Restructure the Postal Service

United States Postal Service

Summary of Proposal: This proposal would restructure the United States Postal System to return it to a sustainable business model or prepare it for future conversion from a Government agency into a privately-held corporation. Like many European nations, the United States could privatize its postal operator while maintaining strong regulatory oversight to ensure fair competition and reasonable prices for customers. The President's Task Force on the United States Postal System will make recommendations on reforms towards this goal in August 2018.

THE CHALLENGE

When the United States Postal Service (USPS) was created out of the Post Office Department in 1970, the Congress tasked it with binding the Nation together through correspondence; half a century later, that role has been increasingly supplanted by less expensive digital alternatives. USPS has extremely high fixed costs as a result of relatively generous employee benefits combined with a universal service obligation that is understood to require mail carriers to visit over 150 million addresses six days per week. Historically, this level of service was supported by a high volume of mail. Despite significant decline in volume in the internet age, the size of the delivery network has continued to grow to meet expectations of the current operating structure. USPS can no longer support the obligations created by its enormous infrastructure and personnel requirements. USPS already has over $100 billion in unfunded liabilities, a substantial capital investment backlog, has posted losses for over a decade, and has no clear path to profitability without reform. A new model that adequately finances USPS while meeting the needs of rural and urban communities, large mailers, and small businesses is needed.

THE OPPORTUNITY

A privatized Postal Service would have a substantially lower cost structure, be able to adapt to changing customer needs and make business decisions free from political interference, and have access to private capital markets to fund operational improvements without burdening taxpayers. The private operation would be incentivized to innovate and improve services to Americans in every community.

WHAT WE'RE PROPOSING AND WHY IT'S THE RIGHT THING TO DO

This proposal would restructure USPS by aligning revenues and expenses to restore a sustainable business model and possibly prepare it for future conversion from a Government agency into a privately-held corporation. Like many European nations, the United States could privatize its postal operator while maintaining strong regulatory oversight to ensure fair competition and reasonable prices for customers. A private Postal Service with independence from congressional mandates could more flexibly manage the decline of First-Class mail while continuing to provide needed services to American communities.

Profitability and Privatization: Considerations for the Future of USPS

In 2017, USPS experienced faster than expected declines in both First-Class Mail and Marketing Mail. First-Class Mail has declined 40 percent since 2001. Marketing mail is more stable, down only 10 percent since 2001, but is incredibly sensitive to price and market downturns. At the same time, USPS has continued to grow its package delivery business, particularly the last-mile delivery that is relatively cheaper for them because of the huge fixed network they must maintain to support mail delivery. However, the revenues from lower-margin package delivery and other competitive products cannot replace declining revenue from the market-dominant (monopoly) products in the long-run. This year, USPS continued its six-year string of defaults and for the first time defaulted on pension-related payments rather than just health benefit prepayments. USPS's current model is unsustainable. Major changes are needed in how the Postal Service is financed and the level of service Americans should expect from their universal service operator.

One successful model of Postal reform internationally has been to transition to a model of private management and private or shared ownership. USPS is caught between a mandate to operate like a business but with the expenses and political oversight of a public agency. A private postal operator that delivers mail fewer days per week and to more central locations (not door delivery) would operate at substantially lower costs. A private entity would also have greater ability to adjust product pricing in response to changes in demand or operating costs. Freeing USPS to more fully negotiate pay and benefits rather than prescribing participation in costly Federal personnel benefit programs, and allowing it to follow private sector practices in compensation and labor relations, could further reduce costs. A privatized Postal Service could be structured like an investor-owned utility and continue to be regulated by the Postal Regulatory Commission (PRC), a successor agency, or another Federal regulator such as the Federal Trade Commission, consistent with the existing models of privatization in Europe. Even with continued regulation, a privatized Postal Service would be more insulated from politics and more likely to succeed as a financially-viable business. A private entity would also have access to private capital markets to raise money for needed improvements like new vehicles without burdening taxpayers with additional liabilities.

USPS privatization through an initial public offering (IPO) or sale to another entity would require the implementation of significant reforms prior to sale to show a possible path to profitability. Most foreign posts that have been privatized have been profitable at the time of the sale. In contrast, USPS has lost over $65 billion since the last recession and recorded a $2.7 billion loss last fiscal year. To reach profitability, most international postal operations have gone through significant restructuring, including shrinking their physical and personnel footprints. In some cases, foreign governments have had to absorb legacy retirement liabilities[1] in order to prepare a postal operator for sale. The existing unfunded liabilities in USPS's retirement programs total more than $100 billion. USPS owes an additional $15 billion to Treasury's Federal Financing Bank and has further liabilities to the Department of Labor's Workers Compensation program. According to the Postal Service's own estimates, the Agency is insolvent, with liabilities exceeding assets by more than $120 billion.[2]

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[1] UK National Audit Office, The Privatisation of Royal Mail, April 2014, Pg. 16: *https://www.nao.org.uk/report/privatisation-of-royal-mail-plc/*

[2] 2017 Report on Form 10-K United States Postal Service, Balance Sheet, CSRS and FERS Unfunded Retirement Benefits, and PSRHBF Funded Status

Forthcoming Recommendations by the Task Force on the United States Postal System

To address these major issues and identify solutions, possibly including private ownership, the President has issued Executive Order 13829: Task Force on the United States Postal System. The Task Force will conduct a thorough evaluation of the operations and finances of the Postal Service and make recommendations for reform consistent with this reorganization proposal. The Task Force will examine:

1. The expansion and pricing of the package delivery market and the USPS's role in competitive markets;
2. The decline in mail volume and its implications for USPS self-financing and the USPS monopoly over letter delivery and mailboxes;
3. The definition of the "universal service obligation" in light of changes in technology, e-commerce, marketing practices, and customer needs;
4. The USPS role in the U.S. economy and in rural areas, communities, and small towns; and
5. The state of the USPS business model, workforce, operations, costs, and pricing.

The recommendations will include administrative and legislative reforms to the United States postal system that promote our Nation's commerce and communication without shifting additional costs to taxpayers. The report will be available by August 10, 2018.