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Ms. Elaine C. Kamarck
Senior Fellow
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The Brookings Institution
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Dear Ms. Kamarck:

In September, you wrote and Brookings issued a paper on the issue of postal reform – *Delaying the Inevitable: Political Stalemate and the U.S. Postal Service.* I write on behalf of 275,000 members of the National Association of Letter Carriers to urge you to withdraw your paper because it is deeply and irretrievably flawed. I do so for four major reasons:

First, the paper is flawed because it largely misdiagnoses the major problems facing the Postal Service. Second, it depends on erroneous or unreliable information from sources with undisclosed conflicts of interest. Third, it fundamentally misunderstands that the Postal Service's universal service obligation, which covers and includes both *market-dominant* services and *competitive services.* This makes the paper's chief recommendation – to break up the Postal Service in two – both illogical and unfeasible. Finally, after proposing the break-up and partial privatization of the Postal Service, it fails to analyze and explore the implications such a proposal would have on the country, the U.S. economy and on the entire major stakeholders in the postal industry.

I will briefly address these problems.

Misdiagnosing the crisis. Your paper argues that the decline in certain segments of First Class Mail volume makes the Postal Service obsolete and that a political stalemate you blame on Congress and the postal unions has blocked the Postal Service's attempts to cut costs, leading to massive losses. Unfortunately, you rely on erroneous data to reach misleading conclusions.

The Postal Service has not reported massive losses in recent years because of the internet or the inability to cut costs. The financial crisis at the Postal Service was manufactured by Congress in 2006 when it imposed a crushing mandate to pre-fund decades of future retiree health insurance premiums over a ten-year period at a cost of $5.5 billion per year. As the table below indicates, that pre-funding mandate, which no other agency or firm in the United States faces, accounts for 86% of the Postal Service's losses since 2007. In your paper (page 4) you seem to briefly acknowledge the negative impact of this pre-funding mandate, but you mistakenly compared the $5.5 billion reported loss in 2014 to the $22.4 billion accrued liability for prior-year missed payments on the Postal Service's balance sheet. (Those missed payments were recorded as expenses in prior years and accounted for the vast majority of the Postal Service's reported red ink.) Your apples-to-oranges comparison literally makes no sense and therefore misleads your readers. Lost in the confusing sentence is the truth: The pre-funding expense reported in 2014 was $5.7 billion – an expense that accounts for more than 100% of the $5.5 billion loss reported on the Postal Service's income statement.

USPS Finances Since the Postal Accountability and Enhancement Act of 2006 ($billions)

Year	USPS Reported Net Income/(Loss)	PSRHB Pre-Funding	FECA Accounting Adjustments	Operating Income/(Loss)
2006 (pre-PAEA)	$0.9	$0.0	-$0.4	$1.3
2007	-$5.1	-$8.4	$0.1	$3.2
2008	-$2.8	-$5.6	-$0.2	$3.0
2009	-$3.8	-$1.4	-$1.1	-$1.3
2010	-$8.5	-$5.5	-$2.4	-$0.6
2011	-$5.1	$0.0	-$2.4	-$2.7
2012	-$15.9	-$11.1	-$2.4	-$2.4
2013	-$5.0	-$5.6	$0.3	$0.3
2014	-$5.5	-$5.7	-$1.2	$1.4
2015 2Q	-$2.2	-$2.9	-$0.8	$1.4
TOTAL Since PAEA	-$53.9	-$46.2	-$10.1	$2.3
Percent of Total		86%		

Worse, because you do not offer the data I've included here, your readers are left in the dark about the true state of the Postal Service's finances. Indeed, if not for the pre-funding mandate and declining interest rates that have artificially (and temporarily) inflated estimated future workers' compensation costs and led to more than $10 billion in one-off, non-cash accounting adjustments (that will be reversed when interest rates rise again), the Postal Service would be reporting net profits. As it is, it has reported operating profits over the past two and a half years.

How is this possible, given the decline in First Class mail for bill payments? Because USPS package delivery (and revenue) is booming and Standard Mail volume and other mail segments are growing again as the economy recovers from the Great Recession. Moreover, contrary to assertions made in your paper without evidence, the Postal Service has been able to cut costs. (On page 7 you inaccurately write: "When the USPS has taken it upon itself to cut costs, they've [sic] been blocked.") In response to the 28% reduction in total mail volume between 2006 and 2015, the USPS cut 216,000 career jobs (-31%) and reduced the number of mail processing plants from 673 to 319 (-53%), saving billions of dollars.

Rather than examine the facts, you accept the lazy conventional wisdom that union resistance to cutting service on Saturdays means the Postal Service is blocked from doing anything. The previous paragraph proves that is wrong.

