

## Postage Rates for Periodicals: A Narrative History

From the beginning of the American republic, the Founding Fathers recognized that the widespread dissemination of information was central to national unity. They realized that to succeed, a democratic government required an informed electorate, which in turn depended upon a healthy exchange of news, ideas, and opinions. George Washington and Thomas Jefferson disagreed on several issues, but never on the importance of a robust free press. In 1788, Washington wrote:

*I entertain an high idea of the utility of periodical Publications: insomuch that I could heartily desire, copies of . . . Magazines, as well as common Gazettes, might spread through every city, town and village in America. I consider such easy vehicles of knowledge, more happily calculated than any other, to preserve the liberty, stimulate the industry and meliorate the morals of an enlightened and free People.<sup>1</sup>*

Jefferson wrote in a similar vein in 1804:

*No experiment can be more interesting than that we are now trying . . . that man may be governed by reason and truth. Our first object should therefore be, to leave open to him all the avenues to truth. The most effectual hitherto found, is the freedom of the press.<sup>2</sup>*

Congress, which legislated postage rates until 1970, encouraged the exchange of newspapers and magazines by allowing them to travel through the mail at extremely low rates of postage – in some cases for free. Congress subsidized postage on periodicals by over-charging for letter postage and, when necessary, digging deep into the U.S. Treasury. Congress dropped postage rates on periodicals for nearly a hundred years, even as soaring costs of handling and shipping led postal officials to recommend at least modest rate increases. Although Congress periodically refined the definition of a periodical to try to prevent mailers from abusing the low postage rates, it was not until 1917 that Congress began to slowly raise rates. Despite subsequent rate increases, delivery costs far surpassed revenues through the 1970s.

In 1970, Congress passed the Postal Reorganization Act, which transformed the United States Post Office Department into the United States Postal Service, an independent establishment of the executive branch of the Government of the United States. The act shifted rate-setting authority from Congress to nine Presidentially-appointed Governors of the Postal Service, who considered the recommendations of a newly-created, Presidentially-appointed Postal Rate Commission ("PRC," now called the Postal Regulatory Commission). The PRC, in turn, considered rate changes proposed by the Postal Service.

Since 1971, when the act took effect, repeated increases in postage rates for periodicals have helped defray the Postal Service's expense in delivering them. For all but one year during the period from 1981 through 1998, postage on periodicals more than covered costs; since 1999, delivery costs have largely outpaced revenues.

In 2006, Congress passed the Postal Accountability and Enhancement Act, requiring "market-dominant" types of mail, including Periodicals, to bear their attributable costs, and limiting their future rate increases to the rate of inflation. In 2009, Periodicals covered just 76 percent of their attributable costs; the rate of inflation averaged 2.7 percent.

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<sup>1</sup> George Washington to Mathew Carey, June 25, 1788, in John C. Fitzpatrick, ed., *The Writings of George Washington, Volume 30* (Washington, D.C.: Government Printing Office, 1939), 7-8.

<sup>2</sup> Thomas Jefferson to John Tyler, June 28, 1804, in *The Writings of Thomas Jefferson, Volume XI*, edited by Albert Ellery Bergh (Washington, D.C.: The Thomas Jefferson Memorial Association, 1907), 33.

## Rate Legislation to 1863

*A popular Government, without popular information, or the means of acquiring it, is but a Prologue to a Farce or a tragedy; or, perhaps both.* James Madison, 1822<sup>3</sup>

Because news was considered crucial to an informed electorate, the first major postal law, passed in 1792, provided for the carriage of newspapers to subscribers for the relatively rock-bottom rate of either 1 cent (for up to 100 miles) or 1.5 cents (for more than 100 miles) (1 Stat. 238). Postage for letters, by contrast, cost at least 6 to 25 cents, depending on distance traveled. The 1792 law also allowed newspaper printers to send each other newspapers for free, facilitating the spread of national and foreign news outward from the seat of government.<sup>4</sup>

When the 1.5-cent rate was alleged to inhibit newspaper circulation, President George Washington told Congress to look into it, stating that if it “be found to be the fact, a full conviction of the importance of facilitating the circulation of political intelligence and information will, I doubt not, lead to the application of a remedy.”<sup>5</sup> Washington would have preferred that newspapers and other periodicals travel *entirely* free of charge.<sup>6</sup>

In 1794, while retaining high postage rates for letters, Congress lowered the rate for in-state newspapers to 1 cent and also gave magazines preferred rates – from 1 to 2 cents, depending on distance traveled (1 Stat. 362).

