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Historical Development of a Universal Service Obligation in the United States

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Topics

1. Definition of the Universal Service Obligation
2. Postal Law, 1789 to 1945
3. Postal Policy Act of 1958
4. Postal Reorganization Act of 1970
5. Evolution of a USO After 1970
6. Current status of Universal Service Obligation

What is the USO in the U.S.?

- Answer . . .

No one knows.

... Yet Everyone Talks About Universal Service

“Universal Service” or “Universal Service Obligation” are often used to explain the purpose or intent of the postal law:

- Since 1996, the Annual Report of the Postmaster General refers to US or USO **6 to 8 times** each year.
 - *‘Universal service: The Postal Service’s mandate and commitment to the nation to provide mail delivery service at uniform and reasonable rates to everyone, everywhere, six days a week.’*
- USPS Transformation (2002), **70 times**
- President’s Commission Report (2003), **80 times**
- Congress in preparation of PAEA (2006), **40 times**

PAEA Study on Universal Service

PAEA (Postal Accountability and Enhancement Act of 2006) required PRC study of the history and cost of the US

- “Universal service” never appears in U.S. Postal Law.
- PAEA refers to § 101 and § 403 as standards for universal service.
 - “the scope and standards of universal service and the postal monopoly provided under current law (including sections 101 and 403 of title 39, United States Code). . .”
 - “The Committee believes that sections 101(a), 101(b) and 403 of title 39 fully define the universal service obligation.”

§§ 101 and 403 U.S. Postal Law

39 USC §§ 101 AND 403

§ 101. Postal policy

(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 and shall make a fair and equitable distribution of mail business to carriers providing similar modes of transportation services to the Postal Service. 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.

39 USC §§ 101 AND 403

(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.

§ 403. General duties

(a) The Postal Service shall plan, develop, promote, and provide adequate and efficient postal services at fair and reasonable rates and fees. The Postal Service shall receive, transmit, and deliver throughout the United States, its territories and possessions, and, pursuant to arrangements entered into under sections 406 and 411 of this title, throughout the world, written and printed matter, parcels, and like materials and provide such other services incidental thereto as it finds appropriate to its functions and in the public interest. The Postal Service shall serve as nearly as practicable the entire population of the United States.

(b) It shall be the responsibility of the Postal Service—

(1) to maintain an efficient system of collection, sorting, and delivery of the mail nationwide;

(2) to provide types of mail service to meet the needs of different categories of mail and mail users; and

(3) to establish and maintain postal facilities of such character and in such locations, that postal patrons throughout the Nation will, consistent with reasonable economies of postal operations, have ready access to essential postal services.

(c) In providing services and in establishing classifications, rates, and fees under this title, the Postal Service shall not, except as specifically authorized in this title, make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user.

Service Elements of Universal Service

1. *Geographic scope* (“as nearly as practicable the entire population”)
2. *Range of products* (“written and printed matter, parcels, and like materials”)
3. *Access to facilities* (“ready access... “consistent with reasonable economies”)
4. *Delivery services* (“receipt, transmission, and delivery”)
5. *Rates* (“fair, reasonable”)
6. *Quality of service* (“prompt, reliable, efficient”)
7. *User protection* (“meet the needs of different categories of mail and mail users”)

Summary of USO Definition

- USO is what U.S. Postal Law (and related laws) obliges USPS to provide with respect to 7 US service elements
- History of the US is the history of laws relating to the 7 US service elements
- The legal provisions relating to these 7 service elements include much more than §§ 101 and 403, including
 - Other provisions of Postal Law
 - Appropriations Laws
 - Universal Postal Convention (after 1999)
 - Postal Regulatory Commission decisions (after 1971)

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Post Office to Post Office, 1789-1863

- “Postal service” conveyed the “mail” along “post roads”.
- Congress established “post roads” by statute
- Congress authorized Postmaster General to
 - Contract with riders and stagecoaches for service along post roads
 - Establish offices along post roads for receipt and distribution of mail
- Congress established post roads until 1884.
 - Became a formality in later decades.
 - Postmaster General authorized to start or stop service on routes established by Congress

City Delivery Service, 1863

- 1863. City delivery begins in 49 cities.
- 1865. City delivery mandatory in cities with more than 50,000
- 1874. City delivery authorized in cities with more than 30,000
- 1879. City delivery authorized in cities with more than 20,000
- 1887. City delivery authorized in cities with more 10,000 persons or \$10,000 in revenues.
- In 1890, about 19 million of the nation's 76 million inhabitants had mail delivery through the city delivery system.

