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BACKGROUNDER

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Can the Postal Service Have a Future?

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Abstract

The United States Postal Service (USPS) is in trouble. The problems are not simply a result of faulty accounting rules for postal pension plans as some have suggested. The market for paper mail is rapidly shrinking, caused by the growth of digital communications, which has eroded almost every category of mail ranging from personal letters to bill payments. Fundamental changes are needed to enable the USPS to survive, including consolidation of facilities and reduction in the number of days that mail is delivered. But Congress is blocking the needed changes. Instead, Congress should lift restrictions on postal reforms, while also lifting limits on competition with this government-owned enterprise.

Americans love to complain about the post office. Enjoying one of the few government-enforced monopolies in the U.S., it has long been a model of bureaucratic inefficiency. In popular culture, it has been portrayed by TV sitcom characters such as *Seinfeld*'s Newman and *Cheers*'s Cliff Clavin as bumbling and dysfunctional. But Americans may not have the United States Postal Service (USPS) to kick around for long. The USPS, despite its continued legal monopoly on the delivery of letter mail, is virtually bankrupt, losing $45 billion since 2007. It has already defaulted on its obligations three times. The Postal Service projects that on October 15, after making its annual workers' compensation payment, it will have only five days of cash on hand.[1]

Key Points

- The Postal Service is virtually insolvent, having lost $45 billion since 2007. In October, its cash level is expected to cover merely five days of spending.
- A large portion of the losses are due to required pre-funding of retiree health benefits. But even without these costs, the USPS is losing money.
- The root cause of the Postal Service's slide has been the Internet, which has decreased first-class mail volume by nearly a third since 2007, and is expected to take away 40 percent more by 2020.
- Except for package delivery, all major categories of mail are vulnerable to displacement, including personal letters, bills, and advertising.
- Fundamental changes in how the USPS is run are necessary, including consolidation of facilities and reduction in delivery days. The prohibition on private competition with the Postal Service should be eliminated. Congress is blocking these needed changes.

This paper, in its entirety, can be found at **http://report.heritage.org/bg2848**

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The status quo is not sustainable. While some argue that the USPS's losses are due to faulty accounting or a temporary downturn in the economy, that claim is wishful thinking. The market for traditional mail has been shrinking rapidly, as Americans have fled "snail mail" in favor of electronic alternatives. First-class mail volume has already plummeted 30 percent since 2007,[2] and it may drop another 40 percent over the next seven years.[3]

The Postal Service, to its credit, has sounded the alarm about this coming train wreck. With projected deficits surpassing $20 billion, the USPS is already moving forward on a number of cost-saving measures, but its ability to respond more fundamentally to the changing marketplace is severely limited by Congress. A number of key reforms have been blocked by lawmakers, who—like King Canute—seem intent on ordering the tides of change to desist. Yet, the likely result of inaction will not be the preservation of the status quo, but the collapse of the Postal Service—or massive subsidization by taxpayers.

Postal History. The Postal Service claims roots going back to Benjamin Franklin, who in 1775 became postmaster general under the Continental Congress. But today's Postal Service would be unrecognizable to Franklin. For most of its history, the Postal Service provided only rudimentary service. Until the mid-19th century, there was no such thing as a mailbox or a stamp. Delivery was expensive—it cost as much to send a letter as to transport a bushel of wheat.[4] There was no free[5] home delivery—mail typically had to be picked up at an often-distant post office. Free delivery in rural areas did not begin until the turn of the 20th century.

Institutionally, the Postal Service that Americans know today dates only to 1970, when the old Post Office Department was ditched in favor of a newly created United States Postal Service, a self-supporting entity of the U.S. government. Organizationally, the USPS is independent, with its own board of governors and budgeting authority, receiving few taxpayer dollars, and with its management and workforce outside the civil service system. Yet, it is still a creature of the federal government. Unlike other federally owned enterprises, such as Amtrak, which are incorporated firms in their own right, the Postal Service has no separate legal identity. Functionally, it operates under terms and conditions set by Congress. It is required to provide mail services on a universal basis, regardless of cost. Strict standards of service are enforced, and closures of post offices and other facilities are limited by federal law.

