

STATEMENT OF ALICE M. RIVLIN  
DIRECTOR, CONGRESSIONAL BUDGET OFFICE  
BEFORE THE  
SUBCOMMITTEE ON TREASURY, POSTAL **SERVICE**,  
AND GENERAL GOVERNMENT  
SENATE COMMITTEE ON APPROPRIATIONS  
APRIL **22**, 1980

Mr. Chairman:

The federal government currently supports the U.S. Postal Service through two types of payments. One for revenue forgone because of reduced postage for certain mailers, and another for public services that are not cost effective. Last year you asked the Congressional Budget Office to undertake a study of federal payments for revenue forgone and to analyze budgetary alternatives. I am pleased to be here today to present the results of our analysis.

My statement this afternoon will cover three points:

- o The composition and growth of the revenue forgone subsidy;
- o The significance of the revenue forgone subsidy to non-profit organizations, the general public, and the Postal Service; and finally,
- o Alternatives the Congress might consider concerning the future of the revenue forgone subsidy.

Our findings are based largely on information provided by the Postal Service and the Institute for Social Research at the University of Michigan. The Institute conducted a detailed survey of mail received by households during 1977.

The second type of federal **payment--for** services such as Saturday mail delivery that are not cost **effective--was** not addressed in our study.

## COMPOSITION AND GROWTH OF THE SUBSIDY

In the past, two major groups of mailers, commercial and nonprofit, were eligible for these reduced postage rates and thus for a subsidy financed by appropriations that make up for revenue lost because of lower rates. Subsidies to most commercial magazines and newspapers were phased out over an eight-year period ending on July 6, 1979. The second group of preferred mailers, mainly nonprofit organizations and small newspapers, is still subsidized. Despite the fact that a portion of the subsidy to these mailers is being phased out through 1987, increases in mail volume and postage rates have caused the level of appropriations to more than triple over the past eight **years--from** \$229 million in 1972 to \$726 million in 1980 (see Table 1).

Appropriation Request for Fiscal Year 1981. The Postal Service is requesting \$789 million to be appropriated in fiscal year 1981 for revenue forgone. This estimate includes \$111 million for shortfall in amounts requested in prior years. The remaining \$678 million is for estimated revenue forgone in 1981 and is distributed among seven subclasses of reduced rates. The largest portion of this amount is for second and third class mail sent by nonprofit **organizations**, and accounts for about half the cost of delivery. Most of the remaining subsidy for fiscal year 1981 goes for library material (\$70 million) and for magazines and newspapers mailed within the county **of** origin (\$40 million). The so-called within-county subsidy benefits small-circulation **publications--** largely those in small towns and rural communities. The subsidy for library and within-county publications covers about 65 and 50 percent of postal expenses for these two categories (see Table 2).

TABLE 1. REVENUE FORGONE SUBSIDY, FISCAL YEARS 1972-1980  
(In Millions of Dollars)

	1972	1973	1974	1975	1976	1977 <u>a/</u>	1978	1979	1980
Subsidy to Commercial Mailers, Phased Out in July 1979	212	221	195	226	261	264	206	135	9 <u>b/</u>
Ongoing Subsidy <u>c/</u>	<u>229</u>	<u>237</u>	<u>302</u>	<u>387</u>	<u>463</u>	<u>575</u>	<u>596</u>	<u>665</u>	<u>726</u>
Total Subsidy	441	458	497	613	724	839	802	800	735

a/ Includes \$46.7 million appropriated in fiscal year 1980 for shortfall in amounts requested in fiscal year 1977.

b/ While subsidies to most commercial mailers expired on July 6, 1979, postage rates for agricultural science and certain other small-circulation commercial publications are still subsidized.

c/ Mostly to nonprofit mailers.

TABLE 2. DISTRIBUTION OF REVENUE FORGONE SUBSIDY OF \$678 MILLION FOR FISCAL YEAR 1981 a/

	Subsidy		Average Postage Rates Per Piece		
	Millions of Dollars	Percent of Total	Full Rate	Reduced Rate	Subsidy
<b>Nonprofit Organizations:</b>					
Second Class	\$102	15	\$0.08	\$0.04	\$0.04
Third Class	420	62	0.09	0.04	0.05
Within County	40	6	0.06	0.03	0.03
Library Material	70	10	1.51	0.53	0.98
Other subclasses	46	7	<u>b/</u>	<u>b/</u>	<u>b/</u>

a/ Excludes \$111 million requested for shortfall in prior years.

b/ Estimates of average rates are not meaningful.

Future Costs. According to the estimates of the Postal Service, which do not assume a rate increase until 1984, revenue forgone appropriations will total about \$4.6 billion through fiscal year 1985. If rate increases occur before 1984, outlays for revenue forgone will be higher. **CBO's** five-year current law projections are based on an annual break-even **concept--that** is, postage rate increases are assumed to occur each year in order to cover projected costs. Under this assumption, costs for revenue forgone are projected as higher than those estimated by the Postal Service, totaling about \$5.8 billion through fiscal year 1985 (see Table 3).

