PACKAGE COALITION
DELIVERING AMERICA'S ECONOMY

NEW ANALYSIS QUANTIFIES THE DAMAGING EFFECTS OF LARGE PRICE INCREASES ON BUSINESSES, CONSUMERS, AND THE U.S. POSTAL SERVICE

Recent policy proposals have called for significant increases in the prices charged by the U.S. Postal Service (Postal Service) for package delivery services. Economists Debra Aron, Ph.D., and Justin Lenzo, Ph.D. of Charles River Associates conducted an analysis to quantify the effects of these proposals.[1] *The analysis demonstrates that these proposals would force the Postal Service to exit its profitable package delivery business, depriving the Postal Service of tens of billions in profits and revenues while harming businesses and consumers who would face higher prices and fewer choices. The only beneficiaries of such a policy are the private express delivery companies, like United Parcel Service (UPS), that compete against the Postal Service.*

Key Finding: Implementing above-market price increases would force the Postal Service to exit the competitive package delivery business and threaten the financial viability of the U.S. postal system.

- If the Postal Service increased prices on its competitive package delivery services by the amounts proposed, private competitors would raise their own prices while still taking market share from the Postal Service.
- Even at price increase levels well below those suggested by President Trump (300%) the Postal Service would lose all or virtually all of its competitive package delivery business:
    - At a 50% price increase the Postal Service is estimated to lose 84% of its package volume.
    - At increases of 100%, 200%, or 300%, the Postal Service would lose all of its package volume.
- The estimated package volume losses would cost the Postal Service over $100 billion in revenue and up to $38 billion in contribution (profit) over the next five years.
- If the Postal Service were forced to price itself out of the competitive package delivery business, the revenues needed to sustain a nationwide postal system would have to be recovered exclusively from declining letter mail volumes, a burden that may prove unsustainable.
- The combination of mail volume declines and the compounding losses in revenue and contribution from its package business would be devastating to the Postal Service and the essential public mission that it fulfills.

Key Finding: A "package tax" would cost businesses and consumers billions of dollars and would stifle ecommerce.

- Using reasonable assumptions about the reactions of private competitors, the analysis estimates that consumers would pay between $7.86 and $16.95 more per package delivered to them if prices were to be increased by 300%, as proposed by the President.

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[1] The analysis considers scenarios in which the Postal Service increases its prices for competitive package shipping products by 50 percent, 100 percent, 200 percent, and 300 percent above current Postal Service price levels. The scenarios are based on President Trump's proposal that the Postal Service should quadruple its prices for package delivery services.

- The analysis estimates that higher shipping costs would result in fewer consumer purchases from ecommerce retailers. Higher shipping costs would also mean that consumers would be forced to pay between $473 billion and $865 billion more for delivery services over the next five years for the purchases they do make. The effect is an income redistribution from captive consumers and the Postal Service to large private express delivery companies.
- Price increases would depress e-commerce growth because consumers would make fewer purchases and businesses would suffer a decline in sales. The study estimates online retail package volume declines of between 16 and 28 percent compared to volumes without the price increase.
- The contention that the price increases would only be paid by "companies" - not by "people" - is economically untenable and reflects a misunderstanding of the market. Companies tend to pass through cost increases to consumers at least in part.

Key Finding: Raising package prices would disproportionately harm small and mid-sized businesses.

- Package price increases would result in all but the largest online retailers facing reduced sales and reduced profits of $27 billion to $49 billion over five years. Many smaller retail businesses would be forced to close entirely.
- The largest online retailers, such as Amazon and Walmart, would suffer substantially less harm than small and mid-sized businesses, because they have or can develop the capacity to deliver their own packages.
- Small and mid-sized e-commerce retailers could not avoid the price increase because they do not have the scale or scope to develop their own self-delivery operations.

Summary: Raising package prices would result in damaging effects for businesses, consumers, and the Postal Service; the only winners are private express companies.

- The analysis demonstrates that raising package prices to levels being proposed, or even a fraction of those levels, would deprive the Postal Service of its profitable package delivery business, depriving the Postal Service of tens of billions of dollars in revenue.
- Imposing a "package tax" would harm businesses and consumers who would face higher prices and fewer choices. A "package tax" would act as a drag on e-commerce growth, costing businesses tens of billions in lost sales and profits.
- Consumers would be forced to pay hundreds of billions of dollars to private express delivery companies for a smaller number of packages and would forgo delivery service they can currently receive from the Postal Service.
- The only beneficiaries of such a policy are the private express delivery companies, like UPS, that directly compete against the Postal Service. As cited in the paper, independent investment bank analyses confirm that companies like UPS could generate billions in windfall profits.

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