To Save the USPS, We Must Privatize It

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The U.S. Postal Service has been losing money for more than a decade. Its financial outlook is bleak, with $110 billion in unfunded retirement costs and more liabilities accruing every year. Congress is in denial about the crisis, and there is a growing chance that taxpayers will be put on the hook for a bailout.

The USPS is a huge enterprise with more than 600,000 employees and $71 billion in annual revenues. Revenues are supposed to cover its costs, but it has lost $69 billion since 2007. There are a couple of culprits. The volume of first-class mail — the USPS's most profitable product — has plunged 45 percent since 2001. And while the company has expanded into package delivery, it faces heavy competition from UPS and FedEx, and will likely be challenged by Amazon and other upstarts down the road.

A Trump-administration task force last year found that the USPS's business model "is unsustainable and must be fundamentally changed if the USPS is to avoid a financial collapse and a taxpayer-funded bailout."

There are lots of cost-cutting measures that could temporarily stave off such a collapse. But in the long run, the USPS needs to diversify its business to survive and grow, and that is a trickier problem than it seems.

As a government entity that pays no taxes, the USPS would enjoy an unfair advantage over potential private competitors in the markets outside its legal monopoly on mail delivery — the markets into which it needs to expand to survive. FedEx pays $2 billion a year in federal, state, and local taxes, while the USPS pays none.

How can we let the USPS diversify and grow without creating unfair competition? The answer is privatization, and the opening up of the postal market that would come with it.

Europe has already demonstrated how, practically speaking, privatization could be a success. Since the European Union mandated that member nations open their postal markets to competition, numerous countries have privatized their mail carriers, including Germany, the United Kingdom, and the Netherlands. A 2018 report for the European Commission found that the continent's postal firms were diversifying revenues, reducing labor costs, adopting new technologies, cutting delivery frequency, using cluster boxes for delivery, and closing post offices — all the steps the USPS needs to take.

Privatization would give the USPS the flexibility to save itself, allowing access to debt and equity markets for capital investment — a lifeline for a company that has long been short of cash and deferring the purchase of vital new vehicles and technologies. It would also improve the state of affairs on the company's board of governors, which has not been fully staffed for years and today has only two of nine appointed members because of Washington dysfunction.

"Well, what about the USPS's mandate to serve all addresses in the nation?" you might ask. As the EU did, the U.S. government could impose a universal-service obligation on a privatized USPS and, if needed, pay the firm a small subsidy to cover the extra costs.

The important thing is to restructure the USPS before its financial hole gets even deeper. Advertising mail — 62 percent of mail volume — is declining as ads move online. Transactions mail — 19 percent of mail volume — is declining as bank statements, bill paying, and similar activities move online. The volume of periodicals, personal letters, and other types of mail is also falling. Any way you slice it, "snail mail" is being left in the dust as 290 billion emails a day zoom around the planet.

In short, the USPS needs a makeover for the digital age, and Europe has shown it the way: privatization, diversification, and competition.

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