

Inquiring Minds topic for 13 February 2015

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Postal Issues

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Major issues:

Is the Postal Service infrastructure or simply a delivery service?

What is the social value of the postal system and should that be accounted for as we address?

Currently UPS and FedEx are two of the largest vendors for the Postal Service (they fly and truck the mail). They are also two of the largest customers, using Negotiated Service Agreements, the details of which are kept private, to get reduced rates for the use of the postal "last-mile" network.

Title 39, the statute that governs the Postal Service, defines the mission of the Postal Service as "binding the nation together" while requiring universal service. Is this mission still valid given today's technology?

Title 39 101

- (a) The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people.
- (b) The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities.
- (c) As an employer, the Postal Service shall achieve and maintain compensation for its officers and employees comparable to the rates and types of compensation paid in the private sector of the economy of the United States. It shall place particular emphasis upon opportunities for career advancements of all officers and employees and the achievement of worthwhile and satisfying careers in the service of the United States.
- (d) Postal rates shall be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis.
- (e) In determining all policies for postal services, the Postal Service shall give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.

- (f) In selecting modes of transportation, the Postal Service shall give highest consideration to the prompt and economical delivery of all mail. Modern methods of transporting mail by containerization and programs designed to achieve overnight transportation to the destination of important letter mail to all parts of the Nation shall be a primary goal of postal operations.
- (g) In planning and building new postal facilities, the Postal Service shall emphasize the need for facilities and equipment designed to create desirable working conditions for its officers and employees, a maximum degree of convenience for efficient postal services, proper access to existing and future air and surface transportation facilities, and control of costs to the Postal Service.

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The Post Office actually predates the nation’s founding. The Second Continental Congress created the American postal system on July 26, 1775, naming Benjamin Franklin the first Postmaster General.

George Washington was an early patron of a national postal system. He saw the postal system as a source of national unity. Washington advocated for free transmission of newspapers and reading materials through the mail. James Madison agreed with the importance of a postal system and that newspapers and the like ought to be subsidized although he suggested that budgetary constraints would require some form of payment.

[The National P HYPERLINK "http://postalmuseum.si.edu/"o HYPERLINK "http://postalmuseum.si.edu/"stal Museum](http://postalmuseum.si.edu/) located at the Smithsonian Institute is a wonderful source for postal history. The Postal Service has an informative [webpage](#) as well. Chris Shaw’s, ["Preserving the People's Post Office"](#) gives a thorough history as well and is available in a free PDF format.

In 1968 President Johnson appointed Fred Kappel the chairman of AT&T to lead a commission tasked with investigating a new structure for the nation’s postal system. The Kappel Commission was a response to complaints from postal customers and postal workers that the Post Office Department was hampered by Congressional inaction. At that time Congress was responsible for approving postal rate increases as well as salary increases for postal workers. The commission was composed of mostly businessmen, its [report](#) suggested that the postal system move towards a more businesslike structure.

In 1970 spurred by a [wildcat strike](#) of postal workers in New York city Congress passed the Postal Reorganization Act (PRA). The PRA replaced the cabinet level Post Office Department with a new entity, the United States Postal Service. The Postal Service became an independent agency of the Federal government. A Board of Governors (BOG) was created to oversee the Postal Service. The BOG was composed of nine presidential appointees subject to Senate confirmation with no more than five from one political party. The BOG selected the Postmaster General (PMG) and his deputy who became members of the board.

PRA also created the Postal Rate Commission (PRC) which during subsequent legislation became the Postal Regulatory Commission. The PRC was composed of five presidential appointees and was charged with administering the rate system along with some oversight of service.

The PRA ended automatic Congressional subsidies for the Postal Service. An annual appropriation was made to finance universal service and preferential rates for nonprofits. This [report](#) from the Congressional Research Service (CRS) provides background on the subsidy issues. Essentially, the Postal Service was

entitled to appropriations of up to \$500 million per year to fund revenue foregone and universal service. However beginning in the early 1980s the management of the Postal Service, seeking to establish independence from Congress, elected not to take these appropriations. In any event the appropriations were designed to be replaced over time so that only users of the postal system paid for the system. This was somewhat controversial since this view tended to ignore the postal network as infrastructure paid for by the American people generally. A recent [report](#) from the USPS Office of Inspector General (OIG) discussed this issue in detail.

Today the only Congressional appropriations the Postal Service receives are for Free Matter for the Blind and to pay for overseas ballots. That appropriation amounts to about \$100 million per year.

The PRA was amended several times over the years however by the end of the 20th Century it was apparent that a major overhaul was needed. That overhaul came in the form of the Postal Accountability and Enhancement Act of 2006 (PAEA). PAEA was designed to address several major postal issues. The rate system created by PRA was difficult to administer and slow to react to changing circumstances. PAEA directed the Postal Regulatory Commission (PRC) to create a modern rate system based on current cost accounting methods.

PAEA divided postal products into two categories, market-dominant products and competitive products. Market-dominant products are those products which are deemed to be essentially monopoly products, e.g. first-class letter mail, standard (advertising) mail, and periodicals. These products were subject to a rate cap limited to the CPI inflation index.