Low – or no – postage on newspapers translated to high circulation. In the early 1830s Frenchman Alexis de Tocqueville, touring the United States, observed that “nothing is easier than to set up a newspaper, as a small number of subscribers suffices to defray the expenses. . . . In America there is scarcely a hamlet that has not its newspaper.”<sup>7</sup> Historian Charles Sellers noted that “by 1840 the United States had more newspapers than any other country.”<sup>8</sup> Partly as a consequence of high newspaper readership, Americans enjoyed a high literacy rate – 91 percent of white adults in 1840.<sup>9</sup>

From 1845 to 1847, Congress allowed newspapers to travel for free for up to 30 miles (5 Stat. 733; 9 Stat. 202). Effective June 30, 1851, weekly newspapers were delivered for free within their county of publication, and postage rates for newspapers were charged on a quarterly basis, with the net effect that rates for newspapers travelling less than 1,000 miles were lowered – in some cases by more than 50 percent.<sup>10</sup> Rates for magazines travelling less than 1,500 miles were also lowered, by 20 to 60 percent; if subscribers prepaid on a quarterly basis, postage rates were halved (9 Stat. 588).

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<sup>3</sup> Letter from James Madison to W. T. Barry, August 4, 1822, in Gaillard Hunt, ed., *The Writings of James Madison, Volume IX* (New York, NY: G. P. Putnam’s Sons, 1910), 103.

<sup>4</sup> Through the early 1800s, the content of local newspapers consisted largely of national and foreign news stories clipped from newspapers exchanged for free in this manner. See Richard B. Kielbowicz, *News in the Mail: The Press, Post Office, and Public Information, 1700-1860s* (Westport, CT: Greenwood Press, 1989), 141-155.

<sup>5</sup> George Washington, Fourth Annual Message to Congress, November 6, 1792. From University of California, *American Presidency Project* <http://www.presidency.ucsb.edu/ws/index.php?pid=29434> (accessed May 28, 2008).

<sup>6</sup> In 1789, Washington wrote “I need not say how satisfactory it would be, to gratify the useful curiosity of our citizens by conveyance of News Papers and periodical Publications in the public vehicles without expence.” Washington’s proposed address to Congress, April 1789, in John C. Fitzpatrick, ed., *The Writings of George Washington, Volume 30* (Washington, D.C.: Government Printing Office, 1939), 305. In 1793, in his Fifth Annual Address, Washington stated “I cannot forebear to recommend a repeal of the tax on the transportation of public prints.” By “tax” he meant postage, and by “public prints,” newspapers (see Rita Lloyd Moroney, “A Study of the Intent of Legislation on Second-Class Mail,” United States Postal Service, Washington, D.C., July 1977).

<sup>7</sup> Alexis de Tocqueville, *Democracy in America, The Henry Reeve Text as Revised by Francis Bowen, Now Further Corrected and Edited with Introduction, Editorial Notes, and Bibliographies by Phillips Bradley* (New York, NY: Alfred A. Knopf, 1993), 1:186.

<sup>8</sup> Cited in Christopher W. Shaw’s *Preserving the People’s Post Office* (Washington, DC: Essential Books, 2006), 63.

<sup>9</sup> Lee Soltow and Edward Stevens, *The Rise of Literacy and the Common School in the United States: A Socioeconomic Analysis to 1870* (Chicago, IL: The University of Chicago Press, 1981), 155-159.

<sup>10</sup> 9 Stat. 588. Free in-county delivery of weekly newspapers, as well as publishers’ free exchange of papers, was abolished effective June 30, 1873 (17 Stat. 559). The Act of June 23, 1874 (18 Stat. 233), reintroduced free in-county delivery of newspapers, without specifying frequency, and this privilege continued until 1963, although postage was charged if the delivery office provided free home delivery of mail.

Effective September 30, 1852, magazines enjoyed the same low rate as newspapers: traveling within state, half a cent; to other states, one cent (10 Stat. 38-39). In most cases this resulted in a rate reduction of from 33 to 50 percent from 1850 rates. At the same time, rates were halved if prepaid quarterly or yearly in advance. So, for example, postage for a newspaper traveling from New York City to a Washington, D.C., subscriber, cost 1.5 cents in 1850, but only 1 cent in 1852, and half that if prepaid.

