The Basis and Extent of the Monopoly Rights and Subsidies Claimed by the United States Postal Service

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Robert J. Shapiro[1]

I. Introduction

Governments always have compelling reasons to communicate with their citizens, so some form of postal service has been a public good that most governments have provided since at least the 18th century. Postal systems also provide ways for businesses and individuals to communicate with each other, giving rise to private companies prepared to compete with public postal systems. This competition has intensified with the recent spread of advanced information and communications technologies, and policymakers around the world must now grapple with the extent to which the services provided by public postal systems can or should be altered.

In this regard, policymakers in United States, the European Union, Japan and other places have studied where their public postal systems' monopolies should end and competition should begin, and the terms on which private firms should compete with their public postal systems. In most cases, the core of the public system monopoly is delivery of letter mail on a near-universal basis. So, wherever any person lives or works in the United States, she or he can usually count on the United States Postal Service (USPS) delivering letters six days per-week. Competition here and in most developed nations is allowed for express mail and package delivery.

In the monopoly sphere, universal postal service is supported by a range of subsidies, including appropriations, exclusive access to residential and business mailboxes, borrowing subsidies, and favorable tax treatment. The relatively low-cost delivery of letters in dense areas such as large commercial and residential buildings with central mail rooms also subsidizes higher-cost mail delivery to more isolated homes and businesses. Finally, the public systems can draw on economies of scale and scope in their monopoly spheres to reduce their costs in competitive operations.[2] For example, the USPS visits most homes and businesses on a daily basis. This core function, supported by laws barring private firms from using residential and businesses mailboxes, enables the USPS to pick-up packages from any home or business at little additional cost. This produces a "network advantage," since a private competitor's cost to pick up and deliver a package exceeds the USPS's incremental cost to pick up and deliver the same package, along with its normal letter service.[3] In Sweden, where mail and package delivery have been fully privatized, ubiquitous letter-mail service is considered "a competitive advantage for the incumbent operator, rather than a burden."[4]

This report surveys and estimates the current extent of USPS subsidies, including those which it claims directly such as lower borrowing costs and broad tax exemptions, and more implicit subsidies arising by its monopoly and attendant economies of scale and scope.

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[1] I want to acknowledge the superb research assistance provided by Doug Dowson and the support for that research provided by United Parcel Service, Inc. The analysis and views are solely those of the author.
[2] OECD (2001).
[3] Sidak (2007)
[4] OECD (2001) at 9.

The Value of USPS Subsidies

The subsidies claimed by the USPS have to be evaluated in the context of the additional costs imposed on the USPS by the Congress. For example, Congress requires the USPS to maintain residential deliveries six days per-week, and the Postal Regulatory Commission (PRC) estimates that reducing deliveries to five days per-week would save the USPS more than $2.2 billion per-year. Similarly, Congress mandates discounted mail rates for religious, educational, charitable, political and other non-profit organizations, which cost the USPS more than $1.1 billion per-year. Congress also directs the USPS to provide a special mailing rate for periodicals (at a cost of $521 million per-year) and restricts USPS's ability to close inefficient post offices (at a cost of $332 million per-year). The PRC estimates that all told, legal and regulatory requirements cost the USPS about $4.5 billion per-year. This total corresponds roughly to the USPS's average reported deficit over the last decade ($4.2 billion per-year) and to the PRC's estimate of the total value of the USPS's special privileges ($4.9 billion), including its monopoly on delivering letters ($3.12 billion), exclusive access to residential and business mailboxes ($810 million), and exemption from state and local taxes and fees ($1.0 billion). As a result, USPS and representatives of its employees maintain that the agency is financially self-sufficient.[5]

As we will see, the PRC's estimates substantially understate the value of USPS's subsidies. We estimate that USPS monopolies and related special treatment produce effective subsidies worth nearly $18 billion per-year. For example, the PRC estimates that the USPS monopoly on access to residential and businesses mailboxes was worth $810 million in FY 2013. The USPS itself has said (2008) that ending the current bar on private delivery companies accessing mailboxes would cost the USPS $1.5 billion to $2.6 billion per-year.[6] In fact, USPS's monopoly access to mailboxes is worth much more, especially since the USPS's monopoly access applies to both its monopoly on regular mail and its competitive package delivery business. Exclusive access to mailboxes allows USPS to leave mail in curbside mailboxes or centralized mailrooms in large residential and commercial buildings rather than delivering to every customer's door, as private delivery services must do. Based on USPS data on the volume of mail delivered to curbside mailboxes and centralized mailrooms, and the costs of doing so compared to delivery to each customer's door, we estimate that the mailbox monopoly saved USPS $14.9 billion in FY 2013, compared to the burdens of private delivery companies.

Similarly, the PRC estimates that the USPS monopoly on first-class and standard mail delivery was worth $3.1 billion in FY 2013. This PRC estimate relies on a model that projected USPS net income with and without its monopoly over letter delivery. The model assumed that in absence of this monopoly, a competitor would deliver such mail three times per-week, reduce delivery costs by 24 percent, cut labor costs by 10 percent, and discount its service by 10 percent. We approach this issue in a more fundamental way: In the absence of this monopoly, USPS would face full competition from private companies and be forced to undertake new strategies and investments to match the productivity of its private rivals. The Bureau of Labor Statistics (BLS) reports that from 1987 to 2012, USPS productivity grew at an average annual rate of 0.7 percent, a fraction of the 2.5 percent annual productivity by private firms in shipping, delivery,

[5] In April 2013, the president of the National Association of Letter Carriers appeared before the House Committee on Oversight and Government Reform and testified that the USPS has received "no taxpayer subsidies since 1983."
[6] USPS (2008).

warehousing and storage. Thus, if USPS had not enjoyed its monopoly position over this 25-year period and instead had been as productive as its private-sector counterparts, its higher productivity by 2014 would have reduced its costs that year by some $20 billion. While we do not count this technically as a subsidy, it represents an economic burden on others arising directly from USPS's monopoly position. The higher salaries and benefits USPS pays its employees and larger numbers of those employees, relative to many private delivery firms, account for about half of the $20 billion in additional costs. The other half reflects weak competitive pressures on USPS to become more efficient and innovate, which ultimately lead to less effective management practices, investments, and operating procedures.

The PRC also valued the USPS's legal exemption from state and local property and real estate taxes at $315 million in 2006, or adjusted for inflation, $370 million in 2014. Here, too, the PRC estimate is very understated. USPS's financial statements value its real estate holdings at $27.5 billion. However, a recent report by the Inspector General (IG) for the USPS notes that this valuation represents the historical cost for the properties. The IG found that the fair market value of these USPS holdings was about $85 billion in 2012. Using an average property and real estate tax rate of 1.8 percent, the USPS exemption from these taxes provided a subsidy of $1.53 billion in 2012, over four times the adjusted PRC estimate. Table 7, below (page 21), lists a number of other special USPS exemptions from state and local requirements, including vehicle registration fees, road tools, state sales taxes on fuels, and parking tickets.

The PRC also omits certain other subsidies. As a government entity, USPS can borrow from the U.S. Treasury through the Federal Financing Bank, at highly-subsidized interest rates. The USPS currently maintains $15 billion in such debt, its legal limit, which it services at an average, below-market rate of 1.2 percent. As a result, USPS paid $184 million in interest in 2014. If USPS had to borrow at commercial rates, as its competitors do, we estimate that its interest payments in 2014 would have been $600 million to $675 million. USPS's special access to Treasury funding, therefore, produces an annual subsidy of $415 million to $490 million.

