

"They write politics, we write government"

THE POST OFFICE

Neither by Snow, nor Rain, nor Heat, nor Darkness

"The post office, or any world of work, is only one institutionalized system of control that is designed to beat people, to condition them into accepting that humiliation and failure is the norm. Those who do not rebel against this lose any ability to think for themselves. The workers are robbed of power whilst the bosses have only a small amount of it and can only use it arbitrarily, which is to say, pointlessly."

"We're forced into absurd lives, against which the only sane response is to wage a guerilla operation of humor and lust and madness." - Charles Bukowski, Post Office

The United States Postal Service has an image problem. The last time you walked into a post office, you probably thought that it needed a coat of paint. Envelopes and boxes may have been strewn about. Postal employees, perhaps sitting behind bullet-proof glass, served an ever-lengthening line of customers. Their uniforms, as well as that of your mail carrier, have been little-updated since 1992. "Postal worker" has unfairly become synonymous with an employee biding time until reaching a generous, taxpayer-funded retirement.

On top of its image, the post office has financial problems. Legally required to operate with government subsidies, the USPS has lost an average of \$5 billion per year for a decade. Not only have these losses caused deficits in conflict with its mandate, but the attendant cost cutting has limited long-term capital spending. Which feeds into the image problems in a non-virtuous cycle.

Peeling behind the numbers and the façade, we find that the USPS is a truly strange animal. Part agency, part private; part business, part locus of political patronage. When we look closer, we find that the post office is an efficient letter-delivery machine, but one with an uncertain future.

- What is the United States Postal Service?
- How is it doing financially?
- How does it compare to private competitors?

What is the United States Postal Service?

Our nation had a post office before it was a nation. Benjamin Franklin became our first postmaster general in 1775 – just after the battles of Lexington and Concord and a year before the Declaration of Independence. But the first two centuries of the history of our post office are irrelevant to our story; the United States Postal Service as

you know it has existed only since the Postal Reorganization Act of 1970 (PRA).¹

Passed in response to a massive, nationwide strike of postal workers, the PRA fundamentally changed the nature of postal services in our country. Previously, the United States Post Office had been a department of the government. Unlike other defunct departments like War

¹ It really isn't like me to skip 200 years of history, and the post office has an interesting one. You can read more about it at the [USPS's website](http://usps.gov).

and Navy, the Post Office Department wasn't rolled into a new organization, but rather rolled out to a strange, hybrid, public-private animal.

The unique character of the USPS causes confusion. Legally, it is an independent agency of the federal government. Postal employees are government employees. While its charter offers it a nearly absolute ability to run its own operations, this charter is itself subject to amendment via new legislation. It has several features that are clearly governmental in nature; it pays no tax and can claim land via eminent domain.² However, according to the PRA, it can also engage in numerous activities that resemble private corporations. It operates its finances outside of the [Congressional appropriations process](#). It can enter into contracts under its own name. It competes with (and co-operates with) private companies. It can change its own regulations.³

We could debate without end the semantics about what the USPS is, but understanding its mandate is far more important.⁴ The mandate of the USPS gives it certain monopolistic rights, but also forces it to offer services that are not profit maximizing.

The USPS has a statutory monopoly on the delivery of non-urgent letters. This is why private delivery companies, like UPS and FedEx, don't offer a service to deliver envelopes in a manner other than on a guaranteed schedule. You may have also wondered why private delivery companies always leave packages on your doorstep or place them directly in your hand. Smaller items – as well as letters, obviously – would fit in your mailbox. The use of official postal mailboxes is also limited to the USPS. The USPS also has a monopoly on marketing mail; you can thank them for all those catalogues you throw out.⁵

Monopolies are valuable things. They protect companies (or whatever the USPS is) from competition. But, when regulated, they are not necessarily bad for consumers;

your electricity and water are probably provided by a regulated monopoly, and they work well.⁶ In exchange for its monopolies, the USPS is required to meet a universal service obligation (USO). This USO has never been formally defined by Congress. However, the USPS interprets it very broadly.

