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You've Got (No) Mail: Is the End Near for the Postal Service?

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The United States Postal Service (USPS) stands on the brink of financial collapse. According to the Postmaster General, by next month, USPS coffers will be down to a week's worth of cash.[1] The government-owned enterprise barely avoided default this week when Congress extended the due date for a $5.5 billion payment due to the U.S. Treasury for retiree health benefits. The new deadline is November 18. And by early 2012, USPS may be unable to meet payroll.

Congress should act quickly to address this not-so-slow-motion postal train wreck. The goal, however, should not be to "save" USPS or even to save mail delivery. Policymakers should not play King Canute, ordering back the advancing tides of technology to preserve an obsolete industry. Nor should taxpayers be asked to pay for such an effort. Instead, the aim of policymakers should be to remove barriers that are hindering efforts by USPS to adjust to the new digital world. This should include making it easier for USPS to close post offices, reduce its workforce, and trim services.

The Decline of Mail. USPS's decline is not a new story. As early as 1992, the U.S. General Accounting Office (now the U.S. Government Accountability Office) raised concerns about diversion of business from USPS by new electronic communications, including the then-exotic "e-mail."[2] In recent years, the steady migration to online forms of communication has become a stampede, leaving mailmen holding the (empty) bag. The numbers are stark.

From 2006 to 2010, overall USPS mail volume dropped by 20 percent, from 213 billion pieces of mail to 170 billion.[3] During the same period, the government-owned business incurred $20 billion in losses. It expects to lose nearly $10 billion more in 2011.

Certainly, the sour economy has not helped things. But the losses began before the downturn began, and after the overall economy recovers, postal fortunes are unlikely to rebound. According to a 2010 study by the Boston Consulting Group,[4] mail volume will decline an additional 15 percent by 2020, with first-class mail falling a jaw-dropping 35 percent. This means the average postal customer will receive only one first-class letter per day, down from around two today. At that level of mail, USPS will lose a staggering $15 billion per year.

Restructuring Needed. Recognizing the need for change, USPS has proposed a wide-ranging set of restructuring steps, many of which would require congressional action to implement:

- ***Reducing the postal workforce.*** USPS has proposed cutting 220,000 positions, leaving its workforce—which once ranked with Indian Railways and the People's Liberation Army as among the world's largest—at 425,000 employ-

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ees. Some 120,000 of these cutbacks would be through layoffs, which are barred under current union contracts. For most private companies, such provisions would be lifted as part of the normal bankruptcy process. As a federal agency, however, USPS cannot enter into bankruptcy. Nonetheless, Congress should adopt legislation to allow USPS to reduce its workforce.

- ***Closing post offices and other facilities.*** USPS plans to reduce the number of retail facilities it operates from 32,000 to 20,000 by 2015 and has already identified 3,700 for closure. In addition, it plans to cut its 500 processing plants to 200. With declining mail volume and improved technologies, this makes sense. Yet the efforts are hindered by a warren of federal rules restricting the closure of facilities and requiring cumbersome processes for doing so. Congress should eliminate these restrictions.
- ***Discontinuing Saturday delivery of mail.*** Moving to five-day-a-week delivery would save $2 billion–3 billion per year. Such an adjustment is not unprecedented. Before telephone service was widely available, mail deliveries were sometimes made several times a day. Just as telephony made such multiple deliveries unnecessary, Internet communication has made Saturday delivery nonessential. Under current law, however, USPS is barred from paring back its current delivery schedule. This prohibition should be lifted.

Several proposals are pending in Congress to allow this restructuring to take place. The most comprehensive is H.R. 2309, sponsored by Representative Darrell Issa (R–CA), which was approved by a subcommittee of the House Oversight and Government Reform Committee last week. The bill, however, would place USPS, once it defaults on an obligation, under the direction of a financial control board. Operating much as a bankruptcy court operates, the board would have the power to force renegotiation of union contracts and other cost-cutting steps. In addition, the bill would create an independent commission to select post offices for closure, similar to the Base Realignment and Closure Commission used to identify military bases for termination.

There are also a number of proposals pending in Congress that would move in the opposite direction, further limiting USPS's ability to close facilities or change service levels. These proposals would limit USPS's ability to respond to today's challenges.

Putting Taxpayers at Risk. Some have also suggested refunding to the USPS billions in supposed overpayments it has made to the U.S. Treasury to fund its retirement obligations or to allow it to only partially fund those liabilities. President Obama, for instance, has proposed refunding to USPS billions in retiree health care payments and refunding claimed pension fund overpayments. There is, however, considerable doubt as to whether USPS actually overpaid.

Moreover, as the Office of Personnel Management's Inspector General has pointed out, if USPS is not required to fully fund its full retirement cost, American taxpayers will be put at risk if USPS defaults.[5]

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1. Patrick R. Donahoe, Postmaster General/CEO, U.S. Postal Service, statement before the Committee on Homeland Security and Governmental Affairs, U.S. Senate, September 6, 2011, at *http://about.usps.com/news/speeches/2011/pr11_pmg0906.pdf* (September 28, 2011).
2. U.S. General Accounting Office, U.S. Postal Service: Pricing Postal Services in a Competitive Environment, March 25, 1992, at *http://www.gao.gov/products/GGD-92-49* (September 28, 2011).
3. Phillip Herr, Director, Physical Infrastructure Issues, U.S. Government Accountability Office, "U.S. Postal Service: Actions to Stave off Financial Insolvency," testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate, September 6, 2011, at *http://www.gao.gov/new.items/d11926t.pdf* (September 28, 2011).
4. Boston Consulting Group, "Projecting Mail Volumes to 2020," March 2, 2010, at *http://about.usps.com/future-postal-service/gcg-narrative.pdf* (September 28, 2011).
5. U.S. Office of Personnel Management, Office of the Inspector General, A Study of the Risks and Consequences of the USPS OIG's Proposals to Change USPS's Funding of Retiree Benefits, February 28, 2011, at *http://www.opm.gov/oig/OPM_OIG_Study_of_USPS_OIG_Proposals%20Feb%2028%202011.pdf* (September 28, 2011).

In any case, such cash infusions would only kick the can down the road at taxpayer expense while leaving USPS's fundamental problems unresolved.

Ending Special Privileges. USPS can also benefit from innovative uses of its assets and new business offerings. Ideas range from putting advertising on delivery trucks to offering Internet-based services. Such innovation and diversification may hold the key to USPS's survival. But before USPS is allowed to expand into new areas, it must relinquish its ties to the federal government and the special legal privileges it still holds.

For instance, while USPS has struggled to compete against e-mail, it still holds a protected legal monopoly on the delivery of physical letter mail. This should be eliminated. If others are willing and able to provide a competing business in the shrinking letter-mail market, they should be encouraged, not restrained. Abolition of this outdated law, moreover, could itself actually help USPS reform. Allowing new entrants to try their hand at mail delivery could foster new ideas and fresh perspectives in the postal business. Such new blood may be just what mail delivery needs.

Delay Is Not an Option. USPS is failing and needs to change. As currently structured, it cannot survive unless supported by tens of billions of dollars in subsidy. Congress, however, is making that change harder to achieve by not allowing USPS to restructure and respond to today's communications marketplace. It should act now to lift these barriers to change while protecting taxpayers.

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