For most of its existence, the USPS was financially self-sufficient. As recently as 2006, it turned a small profit. But in 2007, it suffered a $5 billion loss, and it has lost money every year since, losing a cumulative $45 billion during that time.[6]

Pre-Funding Retiree Benefits. Many opponents of postal reform have argued that these losses were due more to an accounting gaffe by Congress than to any fundamental problem with the letter delivery business. Specifically, the 2006 Postal Accountability and Enhancement Act required the USPS to pay the U.S. Treasury approximately $5 billion annually to fully fund its retiree health care obligations.

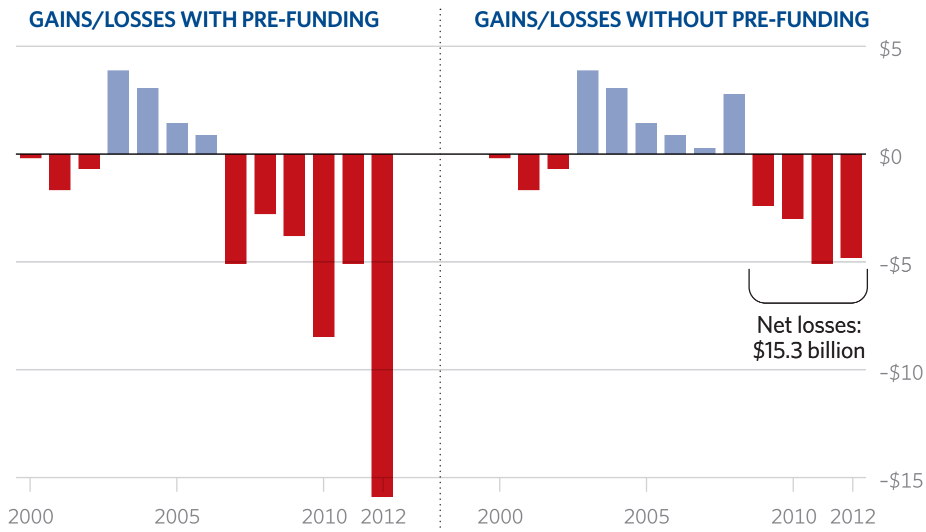
This pension benefit funding requirement has been seized on by postal unions and others as the cause of the USPS's woes. According to a television ad produced by the unions: "The Postal Service is reporting financial losses, but not for reasons you might think. The problem: a burden no other agency or company bears, a 2006 law that drains $5 billion a year from post office revenue, while the Postal Service is forced to overpay billions more into federal accounts." The ad concludes with the tag line: "Congress created

1. Josh Hicks, "Postal Service Expects Only Five-Day Cash Reserve in October," *The Washington Post*, Federal Eye blog, August 13, 2013, http://www.washingtonpost.com/blogs/federal-eye/wp/2013/08/13/postal-service-expects-only-five-day-cash-reserve-in-october/ (accessed October 2, 2013).
2. United States Postal Service, "First-Class Mail Volume Since 1926," http://about.usps.com/who-we-are/postal-history/first-class-mail-since-1926.pdf (accessed October 3, 2013).
3. U.S. Government Accountability Office, "U.S. Postal Service: Mail Trends Highlight Need to Fundamentally Change Business Model," GAO-12-159SP, October 14, 2011, http://www.gao.gov/products/GAO-12-159SP (accessed October 3, 2013).
4. James I. Campbell Jr., "Study on Universal Postal Service and the Postal Monopoly," manuscript, George Mason University, 2008, http://digilib.gmu.edu:8080/dspace/bitstream/1920/3477/33/Appendix%20C.pdf.txt (accessed October 3, 2013).
5. "Free home delivery" refers to delivery without charge to the recipient.
6. Includes losses of $3.87 billion in the first three quarters of 2013.

