Statement of Senator Thomas R. Carper, Chairman

Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security

Committee on Homeland Security and Governmental Affairs

"The Impact of Economic Crisis on the U.S. Postal Service"

January 28, 2009

The hearing will come to order.

My thanks to our witnesses for taking the time to be here today to help us begin an examination of the impact our country's current economic crisis is having on the United States Postal Service.

The troubles that have hit our economy in recent months hit the Postal Service and its biggest customers early and hard. As we will hear today, the Postal Service is expected to suffer significant losses in the current fiscal year. I'm told that those losses could go as high as $7 billion or more. Volume and revenue projections for next year are troubling as well.

In response to a recent request that I made along with Senators Coburn, Lieberman, and Collins, the Postal Service laid out a plan to cut around $5 billion in FY 2009 and FY 2010. Most of those cuts will come from continuing efforts to cut work hours and streamline operations.

I'm sure that Postmaster General Potter will give us more detail on these cuts in his remarks. And I'm also sure that he and his team will pursue this plan as professionally and aggressively as they have other efforts in the past. But I'd like to point out that, even if they are successful, the Postal Service's losses for FY 2009 may still exceed the $3 billion annual borrowing limit.

Absent some action from Congress, then, we may well be faced with a situation later this year in which the Postal Service asks the Congress to raise its borrowing limit or extend to it direct federal financial assistance. These are steps that I do not believe we should take.

In addition, postal management is likely to pursue dramatic cuts in service if we do nothing. They may also be forced to consider a larger-then-expected rate increase this spring. The mailing community tells us that a large rate increase this year would drive even more business away from the Postal Service. It could also lead to the failure of magazines and catalogs and a loss of jobs in the mailing and printing industries.

This situation has naturally caused many of us to question the Postal Service's future viability and the viability of the business model created just over two years ago in the Postal Accountability and Enhancement Act.

While many Americans still depend on the Postal Service on a daily basis, the products that have historically been at the core of its business model continue to lose ground to electronic forms of communication. As a result, there is some question about the extent to which the Postal Service's current difficulties can be attributed to our national economy or if they are a sign that the electronic diversion of the mail is occurring more quickly than originally anticipated.

These are not questions that we can find the answer to today. So, in my opinion, it will be necessary for the Congress to take action soon to help the Postal Service get through the next year or so.

The Postal Service has approached us with a creative financial assistance proposal that should give them some breathing room in the current fiscal year and, depending on how far we want to go, for several more years as well. It accomplishes this by having the Postal Service's annual payment related to its retirees' health care premiums come out of a fund in Treasury established through the Postal Accountability and Enhancement Act in 2006 so that the Postal Service could begin pre-funding its health-related obligations to future retirees.

Some concerns that have been raised about this proposal. Many of them are valid ones. First, what the Postal Service has suggested we do would reverse a deal made in the Postal Accountability and Enhancement Act. That deal recognized that the Postal Service was on track to overfund its pension obligations to its employees in the old Civil Service Retirement System. It also recognized that the obligation that was placed on the Postal Service to pay the additional pension benefits owed to postal military veterans was a unique obligation in the federal government and also an unfair one.

In exchange for a reduction in the Postal Service's Civil Service Retirement System payments and a reversal of the military pension language, the postal officials agreed to language included in the Act that put the Postal Service on an payment schedule aimed at addressing its long-term retiree health obligations, something that other federal agencies and most larger businesses in this country do not now address.

In addition, if enacted, the Postal Service's proposal would spend money that those of us who worked so hard on postal reform were hoping would be used to pay down most – if not all – of the Postal Service's retiree health obligations. Every dollar that we spend, then, is a dollar that the Postal Service will need to pay back in the future when it will face even stiffer competition from electronic mail, electronic bill pay, and the like.

That said, I fear that enactment of some version of the Postal Service's proposal may be the only thing that can prevent a significant weakening of the Postal Service's financial and competitive condition in the near term. It is my understanding that the GAO analysts that we have been working with on this issue – including Mr. Herr – have said that temporarily allowing payments related to current retirees to come out of the Postal Service's pre-funding account in Treasury would be a reasonable step to take.

Let me add in closing that I have no interest in temporarily propping up the Postal Service and waiting for another request for assistance a few years down the road. We need a postal business model that works in the 21st century and preserves the vital service that the Postal Service provides. That business model may be the one we crafted in the Postal Accountability and Enhancement Act. I hope that it is. We cannot know for certain, however, because a number of key provisions in the Act are still being implemented and the state of our economy is making it difficult for the Postal Service to make use of the new commercial freedoms it has been granted.

I look forward to working with my colleagues and with our witnesses here to do what needs to be done to get the Postal Service through the difficult times it is currently facing. Then we can again turn our attention to what, if any, structural or other changes may need to be made to make the Postal Service successful in the years to come or at least make it viable enough so that it is no longer limping from crisis to crisis.