

Institute for Postal Studies

White Paper on the Economic Impact of Postal Reform

The Postal Reform debate is focused on the wrong issue when it is framed by protecting the nation from the short term federal budget deficit impacts of addressing off balance sheet liabilities. Apart from the other goals of the proposed postal reforms, this short term budget focus has often been the primary concern.

Postal reform should make an investment in the future of the economy and in jobs, an investment that will rapidly be repaid with interest.

In the reform debate, three proposals for pre-funding retiree health care benefits are being discussed. The Senate, the House of Representatives and the Administration have each proposed an approach that would replace the “escrow” fund that was created by the Civil Service Retirement Funding Reform Act of 2003.

The Administration proposal (See Figure 1) would collect \$48 billion in new revenue over a 10 year period to *minimize* budget impacts. But analysis completed for the Institute for Postal Studies¹ shows that raising rates to pay for pre-funding health care and paying for military pensions would actually *lose* \$64 billion in tax revenues over the coming ten years.

Figure 1

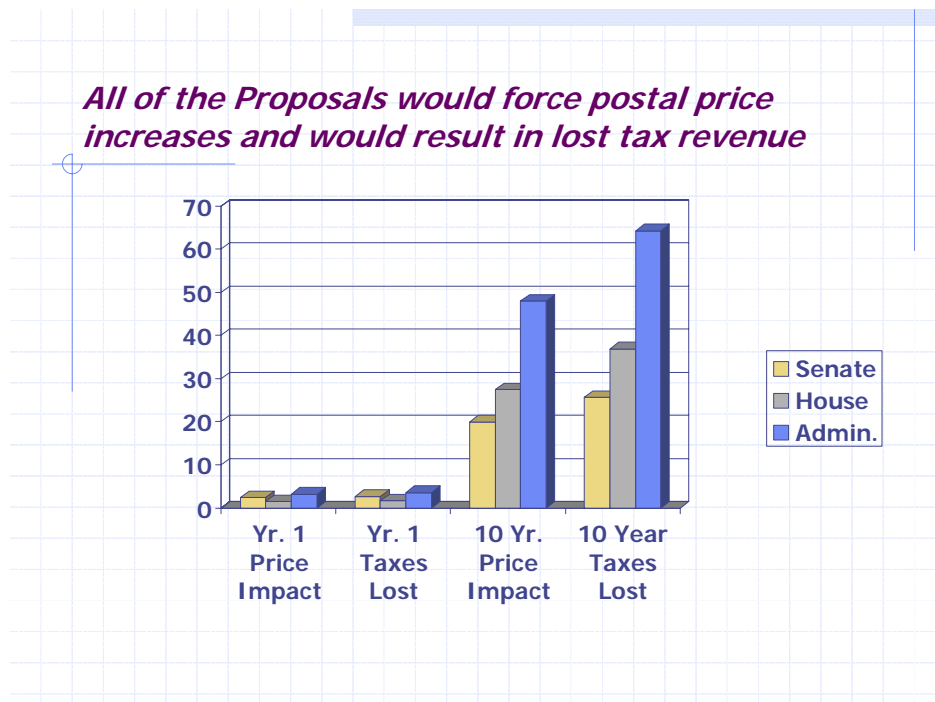
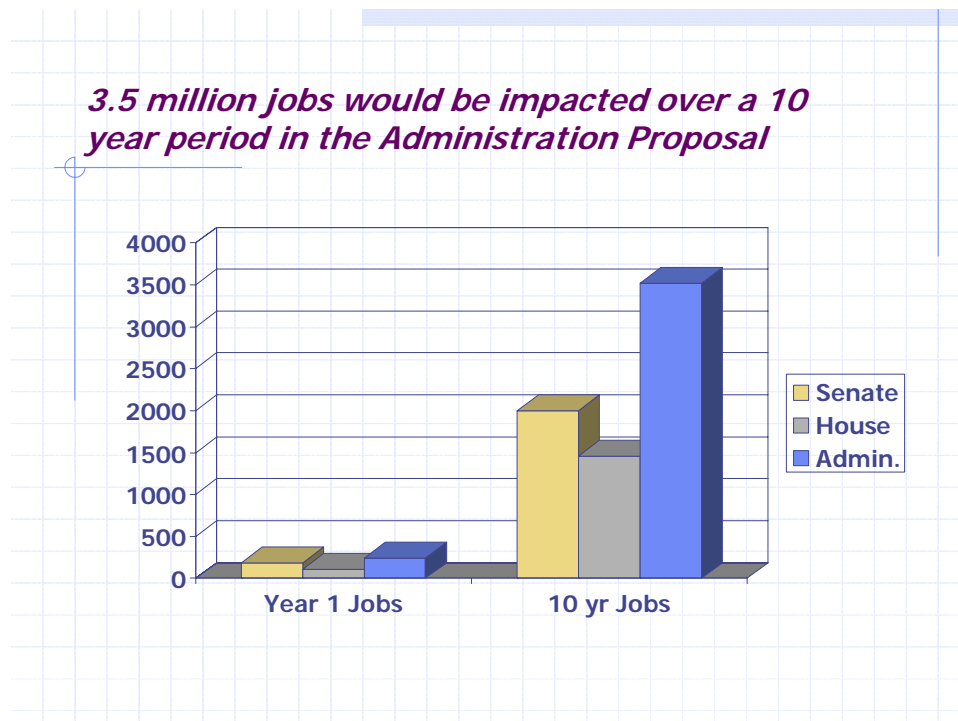


