Slate

Deliverance

The U.S. Postal Service must make massive changes if it is going to survive.

By Annie Lowrey

Posted Wednesday, Aug. 17, 2011, at 5:51 PM ET

It is hard to think of a better deal than mailing a letter. In exchange for nothing more than a first-class stamp, the U.S. Postal Service will come to your house, pick up your envelope, and deliver it anywhere in the country. It will bring it from Hawaii to Miami. It will carry it from Bangor, Maine, to Dededo, Guam, a distance of 8,000 miles. If you got the address wrong, it will bring the letter back. These services are completed with extraordinary accuracy and speed. The cost? A mere 44 cents, less if you bought your forever stamps years ago.

America's postal service is elegant, efficient, even amazing, given the enormous size of the country and the low cost of stamps. But the U.S. Postal Service is a hulking, foundering, money-hemorrhaging bureaucracy. A government watchdog has deemed the whole business unsustainable. Next month, it might actually run out of cash. It raises the question: How is the postal service going to be viable as mailed letters become increasingly obsolete?

One thing is for sure: The fiscal situation at the USPS is bad—really bad. According to its most recent quarterly report, the USPS lost $3.1 billion between April 1 and June 30. Add that to billions of dollars in losses racked up since the recession hit—the USPS has been in the red for 18 of the last 20 fiscal quarters. It has also amassed tens of billions in unfunded liabilities, mostly in pension and retiree health-benefit obligations.

The problem is not mismanagement. The

problem is that the USPS has an enormous, expensive physical and human infrastructure. It operates more than twice as many U.S. outlets as McDonald's. It runs the largest vehicle fleet on Earth. It has a staff of nearly 600,000, despite considerable reductions in the last decade. To pay for all those people, trucks, and buildings, the USPS needs to handle a lot of mail.

The recession accelerated the longtime trend of businesses and individuals s hifting correspondence to the Internet. (After all, 44 cents is still more than nothing.) Mail volumes have plummeted more than 25 percent since 2006. Moreover, the mix has gotten cheaper—more bulk mail, fewer first-class letters. Unlike some of its other national counterparts, the USPS has no other revenue stream to speak of except for delivering mail, so less mail means a lot of red ink. The USPS plunged deep into the red in 2007. By 2020, with no big surge in first-class mail likely even if the economy recovers, cumulative losses will total an estimated $238 billion. That's three times the size of the auto bailout.

The postal service has tried valiantly to stanch the bleeding. It has told Congress i t wants more room to charge higher prices, reduce the number of deliveries, invest in new technologies, and negotiate new terms with its workers. (The USPS is structured a bit like Fannie Mae and Freddie Mac—it is an independent organization with federal backing, and Congress has a check on it.) It has shuttered post offices. It has streamlined operations. In the last four years alone, it has reduced its staff by 110,000 and saved some $12 billion.

But it is not nearly enough, and the USPS says so itself. In its most recent quarterly statement, it writes: "Postal Service efforts to positively impact cash flow will not be, either individually or in the aggregate, sufficient to avoid a cash shortfall in 2011." The report continues: "Absent significant changes … the $15 billion debt ceiling will be reached in September 2011, thereby exhausting the Postal Service's external funding ability. No assurance can be given that Postal Service efforts to secure legislative changes will be successful, or that Congress will enact legislation in time to favorably impact 2011, or at all."

The catastrophe is twofold. The USPS is going to need a higher debt limit or big changes pronto, or it is going to run out of cash. Then it needs significant—maybe even radical—changes to return it to fiscal stability. Indeed, a congressionally ordered Government Accountability Office report from April 2010 starts with the blunt line: "USPS's business model is not viable due to USPS's inability to reduce costs sufficiently in response to continuing mail volume and revenue declines." The "business model" is not "viable." Changes are necessary. So what might those changes look like?

The most radical option is simply to end the USPS, as suggested by former Republican presidential candidate Tim Pawlenty and the Cato Institute, among others. This is unnecessary and unlikely. But it is not nearly as crazy as it sounds. The shift to online communication is permanent, and letter volumes will continue to decline. It is hard to see how the USPS will ever make money given its legal strictures, even with its monopoly on letter delivery. Congress could break t he monopoly and privatize USPS, opening the field up to the host of companies that already deliver packages and letters, cheaply and fast. FedEx could bring you your paycheck. DHL could get you your circular. The "USPS brought to you by Wal-Mart" could get you your tax forms.

But let's say we want to leave the service, and its monopoly, in place. What changes might be necessary then? The USPS proposed two big ones this month, saying "exceptional circumstances require exceptional remedies." First, it wants to shed another 120,000 employees, breaking its labor agreements to do so. "If the Postal Service was a private sector business, it would have filed for bankruptcy and utilized the reorganization process to restructure its labor agreements to reflect the new financial realities," it claims.

Second, it wants to withdraw from federal pension and retiree health care plans, administering those programs itself. A July report by the Office of the Inspector General for the USPS argues it is overpaying to the tune of billions. "The Postal Service had been unfairly overcharged $75 billion for the Civil Service Retirement System (CSRS) pensions and has overfunded the Federal E mployees' Retirement System (FERS) by an additional $7 billion," it says. It also contends retiree health liabilities are "exaggerated." Pulling out might help save the USPS. But it will be controversial, and it might even threaten the stability of the federal programs.

To help ease the immediate cash-flow problem, the USPS wants Congress to drop a requirement that it prefund retiree health care benefits—staving off financial apocalypse for a year or two and giving time for other changes to take effect.

Changes to service are coming down the pike, too. The USPS wants Congress to loosen restrictions on how and when it delivers mail, who it hires, and how much it charges for its services. That could mean more contract and part-time employees. It could mean reduced pickups and drop-offs. It will probably mean the end of Saturday delivery.

There are more creative ideas out there as well. The USPS could add a cool service in which it accepts your physical mail but delivers it via email scan. It could let you pay to refuse junk mail, or turn a photograph into a postcard. (This excellent, exhaustive *BusinessWeek* piece runs through other ways European countries diversified their mail services to keep their postal systems afloat.)

One way or another, expect changes—and soon: A serious congressional fight over what to do with the USPS and how to do it is due when members come back from August recess, with advertisers, unions, and other delivery firms gearing up for a huge push. And expect a number of existential questions about—if not existential changes to—the mail service.

Like ***Slate*** *on Facebook. Follow us on Twitter.*