Rural Delivery, 1896

- 1896. Rural delivery experiment.

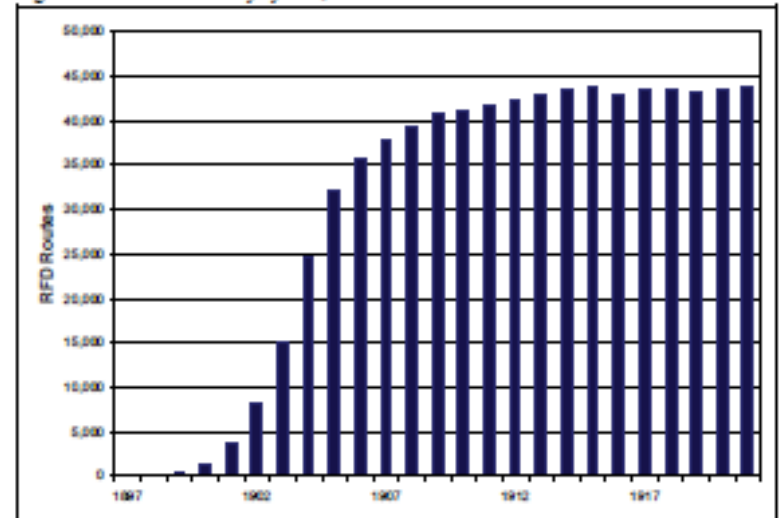
- PMG established routes based on citizens' petitions to the extent allowed by government financing.
- PMG required minimum density of settlement
- Delivery only to roadside box

- 1902. Rural delivery made permanent. PMG estimates rural delivery can be extended to about 1/3 of national territory. Largely completed by 1906.

- Congress took control in 1916 to stop motorized service

- *“That rural mail delivery shall be extended so as to serve, as nearly as practicable, the entire rural population of the United States.”*
- *“a mere statement of policy; it is nothing else”*