Figure 1 compares the Senate, House and Administration proposals for postal reformⁱⁱ. In year 1 the House proposal would collect less than the Senate for example (\$1.5 billion versus \$2.4 billion), but over the 10 year period, the House proposal would collect more than the Senate version and the Administration proposal would collect a significantly higher \$48 billion. Most importantly, the postal revenue required to fund each of the reform proposals would result in higher postal prices that will in turn result in job impacts for the mailing industry. (See Figure 2)

All of the proposals that are being discussed today would result in significant job impacts. Postal prices would have to be raised to collect revenues to pre-fund retiree health benefits in all the proposals and the Administration’s proposal would also require the Postal Service to continue to pay CSRS for military retirees. Price increases will squeeze the mailing industry’s competitive businesses and would impact jobs in businesses that employ 9 million workers. Lost jobs will result in lost tax receipts to the government.

Figure 2



The House proposal would result in an impact of 114 thousand jobs or 2 million jobs over ten years. The Senate reform proposal would impact 182 thousand jobs in the first year and 1.4 million jobs over the ten year period because of differences in the trajectory of payments that these different bills would require. In the Administration’s proposed approach, 245 thousand jobs would be impacted in the first year and 3.5 million jobs will be impacted over ten yearsⁱⁱⁱ.

The Path to Postal Reform

For nearly a decade Congress, the mailing community and the postal service have engaged in a debate over postal reform. Today, reform is close at hand. Three alternative proposals are, however, often framing the wrong debate.

The Senate, the House and the Administration each have a different approach to utilizing the escrow fund that was created when Congress enacted the Civil Service Retirement Reform of 2003.

In summary, the Senate and the House would return the responsibility for paying for military pensions to the Treasury. Each proposal then uses a portion or the entire Escrow payment required by current law to offset future retiree health care costs. Each seeks to minimize the impact of setting aside revenue for these future costs on the Federal Budget.

The right debate would be focused on the future of the American economy and the role that a vibrant mailing industry could play in contributing to it.

Postponing rate increases into the future, as the USPS has proposed will lead federal budget accounting to show a larger budget deficit in the short term according to past Congressional Budget Office analysis. But if rate increases that are not needed to fund postal operations are not postponed, tax revenue will be lost when the mailing industry must accommodate higher costs.

A short term budget deficit impact from postponing a postal rate increase is an investment in jobs and the future.

MITF TAX REVENUES IMPACT SUMMARY

source: EMA Analysis of Tax Revenues Impact.

