

Fiscal Fact

Saturday Mail Delivery Soon a Distant Memory?

By

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Postmaster General Patrick Donahoe surprised the nation last week when he announced that the U.S. Postal Service would move to five-day-a-week letter delivery starting in August.¹

The Postmaster General also promised several accommodations to ease the inconvenience for mail users: post offices now open on Saturdays will remain open on Saturdays; post office box service will continue on Saturdays; Express Mail deliveries will not be delayed; and packages will still be delivered on Saturdays. Further, USPS is giving its customers six months' notice to help them prepare for the change. The proposed change will occur in August, when mail volume is traditionally low and glitches are easier to remedy than during the peak mailing season.

Reductions in service are never popular, but eliminating Saturday delivery has consistently aroused less public opposition than other proposals for achieving comparably large savings. In public opinion surveys, two-thirds or more of respondents regularly say they would be willing to end Saturday delivery to avoid a price hike, and in a Rasmussen survey last year, 75 percent opposed retaining Saturday delivery if it would require government subsidies.² Of course, now that the Postal Service has stated its firm intention to make the switch and announced a specific timetable, it will be interesting to see if public opinion remains supportive.

The Service's action follows an unprecedented and continuing plunge in mail demand that began in 2007, multibillion dollar losses in every year over the period, two defaults to the U.S. Treasury totaling \$11.1 billion in 2012, a reduction in the Postal Service's cash-reserve cushion to only a few days' expenses, and the maxing out of its \$15 billion government credit line.

The falloff in mail demand is due to accelerating Internet penetration—a trend that will not reverse—and to the Great Recession and the subsequent anemic recovery. From 2006 to 2012, total mail volume fell 25

¹ For the Postal Service's press release, see U.S. Postal Service, *Postal Service Announces New Delivery Schedule*, Feb. 6, 2013, http://about.usps.com/news/national-releases/2013/pr13_019.pdf.

² Rasmussen Reports, *Most Prefer Cutting Mail Delivery to More Subsidies for the Postal Service*, Apr. 24, 2012, http://www.rasmussenreports.com/public_content/lifestyle/general_lifestyle/april_2012/most_prefer_cutting_mail_delivery_to_more_subsidies_for_the_postal_service.

percent, while the agency's cash cow, First-Class Mail, experienced a 30 percent volume decline. The plunge in mail demand is a worldwide phenomenon, although a small silver lining is that package volume is booming because people need physical delivery of the products they order over the Internet.

Many foreign posts, including those in Australia, Canada, Korea, the Philippines, and Sweden, are on a five-day-a-week delivery schedule. Singapore Post and a few others recently made the switch, citing falling mail volume and rising cost pressures, and several, including New Zealand Post, are considering dropping six-day delivery.

USPS expects that axing Saturday delivery will eventually save \$2 billion annually, primarily because fewer mail carriers would be needed if a day of letter delivery is eliminated. The projected saving is fairly close to the estimate from the independent Postal Regulatory Commission. Most of the workforce reduction would be accomplished through attrition and buyouts, judging by the Service's past practices and contractual restrictions on its ability to lay off workers. What creates the potential for the work-hour and cost savings is that there are high fixed costs in the letter carrier's trip to the mailbox. Those fixed costs explain why, in the many foreign countries where mail delivery has been demonopolized, the established posts continue to make the lion's share of final deliveries. Hence, five trips a week to each mailbox instead of six would significantly lower USPS's per-letter delivery costs, although some of the savings would be offset by reduced mail volume and revenue.

Since 1984, Congress has inserted a rider into annual appropriations bills instructing USPS to maintain six-day-a-week delivery. For most of that time, the Service had no intention of dropping the sixth delivery day. However, in January 2009, alarmed by plummeting mail volume and deteriorating financials, the Postal Service began asking Congress to lift its unfunded mandate. In the four years since then, the Service has kept asking. Meanwhile, Congress has kept on renewing the rider, without granting the Service any other tools to better manage its costs.