- Geographic scope: the USPS provides an consistent service in even the most remote regions.
- Affordable and uniform pricing: within its mandated products, it costs the same to send mail to Nome, Alaska as around the block.
- Access to facilities and services: even if the décor is outdated, your local post office offers a wide array of governmental services.
- Mail security: statistics are difficult to find, but the USPS delivery failure rate is exceptionally low.⁷

In addition to the services described in its mandate, the USPS is permitted to compete with private companies via its aptly named Competitive services. These are the postal products that you know as Priority Mail or First-Class Package Service, as well as some smaller brands. In its Competitive category, the USPS operates on a more-level playing field with private companies – although it still has the mailbox mandate. The products offered by the USPS usually differ from those offered by the private companies. UPS offers guaranteed overnight deliveries, while the USPS tries really, really hard to get it there tomorrow, at which it succeeds around 97% of the time. The USPS is prohibited from using its mandated businesses to subsidize its Competitive businesses.⁸

How is it doing financially?

The USPS is required by its mandate to be self-funding. It does not and can not receive any tax revenue. It must find a way to break even – unless it doesn't.

² The USPS's eminent domain power is used very infrequently.

³ As far as I know, in this regard, the USPS is unique as a government agency.

⁴ If you disagree, there are, of course, people on the internet who argue endlessly on the topic.

⁵ The GAO recently put out a [report](#) that describes the USPS mandate, in context of describing various proposed changes.

⁶ If you disagree, read about what happened when [California tried to move](#) from a regulated electric utility to open competition.

⁷ It's easy to find statistics on the whole dogs chasing mail carrier thing, which is, [apparently, very real](#). About 6,000 mail carriers – 1% of all USPS employees – are attacked by dogs each year.

⁸ Of course, checking for such subsidies is a complex accounting exercise. If the mailman delivers one piece of each type of mail, how is the cost split between them? [This article](#) discusses the issue and quotes research, in the context of the post office's agreement with Amazon. According to this research, Congressional mandates on determining costs lead to Amazon's business being underpriced by the post office. This is likely true, but, in my opinion, the USPS is mostly doing the best it can to be transparent and play by the rules.

Whatever negative things you can say about the post office, and there are a lot, it is impressively transparent. Just like private companies, it publishes an annual report, called a 10-K.⁹ It includes almost 100 pages of financial statements, discussions of its businesses, disclosures of risks and various types of supplemental data. One would think there is enough here to come up with a clear answer to a simple question: How is the post office doing?

We'll start by looking at the revenues. The USPS helpfully breaks it down by category; note that "Shipping and Packages" includes all their Competitive services.¹⁰

| Product | 2017 Rev | 2016 Rev | 2015 Rev |
|------------------------------|---------------|---------------|---------------|
| First-Class Mail | 25,637 | 27,508 | 28,412 |
| Marketing Mail | 16,626 | 17,622 | 17,646 |
| Shipping and Packages | 19,481 | 17,427 | 15,061 |
| International | 2,723 | 2,674 | 2,702 |
| Periodicals | 1,375 | 1,507 | 1,589 |
| Other | 3,751 | 3,630 | 3,380 |
| Total | 69,593 | 70,368 | 68,790 |

TABLE 1 - USPS REVENUE BY SERVICE (\$ MILLIONS)

In 2017, a long-term decline in First-Class revenues continued. It was partially offset by revenues in the USPS's Competitive space. The document notes that they expect First-Class revenues to continue to decline as more traffic moves to electronic communication.

Next, we can move onto the income statement:

| | 2017 | 2016 | 2015 |
|--------------------------|---------|---------|---------|
| Revenues | 69,636 | 71,498 | 68,928 |
| Expenses | 72,210 | 76,899 | 73,826 |
| Loss (Operations) | (2,574) | (5,401) | (4,898) |
| Loss (Net) | (2,742) | (5,591) | (5,060) |

TABLE 2 - USPS NET INCOME (\$ MILLIONS)

This isn't good – the post office is running at a loss of between 4 and 8% of revenue. This loss is a continuation of a trend that began in 2007, as we see in Table 3.