TABLE 3. PROJECTIONS OF REVENUE FORGONE SUBSIDY, FISCAL YEARS 1981-1985 (In Millions of Dollars)

	1981	1982	1983	1984	1985	Five- Year Total
USPS Estimates	678 <u>a/</u>	915	870	1,135	1,029	4,627
CBO Estimates	878	1,112	1,174	1,301	1,286	5,751

a/ This amount does not include \$111 million requested in fiscal year 1981 for shortfalls in fiscal years 1974-1976 and 1978.

SIGNIFICANCE OF REVENUE FORGONE SUBSIDY

The revenue forgone subsidy is intended to promote the flow of religious, educational, cultural, and charitable materials. It affects both the nonprofit organizations that send much of this material and the households that receive it. The Postal **Service**, which is reimbursed for delivery of mail at reduced rates, is not directly affected by the revenue forgone subsidy.

Effect on Nonprofit Organizations. Nonprofit organizations benefit most from revenue forgone **appropriations**, requiring nearly three-quarters of the funds requested for fiscal year 1981.

About two-thirds of the mail sent by nonprofit organizations is subsidized (see Table 4). Religious organizations are the heaviest users of reduced **rates--in** 1977 they accounted for 53 percent of the second class subsidized mail received by households and 42 percent of third class nonprofit bulk mail. Educational, scientific, and charitable organizations also use subsidized rates extensively (see Table 5). In 1977, political organizations eligible for subsidized rates were limited to various public interest groups. In 1978, eligibility for third class reduced rates was expanded to include national and state political party **committees.**

TABLE 4. USE OF SUBSIDIZED RATES BY NONPROFIT ORGANIZATIONS, 1977

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Type of Organization	Percent of Mail Subsidized
All Nonprofit	67
Religious	82
Educational, scientific	56
Charitable	58
Labor, veterans	85
Fraternal	64
Political	32

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TABLE 5. PERCENT DISTRIBUTION OF MAIL RECEIVED BY HOUSEHOLDS  
FROM NONPROFIT ORGANIZATIONS, 1977

	Type of Nonprofit Organization				
	Total	Reli- gious	Chari- table	Educational- Scientific	Other <u>a/</u>
All Mail	100	38.6	12.4	36.2	12.9
Distribution of Select Subsidized Subclasses <u>b/</u>					
Second class reduced rate <u>c/</u>	100	53.2	2.0	23.1	21.7
Third class non- profit bulk rate	100	42.1	16.1	33.8	8.0

a/ Includes labor, veterans, fraternal, and political organiza-  
tions.

b/ The classes selected represent 68 percent of total nonprofit  
mail received by households.

c/ Includes the following reduced-rate subclasses: within county,  
regular rate, nonprofit, classroom, and controlled circulation.

Nonprofit organizations use reduced rates for mailings of  
publications as well as requests for contributions and billings.  
Our analysis indicates, however, that in general they do not appear  
heavily dependent on this form of support. Even if subsidized  
postage is not considered, nonprofit organizations will receive, in  
fiscal year 1980, an estimated \$11.8 billion in federal grants and  
tax expenditures for charitable contributions. When measured

against the aggregate income of nonprofit **organizations**, revenue forgone appropriations again seem small. Excluding religious groups, for which data are generally unavailable, revenue forgone funds represented less than 0.2 percent of net nonprofit income reported in 1978. These comparisons, of course, cover a wide variety of activities and organizations; and revenue forgone funds may be more important to some than to **others**. Reduced postage, for example, is a significant fund-raising saving for organizations that rely heavily on mail solicitation as a source of income.

Effect on the General Public. In 1977, the average household received about 1.5 subsidized pieces of mail per week from religious, educational, charitable, and other nonprofit organizations. The mail from nonprofit senders, however, is shared disproportionately by households of different income groups. The notion that postal subsidies make a variety of information available to citizens who might not otherwise be able to afford it is not supported by our **analysis**. Higher-income households receive a portion of nonprofit mail that is far greater than their proportion of the population. Nearly one-third of the subsidized third class mail sent by all nonprofit organizations in 1977, for example, went to the 16 percent of households with annual incomes of \$25,000 and over. Conversely, households with incomes under \$5,000 represented about 16 percent of the population but received less than 10 percent of the mail from nonprofit organizations (see Table 6).



