

THE BROOKINGS INSTITUTION

FALK AUDITORIUM

THE FUTURE OF THE  
UNITED STATES POSTAL SERVICE

Washington, D.C.

Wednesday, March 25, 2015

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## P R O C E E D I N G S

MS. KAMARCK: Good morning, everyone. I'm Elaine Kamarck; I'm Director of the Center for Effective Public Management here at Brookings. And we are gathered here today to talk about a very large and very important entity, the United States Postal Service, one of the -- the perhaps oldest along with the United States Army organization in the U.S. government, and about which there has been much written and even a movie made, okay, or two or three. And the Post Office is at a particular crossroads. I will ask you to just think of the following: when is the last time any of you got a letter with a stamp on it? Now some of you did. I suspect those of you born after about 1980 don't even really own any stamps. (Laughter) Just for the edification of the young people here stamps are these things that you used to stick on envelopes and put in Post Office boxes and it would go to your grandmother or someone like that. So we are at a crossroads there. There are some very big and very serious issues to be addressed. There has also been a reluctance to confront these issues in the Congress. Not only do they have a lot to do, but they as you may have noticed have a hard time doing anything these days because they disagree about so much. But we are here to say it's time to stop kicking the can down the road and to start having an intelligent conversation about some of these big issues.

So to start us off today I'm going to call on four people who know a great deal about this. And I'm going to introduce all of them now and then they will just speak in turn, and we'll open it up for questions from the audience. To my left is Robert Taub. He was designated Acting Chairman of the Postal Regulatory Commission by President Obama on December 4, 2014. He is a little bit new to the job, but he was also sworn in as the Commissioner in 2011 and elected Vice Chair in 2013. He came to the Post Office from the Army where he was Special Assistant to the Secretary of the Army, John

McHugh, and before that he served as Chief of Staff to U.S. Congressman John McHugh for a whole decade. To his left is Dr. Robert Shapiro. He is the President and Co-Chairman and founder of Sonecon LLC which is a highly rated economic consulting company here in Washington. He is also a Senior Fellow at the Georgetown School of Business, an advisor to the International Monetary Fund, Director of the Globalization Center at NDN, and in the Clinton administration he was under Secretary of Commerce for Economic Affairs where he oversaw the statistical agencies and the census. Not all a small job. To his left we have David Williams. David is Inspector General of the United States Postal Service. He was sworn in as the second Inspector General for the Post Office in August of 2003, so he has a lot of years looking at this institution. He is responsible for a large staff located all over the country and he investigates the largest civilian agency in the government. In 2011 Williams was appointed by the Obama administration to serve as Vice Chair on the Government Accountability and Transparency Board which will develop plans for enhanced transparency for public spending. Last but not least, we have Gene Dei Polito. He is President of the Association of Postal Commerce. He has been there for the past 31 years and he is highly regarded within the postal community as an effective advocate on behalf of those who use mail for business, communication, and commerce. He has received PostCom's J. Edward Day Award, the Association's highest honor, granted in recognition of distinguished service to the nation's postal community.

So as you can see we've got a powerhouse up here of people. I don't know that they'll all agree on everything, but that's going to be the fun part. So I'd like to start by having each of them make some introductory remarks and then we'll open it up.

So go ahead, Robert.

MR. TAUB: Well, thank you, Elaine. Good morning, everyone. I thought I'd just for the few minutes for each of us to set the table, shall we say, hit three issues. One to give you a thumbnail of what the Postal Regulatory Commission is vis a vis the Postal Service, and then more importantly give you a sense of what's going on with the Postal Service today, particularly financially. There is bad news and good news and I'll try to hit on both of that. And then lastly hit upon what I think is an important issue for us to consider going forward, which to me is the issue of universal service. Indeed why else do we have a government institution in the postal sphere if it isn't to provide universal service to the American public at home or at work, wherever you live?

The Post Service itself today is a nearly \$67 billion operation with almost half a million employees. It's 100 percent part of the government, 100 percent part of the Executive Branch. It is not hybrid anything, it is not quasi government, it is 100 part of the United States government; however, it receives no tax dollars to fund its operations. It is solely self-sustaining through the rates it charges for the services it provides. The Postal Regulatory Commission is the entity that polices and has final authority over the Postal Service's prices, its products, services, adjudicates complaints. As Elaine indicated there is a regulatory Commission like many in Washington with five Commissioners appointed by the President, confirmed by the Senate, and it is independent and totally separate from the Postal Service. The Commission is the regulator, not the operator of our nation's postal system. And a key point on that, why a regulator? Well, as I said the Postal Service is 100 part of the government. It has one of the few agencies that every day is operating in a very commercial marketplace. And it has many captive customers who have no alternatives to use the mail. So when it comes particularly to prices and products, because it is 100 percent a government entity with

captive customers in a commercial marketplace the idea is the Commission is there to protect the public interest in these spheres.

