Rebuttal Comments Concerning Postal Service Productivity
To
President's Commission on the Postal Service

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Economists recognize the importance of productivity in achieving long-run gains for a business and for the economy overall. However, they also recognize the difficulties in measuring productivity and comparing productivity measures. Several of the groups that submitted comments to the President's Commission, including the Magazine Publishers of America (p. 8) and the Mailer's Council (p.9) among others, commented on the poor growth of Postal Service total factor productivity (TFP) when compared with that of the economy as a whole. While it is important to track productivity growth, evaluating this comparison must be done within a framework that recognizes the differences in industrial structure.[1] The Postal Service's mission is to provide reliable, secure, and reasonably rapid service to all its users all across the U.S. That mission can not be expected to achieve the same productivity growth as is found in plants manufacturing computer chips. This is exactly why the Postal Service and many, many other industries in the U.S. economy are unlikely to be able to match the total factor productivity growth of the economy overall.

The economy-wide measure that most closely matches, by definition, the Postal Service's total factor productivity measure is called multi-factor productivity, MFP, and is produced by the Bureau of Labor Statistics of the Department of Labor.[2] MFP reflects the increase in multi-factor productivity across all the industries in the United States but productivity growth varies considerably from industry to industry. For example, the TFP measure published by the Postal Service has increased, on average about 0.4% per year since 1971. That compares to a growth rate of 0.7% per year in private nonfarm MFP growth. On the face of it, the Postal Service does not compare favorably. However, the Postal Service is a service industry and as such requires a significant amount of labor to accomplish its mission. It would be more reasonable to compare its productivity growth against other service industries. Unfortunately, service industry MFP growth is very difficult to measure and the BLS does not attempt to do that. What it does do is measure manufacturing MFP growth. While MFP for the economy overall increased 0.7% per year, MFP growth in manufacturing (a sector that accounted for a

[1] The Postal Service itself makes this comparison in its *Comprehensive Statement on Postal Operations*, page 73 of the 2002 report.

[2] It should be noted that this is not the primary measure of U.S. productivity that the BLS presents. MFP is only produced on an annual, or sometimes less frequent basis, and currently has only been calculated through 2000. The BLS measures labor productivity on a quarterly basis.

14% share of GDP in 2001) increased 1.1% per year. Within manufacturing, the growth in nondurable manufacturing was about half that of the Postal Service, averaging about 0.2% per year between 1971 and 2000, while MFP growth in durable manufacturing (a sector that accounted for an 8.1% share of GDP in 2001) was increasing at a rate of 1.7% per year. Within durable manufacturing two sectors had outstanding MFP growth averaging 3-4% per year, electric & electronic equipment and industrial machinery & computer equipment, thus raising the MFP growth for the whole durable manufacturing sector and the private nonfarm economy as a whole.

The Postal Service can not reasonably be compared to high tech manufacturing industries where most of the productivity growth comes from the technological breakthroughs of manufacturing better and faster computer chips. That is an unreasonable expectation for a labor intensive service industry whose goal is to process and deliver mail daily to an ever increasing number of addresses in the United States and to provide personal interaction at post offices to sell stamps, mail packages, and process money orders.

Measures of labor productivity are also presented by the Postal Service in its *Comprehensive Statement on Postal Operations*. The analysis of labor productivity has many of the same issues associated with it as does the analysis of MFP growth above. While over the entire period from 1971 through 2001, the Postal Service's measure of labor productivity has shown an increase of 0.9% per year compared to an increase of 1.7% per year for the entire economy, much of the economy-wide growth has been focused in the durable manufacturing sector, which experienced labor productivity growth of about 3.5% per year. If the last 15 years are examined, there is an improvement noted in Postal Service labor productivity. While delivery points have continued to grow steadily, gains made in mail processing automation have somewhat offset that drag on productivity growth. From 1987 through 2001, the Postal Service's measure of its labor productivity has increased at an average annual rate of 1.2% per year compared to an economy wide increase of 1.7% per year and an increase in durable manufacturing of 3.9% per year.

The most important issue to consider in an analysis of productivity growth is the goal of the organization. In the Postal Service's case it is to provide good, reliable,

secure, and relatively rapid mail service to every business and residence in the U.S. and access to stamps, package services, money orders and the other services offered at Post Offices on a reliable basis that includes the recognition that many people can only come on Saturdays or before or after their work hours. Using its resources in an efficient manner must be an important goal of any business including the Postal Service. However, providing good and universal service are the paramount goals of the Postal Service. Because resources must be dedicated to meeting those goals, Postal Service productivity growth will not correspond with the highest rates of productivity growth in the economy.