



## Trump thinks Amazon's destroying the post office. Here's what's really happening.

By Jen Kirby

President Donald Trump is reportedly obsessed with Amazon, and he insisted on Twitter Thursday that his antipathy toward the company “began long before the Election” — not, say, when he became a presidential candidate and fell under the scrutiny of the Washington Post, the newspaper that Jeff Bezos, Amazon’s founder and CEO, also happens to own.

Trump has apparently been worrying for a long time about Amazon paying “little or no taxes to state & local governments” and that it’s using “our Postal System as their Delivery Boy (causing tremendous loss to the U.S.),” and is “putting many thousands of retailers out of business!” (A quick Twitter scan reveals that before declaring his candidacy Trump mostly just mentioned Amazon to promote his book *Time to Get Tough: Making America #1 Again*.)

The latest tweet appeared to be prompted by a report in Axios that Trump is “obsessed” with the company. But this isn’t the first time Trump has accused Amazon of posing a bad deal for the US postal system. Trump has previously accused Amazon of making the post office “dumber and poorer.” He seems to still think that Amazon is getting a free ride from the USPS.

Is Trump right that Amazon is ripping off the Postal Service? The question of whether it should or could charge more is complicated. The Postal Service does lose billions each year, and has for the past decade. And it’s likely that Amazon gets a good deal, given that it ships millions of boxes a year. It’s also hard to know how sweet that deal might be because those agreements aren’t public.

But the Postal Service’s problems are deeper than just delivering packages. Larger institutional problems in the age of email and two-hour delivery are really to blame — but also much, much harder to fix.

### **The Postal Service is bleeding money — but its parcel services are doing okay**

The US Postal Service’s financial woes are, by now, well-documented: In November 2017, the Postal Service took a net loss of \$2.7 billion. Magnified over years, that figure represents a cumulative net loss of more than \$63 billion since 2007. That is “many billions of dollars.”

But break down the losses, and the situation is a bit more nuanced. Delivering packages, it turns out, is a growth business, and it actually makes the Postal Service money: The revenue from packages increased \$2.1 billion and was up 11.8 percent for fiscal year 2017. The problem is the revenue from first-class mail — still the biggest source of the USPS’s revenue — is declining.

The thing that really eats up the Postal Service’s revenue: financial obligations to employees’ health and retirement benefit programs. A 2006 law mandates that USPS pre-fund 75 years of retiree health benefits. That requirement costs billions.

So packages are the Postal Service’s positive note in an otherwise dismal financial report, and are at the very least not the only reason the organization is hemorrhaging money.

## Could USPS charge Amazon more?

USPS really does make deals with Amazon. It all starts with how the postal system works: According to Kevin Kosar, vice president of policy for the R Street Institute, a right-leaning, pro-free-markets think tank, USPS is basically two separate entities: the monopoly side and the market side.

The monopoly side processes regular, first-class mail — wedding invitations, baby announcements, birthday cards, and bills. There isn't much competition for sending an ordinary letter.

The market services are parcel services, which competitors like UPS and FedEx also provide.

An independent agency, the Postal Regulatory Commission, oversees and reviews the rates the US Postal Service sets for both the monopoly and competitive sides, basically reviewing and giving the okay for any changes — including a one-cent stamp price increase.

Within those parameters, the USPS enters into individual agreements with different companies for its competitive services — what are known as negotiated service agreements, or NSAs.

The NSAs set the rates for shipping, which can be more favorable to companies that mail or ship in bulk. They're sometimes called "workshare discounts."

"The prices that the company pays is going to be haggled and based on how much [the companies] prepare whatever is being shipped before handing it over to the Postal Service," Kosar told Vox back in December.

That preparation includes making sure goods are packaged in the right size boxes, or parcels are outfitted with a bar code that works with the post office — basically anything that makes the USPS's job easier and cuts down on some logistical and processing costs.

And a massive company like Amazon, with the infrastructure and resources to do what the Postal Service needs, will probably get a more favorable deal. "Obviously bigger companies are better at doing this, that's how they eke out nice little margins, but driving those costs down," Kosar said.

So in some ways, there's a mutual benefit. Amazon gets a good deal from USPS, which ships millions (but not all) of its packages, and, in return, the postal system gets help streamlining its operations.

The Postal Regulatory Commission reviews these deals with Amazon and other retailers to make sure they meet certain cost requirements, and competitive products as whole have to bring in enough money to cover a portion of the post office's institutional costs. In a report released just Thursday — the same day of Trump's tweet — the Post Office Regulatory Commission found those NSAs brought in a \$7 billion in profits in fiscal year 2017.

The issue here is that is all competitive products get lumped together. In other words, how much of that \$7 billion comes from Amazon's business is a big question mark. Nobody knows exactly what kind of agreement Amazon has with the Post Office because it's not available to the public. Such a deal might very well be profitable to the USPS. But there's also the possibility that it could be even more profitable. Or to use a Trumpian phrase, maybe the USPS isn't actually making the best deals.

Matt Stoller, a fellow at the Open Markets Institute, a group that advocates against corporate monopolies, suggests there's likely quit a bit of revenue from Amazon the USPS is failing to capture. He's also skeptical of the post office's accounting when it comes to NSAs, especially since the contracts are secret.

"Is Amazon getting better rates from the post office than other retailers?" Stoller said. "My guess is that they are, especially small ones."

