



Index of Postal Freedom

United States Postal Service



Overview

The United States Postal Service was created by decree of the Continental Congress in 1775, mainly to deliver mail between Congress and the armies. Today, still wholly owned by the government, it delivers more than 202 billion pieces of mail each year to over 149 million addresses. The Service delivers almost half the world's mail.

USPS had 663,238 career employees in 2008, making it the third-largest employer in the United States after the U.S. Department of Defense and Wal-Mart. 90 percent of the Postal Service's career employees are paid according to contracts that are negotiated through collective bargaining between one of four unions and USPS management. This is a unique arrangement among federal agencies.

In 2008, USPS maintained 36,723 offices, branches, and stations throughout the U.S. The number of addresses to which it delivers increases year on year; between 2007 and 2008 the figure grew by about 1.2 million. The volume of letters sent by individuals is shrinking steadily, with businesses accounting for the bulk of the mail market today. Total mail volume fell by 9.5 billion pieces in 2008.

Since 2001, under Postmaster General John Potter, USPS has cut costs and improved productivity. Though taking in almost \$75 billion in revenue in 2008, it claimed a net loss of \$2.8 billion. USPS blames this loss on the global economic downturn, as well as statutory obligations to fund its pension and healthcare liabilities explicitly through 2017.

The 2008 losses represented an improvement over 2007's financial outcome, when USPS suffered a net loss of \$5.1 billion. USPS plans to return to



profitability in 2009 by cutting jobs, shuttering post offices, and increasing its use of automated systems, including the enhancement of its mechanized system of organizing flat mail in delivery order.

USPS is also hoping for congressional relief from its benefit-funding obligations. In early 2009, legislation that would extend the time period over which the Postal Service could fund future retirees' healthcare benefits was introduced in Congress. The legislation would also allow the Postal Service to pay for the healthcare benefits for current retirees with the existing contents of the fund.

The statutory pension and healthcare obligations were enshrined in the Postal Accountability and Enhancement Act (PAEA), signed by President Bush in December 2006. The PAEA marked the first major overhaul of postal law since 1971.

The law establishes a hard rate cap for market-dominant products, and grants the Postal Service substantial authority to adjust pricing within that cap. It also requires USPS to demonstrate greater financial transparency and grants greater authority to the Postal Regulatory Commission, the independent body that oversees rate increases.

Postal products are divided into market-dominant and competitive categories. The PAEA lists the following as market-dominant products: first-class mail letters and sealed parcels; first-class mail cards; periodicals; standard mail; single-piece parcel post; media mail; bound printed matter; library mail; special services; and single-piece international mail.

The Act lists the following as competitive products: priority mail; expedited mail; bulk parcel post; bulk international mail; and mailgrams.

Liberalization

USPS opposes liberalization of the market for letter mail delivery, in which it enjoys a statutory monopoly. USPS also maintains a monopoly on access to a consumer's mailbox -- even if he or she owns and maintains it.

The postal monopolies were granted under the Private Express Statutes, which



were enacted by Congress in 1792. The “letters” over which USPS has control are broadly defined to be “messages between parties,” with a few exceptions. “Extremely urgent letters” may be delivered by other companies provided that they charge, at a minimum, the greater of three dollars or twice the amount USPS would charge to deliver the same letter as First Class or Priority mail.

Government inquiries have regularly questioned the necessity of the mailbox monopoly, but it has persisted. The President’s Commission on the Postal Service proposed in 2003 that consumers choose whether to allow private individuals or delivery companies to access their mailboxes, “so long as it does not impair the universal service or open homeowners’ mailboxes against their will.”

A 2007 report by the Federal Trade Commission (FTC) agreed. The Postal Service’s monopoly on mailbox use “limits consumer choice and artificially increases the costs of private carriers,” it concluded.

The FTC also reported on eight countries without mailbox monopolies. None noticed a significant loss in postal revenue. Six reported little or no problem with theft from the mailbox.

The United States is currently the only country in the world with a monopoly on mailbox use.

Some business and consumer groups favor the introduction of competition, but there has been inadequate momentum to lift the monopoly on letter mail delivery.

Privatization

USPS is wholly owned by the U.S. government.

William Henderson, the U.S. postmaster general from 1998 to 2001, wrote upon leaving office that “what the Postal Service needs now is nothing short of privatization.” He recommended an employee stock-ownership plan that “would motivate workers by allocating stock to them over time.” However, in contrast to the general trend in other developed nations, the United States has



not taken any steps toward wholesale privatization.

USPS has, however, allowed some de facto privatization of delivery through the use of contractors. Contract mail carriers currently service about 7,600 routes, or approximately 2 percent of all routes nationwide. There have been several legislative attempts to curtail this practice -- by forcing USPS to negotiate with postal unions before contracting with non-USPS employees, for instance -- but none has yet been successful.

USPS has also turned to the private sector to complete other tasks, including sorting and long-haul transportation. For instance, USPS paid American Airlines nearly \$135 million in FY 2006, much of it for long-distance mail transport. The largest private-sector contract awarded in FY 2004 -- \$385 million -- was to Siemens for postal automation work. USPS has also used FedEx to deliver overseas mail through its premium international service, Global Express Guaranteed.

USPS regularly enters into worksharing agreements with some bulk mailers of market-dominant products (as defined by the PAEA), offering postage discounts in exchange for meeting certain criteria, such as pre-sorting, processing, and volume. Negotiated Service Agreements, as some of these are termed, are contractual agreements with major mailers that include customized pricing incentives.

