed that while paper checks are an important component of transaction mail in this country, they are practically extinct in Finland, where she lived for several years.[9] The Boston Consulting Group noted in a study that attempted to project U.S. mail volume through 2020, "What the U.S. is experiencing is not unique: many internet-enabled countries in Europe and Asia have been experiencing declines in mail volumes for years due to online alternatives."[10] In fact, in constructing a worst-case projection for U.S. mail volume, Boston Consulting used as its benchmark the diversion already seen in high-internet-penetration countries in the European Union.[11]

Given that foreign posts face many of the same strains as the U.S. Postal Service, it is useful to ask how are they performing financially. If most are losing money, one might conclude that the U.S. Postal Service is keeping up with the pack in responding to difficult short- and long-term challenges. However, if most foreign posts are profitable, that suggests this nation's mail service is failing to respond adequately to change.

Several major foreign postal services have reported positive returns in most recent years, despite the harsh economic environment. Seven examples are the posts of Australia, France, Germany, Italy, New Zealand, Sweden, and Switzerland. Indeed, the Government Accountability Office (GAO) issued a report in early 2011 that carefully examined modernization strategies at six foreign posts to gain insights into what adjustments might hold promise in this country.[12] Clearly, the U.S. Postal Service is not leading the pack in terms of successful financial management.

But are the results at those selected foreign posts typical, or are most foreign posts drowning in seas of red ink?

The incomes of postal services throughout the world

The answer can be found in the worldwide postal statistics compiled by the Universal Postal Union (UPU). The UPU, which is now a United Nations' agency, was established in 1874 to facilitate the flow of mail across national borders. To assist in understanding postal conditions, the UPU gathers data from the postal administrations of nearly 200 countries and territories. (It is worth mentioning that several papers by the Consumer Postal Council have also used the UPU database to glean information on postal operations around the world. See http://www.postalconsumers.org/comparisons.)

The UPU's online database provides four series regarding postal authorities' bottom line: operating revenue, operating expenditure, operating result (operating profit or loss), and net result (net profit or loss, including taxes and other adjustments). Using those data sets, this study examines profits or losses in each of four years: 2007 to 2010. (2010 is the most recent year in the UPU database.) For purposes of this study, a postal authority is considered to have lost money in a specific year if either its operating result or its net result is negative that year. Using the lower of the two has little affect on the results for USPS — it lost money in every year according to both measures — but it does shift some foreign posts from profits to losses in certain years.

The UPU categorizes postal operators in a number of ways. One is by their countries' income levels. Relying on a definition from the World Bank, the UPU considers a country to be high income if per capita gross national income (GNI) exceeds $9,205, middle income if per capita GNI is $746 to $9,205, and low income if per capita GNI is below $746.

Looking at postal authorities in high-income countries and territories that furnished bottom-line data to the UPU, 3 out of 34 reporting posts lost money in 2007 (9%), 8 out of 32 reporting posts suffered losses in 2008 (25%), 11 out of 29 lost money in 2009 (38%), and 12 out of 33 lost money in 2010 (36%).[13] (The UPU collects its data from a statistical questionnaire that it sends to each country's or territory's postal authority.[14] Completing the questionnaire is voluntary, and the thoroughness of the responses varies from postal authority to postal authority. Often a post furnishes data for a particular item on the questionnaire in one year but not another. Hence, the number of data points varies from year to year.) Chart 1 displays the fraction of posts that lost money each year. The United States is among the money-losing posts in every year.