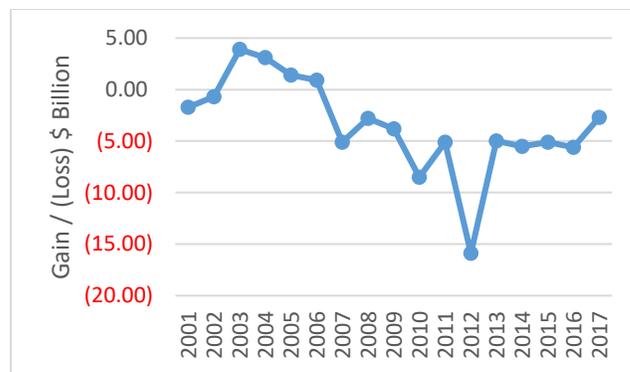


TABLE 3 - USPS GAIN / LOSS, 2001-2017

These ongoing losses have led to the following balance sheet:

| Account | 2017 | 2016 |
|--------------------------|-----------------|-----------------|
| Cash and equivalents | 10,513 | 8,077 |
| Property and equipment | 14,891 | 15,296 |
| Other | 1,990 | 1,846 |
| Total assets | 27,394 | 25,219 |
| Accrued health benefits | 38,160 | 33,900 |
| Workers' comp | 17,910 | 20,039 |
| Debt | 15,000 | 15,000 |
| Other | 15,048 | 12,262 |
| Total liabilities | 86,118 | 81,201 |
| SHORTFALL | (58,724) | (55,982) |

TABLE 4 - USPS BALANCE SHEET (\$ MILLIONS)

This is troubling. The net asset value of the USPS is negative 58 billion. The USPS might be proud of the fact that it is not funded by tax revenue. But it is, apparently, allowed to continue losing a fortune, year after year, remaining in business despite being facially bankrupt.

But, look closely. What are those enormous liabilities for health benefits and workers' compensation? Looking at Table 3, shareholder equity¹¹ would have been close to zero before that sudden drop in earnings in 2007. What happened to cause such losses for a business that was previously stable? No, it wasn't email cannibalizing their business; that had been going on for a decade and didn't

⁹ Available [here](#).

¹⁰ "Other" includes PO Boxes, certified mail, revenue from processing passports and various other items. There are accounting adjustments that I didn't include here; because of this, the totals here will not tie out with later charts.

¹¹ Technically, this isn't the right term, because the USPS has no shareholders.

happen all at once. What did happen was the Postal Accountability and Enhancement Act of 2006 (PAEA).

The PAEA made several changes to the USPS's organization; its current structure is based on this law. But, perhaps more importantly, the PAEA required the USPS to pay around \$5.5 billion per year, for ten years, into an account to fund future retiree health care costs.¹² This \$55 billion represents virtually the entire shortfall on the USPS balance sheet. Actual operations during this period have been roughly breakeven.

This fact can be viewed from two perspectives. Retiree benefits will certainly have a future cost to the USPS. Underfunded pensions, which are similar in nature, generally must be included on a private company's balance sheet as a liability. On the other hand, the PAEA's decade of payments were intended to fund health benefits for a 75-year period. The USPS fully funded its health plan for many employees that haven't been hired yet – some haven't even been born yet! And it paid for this in only ten years. I really have a difficult time understanding why this was necessary. It is very conservative compared to private companies and no other governmental agency manages its accounts in this way. The red ink has also given politicians [another opportunity to say](#) that a government entity is in crisis and must make cuts.¹³

How does it compare to private competitors?

One nice thing about writing is that you get to define terms in the manner you choose.¹⁴ In 2017, Federal Express turned a profit of just under \$3 billion. In 2016, the most recent year available, UPS made about \$3.5 billion. Compared to the USPS's loss of \$2.7 billion, one might want to just say that streamlined, capitalistic private companies are obviously just way more efficient than bloated government bureaucracies, Q.E.D.

¹² To clarify: this is in addition to existing contributions. The extra-big spike down in income seen in 2012 is due to paying \$11 billion into this account that fiscal year. I haven't been able to determine why that happened. The first year after these payments were required was 2017; this year still featured about \$2 billion in net changes in accounting values of pension, health and workers' compensation funding.