The PRC also ignores the special arrangements for the federal taxation of USPS profits from its competitive activities. Congress directs the USPS to remit federal corporate taxes on its net income from selling competitive goods and services. However, those payments go to the Postal Service Fund (PSF), a special revolving fund maintained at the U.S. Treasury and available to USPS to cover any of its expenses. USPS's federal tax payments, therefore, simply circulate back to the USPS. For FY 2014, USPS reported $2.42 billion in net income or profit from its competitive operations and temporarily transferred nearly $848 million to the PSF.

The PRC also ignores the value of the economies of scale and scope which the USPS's monopolies generate for the system. Protected from competition and drawing on the large subsidies described above, the USPS maintains its vast network of post offices and postal workers that reach nearly 153 million delivery points, six days per-week. Moreover, the USPS can leverage these network advantages supported by its monopoly to reduce its costs in the competitive market for package delivery. The PRC claims that the USPS properly accounts for any such cross subsidy by using revenues from its competitive operations to cover 5.5 percent of the fixed costs of its monopoly operations, or some $1.8 billion in FY 2013. It seems evident that these payments do not begin to account for the savings produced by the economies of scope and scale built on the USPS's monopoly operations. In a subsequent study, we will analyze the dimensions of the USPS's cross-subsidization of its competitive operations.

II. Background

By most measures, the USPS is big business. With some 618,000 employees in 2014, the USPS is the nation's second largest civilian employer, behind Wal-Mart. If the USPS were a private firm, its 2014 revenues of $67.8 billion would rank 43rd among Fortune 100 companies, between MetLife and PepsiCo.[7] It offers five major products and more than 40 product "subclasses." There are three monopoly products -- first class mail; standard mail-A, which covers bulk circulars, form letters, catalogs, newsletters, direct-mail promotions, and merchandise weighing less than 16 ounces; and periodicals. Rules barring anyone but the USPS from sending or carrying letters over post routes for pay, unless full postage is also paid, date back to the first Congress in 1792. Private services can carry and deliver non-letters, but they cannot leave them or pick them up at business or residential mailboxes, nor use post office boxes. The USPS also is not subject to federal, state or local income taxes, revenue and gross receipt taxes, sales or real estate taxes on the revenues from services, or bound by local zoning ordinances. It also is immune from certain civil actions, including libel, slander, misrepresentation and any injury arising from the misdelivery or loss of uninsured mail.

USPS also offers other products in direct competition with private firms, mainly standard mail-B, which includes bulk books and parcels weighing between 16 ounces and 70 pounds. In addition, in 1979, Congress exempted "extremely urgent" letters from the full postage requirement and USPS monopoly status, so long as the charge is at least $3.00 or twice the applicable fee from the USPS; and in 1986, Congress also exempted outbound international mail. Further, USPS offers other non-mail services in competition with private firms, such as P.O. boxes, money orders, registered and certified return receipt mail, insured mail services, passport application services, photocopy services, and the sale of mailing containers and packaging supplies. While USPS maintains its monopoly over most standard mail, the rapid spread of mass telecommunications technologies has produced a range of new alternatives to many of its services. Much of the communications once transmitted by first class mail and express mail are now delivered by e-mail, automated fund transfers and bill payments, texts, faxes, and letters by courier and messenger. Similarly, bulk advertising is also provided through television, telemarketing, and the Internet.

The USPS may also be the country's oldest, continuously-operating business. It was created 240 years ago, in 1775, by the Second Continental Congress; and Benjamin Franklin was its first Postmaster General. Seven years later (1782), Congress gave the USPS the exclusive right to carry and deliver letters within its service area. Seven years after that, in 1789, the new Constitution authorized Congress to establish post offices and post roads; and in 1792, Congress extended this authority to post routes. From that time to the 1850s, the USPS network was comprised of a series of relay stations ("posts") located along "post roads" and post offices where people collected and dropped off their mail. The number of post offices grew steadily, from 75 in 1789 and 903 in 1800, to 7,530 in 1828 and 28,498 in 1860. Throughout most of this period, mailing a letter was expensive: Congress set preferential rates for newspapers (less than

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[7] *Fortune Magazine* (2014) http://fortune.com/fortune500/

2-cents), but mailing a letter from Baltimore to New York City cost 18.75-cents until 1845, when Congress cut the fee to 5-cents. During the same period, the USPS also introduced new delivery services: In the 1850s, it installed the first collection boxes on city streets, so citizens could mail letters without visiting a post office; and in 1863, it introduced free home mail delivery to 65 cities. Congress also ended distance-based pricing for letters in 1863, and in the following years, the USPS expanded the number of places with free home delivery, rising to 104 in 1880 and 796 by 1900. In 1893, USPS also extended home mail delivery to some rural areas, where most Americans still lived; and in 1902, rural free delivery (RFD) became permanent.

As mail delivery became cheaper and more convenient, Americans came to view it as a public service. Nevertheless, when the USPS ran deficits in the 19th century, as it often did, it eliminated unprofitable routes. During this period, the USPS also tried to maximize its revenues by favoring urban areas over hard-to reach places "in the wilderness."[8] Moreover, this concern for revenues enhanced the USPS's disposition to insulate itself from competition with rules barring private companies from offering postal services along the most profitable routes, especially at lower rates.

The USPS came by this disposition naturally, since Congress granted the system monopoly rights from its founding. In 1782, Congress gave the USPS an *exclusive* right to carry and deliver "letters, packets, and other dispatches" within its service area; and 10 years later, the Congress, acting under the authority of the new Constitution, prohibited private mail delivery along post roads and banned private postal services from competing with the USPS. These early measures, however, did not prevent private postal services from operating. In 1843, the Postmaster General, Charles Wickliffe, remarked, "The General Government should either protect the department against the inroads of private posts, or provide the ways and means to meet the necessary expenses of the service."[9] Two years later, Congress tightened the laws prohibiting competition and increased the penalties for violators.

Today, federal criminal statutes (18 U.S. Code 1693-1699) impose fines or imprisonment on anyone attempting to deliver mail along postal routes where U.S. mail is regularly carried. The key provision is 18 U.S. Code 1696, which states:

> "Whoever establishes any private express for the conveyance of letters or packets, or in any manner causes or provides for the conveyance of the same by regular trips or at stated periods over any post route which is or may be established by law, or from any city, town, or place to any other city, town, or place, between which the mail is regularly carried, shall be fined not more than $500 or imprisoned not more than six months, or both."

Congress buttressed these protections in 1934 with another key provision, 18 U.S. Code 1725, which established the USPS's monopoly access to residential and business mailboxes and imposes fines on anyone attempting to deliver mail via mailboxes without USPS postage. The main justification for these and other monopoly rights is to ensure the USPS sufficient revenues to sustain its universal service obligations. Congress stated this rationale explicitly in the Postal

[8] USPS (1859).
[9] USPS (1843).

Policy Act of 1958 and again in the Postal Reorganization Act of 1970. The 1958 Act formally designated postal service as a "public service." It also directed that a portion of USPS costs should be designated as "public service costs" and paid for with public funds, including the costs of unprofitable post offices and postal routes. In 1962, Congress specified that up to 20 percent of the costs of unprofitable routes and post offices could be classified as "public service costs" borne by Congress and taxpayers, while all other costs were to be paid for from the revenues on postal products and services.