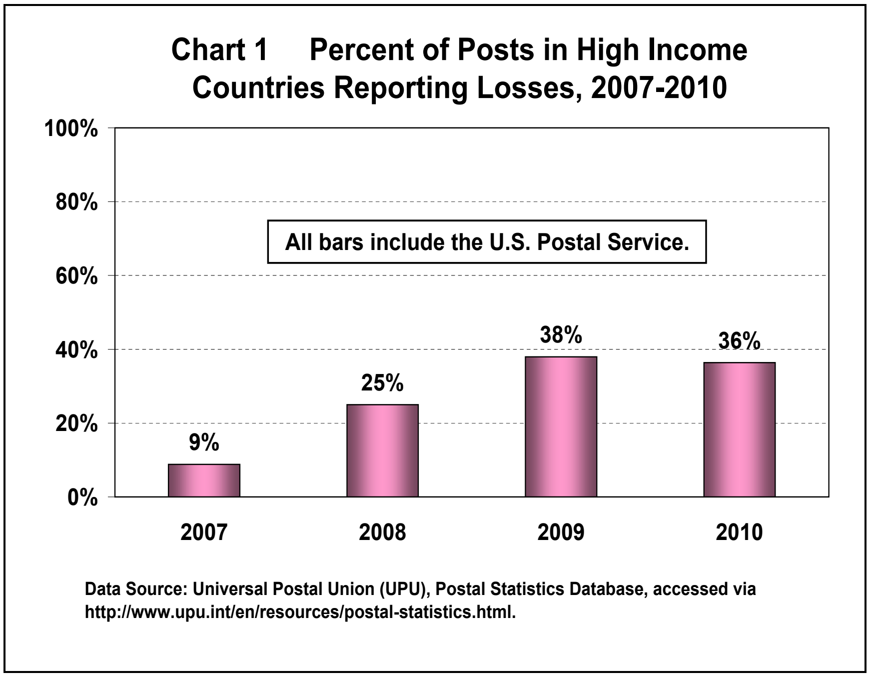

Chart 1 reveals a clear pattern. With only a few exceptions, among them the United States, 2007 was a peaceful year financially for posts in high-income jurisdictions. That suddenly changed in 2008: a significant minority of posts in high-income jurisdictions reported losses when the recession hit with full force and electronic diversion accelerated. The next year, 2009, proved even rougher, with nearly two in five reporting posts operating in the red. Fortunately, 2010 brought a small improvement, with the share of reporting posts that lost money edging down slightly. Despite the difficult financial terrain, however, most reporting posts did not lose money. In every year throughout the period 2007-2010, the majority of posts in high-income countries operated in the black.

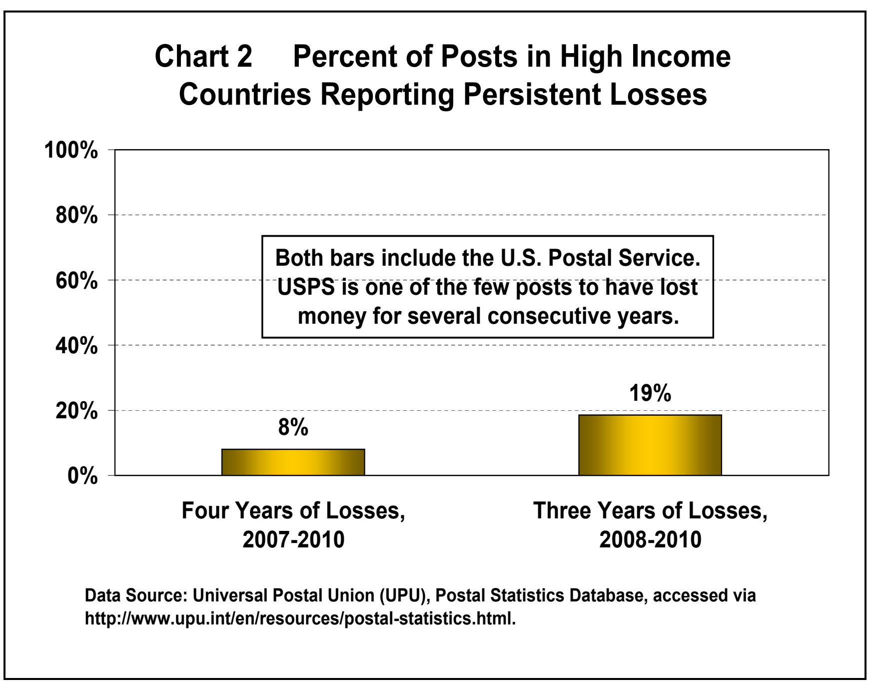

Chart 2 looks at the share of reporting posts that consistently had negative income. Only 5 out of 27 reporting posts (19%) in high-income countries and territories stayed in the red throughout the 2008-2010 period, and only 2 — the U.S. Postal Service and Macao's post — reported losses in all four years. In other words, while many posts experienced negative income in specific years, few remained mired in the red. This fact suggests that most foreign posts experiencing losses made quick and vigorous operational adjustments and soon returned to the black. In comparison, the U.S. Postal Service appears to be an outlier in not more effectively countering losses through operational adjustments. It should be added that no foreign posts in high-income countries and territories abandoned their universal service obligations as a result of the changes they made, although the level of service and the definition of universal service varies from country to country.