¹³ The post office is not happy about this black eye. 10-K's are usually fairly dry documents, but their displeasure about Congressional action comes through clearly.

¹⁴ After all, what are readers going to do to stop me?

But, as we've seen, this is a very superficial way to look at a complex entity like the USPS. The fact that Congress mandated massive payments of questionable validity tells us nothing about how the post office is run. In addition, as we've said, the revenue model at the USPS is not intended to maximize profits but rather to meet a set of service obligations. They could fix this if they wanted to, making themselves more profitable, but they think that it is more important for rural Idaho to have access to affordable mail services. When we are thinking about efficiency, we are really thinking about operating costs. So we will define efficiency as how much you spend to get your letter or package from A to B.

The easiest way to consider this question is to look at how much the three major players in the delivery space charge for services. A first-class stamp costs \$0.50; this is a good approximation of the average cost of the USPS to deliver a letter.¹⁵ We can look at a sample of prices for USPS, compared to private companies, for some of the services they provide.¹⁶

| Service | USPS | FedEx | UPS |
|--------------------------|---------|---------|---------|
| First-Class letter (1oz) | \$0.50 | \$20.58 | \$10.42 |
| Letter (overnight) | \$24.70 | \$41.84 | \$59.52 |
| Letter (2-day) | \$6.70 | \$25.04 | \$25.97 |
| Package, 2lb (overnight) | \$33.80 | \$65.31 | \$66.56 |
| Package, 2lb (2-day) | \$13.65 | \$25.83 | \$26.40 |

Let's start at the top – if you want to send a letter, and you aren't in a rush, the post office blows the private companies out of the water. It's easy to see why: this is precisely their mandate, and they are already going to every address every day, so the incremental cost per letter is tiny. As to the private companies, remember that they are prohibited from offering non-urgent envelope

¹⁵ There are obvious limitations to this approach. FedEx and UPS have to turn a profit – roughly 5% of revenue. They also pay taxes. The USPS doesn't. And, as we've said, the USPS has been running regular losses due to the retirement contributions. It isn't clear to me how this would affect the analysis; Fedex and UPS make similar contributions, even if the payments mandated for the USPS are absurd.

¹⁶ All prices are retail, no bulk discounts. All are based on a sender located in zip code 11215 and a destination in 48302. The services listed are as comparable I could make them; many USPS packages are priced as fixed-rate boxes rather than by weight. For the private delivery services, I scheduled a pickup (since that is standard service for USPS). Scheduled pickups cost around \$4 in Brooklyn.

service. For the comparison, I used the slowest shipping method they offer (about 3 days). Even still, clearly the private companies could never offer an analogous product at anywhere near the post office's price. Chalk one up for the guys (and girls) in blue.

Strictly on price, the USPS's Priority services also compare favorably with that which is offered by private shippers. However, in this case, the optics make the post office look better than it should. For each of these services, the product offered by the post office is strictly worse than the comparable private offering. The post office offers a money-back guarantee with its overnight shipping; if it takes two days to get there, you get your \$24.70 back. The private companies offer a true guarantee; if you are a frequent user of their services, you know that the letter or package will basically always get there on time. Increasing your on-time percentage from the USPS's level of around 95% to the near 100% success rate promised by both Fedex and UPS is an impressive logistical accomplishment. If your item absolutely has to get there, the extra cost is worth it.

In the products where they compete directly, the outcome is less clear. The post office offers a cheaper product for a worse product. No apples-to-apples comparison is possible. But this makes sense: the government is better at offering products that fit closer to its mandate, while private companies are better at the cut-throat guaranteed delivery product. Either way, the vaunted power of private industry has met its match with this group of public employees.

See? The post office is nowhere near as stodgy as you thought. And the recent troubles in its finances are largely due to a specific accounting issue, not overall operations. As far as actually delivering stuff, the post office holds its own against anybody.

It is easy to see why. The post office has a massive economy of scale. It has spent billions updating its infrastructure. If it isn't allowed to subsidize its Competitive business, it is still visiting every address every day. Its workforce is highly efficient, delivering 268,894 pieces of mail per employee per year, tops among global competitors.¹⁷

¹⁷ As of 2010, as seen [here](#).