I. CASE 1		Current House version	
INDEX	DESCRIPTION	2006	10-YEAR TOTAL
1	Rate Increase (Billions of Dollars)	\$ 1.5	\$ 27.0
2	Rate Increase (Percentage)	2.5%	n/a
3	Jobs Impacted	113,489	1,996,538
4	Wages Impacted	\$ 4,919,759,435	\$103,226,255,880
5	Average Wages per Jobs Impacted	\$ 43,350	\$ 504,092
6	Tax Revenues Impact		
7	Federal Income Tax	\$ 626,578,358	\$ 15,328,625,656
8	Social Security	\$ 610,050,170	\$ 12,800,055,729
9	Medicare	\$ 142,673,024	\$ 2,993,561,421
10	Federal Unemployment Tax Act	\$ 6,355,398	\$ 111,806,133
11	Corporate Income Tax	\$ 270,385,087	\$ 5,673,212,382
12	Total	\$ 1,656,042,037	\$ 36,907,261,321
II. CASE 2		Current Senate version	
INDEX	DESCRIPTION	2006	10-YEAR TOTAL
1	Rate Increase (Billions of Dollars)	\$ 2.4	\$ 20.0
2	Rate Increase (Percentage)	4.0%	n/a
3	Jobs Impacted	181,583	1,458,899
4	Wages Impacted	\$ 7,871,615,097	\$ 72,502,097,479
5	Average Wages per Jobs Impacted	\$ 43,350	\$ 504,092
6	Tax Revenues Impact		
7	Federal Income Tax	\$ 1,002,525,374	\$ 10,427,824,211
8	Social Security	\$ 976,080,272	\$ 8,990,260,087
9	Medicare	\$ 228,276,838	\$ 2,102,560,827
10	Federal Unemployment Tax Act	\$ 10,168,637	\$ 81,698,357
11	Corporate Income Tax	\$ 432,616,139	\$ 3,984,643,186
12	Total	\$ 2,649,667,260	\$ 25,586,986,670
III. CASE 3		Current Administration version	
INDEX	DESCRIPTION	2006	10-YEAR TOTAL
1	Rate Increase (Billions of Dollars)	\$ 3.2	\$ 48.0
2	Rate Increase (Percentage)	5.4%	n/a
3	Jobs Impacted	245,137	3,512,311
4	Wages Impacted	\$ 10,626,680,380	\$180,249,929,533
5	Average Wages per Jobs Impacted	\$ 43,350	\$ 504,092
6	Tax Revenues Impact		
7	Federal Income Tax	\$ 1,353,409,254	\$ 26,610,812,647
8	Social Security	\$ 1,317,708,367	\$ 22,350,991,262
9	Medicare	\$ 308,173,731	\$ 5,227,247,956
10	Federal Unemployment Tax Act	\$ 13,727,661	\$ 196,689,428
11	Corporate Income Tax	\$ 584,031,787	\$ 9,906,356,899
12	Total	\$ 3,577,050,800	\$ 64,292,098,193

ⁱ The worksheets and detailed analysis described here is available for the Institute for Postal Studies of the Envelope Manufacturers Association. This analysis was prepared for the IPS by Transformation Strategy Inc. and by SLS Consulting, Inc.

This analysis supplements two earlier phases of work that calculated the number of jobs that would be impacted as a result of rate increases and translates these potential job losses into lost tax revenues.

ⁱⁱ The numbers used in this analysis are consistent with those being used by the Finance Department of the USPS. Estimates of revenues that would be collected through 10 years of rate increases are not new to the analysts working on the rate case. What this analysis does is to make estimates to calculate the potential impact of these rising postal prices.

ⁱⁱⁱ Will price increases at the rate of the Consumer Price Index result in 1 for 1 job losses? Will these job losses persist over a ten year period? Answers to these questions are uncertain. But higher postal prices will result in the competitive mailing industry suppliers being squeezed more than would be the case without the rate increases. Jobs that were lost to the industry in year 1 might not result in persistent unemployment if individuals are reabsorbed into other parts of the economy. But the impact of incrementally higher postal prices is not 0. Each year funds would have to be raised to pay for pre-funding of retiree health care and the pensions of military retirees that would not have had to be raised under current law.

One counter intuitive aspect of the analysis involves the projection of rate impacts over time. The rate increase would take place in the near term. Yet the impact of higher rates is not a one time phenomenon in the same sense that budget deficits forecast by the Congressional Budget Office are not scored as one time events. To compare lost tax revenues with estimates of budget impacts on the same basis, the higher postal prices (compared with 2005) must be estimated for each year that the budget deficit numbers are calculated.