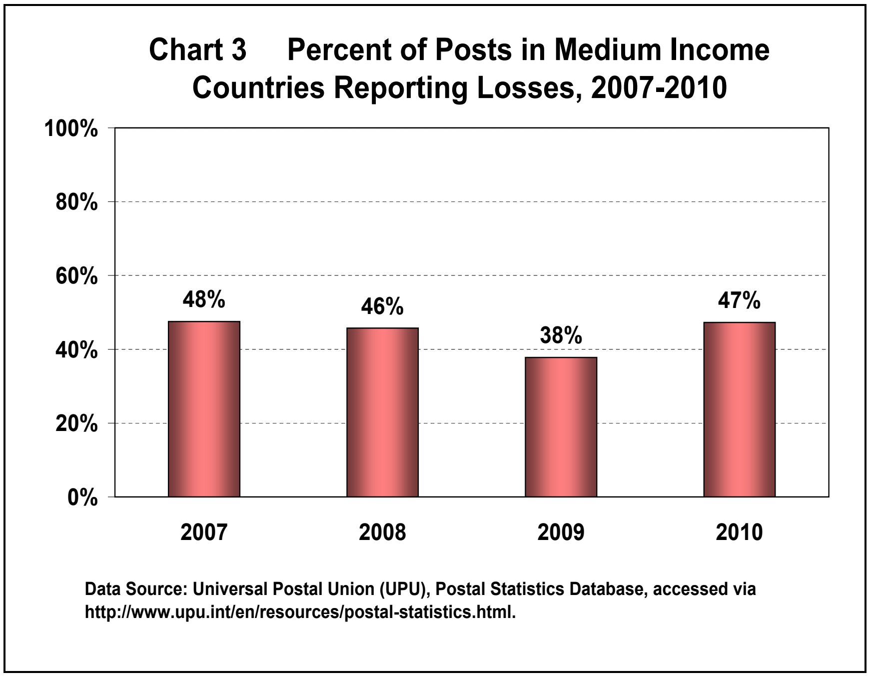

Chart 3 is based on financial data that postal authorities in medium-income countries and territories reported to the UPU. Of the postal authorities in those jurisdictions that supplied bottom-line data to the UPU, 29 out of 61 lost money in 2007 (48%), 27 out of 59 reporting posts lost money in 2008 (46%), 17 out of 45 lost money in 2009 (38%), and 26 out of 55 lost money in 2010 (47%).[15] One significant difference from the pattern seen in high-income jurisdictions is that posts in medium-income countries and territories were more likely to lose money. Nevertheless, over half of reporting posts in each year were profitable. Another significant difference is that the fraction of posts incurring losses did not rise over the 2007-2010 period. This is probably because posts in medium-income jurisdictions did not encounter the plunging mail demand seen in wealthier nations. According to aggregate data from the UPU, while operating revenue in high-income countries and territories fell 6.5% from 2007 to 2010, it soared 65.9% in medium-income jurisdictions.[16] And while domestic letter-post volume dropped 13.1% in wealthier jurisdictions, it inched up 0.1% in medium-income countries and territories.[17]

Although many posts in medium-income jurisdictions registered losses in individual years, few have recorded negative income as consistently in recent years as has the U.S. Postal Service. Only 4 out of 36 reporting posts (11%) in medium-income jurisdictions stayed in the red throughout the 2008-2010 period and only 2 out of 34 reporting posts (6%) racked up losses in all four years.

Shortcomings of the data

One data problem is that postal authorities often do not fully answer the UPU's statistical questionnaire. This does not necessarily bias UPU statistics one way or another, but the loss of information reduces the accuracy of the results.

Another problem is that different posts may use different conventions in measuring and reporting their data. For instance, one post might include item "a" in revenue but not item "b", while another post might include "b" but not "a". The UPU specifically cautions with regard to financial numbers, "[A]ccounting standards vary considerably from one country to another..."[18] Again, this need not systematically bias the UPU's statistics, but it does add noise that lessens their accuracy.

Moreover, some foreign posts are liable for types of taxes from which the U.S. Postal Service is exempt, while some foreign posts receive direct government subsidies. The UPU instructs the posts to include the taxes in reported costs, which reduces their reported net incomes compared to USPS, and to include the subsidies in reported revenue, which increases their reported net incomes compared to USPS.[19] The UPU's online database does not provide the tax and subsidy data to remove these differences between the reported results of some foreign posts and USPS.

Because of these issues, the specific percentages mentioned in the previous section would surely change somewhat with more complete information. However, although better data would be desirable, the general patterns of profits and losses at foreign posts over the period 2007-2010 are sufficiently pronounced that they would probably appear much the same as they do now.

Conclusion

This study's findings are simultaneously heartening and discouraging. The results are reassuring because foreign posts demonstrate that postal operators can remain financially viable despite electronic diversion and the after-effects of the Great Recession. Posts can continue to deliver the mail and supply the public with postal access while still breaking even or turning a profit. Financial losses are not inevitable.

The results are disturbing, however, because they emphasize how poorly the U.S. Postal Service is doing in terms of meeting its expenses. Persistent and perhaps escalating losses are not the normal pattern in most countries. The U.S. Postal Service is among the world's great posts in many respects, but it is badly underperforming financially.

A future paper will analyze why the U.S. Postal Service has been less successful financially than all but a few foreign posts. A key finding will be that Congressional restrictions and pressure often deny the Postal Service the operational flexibility needed to manage its costs properly. and, based on the findings, discuss some potential steps that would begin to correct its problems.