## Second-Class Mail Rates, 1863 to 1918

*The public press is a great power in this country. No public man would seek to engage in a contest with them.* Senator John Sherman of Ohio, 1874<sup>11</sup>

In 1863, mail was divided into classes – periodicals constituted the second class, defined as “all mailable matter exclusively in print, and regularly issued at stated periods, without addition by writing, mark, or sign,” and qualifying for second-class rates if issued “from a known office of publication, and sent to regular subscribers” (12 Stat. 705-707). For the first time, distance was not a factor in determining postage rates. The net effect was a per-issue delivery cost of less than half a cent, unless the periodical was published less than weekly, in which case postage cost one cent. Postage for second-class mail was to be prepaid by either the mailer or the recipient on a quarterly to annual basis, although this requirement was apparently routinely ignored by postmasters, resulting in unintentional free delivery for many customers.<sup>12</sup>

Because postmasters often did not or could not collect postage from addressees, Congress mandated prepayment of postage by publishers effective January 1, 1875, and set a bulk postage rate of two cents a pound for weeklies, and three cents a pound for less frequently issued periodicals (18 Stat. 232-233).

In 1879, after consulting at length with the publishing industry, Congress further liberalized the terms of second-class mail delivery: it extended the two-cent-per-pound rate to all periodicals, regardless of frequency of issue, and extended free in-county delivery (formerly restricted to newspapers) to all periodicals. However, Congress did raise in-county delivery rates for other-than-weekly periodicals, and refine the criteria to be met by a publication for admission to the second class:

*First. It must regularly be issued at stated intervals, as frequently as four times a year, and bear a date of issue, and be numbered consecutively.*

*Second. It must be issued from a known office of publication*

*Third. It must be formed of printed paper sheets, without board, cloth, leather, or other substantial binding, such as distinguish printed books for preservation from periodical publications.*

*Fourth. It must be originated and published for the dissemination of information of a public character, or devoted to literature, the sciences, arts, or some special industry, and having a legitimate list of subscribers; Provided, however, That nothing herein contained shall be so construed as to admit to the second class rate regular publications designed primarily for advertising purposes, or for free circulation, or for circulation at nominal rates.*<sup>13</sup>

Representative Joseph Cannon of Illinois acknowledged that second-class mail traveled nearly for free, paying “only one-seventeenth of its cost,” but concluded that newspapers and periodicals merited low rates because they were “a means for information and education of the people.”<sup>14</sup>

In 1885, the two-cent-per-pound rate for regular second-class mail was cut in half, to one cent (23 Stat. 387).<sup>15</sup> In 1894, the description of publications entitled to second-class rates was enlarged to include those issued by non-profit organizations.<sup>16</sup>

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<sup>11</sup> *Congressional Record* (43<sup>rd</sup> Congress 1<sup>st</sup> Session), June 22, 1874, Vol. 2, Part 6, 5348.

<sup>12</sup> Jane Kennedy, “Development of Postal Rates: 1845-1955,” *Land Economics*, vol. 33, no. 2 (May 1957), 98. Kennedy estimated that 40 percent of newspapers and magazines (other than free in-county) traveled essentially postage-free in 1874 because postmasters failed to collect the postage.

<sup>13</sup> 20 Stat. 359. The Act of March 3, 1879, provided that other-than-weekly periodicals deposited at a Post Office for delivery by its city carriers were charged the relatively higher rates of 1 or 2 cents per copy, depending on weight (20 Stat. 361), whereas the per-pound rate netted a per-issue cost of less than half a cent.

<sup>14</sup> *Congressional Record – House* (45<sup>th</sup> Congress, 3<sup>rd</sup> Session), January 23, 1879, Vol. 8, Part 1, 692.

Between 1885 and 1915, to the dismay of postal officials, second-class mail volume increased by a factor of twelve, while First-Class Mail volume grew by only six- to seven-fold.<sup>17</sup> Not only did increasing volumes of the least-remunerative class of mail burden the delivery network, but – to make a bad situation worse – postal officials estimated that up to half of the mail traveling at second-class rate did not truly qualify. In 1889, Postmaster General John Wanamaker noted that “to realize the benefit of the cheaper rate of postage, a fertility of expedients has been developed to evade the law.”<sup>18</sup> Books masqueraded as serials; advertising circulars were disguised as periodicals. In 1891, Wanamaker estimated that there were “probably 50,000 tons of so-called serials” mailed each year at the penny-a-pound rate, adding a million dollars a year to the postal deficit.<sup>19</sup> In 1901, Postmaster General Charles Emory Smith called “the perversion and abuse of the privilege accorded by law to second-class matter . . . the one great overshadowing evil of the service.”<sup>20</sup>