Figure 4. Rural free delivery system, 1897 to 1921



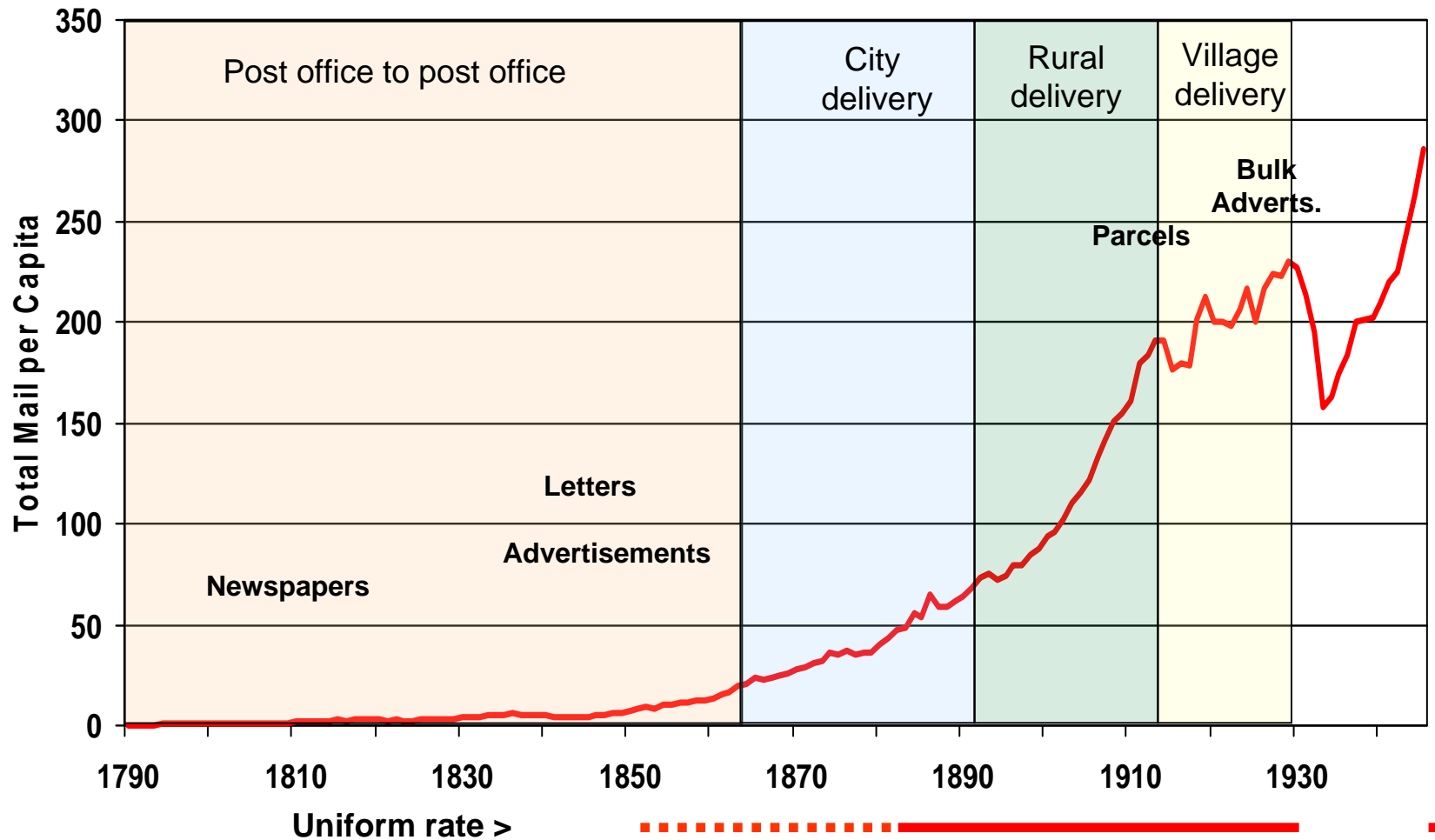
Village Delivery, 1912

- Village delivery experiment begins in 1912.
- Extent of service left to discretion of PMG. Post Office was not required to deliver to all houses and never did so.
- Substantially replaced city delivery after 1926

Evolution of Services and Prices

- 1789. Post Office primarily distributor of newspapers. Heavy “tax” on letters
- 1845-1851. Cheap letter postage transforms Post Office into exchange medium for letters
- 1845. First discount for advertisements
- 1863-1879. Classes of mail introduced
- 1883-1932. Uniform city-national letter rate (2 cents)
- 1916. Parcel post introduced
- 1917. Discount rates for educational publications
- 1932-1944. 2 cents local mail / 3 cents national mail
- 1928. Bulk pound rates for advertising circulars

Development of Postal Service



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Origins

- Increasing postal deficits after 1945.
 - Congress increased postal wage in 1945, 1948, 1949 by more than 70%.
 - Fundamental disagreement in Congress over how to allocate rate increases.
 - *Cost ascertainment system*. Fully allocated cost allocation required by Congress in 1926.
 - Publications and advertising mailers argued that CAS overstated costs by failing to recognize that letters as the main driver of costs.
- Senate Advisory Committee Report, 1954
 - Statement of national postal policy
 - Fixed costs born by letters
 - Public financing of public services such as preferential rates, rural service

1958 Postal Act

- Tremendous struggle between House, Senate, and President
- Compromise:
 - Letter rate increased to 4 cents (House and President)
 - Statement of national postal policy (Senate)
- Postal policy statement
 - First statement of national postal policy
 - Origin of much of §§ 101 and 403
 - Not intended to oblige the Post Office but to guide future rate increases by Congress

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Origins

- Postal crisis
 - Postal deficits increased
 - Oct. 1966. Breakdown of Chicago Post Office
- 1967 President Lyndon Johnson proposes
 - Increase stamp price to 6 cents and pay raises
 - Conversion of the Post Office into a government-owned corporation.
 - Commission on Postal Reorganization appointed to ascertain best organization approach

What a way to run a post office!

By Saville R. Davis
Staff correspondent of
The Christian Science Monitor
Washington

Today's lesson in American politics:

1. Political patronage is no way to run an efficient post-office system. It has resulted in a shambles.
2. Nor is Congress a good board of directors. Despite the popular belief that Congress spends money like water on post offices, to get votes back home, exactly the opposite is mostly the case. Post-office facilities are in good part archaic, in disrepair, stuck in the mud of long-outmoded processes for handling material.
3. Everyone knew this, or suspected it, but no one did anything about it — until maybe now.
4. An expert politician was made Postmaster General, in traditional fashion, and has astounded everyone by saying the post-office system ought to be taken out of politics. He is Postmaster General Lawrence F. O'Brien.
5. Mr. O'Brien didn't get the formal approval of President Johnson for making this revolutionary statement in public, but the President was given the chance to object and didn't. He said it was "worthy of study." Some members of Congress, too, have been showing signs of turning away from their 19th century ways.

Sen. A. S. Mike Monroney (D) of Oklahoma, chairman of the Senate Post Office Committee, sponsored a bill, passed by the Senate, to remove from congressmen the right to name postmasters and rural carriers — and to have them appointed on merit.

