Comments on the 5-Year Strategic Plan
of the U.S. Postal Service

Submitted by

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The Coalition for Postal Worksharing suggests that, as part of the Postal Service's long-term strategic planning, it should set a course aimed toward eliminating the current overcharging of workshared mail to the benefit of non-workshared mail.[1]

The implicit subsidy to non-workshared mail, along with the overcharging of workshared mail, currently are concealed in the top-down approach to costing and rate design used to establish worksharing discounts. The problem lies with the approaches heretofore utilized by both the Postal Service and the Postal Rate Commission.

The extent of the overcharging problem is best revealed by viewing the Postal Service not as one company, but as a combination of two separate companies in the distribution business – a processing and transportation company, and a delivery company. These comments take the novel approach of analyzing the Postal Service as though it currently consisted of two collaborative, yet separate, companies.

At present, this approach is merely an analytical tool to reveal the unfairness of overcharging those who primarily use the delivery function in order to subsidize processing and transportation. And, it is hoped that use of

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[1] John Haldi and William J. Olson, "Postal Revenues and Costs from Workshared Activities: An Evaluation of USPS Worksharing" Paper presented at Eleventh Conference on Postal and Delivery Economics, Rutgers University Center for Research in Regulated Industries, Toledo, Spain, June, 2003, http://crri.rutgers.edu/post/index.html#PAST.

this illustrative technique will be adequate to provoke the Postal Service to reform. Of course, should the Postal Service not undertake an effort to price its workshared products properly, pressure doubtless will begin to build to solve the problem of overcharging workshared mail in the only way that will then be available, by implementing the illustration and actually unbundling the Postal Service into two independent, separate, non-competing organizations.[2] How the Postal Service responds to the truths revealed by this two-company illustration may well determine whether the Postal Service continues as one company.

Under this illustration, the basic operations of Postal Service would be divided into two entities along the following lines.[3]

Processing and Transportation. One of the two entities would deal exclusively with processing and transporting the mail to destinating facilities. It would function as a nationwide presort bureau and freight consolidator. Its employees would consist largely of clerks and mailhandlers, plus supervisory and administrative staff as necessary. This entity would feed mail into the delivery network at destination facilities, as do other presort bureaus and

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[2] The Coalition for Postal Worksharing has submitted to the President's Commission on the U.S. Postal Service final comments, which can be found on their website. *See* http://www.treas.gov/offices/domestic-finance/usps/comments/final_comments/organization.html.

[3] The concept is similar to, and has precedent in, the unbundling of AT&T, except that AT&T was split into more than two separate entities (a long-distance company, plus several regional operating companies).

mailers that do their own presorting and transportation. Everything done by this presort entity would be wide open to competition. Since it would have no monopoly over anything, no rationale would exist to regulate any aspect of this nationwide presort bureau, including the rates charged for the services that it provides. This competitive entity would be allowed to charge "whatever the traffic will bear," with the possible exception of First-Class single-piece mail. Rates for the services provided by this entity would be set by the market, and be restrained only by competition. In other words, this entity would have the type of total rate making freedom so avidly sought by the Postal Service.[4] Its rates for mail processing and transportation should not be subject to any kind of rate regulation, nor to any of the rate making criteria contained in the Postal Reorganization Act.[5] Further, as a financially separate entity, this organization not only would have a mandate to achieve financial breakeven, but also the ability to earn, retain, and invest profits. As a competitive entity, it also should be free to close down, consolidate, or build such mail processing facilities as it deems necessary. One important rationale for unbundling along the lines

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[4] Needless to say, this competitive entity also would be free to enter into contractual arrangements with individual mailers as it sees fit, with no regulatory oversight (as now exists with respect to Negotiated Service Agreements ("NSAs")).

[5] In view of the competition faced by this entity, it presumably would set rates for each of its services so as to cover all direct and indirect costs, plus a markup to cover general overhead expense and profit.

described here is that open competition should increase efficiency while reducing prices to the consumer.[6]

Delivery Network. The other entity would consist of a nationwide delivery network. Most employees of this entity would be city and rural carriers. The delivery entity would not engage in "upstream" mail processing activities or long distance transportation. At the same time, it would have a monopoly over delivery, which can be presumed to continue unchanged from its existing form. Since this entity would have a statutory monopoly, the rates that it charges for delivery would continue to be regulated. These published rates for delivery would be those charged to all mailers and independent presort bureaus (including the separate entity discussed above) that deposit qualified mail in bulk. Also, this entity would have full responsibility for all aspects of the Universal Service Obligation. That is, in addition to maintaining a nationwide delivery network, this entity also would be responsible for providing retail services and collecting single-piece mail deposited in collection boxes. In addition to retail facilities and Destination Delivery Units ("DDUs"), this entity would own and operate such other destinating facilities as it deems necessary. This entity also would be required to achieve financial breakeven.

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[6] For further discussion on this point, *see* Elcano, Mary S., R. Andrew German and John T. Pickett, "Hiding in Plain Sight: The Quiet Liberalization of the United States Postal System," in *Current Directions in Postal Reform*, edited by Michael A. Crew and Paul A. Kleindorfer. Boston, MA: Kluwer Academic Publishers (2000).

However, it no longer would be burdened with the multi-billion dollar subsidy now required to support the "upstream" mail processing and transportation portion of the postal network. Consequently, rates for delivery could be reduced, in some instances perhaps substantially, which would encourage volume growth.

Conclusion

It is hoped that the hypothetical unbundling of the Postal Service discussed above furnishes a new analytic tool to illustrate the problem faced by mailers of workshared mail. At present, the Postal Service can conceal the fact that it overcharges for delivery to subsidize its processing and transporting operations. But just because it can do this for a time, until pressure builds against it, does not mean that it should do so. As described here, unbundling the Postal Service into two separate, financially independent entities would require it to charge rates that fully cover the costs of mail processing and transportation. In order to achieve that equitable result, however, it should not be necessary to divide the Postal Service. By correctly estimating its own cost to process and transport mail, and then ensuring that the prices charged for those services (*i.e.*, the "discounts" or rate differentials) are sufficient to cover all costs, the Postal Service can achieve the same end result as would occur through unbundling the Postal Service.