5-day delivery no sure cure for postal woes, economist says

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Scaling back mail delivery from six days a week to five may be the best bet to stem mounting U.S. Postal Service losses, but could still be a gamble, says a University of Illinois economist who has studied the agency's persistent financial decline.

Seung-Hyun Hong says projected savings from weekday-only delivery could wither if the move chases away lucrative business customers who count on the mail to blanket homes with coupons, fliers and other advertisements.

"There needs to be more study to gauge the revenue impact if services become less frequent and less reliable," he said. "Most residential customers probably won't care, but some businesses might and could try switching to the Internet."

The Internet explosion, inexpensive long-distance telephone charges and postal rate increases have already combined to shrink household demand, according to a 2008 study by Hong and Stanford University economist Frank Wolak.

"More people are switching to less-costly electronic alternatives, so the question is whether delivery changes could help accelerate that trend, particularly among business customers," said Hong, whose study appeared in the *Journal of Econometrics*.

The postal service last week reported a loss of $3.8 billion in 2008, about

$1 billion more than the year before despite a reduction of 40,000 full-time jobs and other cost-cutting moves.

To offset a deepening pool of red ink, Postmaster General John Potter is seeking approval from Congress to trim mail delivery to five days a week, a move that could save the troubled agency an estimated $3.5 million annually.

Scaling back delivery is likely the postal service's best hope because other alternatives are limited, Hong said. The agency's targeted mission leaves few options for new, revenue-producing initiatives, and its every-doorstep delivery mandate limits cost-cutting measures.

He says rate increases are also a double-edged sword. His study found that a

5 percent rate increase imposed in 2006 netted a $215 million annual loss in revenue from households, although overall income rose because of business mailings.

"They always have to worry about increasing rates because it can decrease demand. Customers have lots of alternatives now," Hong said. "Five-day delivery isn't the only solution, but it's probably a more reasonable solution than the other alternatives."

Despite financial problems, high-tech competition and a push for a paperless society, he says the post office will endure.

"People are always going to need to send mail," Hong said. "It's not going to disappear."

Source: University of Illinois at Urbana-Champaign (news : web)

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