The Postal Reorganization Act of 1970 reorganized the Post Office Department from a Cabinet department to an independent Executive Branch agency run by the Postmaster General and his or her Deputy, and nine other members of the Board of Governors, all appointed by the President. Postal rates, which had been set by Congress, would now be determined by an independent Postal Rate Commission (PRC). The 1970 Act also restated the USPS's universal service obligation (USO), including universal coverage and uniform prices and services. The law states that the USPS's basic function is "to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people." It further mandates that the USPS shall provide "prompt, reliable, and efficient services to patrons in all areas and… all communities" and to "as nearly as practicable the entire population of the United States." The 1970 Act also specifically directs the USPS to provide service to "rural areas, communities, and small towns where post offices are not self-sustaining." Finally, the law requires that the USPS maintain at least one class of mail priced at a uniform rate throughout the United States.

The 1970 law also changed the way the USPS is funded. Under the 1958 Act, USPS received annual appropriations to cover its public service costs. The 1970 Act directed that the USPS be structured as a business, funding its operations entirely with the revenues from its products and services and eventually achieving financial self-sufficiency. Under Section 3621 of the 1970 law, "postal rates and fees shall provide sufficient revenues so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service." The Act allows Congress to appropriate funds to the USPS "as reimbursement … for public service costs incurred … in providing a maximum degree of effective and regular postal service nationwide, in communities where post offices may not be deemed self-sustaining." However, these appropriations were scheduled to decline from $920 million in 1971 to $460 million in 1984 and thereafter; and under pressures from the Reagan administration to pare spending, Congress ended the USPS public service appropriations in 1983.

The 1970 Act created a conundrum for the USPS. It directed the USPS to operate on the terms and model of a private business and become financially self-sufficient, but it is also required to provide public services that entail costs a private business would be unwilling to bear. It must provide reduced rates for voting materials sent to Americans overseas, mailings for blind people, and mail sent by the government or members of armed services, with the government paying the differences. It also must offer lower rates to non-profit organizations and libraries, periodicals, books, educational materials, sound recordings, and film. In addition, the USPS has less control over its labor costs than private firms. Labor costs including workers' compensation and retirees' health benefits accounted for 78 percent of all USPS costs in FY 2014, with about

89 percent of those costs involving employees represented by collective bargaining.[10] The law directs that the USPS and its bargaining partners set those wages at levels equal to those paid for comparable work in the private sector, but analysts have concluded that USPS workers earn substantially more than many of their private-sector counterparts.[11]

It appears that Congress did not fully appreciate the conflict. Several months before the 1970 Act was passed, the House Post Office and Civil Service Committee issued a report stating that “the Postal Service is a public service but there is no reason why it cannot be conducted in a business like way and every reason why it should be.”[12] Perhaps if the USPS did conduct its operations on a business-like basis, it could provide its services and break even. While the USPS and the PRC was now formally independent, they have remained part of the federal government and subject to congressional oversight. Efforts to raise postal rates, close post offices, reduce mail delivery, and reform labor practices typically have been and continue to be met with considerable resistance by the Congress. Inevitably, the USPS continued to lose money. Facing increasing competition from private delivery services, new forms of communication such as faxes, and new types of transactions including electronic funds transfers, the USPS ran deficits throughout most of the 1980s, and early 1990s.

Congress examined and debated additional postal reforms from the mid-1990s to 2006, when it enacted the Postal Accountability and Enhancement Act (PAEA). This law formally divides the USPS’s activities into “market dominant” products and “competitive” products. The market dominant category covers goods and services which the USPS has substantial market power over – first-class mail, standard mail, and periodicals. The Act defines this category as,

> [e]ach product in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without the risk of losing a significant level of business to other firms offering similar products.[13]

The competitive products category covers all other goods and services offered by the USPS, including shipping services such as Priority Mail, Express Mail, and Parcel Select.

The PAEA also reorganized the Postal Rate Commission, which it renamed the Postal Regulatory Commission, and directed it to create new rules for setting the rates or prices for both USPS market dominant and USPS competitive products. It held that rates on market dominant products should be predictable, stable, and generate adequate revenues. However, the PAEA also caps rate increases on market dominant products at the rate of inflation, except in “exigent” circumstances, to hold down the price of first class mail, standard mail, and periodicals. The PAEA grants the PRC and USPS more flexibility in setting rates or prices for competitive products, including allowing the USPS to set prices for competitive products as it deems fit provided that they cover their “attributable costs.” Those are “direct and indirect postal costs

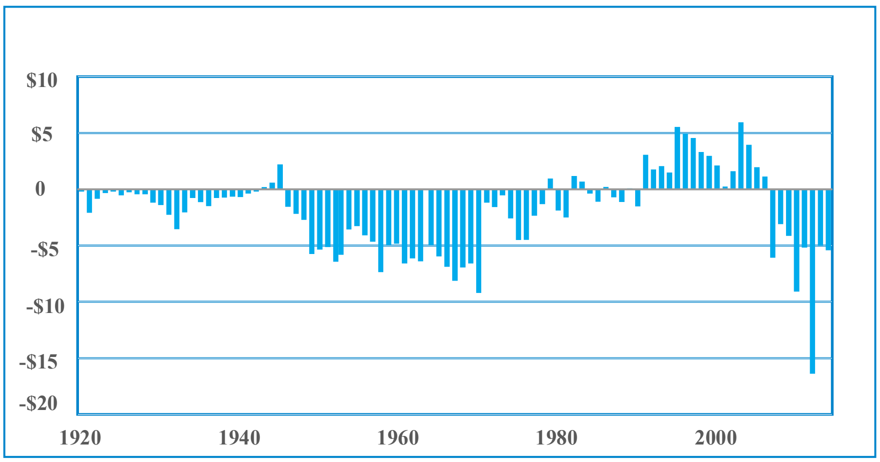
[10] USPS 10-K Financial Statement (2014).
[11] Wachter. Hirsch and Gillula (2001). .
[12] H. Rep. No. 91-1104 (May 19, 1970), quoted in GAO (1996).
[13] 39 U.S.C. § 3642.

attributable to such products through reliably identified causal relationships." In this regard, the PAEA also stipulates that competitive products must cover an "appropriate share" of the system's institutional or fixed costs, covering those costs that cannot be directly or indirectly attributed to a specific product or service.

III. The Performance and Financial Conditions of the USPS

Passage of the PAEA was met with high expectations. Representative Tom Davis (R-VA), for example, declared that the Act would enable the USPS to address the "structural, legal, and financial constraints that have brought (it) toward a financial death spiral."[14] Since its enactment, however, the USPS has accumulated $51.4 billion in losses, or average losses of $6.4 billion per-year, despite rate increases. While the 2008-2009 recession aggravated those losses, they mainly reflect long-term trends of steadily-rising costs and declining use of mail. The result, as former Postmaster General Patrick Donahoe recently described it, is that the USPS faces "financial crisis."[15] In fact, the data show that the financial condition of the USPS has deteriorated since passage of the PAEA. As Figure 1 below shows, the system's recent losses equal or exceed those of any other time in its history.

