

The Postal Service Bleeds Cash in the New Year

As 2020 kicks off, the gift-giving season already feels like it was eons ago. But to the beleaguered and overextended United States Postal Service (USPS), the frantic pace of holiday shipping will continue well into January.

Thanks to [increasingly generous](#), “no questions asked” returns policies by leading e-commerce sellers, an astounding one third of shipped packages will be returned to manufacturers. But the USPS, which is bleeding red ink and scheduled to [run out of cash by 2024](#), collects little from this shipping bonanza due to opaque, deeply misguided pricing policies vis-à-vis thousands of major sellers. Absent significant reforms, gift receipts will continue to cost taxpayers and consumers dearly.

We all have that quirky great aunt who sends the strangest gifts or that ridiculously ugly sweater that doesn't fit. Many of these gifts get returned via the USPS. Yet thanks to the prepaid return policies of most online sellers, consumers usually don't have to bear any cost for returning those packages. But *someone* has to pay for the return service, which, after all, involves substantial labor and capital (i.e. mail trucks and scanners). That's where e-commerce companies are supposed to kick in, paying the USPS for the return fare for either the entire journey or at least the first leg before the merchandise is handed off to a private delivery company.

Not so fast. Consumers are being left in the dark about how much leading e-commerce companies compensate the federal agency and if revenues are meeting costs. The actual formulas that lead the USPS to determine which shipping prices are reasonable to charge are a closely guarded secret. Observers trying to figure out how the agency goes about charging e-

commerce companies will be greeted with [thick redactions](#) on Inspector General documents, to the point that they start to resemble the Mueller Report. But there are plenty of hints that something is seriously wrong with the way the USPS calculates its prices. In its recently released fiscal year (FY) 2019 [Annual Compliance Report](#), the agency notes that revenue from mail items such as packages covers 23.4 percent of the agency's "total institutional costs."

That's all well and good for the Postal Regulatory Commission, which only requires packages to be priced high enough so that revenues cover 8.8 percent of agency costs like scanners and delivery trucks. But such a threshold is bizarre, considering that packages [make up](#) more than 45 percent of total mail weight lugged around by the USPS. And obviously packages tend to be far larger than letters and are increasing in volume as letters go by the wayside. Basically every business and procurement decision that the USPS made in the 2010s has been to facilitate exploding package volume, from [buying larger trucks](#) to purchasing [package-friendly scanners](#).

Yet somehow, the agency manages to charge e-commerce giants such insanely low prices that revenues aren't even covering a quarter of, say, new truck purchases. And this revenue voodoo hasn't deterred the USPS. A 2019 IG report [notes](#) that the agency has "eliminated a number of fees for returns aimed at commercial shippers" in its quest to compete with the likes of FedEx and UPS. But the USPS is struggling to get its returns business up to par with the rest of its delivery services, and returns volume and revenue "have been growing rapidly, though not nearly as fast as outbound package volume and revenue."

It's tempting for the Postal Service to try to keep pace with private shippers for returns business even though the agency lost [nearly \\$9 billion](#) just in FY 2019. But before the USPS tries to lure in e-commerce companies with [60 percent discounts](#), it should first make sure that its pricing formulas are in lockstep with reality. Opening up its books to

independent analysts would be a great first step and signal its resolve to get its house in order. Because unless the agency stems the flood of red ink, taxpayers and stamp buyers will almost certainly foot the bailout bill.

We should be able to return Aunt Phyllis's sweaters as often as we like – just not on the public dime.

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