CHART 1

Pre-Funding Obligation Not the Cause of Postal Service Losses

Beginning in 2007, the U.S. Postal Service was required to prefund the Retiree Health Benefit Fund (RHBF). While those funds have been substantial—$29 billion through 2012—the Postal Service would still have lost billions over the past four years even if it did not have to pre-fund the RHBF.



Sources: Government Accountability Office, "U.S. Postal Service: Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits," December 2012, p. 14, http://www.gao.gov/assets/660/650511.pdf (accessed October 3, 2013); U.S. Postal Service, "Five-Year Business Plan," April 2013, p. 3, http://about.usps.com/strategic-planning/five-year-business-plan-2012-2017.pdf (accessed October 3, 2013); and Government Accountability Office, "U.S. Postal Service: Strategies and Options to Facilitate Progress Toward Financial Viability," April 2010, http://www.gao.gov/assets/310/303034.html (accessed October 3, 2013).

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this problem—Congress can fix it."[7] It is a reassuring message for postal employees and other USPS stakeholders. It is also fundamentally flawed.

As a first matter, the payments required by Congress are perfectly appropriate. The Postal Service's liability for the costs of health care for its retired workers is no accounting ghost; it is a real cost incurred by the service. Until 2006, the Postal Service covered retiree health care costs on a pay-as-you-go basis, counting on the current generation of postal workers to pay for the medical needs of the previous generation. But with a shrinking workforce and rising medical costs, pay as you go is a risky strategy, putting retirees—and potentially taxpayers—at risk if the fund runs dry and the USPS cannot pay.

The amounts are not small: As of the end of fiscal year (FY) 2012, the total liability (the estimated cost of health care benefits earned but not yet used) was nearly $94 billon.[8] To cover this cost, Congress sensibly required the USPS to pre-fund the promised benefits, with payments spread over 10 years. While such pre-funding is not common among federal agencies, other agencies are not intended to be self-sustaining, as is the USPS. By contrast, many private-sector firms pre-fund such liabilities. And, most use accounting methods under which the cost of future health care benefits is recognized as an expense each year. Notably, at the time the pre-funding obligation was imposed, the USPS welcomed the change, with the Postal Service's chief financial officer hailing the requirement as "a farsighted and

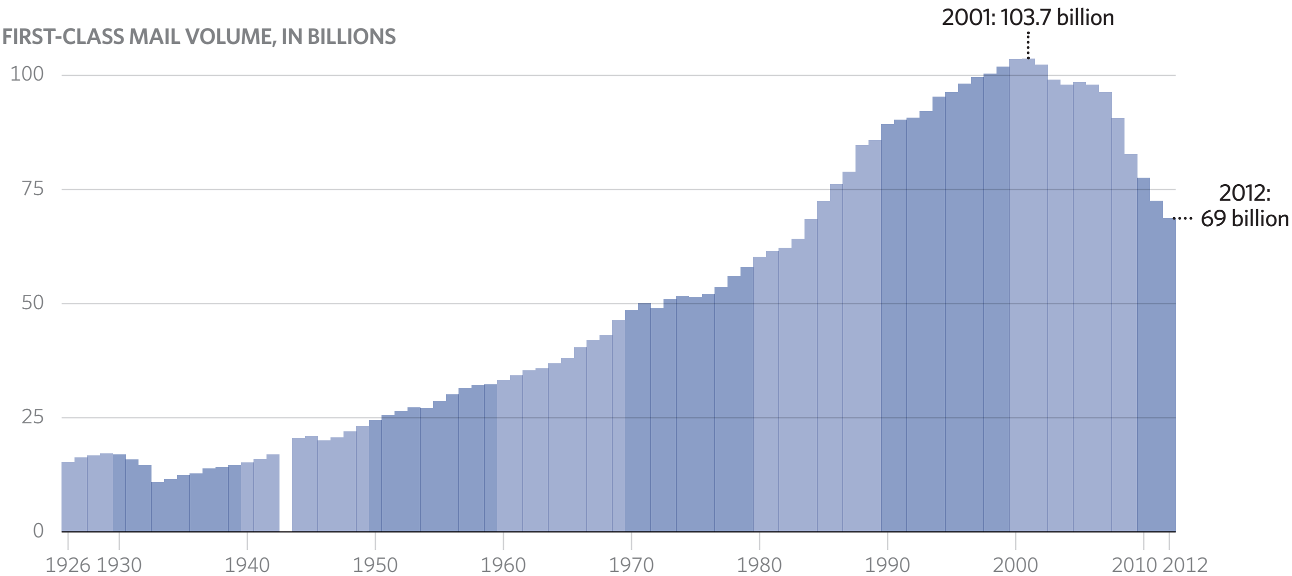
7. "Congress Can Fix the Postal Service's Financial Problems," YouTube.com, September 30, 2011, http://www.youtube.com/watch?v=U_Ip-UPMD28 (accessed October 3, 2013).