Figure 1: USPS Real Net Income, billions (2014 dollars)



As noted earlier, technological changes explain some of the system's recent losses. From 2000 to 2006, as Americans began to communicate heavily with mobile phones, email, text messaging and social media, the volume of first-class mail fell from 103.5 billion to 98.0 billion pieces, or by 5.3 percent. From 2006 to 2013, as most Americans and businesses came to depend on these technologies, first-class mail volume fell another 32.8 percent to 65.8 billion pieces.[16] These declines are unprecedented. In 67 years from 1934 to 2001, the volume of first-class mail declined only four times; while from 2001 to 2013, that volume fell in 11 of 12 years. First-class mail is the USPS's most profitable market-dominant product, and its other products

[14] Associated Press (2006).
[15] Postmaster General National Press Club Luncheon Speech, April 19, 2013.
[16] USPS 10-K Financial Statements.

do not bridge the gap: From 2006 to 2013, total mail volume declined from 213.1 billion pieces to 158.4 billion pieces or by 25.7 percent.[17]

The sharp falloff in first-class and total mail volume has had a major impact on USPS revenues. First-class mail revenues peaked in 2007 and declined by $10.1 billion or 26.2 percent from that year to 2014. Similarly, revenues from standard mail and periodicals declined, respectively, by 16.1 percent and 25.7 percent from 2007 to 2014, or by an additional $3.9 billion. Together, USPS revenues from first-class mail, standard mail, and periodicals declined from $61.4 billion in 2007 to $47.4 billion in 2014. Despite these declining revenues, the USPS raised the average wage and benefits of its employees every year since 2004. From 2004 to 2013, total compensation including benefits, per-USPS employee, increased by 23.2 percent, from $61,400 to $75,600. By 2014, the USPS paid its employees an average of $27.74 per-hour in salary or wages and $40.31 per-hour in average total compensation with benefits.[18] USPS paid 28.7 percent more than all private businesses across the economy, whose employees earned an average of $21.72 per-hour in wages or salary and $31.32 per-hour in total compensation.[19] This suggests that the average USPS employee receives about $18,700 more per-year in total compensation than the average American private-sector employee. As noted earlier, labor costs including benefits for USPS retirees account for 78 percent of the system's total costs.[20]

These fast-rising labor costs include the costs of funding health benefits for retired USPS workers. Under the PAEA, the USPS is required to cover those retirement health benefits through two annual payments from its operating funds. The first yearly payment goes to cover USPS's share of health insurance premiums for its current retirees; those payments increased by an average of 8.6 percent per-year from 2004 to 2014, from $1.3 billion in FY 2004 to $3.0 billion in FY 2014. The PAEA also established the Retiree Health Benefits Fund (RHBF), a fund for the health benefits of future retirees, and targeted the USPS's second yearly payment to that fund. For FYs 2007 to 2016, those mandated payments are set at $5.4 billion to $5.8 billion; and in FY 2017, the USPS is scheduled to begin paying down its remaining liability for the RHBF over the following 40 years. However, the USPS has failed to make those required payments every year since 2011, defaulting on payments of $5.5 billion for FY 2011, $5.6 billion for FY 2012, $5.6 billion for FY 2013, and $5.7 billion for FY 2014. The USPS is also expected to default on the payments for FYs 2015 and 2016.

The Bottom Line: USPS Net Losses

The result has been persistent, large deficits since 2007. The payments for future retiree health benefits are included as expenses in USPS accounting; and since USPS has defaulted on those payments since 2011, they are part of the large negative "Net Income" or deficit figures. From 2007 to 2014, the USPS accumulated $51.3 billion in deficits, or an average of more than $6.4 billion per-year. (Table 1, below)

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[17] *Ibid.*
[18] PRC (2014-B).
[19] BLS (2014).
[20] USPS 10-K Financial Statement (2014).

Table 1: USPS Revenues, Expenses and Net Income, 2004-2014 ($ billions)[21]

Year	Revenues	Expenses	Net Income
2004	$69.0	$65.9	$3.1
2005	$69.9	$68.3	$1.6
2006	$72.7	$71.7	$1.0
2007	$74.8	$80.1	**- $5.3**
2008	$74.9	$77.7	**- $2.8**
2009	$68.1	$71.8	**- $3.7**
2010	$67.1	$75.4	**- $8.4**
2011	$65.7	$70.6	**- $4.9**
2012	$65.1	$81.0	**- $15.9**
2013	$67.2	$72.1	**- $4.9**
2014	$67.8	$73.2	**- $5.4**
Average, 2004-14	**$69.3**	**$73.4**	**- $4.2**
Average, 2007-14	**$68.9**	**$75.0**	**-$6.4**

The USPS's fiscal performance in 2014 and thereafter would have been worse without the December 2013 "exigent" increase in postal rates for market dominant products. In September 2013, USPS proposed a 1.6 percent rate increase based on the Consumer Price Index (CPI), and an additional 4.3 percent "exigent" price hike on top of the CPI cap, owing to the "exceptional circumstances" of the "losses suffered as a result of the Great Recession of 2008-2009."[22] In December 2013, the PRC approved the 4.3 percent increase as a temporary surcharge that will remain in effect until it generates an additional $3.2 billion in USPS revenues. As of September 20, 2014, the rate hike had generated $1.4 billion of the targeted $3.2 billion.

The Costs Associated with the Public Status of the USPS

The USPS maintains that its financial troubles follow from the statutory and regulatory constraints it faces as a public entity subject to the Congress and PRC. The most costly constraint is the requirement to maintain six days per-week mail delivery for residential customers. Since 1984, Congress has included language in annual Appropriations Acts barring the USPS from shifting to five days per-week delivery for private residences. The Appropriations Act passed in December 2014 stipulates that the USPS can use appropriated funds only under the condition that "6-day delivery and rural delivery of mail shall continue at not less than the 1983 level."[23] The PRC estimates that five-day per-week delivery would generate $2.2 billion in annual savings,[24] an estimate echoed by USPS estimates. [25]

[21] USPS 10-K Financial Statements.
[22] Order Granting Exigent Price Increase, December 25, 2013 (Order No. 1926).
[23] H.R.83 (2015).
[24] Postal Regulatory Commission (2014).
[25] USPS FACT SHEET (2013). A 2008 survey of 791 households found that 68 percent of respondents said they would accept a reduction in USPS deliveries from six to five days per-week. See PRC (2008).