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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 currently employs about 25% of the federal government's civilian workforce. For many years – but fortunately much less so in recent years – it was also notable for aggressively trying to expand beyond its core mission into nonpostal commercial markets.

Endnotes

1. U.S. Postal Service, *Annual Report, 2010*, p. 85, accessed at http://about.usps.com/who-we-are/financials/annual-reports/fy2010.pdf; and U.S. Postal Service, *Annual Report to Congress and Comprehensive Statement on Postal Operations, 2011*, p. 21, accessed at http://about.usps.com/publications/annual-report-comprehensive-statement-2011/annual-report-comprehensive-statement-2011.pdf.

2. U.S. Postal Service, "Integrated Financial Plan, FY2012," p. 1, accessed at http://about.usps.com/who-we-are/financials/integrated-financial-plans/fy2012.pdf.

3. For recession dates, see National Bureau of Economic Research, "US Business Cycle Expansions and Contractions," accessed at http://nber.org/cycles/cyclesmain.html. For unemployment rate data, see U.S. Bureau of Labor Statistics, National Unemployment Rate, accessed via http://www.bls.gov/cps/#data.

4. U.S. Postal Service, "The Household Diary Study; Mail Use & Attitudes in FY 2010," April 2011, p. 2, accessed at http://www.prc.gov/Docs/73/73501/USPS_HDS_FY10_FINAL_.pdf.

5. U.S. Postal Service, *Annual Report, 2010*, *op. cit*., p. 81; and U.S. Postal Service, *Annual Report, 2011*, *op. cit*., p. 22.

6. U.S. Postal Service, *Annual Report, 2007*, *op. cit*., p. 26, accessed at http://about.usps.com/who-we-are/financials/annual-reports/fy2007.pdf.

7. P.L. 111-68 reduced the Postal Service's 2009 contribution. P.L. 112-33 and subsequent legislation delayed the payment originally due by September 30, 2011.

8. Organisation for Economic Co-operation and Development, "GDP In US Dollars, Constant Prices And PPPs," OECD.StatExtracts, accessed via http://www.oecd.org/document/0,3746,en_2649_201185_46462759_1_1_1_1,00.html.

9. See Ruth Goldway, Commissioner, Postal Rate Commission, "Comments to the President's Commission on the United States Postal Service," February 3, 2003, accessed at http://www.prc.gov/prc-docs/library/refdesk/techpapers/goldway/comments.pdf.

10. The Boston Consulting Group, "Projecting U.S. Mail Volumes to 2020," March 2, 2010, p. 2, accessed at http://about.usps.com/future-postal-service/gcg-narrative.pdf.

11. *Ibid*., p. 11.

12. U.S. Government Accountability Office, "Foreign Posts' Strategies Could Inform U.S. Postal Service's Efforts to Modernize," GAO-11-282, February 2011, accessed at http://www.gao.gov/new.items/d11282.pdf.

13. See Universal Postal Union (UPU), Postal Statistics Database, data by country, postal administrations in high income countries, series 4.3 (operating result) and series 4.4 (net result), accessed via http://www.upu.int/en/resources/postal-statistics.html.

14. For the most recent copy of the questionnaire, see Universal Postal Union, "Postal Statistics; Questionnaire 2010," April 1, 2011, accessed at http://www.upu.int/nc/en/resources/postal-statistics/questionnaires.html?download=questionnairePostalStatisticsOperatorsEn.doc&did=667. The UPU notes that it sends the questionnaire to "designated postal operators (previously known as public postal operators)." (*Ibid*., p. 3.)

15. Universal Postal Union, Postal Statistics Database, data by country, postal administrations in medium income countries, series 4.3 (operating result) and series 4.4 (net result), *op. cit.*

16. Universal Postal Union, Postal Statistics Database, global or regional estimates, postal administrations in high income countries and also postal administrations in medium income countries, series 4.1 (operating revenue), *op. cit.*

17. Universal Postal Union, Postal Statistics Database, global or regional estimates, postal administrations in high income countries and also postal administrations in medium income countries, series 8.2 (number of letter-post items), *op. cit.*

18. Universal Postal Union, "Technical Notes" regarding Postal Statistics, p. 2, accessed at http://www.upu.int/nc/en/resources/postal-statistics/query-the-database.html?download=descriptionPostalStatisticsTechnicalNotesEn.pdf&did=593. To try to improve consistency, the UPU defines many of the terms it uses in its statistical questionnaire. However, it gives no indication that it monitors how closely the answers from individual posts adhere to the definitions.

19. Universal Postal Union, "Questionnaire On Postal Statistics 2010 [Operators]," April 1, 2011, accessed at http://www.upu.int/nc/en/resources/postal-statistics/questionnaires.html?download=questionnairePostalStatisticsOperatorsEn.doc&did=667.