For the record, the NALC opposes the elimination of Saturday delivery because 35%-40% of mailers say they need the service. No company can thrive by failing a third of its customers. (Public opinion polls are beside the point – for the most part, business mailers pay most postage, not households.) We also oppose the end of six-day delivery because a Postal Service consultant (ORC International) concluded in 2012 that service cuts including Saturday delivery would cause a loss of $5.3 billion in revenues against just $3.3 billion in savings. We also oppose ending

Saturday delivery because demand for seven-day and same-day delivery is growing – and opening household mail boxes to private delivery on the weekend would unleash a demand for further deregulation that would destroy universal service at affordable rates. (The proposed elimination of Saturday delivery in Congress also called for opening mailboxes to private delivery on days the USPS does not deliver.) This mission may not be important to the Cato Institute or the Heritage Foundation, but it should be to you and to Brookings.

The Postal Service does not face a crisis of obsolescence – in the age of the internet and e-commerce, universal last-mile delivery is becoming more important, not less. The main problem facing the Postal Service is bad public policy. The key to fixing the Postal Service is repealing or reforming the grossly unfair and destructive mandate to pre-fund future retiree health benefits. This could be done in a variety of ways – by repealing the mandate outright, applying private-sector pension valuation standards that would allow the USPS to cover the cost of retiree health benefits with surplus pension assets, or fully integrating USPS retiree health benefits with Medicare. (The last idea has been embraced by all the major postal industry stakeholders in recent years.)

Although addressing the pre-funding burden would restore the Postal Service to operational profitability, your paper (p. 6) inaccurately and falsely claims that the postal unions argue that there is “no need for further action.”

In fact, the unions have coalesced around several other reforms, including making the 2014 exigent rate increase permanent, investing the Postal Service Retiree Health Benefits Fund in private-sector stock index funds to further reduce the cost of pre-funding, applying private-sector standards to USPS pension valuations, authorizing the delivery of beer and wine through the mail, providing financial services through the nation’s post offices to serve 68 million Americans who are unbanked or under-banked, enacting the right to vote by mail in all federal elections (which would boost turnout and overcome growing voter suppression efforts), and giving the Postal Service the right to utilize its existing networks to provide non-postal services that do not unfairly compete with private-sector businesses.

Finally, the unions acknowledge that technology and the internet will continue to pose challenges to the Postal Service. But this technology does not just pose threats; it also offers new opportunities. In any case, the unions fully understand that we must be willing to adapt to whatever the future holds, at the bargaining table and on Capitol Hill.

Misleading your readers with faulty data and erroneous conclusions. In the section of your paper subtitled “The Big Questions,” you repeatedly offer misleading information from unreliable sources. In your discussion of the 1983 rider that mandates 6-day delivery, your readers would benefit by knowing that when that mandate was introduced, the Postal Service was profitably using more than 670,000 postal employees to deliver less than 120 billion pieces of mail. Today it could certainly profitably deliver 155 billion pieces of mail with its much smaller, more productive workforce. In fact, in 1983 the Postal Service was pushing for the elimination of six-day delivery at the very moment mail volume was set to double over the next two decades.

Similarly, your discussion of the Postal Service’s activity in the competitive package delivery market relies on a faulty sense of history. You note (p. 8) that “USPS has gone into areas of the economy in which it competes with the private sector.” In fact, the opposite is true. The Postal Service was delivering packages, newspapers, catalogues and books long before companies like FedEx and UPS even existed.

Your lack of knowledge on the long history of the Postal Service is perhaps understandable. But what cannot be accepted or forgiven is your reliance on unreliable sources with undisclosed conflicts of interest and your misleading characterization of the FTC’s findings with respect to the issue of alleged “unfair” subsidies to the Postal Service.

You allege the Postal Service benefits from monopoly rights and privileges worth $18 billion annually, including unspecified tax subsidies, preferential interest rates on borrowing and other advantages. But your only evidence for this highly dubious claim is a report by Robert Shapiro, an economic consultant hired by United Parcel Service to provide advocacy analysis. The logical and analytic flaws in this report are too numerous to address here, but your readers deserved to know that the analysis was conducted with the participation and financial support of the Postal Service's biggest private competitor. (The attached column from our union magazine addresses the fatal flaw in the Shapiro report: its preposterous claim that the mailbox monopoly is worth $14 billion annually.)

Worse, you quote selectively from a 2007 Federal Trade Commission report to leave the impression that the indirect subsidies or advantages enjoyed by the Postal Service seriously damage the competitive health of its private competitors, as suggested by the Shapiro paper. You left out one of the FTC's key conclusions: "Based on the estimates above, the USPS's unique legal status appears to cause it to suffer a net competitive disadvantage relative to its private competitors." (See page 70 of the report – *Accounting for Laws that Apply Differently to the United States Postal Service and its Private Competitors.)*

This is the case because Congress has saddled the Postal Service with many burdens that private firms don't face, including the mandate to pre-fund retiree health benefits. The FTC reached this conclusion even though it did not consider some of the biggest disadvantages faced by the Postal Service – such as the requirement to invest all of its $340 billion in pension and retiree health funds into low-yielding Treasury bonds instead of higher-yielding stocks and corporate bonds.