The USPS also faces other similar legal requirements. The Postal Reorganization Act of 1970 directs the USPS 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. No small post office shall be closed solely for operating at a deficit." Since 1984, Congress also has included language in its annual Appropriations Acts prohibiting the USPS from closing rural and other small post offices. With regard to other post offices, Congress has directed the USPS to consider the impact on the community, postal employees, and rural customers, as well as the projected savings.[26] The law further stipulates that before any post office can be closed or consolidated, the USPS must also provide 60 days' notice for public comment, publish a final determination, provide another 30 days for possible appeals, and wait another 30 days before taking action.[27] This process can take years to complete.[28] The PRC estimates that closing all of the system's small, unprofitable post offices would generate annual savings of $332 million.[29]

In addition, the USPS is required to provide discounts to nonprofit groups. In 1951, Congress first authorized reduced rates for eligible nonprofit organizations. Today, the USPS offers discounted rates to religious, educational, charitable, political, and other nonprofit organizations that meet certain eligibility requirements, at an estimated cost, according to the PRC, of some $1.1 billion per year in FY 2013.[30] Finally, the USPS's universal service obligation entails, in addition to uniform rates for first-class mail, also rate caps on unprofitable products, the Alaska Air Subsidy and reduced rates on Media and Library Mail. The PRC estimates that these regulatory restrictions cost the USPS $845 million in FY 2013. All told, the PRC estimates that the various legal and regulatory requirements applied to the USPS cost about $4.5 billion in FY 2013. (Table 2, below)

Table 2: Postal Rate Commission Estimates of the Costs of USPS's Universal Service Obligation, 2009-2013 ($ millions)[31]

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Six-day delivery	$2,080	$2,248	$2,250	$2,240	$2,212
Nonprofit mail discounts net of costs	$1,322	$1,284	$1,329	$974	$1,130
Losses on periodicals	$642	$611	$609	$670	$521
Maintaining small Post Offices	$536	$566	$583	$587	$332
Alaska air subsidy	$121	$118	$123	$122	$114
Unzoned first-class mail rates	$81	$78	$122	$117	$109
Unzoned media mail/library mail rates	$96	$98	$115	$71	$70
Group E post office box service	$37	$30	$36	$34	$31
Total	**$4,915**	**$5,033**	**$5,167**	**$4,815**	**$4,519**

[26] 39 U.S.C. § 404(d).
[27] 39 U.S.C. § 404(d).
[28] GAO 1996
[29] Postal Regulatory Commission (2014).
[30] *Ibid.*
[31] *Ibid.*

The PRC's estimates of these costs may be technically sound, but they ignore the fact that the costs to deliver the mail -- on either a five-day or six-day weekly schedule, and whether sent by nonprofits or full-paying customers – depend on how efficiently the USPS collects, sorts, stores, and delivers that mail. Economists have long established that successful enterprises respond to competition with investments and other measures to enhance their efficiency and, in so doing, raise their productivity. In the absence of competition in the areas subject to congressional dictates, the USPS is demonstrably and dramatically less efficient and productive than private companies carrying out comparable operations. The disparity between the productivity of the USPS and its private-sector counterparts helps explain the USPS's periodic need to raise rates, its large deficits, and its regular failure to make mandated yearly payments to the health benefits fund for future retirees.

The Bureau of Labor Statistics (BLS) publishes estimates of the annual growth in labor productivity of most service industries, including the postal service. According to these BLS data, USPS achieved average labor productivity gains of 0.7 percent per-year from 1987 to 2012.[32] BLS also calculates the productivity gains of private "transportation and warehousing" industries, including air transportation, line-haul railroads, truck transportation, and warehousing and storage. While these services do not cover all of the operations of the USPS, the USPS relies heavily on air, rail and truck transport and warehousing and storage to provide basic postal service. We do not include "couriers and messengers," because their services correspond most closely to USPS express mail, which is a competitive product. The four private industries which correspond to the primary monopoly activities and operations of the USPS achieved average productivity gains of 2.5 percent per-year over the 25-year period, or almost 3.6 times the annual productivity gains of the USPS. Stated differently, the annual productivity gains of the USPS have been 28 percent of the average productivity gains achieved by similar private enterprises. Table 3 below presents the BLS estimates of the average annual productivity gains and changes in output, hours and unit labor costs for the USPS and the four private industries.

Table 3: Average Annual Productivity Growth, USPS and Associated Industries, 1987-2012[33]

Industry	Productivity	Output	Hours	Unit Labor Costs
USPS ("Postal Service")	**0.7%**	**- 0.5%**	**- 1.3%**	**3.5%**
Private Transport and Warehousing Industries				
Air Transport	3.2%	2.6%	- 0.6%	0.3%
Line Haul Railroads	3.8%	2.0%	- 1.7%	- 0.4%
Truck Transport	0.4%	1.8%	1.3%	0.9%
Warehousing and Storage	2.7%	5.9%	3.0%	- 0.5%
Simple Average	**2.5%**	**3.1%**	**0.5%**	**0.1%**

These data also show that fast-rising unit labor costs explain much of the difference in productivity growth: While USPS output and hours have declined steadily, presumably with falling demand for delivery of first class mail, standard mail and periodicals, USPS unit labor costs rose at an average rate of 3.5 percent per-year. In sharp contrast, the corresponding private

[32] BLS (2013).
[33] *Ibid.*

industries increased their output and expanded their average hours while holding their increases in unit labor costs to 0.1 percent per-year.

We cannot say precisely how much of the difference in average annual productivity gains can be attributed to the USPS's absence of competition. However, we can assess the cumulative impact of the USPS's lackluster productivity progress and the impact on USPS costs if it had operated as productively as similar private enterprises over the 25 years from 1987 to 2012. We calculate that if the USPS had achieved labor productivity gains comparable to private enterprises that carried out similar operations and activities over this period, it could have produced the same output in 2014 with 35.8 percent fewer labor hours.[34] USPS labor costs totaled $57.2 billion in 2014, so if USPS had matched the productivity progress of similar private enterprises from 1987 to 2012, it could have carried out its duties as it did in 2014 while saving about $20.5 billion in costs.

This result does not simply reflect recent findings that postal workers are paid more than comparable workers in the private sector. While the law directs the USPS to compensate its workers at the rates for comparable work and qualifications in the private sector, studies have found that postal workers are paid between 23.7 percent and 36.2 percent more than comparable workers, plus another 8 percent for benefits.[35] This suggests that USPS workers are currently paid (with benefits) at least 32 percent more than comparable workers in comparable jobs in the private sector. The USPS reports that its labor costs in 2014 totaled $46 billion. (See Appendix, Tables A-1 and A-2) Therefore, if the USPS paid private-sector compensation, its labor costs would have been $34.85 billion, for savings of $11.15 billion in FY 2014. Therefore, USPS's high compensation costs account for 54.4 percent of the additional costs entailed in the USPS's disturbing record of low productivity growth; the remaining 45.6 percent of those costs reflect USPS's failure to adopt most efficient and innovative technologies, management practices, and operating procedures and systems.

IV. The Value of the Subsidies Arising from USPS's Special Status

The costs associated with USPS's universal service obligations are accompanied by a set of monopoly privileges or rights, which in turn entail substantial subsidies for USPS operations. For example, the USPS has the sole right to use residential and business mailboxes, while private delivery services must make other arrangements, a provision tied closely to the USPS monopoly on the delivery of first class and standard mail and periodicals. Meeting its universal service obligations also confers significant economies of scale and scope on the USPS, creating economic benefits unavailable to private delivery businesses. In addition, the USPS is exempt from state and local real estate and other taxes, as well as state and local zoning regulation. And the USPS is allowed to borrow directly from the Treasury at highly preferential rates. In this section, we will estimate the value of these direct and implicit subsidies.

