

Presented at  
Winton M. Blount Symposium on Postal History  
November 3-4, 2006  
Smithsonian National Postal Museum  
Washington, D.C.

## **THE CONFLICT ABOUT PRESERVING SMALL RURAL POST OFFICES: DIFFERENCE IN THE DISTRIBUTION OF PHARMACIES AND POST OFFICES**

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**November 2006**

The views expressed in this paper are those of the authors and do not necessarily represent the opinions of the Postal Rate Commission or the Office of the Inspector General of the Postal Service. An earlier version of this paper was presented at *Wissenschaftliches Institut für Infrastruktur und Kommunikationsdienste (WIK) 9<sup>th</sup> Königswinter Seminar on Liberalized Postal Markets--Need for Regulation*, November 7-9, 2005

## 1. Introduction

The Postal Reorganization Act (PRA) of 1970 begins with the words, “The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government...”<sup>1</sup> Later in the rate-making section of the Act, there is a provision requiring the revenues (which were to be supplied by rate payers) and cost of the Service to be made equal as nearly as practicable (the so called breakeven requirement).<sup>2</sup> Although not contradictory, the principles implied by these two sections of the Act are at the root of the conflict concerning the closing of small post offices in the United States. Those supporting the preservation of small offices rely on the view that the Postal Service is a service and not a business. They argue that the continuation of small rural post offices is an obligation of a governmental service because of their importance to the communities they serve. Their opponents cite the breakeven requirement to defend keeping expenses as low as possible by closing money-losing post offices that are not needed to provide adequate postal services. In many ways this conflict is a microcosm of the larger issue which came to the fore with the passage of the Postal Reorganization Act of 1970 and its requirement that mailers pay the cost of the Postal Service; *whether the Postal Service should be operated as a governmental service or as a business.*

In the first year of the twentieth century, the number of post offices in the United States reached its peak, 76,945. Most served small rural populations. Today, 27,385 post offices remain, and about 9,500 of them have much less revenue than the others and cannot be justified on economic grounds. They serve primarily small rural communities.<sup>3,4</sup> However, many of these small post offices

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<sup>1</sup> 39 U.S.C. 101(a).

<sup>2</sup> 39 U.S.C. 3621.

<sup>3</sup> Current statistics on post offices are from the 2005 Annual Report of the Postal Service. The Postal Service reported a total of 37,142 retail facilities for 2005 including post offices, stations, branches, and community post offices. Stations and branches are satellite facilities under the authority of the local post office. Some are staffed by Postal Service employees and others are contract facilities. Community post offices are contract post offices in small communities.

serve a social purpose beyond allowing people to collect mail from post office boxes, buy stamps, or post letters. This paper explains why there are so many small rural offices and describes the policy issues raised by them. It compares today's distribution of post offices with retail pharmacies to illustrate how the postal retail network is very different from one based on market forces. Finally, it presents the cost and revenue of small offices, provides some international comparisons and concluding remarks.

The issue of small rural post offices is perhaps more contentious in the rest of the industrialized world because their costs are a greater proportion of total cost than they are in the United States.<sup>5</sup> In industrialized countries it is generally conceded that most small rural post offices cannot be justified on economic grounds.

Supporters in virtually all these countries argue that rural offices are included in the Universal Service Obligation (USO) of the post and are vital to the wellbeing and even survival of the small towns and villages they serve. It is claimed that small rural post offices are the source of community identity, are community meeting places, provide a local presence for the national government, and provide other important benefits to the communities they serve.<sup>6,7</sup> Large volume mailers, who supply the financial underpinnings of all posts, argue that since these offices are not necessary to provide adequate postal services to these communities, they should not be required to pay for vestigial facilities. In many other developed countries, post offices provide banking services (e.g. Germany, France and Italy) that shift much of the cost of small offices from mail to the banking service.

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<sup>4</sup> Some may be operationally necessary, because rural carriers need to start from a facility reasonably near their routes.

<sup>5</sup> The USPS has the largest volume in the world and so it can spread the cost of small rural offices over more volume.

<sup>6</sup> See Richard J. Margolis, *At The Crossroads: An Inquiry into Rural Post Offices and the Communities They Serve*, Postal Rate Commission, 1980.

