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To: Senate Homeland Security and Governmental Affairs Committee

From: Kevin R. Kosar, Director of Governance Studies, R Street Institute

Re: Written testimony concerning the Postal Service's existential problem for hearing, "Laying Out the Reality of the United States Postal Service," Jan. 21, 2016

My name is Kevin R. Kosar, and I am director of the Governance Project at the R Street Institute, a think tank here in Washington. Some of you may recognize my name, as I spent 11 years at the Congressional Research Service, where I was the lead analyst on postal issues. I thank the committee for convening this hearing.

The U.S. Postal Service has an existential problem. For five years, the agency has flirted with insolvency. It has \$15 billion of debt, its statutory maximum. The USPS reports in its most recent annual financial statement:

“Although our cash balances have increased, they remain insufficient to support an organization with approximately \$74 billion in annual operating expenses. Our business continues to face challenges due to the ongoing migration of mail to electronic alternatives, and we are legally limited in how we can price our products and streamline our legacy business model...Furthermore, given our inability to raise cash through the issuance of additional debt, our current level of available liquidity may be insufficient to support our operations in the event of another significant downturn in the U.S. economy.”

To conserve cash, the agency has put off many capital investments. The service's 140,000-vehicle fleet is more than two decades old and needs to be replaced. The Postal Service has not made any payments into its Retiree Health Benefits Fund since 2008, meaning its \$50 billion in unfunded health-care obligations are not getting any smaller. The agency has tried to shave overhead costs by not replacing hundreds of thousands of retiring employees, and closing post offices or reducing their operating hours. (Most post offices lose money.) The agency also wants to close many more of its mail-sorting plants. If Congress allowed it, the Postal Service would end Saturday mail delivery (except for parcels).

How the agency will escape its debt and return to financial sustainability is anything but certain. However, the service's existential crisis goes deeper than finances. Its very *raison d'être* has disintegrated. The act that birthed the modern, reorganized USPS declares:

“The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people.”

That was drafted in 1970. Back then, long-distance telephone calls were fantastically expensive for most consumers and facsimiles were few. Pop songs of the time – like Rod Stewart's 1972 hit, “You Wear It Well” – spoke of lovers writing precious letters to one another. When letter carriers went on strike in 1970, President Richard Nixon took to television to announce that he would contend with the threat. National Guardsmen were sent in to replace the wildcatters. Mail was king and the Postal Service could expect to reap profits as a communications monopolist.

Those days are long, long gone. Mail no longer “binds the nation...through correspondence.” Mail today is not a communications medium; it is a medium for business marketing. At most, 5 percent of all mail sent constitutes letters and postcards from one person to another. More than half of all sent mail is advertising. Person-to-person correspondence has gone electronic. I can email my sister in Ohio, text my nephew in New Jersey, Facebook message my friend in Russia and video chat with my mother for little to no cost. The public mostly gets its news online and over the airwaves. Magazines are a mere 3.5 percent of what USPS delivers.

So, the question to ponder is: why do we need a Postal Service? It is a question worthy of congressional deliberation.

To be clear, the Postal Service cannot be abolished; at least, not immediately. Many institutions' operations remain tied to it. Local governments send jury summons, vehicle registration renewals and other important documents by mail. Voting by mail is widespread in the United States, and Colorado, Oregon and Washington hold all their elections by mail.

U.S. package delivery also is deeply dependent upon the Postal Service. FedEx and UPS have postal carriers deliver many small packages to sparsely populated rural areas. (It makes no financial sense for them to do it themselves and USPS carriers are on the route anyway.) The Postal Service also is tasked by executive order to deliver medicines in the event of a terrorist biohazard attack.

Many of the legislative reforms proposed in recent years dodge the USPS' existential question and instead take for granted that the government should lug paper mail all over America's 3.8

million square miles. This makes finding any significant reform that suits the two biggest interest groups (USPS unions and high-volume mailers) very difficult. It goes without saying that members of Congress from low-population and far-flung states tend to be averse to reforms that reduce the highly subsidized service their constituents receive.

The distributive nature of postal politics thus discourages Congress from facing the fact that Americans need the USPS less and less; what needs they do still have are evolving. Unfortunately, postal politics also tend to produce fanciful “magic money” solutions, like postal banking and entering USPS into new lines of business. "If only the USPS could sell _____ (fill in the blank), then its deficits would go away," is the thinking.

But facts are facts and no amount of wishful thinking will make mail volume grow and postal revenues soar. Eventually, a day of reckoning must come. A government operation that goes bankrupt is unlikely to be bailed out by a public that sees it as a pointless, environmentally harmful anachronism. This is all the more reason to enact sensible postal reform sooner rather than later. Such reforms should permit the agency to adjust its operations to the declining demand for its services, and keep it focused on its last-mile, mail-delivery duties.

Thank you for your time and consideration on this important matter.