As volumes rose, so did the vast deficits created by artificially low rates. Second-class matter, which publishers paid a penny per pound to mail, cost the Post Office Department an estimated five to eight cents a pound to deliver, leading to estimated losses of from \$17 million in 1894 to \$27 million in 1905.<sup>21</sup> Alarmed, Congress appointed special commissions in 1906 and 1911 to study the growing problem. Both commissions recommended rate increases, as well as better cost studies to inform rate-making. In 1912, the Hughes Commission stated further that

*All classes of mail are carried for the common convenience of the public, and in determining the apportionment of cost, each should be charged with its proper share of the total expense.*<sup>22</sup>

President William H. Taft also recommended that rates be increased:

*That newspapers and magazines have been potent agencies for the dissemination of public intelligence and have consequently borne a worthy part in the development of the country all must admit; but it is likewise true that the original purpose of Congress in providing for them a subvention by way of nominal postal charges in consideration of their value as mediums of public information ought not to prevent an increase, because they are now not only educational but highly profitable.*<sup>23</sup>

Recommendations for rate increases were not heeded; the publishers' penny-per-pound rate persisted.

## Rate Legislation, 1918 to 1970

*Postal rates for second class [mail] . . . have for nearly a century presented a problem to the Congress which has remained unsolved.* Charles A. Heiss, Special Consultant to the Post Office Department, 1945<sup>24</sup>

It took a war for Congress to finally begin to curb the enormous subsidies granted publishers in the form of rock-bottom postage rates. To help fund the U.S. entry into World War I, the War Revenue Act of October 3,

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<sup>15</sup> “Regular” here and in later, similar instances refers to matter mailed outside its county of origin, a usage adopted by Congress in 1967 (81 Stat. 618).

<sup>16</sup> Eligible organizations included benevolent or fraternal societies with 1,000+ members, as well as institutions of learning, trade unions, professional societies, and state boards of health; their publications were eligible if they were intended “to further the purposes of such organizations” (28 Stat. 105). In 1912, publications issued by “State boards or departments of public charities and corrections” were included, and publications of non-profits were explicitly permitted to contain advertising (37 Stat. 551).

<sup>17</sup> Kennedy, 100.

<sup>18</sup> *Annual Report of the Postmaster General*, 1889, 43.

<sup>19</sup> *Annual Report of the Postmaster General*, 1891, 106. At the time books would have properly been sent as third-class mail at a rate that was eight times higher – a penny per two ounces, versus a penny per pound.

<sup>20</sup> *Annual Report of the Postmaster General*, 1901, 12.

<sup>21</sup> *Message of the President Transmitting the Annual Report of the Postmaster General for the Fiscal Year Ended June 30, 1911 and the Report of the Commission on Second-Class Mail Matter, February 22, 1912* (Washington, D.C., 1912), 65.

<sup>22</sup> *Ibid.*, 131.

<sup>23</sup> *Ibid.*, 11.

<sup>24</sup> Charles Augustus Heiss and E. J. Walsh, *Memoranda Regarding Second Class Matter, July 3, 1945*, 11 (USPS Library)

1917 (40 Stat. 327-328), in addition to greatly increasing citizens' income taxes, included increases in second-class postage rates for publications traveling outside their county of origin, to be phased in annually from 1918 through 1921. It also introduced higher rates, based on Parcel Post zones, for the advertising portions of these publications (if in excess of 5 percent), and lower rates for publications issued by non-profit organizations.<sup>25</sup> The per-pound rate for the reading portion of publications traveling outside the county of origin was raised to 1.25 cents in 1918 and to 1.5 cents in 1921. In 1918, advertising content was charged from 1.25 to 3.25 cents; rates increased annually until by the end of 1921 they were from 2 to 10 cents per pound. Although by one estimate the cumulative effect of these increases brought average second-class postage to no more than 2 cents per pound – the rate that had existed prior to 1885 – publishers squawked, prophesying, if not the death of newspapers, the destruction of an informed electorate.<sup>26</sup>