TABLE 6. NONPROFIT MAIL RECEIVED BY HOUSEHOLDS RELATED TO HOUSEHOLD **INCOME**, 1977 (In Percent)

	Total	Household Income			25,000 and over
		Under 5,000	5,000 to 9,999	10,000 to 24,999	
Distribution of Households	100	15.5	20.2	<b>48.9</b>	15.5
Distribution of All Nonprofit Mail <u>a/</u>	100	6.6	13.0	48.5	31.9
Distribution of Third Class Non-profit Bulk Mail	100	6.8	13.8	47.1	32.4

a/ Includes subsidized and nonsubsidized mail.

Effect on the Postal Service. The Postal Service estimates that in fiscal year 1981, it will deliver over 14 billion pieces of subsidized mail at an estimated cost of \$2.2 billion. The budget request assumes that income from subsidized rates will cover \$1.5 billion of this cost and that the balance, \$678 million, will be paid by the taxpayer through appropriations to the Postal Service. Under current projections, revenue forgone appropriations will continue to represent about 4 percent of total postal revenue through 1985. If the Congress does not appropriate the amount requested in a particular year, the Postal Service is required by law to correspondingly increase the rates paid by subsidized mailers. Thus, the level of income to the Postal Service would remain essentially the same, and postal operations would not be noticeably affected.

## FUTURE ALTERNATIVES

In the past, the Congress has legislated low postage rates for certain mailers in order to encourage the flow of opinion and ideas and to support charitable causes. Under the current system, budget outlays would reach \$1.0 to \$1.3 billion for revenue forgone in fiscal year 1985. These costs would be even greater if the Congress enacted proposals to expand eligibility for reduced rates. For example, provisions in H.R. 79, which passed the House last September, would expand the eligibility for fourth class library rate subsidies. If such provisions were enacted, CBO estimates outlays would increase by \$200 million over the next five years.

This year, the Congress is considering reductions in payments to the Postal Service as part of an effort to balance the budget. In this context, there are two possibilities the Congress could consider concerning revenue forgone **appropriations:**

- o Discontinue appropriations for revenue forgone and eliminate subsidized rates; or
- o Discontinue appropriations for revenue forgone but shift the cost of reduced rates from the taxpayer to all mail users.

Either approach could be fully implemented in fiscal year 1981, or gradually over a number of years to lessen its impact.

### Discontinue Appropriations and Eliminate Subsidized Rates.

Discontinuing appropriations for revenue forgone would achieve

significant budget reductions. If fully implemented in fiscal year 1981, the President's budget estimates would drop by \$789 to \$878 million. Over the next five years, cumulative reductions would reach \$4.7 to \$5.8 billion. The amount of the savings depends on the timing of future postage rate increases. If appropriations were gradually eliminated through fiscal year 1987, cumulative five-year savings would reach \$0.9 to \$1.2 billion (see Table 7).

Under current law, cuts in revenue forgone appropriations would have the effect of reducing or eliminating existing postage subsidies. If the Congress cut **appropriations**, the Postal Service would have to increase the rates paid by subsidized mailers in order to make up the associated loss in income. If appropriations were completely eliminated in fiscal year 1981, postage rates that are now subsidized would thus increase an average of 45 percent.

TABLE 7. BUDGET SAVINGS FROM DISCONTINUING REVENUE FORGONE APPROPRIATIONS (In Millions of Dollars)

	From USPS Estimates <u>a/</u>		From CBO Estimates	
	1981	Thru 1985	1981	Thru 1985
Full Implementation in 1981	789	4,738	878	5,751
Implementation Thru 1987	155	929	56	1,252

a/ Estimated savings assume the request for shortfalls in prior years would not be **appropriated**.

Increases in rates currently subsidized would not likely decrease mail volume in the long run. According both to models used by the Postal Service for projecting mail volume and to measures of price elasticity used by the Postal Rate Commission, the volume of subsidized mail is mainly affected by economic conditions rather than by moderate changes in postage rates. Our analysis for the 1972-1979 period indicates that even substantial rate increases are not necessarily accompanied by decreases in **volume.**

Proponents of subsidized rates argue that they should be continued in the interest of promoting the flow of news and of educational, cultural, literary, and charitable materials. The use of subsidized postage rates for such purposes, however, may be challenged as not targeting budget expenditures on specific national priorities, resulting in heavy use of mails for charitable appeals, and as providing unnecessary support to nonprofit **organizations.**

Discontinue Appropriations but Shift the Cost of Reduced Rates to All Mail Users. Another possibility for achieving budgetary savings in revenue forgone appropriations would continue subsidized rates but shift their cost to all mail users. Under this approach, the cost of subsidized postage rates would be treated as an overhead expense of all postal operations. From this perspective, postage rates would increase an average of 4 percent to offset the

elimination of revenue forgone **appropriations**. This option, requiring amendment of authorizing legislation, would achieve the same budgetary savings as an elimination of subsidies solely through appropriation action. Likewise, such an approach could be fully implemented in fiscal year 1981 or gradually over a period of **years**.