

The overhaul the Postal Service needs: The deeper truth beneath President Trump's exaggerated attacks on the USPS

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President Trump reignited a feud last week when he said the “Postal Service is a joke because they’re handing out packages for Amazon and other internet companies and every time they bring a package, they lose money on it.” Trump does not like Amazon’s delivery deal with the U.S. Postal Service and won’t give the agency \$10 billion in crisis aid without changes such raising package prices.

Trump is harsh and he tends to exaggerate. But sometimes he spotlights an important issue that other politicians have ignored.

The USPS is not a “joke,” but it is in deep trouble. First-class mail volume has fallen 47% since 2001 because of the rise of email, online bill-paying and other internet services. First-class mail is the USPS’s most profitable product, so the decline has generated a decade of financial losses at the government-owned company which has 630,000 workers.

COVID-19 is compounding the losses. The head of USPS said that the crisis is having a “devastating effect on our business...The sudden drop in mail volumes, our most profitable revenue stream, is steep and may never fully recover.” The USPS is projecting that mail volume will be down 50% from last year and losses will total \$23 billion over the next 18 months. The company also has unfunded retirement costs of \$119 billion that it is unable to pay.

Congress has known about the USPS’s growing problems for years and done nothing. So it makes sense for Trump to use his leverage to demand changes to end the flow of red ink.

Trump may be right that the USPS is underpricing its package delivery for Amazon. The USPS appears to be using profits from letters (on which it has a legal monopoly) to cross-subsidize its package business, which competes with UPS and FedEx. The extent of the cross-

subsidies are subject to debate because USPS finances are not transparent and its contract with Amazon is not public.

The USPS enjoys other advantages over package competitors, including access to low-cost federal loans, exemption from various regulations, and exemption from federal, state and local taxes. Its competitor FedEx says that it pays about \$2 billion in taxes a year to the three levels of government.

Given these issues, policymakers should restructure the USPS with two goals in mind: creating a level playing field for all businesses in delivery markets and giving the USPS the flexibility it needs to cut costs and diversify its revenue sources.

The Trump administration has suggested how to achieve these goals: privatize the USPS. It argued that “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.” Privatization may sound radical, but postal systems in Germany, the Netherlands, the United Kingdom and other countries have been converted to private-sector corporations.

If the USPS were private, it could downsize its letter operations to match the fall in demand. Germany’s privatized Deutsche Post closed nearly all its stand-alone branches, sold 29,000 buildings and opened counters in retail businesses such as grocery stores. European postal firms have also cut costs by reducing the number of delivery days, while still serving all addresses.

At the same time, a privatized USPS could upsize by expanding into new markets, such as grocery delivery. As a government entity, that would create unfair competition with private businesses, but if USPS were private and its tax and monopoly advantages repealed, such diversification would make sense.

The USPS is in a death spiral. The COVID-19 crisis is accelerating the replacement of letters, bills, magazines, advertising and other sorts of paper mail with online services. Trump is narrowly obsessed with package pricing, but that problem can be solved within broader restructuring of the USPS. To survive and even thrive in the changing economy, the U.S. Postal Service should be moved to the private sector.

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