Despite publishers' fears, their industry not only survived, but thrived. Second-class mail volume continued to rise, from 1.2 billion pounds in 1918, to 1.6 billion pounds in 1928, to 1.4 billion pounds in 1938, to 2.1 billion pounds in 1948.<sup>27</sup> The 1.5 cent per-pound rate for the reading portion of publications traveling outside their county of origin remained in effect from July 1921 until the 1950s.<sup>28</sup> Meanwhile, the postal deficit, which had averaged \$65 million annually between the world wars, exceeded \$129 million in 1946, and soared to more than \$545 million in 1950.<sup>29</sup> Although most of the post-war deficit was fueled by employee salary increases enacted by Congress during and after the war, more than \$190 million of the 1950 loss was attributed to second-class mail.<sup>30</sup>

In February 1951, in a special message to Congress, President Harry S. Truman argued at length for a rate increase:

*In fiscal year 1952 . . . newspaper and magazine publishers will have 200 million dollars – or 80 percent – of their postal costs paid for them by the general public. . .*

*These rates were intentionally set low, when they were established, in order to encourage the spread of information and education among our citizens. This is still a desirable object, but clearly does not warrant a subsidy as extreme as that which now exists. . .*

*The large-circulation magazines which carry many pages of advertising pay a somewhat higher rate of postage, but one which is still only a small fraction of what it costs the postal service to handle these magazines. This means, in plain fact, under present postal rates, the general taxpayers are generously subsidizing the advertisers . . . Surely advertising was not part of the public information and education which the Congress intended to subsidize . . .*

*Newspapers and magazine publishers have substantially increased their subscription and advertising rates in recent years – in many cases doubling or tripling these rates. Second-class postage rates, on the other hand, are close to the average level of 1879. . .*

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<sup>25</sup> From April 15, 1925, to April 1, 1952, non-profit periodicals were charged the same rate as the reading portion of regular periodicals, although they were exempt from higher zoned charges for advertising content. Non-profit periodicals received cheaper rates again beginning in 1952; beginning in 1968 they became liable for higher zoned charges for advertising content, although at less than regular rates (43 Stat. 1066; 65 Stat. 672; 81 Stat. 616).

<sup>26</sup> Jane Kennedy, in "Development of Postal Rates: 1845-1955" (*Land Economics*, vol. 33, no. 2, May 1957, 100), estimated that the cumulative average per-pound rate was two cents. For publishers' reactions, see, for example, "Common Sense About Second-Class Postage Rates," *The New York Times*, May 3, 1918, 14; and "Second Class Mail Rates Attacked," *The Boston Globe*, February 11, 1920, 3.

<sup>27</sup> Mail volume fell in the 1930s due to the Great Depression.

<sup>28</sup> The rate for advertising content fluctuated. The Act of February 28, 1925, effective April 15, 1925, increased the postage rate for advertising matter going to the 4<sup>th</sup> zone, but lowered such rates for the 6<sup>th</sup> and 8<sup>th</sup> zone (43 Stat. 1066). The Act of May 29, 1928, effective July 1, 1928, lowered rates on the advertising portion of periodicals by 25 to 50 percent, but increased postage rates when there were more than 32 copies of publications to the pound (45 Stat. 940-941). In 1932, rates for advertising content were raised, in 1934 they were lowered. [For further details on rates to 1956, see Post Office Department Publication 15, *United States Domestic Postage Rates, 1789 to 1956*, (Washington, D.C.: Government Printing Office, 1956).]

<sup>29</sup> Statistics extrapolated from *Annual Report of the Postmaster General*, 1970, 140.

<sup>30</sup> United States Post Office Department, *Cost Ascertainment Report*, 1950 (Washington, D.C.: Government Printing Office, 1950), 12.

*As a matter of long-term policy, second-class mail should be brought gradually toward self-sufficiency in postal revenues.*<sup>31</sup>

Congress acted later the same year, raising regular second-class rates by 30 percent, phased in over three years to give publishers time to adjust. Congress raised rates again in 1958, 1962, and 1967, again over three-year periods, as follows:

- Act of October 30, 1951 (65 Stat. 672), fully effective April 1, 1954: both reading and advertising portions, + 30%
- Act of May 27, 1958 (72 Stat. 139), fully effective January 1, 1961: reading, + 28%; advertising, + 54%
- Act of October 11, 1962 (76 Stat. 833), fully effective January 1, 1965: reading, + 12%; advertising, + 0 to 30%
- Act of December 16, 1967 (81 Stat. 617), fully effective January 1, 1970: reading, + 21%; advertising, + 21 to 24%

In all, these increases raised the per-pound rate for the reading portion of regular second-class periodicals from 1.5 in 1950 to 3.4 cents in 1970, and for the advertising portion from a range of 1.5 to 7 cents, to a range of 5.2 to 17 cents per pound. In-county publications, meanwhile, saw less frequent and more modest rate increases – free postage at non-delivery offices was supplanted by a nominal charge of 1 cent per pound in 1963; by 1970 the rate had been raised to 1.5 cents per pound.

