

UPU CC Webinar on the Universal Service Obligation in the Digital Age – As Prepared May 19, 2021

My comments are going to be from a very American perspective – we can be accused of doing that on occasion – but you set today’s start time from a European perspective. I think it’s fair.

But the real reason is because we are such an outlier here. Every other developed nation defined or redefined the USO years ago.

Posts around the world have held to a USO of some kind. It is generally that the postal operator will adhere to a set of standards of minimally acceptable service for its citizens, such as frequency of collection and delivery, density of post offices etc., quality of service.

It often surprises people to learn that in the United States, the USO is not defined in law.

Even though USPS is a \$73 billion entity, makes up half the world’s mail volume, goes to 161 million addresses and has more than half a million employees – it does not operate under an explicit USO.

But it is an independent government agency. So, the laws of the United States authorize and organize the USPS and also set its public service responsibilities. These public service obligations are what we generally recognize as the USO. In a 2008 study, our regulator (the Postal Regulatory Commission) found the USO to consist of seven attributes, including:

- geographic scope;
- product range;
- access to postal services;
- delivery (which has been for six days a week);
- pricing (here we include a uniform rate for stamped correspondence and media mail);
- quality of service element;
- and an enforcement mechanism

But again, the law does not include a clear definition of the USO.

OIG noted in a paper: It’s a collection of legal requirements and regulations that really only provide broad guidance and are subject to interpretation.

These obligations come with a big price tag. The regulator estimates the annual cost to the Postal Service of providing universal service was \$5.3 billion in 2019. And someone has to pay for this. In the United States, that someone is the postage ratepayer.

The Postal Service earns operating revenues from the sale of postage. It is not appropriated public funds for this purpose – although this past year has been unique in that Congress provided \$10 billion in COVID cost reimbursement and is considering legislation to pay for electric vehicles.

A \$5.3 billion cost. The Postal Service has lost \$87 billion over the past 14 years. We need to figure this USO expense out. It should be done as part of an overarching reform effort that also addresses how to modernize the Postal Service's business model.

But in the United States, we do this backwards. We don't start with updating the USO. We don't start with figuring out what are the level of services Americans need today – we look to jam these public service obligations into whatever “reform” legislation is put forward. We take a “round hole into a square peg” approach.

What we first should do is determine what Americans need from their postal service in age of digital communications and commerce? And then the next question is, “what are they willing to pay for it?” I think we would find that people don't need everything they have today. And certainly not if it means higher postage prices. Digital communications have changed the equation.

For example:

- Do we need 34,000 post offices when one third of retail purchases occur through alternative channels, such as online at usps.com?
- The USO does not provide any specific guidance on the number of POs the USPS must have. Yet, it says the Postal Service cannot close a post office purely for economic reasons. There is not a lot of guidance there.
- Another consideration: A whole generation of Americans has grown up with the mobile phone as its primary tool for communications. And also for commerce. These consumers are likely to pay their bills online and receive their bills digitally. They do not write letters. Certain ages don't even write emails any longer. Their “mail moment” –if they even have one -- is seeing a package on the doorstep.
Does the Postal Service need the same monopoly protections it once did, given its changing role as primarily a deliverer of advertising mail and, increasingly, as a deliverer of packages?

Single-piece First Class Mail (stamped correspondence) has been in decline since 1990. Electronic diversion has been at work for 30 years. This is when most other posts began reviewing their USO and liberalizing their posts. In light of all this change, it simply does not make sense for today's USO to mean the same thing it did 20 or 30 years ago.

A few years back, The Office of Inspector General conducted a quantitative survey to better understand what postal services Americans most valued. These kinds of studies have been done in other countries to assess and evaluate their USOs. I think the OIG survey was the first of its kind. A quantitative study gives respondents a tradeoff between levels of service and price – and it's not so biased toward the status quo. For example, if you just ask people “do you want to keep your neighborhood post office?” Well, the answer is probably yes. People like what they have and probably won't volunteer to get rid of it. But if you ask them, “do you want to

keep your post office open if it were to cost you another 5 cents for a stamp?” The answer might be no.

“Both consumers and businesses value lower prices. In other words, they may be willing to accept lower levels of service to keep prices from rising sharply,” the report said.

And what about delivery six days a week? You would think this is something Americans love as much as binge watching television shows. Our legislators have baked it into law and it’s been included as a provision in the latest reform bill under consideration. But it seems many citizens don’t necessarily care about mail delivery six days a week. The OIG survey found most respondents were indifferent to Saturday delivery of letters, but like Saturday delivery of parcels. An exercise by a university found something similar. (Citizen Cabinet, part of the University of Maryland’s School of Public Policy) The exercise walked respondents through a process called “policymaking simulation” with the policy question being: “how would you fix the Postal Service?” Interestingly, two out of three respondents recommended eliminating Saturday delivery of letters, but keeping Saturday delivery of Priority Mail and packages.

The OIG survey found Americans prefer door and curbside delivery over cluster boxes or parcel lockers: useful insights for reexamining the USO. But given the steep rise in ecommerce delivery this past year, would a centralized box suit our needs if it also could handle packages of varying sizes? What if the mailbox monopoly were lifted and other carriers could deliver to that box? These are questions we should be asking now.