8. U.S. Government Accountability Office, "U.S. Postal Service: Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits," GAO-13-112, December 4, 2012, p. 12, http://www.gao.gov/products/GAO-13-112 (accessed October 3, 2013).

CHART 2

First-Class Mail Volume in Rapid Decline

After rising steadily for decades, first-class mail volume hit its peak in 2001 at 103.7 billion pieces, then began to drop. By 2012, the volume was down to 69 billion, about the same level as in 1984.



Source: U.S. Postal Service, "First-Class Mail Volume Since 1926," http://about.usps.com/who-we-are/postal-history/first-class-mail-since-1926.htm (accessed October 2, 2013).

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responsible action that places the Postal Service in the vanguard of both the public and private sectors in providing future security for its employees."[9]

The pre-funding contributions were made, as required, by the Postal Service for four years. In 2011, 2012, and 2013, the USPS failed to make its payment, defaulting on over $16 billion owed to the U.S. Treasury. As of the end of FY 2012, the retiree health benefit fund still held only $46 billion to pay for an estimated $94 billion in liabilities, leaving taxpayers holding the bag for tens of billions of postal-employee benefits promised, but not paid, by the USPS.

Moreover, even without the pre-funding payments, the USPS still would have lost over $15 billion since FY 2009, a sizable sum by any measure. The roots of the postal crisis go far deeper than pension-fund pre-funding.

The real problem facing the Postal Service is a sustained, steep, and stark drop in demand. With the relentless rise of digital communications, Americans simply are not mailing things as often as they used to. The numbers tell the tale: Mail volume—which peaked in 2006 at 213 billion pieces of mail— totaled less than 160 billion in FY 2012, a 25 percent drop.[10] The reduction in first-class mail volume, the USPS's biggest source of revenue, has been more dramatic. From a high of 103 billion pieces in 2000, first-class volume has dropped by a third, to fewer than 69 billion in 2012.[11]

A Closer Look at Household Mail. Mail volume continues to shrink, as confirmed by an annual study of mail content conducted by the Postal Service itself. Known as the Household Diary Study, the report is based on detailed records, or "diaries,"

9. United States Postal Service, *Annual Report 2007*, http://postcom.org/eco/sls.docs/USPS-Annual%20Report%202007.pdf (accessed October 3, 2013).

10. United States Postal Service, "Pieces of Mail Handled, Number of Post Offices, Income, and Expenses Since 1789," http://about.usps.com/who-we-are/postal-history/pieces-of-mail-since-1789.pdf (accessed October 3, 2013).

11. United States Postal Service, "First-Class Mail Volume Since 1926."

kept by 5,200 selected households. The latest report has little good news for the Postal Service. With the exception of package delivery, every major category of mail is shrinking. Among these:

Correspondence. Letter writing is a disappearing art. In 1987, the average U.S. household received 1.6 pieces of personal correspondence per week. By 2012, that had dropped to 0.7 pieces, a 56 percent decrease.[12] The steepest decline was in letters from friends and relatives. Since 1987, the number of such letters received per household has plummeted 80 percent.[13] The total volume of such mail has declined by 25 percent since 2010 alone.[14] The number of mailed greeting cards is also dropping, with roughly half as many received now than in 1987,[15] and 10 percent less since 2010.[16]