The Act of October 30, 1951, also set a minimum rate for each individually addressed copy at one-eighth of one cent, and defined what constituted a publication “designed primarily for advertising” (excluded from second-class rates since 1879) – those “having over 75 per centum advertising in more than one-half of their issues during any twelve months’ period” (65 Stat. 672-673).

Simultaneous with its passage of the 1958 rate act, Congress passed the Postal Policy Act, formally enunciating its policy on the Post Office. The Postal Policy Act of 1958 declared, first of all, that “the post office is a public service.” In the act Congress acknowledged that the Post Office Department performed many functions which did not make financial sense, but were public services which “could only be justified as being in the national welfare” (72 Stat. 134). Congress stated that the costs of these public services should not be borne by mail users but rather by the U.S. Government, to be paid directly out of the U.S. Treasury. Among the public services identified by Congress were free (and later, reduced-rate) in-county mailing of periodicals and reduced postage rates for classroom publications as well as for periodicals mailed by non-profit organizations. The Postal Policy Act of 1958 also declared that postal rates and fees should be adjusted periodically to ensure that postal revenues covered costs, “less the amount deemed to be attributable to the performance of public services,” and that in setting rates, consideration should be given to:

- (A) the preservation of the inherent advantages of the postal service in the promotion of social, cultural, intellectual, and commercial intercourse among the people of the United States;*
- (B) the development and maintenance of a postal service adapted to the present needs, and adaptable to the future needs, of the people of the United States;*
- (C) the promotion of adequate, economical, and efficient postal service at reasonable and equitable rates and fees;*
- (D) the effect of postal services and the impact of postal rates and fees on users of the mails;*
- (E) the requirements of the postal establishment with respect to the manner and form of preparation and presentation of mailings by the users of the various classes of mail service;*
- (F) the value of the mail;*
- (G) the value of time of delivery; and*
- (H) the quality and character of the service rendered in terms of priority, secrecy, security, speed of transmission, use of facilities and manpower, and other pertinent factors. (72 Stat. 136)*

While the Postal Policy Act of 1958 did not require that each class of mail bear its attributable costs, it did state that “it would be an unfair burden upon any particular user or class of users of the mails to compel them to bear the expenses incurred by special rate considerations granted . . . to other users of the mails” (72 Stat. 135-136).

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<sup>31</sup> Harry S. Truman, Special Message to Congress on Increasing the Postal Rates, February 27, 1951. From University of California, *American Presidency Project*. [www.presidency.ucsb.edu/ws/print.php?pid=14023](http://www.presidency.ucsb.edu/ws/print.php?pid=14023) (accessed February 23, 2010).

The postage rate increases of the 1950s and 1960s boosted the contribution of second-class mail to postal finances, but its costs still far exceeded revenues. Congress allocated a subsidy for the “public service” elements of second-class mail service beginning in 1960, but even as the subsidy increased year by year, second-class mail revenues continued to underfund costs. In 1966, the percentage of its own costs covered by second-class mail (or “cost coverage”), including the subsidy, was 35 percent. Its real coverage was 24 percent.<sup>32</sup> In 1970, its cost coverage, including the subsidy, was 53 percent.

## Rates Since Reorganization

*It is a noteworthy fact that in no other activity, governmental or private, are conditions of prosperity or depression more quickly reflected than in the revenues of the postal establishment.*

Third Assistant Postmaster General Alexander M. Dockery, 1915<sup>33</sup>

Deepening postal deficits and logjams of mail at outdated postal facilities in the late 1960s convinced Congress to reorganize the nation’s postal system. In 1970, Congress passed the Postal Reorganization Act, transforming the United States Post Office Department into the self-funding, quasi-independent United States Postal Service. The act shifted rate-setting authority to nine Presidentially-appointed Governors of the Postal Service, chosen to represent the public interest, who could accept, reject, return, or modify the recommendations of a newly-created, Presidentially-appointed Postal Rate Commission (“PRC,” now called the Postal Regulatory Commission), which in turn considered rate changes proposed by the Postal Service. Congress gave the PRC challenging instructions: on the one hand, to base rates for each class of mail on “the costs attributable to that class,” but to also consider, among other things, the value of the mail, the effect of rate increases on customers, and the availability of alternative delivery methods (84 Stat. 760-761). The Postal Reorganization Act also directed that any increase in regular second-class rates be phased in over a five-year period.