So let me move to kind of a snapshot of where things are at with the Postal Service today. Obviously most of the attention we've seen and heard is the bad news about their financials. And it is bad news. They ended last year with a \$5.5 billion net loss that has brought their total net losses over the last eight years to \$51.7 billion. Let's just pause and think about that for a minute, \$51.7 billion in net losses over eight years. Last year's loss was \$500 million higher than the year before and \$900 million higher than planned. And so far in 2015 their total net loss is \$750 million more. Now they paid \$21 billion during the first five years of this eight year period to prefund an overly ambitious prefunding mandate and they've since defaulted on that and have been unable to make any future payments into the prefunding for future retiree health benefits. They've maxed out on their borrowing authority, so they have no borrowing authority available. And now volume is continuing to decline overall. Total mail volume in 2014 dropped to levels not seen since 1987. Now in the face of all that the Postal Service over the past seven years has reduced its workforce by about 200,000 employees, it's cut costs by about \$16 billion, and they've increased productivity. Today the Postal Service delivers roughly the same amount of mail that it delivered in 1987, but with 173,000 fewer employees. But even with these reductions, and many more planned, they don't have the cash to pay down their debt, or make much needed capital investment into their infrastructure. They need new delivery vehicles, package sortage equipment, probably about \$10 billion of capital investments that's deferred. So if a downturn in the economy or another stressing event should affect the Postal Service it really is concerning about their liquidity. The Postal Service currently estimates they have about 21 days of liquidity.

But despite all that bad news there is good news. There is strength in the system. As I mentioned the Postal Service is the one entity that touches every American, whether at home or at work. The Postal Service literally delivers 150 million delivery points every day on a typical day to American households and businesses. It facilitates trillions of dollars in commerce. \$900 billion is the estimate of the mailing industry that the postal and delivery sector and the Postal Service is a key cog and part of, employing nearly eight million Americans. And there are positive signs of late. The total first quarter volume and revenue has shown some good signs. On a net operating basis, that's without non cash worker's comp and these prefunding mandates that I had mentioned, the Postal Service has a net operating income of last quarter of about a billion dollars, which is about \$360 million better than planned. And while this high volume of first class continues to decline they are starting to see some modest increases in revenue, particularly driven by increases in revenue and volume from its shipping and package services, fueled by the growth in commerce.

So as Elaine mentioned, this 240 year history of the Postal Service, despite its challenges today, there is immense strength in the system. And I would argue the Postal Service throughout its 240 year history had dealt with numerous disasters, numerous challenges, a great depression, and despite expected call for its imminent decline has not only continued to operate, but has thrived. And I would argue the Postal Service, despite these challenges, the strength is the system is what will get it through.

And the last point that I mentioned then is well how do we deal with this larger issue though of the challenges given the very scary financial news? And I would argue it's this issue of universal service. Why else is the Postal Service a government institution than it provide universal service? The Postal Regulatory Commission back in 2008 did a study as mandated by law to try to define what it is in the United States, what

do we define universal service as. And the Commission came up with seven criteria, seven attributes that would make up a definition of universal service. Geographic, range of products, access to services, delivery frequency, prices, affordability, quality of service, and the seventh is user's rights, or enforcement. Most other nations around the planet have very specific guidelines for many if not all of those seven attributes. And they are in law, they're either regulation or licensing. In the United States for much of our 240 years instead we have not defined it. We have expected the Postal Service to meet the needs of the nation, balancing its budgetary constraints, and except for the mandate in the annual appropriations bills since 1982 to provide six day delivery, it's really been left to the Postal Service.

The Commission by law annual estimates what is this cost of universal service. Our current estimate is it's about \$5 billion a year. So the challenge for the Postal Service it seems to me is given all these other major financial challenges on its plate how do we ensure that that \$5 billion of universal service cost is continuing to get into the Postal Service so it remains self sustaining. And where do we look for the answers to those questions? Well, I would argue we have to look at ourselves. What is it that we as the American public need from a Postal Service in 2015 to provide universal service? What is it that we as the Americans expect for universal service and what is the cost? And once we know that, it seems to me, then we can ensure that the Postal Service is structured in a way to ensure that money gets to the bottom line of the Postal Service. As Elaine mentioned, Congress has been trying to deal with modernizing our nation's postal laws. The last Congress, both committees in the House and Senate moved forward on bills, but they didn't get enacted. The administration has had its proposal. While all of them have been helpful I would argue none deal with this central

bottom line issue of what is it that we expect from our nation's postal system. And it is that from my perspective where we should focus from the public policy debate.

MS. KAMARCK: Great, thank you. The second Robert.

MR. SHAPIRO: Thank you, Elaine. It's always a pleasure to be back at Brookings. I'm not here to either praise or demean the Postal Service. I'm here to try to describe how an economist thinks about these questions and the conclusions economic thinking bring to this problem.

Now, you know, almost all governments have compelling reasons to communicate with their subjects or their citizens, so some form of Postal Service has been a public good that most governments provide for a very long time. Now businesses and individuals also want to communicate with each other, and private companies prepare to compete with Postal Services for at least a piece of their business when allowed to by the law, for example delivery of packages in the United States. They have also been around for a long time. The spread of advanced technology, information and communications technologies as Elaine noted has only intensified that competition since internet communications have increasingly displaced the central monopoly of most postal systems, which is the monopoly over the near universal delivery of letter mail. We all used to get our bills in the mail and not so often anymore.