Transactions. Perhaps the most important types of mail to the USPS are payments, bills, and financial statements, broadly referred to as "transactions." If there is a ground zero in the battle for the future of mail, this is it. Transactions constitute a sizable portion of the annual mail flow—some 35 billion pieces.[17]

Of this, about 6.8 billion pieces are bill payments from consumers to businesses. But the practice of sending checks in the mail is being abandoned as Americans are becoming increasingly comfortable with paying their bills online. As late as 2002, 75 percent of all bills were paid by mail and only 17 percent were paid electronically. In 2012, by contrast, the Postal Service reports that 56 percent of bills were paid electronically and only 40 percent by mail. (The rest were paid in person).[18]

This trend is taking a toll on mail volume. According to the Household Diary Study, bill payments by mail have declined about 16 percent in the past two years alone.[19] But the biggest changes are yet to come. Online bill payment today is in a transitional phase. Rather than paying all bills online or all by mail, the typical consumer uses both methods of payment, paying some bills by mail and others electronically. Very few consumers use mail exclusively. A 2012 study by Fiserv, a consulting firm, found that three of four consumers pay at least one bill a month electronically.[20] This indicates that a shift toward substantially more online bill payment could occur quickly once consumers become comfortable with the new options.

Postal delivery of bills and statements from businesses to consumers (as opposed to payments from consumers) is also being eroded by electronic alternatives, with both bill and statement volumes shrinking about 12 percent since 2010.[21] However, only about 16 percent of all bills and statements received by consumers were delivered in electronic form in 2012.[22] Even this number may overstate the amount of electronic diversion that has taken place in this area since many consumers, wanting a tangible backup record, opt to receive paper statements in addition to electronic versions of the same document.

This situation may change, however. Businesses, aware of the cost of postage, are offering incentives ranging from free gift cards to discounted fees to customers for going paperless. Some are going farther, setting paperless billing as the default option or even charging fees for mailed statements. At the same time, consumers will likely also become more comfortable with financial records in electronic

12. United States Postal Service, "2012 Household Diary," 2012, p. 21. Copy obtained on disc from Postal Service. Not yet posted on USPS website as of October 3, 2013; earlier studies available at USPS, "Household Diary," http://about.usps.com/current-initiatives/studying-americans-mail-use.htm (accessed October 3, 2013).
13. "2012 Household Diary," Table A2-1.
14. Ibid., Table A8-1.
15. Ibid., Table 2.1.
16. Ibid., Table A8-1.
17. Ibid., Table 1.7.
18. Ibid., p. 2.
19. Ibid., Table 4.1.
20. Fiserv, "2012 Fiserv Billing Household Survey," 2013, http://www.fiserv.com/2012-fiserv-billing-household-survey.htm (accessed October 3, 2013).
21. "2012 Household Diary," Table 4.1.
22. Ibid., Table 4-13.

form. Just as most people no longer feel the need to print an e-mail in order to save it, the paper statement, along with the postage stamp necessary to mail it, will become dispensable.

Advertising. The most numerous category of mail handled by the USPS is advertising, with 80 billion pieces delivered in 2012. The good news (for the Postal Service, at least) is that the volume of advertising mail has largely been holding steady over the past few years. The question is how long that will continue. Direct-mail advertising competes not just with a bevy of traditional alternatives, such as magazines and billboards, but Internet-based advertising is reaching more people—and targeting them better than ever before. As a result, Internet advertising is growing quickly (by over 14 percent last year), with traditional advertising media flat or decreasing.[23]

Moreover, despite its volume, advertising mail is not all that lucrative for the Postal Service. The vast majority of such mail is sent at low-cost "standard" mail rates, producing limited revenue for the USPS. In FY 2012, each piece of standard mail brought about 21 cents in revenue, compared to 42 cents for each piece of first-class mail. Overall, standard mail was responsible for only about 25 percent of USPS income.[24] And, due to the competitive nature of the advertising business, it would be difficult for the USPS to change its pricing significantly without causing advertisers to flee to other media.