[34] The reduction in labor hours is calculated as $1 - (1.007^{25}/1.025^{25}) = 35.8$ percent.
[35] Wachter et al (2001), *op cit.*

The Letter and Mailbox Monopolies

As noted previously, the USPS is legally required to provide "the entire population of the United States" with "ready access to essential postal services" at uniform rates, and grants the USPS its monopoly on letter mail (including bills, personal correspondence, postcards, and advertising) and exclusive access to customer mailboxes. A 2008 study commissioned by the PRC estimated the value of the letter mail and mailbox monopolies.[36] The study's authors modeled or projected USPS net income with and without its current monopoly protections, using certain assumptions about a potential competitor's volume of business, delivery costs, delivery frequency, and discounts. The base model assumed, for example, that a potential competitor would deliver mail three times a week, reduce delivery costs by 25 percent, achieve labor costs savings of 10 percent compared to the USPS, and discount its service by 10 percent. Drawing on this study, the PRC recently estimated the value of the letter and mailbox monopolies at about $3.9 billion in FY 2013. (Table 4 below)

Table 4: PRC Estimates of the Value of the USPS Letter and Mailbox Monopolies ($ millions)[37]

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Mailbox Monopoly	$790	$690	$910	$700	$810
Letter Monopoly	$2,140	$2,640	$2,430	$2,580	$3,120
Total	**$2,930**	**$3,330**	**$3,340**	**$3,280**	**$3,930**

Our analysis uses a different approach which suggests that the PRC's estimates are markedly understated. The mailbox monopoly dates to 1934, when Congress determined to protect USPS revenues by making it a federal crime for any person other than the USPS to deliver mail to a residential or business mailbox without full postage. This restriction, now backed up by fines of up to $5,000 for individuals and $10,000 for organizations, effectively expands the scope of the USPS monopoly from just "letters and packets" to all "mailable matter." No other advanced country restricts access to customers' mailboxes in this way, and a 1997 survey of foreign postal administrations by the Government Accountability Office found that most of them considered such exclusive mailbox access inconsistent with their concepts of fair competition.

Today, the USPS and the Postal Inspection Service (IS), the law enforcement agency responsible for investigating mail crimes, defend the mailbox monopoly as a deterrent to mail theft,[38] which they claim is a "very serious problem."[39] Yet, as many experts point out, actual enforcement of the mailbox monopoly, especially against individuals, has been virtually non-existent for many years. In 1981, Supreme Court Justice John Paul Stevens wrote, "the general public is at best only dimly aware of the law, and numerous otherwise law-abiding citizens regularly violate it with impunity."[40] In fact, the USPS tacitly acknowledges that the restriction persists not to deter mail theft, but because it restricts competition from private package and

[36] Cohen, McBride (2008)
[37] Postal Regulatory Commission (2014).
[38] RAND Corporation (2008).
[39] GAO (1997).
[40] *United States Postal Service v. Greenburgh Civic Associations* (1981).

shipping companies and thereby creates a competitive advantage for the USPS. A 2008 study commissioned by USPS called the mailbox monopoly "one of [the USPS's] greatest logistical assets;"[41] and later that year, the USPS wrote that eliminating or relaxing the restriction would have a "devastating impact" on its business and reduce its net income by $1.5 billion to $2.6 billion per-year.[42] A simple average of these estimates suggests that the USPS values its mailbox monopoly at more than $2 billion today, 2.5 times the PRC estimate of $810 million for 2013.

Independent analysis indicates that the mailbox monopoly may well be worth a great deal more than $2 billion per-year. Its value is based on the difference in the cost of delivering mail to a mailbox as compared to its delivery to a customer's door. The USPS has three basic modes of mail delivery. Delivery to a customer's door includes delivery to the mail slots and mailboxes attached to houses and businesses, including each apartment in an apartment house and each office in an office building. This is the most expensive mode of delivery, since the postal worker has to walk to the customer's door. A second, less-costly mode is curbside delivery, which includes delivery to traditional mailboxes located on or near the curbs of residential streets, where carriers can deliver the mail without leaving their delivery vehicles. The third and least expensive mode is centralized delivery, which covers delivery to centrally-located mailboxes and cluster box units, so the mail carrier can deliver mail to multiple customers at once. Under the continuing legal bar on anyone but USPS accessing private mailboxes, private delivery services are forced to adopt a version of the first and most expensive mode of delivery, by delivering their packages and envelopes directly into a customer's hands or leaving them at a customer's door.

USPS's delivery costs in FY 2013 came to $32.1 billion, or 45 percent of all operating expenses. The data further show that USPS made five or six-day per-week deliveries to 133.3 million places in 2013, including 55 million deliveries to curbsides, 40.5 million deliveries to centralized locations, and 37.8 million deliveries to customers' doors.[43] Moreover, the Office of Inspector General (OIG) for the USPS reports that curbside delivery costs the USPS approximately $224 per-delivery point, per-year; centralized delivery costs $160 per-delivery point, per-year; and door-to-door delivery costs $353 per-delivery point, per-year.[44] If the USPS had to deliver all mail to their customers' doors, as private delivery services do, the cost of converting all curbside deliveries to door deliveries would be $129 for each of 55 million curbside locations, or $7.1 billion; and the cost of converting all centralized deliveries to door deliveries would be $193 for each of 40.5 million locations, or $7.8 billion. Therefore, the mailbox monopoly provided the USPS a subsidy in 2013 of some $14.9 billion ($7.1 billion + $7.8 billion), compared to private delivery services.

Economies of Scale and Scope

The PRC estimates of the value of the letter mail and mailbox monopolies to the USPS also fail to take account of the value of the economies of scale and scope which these monopolies produce. Protected from competition, the USPS maintains a vast network of post

[41] ILO Institute (2008).
[42] USPS (2008).
[43] USPS (2008).
[44] USPS-OIG Audit Report – Modes of Delivery (Report Number DR-AR-11-006) Table 1. Delivery Mode Costs.

offices and postal workers to reach 152.9 million delivery points, six days a week.[45] One way to assess the significances of the USPS's economies of scale and scope is to consider its fixed and variable costs. Maintaining the USPS's vast network infrastructure entails fixed costs, which do not depend on the volume or quantity of goods and services produced, and variable costs that vary with that volume. In FY 2013, the USPS reported that its institutional or fixed costs totaled $33.1 billion, or 45.9 percent of its total costs of $72.1 billion.[46] Since fixed costs represent such a large share of USPS total costs, increases in mail volume can be met relatively inexpensively.

The USPS uses this vast monopoly-supported delivery network to subsidize its package and shipping operations that compete with private companies, since delivering packages along with letters and packages is less costly than delivering those products separately. This is a classic example of an economy of scope, in which the cost of producing a service or good is lower if it is produced together with another good or service than if it were produced alone. As the European Commission noted in a 2001 ruling,

> "Joint deliveries [of letters and packages by a postal system] create economies of scope that exist between the reserved product and the competitive product. Due to the reserved area these economies of scope are not available to competitors."[47]

The USPS monopoly on first-class and standard mail, therefore, allows it to provide package and shipping services at a lower cost than it could without the monopoly, creating a significant advantage over competitors in package and shipping services. A 2006 study estimated that delivery time would increase by more than 166 percent if the USPS delivered its products individually, rather than together.[48] Similarly, another study noted that if a postal operator like the USPS were to lose market share on its monopoly products to competitors, "it would lose the scope economies associated with providing both [monopoly and competitive] products, so the unit cost of the competitive product would rise."[49] That is, absent its monopoly on First-Class and Standard Mail, the USPS could face rising costs on its package and shipping services, and lose market share to private competitors.

USPS's economies of scope also generate economies of scale which further reduce the costs of its competitive products. When USPS uses economies of scope to lower prices on competitive products, its' share of that market increases, which in turn generates economies of scale that further reduce its' unit costs. In this way, USPS's monopoly status creates economies of both scale and scope that provide advantages over private competitors.