The Post Office Department temporarily increased second-class rates effective May 16, 1971, pending the decision of the PRC on a rate case it submitted in February.<sup>34</sup> The second-class rate structure was retained – i.e., lower rates for in-county and non-profit periodicals, and lower rates for reading versus advertising content, with the latter graduated by zone (travel distance). New to regular second-class rate calculations was a per-piece charge, added to the per-pound rate. In 1972, the Postal Service increased postage rates for regular second-class mail over a five-year period, so as to gradually bring them in line with costs.<sup>35</sup> The per-piece charge added in 1971 for regular second-class mail was retained.

Second-class rates rose nearly every year in the 1970s and 1980s – sometimes more than once a year.<sup>36</sup> The regular per-pound rate for periodicals climbed from 4 cents in 1971, to 5 cents in 1974, to 8 cents in 1977, to 11 cents in 1978, and to 12.4 cents in 1988. The per-pound rate for advertising portions for the most distant zone climbed from 17.8 cents in 1971, to 17.9 cents in 1974, to 20.9 cents in 1977, to 27.8 cents in 1978, and to 30.2 cents in 1988.<sup>37</sup> Meanwhile, the in-county per-pound rate – subsidized by Congress as a public service through “revenue forgone” appropriations – remained below two cents until 1977, but more than quadrupled by mid-1988, to 9.4 cents.<sup>38</sup>

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<sup>32</sup> Post Office Department, “Survey of Postal Rates, Submitted by the Postmaster General to the Senate and House of Representatives Pursuant to Section 2304 of Title 39, United States Code,” April 15, 1966, 44.

<sup>33</sup> *Annual Report of the Postmaster General*, 1915, 241.

<sup>34</sup> The United States Postal Service officially began operations on July 1, 1971, but rate-setting provisions of the Postal Reorganization Act of August 12, 1970, became effective February 1, 1971.

<sup>35</sup> In 1974 Congress changed the five-year phase-in period to eight years, giving publishers until 1979 to pay their full share of delivery costs (88 Stat. 287).

<sup>36</sup> Second-class rates remained steady in 1984, 1987, 1989. The Postal Service’s “Domestic Rate History” lists all rate changes from 1970 through July 2009 (<http://www.prc.gov/docs/63/63552/RateHist0709.xls>, accessed February 17, 2010).

<sup>37</sup> Since 1978, publishers have qualified for discounted postage rates if they presorted periodicals. Beginning in 1991, discounts have also applied if publishers entered periodicals into the mail system close to the point of delivery, and if they barcoded letter-size periodicals (larger barcoded periodicals became eligible for a discount in 1992). Since 2002, publishers have qualified for discounted rates if they entered periodicals into the mail system on pallets.

<sup>38</sup> “Revenue forgone” appropriations for second-class mail were phased out in the 1980s and ended with fiscal year 1993 (107 Stat. 1267). For further information, see the Congressional Research Service’s Report for Congress RS21025, December 28, 2005, “The Postal Revenue Forgone Appropriation: Overview and Current Issues,” by Nye Stevens.

Repeated rate increases helped defray handling costs, and for all but one year during the period from 1981 through 1998, postage on periodicals more than covered costs. (See Chart 1: “Annual Cost Coverage of Periodicals, 1960 to 2009,” on the next page.) Second-class rates increased annually from 1991 through 1999.<sup>39</sup> On July 1, 1996, “second-class mail” was renamed “Periodicals.” Since 1999, revenue from the Periodicals class has covered its costs only once, in 2003.

In December 2006, after several years of discussion and study, Congress passed the Postal Accountability and Enhancement Act. Among other things, the act gave the Postal Service greater flexibility in setting rates, but capped rate increases for “market-dominant” types of mail (responsible for about 99 percent of mail volume and 84 percent of revenue), at the rate of inflation, absent “extraordinary or exceptional circumstances” (120 Stat. 3203). At the same time, it required market-dominant types of mail, which included Periodicals, to bear their attributable costs. In 2009, Periodicals covered about 76 percent of their costs – falling short by more than \$600 million – while the rate of inflation was less than 3 percent.