Republican House Minority Leader Gerald R. Ford of Michigan has called for taking the Postmaster General out of the President's Cabinet, which is a political position, and giving him a 12-year term. (The last three Postmasters General lasted an average of two years each.) Mr. O'Brien took the same line.

6. The payoff came when the President presented another bill for decades of inefficient post-office management: up go the postal rates again. (As everyone now knows, first-class domestic mail and airmail go up a penny, second-class newspaper and magazine mail goes up 22 percent on the average, third-class bulk airmail by 28 percent, and fourth-class library mail 21 percent.)

The reason is simple: too much manpower is employed wastefully where there should be spreading automation. So when wages go up, as the President said they must, to be "comparable" with those of private industry, there is too little automation and efficiency to offset it. Mr. O'Brien has heroically been pushing for big handling ma-

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By a staff photographer

Postmaster General
Lawrence F. O'Brien would abolish the Cabinet post he holds.

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Congressional deliberations, 1968-1970

- Major committee chairmen opposed corporatization
- Unions opposed and threatened national postal strike
- Compromise:
 - Postal Service established as an independent government agency, not corporation
 - Congress ends rate making and wage setting powers
 - Postal Rate Commission created to oversee rate increases
 - Large increase in wages for postal employees and right to negotiate for new wages.
 - Monopoly untouched.

Sections 101 and 403

- Rate setting principles from 1958 act restated and expanded as first section of 1970 act (§ 101) and rate-setting guidelines for PRC (§§ 3622, 3623).
- General duties provision from the President's corporatization bill became general duties of Postal Service (§ 403).
- New provisions included:
 - Uniform rate rule for letters
 - Requirement that each class cover attributable costs
 - Specific obligation to receive, transmit, and deliver mail throughout the nation
- Declining public subsidy provided until 1984.

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Appropriations rider, 1981-present

- Recession in 1979-1981
 - Inflation threatened federal budget
 - Congress stopped paying federal subsidy promised in 1970 act
- To ensure continuation of politically important services despite end of public subsidy Congress added provision in 1981 appropriations bill to prevent reduction in service.
- Appropriations provision has been repeated in every bill since:
 - *Provided, That six day delivery and rural delivery of mail shall continue at the 1983 level: Provided further, That none of the funds provided in this Act shall be used to consolidate or close small rural and other small post offices in the fiscal year ending [current year]*

End of Revenue Forgone

- 1970 act ordered the Postal Service to provide reduced rates for certain types of mail:
 - Mail of charitable institutions, unions, library, books, etc.
- In 1986, Congress reduced the revenue forgone subsidy by adopting a new method of calculation suggested by the Postal Rate Commission.
- In 1993, Congress ended the revenue forgone subsidy entirely

Other Developments

- Courts and PRC have held that the Postal Service cannot be required to
 - to extend services to unserved areas
 - to locate a post office or collection box in a particular place
 - to provide delivery in a specific manner
 - to change the quality of a given service, or
 - to redress a user for lapses in service.
- Postal Service has introduced wide spread mailbox and cluster box delivery despite substantial objection from addresses.

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In General

- Postal Law generally requires the Postal Service “to provide postal services to bind the Nation together” through the supply of “prompt, reliable, and efficient services to patrons in all areas” with particular attention to ensuring “a maximum degree of effective and regular postal services to rural areas, communities, and small towns.”
- The Postal Service must transmit “written and printed matter, parcels, and like materials” and “provide types of mail service to meet the needs of different categories of mail and mail users” by establishing a postal system that serves “as nearly as practicable the entire population of the United States.”
- The Postal Service is legally “obliged” to provide a “universal postal service”

Specifically

- Requirements in postal law
 - Maintain rates for sealed letters that are “uniform throughout the United States, its territories, and possessions”.
 - PRC has interpreted this provision not to require geographically uniform rates
 - Provide preferential rates for certain types of mail
- Requirements in appropriations law:
 - Postal Service is obliged to provide “six day delivery and rural delivery of mail” at no less than the 1983 level
 - USPS consolidate or close small rural and other small post offices.
 - Binding nature of these provisions is unclear
- Comply with rate regulations of PRC (mainly price caps)
- No quality of service or user protection provisions

In Sum

- The Postal Service is obliged to provide postal service throughout the U.S.
- But Congress has generally left the scope of the USO to the discretion of the Post Office.
- Congress has never attempted to define USO requirements other than prices.
- U.S. Postal Law prescribes almost no specific USO requirements except for price controls administered by the PRC.
 - “Almost” because the law is unclear in key respects