<sup>7</sup> In the United States it is often said that rural post offices are the only place in town where the flag is flown.

## **2. Retail Services Provided by Rural Carriers**

In the United States and in some other countries, rural carriers provide retail services to recipients along their route. U.S. Postal Service patrons can meet the carrier or leave money or a check in their rural roadside mail box with a note containing instructions and obtain virtually every service offered by the Service to consumers and small businesses. In communities where post offices have been closed, there are few if any businesses catering to the residents. Travel to nearby towns is necessary to obtain virtually all goods and services including such basic needs as groceries and gasoline. Whenever the Postal Service closes a post office, it claims that rural carriers can provide whatever service is supplied by the closed facility or in the alternative, the patron can use a post office in a nearby community.

## **3. The Universal Service Obligation and Rural Post Offices**

The PRA does not provide very specific guidance on the Postal Service's USO, but it does contain important language bearing on rural post offices. It calls for the Postal Service to "...render postal services to all communities"<sup>8</sup> and to "...provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self sustaining."<sup>9</sup> In addition, the Act states, "No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities."<sup>10</sup> Finally, the PRA states, "It shall be the responsibility of the Postal Service...(3) to establish and maintain postal facilities of such character and in such locations, that postal patrons throughout the Nation will, consistent with reasonable

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<sup>8</sup> 39 U.S.C. 101(a).

<sup>9</sup> 39 U.S.C. 101(b).

<sup>10</sup> Ibid.

economies of postal operations, have ready access to essential postal services.”

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The PRA is frequently pragmatic. Here it mandates *effective and regular postal services* and balances this standard of service with the obligation be met in a manner consistent *with reasonable economies of postal operations*. The Postal Service believes that rural carriers in combination with nearby post offices provide effective and regular postal services to the communities in which they have closed post offices. The Postal Rate Commission has had review authority over the closing of small post offices since the 1976 amendment to the PRA and it has remanded few of the Postal Service’s determinations to close small offices. The Commission, which is charged with interpreting the law with respect to post office closings, is in agreement with the Postal Service that it is not necessary for a community to have a post office to meet the standard of service required by the statute.

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<sup>11</sup> 39 U.S.C. 403(b).

#### 4. Growth and Decline of Rural Post Offices in the United States

In 1890, only a quarter of the U.S population received free mail delivery because it was only available in cities. Most people had to travel, often miles, to a post office in order to pick up mail. Table 1 shows the population, the number of post offices, the percentage change in the number of post offices from the previous decade and the average number of people served by each office in every decade since 1790.<sup>12</sup> It can be seen that throughout the Nineteenth Century, the average number of people per post office declined as more and more post offices were opened. Thus, the average distance to a post office was decreasing. The great majority of people lived on farms or in small rural communities in relative isolation. Mail was their most important source of information. The table demonstrates the nation's commitment to providing good quality postal services

**Table 1**  
**Number of Post Offices by Decade**

Year	Population (000)	No. of Post Offices	Percentage Change	People per Post Office
1790	3,929	75		52,390
1800	5,308	903	1104.0 %	5,879
1810	7,240	2,300	154.7	3,148
1820	9,638	4,500	95.7	2,142
1830	12,861	8,450	87.8	1,522
1840	17,063	13,468	59.4	1,267
1850	23,192	18,417	36.7	1,259
1860	31,443	28,498	54.7	1,103
1870	38,558	28,492	0.0	1,353
1880	50,189	42,989	50.9	1,167
1890	62,980	62,401	45.2	1,009
1900	76,212	76,688	22.9	994
1910	92,228	59,580	-22.3	1,548
1920	106,022	52,641	-11.6	2,014
1930	123,203	49,063	-6.8	2,511
1940	132,165	44,024	-10.3	3,002
1950	151,326	41,464	-5.8	3,650
1960	179,323	35,238	-15.0	5,089
1970	203,302	32,002	-9.2	6,353
1980	226,542	30,326	-5.2	7,470
1990	248,718	28,959	-4.5	8,589
2000	281,422	27,876	-3.7	10,095