USPS claims to account for these benefits by requiring that its competitive operations in package and shipping services cover a portion of the annual fixed costs for its monopoly operations. Under Section 3633(a)(3) of the Postal Accountability and Enhancement Act, the USPS is legally required to cover both the "attributable costs" of its competitive operations and an "appropriate share" of its "institutional costs." The PRC has defined this appropriate share as

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[45] USPS "Delivery Points since 1905."
[46] Postal Regulatory Commission (2014).
[47] European Commission (2006).
[48] Bradley, Colvin, and Perkins (2006).
[49] Bradley and Colvin (2001).

5.5 percent of USPS institutional costs; and thus for FY 2013, the PRC determined that these institutional costs came to $33.1 billion and required that USPS's competitive operations contribute $1.8 billion to the system's institutional costs.

Evaluating this estimate will require a detailed analysis of the USPS's competitive operations, which is beyond the scope of this study. However, it is evident that the PRC's estimate based on fixed costs does not account for the large savings achieved by USPS from its substantial economies of scope and scale, and therefore the PRC's estimate once again is almost certainly highly understated. In a subsequent study, we will analyze the dimensions of the USPS's cross-subsidization of its competitive operations by its monopolies operations.

Borrowing costs

In addition to the effective subsidies which the USPS claims from its monopolies on letter delivery and mailboxes and the savings arising from its monopoly-subsidized delivery network, the USPS also is authorized to borrow from the U.S. Treasury at subsidized rates. As we will show, this special privilege produces an additional subsidy worth $400 million to $500 million per-year.

In the early 1970s following passage of the Postal Reorganization Act, the USPS was authorized to help finance its operations by selling securities directly to the public, backed by the full faith and credit of the U.S. Government. In 1973, Congress passed the Federal Financing Bank Act which established a bank within the Treasury Department that could borrow directly from the Treasury. The Federal Financing Bank (FFB), in turn, uses those borrowed funds to purchase the marketable securities of the USPS and several other federal agencies, thereby consolidating the government's borrowing activities and reducing its borrowing costs.

In the years leading up to passage of the Postal Accountability and Enhancement Act (PAEA) in 2006, Congress considered various reforms that would have required the USPS to borrow at market interest rates for funds used by its competitive operations. Early drafts of the PAEA also directed the USPS to secure a credit rating independent from the federal government. Under this approach, the USPS would have had to issue securities to the public or to the FFB at market rates, defined as "a rate of yield no less than the prevailing yield on outstanding marketable securities of comparable maturity issued by entities with the same credit rating."[50] This proposal would have leveled the playing field in borrowing for the USPS and its private competitors by requiring the USPS to finance its competitive operations by borrowing at market rates and without government guarantees. In the end, Congress did not adopt that approach, and the USPS continues to borrow from the FFB at subsidized rates and with the backing of the full faith and credit of the U.S. Government.

Since passage of the PAEA, the USPS has been authorized to borrow up to $3 billion per-year at highly subsidized interest rates to finance its capital improvements and operating expenses, with a total debt cap of $15 billion. Since 2012, the USPS's total debt has remained at the $15 billion cap. According to the USPS 10-K filing for FY 2014, it currently has $5.2 billion in long-term debt at fixed interest rates ranging from 2.1 percent to 3.8 percent and $5.8 billion

[50] Committee on the Judiciary of the House of Representatives (2004).

in short-term debt at fixed and floating rates ranging from 0.14 percent to 0.25 percent. The USPS also has two revolving credit lines -- a short-term credit line of $3.4 billion with an interest rate of 0.135 percent and an overnight credit line of $600 million with an interest rate of 0.145 percent. Table 5, below, summarizes these USPS borrowings.

Table 5: Total USPS Debt, September 30, 2014[51]

Maturity	Balance	Interest Rate
Floating rate notes		
October 23, 2014	$700,000,000	0.155%
December 17, 2014	$700,000,000	0.145%
June 18, 2015	$500,000,000	0.145%
September 23, 2015	$600,000,000	0.135%
Fixed rate notes - current		
November 13, 2014	$1,300,000,000	0.247%
January 8, 2015	$300,000,000	0.219%
April 30, 2015	$1,200,000,000	0.206%
September 17, 2015	$500,000,000	0.221%
Fixed rate notes - noncurrent		
May 2, 2016	$300,000,000	2.844%
November 15, 2018	$500,000,000	3.048%
February 15, 2019	$700,000,000	3.296%
May 15, 2019	$1,000,000,000	3.704%
May 15, 2019	$500,000,000	3.513%
August 16, 2021	$1,000,000,000	2.066%
May 17, 2038	$200,000,000	3.770%
February 15, 2039	$1,000,000,000	3.790%
Current revolving credit line		
October 1, 2014	$3,400,000,000	0.135%
Overnight revolving credit line		
October 1, 2014	$600,000,000	0.145%
Total debt	**$15,000,000,000**	

Despite its precarious finances and $15 billion in outstanding debt, USPS paid interest of just $190 million in FY 2012, $191 million in FY 2013 and $184 million in FY 2014, at an average interest rate of 1.2 percent. This rate is far below market rates: The Federal Reserve reports that the Moody's index of AAA rated corporate bonds carries a 3.4 percent yield, and its index of BAA rated corporate bonds has a 4.4 percent yield.[52] Similarly, Treasury data show that corporate bond yields range from 4.0 percent to 4.5 percent. If USPS borrowed at market

[51] USPS 10-K Financial Statement (2014).

[52] Board of Governors of the Federal Reserve System. "H.15 Selected Interest Rates."

rates, its annual interest payments would range from $600 million to $675 million. USPS's special borrowing status, therefore, creates a subsidy currently worth $415 million to $490 million per-year.

Federal Taxes

The USPS is formally liable for federal corporate tax on profits from its competitive operations, and the PRC has published the accounting for those taxes for FYs 2007 to 2014. Over that period, the revenues from competitive activities have ranged from $7.9 billion to $15.3 billion, and the net income, after expenses and the required institutional cost contribution has ranged from $49 million to 2.4 billion. (Table 6 below) The data show sharp increases in the revenues from competitive operations since FY 2012 and in the taxes owed since FY 2013.

Table 6: USPS Gross and Net Income from Competitive Operations and Federal Tax Owed FYs 2007 – 2014 ($ millions)[53]

	2007	2008	2009	2010	2011	2012	2013	2014
Gross Revenues	$7,909	$8,382	$8,133	$8,678	$8,997	$11,426	$13,669	$15,273
Costs	$6,123	$6,600	$6,175	$6,257	$6,680	$8,383	$9,762	$10,970
Institutional Cost Payment	$1,737	$1,768	$1,590	$1,870	$1,625	$2,234	$1,823	$1,880
Net Taxable Income	$49	$14	$368	$551	$691	$809	$2,083	$2,422
Federal Income Tax	0	$5	$129	$193	$242	$283	$729	$848

The USPS is obliged to produce these data and pay the federal corporate income tax on its competitive products and services tax, but those taxes are paid not to the Internal Revenue Service, but to the "Postal Service Fund" (PSF) in the Treasury Department. USPS transferred $847.8 million in federal taxes owed for FY 2014 to the PSF on January 15, 2015. The PSF is a revolving fund in the Treasury to hold all revenues, interest, appropriations, transfers, and other receipts from USPS operations. The catch is that the PSF is available to pay any expenses incurred by the USPS in carrying out its legal functions.[54] The result is that the USPS can draw on its own "tax payments" to finance any of its operations, whether in its monopoly or competitive spheres. That makes these tax arrangements a direct subsidy for the USPS totaling nearly $850 million in FY 2014 and rising rapidly in recent years.