USPS's announcement of unilateral action is probably due to four factors:

- an increasingly dire financial outlook;
- continued congressional micromanagement that limits the Service's ability to control its costs;
- the collapse of efforts in the last Congress to enact postal reform legislation; and
- a belief by the Service that it can legally adopt five-day delivery.

Regarding the last point, the Service argues it can proceed because the government is currently operating under a continuing resolution, not a regular appropriations bill. Unless Congress passes new legislation fairly quickly, the Service will have a window during which it can act. If Congress does reinstate the rider, another option might arguably be available, although it would cost the Service something under \$100 million. Past riders have technically not banned USPS from implementing five-day delivery but instead threatened it with the loss of the comparatively small appropriation it receives for providing free mail service to the blind and overseas voters if it does.³ As long as the Postal Service is willing to endure the political heat, its bottom line

³ See Office of Management and Budget, *Budget of the U.S. Government, FY 2013, Appendix*, at 1388, <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/appendix.pdf>.

would be strengthened by sacrificing an annual appropriation that is usually less than \$100 million in return for an expected annual saving of \$2 billion.

Several knowledgeable members of Congress who serve on the House and Senate committees that oversee the Postal Service speedily responded to the Postmaster General's announcement. Representative Darrell Issa (R-CA), chairman of the House Committee on Oversight and Government Reform, and Senator Tom Coburn (R-OK), ranking member of the Senate Committee on Homeland Security and Governmental Affairs, wrote that the present "situation is not sustainable," described the Service's plan as a "common sense reform" that has "bipartisan support" and urged Congress not to reinstate the appropriations rider.⁴ Issa and Coburn noted accurately that the Obama administration has repeatedly advocated the elimination of Saturday delivery. In last year's budget, the administration called for five day delivery "starting in January 2013."⁵ Senator Tom Carper (D-DE), chairman of the Senate Committee on Homeland Security and Governmental Affairs, stated, "Despite my disappointment, it's hard to condemn the Postmaster General for moving aggressively to do what he believes he can and must do to keep the lights on at the Postal Service, which may be only months away from insolvency."⁶ Senator Carper reserved his main criticism for Congress, which has "failed at every turn" to enact meaningful postal reform.⁷

The relevant economic question to ask is not whether the loss of Saturday letter delivery would be desirable—it would not—but whether it would be less bad than the alternatives. This issue will be debated in coming weeks and months, but it is increasingly difficult to identify alternatives that would achieve comparable savings without causing more pain.

It may be useful to briefly evaluate six arguments for maintaining Saturday delivery.

1) **Mail demand will bounce back.** If mail demand were expected to rebound, the volume of Saturday mail would grow and USPS's financial position would quickly improve, making continued Saturday delivery both more valuable and more financially viable. If mail demand were expected to rebound, USPS's financial position would greatly improve, making Saturday letter delivery more financially viable, and the volume of Saturday mail would grow, which would make continued Saturday delivery more valuable. This was a reasonable hope to entertain in 2009 and 2010. Today, however, virtually no realistic person expects the lost mail volume to ever return.

2) **Other cost savings should be implemented first.** If the Postal Service had resisted implementing meaningful operational changes up until now, it would be sensible to ask the Service to pick the lower-hanging fruit first before abandoning Saturday letter delivery. In fact, however, USPS has moved aggressively and skillfully over the last decade to trim billions of dollars of costs from its system while maintaining reasonably good service quality. The Service would have done more if not for statutory restrictions and political pressure limiting its operational flexibility. In other words, most of the low-hanging fruit has already been picked.

⁴ Darrell Issa & Tom Coburn, Letter dated Feb. 6, 2013, <http://oversight.house.gov/wp-content/uploads/2013/02/2013-02-06-DEI-to-Congressional-Leadership-re-USPS.pdf>.

⁵ See *Budget Appendix*, *supra* note 3, at 1391.

⁶ Tom Carper, *Chairman Carper Statement on USPS Plans to Implement 5-day Delivery Schedule*, Feb. 6, 2013, <http://www.carper.senate.gov/public/index.cfm/pressreleases?ID=ed883fb4-2e24-42a2-a109-7da578876591>.

