PACKAGE COALITION

DELIVERING AMERICA'S ECONOMY

# ANOTHER PAPER REHASHING UPS'S DISCREDITED ARGUMENTS TO HARM THE UNITED STATES POSTAL SERVICE

*Econ One published a white paper promoting the very same policy positions UPS advocates to undermine the Postal Service's ability to compete in the package delivery market. The paper is beset with errors and omissions. The paper rests on the false premise that the Postal Service's package business is losing money and placing taxpayers at risk. The opposite is true. The Postal Service's competitive package business is growing and profitable, contributing billions above costs to help financially sustain the Postal Service's nationwide universal delivery network and, by extension, protecting taxpayers. The policy recommendations promoted by the paper would harm, not help the Postal Service, and would benefit only private carriers, like UPS, at the expense of mailers, shippers, and consumers who rely on the Postal Service for affordable delivery services.*

**Growing volumes, revenues, and profits from the Postal Service's competitive package products benefit the Postal Service, mailers, shippers and end consumers.** The Postal Service's ability to efficiently deliver mail and packages together is essential to the viability of the postal system. The competitive package business is growing, profitable, and increasingly important in helping to financially sustain a nationwide delivery network and the Postal Service's universal service mission. Existing law requires that each competitive product, including negotiated service contracts with individual shippers, cover their incremental costs. Because there can be no "below cost" competitive products or service contracts, increased volume necessarily leads to increased revenue and contribution. Increased volumes lead to increased revenue and contribution; for each of the past two years, the Postal Service's competitive package products have generated over $10 billion in contribution (profit) above their costs. Last year (FY2021) the contribution (profits) from competitive products were $13.2 billion above costs - more than any other class of mail, including First-Class Mail.

**The Postal Service's strength is final mile delivery.** Contrary to the unsupported arguments presented in the paper, package volumes entered deep into the Postal Service network for final mile delivery are good for the Postal Service. Because the Postal Service is required by law to collect more in revenue than it costs to deliver these products, all volume makes a net positive financial contribution. Nor is it remarkable that shippers make their purchasing decisions based on whether the Postal Service is the most efficient provider. The paper's claims of "policy myopia" are ironic, as the policy positions it espouses would reverse Congressional policy that the Postal Service offer competitive package services *because* private competitors were exploiting businesses and consumers in rural America, who did not have other affordable alternatives.[1]

**The cross-subsidy allegations are demonstrably false.** The paper rests on the false premise that the Postal Service improperly cross subsidizes its competitive package business. The paper provides no evidence to support this claim. In 2006, Congress included statutory guardrails to protect fair competition, including an express prohibition on cross subsidization. Congress also established the Postal Regulatory Commission, an expert independent federal agency to enforce these mandatory statutory pricing requirements. The Commission's most recent annual compliance determination stated that: "there is no evidence to suggest that Competitive products [packages] are being illegally cross-subsidized by Market Dominant products."[2] The Commission reached the same finding in each of the previous 14 annual compliance determinations. It is telling that the only authority cited in support of the cross-subsidy allegations is a UPS-funded white paper and a 2017 Citi Research study that stated UPS would reap billions in windfall profits if the Postal Service were forced to arbitrarily raise prices.

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[1] *See* 100 Years of Parcel Post, United States Postal Service, Office of the Inspector General, RARC-WP-14-004 (Dec. 20, 2013).

[2] PRC Dkt. No. ACR2020, Annual Compliance Determination Report (Mar. 29, 2021) at 70, https://www.prc.gov/docs/116/116399/2020_acd.pdf.

**The paper mischaracterizes Section 202 of the Postal Reform Bill.** Since the Pony Express, the Postal Service has enjoyed the inherent cost efficiencies generated from the delivery of mail and packages together. An integrated delivery network allows the Postal Service to obtain and pass through the benefits of network efficiencies in the form of lower prices. The six-day integrated delivery network provision (Sec. 202) of the Postal Service Reform Act of 2021 (PSRA) has nothing to do with postal costing. We know this because, despite the omission in the paper, the PSRA includes language (at UPS's insistence) that expressly states section 202 does not affect postal costing. The integrated delivery network language in section 202 merely codifies existing policy, practice, and consumer expectations that the Postal Service continue to provide affordable mail and package delivery services to all Americans six days a week. The criticism that section 202 somehow imperils taxpayers is also a distortion; in fact, as several conservative commentators have observed, forcing the Postal Service to operate separate delivery networks for mail and packages would increase taxpayer risk by adding an additional $15 billion in costs annually.[3]

**The Postal Service is appropriately pricing competitive package products to maximize profits.** The paper devotes pages and pages to the unremarkable observation that some customers may obtain more favorable service contracts than other customers may. This is the nature of service contracts. It does not follow that some customers are paying more because others may pass less. Like any competitive market, the Postal Service tries to collect as much as the market will allow from all customers. The paper fails to explain how competitive prices negotiated with large customers constitute "below market" prices; those prices are the market price. The paper's indiscriminate use of the terms "below market" and "below cost" is at best careless, at worst deceitful, as a set up for unsupported and erroneous claims of cross subsidization.

**The attack on the Medicare provisions is bizarre.** Attacking the Medicare integration provisions of the PSRA is odd for a paper that purports to protect the solvency of the Postal Service. The criticism is also unavailing. A careful reading of the CBO budget estimate reveals that the increase of $5.6 billion in Medicare outlays (Parts B and D) is offset by the $6.2 billion in combined savings to the Postal Service Health Benefits program and the Federal Employees Health Benefits program. Either the author miscalculated the dollar for dollar exchange or he is being intentionally misleading. It is difficult to understand why a revenue neutral adjustment among federal funding obligations raises such concern, especially when the bill is estimated to save the Federal government $1.5 billion. One answer is private competitors oppose any reform that will allow the Postal Service to compete more effectively.

**The policy recommendations would harm the Postal Service and the businesses and consumers who rely on it; if adopted the policies would only help private competitors.** The paper advocates three policy proposals, all three should be rejected as unsound. First, the paper urges delay for its own sake on the Medicare integration reforms. This is a cynical proposal that has nothing to do with fair competition or solvency, and everything to denying the Postal Service the opportunity to compete more effectively in the package delivery market. The second proposal endorses fully distributed costing. The contention that this proposal reflects "established economic principles" is false. Fully distributed costing has been rejected as an economically unsound approach by mainstream economists because it would arbitrarily assign costs not caused by providing a service and foreclose the Postal Service from selling profitable products.[4] Fully distributed costing has also been repeatedly rejected by Congress in the run up to the 1970 and 2006 postal reform bills. The third proposal appears designed to drive volume out of the Postal Service network, allowing competitors to steal market share and deprive the Postal Service of the revenue and contribution from lost volume. This proposal would unhelpfully add to the net competitive disadvantage the Federal Trade Commission has held the Postal Service already faces relative to private competitors.[5]

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[3] *See* https://www.ccagw.org/legislative-affairs/letters-officials/ccagw-urges-senate-support-hr-3076.

[4] *See* John C. Panzar, *Protecting the Package Delivery Market and the Economy from Distortions Resulting from Fully Distributed Cost Pricing*, Geo. Ctr. for Bus. and Pub. Pol'y, at 1 (Oct. 2020), https://georgetown.app.box.com/s/ominwn7tjaqm8617v83j7bs72n5tfs5s.

[5] *See Accounting For Laws that Apply Differently to the United States Postal Service and its Private Competitors*, Federal Trade Commission Report, at 64-67, December 2007 (FTC Report).