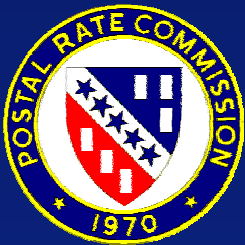


# **The Cost of Universal Service in the U.S.**

**Robert Cohen  
Postal Rate Commission**

**Presented at the AEI Conference  
on the Mission of the Postal Service  
and the Universal Service Obligation**

**April 30, 2003**



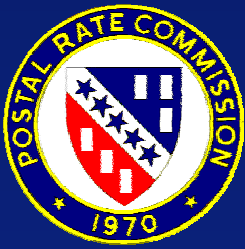
# Universal Service

## Core Meaning -- Ubiquity

- Everyone receives mail
- Everyone has reasonable access to collection and counter service

## Additional Meanings

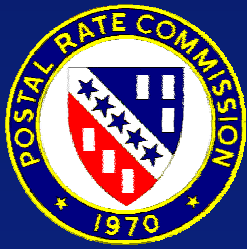
- Uniform price
- 6 day-a-week delivery
- Set of products now offered by USPS
- Service Quality now offered by USPS



# What Is the Cost of Universal Service?

**John Panzar provided a conceptual framework:**

**The cost of universal service is the cost of those services which would not be provided in a competitive market**



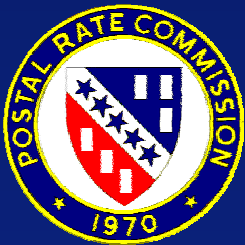
# **What Services Might be Eliminated?** *Speculation not Recommendations*

## **Core Elements**

- 1. Eliminate Unprofitable Delivery Routes**
- 2. Close Many Small Post Offices**
- 3. Abandon Alaska Air Subsidy**
- 4. Curtail Expansion of Delivery Network**

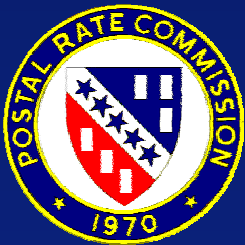
## **Non-Core Elements**

- 5. Reduce Number of Delivery Days**
- 6. Convert Park & Loop Routes to Curb Routes**



# Annual Route Profits by Semi Decile

| <u>Profits</u> |              | <u>Losses</u> |  |
|----------------|--------------|---------------|--|
| 1              | \$2,224      | 12            | (13)                                       |
| 2              | 1,007        | 13            | (72)                                       |
| 3              | 772          | 14            | (131)                                      |
| 4              | 640          | 15            | (193)                                      |
| 5              | 523          | 16            | (254)                                      |
| 6              | 423          | 17            | (317)                                      |
| 7              | 329          | 18            | (391)                                      |
| 8              | 261          | 19            | (503)                                      |
| 9              | 182          | 20            | (742)                                      |
| 10             | 113          |               |  |
| 11             | 46           |               |  |
| <b>Total</b>   | <b>6,520</b> | <b>Total</b>  | <b>(2,615) or<br/>4.2 Percent of Costs</b> |



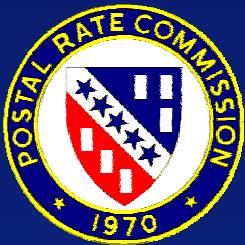
# Closing Small Post Offices

**10,127 CAG K & L Office**

**Total Cost \$567 million  
(0.9 percent of Total Cost)**

**GAO Recommended Closing 7,000**

**Annual Savings \$397 million or 0.6  
percent of Total Costs**

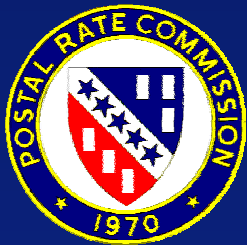


# Alaska Air Subsidy

**Cost of providing air transport for Parcel Post to Alaskan bush country:**

**\$ 99 million or**

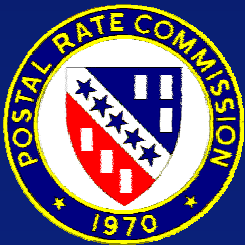
**0.2 percent of Total Cost**



# **Curtail the Expansion of Delivery Network**

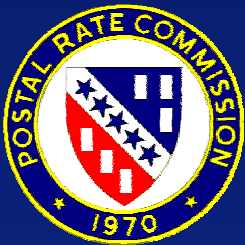
**Cost of New Stops in FY 03:        \$ 176 million**