⁷ *Id.*

- 3) **The federal government has plenty of money to subsidize Saturday service.** If the overall federal government were in healthy financial shape, it could, without much strain, cover the Postal Service's losses on Saturday delivery and elsewhere. Unfortunately, while the Service's losses are so severe that any private-sector company with similar problems would long since have gone bankrupt, the overall federal government's financial imbalances are much worse than those at USPS.
- 4) **Saturday mail contains so many vital communications that the government must support its continuance.** If letters were as important a channel for vital communications as they were fifty years ago, a strong public policy case could be made that Congress should cut non-postal federal spending and perhaps raise taxes in order to finance congressional appropriations that would support money-losing Saturday delivery. However, with an expanding array of communications options, fewer vital, time-sensitive messages being transmitted by letter, and a rising share of letters consisting of advertising and solicitations, the public policy argument for congressional appropriations is weaker than it was a generation or two ago.
- 5) **Use pension-fund money to support Saturday service temporarily.** Last year it was thought that the Service enjoyed a surplus of about \$11 billion in one pension program (the Federal Employees Retirement System, FERS) and a small surplus in another (the Civil Service Retirement System, CSRS). Some in the postal community suggested using part of that money to maintain Saturday delivery a little longer. According to the most recent estimates, however, the FERS surplus has shrunk to under \$3 billion and CSRS shows a large deficit, leading to a combined pension deficit of over \$15 billion.⁸ The pension surplus that might have absorbed some operating losses in the short term no longer exists.
- 6) **The Service's financial problems would go away if it stopped contributing to a fund for retiree health benefits.** In late 2006, Congress began requiring USPS to contribute to a fund intended to help pay the generous health benefits promised to postal workers after they retire. (Pensions and retiree health care are separate post-retirement fringe benefits for postal workers.) Congress sensibly feared that unless the Service funded the retiree health care promises, the government enterprise would eventually require a massive taxpayer bailout. The contribution schedule should be stretched out because it was designed before the financial typhoon hit and is front-loaded. However, the postal unions and some others want to go further. They assert, first, that USPS would be financially healthy if not for the Retiree Health Benefits Fund (RHBF) and, second, that the Service has put enough into the fund already and should contribute no more. The first claim is refuted by the fact that, even ignoring the RHBF, the Service would have lost \$4.8 billion in 2012, \$5.1 billion in 2011, \$3.0 billion in 2010, and \$2.4 billion in 2009.⁹ Those are not the financial results of a healthy business; the Service's financial problems are not artificial. Rebutting the second claim is the reality that the RHBF's estimated unfunded liability at the end of 2012 was \$47.8 billion. A sobering report by the Government Accountability Office dispels many of the wishful thinking myths about the financing of the Service's retiree health benefit obligations.¹⁰

⁸ For the current numbers and a brief technical explanation, see U.S. Postal Service, *Form 10-K, FY 2012*, Nov. 15, 2012, at 38-39, <http://about.usps.com/who-we-are/financials/10k-reports/fy2012.pdf>.

⁹ *Id.* at 109.

¹⁰ Government Accountability Office, *Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits*, GAO-13-112 (Dec. 2012), <http://gao.gov/assets/660/650511.pdf>.

The Postal Service's financial imbalances are so pronounced that the estimated \$2 billion of yearly savings from eliminating Saturday letter delivery would not be enough to solve them. Still, it would make a substantial dent.

An important caution is that while Congress needs to help by passing postal reform legislation, not every congressional bill would be desirable. Postal reform would be set back and mail users and taxpayers endangered if Congress were to enact legislation that tried to maintain the status quo by further restricting the Postal Service's ability to manage its operational costs or by temporarily hiding the agency's expenses.

Regardless of whether one agrees with the Postal Service's proposal, the federal entity merits praise for acknowledging it has problems and attempting to resolve them sooner rather than later.

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