Misunderstanding the USO. By far, the worst and most damning error in your paper comes in the final paragraph of the "Big Questions" section of the paper. On page 8 you state: "The law formally divides the USPS into two categories: 'market-dominant' and 'competitive' products. The two reform discussions should be separated into these categories for one simple reason – the first is a monopoly and the second is not." This is flat-out wrong. Market dominant products include both monopoly and non-monopoly products. Periodicals, for example, are not covered by the monopoly, but they are regulated by the PRC as a market-dominant product. The same can be said of books, non-profit mail and non-addressed marketing letters.

You also totally misunderstand the Postal Service and its Universal Service Obligation (USO). The Postal Service's USO does not just encompass addressed First Class Mail, as the paper indirectly suggests. In fact, it has a universal service obligation to deliver all types of mail, including letters, magazines, books, packages and other materials. This obligation covers virtually all products, whether market-dominant or competitive. And the USO requires *uniform* and *affordable* rates for most products. This is what makes the Postal Service so essential – while private companies can choose to serve or not serve whole areas of the country and effectively limit themselves to profitable areas by setting prices in ways to ensure profitability, the USPS is required by law to deliver it all. For that reason, the Postal Service is not only vital to Americans who live in low-density rural areas and low-income urban areas, but to all Americans.

Fortunately, the USPS can provide that affordable universal service for the lowest prices in the industrialized world (with no taxpayer appropriations) because its last-mile delivery network is what economists call *a natural monopoly* – a service that is most efficiently delivered by one provider. The economies of scale and scope that make the Postal Service a natural monopoly are precisely what make the Postal Service such a valuable utility for the national economy. A shared network has tremendous economic and environmental value – it offers all mailers the most cost-effective and efficient way to secure delivery of their business letters, advertisements, magazines and packages, and reduces the number of carbon-emitting trucks traveling down the same streets every day.

Breaking up the Postal Service into a "universal service" public enterprise and a "competitive" private enterprise makes no sense, logically or economically, because competitive products are covered by the universal service obligation and because it would destroy the economies of scale and scope that make the Postal Service so valuable. Indeed, that's why UPS and FedEx are among the Postal Service's largest customers through the Parcel Select program. FedEx Smartpost has become the fastest growing part of the FedEx Ground division by relying on the Postal Service to provide last-mile package delivery, just as UPS does with its Surepost product.

Failure to analyze the proposal to privatize. The policy you propose – to break-up and partially privatize the Postal Service – would damage millions of businesses and tens of millions of Americans who would not be served by private companies – or, more precisely, not be served at affordable rates. All the residents of dozens of rural states and tens of millions of Americans in economically depressed urban areas would suffer as a result. Many neoliberal economists reject the "affordability" aspect of universal service as cross-subsidization – either from urban residents to rural residents, businesses to households, or rich customers to poor customers. But that view ignores that the ability to inexpensively reach every address in the country is just as valuable to city-dwellers, businesses and rich people as it to rural residents, households and poor people.

Yet your paper makes no attempt to analyze the implications of your proposal – how it would affect millions of businesses and households, what it would do to the broader mailing industry and how it would affect nearly 500,000 postal employees. Nor does it even grapple with the feasibility of the break-up/privatization you propose. This is inexcusable.

Dismantling the USPS as you have suggested would cause a death spiral in the surviving public enterprise. It would be set up for failure because it would be restricted to classes of mail experiencing declining volume while the volume being created by e-commerce would be fenced off for private delivery. The price of letter mail would skyrocket, causing even more companies to abandon the mail and leading to more rate hikes and an eventual collapse of the USPS. (I assume we both agree that in today's political environment, Congress would not subsidize USPS/universal service with taxpayer funds.) Parcel shippers would also lose a valuable option and oligopolistic private delivery would raise prices and slash service to low-profit rural and urban areas. All of this would severely damage the paper and printing industries and all the companies that participate in the broader $800 billion mailing industry.

Conclusion. I am frankly stunned by the errors and omissions in this paper and appalled by the recommendations it offers. It's the kind of paper we'd expect from Heritage or the Lexington Institute – not from Brookings. It is our hope that after you review our comments that Brookings would withdraw the paper and correct its flaws before re-issuing it for the consideration of policy-makers.

The Postal Service is an invaluable national institution that makes up an essential part of our nation's economic and social infrastructure. With the right kind of reform, it could thrive in the 21st century. Unfortunately, the recommendations in your paper would effectively destroy it.

Sincerely,

Fredric V. Rolando
President