



Comments of the American Consumer Institute Center for Citizen Research

Submitted to the Postal Regulatory Commission, June 14, 2016

The American Consumer Institute Center for Citizen Research (ACI) is a nonprofit (501c3) educational and research institute with the mission to identify, analyze and protect the interests of consumers in selected policy and rulemaking proceedings related to information technology, health care, retail, insurance, energy, postal and other issues. In this proceeding, the Postal Regulatory Commission (Commission) seeks comments on its report to the President and Congress, which includes recommendations for any legislation or other measures necessary to improve the effectiveness or efficiency of the postal laws of the United States.

Summary

In its public comments, ACI aims to offer discussion related to the Market Dominant Rate System and competition.

In the op-ed in *Forbes* below, ACI president, Steve Pociask provides context surrounding U.S. Postal Service PMG Megan Brennan's unjust effort to renew the exigent rate increase. As Mr. Pociask points out, the rate hike intended to offset the effects of the last economic recession seven years ago, is actually as means of further gouging mail customers. Extending the rate increase would perpetuate the problems in accounting that already exist within the USPS, and would contradict previous rulings by the U.S. Court of Appeals, and by the PRC. The PRC must continue to recommend to Congress that renewing exigent rate does not help to address the Postal Service's systemic financial concerns and harms American consumers.

In addition, the U.S. Postal Service categorizes most of its costs as institutional and unattributable costs, thereby enabling it to cross-subsidize its unprofitable and low margin competitive ventures with monopoly services. To fix this problem, the U.S. Postal Service should be required to utilize a full cost model similar to that of public utilities. This change would prevent these affiliated interest abuse. If the U.S. Postal Service is unable or unwilling to do this, they should withdrawl from offering any competitive service.

For the full discussion from Mr. Pociask, please read the below.

The Great Postal Recession

Forbes.com, Steve Pociask, March 2, 2016

<http://www.forbes.com/sites/stevepociask/2016/03/01/the-great-postal-recession/#7d2e30924aa0>

Come this June, seven years will have passed since the last economic recession officially ended. But, if you listen to the Postmaster General and CEO of the U.S. Postal Services (USPS), Megan J. Brennan, you would never know it.

By law, USPS is allowed to increase its prices at the rate of inflation, as measured by the Consumer Price Index. In addition to this annual increase, last year, the Postal Regulatory Commission granted USPS a temporary 4.3% price increase to help it through the effects of the previous economic downturn. However, these temporary increases are set to expire on April 10th and have left Brennan saying that “removing the surcharge and reducing our prices is an irrational outcome,” given their financial conditions. But a closer look at the issue suggests that the logic of her statement is irrational.

By claiming “harm resulting from the Great Recession,” Brennan’s call for keeping prices up at more than twice the rate of inflation is very disingenuous. Anyone who understands basic economics knows that a decline in business volume due to a recession is purely due to a cyclical movement. With nearly seven years of economic recovery, USPS’s volumes should have more than rebounded without any temporary help from the Commission.

Here is the deal — the clamoring for more help has nothing to do about the long-gone economic cycle, it’s all about the about the downward trend for USPS’s services. Maybe some consumers do not want to pay for what the USPS is selling, maybe the price is too high or maybe electronic transactions and e-materialization has given the public what it really wants. It certainly has nothing to do with the recession cycle; it’s a trend.

Even if volumes were impacted by the recession, what normal competitive business manager would increase their prices to offset lost sales? After all, when competitive firms face declining volumes, they tend to cut prices to stimulate demand, not increase them. Of course, USPS is neither a normal business nor competitive. In fact, its core services are 100% monopoly protected. The reality is that the logic of raising prices in the face of declining volumes is totally “irrational.”

So, why then would the USPS want to raise its prices?

USPS is calling for pricing flexibility, the ability for it to raise prices on its core services, while keeping its prices low for competitive services. Ironically, these core services are its monopoly services, and they represent among USPS’s most profitable services. As the most recent compliance report showed, these monopoly services – specifically, total first-class mail services – are its most profitable services, collecting \$2.27 for every \$1 of attributable costs.

In effect, USPS is trying to bilk the consumers of its monopoly services in order to subsidize its less profitable competitive ventures, including food delivery, potentially banking services, same-day delivery for businesses and other services. If USPS wants to become more profitable, maybe it should consider abandoning these costlier competitive ventures and stick with its core services. It has the “flexibility” to do this today.

The USPS has claimed for decades that it has amassed impressive investments in automation that have yielded huge productivity gains. If true, its rate increases should be beating inflation and resulting in lower postal rates, but it’s not. Where did these productivity savings go? I guess there is a lot of money to lose out there and USPS just wants its share of it.

Whether volumes are declining by trend or by cycle, turning around profitability does not mean increasing prices on services, it should mean getting out of these competitive services and decreasing its inputs of production. Productivity means doing more with less. Simply increasing consumer prices for its core services is not the answer.

Come April 10th, the price of the 49 cent stamp will drop to 47 cents. To make up this shortfall, USPS should stop using its monopoly services to prop up its new ventures. It’s a waste of money and something that is in short supply at the USPS these days.