In an October 2007 ruling, the Postal Regulatory Commission stated that such an agreement with Bank of America could actually cost the Postal Service "anywhere between \$25 million and \$45.8 million." Despite this financial hit, the regulatory agency approved the deal, ruling that such deal-making fell under the increased autonomy provisions granted to the Postal Service by the PAEA.

Commissioner Ruth Goldway, despite her concurring opinion, was blunter. The agreement, she wrote, "demonstrates that the Postal Service is not yet capable of negotiating a good bargain within the framework of the PAEA." She cited the Postal Service's use of inadequate financial and costing data in its negotiations.



Competition

As described above, USPS has two monopolies: one on letter delivery and the other on the use of mailboxes. USPS enjoys additional privileges as a government entity. It is exempt from most taxes (including taxes on its vast real estate holdings), is permitted to maintain a substantial level of secrecy in many financial matters, and may borrow from the U.S. Treasury at favorable rates. The PAEA prohibits the subsidization of non-monopoly competitive products (like express service products) with revenues gained from monopoly products, but critics often accuse the Postal Service of engaging in such cross-subsidization regardless of the law.

Private-sector companies compete with USPS in express and package delivery. In 2006 in the U.S. ground package market, UPS had 70 percent market share, FedEx 16 percent, USPS 8 percent, and DHL 3 percent. In the U.S. air express market in 2007, FedEx had 42.4 percent market share, UPS 32.9 percent, DHL 9.1 percent, USPS 2.8 percent, and BAX Global 2.3 percent. All percentages are expressed as a share of daily shipments, according to data from the Air Cargo Management Group.

In November 2008, DHL announced that it would cease domestic deliveries within the United States, opening up a \$3.4 billion in revenue to its competitors, including the Postal Service. Because DHL had targeted the most price-sensitive portion of the market, USPS has benefited substantially from DHL's exit.

Regulation and Oversight

The Postal Regulatory Commission is an independent agency, created by the Postal Reorganization Act of 1970 to set postage rates, and invested with new oversight powers under the PAEA. It considers rates proposed by USPS, holds hearings on rate changes, and makes rate recommendations to the Postal Service Board of Governors, which may accept or reject them.

The PAEA also directed the Department of the Treasury to undertake a review of the Postal Service's accounting and cost attribution practices. The Department's findings were released in late 2007. At present, USPS is able to attribute only 60 percent of its costs to specific purposes; the rest are categorized



as “institutional costs,” or overhead.

This inability to attribute costs is significant because it effectively allows the Postal Service to overcharge the captive monopoly consumer. Incomplete cost attribution forces the consumer to contribute more than his fair share to institutional overhead.

The Treasury report encouraged adoption of a simplified approach to computing the “assumed” federal income tax to be paid by the Postal Service on revenues derived from its competitive products in accordance with the dictates of the PAEA. Of course, this “assumed tax” would be paid by the Postal Service to itself -- rendering its status as a true “tax,” like those faced by private-sector competitors, dubious.

Despite this putative tax reform on the competitive products side, the Treasury report stopped short of requesting definitive attribution of costs from USPS’s monopoly products.

Universal Service

The USO is understood in the United States as six-day-a-week delivery to every address in the nation at a uniform price. As defined by the Postal Reorganization Act of 1970, the USO requires the Postal Service to “provide prompt, reliable, and efficient services to patrons in all areas and . . . render postal services to all communities” at “fair and equitable” rates, including a uniform rate for sealed letters.

The PRC's 2008 report on the USO noted that Congress must keep a close watch on USPS's finances, given the financial restraints that the recent economic downturn has placed on the agency. The report warned that changes might need to be made to the USO in order to ensure USPS's solvency.

In early 2009, Postmaster General John Potter raised eyebrows when he asked Congress to consider allowing the Postal Service to deliver mail only five days a week. Potter pointed out that the public would prefer fewer delivery days to significant price increases. PRC Chairman Daniel G. Blair has estimated that this measure could save USPS between \$1.9 and \$3.5 billion annually. Nevertheless,



Congress is unlikely to enact this change to the USO.

Consumer Protections

Until late 2007, the Postal Regulatory Commission's Office of the Consumer Advocate was charged with representing the interests of the single-piece letter-mail consumer in matters related to pricing and service.

USPS itself has consumer affairs offices around the country to which users can bring complaints. In addition, a variety of non-profit organizations and government agencies hear complaints from the public and press for fairness to consumers. The most powerful among them is the Federal Trade Commission.

Pricing

In May 2008, First Class stamp prices rose to 42 cents. Stamp prices increased to 44 cents in May 2009. Each ounce beyond the first costs 17 cents, and there are additional costs based on size and shape. Stamp prices have risen in line with inflation since 1970. Since the beginning of 2001, stamp prices have increased by more than 12 percent. Businesses and institutions that employ bulk mail -- which accounts for 85 percent of USPS revenue -- receive discounts from the First Class rate.

As part of a rate increase in 2007, USPS introduced the "Forever Stamp," which is purchased at the going rate but is valid for use indefinitely, even if used after stamp prices have increased.

Under the PAEA, price increases for monopoly products are limited to increases in the Consumer Price Index. These products represent 90 percent of the Postal Service's revenue base.

First Class mail contributes more revenue to cover general overhead than any other category of mail does. Consumer advocates argue that this is unfair to individual consumers, particularly because bulk mailers negotiate to send their missives at a discount.



Useful links

[USPS Website](#)

[Postal Regulatory Commission](#)

[Association for Postal Commerce](#)

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