<sup>12</sup> The number of post offices does not include other retail facilities such as stations and branches.

to *all* its inhabitants in the Nineteenth Century. The Post Office Department was seldom profitable after 1850 and required almost continual subsidies. Notwithstanding, more and more resources were put into serving the rural population. Ubiquitous postal service was clearly a goal of the government.<sup>13</sup>

In 1900, there were 72,455 fourth class (i.e. small rural) post offices.<sup>14</sup> They constituted 94 percent of all post offices. There was a need for a large number of offices because transportation in rural America was by horse or mule. Only 152,000 miles of the more than 2.2 million miles of roads were improved.<sup>15</sup> The rest were dirt, and most of those were without crowns or drainage ditches, leaving them muddy and impassible in wet weather and full of ruts in dry weather.<sup>16</sup> Post offices could not be too distant if farmers were to travel to pick up their mail.

Figure 1 shows the increase in the U.S. population and the increase and then decline of the number of post offices in the U.S from 1790 through 2001. There is a very high correlation between population and post offices until 1901 when the number of post offices peaked. The advent of Rural Free Delivery caused a sudden reversal. RFD, as it was called, began as an experiment in 1896 and continued to cover more and more of the country and by 1915, virtually the entire nation was being served.<sup>17</sup> RFD eliminated the need for many rural offices. The Post Office Department announced a policy to abolish all fourth class offices that duplicated the new mail service.<sup>18</sup> Only those offices from which the newly established routes originated would remain open. With the advent of RFD, there was no need for farmers and other rural residents to travel to a post office in town

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<sup>13</sup> Ubiquity does not encompass the entire modern day concept of the USO, but ubiquity is its most important element.

<sup>14</sup> *Annual Report of the Post-Office Department for the Fiscal Year Ending June 30, 1900.* Offices were ranked by revenue and fourth class was the lowest rank.

<sup>15</sup> Wayne E. Fuller, *RFD: The Changing Face of Rural America* (Bloomington: Indiana University Press, 1964), 178.

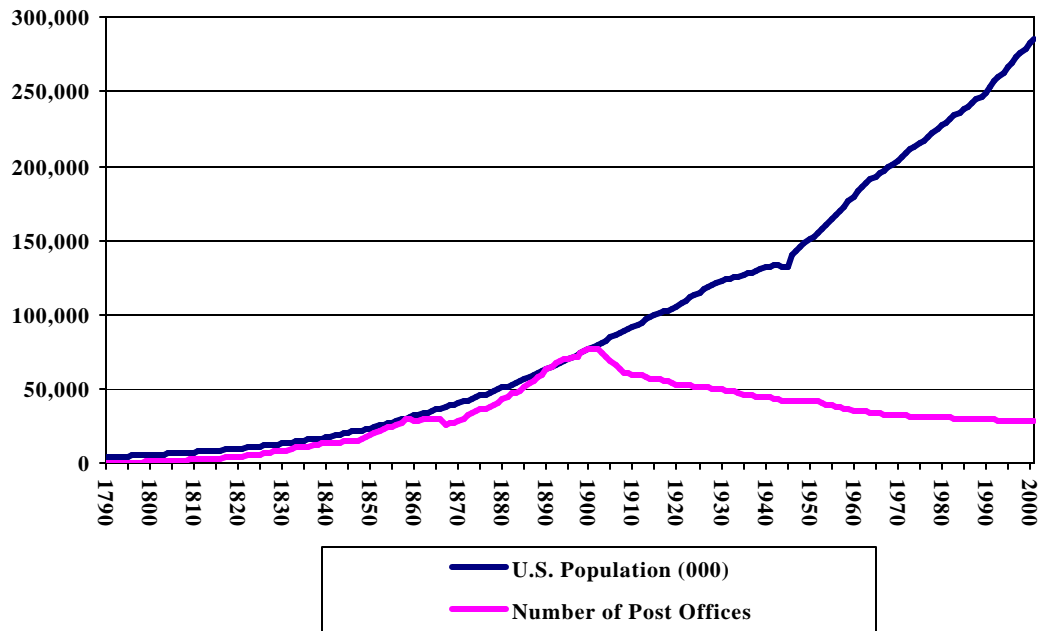
<sup>16</sup> *Id.*, 177-180.