Private delivery companies are also insanely focused on reducing costs, fighting to save each drop of gasoline needed for their prodigious fleets of trucks. The public and private entities know their own strengths and weaknesses. Fedex and UPS contract with the post office for a lot of "last mile" work, especially in rural areas. On the other hand, an overnight package you mail at the post office is likely to travel on one of Fedex's 691 airplanes, part of the world's fifth largest private fleet.

The USPS also has real problems. The payments mandated by Congress in 2006 have forced it to cut costs further than what is optimal. Fedex and UPS provide excellent customer service, as well as cost and reliability. The post office, due to this cost cutting, has lost some ground in these areas. Perhaps, with the pain of the \$55 billion now locked into the balance sheet, they will be able to do the work necessary to make their facilities most pleasant and convenient.¹⁸

Of course, the USPS's competitive efficiency vis-à-vis private delivery companies is a product of its mandate. Different studies – and different political views – have different opinions as to how valuable the mandate is. The ability to prevent others from competing in its primary product adds to the bottom line. But that first-class letter going to Hilo, Hawaii, for which it charges no more than any other letter, carries a big cost. Perhaps the post office does net a large gain – but such gain may come along with benefits for our broader society.

Which begs the question: does the USPS mandate make sense in 2018? Should it have the same mission in the digital age? As an experiment, I've just returned from my mailbox; it contained 18 pieces of junk mail, one bill (which I'll shred as I already receive an electronic copy) and one piece of mail I actually cared about. Should our system really encourage the sending of billions of pieces of mail – using trees, fuel and human resources in the process – if 95% of it is just going straight to the bin? The post office is being asked to perform a service designed almost 50 years ago. Even if it has performed this service well, there is no reason not to modernize its mission due to fear of change.

One often proposed change is to reduce delivery frequency. Perhaps Saturday delivery isn't necessary. Or we could go further, delivering mail to each address on

¹⁸ [This article](#) talks about some of the ways the USPS has hurt its brand with consumers.

alternate days only. These changes would greatly lower post office costs. Clearly, some people (and even more businesses) rely on daily mail deliveries; maybe this could be made available for a fee. Or, alternate day delivery could be applied to rural regions only. Mail to these parts of the country would still be highly subsidized, just less so than at present.

Ending the post office's monopoly on non-urgent delivery is unlikely to provide benefits. In theory, a private company could compete with the post office. It would be able to vary its prices based on the cost of specific pieces of mail. They would charge less to send a letter next door than across the country. A private company could undercut the USPS's low-cost business, driving the post office cost per letter higher. This would force them to increase stamp prices, making private companies even more competitive. You could imagine this creating a cycle that severely undercut the post office across its business. But I think this would be unlikely to happen in practice. I don't think private delivery companies could deliver a letter any distance, no matter how short, for 50 cents. The USPS can do this only because of massive investments in infrastructure; no private company could climb this barrier to entry.

But thinking about modernizing the post office's mandate leads to other, uncomfortable questions. If first-class mail business is in decline due to electronic communication, and the USPS mandate exists (in part) to bridge the gap to our most remote regions, should we not mandate the USPS to provide internet to exactly these same regions? There is still a large divide in the internet service available between urban and rural areas.¹⁹ If we are going to provide subsidies to improve rural communication, some portion could be directed to 21st century communication infrastructure.

While we're at it, only one-third of all Americans, urban and rural, have more than one broadband provider to choose from.²⁰ Most of us are subject to de facto unregulated monopolies when connecting to the internet. If the post office must be modernized in reaction to the importance of the internet to our daily lives, then it necessarily follows that internet service providers should behave far more like other utilities. Claiming that the post office's mandate is obsolete, despite its ongoing

operational excellence, is inconsistent with a claim that Time Warner has a right to control the terms of your connection outside of any government controls.

¹⁹ See [here](#) and [here](#).

²⁰ As you'd expect, it's even worse in rural areas. See [here](#) and [here](#) and [here](#).