

Can the United States postal service survive?

September 21 2011, By Melissa Beattie Moss



The first U.S. postage stamp Ben Franklin 5 cents U.S. Post Office, 1847.
Credit: Wikimedia Commons

“Neither snow nor rain nor heat nor gloom of night stays these couriers from swift completion of their appointed rounds,” declares the (unofficial) mail carriers’ creed.

While it may be noble to brave the forces of nature, the more apt question today is whether the United States [Postal Service](#) (USPS) can survive the modern realities of email, online bill-paying and stiff competition from private delivery companies.

Is the U.S. Postal Service terminally outdated?

“The USPS has faced major changes in the competition for parcel service over the last couple of decades as UPS and FedEx have grown,” said Mark Roberts, Penn State professor of economics. “It is now facing large declines in the demand for first-class service as substitute delivery methods -- particularly electronic bill paying and Internet streaming of movies -- have developed.”

One major challenge, notes Roberts, is the hybrid nature of the USPS as a “quasi-governmental agency.” Created in Philadelphia by the Continental Congress in 1775 -- with Benjamin Franklin at the helm as the first Postmaster General of the United Colonies -- the service is neither an entirely government-owned corporation (as Amtrak is) nor an entirely independent business. The USPS is defined as a semi-independent federal agency, mandated to be “revenue-neutral,” meaning just breaking even, without making a profit.

Breaking even it is not.

Recent articles have reported that the USPS will reach a \$9.2 billion shortfall when its fiscal year ends at the end of September, 2011 and a \$238 billion budget shortfall within 10 years. “Our situation is extremely serious,” Postmaster General Patrick R. Donahoe is quoted as saying. “If Congress doesn’t act, we will default.”

The enormous shortfall, explains Roberts, is partly the result of a law Congress passed in 2006 that required the USPS to pay \$5.5 billion dollars every year for a decade to ensure future health benefits for its “career employees” -- all 574,000 of them. (The USPS is the second-largest employer in the nation, after Walmart.)

Given the service’s sharp declines in revenue and its steeper operating costs, it’s doubtful it can sustain that kind of payment, Roberts notes.

“The USPS is saddled with restrictions from Congress that few private businesses would face,” he explained. “It cannot restructure its network of post offices, change days of delivery, alter prices significantly, restructure labor contracts, modify pension or medical benefits, or eliminate universal coverage without intervention from Congress or labor union pressure.

“In the end,” noted Roberts emphatically, “Congress cannot mandate that the Postal Service make profits while imposing operating rules based on political, not business, reasons. It needs to either free the USPS to operate as a business or provide it with the funds to subsidize the mandated types of service -- but Congress is unwilling to do either one.”

On the current trajectory, USPS may eventually be left with managing and delivering only junk mail, believes Roberts. “One response,” he said, “is to downscale and improve efficiency.” The Postal Service is, in fact, trying to do both. USPS officials are pushing a plan to eliminate Saturday mail delivery, close up to 3,700 postal locations and lay off 120,000 workers.

Will that be enough to restore the USPS to fiscal health?

That’s an unknown, says Roberts, but the agency needs to have flexibility to lower prices where it faces more competition and substitute products. The United States Postal Service has a “large, unique and valuable distribution network,” he explained -- one that in its early days helped to unite our nation -- but “paying for the cost of operating that network needs to be shifted away from first-class mail and toward the bulk mail classes which account for an increasing share of the mail volume.”

Otherwise, it might ultimately be stormy economic weather -- rather

than snow, rain, heat or gloom of night—that “stays these couriers from the swift completion of their appointed rounds.”

Provided by Pennsylvania State University

Citation: Can the United States postal service survive? (2011, September 21) retrieved 12 August 2024 from <https://phys.org/news/2011-09-states-postal-survive.html>

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