

The Future of Universal Service and the Postal Monopoly
Testimony before the Postal Regulatory Commission
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The observations made by Postal Board of Governors Chairman Alan Kessler in Congressional testimony last year put the Postal Service's economic situation in apt perspective. "First-Class Mail, particularly single piece First-Class Mail, is no longer growing steadily," he said. "Standard Mail, which contributes significantly less than First-Class Mail to the Postal Service's institutional costs, now comprises the majority of our volume."

To be certain, Americans have not abandoned their letter correspondence. According to the Postal Service, households in the United States sent and received 15 billion pieces of correspondence mail in 2006.

A Pew Research Center survey published earlier this year tells us that 75 percent of adults send or receive email, at least occasionally. But only 61 percent of households with annual incomes under \$30,000 do, only 56 percent of African-Americans, and only 37 percent of adults over 65.

For these Americans especially, the Postal Service continues to play a vital role, but an evolving one. U.S. households receive seven times as much mail as they send, and 85 percent of all domestic mail is sent by businesses. Meanwhile, First Class Mail may account for less annual volume than Standard Mail, but it still accounts for more than half of the Postal Service's revenue.

One major challenge for the Postal Service will be to maintain the steady increases in Total Factor Productivity it has achieved over the past 8 years. Cost cutting has been a major element of those gains, and must remain so for this trend to continue. As the nation's second-largest employer, more than 80 percent of the Postal Service's operating costs are labor expenses. Continuing to reduce labor costs would seem an irreplaceable element of any future productivity gains.

The Postal Service in its Network Plan issued last month expressed consternation at what it described as unnecessary barriers to its ability to cut costs by streamlining its network operations. It cited rising energy costs, an aging infrastructure, declining network volume, and the price cap regime in the Postal Accountability and Enhancement Act (PAEA) as factors adding to the urgency of its need to continue consolidating or realigning its operations. Clearly,

whatever Universal Service is to look like over the coming decade, it must take these realities into account.

Besides reducing operating costs, the viability of financing universal service in the future will also largely depend on the Postal Service's ability to astutely manage its worksharing and the discounts it provides for volume mailers. The Service's current Strategic Transformation Plan describes broadening its customer partnerships as a major strategy for cost savings.

The Postal Regulatory Commission has agreed, pointing to Negotiated Service Agreements as a valuable pricing tool. But some of the Commission's recent opinions point to a critical need for the Postal Service to improve aspects of its pricing strategy. In its Life Line Screening Decision of May 2008, the Commission pointed to unreliable and inadequate financial analysis by the Postal Service. Failure to become "far more proficient" at negotiating favorable terms could result in significant economic losses, the Commission found. If the Commission is correct in its findings, and if the Postal Service cannot correct its deficiencies in negotiating special pricing arrangements with its customers, it could pose another threat to its ability to provide Universal Service.

The PAEA provided a clear framework as well for what types of new products and services the Postal Service could introduce in the future. When asked, Americans have responded that they see value in preserving a Postal Service as a government entity, either in its present form or with minor changes. Could the Postal Service, for instance, increase the value its post offices provide their communities by offering additional government services? Could doing so potentially create new funding streams to finance universal service while also continuing to provide the social benefits Americans have acknowledged they value?

The mailbox monopoly may be one aspect of the Postal Service's past which may not have an essential role to play in its future. This was among the findings of major reports by the President's Commission on the Postal Service in 2003 and the Federal Trade Commission in 2007. The Postal Service's monopoly on mailbox use, "limits consumer choice and artificially increases the costs of private carriers," the FTC concluded last December. It observed further that the mailbox monopoly is unique to the United States, and that its study of eight countries without such a monopoly found no significant loss in postal revenue.

Eliminating the mailbox monopoly needn't be sudden or drastic – the process could be consumer-driven and incremental. If consumers who purchase and maintain their own mailboxes believe their interests could be better served by allowing other parties besides the Postal Service access in a way that maintains accountability and order, they need not be prevented from doing so. Such a system could even be implemented on a small scale or on a trial basis, allowing the outcome to be studied to inform future decisions.

The Consumer Postal Council is a nonprofit organization based in Arlington, Virginia, supporting the interests of individual consumers of First-Class Mail. Our website is www.postalconsumers.org.