<sup>17</sup> By 1915 there were 43,718 rural routes.

<sup>18</sup> Fuller, 85.

to pick up mail or to post letters. The federal government had made mail service much more convenient and useful for its rural citizens.

**Figure 1**  
**Comparison of Population with Number of Post Offices**



In the first quarter of the twentieth century, the automobile became ubiquitous, roads were improved, and the great exodus from the farm to the city accelerated. Rural communities lost population and many simply disappeared; others shrank markedly. Good roads meant that many communities in close proximity were effectively joined. These factors, in addition to the expansion of RFD, contributed to the decline in the number of small rural post offices. The Post Office Department, in the interest of economy, closed 60 percent of the post offices between 1901 and the passage of the Postal Reorganization Act in 1970.

Because the number of post offices has declined and the population has grown since 1900, the number of people that each post office serves has increased substantially. Population has not grown evenly across regions, however. This difference largely explains the significant disparity in the number of people per retail facility across regions as can be seen in the chart below.



<b>Region</b>	<b>People per Retail Facility</b>
Midwest	5,910
Northeast	7,651
South	8,145
West	10,220

Between 1900 and 2000, the Midwest's population grew only 145 percent, while the West's population grew 1,367 percent.

## **5. The Impact of the Amendments to the Postal Reorganization Act**

The Postal Rate Commission was given review authority over the closing of small post offices in the 1976 amendments to the statute. The change in the law allows patrons of a post office to appeal prospective closings to the Postal Rate Commission. A 1997 General Accounting Office (GAO) review of appeals to the Commission found that only 11 percent of determinations to close a post office were appealed.<sup>19</sup> Of these, only 20 percent were remanded by the Commission. Thus, the authority given the Commission has not had much direct effect on closings. Its major impact has been to force the Postal Service to establish uniform procedures for making determinations to close a post office. Indirectly, however, the amendments may have had a chilling effect on the Postal Service's willingness to close post offices. The GAO found that closings between 1970 and 1975 averaged 218 per year. After passage of the amendments, closings averaged only 124 per year.<sup>20</sup>

In the last five years the Postal Service has closed only 494 post offices (1.8 percent). This averages to 99 per year. The slowing of the rate of closings can be largely attributed to congressional pressure, which led to a temporary four

<sup>19</sup> General Accounting Office, *U.S. Postal Service: Information on Post Office Closures, Appeals, and Affected Communities* (GGD-97-38BR, March 1997), 27-29.

<sup>20</sup> *Id.*, 21.

year moratorium on closings in 1998.<sup>21</sup> The long standing policy of the Postal Service is only to close an office when the postmaster leaves, retires, or dies.<sup>22</sup>

## **6. Cost and Revenue of Small Post Offices**

The smallest 9,500 post offices cost the Service \$603 million in 2004. That was 0.9 percent of total cost. This includes labor cost, rent, and utilities and amounts to an average cost \$63,000 per post office. The average revenue for these offices was \$31,000

## **7. Contract Post Offices**

The Postal Service has 1,109 contract post offices and 3,116 contract branches and stations. Contract post offices are called “community” post offices and are usually housed in retail stores. Contract branches and stations are satellite retail units of large post offices. When a post office is closed, it is sometimes converted to a community post office. The average annual cost of a contract post office, branch, or station is \$17,700. This is less than a third of the cost of a small post office. Before a post office can be converted to a contract office, it must first be closed. Although closings of post offices are subject to the Postal Rate Commission’s review, the statute does not give the Commission review authority over the closing of community post offices. Consequently, even when the Postal Service proposes to replace a post office with a community office, people in the community may object to the closing because they feel that they would lose the right to appeal the closing of the Community post office in the future. Several postal administrations in industrialized countries, including Great Britain and Sweden, have converted large numbers of post offices to contract status. Converting small post offices to community post offices would seem to be

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<sup>21</sup> The moratorium extended from March 16, 1998 to April 5, 2002.