**0.2 percent of total costs**



# Savings from Reducing Delivery Days on All Residential Routes

|               | <b>Savings</b>       | <b>Percent of Total Cost</b> |
|---------------|----------------------|------------------------------|
| <b>5 days</b> | <b>\$1.9 billion</b> | <b>3.1%</b>                  |
| <b>4 days</b> | <b>3.8</b>           | <b>6.2</b>                   |
| <b>3 days</b> | <b>5.8</b>           | <b>9.2</b>                   |
| <b>2 days</b> | <b>7.7</b>           | <b>12.3</b>                  |
| <b>1 day</b>  | <b>9.5</b>           | <b>15.2</b>                  |



# Conversion of Park & Loop to Curb Routes

## City Carriers (166,743)

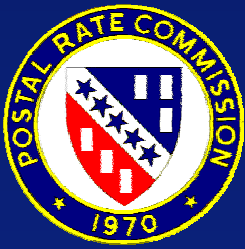
|             |       |
|-------------|-------|
| Foot        | 11.5% |
| Park & Loop | 70.6  |
| Curb        | 17.8  |

## Rural Carriers (63,552)

|          |       |
|----------|-------|
| Roadside | 100.0 |
|----------|-------|

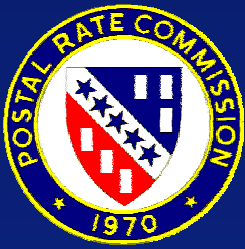
**Savings \$778 Million**

**1.2 percent of Total Cost**



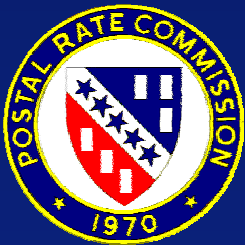
# Summary of Potential Savings from Core Universal Service Elements

|   | <u>Savings</u><br><u>(\$ billions)</u> | <u>Percent of</u><br><u>Total Costs</u> |
|---|--|---|
| <b>Eliminating Losses on Unprofitable Delivery Routes</b> | <b>2.62</b>                            | <b>4.2 %</b>                            |
| <b>Closing Small Post Offices</b>                         | <b>0.40</b>                            | <b>0.6</b>                              |
| <b>Eliminating Parcel Post Service to Alaska Bush</b>     | <b>0.10</b>                            | <b>0.2</b>                              |
| <b>Total</b>  | <b>3.12</b>                            | <b>5.0</b>                              |



# Summary of Potential Savings from Non-Core Universal Service Elements

|  | <b>Savings<br/>(\$ billions)</b> | <b>Percent of<br/>Total Costs</b> |
|--|----------------------------------|-----------------------------------|
| <b>Reducing Delivery to 3 Days per Week</b>      |                                  |                                   |
| <b>After Eliminating Unprofitable Routes</b>     | <b>2.58</b>                      | <b>4.1%</b>                       |
| <b>Converting Park &amp; Loop Routes to Curb</b> | <b>0.78</b>                      | <b>1.2</b>                        |
| <b>Total</b>                                     | <b>3.36</b>                      | <b>5.3</b>                        |



## **Evidence of Inefficiency in the USPS**

**Total Factor Productivity increased only 9.2 percent from 1970 to 1999**

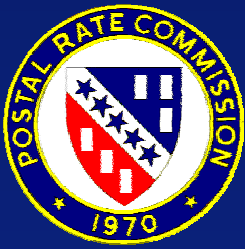
**R2001-1 rate increase 7.7 percent versus inflation rate of 2.5 percent**

**Since November of 1998 employment has been reduced by 9 percent**

**Dr. Wachter estimates a wage premium of:**

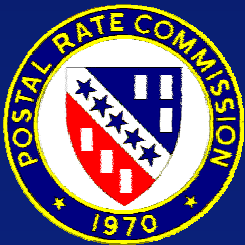
**21.2 to 35.7 percent or**

**12 to 20 percent of total costs**



# Effect of Competition on Efficiency

|                      | <b>Reduction in<br/>Work Force</b> | <b>Over<br/>Time Period</b> |
|----------------------|------------------------------------|-----------------------------|
| <b>New Zealand</b>   | <b>40 %</b>                        | <b>1988-2001</b>            |
| <b>Sweden</b>        | <b>30</b>                          | <b>1990-2000</b>            |
| <b>Germany</b>       | <b>37</b>                          | <b>1990-1999</b>            |
| <b>Great Britain</b> | <b>15</b>                          | <b>2002-2005</b>            |



# **Impact of Technology on the Mission of the Postal Service**

**Computerized sorting of mailing lists represents huge productivity gain over physical sorting**

**Led to Presort Discounts**

**Led to Worksharing Discounts**

**Led to Last Mile Strategy**

**Computerized targeting fueled advertising mail growth**