Package Delivery. The only significant area in which the USPS's business is growing is package delivery. Like other categories of mail, changes in package delivery have also been driven by the Internet. But here the effect has been positive: As e-commerce grows, the number of packages delivered has grown. From 2009 to 2012, the total number of packages delivered by the USPS has grown by over 7 percent.[25]

Package delivery, however, still generates only about 20 percent of the USPS's total revenue, and in the overall package delivery business, the Postal Service is a minor player, with about 8 percent of the market, compared to 60 percent for UPS and 30 percent for FedEx.[26] While the market is healthy, it is unlikely that package delivery will provide enough income to sustain the rest of the Postal Service.

Grim Projections. It is not clear how far the USPS's total volume of business will sink. In the long term, mail delivery could go the way of blacksmithing and steam engines, disappearing into economic insignificance, with perhaps a few scattered historical re-enactors delivering letters for curious tourists.

That endgame, however, is still some time off. In the foreseeable future, mail delivery will continue, albeit at significantly reduced levels. The Government Accountability Office (GAO) has estimated that total volume could fall to 127 billion pieces by 2020, a 60 percent drop from 2006, and 20 percent less than current volume.[27] Even worse for the Postal Service, the largest portion of this decrease will come from first-class mail, which the GAO projects will drop to 39 million pieces by 2020, barely half the 2012 level.

The GAO estimate is more pessimistic than an earlier projection made by the Boston Consulting Group (BCG) in an extensive 2010 report. Commissioned by the USPS, the BCG study projected a total volume of 150 billion pieces in 2020. At the same time, the BCG projected devastating declines in first-class mail, to 43 million pieces in 2020.[28]

It is possible for the USPS to survive at such low levels of demand. A 2010 George Mason University

23. Ibid., Table 5.1.

24. United States Postal Service, "Fiscal Year 2013 Integrated Plan," https://about.usps.com/who-we-are/financials/integrated-financial-plans/fy2013.pdf (accessed October 3, 2013).

25. "2012 Household Diary," p. 55.

26. Postal Regulatory Commission, "Rebuttal Testimony of Marc Shiller on Behalf of American Postal Workers Union, AFL-CIO, APWU-RT-2," April 24, 2012, http://www.prc.gov/Docs/82/82161/APWU-RT-2%20Schiller%20FINAL.pdf (accessed October 3, 2013).

27. U.S. Government Accountability Office, "Postal Service: Mail Trends Indicate Need to Fundamentally Change Business Model."

28. Boston Consulting Group, "Projection of US Mail Volume to 2020, Final Report–Detail," March 2, 2010, http://about.usps.com/future-postal-service/bcg-detailedpresentation.pdf (accessed October 3, 2013). Earlier projections of mail volume have substantially underestimated the speed at which electronic diversion would take place. For instance, a widely cited study prepared in 2003 for the President's Commission on the United States Postal Service projected that total mail volume would remain steady or even increase to 238 billion pieces by 2012: Greg Schmid, "Two Scenarios of Future Mail Volumes: 2003–2017," Institute for the Future, Palo Alto, CA, May 2003, http://govinfo.library.unt.edu/usps/offices/domestic-finance/usps/pdf/mail-volume-scenarios-5-20.pdf (accessed October 3, 2013).

study concluded that with appropriate reforms the USPS could be sustainable with as little as 100 billion pieces of mail per year.[29] But making those reforms is critical. The USPS estimates that without a change of course, it will be losing over $20 billion per year by 2016.[30]

In the near term, the USPS faces a fiscal crunch, projecting that cash on hand will drop as low as five days' worth by October 15, affecting its ability to pay its bills. To increase this dangerously low cushion, the Postal Service has requested an emergency rate hike on both standard and first-class mail. Addressing the Postal Service's long-term problems is more than a simple matter of raising postage rates, although some rate increases will almost certainly be necessary. But each increase also drives away more business. To close the gap, the USPS must reinvent itself, changing its business practices, and perhaps even its line of business, to fit the new economic reality.