Covid pandemic has enlightened us on the importance of a few things:

- The Postal Service as an essential service and important part of the nation’s infrastructure.
- The need for package delivery to all addresses: rural areas and “unprofitable” ones.
- The Postal Service can’t put volume restrictions on its customers as the private companies did during peak.)
- The need for a safe and secure mechanism for voting by mail (135 million ballots were processed and delivered during the 2020 general election).
- I heard in our first webinar in this series our speaker say that ecommerce was indispensable to a functioning society. If that is true, and I believe it is, then ecommerce and delivery have to be for everyone. And in the same vein, secure and timely delivery of ballots is indispensable to a functioning democracy. I would list this as a core public service obligation of posts. (Pre-COVID pandemic, about 40 countries used postal ballots in recent national elections, according to [Pew Research](#).)

So it’s evident we need to redefine the USO. And the pandemic suggests some new factors to consider. Now would be a great time to dig in. Where do we start? Well, we can look to other countries for ideas. A number of countries have reduced the frequency of delivery of letters in urban areas, such as New Zealand, Norway, and the Netherlands. Others, like Italy, have reduced it in rural areas. Or posts have reduced the delivery speeds on products, easing service

standards or introduced a lower-speed products like Belgium. Many have allowed changes to retail access locations or allowed posts to enter into new lines of business.

All of these should be part of a broad policy debate as digitalization makes some of the current USO requirements unnecessary but raises questions about some new ones. We work toward determining the minimum level of service citizens need, we ensure that segments of the population are not cut off from society, we protect captive customers, and we don't distort competition.

The next question, then, is how do we pay for the USO? Well, here is where we tend to get stuck. At the moment, our public service obligation is paid by mailers and shippers. In fact, every part of postal operations is paid for through the sale of postage. We are a sender-paid system. So you will often hear commercial mailers say they are the ones who pay for the inefficiencies and extra costs in the system. And I agree – especially as someone who represents a segment of the mailing industry. But it is also a two-sided market. That is, the recipient – the consumer – doesn't find value in what we are sending, then mail is irrelevant or worthless. (We need to be careful that we don't become like that classic example of a two-sided market: the yellow pages telephone directory. When is the last time you saw a hard copy phone directory?)

It's important to all parties that we fix this. My solution would be that the public service portions of the Postal Service are paid for by public funds. Congress would appropriate the funds for the parts of the postal system that are deemed public service obligations – the things it wouldn't provide if it were a regular profit-making business. Or similarly, we determine what the minimum level of service citizens need from its modern postal system – and if Congress insists that the Postal Service has to keep 34,000 post offices open, serve every address six days a week, or can't close facilities in their districts, then Congress pays for those things.

With either of these approaches Americans would be sure to let Congress know what they want and need from their postal system and how much they are willing to pay for it.

But this is a heavy lift because it requires a comprehensive and rational public policy discussion. It's rolling up our sleeves and doing real policy work. Alas, our legislative body no longer does serious policy work in this country. I say this as an optimist too – well, maybe a skeptical optimist. But partisan politics and two-minute sound bites drive decisions, or indecisions, really. We have become a legislative body of “no.” And that just doesn't work for such an important issue. As one top congressional aide said a few years ago, “Congress works in small and medium steps, and unfortunately with the Postal Service, we are dealing with big steps.”

Are we doomed to this current system? Maybe. But we also have opportunities. The Postal Regulatory Commission has opened a proceeding on the methodology it uses to value the USO. Perhaps the PRC could then expand upon this docket and start the process of assessing the level of service for the nation in a digital economy. As an independent entity, it makes sense that the regulator could take on this task. Or, the Postal Service could put forward a

“greenfield” approach and say “this is what we think a modern USO looks like.” Then work with stakeholders to shape the policy. The point is, stop waiting for Congress to lead.

Unfortunately, USPS missed a golden opportunity in its recently released 10-year strategic plan, which doesn’t explicitly address the USO. And it didn’t seem particularly interested in engaging with stakeholders on that effort. But we are ready to engage. Here we are – some of us up at 5 AM -- to discuss and debate this topic and to learn from each other. I think there is a growing appetite to tackle this issue in certain corners of our ecosystem. I look forward to hearing from colleagues from other corners of the world and learning more about how they refined their USO and helping us to move the ball forward.

PRC estimate of the cost of public service obligations in FY 2019 by statutory categories

Public service obligation	Net cost (\$ mil)
<i>Services to areas that would not otherwise be served</i>	
— Maintaining small post offices	358
— Alaska air subsidy	135
— Group E post office boxes	35
<i>Revenue not received due to free or reduced rates</i>	
— Preferred rate discounts (net)	1,215
— Periodicals losses	671
<i>Other Public Services or Activities</i>	
— Six-day delivery	2,231
— Uniform first-class mail rates	86
— Uniform media mail/library mail rates	124
— Postal Inspection Service	471
Total net costs	5,320
Source: Postal Regulatory Commission, <i>Annual Report: Fiscal Year 2020</i> (Jan. 2021) at 47-53.	