In recent years, the twin pressures of the economic recession and the diversion of communications to electronic media have presented financial challenges to both the Postal Service and the newspaper and magazine industry. The annual number of periodicals mailed has plummeted by more than 20 percent since 2001, from 10,077.4 million in 2001 to 7,953.7 million in 2009 – a level not seen since 1960. (See Chart 2: “Number of Periodicals Mailed Annually, 1960 to 2009,” on the next page.) Volumes of other classes of mail have fallen just as dramatically.<sup>40</sup> In 2009, the Postal Service suffered a net loss of \$3.8 billion.

In July 2009, the Government Accountability Office placed the Postal Service on its “high-risk” list, advising Congress that the Postal Service “must align its costs with revenues” – a task GAO considers critical, given the Postal Service’s “vital role in the U.S. economy.”<sup>41</sup> In March 2010, Postmaster General John Potter outlined a far-reaching plan to ensure the future viability of the Postal Service. Among other things, the plan called for basing postage rates for market-dominant types of mail on both the demand for such products, and their costs, rather than capping prices at the rate of inflation.

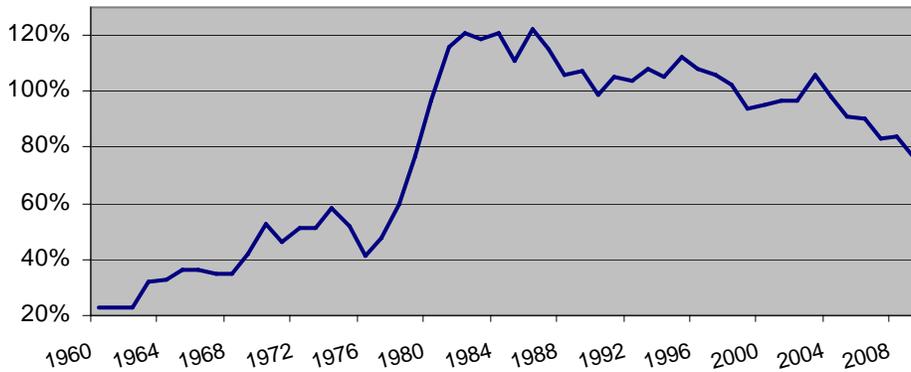
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<sup>39</sup> Second-class rates remained steady in the following years: 1984, 1987, 1989, 1990, 2000, 2003, 2004, and 2005. The Postal Service’s “Domestic Rate History” lists all rate changes from 1970 through July 2009 (<http://www.prc.gov/docs/63/63552/RateHist0709.xls>, accessed February 17, 2010).

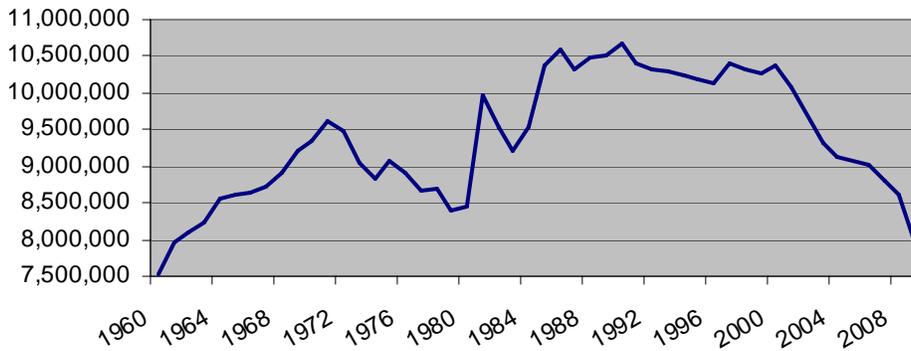
<sup>40</sup> The annual volume of First-Class Mail – the most remunerative type – fell by more than 19 percent from 2001 to 2009.

<sup>41</sup> United States Government Accountability Office, GAO-09-958T, August 6, 2009, *U.S. Postal Service: Restructuring Urgently Needed to Achieve Financial Viability*, (ii, 4).

**Chart 1: Annual Cost Coverage of Periodicals, 1960 to 2009**



**Chart 2: Number of Periodicals Mailed Annually, 1960 to 2009 (in thousands)**



Sources for Chart 1: Post Office Department's *Cost Ascertainment Report* (annually to 1968) and *Revenue and Cost Analysis* (1969 and 1970); USPS *Cost and Revenue Analysis* (annually since 1971, exact title varied)

Source for Chart 2: *Annual Report of the Postmaster General*