USPS Transformation Efforts

Given that the term "post office" has long been synonymous with "appalling inefficiency," there is good reason for skepticism about whether the USPS can pull off such a transformation. Yet, USPS management has done a creditable job of reducing costs and improving productivity over the past few years.

Since 2006, it has reduced its workforce by 24 percent, and reduced operating costs by a cumulative $50 billion.[31] In a business plan adopted in April 2013, it identified a further $20 billion in annual savings to be realized by 2017. The planned changes include an additional 23 percent reduction in the number of full-time employees (reducing the workforce from 633,000 to 487,000), a 40 percent decrease in the number of mail-processing centers, and reductions in hours of service at post offices.

Many of the changes identified require congressional approval. But it is not at all clear that Congress recognizes the gravity of the situation. Rather than recognizing that the USPS is a failing enterprise that needs a radical overhaul in order to survive, legislators still treat it as a source of federal largesse to be doled out. Time and again, key reforms have been blocked on Capitol Hill.

In 2012, for instance, Congress blocked a Postal Service initiative to close unneeded post offices. By any objective standard, the Postal Service's plan, under which 3,600 post offices would be closed, was a sound one.[32] According to USPS figures, the bottom 4,500 post offices each take in an average of $52 a day and serve fewer than five customers per day. Earlier this year, Congress, through an appropriations rider, blocked the USPS from eliminating Saturday mail delivery, forgoing an estimated $2 billion in annual savings.[33] "This is no way to run a business," said USPS CFO Joe Corbett, arguing for swift action to address the problem.[34]

If the Postal Service is to survive without massive taxpayer subsidies, Congress must abandon its politics-as-usual attitude and give postal officials the ability to make the significant changes that are needed. A bill recently approved by the House Oversight and Government Reform Committee, H.R. 2748, sponsored by Representative Darrell Issa (R–CA), would take several significant steps in the right direction. Among other things, the bill would:

29. Robert H. Cohen and Charles C. McBride, "Implications of Declining Mail Volumes for the Financial Sustainability of the United States Postal Service," September 29, 2010, George Mason School of Public Policy, prepared under contract to the Office of the Inspector General, United States Postal Service, http://www.uspsoig.gov/sites/default/files/document-library-files/2013/RARC-WP-10-006.pdf (accessed October 3, 2013).

30. United States Postal Service, "Statement of Postmaster General/CEO Patrick R. Donahoe Before the Subcommittee on Federal Workforce, U.S. Postal Service & Labor Policy, United States House of Representatives," March 27, 2012, http://about.usps.com/news/testimony/2012/pr12_pmg0327.pdf (accessed October 3, 2013).

31. United States Postal Service, "Five-Year Business Plan," April 2013, http://about.usps.com/strategic-planning/five-year-business-plan-2012-2017.pdf (accessed October 3, 2013).

32. James L. Gattuso, "Too Small to Fail? The Case for Post Office Closures," Heritage Foundation *Issue Brief* No. 3571, April 19, 2012, http://www.heritage.org/research/reports/2012/04/post-office-closures-too-small-to-fail.

33. James Gattuso, "Sending a Message: USPS Sinks Saturday Service," The Heritage Foundation, The Foundry, February 7, 2013, http://blog.heritage.org/2013/02/07/sending-a-message-usps-sinks-saturday-service/.

34. Associated Press, "Quarterly Loss Hits $3.3 Billion at Postal Service," February 16, 2012, http://abclocal.go.com/kgo/story?section=news/national_world&id=8537810.

- Permit the USPS to drop Saturday delivery of most mail, excluding packages;
- Make it less difficult to close a post office, specifically by eliminating the statutory prohibition on closing a post office solely because it is losing money; and
- Allow the Postal Service to end door-to-door service and rely instead on curbside mailboxes or neighborhood "cluster" boxes.

The bill would also re-amortize the Postal Service's retiree health care obligation, allowing it to make the payments that are necessary to fully fund the expected costs over a 40-year period, rather than the current 10-year period.