<sup>22</sup> It is not known how long this policy has been in effect, but it is mentioned in an annex of the Kappel Commission’s report: Arthur D. Little, Inc., “Postal Problems and Their Causes,” contractor’s report in *Towards Postal Excellence* by the President’s Commission on Postal Organization (Washington, D.C.: Government Printing Office, 1968), Annex 3, 2-32.

a satisfactory compromise, but neither the Postal Service nor small communities have embraced the idea.<sup>23</sup>

## 8. Comparison of the Distribution of Postal Retail Facilities and Pharmacies

Arguably, pharmacies are at least as important to the average citizen as post offices. Comparing the geographic distribution of a commercial service, like pharmacies, with the distribution of post offices can illustrate what the distribution

**Table 2**  
**Number of Persons Served**  
**by USPS Retail Facilities and Pharmacies**  
**in Census ZIP Code Tabulation Areas (ZCTAs)**  
**Ranked by Population Density<sup>a</sup>**

Semi-decile	Average No. of People per USPS Retail Facility <sup>b</sup>	Average No. of People per Pharmacy	Average Land Area per ZCTA (sq miles)
1	454	6,738	369
2	976	4,825	218
3	1,215	5,647	139
4	1,404	5,760	107
5	1,697	5,801	96
6	2,143	5,250	94
7	2,391	5,049	82
8	3,049	4,751	86
9	3,510	5,105	81
10	4,007	4,598	73
11	5,119	4,702	72
12	6,143	4,657	66
13	7,615	4,916	56
14	9,321	5,090	47
15	10,128	4,944	32
16	11,921	4,900	21
17	14,501	4,778	13
18	16,100	4,705	9
19	18,842	5,138	6
20	24,030	5,347	3

Source: U.S. Census Bureau 2000 ZCTA data, National Council for Prescription Drug Programs, Inc. (NCPDP) Pharmacy Database (2002), and U.S. Postal Service facilities data (2002).

<sup>a</sup> Only ZCTAs in the continental United States are included.

<sup>b</sup> USPS retail facilities include post offices, stations, branches, and community post offices.

~ In many small communities, there is no business to host a community post office.

of post offices might look like if it were driven by market forces. The rows in Table 2 present statistics on five-digit ZIP code tabulation areas grouped into semi-deciles (five-percent groupings) based on population densities.<sup>24</sup> Group No. 1 contains the least densely populated ZIP code areas in the country. Group No. 20 contains the most densely populated. There are 1,579 five-digit ZIP code areas in each semi-decile.<sup>25</sup> The average number of people per postal retail facility appears in column 2.<sup>26</sup> It can be seen that this ranges from a low of 454 per retail facility in the least densely populated areas to a high of 24,030 in the most densely populated areas, a remarkably wide span. The average number of people per pharmacy is shown in column 3 and ranges from a low of 4,598 to a high of 6,738; a much tighter span.<sup>27</sup> The average land area for each five-digit ZIP code area is shown in column 4. The average land area decreases consistently as the population density of the five-digit ZIP code areas increase.

The discrepancy in the number of people per postal facility versus the number per pharmacy in the first nine semi-deciles is a legacy of the period before RFD when farmers needed to travel to the post office to get their mail. The comparative uniformity of the number of people per pharmacy results from the fact that it takes a certain number of people to support a pharmacy. Competition seems to keep the number relatively constant. The fact that many postal facilities serve far more people than pharmacies in the semi-deciles with greater population densities reflects that most people visit post offices much less frequently than they visit pharmacies.

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<sup>24</sup> A ZIP code tabulation area (ZCTA) is a U.S. Census Bureau designation developed to overcome the difficulties in precisely defining the land area covered by each ZIP Code. A ZCTA usually coincides quite closely with the corresponding five-digit ZIP Code area.

<sup>25</sup> Semi-deciles 1, 7, and 14 contain 1,580.

<sup>26</sup> A retail facility can be a post office or a branch or station of a large post office.

<sup>27</sup> These are pharmacies that serve the general public.