Additional indirect subsidies

The USPS's special status confers a number of other indirect government subsidies that further tilt the playing field for competitive products in its favor, and to the disadvantage of its competitors. As a 2006 report by the Congressional Research Service noted,

> "USPS has many advantages stemming from its governmental status. It pays no federal, state, or local taxes on its income, sales, purchases, or property. Unlike

[53] USPS filings with the PRC.
[54] 39 U.S. Code § 2003.

private companies, it is immune from most forms of regulation, such as zoning, land use restrictions, motor vehicle registration [and] parking tickets…"[55]

USPS insists that it complies with local zoning, planning and building codes "to the extent practical,"[56] but the House Committee on Oversight and Government Reform has noted,

"As a federal agency, the Postal Service enjoys a number of benefits the private sector does not. These benefits include exemptions from income tax and property tax, the ability to exercise eminent domain, preferential borrowing access, and implicit taxpayer backing in the event of a default."[57]

These benefits are ultimately based on the Supremacy Clause of the Constitution, which precludes state and local governments from taxing federal agencies. Since the federal government has never renounced these immunities for the USPS, the postal service finds itself exempt from not only state and local property and income taxes, but also sales and use taxes, franchise taxes, license fees, title fees, registration fees, parking tickets, and tolls. This creates a substantial subsidy which the Federal Trade Commission valued at $869 million in 2006.[58] Adjusting for inflation, these subsidies are now worth more than $1 billion. (Table 7 below)

Table 7: The Value of USPS Exemptions from State and Local Taxes and Fees, ($ millions)[59]

	2006	2014[e]
Property Tax and Real Estate Taxes	$315	$370
Sales and Use Taxes	$200	$235
Vehicle Registration Fees	$115	$135
Tolls	$77	$90
State Sales Tax on Gasoline and Diesel Fuels	$62	$72
Business Licensing Fees, Franchise Fees, Business Taxes, etc.	$38	$45
Parking Tickets	$31	$36
State Franchise Taxes	$15	$18
Tax Compliance Costs	$15	$18
Total	**$869**	**$1,021**

The real value of these implicit studies is much greater than $1 billion. For example, the PRC estimate of USPS's property tax liabilities, $315 million in 2006 and $370 million in 2014 after adjusting for inflation, is very understated. In September 2014, the USPS owned 8,583 properties covering 195.6 million square feet, which its' 10-K financial statements report are worth $27.5 billion ($24.6 billion for the structures and $2.9 billion for the land).[60] However,

[55] Stevens (2006). The CRS report also noted USPS's exemption from anti-trust scrutiny prosecution, but the PAEA enacted in 2007 ended that particular exemption.
[56] USPS (2014b)
[57] Committee on Oversight and Government Reform of the House of Representatives (2014).
[58] Federal Trade Commission (2007).
[59] *Ibid.*, author's calculations.
[60] USPS (2014a).

these financial statements value the properties on a *cost* basis. In 2012, the Office of the Inspector General for the USPS estimated the fair market value of these same real estate holdings at $85 billion, more than three times the cost basis value in the USPS's 10-K statements.[61] Assuming an average property tax rate of 1.8 percent, we estimate that the USPS property tax exemption provides an implicit subsidy of $1.53 billion per year. If the PRC's estimates of the value of the USPS's other exemptions from taxes and fees are accurate, these implicit subsidies would total $2.18 billion per-year, or more than twice the PRC's estimate.

V. Conclusions

As compared to most advanced countries, the United States generally limits its sphere of government-owned and operated enterprises to credit-related institutions such as the Export-Import Bank and Farm Credit Banks, and the postal system. This study has examined the economic dimensions and effects of the U.S. Postal System's monopoly rights and obligations. The USPS insists that its annual subsidies roughly equal the additional costs it bears to provide universal mail service, which in turn roughly equal its annual deficits of $4.5 billion to $5.1 billion. We found that the current arrangements of the USPS involve much larger direct and indirect subsidies. The largest single subsidy arises from the USPS's monopoly over access to customers' mailboxes, which in turn rests on its monopoly over regular letter mail delivery. Based on USPS data, we estimate that this special access to residential and business mailboxes reduces its delivery costs by $14.5 billion per-year, compared to the costs that private firms bear to deliver to their customers' doors.

The USPS's legal exemptions from state and local property and real estate taxes, along with many other state and local fees and taxes, also provide substantial subsidies, worth some $2.2 billion per-year. In addition, the special arrangements that USPS enjoys regarding its federal corporate income taxes on profits from its competitive operations provide an additional annual subsidy worth some $850 million in 2014; and USPS's special access to below-market loans from the Federal Financing Bank at the U.S. Treasury provides an interest rate subsidy worth $415 million to $490 million per-year. All told, we estimate that the USPS's monopoly rights and arrangements produce special savings and subsidies worth at least $18.0 billion per-year for the postal system, or 3.5 times the USPS's own estimate.

Moreover, Labor Department data show that the USPS has suffered from chronically low productivity gains for at least 25 years, compared to private companies carrying out similar operations, driving up its costs even with the subsidies. We found that if the USPS had to compete with private firms and match their productivity progress over that period, higher productivity by 2014 would have reduced its costs by $20 billion in that year. Higher labor costs account for about half of these additional costs, and the other half reflects the USPS's less innovative and effective management practices, investments, and operating procedures. These additional costs are not conventional subsidies, but they also represent an economic burden arising directly from its monopoly position.

Beyond these direct subsidies, special savings and additional costs, USPS's monopoly arrangements produce valuable economies of scope and scale in its operations. These economies

[61] USPS Office of Inspector General (2012).

generally should help contain costs for the system's monopoly lines of business. However, the USPS leverages these economies to reduce its costs in competitive operations such as shipping and delivering packages and express mail. In this way, the USPS's monopoly rights and associated subsidies may well impair healthy competition in this large and growing market.

Appendix

Table A-1: Average Compensation Costs, USPS, 2006-2013 ($ million)

Year	Salaries/Wages	Retirement	Health	Other Benefits	Total
2006	$40,577	$7,006	$5,345	$458	$53,386
2007	$41,695	$5,737	$5,401	$473	$53,306
2008	$40,633	$5,899	$5,376	$450	$52,358
2009	$39,208	$5,917	$5,294	$512	$50,931
2010	$37,545	$5,809	$5,141	$414	$48,909
2011	$36,821	$5,879	$5,222	$388	$48,310
2012	$36,279	$5,854	$5,187	$369	$47,689
2013	$35,639	$5,738	$4,951	$380	$46,708
2014	$35,113	$5,758	$4,804	$325	$46,000

Table A-2: Total Labor Costs, USPS, 2006-2013

Year	Average Total Compensation	Total Employees	Total Labor Costs ($ billions)
2006	$67,051	796,199	$53.4
2007	$67,825	785,929	$53.3
2008	$68,434	765,088	$52.4
2009	$71,524	712,082	$50.9
2010	$72,815	671,687	$48.9
2011	$74,789	645,950	$48.3
2012	$75,814	629,028	$47.7
2013	$75,614	617,714	$46.7
2014	$74,434	618,000	$46.0

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