



San Antonio Alamo Area Local Legislative Updates



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Making No Cents

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U.S. postal rates are among the lowest in the industrialized world. In 2015, according to the USPS, it cost 96¢ to mail a 1-ounce letter in Britain and \$1.51 to send one in Denmark, which is about 200 miles across at its widest, roughly 3,800 miles less than the distance from Anchorage to Palm Beach. Until recently, Spain was the only nation in the developed world that charged less; now the U.S. and Spain are tied at the bottom.

The post office has been around for 240 years. In addition to delivering mail, it's sparked a lengthy conversation about the need to run it like a business. For much of its history, its budget was controlled by Congress, which also set the price of stamps. Despite the pleas of postmasters general, elected officials were inclined to avoid rate hikes to keep their constituents happy. The results were predictable. From 1932 to 1958, the price of a first-class stamp stayed fixed at 3¢, and the post office was starved for capital. Arthur Summerfield, a former Chevrolet dealer from Flint, Mich., was horrified when he took over as Eisenhower's postmaster general in 1953. "Almost everywhere work was being done with shopworn equipment in run-down, over-crowded, poorly lighted postal buildings constructed years before," Summerfield recalled in his memoir, *U.S. Mail*.

When he departed in frustration eight years later, the mail system was beginning to unravel. In 1966, the federal government was forced to shut down the enormous Chicago post office for 10 days because clerks were overwhelmed by a pre-Christmas junk mail rush. The *Saturday Review* called it "the most incredible snarl in mail movement since the inauguration of the U.S. postal system—and, in the view of some experts, a nightmarish preview of mail service horrors that lie ahead."

In response, President Lyndon Johnson appointed a commission in 1967, led by Frederick Kappel, the recently retired chairman of AT&T, to come up with a plan to repair the system. He and his fellow commissioners, were dismayed when they learned that the postmaster general had no say over postal rates.

The Kappel Commission called for the creation of the U.S. Postal Service, a so-called government corporation, which, in theory at least, would be free from outside meddling. In 1970, Congress adopted the plan. Control over stamp prices was almost within reach of the post office, but, at the final hour, Congress created an outside body called the Postal Rate Commission, which would have the power to approve or reject any proposed price increases. The rate commissioners saw it as their mission to make sure the USPS, which had a monopoly on letters and junk mail, didn't gouge the American public.

The rate commission destroyed the dream of a more businesslike Postal Service. When the USPS wanted to increase its rates by a few cents, the commission often took more than a year to reach a verdict.

The system's flaws became clear when a businessman became postmaster general. In 1988 the USPS Board of Governors gave the job to Anthony Frank, the shrewd, charismatic former chief executive officer of First Nationwide Bank. "The Postal Service is the biggest management challenge in the U.S., maybe the world,"

Frank told *Fortune* early on. He wasn't exaggerating. In many post offices, clerks were still sorting mail by hand as they had done under Benjamin Franklin, America's first postmaster general.

Frank embarked on a long-overdue plan to have 95 percent of the mail sorted automatically by 1995. However, modernization came with a \$5 billion price tag, and the USPS slipped into the red after several years of surpluses. It was one thing to automate the mail, but Frank was harder-pressed when it came to cutting costs. One reason: The Postal Service's union contracts had no-layoff provisions. Frank tried to erase the deficit by increasing the price of sending a first-class letter by 5¢, to 30¢, but the Postal Rate Commission would approve only a 29¢ stamp. Frank argued this wasn't enough to restore the agency to profitability and that a 29¢ stamp would force the USPS and its customers to use a lot more pennies. He returned to the private sector in 1992.

His successor, Marvin Runyon, a former Ford executive, pleaded with Congress for more freedom, too. "FedEx and UPS can offer volume discounts and do it quickly," he lamented. "We can't. Runyon didn't get his wish and departed in 1998. Since then, the USPS board has relied on lifelong employees who know a lot about delivering mail but have sometimes lacked the vision of outsiders like Frank and Runyon. What private-sector luminary would want to run an operation that can't price its own products?"

After a certain point, political leaders in Washington realized this was absurd. In 2006, Congress passed a law allowing the Postal Service to raise prices on letters and junk mail with a minimum of fuss as long as they didn't surpass the inflation rate. But there was a catch: Congress wanted to make sure the USPS would have enough money to pay for the health care of its employees when they retired. So it made the USPS start setting aside \$5 billion a year to fund these future expenses. Then, in 2008, the economy collapsed, which prompted many more Americans to pay their bills online. The amount of mail handled by the USPS has dropped by 28 percent in the past decade, and it has suffered extraordinary losses, exacerbated by the onerous legal requirement to prefund its retiree benefits.

And because inflation has been low, the USPS has been restricted in how much it can raise its prices. In 2013 it appealed to its regulator, now known as the Postal Regulatory Commission, for an emergency first-class stamp price increase of 2¢, which would exceed the inflation rate. The PRC approved it, but only until the USPS collected \$3.2 billion, the amount of revenue the commission calculated had been lost when mountains of mail evaporated during the recession. Never mind that the lost volume from the economic crisis is unlikely to come back.

The price increase stabilized the USPS's finances; it would have been profitable last year if not for the retiree prefunding albatross. Then the Postal Service had to give up the 2¢. The USPS wants to restore the emergency hike and make it permanent, and has appealed to Congress to get around the PRC. But behind the scenes, the catalog companies and nonprofits that flood our mailboxes are campaigning against it, saying the USPS needs to cut costs. Meanwhile, postal workers are driving 25-year-old trucks, and letters and greeting cards are arriving later and later.