

# THE CHALLENGE TO REFORM USPS

What do the customers want?

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**The United States Postal Service (USPS) has seen some fairly remarkable changes over the past few years. The first female Postmaster General in the history of the 240 year old organisation took office last year. Package revenue continues to post strong growth, more than 20% over the past five years. And First Class Mail volumes, under attack from the Internet and recessionary forces for years, finally showed signs of flattening out in the first part of fiscal year 2016. The Postal Service's liquidity has improved, and it is now eyeing capital investment and beginning to explore a range of digital products.**

### Congress and reform

At first blush, therefore, it appears that the Postal Service, and the one trillion dollar mailing industry that it supports, is poised for a breakthrough in the digital age.

Or is it? For all the exciting transformation in logistics and the package industry, the United States finds itself at a crossroads in positioning its postal system for success in the twenty first century. Congress seems unable to pass needed legislation to reform the Postal Service. The odds are long that Congress will pass legislation this year that will give USPS the tools it needs to either control its costs or to boost its revenues.

Why cannot the champions of postal reform, chief among them Senator Tom Carper, a Democrat from Delaware, rally the stakeholder community around a bill and push it over the goal line? First of all, there is the obvious: the US Congress is a fairly dysfunctional place. Few bills of any substance move. Period. More specifically, however, it is hard to get the disparate parts of the postal community to agree on key aspects of a reform bill.

### Pricing and costs

The latest stumbling block has been the mailing industry's inability to coalesce around pricing issues. In particular, the industry was split on whether the "exigent" price increase from last year, which was a temporary rate hike set to expire on April 10 2016, should be made permanent, or at what price point it could live with a percentage of the increase being permanent. Congressional aides and mailing industry representatives were reportedly negotiating over that price point. They could not reach agreement, and some observers were relieved.

That is because the bigger problem is that the overall bill, known as the Improving Postal Operations, Service and Transparency Act (iPost), falls short of comprehensive

reform in many ways. Most notably, the bill would restrict USPS's ability to match the size of its network with its current workload. The bill proposes a "pause" in the Postal Service's facility closing and consolidation efforts, for a period of two years for mail processing plants and five years for post offices.

This moratorium is another sticking point for mailer groups. Some groups have a hard time supporting legislation that does not give USPS greater control over its costs. And while Senator Carper's reason for the moratorium may be valid, namely to allow for a stabilisation of service, it still leaves the mailing industry with a strong political and public relations argument: why are we paying for excess capacity? How can we support making the exigent price increase permanent when it is being used to pay for an oversized network?

If this argument sounds familiar, an issue that has already been debated, it is because it has. These arguments are similar to the ones the industry had in the 1990s and early 2000s in the policy debates that eventually culminated in the current law regulating the USPS, the Postal Accountability and Enhancement Act (PAEA). The current reform efforts are an attempt to revise the pieces of that 2006 legislation that no longer work given how rapidly communications have changed, and how precipitously mail volumes have declined, since its passage.

Yet here we are again, fighting over pricing regulations and a price cap. And while pricing is important to all stakeholders, pricing arguments start from the wrong premise. We fixate on figuring out how to pay for everything when we should be asking a better question: what is it we want to pay for? What services do the American people need from their postal service in an age of digital communications and commerce?

### The need for a debate on the USO

Our policy discussion should be focused on updating the Universal Service Obligation (USO). Posts around the world have held to a USO of some kind, which is generally that the postal operator will deliver five or six times a week to every address. In the United States, we also include the idea it will be at a uniform price. That is, whether a First Class letter is going around the corner in New York City, or travelling from New York to rural Montana, it will be charged the same price.

Indeed, the USO is at the heart of our nation's postal system. It is the cornerstone around which all other aspects of the system are built. And yet, in the United States, the USO is not explicitly defined in the law.





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In addition to a set number of delivery days, user rights, and affordable pricing, the USO is generally understood to mean that the Postal Service will: deliver to all parts of the country; offer a range of services; ensure that customers have access to postal services; and provide quality of service.

The USO is often referred to as the Postal Service's public service mission, or its government mission. It comes with benefits and burdens. First, the benefits: USPS has government granted monopolies on most letter mail and exclusive access to the mailbox. "Historically, the purpose of these monopolies is to help ensure the Postal Service has adequate revenue to cover the cost of its universal service obligation," a recent white paper from the Office of Inspector General (OIG) notes.

The burden is that it must deliver to every address in the country, to money losing addresses as well as to high profit ones. The Postal Service's regulator, the Postal Regulatory Commission, has determined that the USO costs the Postal Service about US\$4bn a year. As the OIG white paper notes: "The combination of the steady decline in letter mail and the price cap on the monopoly products has begun to decrease the monopoly-related revenue. This, in turn, has eroded the ability of the Postal Service to fund its USO."