These reforms are modest but welcome improvements that would allow the USPS to better respond to market changes. Unfortunately, no such legislation is being considered in the Senate. The leading bill in that body, S. 1486—sponsored by Senators Tom Carper (D–DE) and Tom Coburn (R–OK), would provide postal officials with far more limited authority to address the current crisis. Among other things, it would:

- Require the USPS to consider a range of additional findings and service alternatives before closing post offices,
- Impose a two-year moratorium on closing processing centers and a one-year moratorium on dropping Saturday mail delivery, and
- Require a customer's permission to switch a residence to curbside mail service.

The Carper–Coburn plan would, like the Issa bill, stretch the health benefits pre-funding schedule, but cap it at 80 percent—rather than 100 percent—of full funding.

Looking for a New Mission. Reform of the Postal Service, however, should not consist of cutbacks alone. The USPS can also benefit from innovative uses of its assets and new business offerings. Both the Issa and Carper–Coburn bills would allow the USPS to take some small steps in this direction. The Issa bill, for instance, would allow the Postal Service to place private advertising on its delivery trucks; the Carper–Coburn plan would allow it to deliver alcoholic beverages.

More broadly, the USPS could use its existing assets to shift into entirely new fields, such as real estate, Internet services, or even banking.[35] Such a shift would not be unprecedented. Many other firms that have lost their primary business due to technological advances have successfully switched into new lines of business. Western Union no longer delivers telegrams, but has a thriving money transfer business. Fuji, once a leading film manufacturer, now sees itself as a chemical company. There is, of course, no guarantee that such new ventures would succeed. Prior attempts to provide Internet-based services, for instance, failed—but the USPS should be allowed to make such attempts.

Before the USPS is allowed to do so, it must relinquish its ties to the federal government and the special legal privileges it still holds. For instance, while the USPS has lost ground to electronic alternatives, it still holds a protected legal monopoly on the delivery of physical letter mail. Similarly, the USPS enjoys exclusive rights to the use of mailboxes, even though they are owned by postal customers. These monopolies 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 these outdated restrictions on competition, moreover, could itself help the Postal Service improve. Allowing new entrants to try their hand at mail delivery could foster new ideas and fresh perspectives in the postal business. That may be just what mail delivery needs.

Steps for Congress

Congress needs to act quickly to clear the way for fundamental change at the Postal Service, and to ensure that taxpayers will not be on the hook for a postal bailout. Congress should:

- **Lift restrictions on the closure of USPS processing centers and post offices.** The Postal

35. Ruben Gomez, "Some Advocate for Banking Services as USPS Savior," Federal News Radio, June 27, 2012, http://www.federalnewsradio.com/537/2920275/Some-advocate-for-banking-services-as-USPS-savior (accessed October 3, 2013).

Service should be able to use its business judgment to decide which and how many facilities are needed;

- **Lift restrictions on delivery times and schedules,** permitting delivery on a five-day-per-week basis, or even less, should the shrinking market demand it;

- **Lift service-level mandates,** including that of door-to-door service;

- **Provide for the resumption of pre-funding payments for the Postal Health Benefits Fund.** Any such schedule should ensure 100 percent repayment over a defined period of time to protect the Treasury and taxpayers from bearing the risk of default;

- **Eliminate restrictions on competition in the postal business,** including the prohibition on private delivery of letter mail. This would encourage development of new and innovative approaches to letter delivery; and

- **Remove restrictions on the USPS offering of non-postal services and restrictions on rate changes,** after—and only after—all special legal protections and advantages enjoyed by the Postal Service are eliminated.

Conclusion

The Postal Service's woes are no accounting gimmick. They are very real. Given the continued growth of electronic alternatives to physical mail, the USPS's problems will only get worse. To survive—and to avoid risk to taxpayers—fundamental changes must be made in the way the government-owned company operates. But Congress is blocking many needed reforms. It should get out of the way, and allow the Postal Service—or others—to respond to the changing marketplace without politically imposed restrictions.

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