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The American Consumer Institute
Center for Citizen Research

Comments of the American Consumer Institute Center for Citizen Research

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About ACI

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.

General Discussion

In this proceeding, the Postal Regulatory Commission (the Commission) establishes docket R2017-1 to consider a proposal by the U.S. Postal Service (USPS) to enact price changes for Mailing Services products to take effect in January of 2017.

In its comments submitted to the Commission, ACI seeks to reiterate its analysis of the USPS' continued appeals for an increase in the price of a First-Class Mail Forever stamp. ACI opposes this increase and believes, at a minimum, that the requested rate hike to 49 cents be carefully examined by the Commission within the full scope of the USPS' financial position – examining both regulated and unregulated services.

Undeniably the Postal Service's financial position has continued to deteriorate through accrued losses of $14.9 billion since the start of the 2014 fiscal year. To remedy the longstanding problems, the USPS should justify the need for rate increases on products that lack market competition. USPS must also put forward and be subjected to structural changes rather than seeking temporary changes that deliver concentrated benefits for the agency and create dispersed costs on consumers and (potentially) taxpayers.

First-Class letters, which is subject to the proposed rate hike, are already among the Postal Service's most profitable products producing a cost coverage of over 200 percent and delivering a net contribution of $15.4 billion. Knowing that this is their most profitable product, any attempts to grow this contribution represents a clear and present effort to extract supernomal profits from the hundreds of millions of mail customers who have no alternative service provider and depend on the USPS for reasonable rates and quality service. In addition, these monopoly service profits are then being misallocated and used to sustain non-essential postal services and new experimental ventures that lack proven profitability for agency – all while quality of service declines.

Rather than increasing prices on its already profitable first class services, USPS can and has the full flexibility to increase its prices for less profitable and unprofitable "competitive" services. With that in mind, we urge the Commission to direct the USPS to raise prices solely on its competitive service, and ask that the Commission deny increases on monopoly services. In addition, attention needs to be focused on the ongoing concerns related to the significant performance declines of their core letter mail service, which has become increasingly less affordable.

Conclusion

In summary, we recommend that the Commission deny the request for a price increase on the First-Class Mail Forever stamp. For more discussion on this issue from American Consumer Institute, please review the attached document.

Respectfully,

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ATTACHMENT:

The Great Postal Recession

Published in Forbes.com, by Steve Pociask, American Consumer Institute on March 1, 2016, at http://www.forbes.com/sites/stevepociask/2016/03/01/the-great-postal-recession/#32fd36cc4aa0

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 with the long-gone economic cycle, it's all 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. If 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.