**Figure 2**  
**Location of Population, Postal Retail Outlets and Pharmacies**  
**(Rural, Urban and Urban Cluster)**

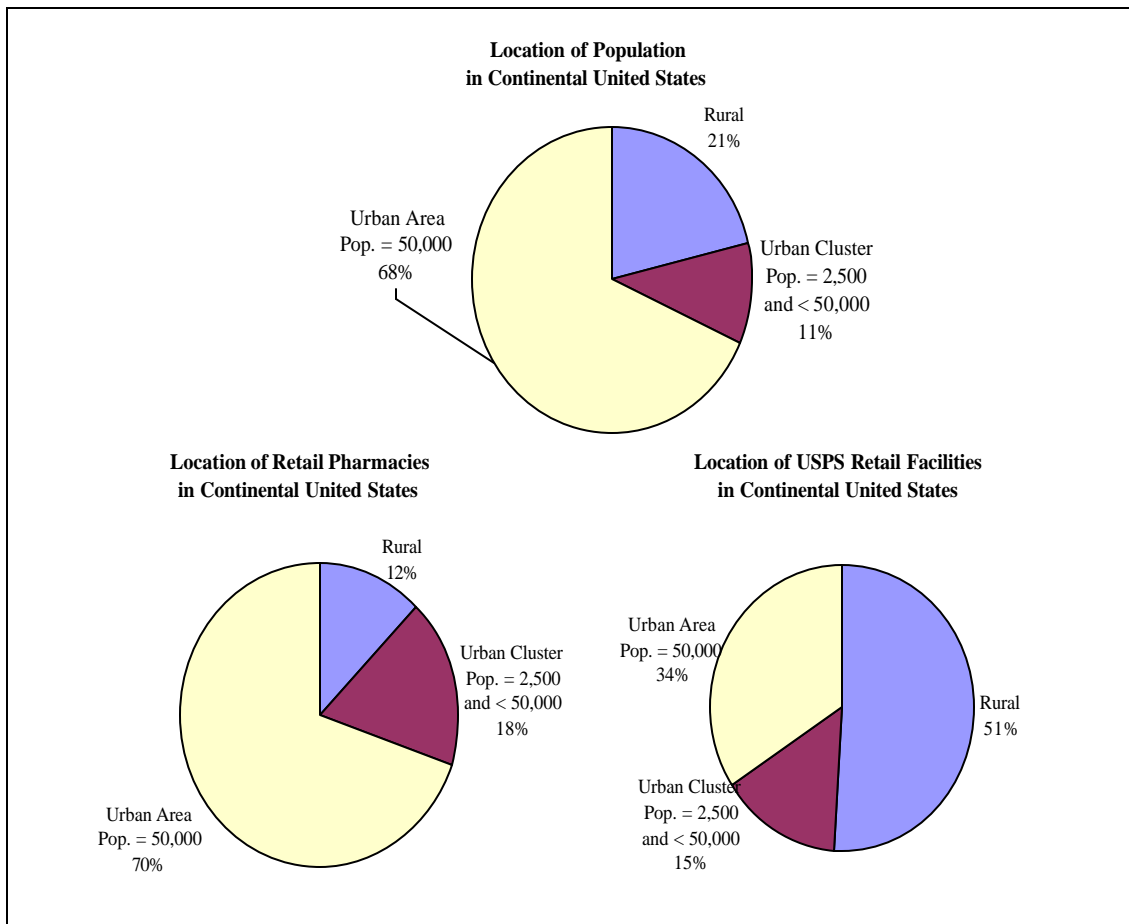


Figure 2 displays the distribution of the U.S. population, postal retail outlets, and pharmacies in urban areas, urban clusters, and rural areas. The U.S. Census Bureau designates a densely-settled territory having a total population of less than 50,000, but greater than or equal to 2,500, as an urban cluster. An urban area has a total population of 50,000 or more. Most people in the United States (68 percent) live in urban areas. It can be seen that the distribution of pharmacies follows the distribution of population much more closely than does the distribution of postal retail outlets.

## 9. Some International Comparisons

Throughout the industrialized world, postal administrations are closing small rural post offices or converting them to contract facilities. In Table 3, it can be seen that the United States ranked second in the average number of inhabitants per post office in 1988, and it ranked third in 2003. Almost all industrial countries except the United States and Canada have had a reduction in the scope of their postal monopolies and are facing further reductions.<sup>28</sup> The prospect of competition provides an extra incentive to reduce expenses. Table 3 also illustrates the change in the number of post offices for the period 1988 through 2003. The six percent reduction for the United States is much less than the average of the other countries.