Competitive products initially included Priority and Express Mail but the Postal Service was encouraged to identify products that could be transferred into this category. Subsequently several products such as first class packages (things like prescription medicine) and certain post office boxes have been moved into the competitive category. The Postal Service may set rates on competitive products as it sees fit subject to two restrictions – the product must meet its attributable costs and it must contribute 5.5% to institutional costs.

The PRC was tasked with developing cost accounting systems to ensure that the CPI rate caps were adhered to. They also devised systems to apportion both attributable and institutional costs. This has, at times, been controversial especially since competitive products have begun providing a larger share of postal revenues without an increase in the institutional contribution.

Another area that has been controversial are workshare discounts. These are discounts given to mail prep companies like Pitney Bowes. The discounts amount to nearly \$15 billion in postal revenues transferred to private sector aggregators and sorters. The discounts are supposed to reflect costs that have been saved by the Postal Service by allowing private companies to sort and move mail closer to last-mile delivery. The PRC has repeatedly found that at least some of the workshare discounts are in excess of cost savings.

The PRC was also charged with developing an intellectual basis for universal service, postal monopolies, and the social value of the postal network. George Mason University and the Mercator center were commissioned to provide some of the basic research in these areas. A number of extensive and useful reports were created. These can be found in the PRC archives at www.prc.gov. The PRC produced a detailed report titled [Report on Universal Postal Service and the Postal Monopoly](#).

The Postal Service enjoys two monopolies. The first relates to the carriage of first class mail. Private carriers are permitted to carry first class mail provided they charge a rate six times in excess of the first class letter rate and the piece weigh at least 12 ½ ounces (or be rated as such). This provision revoked the former Private Express Statutes and was the basis for premium services offered by FedEx and UPS. The mailbox monopoly allows the Postal Service to restrict access to mailboxes and was upheld in a decision by William Rehnquist (nothing prevents other carriers, for instance newspapers from requiring customers to install alternate receptacles). The George Mason study found the value of the mailbox monopoly to be about \$160 million per year.

In addition to creating more autonomy for the BOG and an up to date rate system PAEA also addressed several issues related to employee retirements. This is the area that has been cited as the primary cause of Postal Service losses over the last several years.

Over the years it was found that the Postal Service had made retirement contributions far in excess of those required to fully fund its two pension systems. In addition the Postal Service was being charged for the military component of employee retirements (employees who are retired from the Armed Forces or have served in the Armed Forces are permitted to count that time towards their Federal retirement). It was generally agreed that the amounts in excess were at least \$27 billion and it was agreed that this amount was to be somehow returned to the Postal Service.

The problem however is that the Postal Service is generally off budget, i.e., its revenues and expenses are calculated and accounted for outside the Federal budget. Postal retirement account are held on budget however so returning overpayments would have resulted in a charge to the Federal budget and in 2006, with increasing deficits, this was unacceptable to the Bush Administration and the Office of Management and Budget (OMB).

The solution OMB devised was to create a new long term liability for retiree health benefits. Officials calculated that over a 75 year period the Postal Service would have a liability for retiree healthcare of nearly \$100 billion. The solution to the question of how to adjust for the pension overpayments was to create a separate Retiree Health Benefit Fund (RHBF) and deposit the overpayments in that fund. Then, in order to maintain budget scoring rules the balance of the long term liability was to be deposited in the RHBF based on a ten year amortization schedule. The short schedule was determined by CBO budget scoring windows which are ten years.

The result was that in addition to funding current retiree health benefits from current revenues (the Postal Service could not access the RHBF funding for at least ten years) the Postal Service had to make contributions of about \$5.6 billion per year to the RHBF for ten years. At that point in 2006 the Postal Service was operationally in the black but prior law had required it operate on a “break-even” status. While PAEA permitted the Postal Service to accumulate profits it was not thought they could generate sufficient amounts to make the RHBF payments so a \$15 billion line of credit was created with the Treasury.

In 2006 the Postal Service handled about 212 billion pieces of mail. Currently the Postal Service is handling about 160 billion pieces of mail. The conventional story says that the loss in volumes are largely the result of technological change, e-mail, electronic banking and related changes to the system. However the PRC has determined that a significant amount of the drop in volume can be attributed not to technological encroachment but to the Great Recession. As the mortgage bubble burst billions of pieces of mail emanating

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Below are some useful links to stories and articles. In some cases the executive report page may suffice to give the basic idea. The links in the text above are embedded and should take you to the noted report.

Washington Post Editorial that gives the critical view:

http://www.washingtonpost.com/opinions/delivering-a-solvent-postal-service/2014/11/11/446da15c-69d3-11e4-a31c-77759fc1eacc_story.html

A response to the WaPo editorial: <http://www.savethepostoffice.com/washington-post-op-ed-hacked-dysfunctional-status-quo>

A CRS report that discusses some of the financial issues:

http://postalmuseum.si.edu/research/pdfs/R41024_20100119.pdf

Blogpost related to NSA spying and monitoring of the mail: <http://angrybearblog.com/2014/11/its-not-as-bad-as-they-say-then-again-maybe-its-worse.html>

A general post from STPO (not by me): <http://angrybearblog.com/2014/10/invisible-hands-the-businessmens-campaign-to-dismantle-the-post-office-2.html>