

By Paul H. Rubin

# The 1¢ Nuisance

Special at the “user friendly” USPS: retroactive price increases

**T**he u.s. postal service (usps) is a government monopoly and therefore does not have to worry about losing much business or about competition. In recent years, it has tried to become more “user friendly” by making it easier for consumers to buy stamps and otherwise deal with the agency. On its web page, it says that it wants its services to be “recognized as the best value in America.” But it really has limited incentives to be efficient or consumer friendly because it has no close competitors for first-class mail. An example is the way in which postal rate increases are implemented.

In January the usps raised its first-ounce rate by 1¢, from 32¢ to 33¢. Thus everyone wanting to send a letter and not waste existing stamps has had to find a 1¢ stamp. The penny is not a problem for most Americans and few if any individuals send enough letters for the extra pennies to increase their expenditures noticeably. But obtaining the extra stamps is a real nuisance. These “make up” stamps do not show a value because they must be printed before the exact rate adjustment is known. (The current 1¢ stamp is green with a rooster and is labeled “The ‘H’ Rate make-up stamp.”) This adds to the nuisance cost because the user must remember what the H rate is worth and when the make-up stamp must be used.

A stamp is a prepayment for the services of the usps in delivering a letter. In any other business, if you prepay for a service then you get the service at the prepaid price. Providers do not go back to users and demand an additional payment to make up for price increases. Subscribers to periodicals pay for one year or more in advance; they do not get bills during the year to make up any price increases. When a traveler buys an airplane ticket, the ticket is good at the purchase price, no matter what happens to fares in the future. Theater and concert tickets are honored at the purchase price, not the current price. When a consumer buys merchandise on credit, the price at the time of

purchase governs, not the price in effect when the bill is paid. The usps may be unique in its pricing methods.

The reason market-oriented sellers do not adjust prices after sale is simple: the nuisance cost of the adjustment is a real cost to consumers that provides no benefit to sellers, and so it is in the interest of sellers to eliminate those costs. Sellers in competitive markets are forced to take these costs into account because if they do not they will lose business to competitors who do. But the usps, as a government monopoly, does not need to consider competitors.

The simplest answer would be for the usps to stop selling 32¢ stamps but allow any consumer to continue to use 32¢ stamps for full postage. Businesses using postage meters would be required to increase their postage immediately, but this is a simple one-time setting and does not entail the nuisance costs borne by individuals. Any costs to the usps would be self-limiting because the agency would be getting the benefit of the interest on prepaid services. If I purchase a stamp today and use it in six months, the usps has my money for six months before it must spend money to deliver the letter and it earns interest on my prepayment. Therefore, there would be a limited cost to the agency from simply honoring past stamps, and a limited benefit to consumers from stocking up.

At an interest rate of 10 percent, with a price increase of 3 percent (from 32¢ to 33¢) it would not pay to buy stamps more than four months in advance. If prices increased by more than 1¢ (as they have in the past) this would typically be in a time of high inflation, interest rates would be correspondingly higher, and the four-month payback period would remain approximately the same.

Moreover, the usps would save the cost of printing the make-up stamps. And the usps could probably implement a rate increase more quickly because it would not need to allow time for consumers to purchase make-up stamps. That is, the usps could have stopped selling 32¢ stamps and started selling only 33¢ stamps sooner, thus further reducing the costs of this rate change.

If the usps really wants to become a friendly agency recognized for providing value, it should eliminate the nuisance of the make-up stamp. ●

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