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This problem is not unique to the United States, of course. It is just that other posts have addressed the problem by reducing their obligations, increasing their revenue through greater pricing flexibility or additional funding alternatives, or both. The Postal Service's USO has remained unchanged. And, unlike most European countries, the United States has not reduced the postal monopoly.

### The changing environment

And yet, the world has changed dramatically in the past twenty years: the rise of e-mail and texting, online shopping, the ubiquity of mobile devices, Facebook, Twitter, Snapchat, PayPal, Amazon and on and on. The pace of technological change is staggering, and so many digital technologies have affected the traditional hard copy industries, such as newspapers, magazines and mail.

Yes, the Great Recession of 2008 certainly accelerated the decline in lettermail: in the United States it has dropped by about 57bn pieces in the past eight years. But single piece First Class Mail (stamped correspondence or what we refer to as Aunt Minnie mail) has been in decline since 1990. Electronic diversion has been at work for over twenty five years.

A whole generation of Americans has grown up with the mobile phone as its primary tool for communications. These consumers are likely to pay their bills online and might even be the generation more inclined to receive their bills digitally. They do not write letters. Their "mail moment" is seeing the Amazon package on the doorstep.

In light of all this change, does it still make sense for today's USO to mean the same thing it did twenty years ago? Does the Postal Service need the same monopoly

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protections it once did, given its changing role as primarily a deliverer of advertising mail and, eventually, primarily of packages? Do retail customers need the same access to postal facilities as they did two decades ago with the movement to online purchasing of retail products, given that nearly 30% of USPS's retail revenue comes from alternative channels, including usps.com? And, in five or ten years, those needs could change even further.

### What do customers want?

Do Americans really want mail delivery six days a week? Our legislators seem to think we do because they insist the Postal Service provide delivery six days a week. But surveys and studies suggest citizens feel otherwise. A unique survey by Citizen Cabinet, part of the University of Maryland's School of Public Policy, walked respondents through a process called "policymaking simulation" with the policy question being: "how would you fix the Postal Service?" Essentially, the citizen participants went through a process similar to that which legislators go through in making a policy decision.

Interestingly, two out of three respondents recommended eliminating Saturday delivery of letters, but keeping Saturday delivery of Priority Mail and packages. This recommendation supports a finding from an earlier OIG report on the universal service obligation that found that most respondents were indifferent to receiving Saturday delivery of letters.

The Citizen Cabinet also recommended relaxing the USO. "Just under half find the idea of relaxing the universal service obligation acceptable, but two-thirds say they would find it at least tolerable," the survey report noted.

Do we even need delivery to our door or to the kerb? Americans do seem to cherish door and kerb delivery. The OIG study found that consumers and businesses place a high value on maintaining delivery to the door or kerb rather than delivery to cluster boxes or parcel lockers. But would a centralised box suit our needs if it also could handle packages of varying sizes? What if the mailbox monopoly was lifted and other carriers could deliver to that box?

If Americans decide that yes, they still want their USO to look the same today as it has since the last century, then we tackle how to pay for it. But to start, let us talk about what the USO should be in the digital age. Let us define it with the understanding that it probably will need to change again in the near future.

### Can Congress deliver?

Then, let us craft postal legislation with this new vision of the USO as our starting point. The legislation, of course,

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would have to address how to pay for it. But if these surveys are correct, Americans seem unwilling to pay to retain the level of service that they have today.

To be fair, current legislation does address aspects of the USO, but it is in a piecemeal fashion and some of the issues fall prey to politics. The Saturday delivery debate is a good example. Three years ago, the Postal Service unveiled a plan to end Saturday delivery, saying it would save US\$2bn a year. It got huge blowback from lawmakers. There was no robust debate on the idea, even though Americans are not particularly wedded to Saturday delivery. It became such a political hot potato that USPS killed it.

The political firestorm around Saturday delivery illustrates the biggest challenge of all for reforming the Postal Service: today's legislative process does not allow for thoughtful deliberation. Partisan politics and twenty second sound bites are more important. A divided stakeholder community does not help. Competing interests make it hard for legislators to craft meaningful reform that satisfies stakeholders. As a top aide to Senator Carper noted recently: "Congress works in small and medium steps, and unfortunately with the Postal Service, we are dealing with big steps. We are trying to stabilize a major business and we don't have the luxury of just shutting it down for two years while we figure it out."

Despite the gloomy legislative outlook, many stakeholders see a sliver of hope. The mailing community is united around one issue: all parties want a healthy and viable Postal Service. And Congress, perhaps in spite of itself, will not let USPS fail.

It will not be easy to position the Postal Service for success. Compromise and collaboration are necessary to move legislation. But let us find the right starting point. Let us ask the American people what they want from their postal system and what they are willing to pay for it.

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