Those better rates, Stoller said, could allow Amazon to force smaller retailers to use their Amazon fulfillment services — and if retailers don't, then Amazon can discriminate against those retailers in the marketplace, crushing the competition.

Which supports Trump's point: that Amazon is using the post office as its "delivery boy" and killing business.

So maybe the USPS is not the best at making deals. Some have argued that USPS should be charging more for its packages across the board. A Wall Street Journal op-ed in July 2017 by Josh Sandbulte, a money manager who closely watches the shipping industry, also suggested the Postal Service is probably effectively subsidizing Amazon and other online retailers.

Sandbulte's claim is based on how the Postal Service sets its prices. USPS is not allowed to set prices so low that it loses money on delivering packages. (If it could, it could undercut competitors like FedEx or UPS.) But the formula for how it sets its prices was created by Congress in 2006, and doesn't account for the fact that packages are a much bigger share of the USPS's business than they used to be.

Sandbulte drew his conclusions based on a Citigroup analysis that suggested the average USPS parcel should cost about \$1.46 more per package across the board than it does right now. (Sandbulte works for a firm that owns FedEx stock.)

That discount, if it exists, exists for all USPS customers. It's just that Amazon sends a lot of packages.

And that's the bottom line here. Amazon is a giant and, as Kosar calls it, "is in a class of its own" when it comes to shipping. The perception is that Amazon doesn't need the United States Postal Service to do business. It can and does use a variety of delivery services — and probably can play those services off each other. But the same isn't necessarily true for the USPS.

Which means maybe the USPS chooses to be a little "poorer" in hopes of capturing a huge chunk of business from the ecommerce behemoth, especially since its first-class mail business is going to keep diminishing over time. In some ways, the USPS may be following the playbook that made Amazon, well Amazon — short-term losses for long-term gains. "That would make perfect business sense in their eyes," Kosar said. "Amazon was willing to take losses year after year ... and it worked. It worked."

But Stoller said it's the other way around. The USPS maybe bought a little too hard into Amazon's mythology — and it's underselling its value, letting itself get played as a result. "Amazon absolutely needs the post office," Stoller said. "The post office is a monopoly provider to last-round services in all sorts of places."

In other words, Amazon actually needs the long-established postal service network to do its job. If the post office raised their rates, Amazon might be able to skim some volume in its total shipping off the margins, but for the most part, Stoller said, Amazon would have to go along.

"This is cream skimming," Stoller said. "That's what this is. Amazon is just skimming the cream by letting the post office deliver — otherwise they'd do it themselves if they were so much more efficient."

### **USPS's problems are much bigger than Bezos**

Ultimately, the Postal Service's financial woes extend far beyond Amazon and its parcel services. And on this, Trump — who again, is president and oversees the executive branch — and the Republican-controlled Congress can actually have some say.

The Postal Regulatory Commission (which currently has a Republican majority) approved a jump in stamp prices 2 percent beyond the rate of inflation, as part of a larger review of postage rates. This could pave the way for increased shipping rates in the future.

This is a bit of a testy issue, as Kosar explains that some of the postal system's competitors believe USPS could use this increased revenue to help keep those parcel prices low — essentially using its monopoly (first-class mail) to subsidize its competitive business.

Either way, federal regulators are seriously putting postage prices under scrutiny. And Congress could also help ease some of the USPS's financial pressure by reexamining its retirement and health obligations. That 2006 law requires the Postal

Service to prefund 75 years' worth of retiree health benefits — which basically means USPS has to make a down payment on future obligations, no matter what.

A Post Office Inspector General blog entry from 2015 (which, of course, has a big stake in the debate) describes the prefund arrangement like this: It's as if your credit card company estimated you'll spend \$1 million in your lifetime, so it asked you to send them that \$1 million check up front. Most public and private sector unions use a "pay as you go" scheme, and postal workers' unions and the post office itself have said these aggressive payments prevent the service from investing or developing a business model to make it more sustainable.

Congress has introduced new legislation that will ease this financial situation by changing those prefunding requirements — among other reforms to postal rates and operations that are supposed to increase profitability. (A Senate version of a postal reform bill introduced this week would have the USPS get in on the wine and beer delivery game.)

Maurice McTigue, the president of outreach at the Mercatus Center at George Mason University, which focuses on government accountability, said ultimately it's up to Congress to fix the post office's woes. "I don't think that it has any merit to blame Amazon," he said. "I think if you were to blame the post office for not being as successful as it could be you would have to blame Congress, that won't allow the post office to manage itself in the best possible way."

McTigue said the Postal Service occupies a strange space between government agency and competitive business, which kneecaps its ability to navigate the financial and cultural challenges, from email to online retail. "It's sort of like saying you're half-pregnant," he said. "You can't be half, and it's neither a commercial business nor a full government department, so it lives in this netherworld."

Which brings up a larger question: "What do we want from the Postal Service in the 21st century?" as Kosar put it. "And we haven't had that conversation."

The USPS is trying to save itself with its parcel services, but that's a temporary, not long-term solution to profitability — here or anywhere else. Finland, for example, launched a pilot program to have postal workers mow lawns to make up some revenue. Sen. Elizabeth Warren (D-MA) and others have advocated the USPS get into banking. Those ventures might not work — but these are realities the Postal Service has to face.

"The institutional value of the post office of the post is enormous," Stoller said. "They also just need to figure out what is going there, and how much Amazon is extracting. Look, it's possible it's a great deal for the post office — I doubt it."

"But they just need to figure it out," he added. "Then we need to figure out if we want a post office. I do."