

**STATEMENT OF MICHAEL PLUNKETT
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BEFORE THE
HOUSE SUBCOMMITTEE ON
GOVERNMENT OPERATIONS
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INTRODUCTION

Good afternoon Chairman Connelly and members of the committee., Thank you for the opportunity to speak with you today about the current state of the postal system and on near term priorities for ensuring its continued viability. The Postal Service is a beloved public institution, and a critical component of the nation's economic infrastructure. It is also the center of a mailing industry that employs more than seven million Americans, providing jobs in every state, and accounting for more than a trillion dollars in annual revenue.

Like many industries, the mailing industry has been hard-hit by the COVID-19 pandemic and the attendant decline in economic activity that persists today. Along with this economic turmoil, the pandemic has brought into sharp focus the importance of the Postal Service to the American public as well as the underlying structural challenges that imperil its future. Postal employees have served the public admirably since the pandemic began and have been a reassuring presence in our communities during a difficult time. At the same time, the pandemic has brought about sudden and dramatic shifts in consumer behavior that are exposing the underlying fragility of the nation's postal system.

The companies that I represent rely on the Postal Service to deliver magazines, prescription medication, bills and statements, catalogs and essential business communications. Our members, to a great extent, fund the provision of universal postal service in the United States through the rates that they pay for commercial mail and shipping services. We depend on reliable, economical mail delivery and are invested in, and committed to, the long-term preservation and success of the US Postal Service.

As Congress considers how best to provide support to the Postal Service, we urge a measured and targeted approach with safeguards that ensure

accountability for how any relief funding is utilized. We recognize that the Postal Service has incurred unforeseen expenses to acquire personal protective equipment and emergency transportation services as a result of the pandemic. The understandable desire of legislators to provide relief should not lead to excessive and unnecessary diversion of resources that may be better deployed elsewhere and that will do little to address the challenges facing the Postal Service.

Despite persistent doom-laden stories about the imminent collapse of the Postal Service, the Service itself has adequate resources and capacity to successfully navigate the 2020 election despite expectations of unprecedented use of voting by mail. According to its own reporting¹ at the end of the third quarter, the Postal Service had cash holdings approaching \$13 billion, and since that time Postal Service revenues have been growing thanks to significant growth in its package business. Furthermore, the CARES Act passed earlier this year provides for an additional \$10 billion in borrowing authority for the Postal Service should unforeseen events create the need. At a recent hearing, Postmaster General DeJoy confirmed that the Postal Service has sufficient liquidity to fund operations well into 2021.

Not only is an arbitrary infusion of funds unnecessary to ensure that election mail is delivered, the sums contemplated by Congress would barely make a dent in the Postal Service's long-term retirement liabilities. In fact, our members are concerned that any major relief funding may lead Congress to declare victory and continue to postpone much needed postal reform.

WHAT THE POSTAL SERVICE NEEDS

We respectfully urge Congress to return to the task of enacting comprehensive postal reform legislation that can secure the future of the Postal Service. In order

¹ See USPS 10-Q, FY 2020 Q3

for mail to fulfill its statutory role as an integral part of the nation's economic infrastructure, it is important that it be an affordable and reliable means for communicating and transacting business. We believe that stakeholders can and will support reform legislation centered on several critical elements.

DEFINITION OF THE POSTAL SERVICE'S UNIVERSAL SERVICE OBLIGATION

For the Postal Service to endure, Congress must define what services the American public needs from a Government run postal service. As mail volume declines, and the needs of the public evolve, the expectation that commercial mailers can continue to fund current levels of service – which include operation of many offices that do not cover their costs – needs reexamination. The funding model developed in the Postal Reorganization Act of 1970, which worked remarkably well though the 20th century, is not suited to an economy where technological and demographic changes combine to reduce public reliance on the mail. Any effort to reform the Postal Service to adapt to the current environment requires a thorough assessment of the level of service needed by mailers and the public.

PRICING PREDICTABILITY

More than a decade has passed since the enactment of the Postal Accountability and Enhancement Act of 2006 (PAEA), creating the price-cap based regulation in operation today. Over the last fourteen years, despite the great recession of 2008-2009, sustained structural declines in mail volume, and the more recent pandemic, the Postal Service will end the current fiscal year taking in more than \$70 billion from its operations.

Despite protestations from the Postal Service as it seeks to eliminate price regulation, the Postal Service has retained flexibility and discretion in setting prices for the services it offers. While a cap may restrain the average increase in rates provided to mail classes as a whole, the current cap still permits the Postal

Service the freedom to set individual product prices within a class and to exceed the CPI limitation for certain products as long as such increases are offset by other lower product prices within the class.

For business customers, the cap provides postal customers the very considerable benefit associated with an assurance of postal rate stability and predictability -- an assurance that's key to a customer's decision as to whether to continue to invest in mail as a business communication and commercial vehicle.

For the years it has been in effect, this inflation-based price cap has provided not only benefits associated with the stability and predictability of postal rates but also has served as an effective – and necessary - restraint against any abuse of the Postal Service's monopoly power.

RATIONAL FUNDING OF THE POSTAL SERVICE'S RETIREE OBLIGATIONS

Unfortunately, the current law also imposed obligations that have proven to be a challenge while operating under an inflation-based, market-dominant pricing regulatory regime, e.g., (1) the imposition of the congressionally mandated annual \$5.5 billion prefunding payment for retiree health benefits, and (2) the non-participation of postal retirees in Medicare even though postal employees consistently have made Medicare contributions.

It is vital to the Postal Service and the nation's overall economic wellbeing that Congress remove these barriers through effective and well-designed postal legislation. It is unfair to direct the Postal Service to operate with private sector-like efficiencies while at the same time imposing on it the kind of obligations with which no private sector business has to contend.

Further, the Postal Service is prevented by law from effective investment of the considerable funds it has already contributed to fund its retirement obligations. Because the Postal Service must invest only in US Treasury securities, returns

on Postal Service retirement funds – all collected from postal ratepayers – earn returns far below what any comparable private sector firm would tolerate.

ACCOUNTABILITY AND TRANSPARENCY

For the Postal Service to survive, especially as a Government run public service, incentives for efficiency and transparency are critical. Otherwise, funds provided by ratepayers or appropriated by Congress may be squandered or otherwise misused. Unfortunately, a spate of reports from the Postal Service's Inspector General² reveal the Postal Service's ongoing struggles to control the cost of providing service. Mailers will continue to use the Postal Service if prices remain reasonable. That will only happen if the Postal Service is managed in a business-like matter to the extent that the law permits. Maintaining oversight to ensure that the Postal Service is accountable to the public is essential to efficient operations and effective postal management.

CONCLUSION

The Postal Service is not on the verge of immediate collapse. The COVID-19 pandemic, which has tested the agency, has also reminded us that it remains a vital part of the country's economic infrastructure and part of the civic life of Americans. The Postal Service has the employees, resources, and capacity it needs to perform its mission during the current election cycle without a massive infusion of supplemental funding. However, the systemic challenges that have plagued the Postal Service for the past decade remain. Because the postal relief currently under consideration is unnecessary in the short-term and inadequate in the long run, we respectfully suggest that Congress instead focus its efforts on much needed - and long overdue – reform legislation.

² See for example USPS OIG Report Number: NO-AR-19-001, October 2018