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<sup>28</sup> Legislation is pending in the U.S. Congress that would slightly reduce the letter monopoly by imposing a price and weight cap on letters to which it applies. Legislation to eventually privatize Japan Post has recently been enacted in Japan, but it does not affect the scope of the monopoly. The European Commission has announced a policy of eliminating the postal monopoly in virtually all member states in 2009.

**Table 3**  
**Comparison of Selected Countries**

Country	People per Post Office (Rank)		Number of Post Offices		
	1988	2003	1988	2003	% Change
Australia	3,650 (9)	5,120 (8)	4,489	3,853	-14%
Austria	2,856 (13)	4,043 (12)	2,676	2,007	-25%
Belgium	5,392 (5)	7,931 (2)	1,838	1,301	-29%
Denmark	4,032 (7)	5,264 (6)	1,270	1,019	-20%
Finland	1,690 (16)	3,868 (13)	2,926	1,346	-54%
France	3,313 (12)	3,560 (15)	16,949	16,992	0%
Germany	3,527 (10)	6,102 (5)	17,410	13,514	-22%
Greece	7,768 (1)	4,949 (9)	1,296	2,218	71%
Ireland	1,676 (17)	2,386 (19)	2,103	1,658	-21%
Italy	3,939 (8)	4,183 (11)	14,373	13,728	-4%
Japan	5,135 (6)	5,165 (7)	23,871	24,715	4%
Luxembourg	3,504 (11)	4,196 (10)	106	108	2%
Netherlands	5,625 (4)	6,267 (4)	2,624	2,577	-2%
Norway	1,540 (18)	3,067 (16)	2,728	1,478	-46%
Portugal	1,371 (19)	2,844 (17)	7,259	3,537	-51%
Spain	6,122 (3)	12,283 (1)	6,368	3,343	-48%
Switzerland	1,783 (15)	2,634 (18)	3,763	2,722	-28%
United Kingdom	2,683 (14)	3,733 (14)	21,030	15,868	-25%
United States <sup>a</sup>	6,258 (2)	7,825 (3)	40,117	37,579	-6%

Source: Universal Postal Union postal statistics database.

<sup>a</sup> The count includes all retail facilities—post offices, stations, branches, and contract units.

## 10. Concluding Remarks

If the Postal Service were starting *de novo*, the legacy of rural post offices would not be an influence on the location and number of retail postal facilities.

Probably, the distribution of retail facilities in the rural areas would resemble the distribution of pharmacies. However, the modern Postal Service has a legacy of rural post offices which have acquired such a status in rural society that it does not seem politically possible for the Postal Service to convert to a more commercially-oriented distribution.

Some would claim that the cost of rural post offices that are not necessary to provide *effective and regular* postal service is a “political rent” that mailers are forced to pay, somewhat like the cost of rent control in New York City that landlords must pay. However, supporters of small post offices counter that the Postal Service enjoys a broad letter monopoly, which provides the means to pay

for the relatively small percentage of total cost that small post offices represent. They can also point to the \$2.7 billion of equity in the form of the property that was handed over by the Federal government to the new Postal Service in 1970 at no charge and an appropriation totaling a billion dollars in the years 1975 and 1976 to increase the equity. The value of the property was understated because it was based on its depreciated nominal dollar value. The value of that equity in 2005 dollars would be well in excess of \$12 billion. The imputed interest on this amount would easily cover the cost of operating all unnecessary small rural offices. Mailers, however, can respond that the purpose of the monopoly is to ensure universal service and that the equity was given to the Postal Service to allow it to provide *effective and regular* postal services to the public.

The argument will take on more urgency when First Class mail volume begins a more precipitous decline. Because it pays such a large portion of the overhead cost of the Postal Service, it may not be possible to make up its lost contribution without having very deleterious effects on the volumes of the other classes. Cost cutting will then be the necessary response and the conflict over small post offices will come to the fore as will the larger conflict about whether the Postal Service should be operated as a governmental service or as a business.