Now this subject always draws a lot of attention, i.e., all of you showed up today, because most people and most businesses still need dependable postal service, mail service, and providing that service on a universal basis costs a lot of money. And when a public or semi public entity receives subsidies for providing a public service there is a danger of those subsidies being leveraged into a competitive market. One of the singular characteristics of the Postal Service is that it exists simultaneously in a



monopoly market where no one can compete, is allowed to compete, and in a competitive market with pretty intense competition.

Before addressing those issues I recently studied the subsidies themselves which the Postal Service receives, and in the context of the costs that Congress imposes on the Postal Service as Robert suggested. For example, Congress requires the Postal Service to maintain residential delivery six days a week and the PRC under Robert has estimated that reducing deliveries to five days a week, which most of the public would support, would save the Postal Service about \$2.2 billion per year. Congress mandates discounted rates for religious, educational, charitable, political, other nonprofit organizations which the PRC figures costs the Postal Service more than \$1.1 billion every year. Every time I say "PRC" I think of China. (Laughter) Congress also directs the Postal Service to provide a special mailing rate for periodicals, restricts the ability to close inefficient post offices. They estimate that costs about \$300 million a year. And all told, as Robert suggested, PRC estimates that legal and regulatory requirements cost the Postal Service about \$4.5 billion a year. Now this happens to correspond roughly to the Postal Service average reported deficit over the last decade, \$5.5 this year, but \$4.2 billion average over the last decade, and to the Commission's estimate of the total value of the Postal Service special privileges, including its monopoly on delivering letters, its exclusive access to residential and business mailboxes, and the exemption from a lot of state and local taxes and fees.

So by this accounting the Postal Service is effectively self sufficient financially. An economist approaches it differently and comes to a different accounting which suggests that the subsidies are substantially greater. I estimate a worth about \$18 billion per year rather than \$4.5 billion. For example, the Commission estimates that the Postal Service monopoly on access to residential and business mailboxes is worth about \$810

million in the 2013 fiscal year. Now this is a very interesting provision and one that I was not aware of until I became immersed in the research for this. It says that the Postal Service and only the Postal Service can leave a letter or package in a residential or business mailbox, whether it's a curbside mailbox or one in a central mail room. Everybody else that makes deliveries, UPS, FedEx, DHL, whomever, individuals has to leave them at the front door of the residence or business. That's a substantial burden in a large apartment house or business, or office building. The Postal Service itself estimated that in 2008 that ending the current bar on private delivery companies accessing mailboxes would cost the Postal Service \$1.5-2.6 billion per year. And that was after all 2008, so that's seven years ago. And it is two to three times the estimate of the value of this subsidy. It's going at it a different way. I'm not saying that there was any problem in the accounting, it's the way you approach it, how you conceptualize the subsidy. This how an economist would conceptualize it, and that is that you would look at the volume of mail delivered to curbside mailboxes and centralized mail rooms, and the cost of doing so compared to delivery to each customer's door. Because that's the privilege they get as compared to the requirement for private companies. By that accounting the mailbox monopoly saved the Postal Service \$14.9 billion in fiscal 2013, which is another way of looking at the additional burden on private delivery companies.

The Commission also valued the Postal Service's legal exemption from state and local property and real estate taxes about \$315 billion in 2006, last time it was done. Adjusted for inflation, that would be about \$370 million today. But this estimate is based on the financial statements issued by the Postal Service which value its real estate holdings at \$27.5 billion. But as the Inspector General reported recently, this valuation represents the historical cost of the properties not their fair market value which is how property taxes are applied. Using the fair market value those properties were worth in

2012 \$85 billion, not \$27.5 billion. And if we use an average property tax rate, which is what economists do, of 1.8 percent, that exemption from taxes actually provides a subsidy of about \$1.5 billion on 2012; a little bigger today. Again a different way of approaching the problem of the value of this. And of course this is only one of a number of exemptions the Postal Service enjoys from state and local requirements including vehicle registration fees, road tolls, state sales taxes on fuels, parking tickets. Imagine, no parking tickets.

There are also some other subsidies which have not been reported and calculated before, but which from an economic point of view are pertinent to this discussion. For example, the Postal Service borrows from the Treasury through the Federal Financing Bank up to \$15 billion -- they've hit that limit -- but it does so at very highly subsidized interest rates. Currently has \$15 billion in debt, its legal limit. It pays on average a very below market interest rate of 1.2 percent. That cost at \$184 billion in interest last year. If they had to borrow at commercial rates, and as an AAA credit risk as its competitors do its interest payments would have been \$600-675 million. So that creates another subsidy from an economic point of view of between \$415-\$500 million.

There are also the special arrangements for the federal income tax on the profits that the Postal Service generates from selling competitive goods and services. In its competitive side it has to pay taxes on the profits that it earns from delivering packages where it's competing with FedEx and UPS. But there's a very interesting arrangement. I wish I could pull it off. The Treasury credits those tax payments to the Postal Service Fund. The Postal Service Fund is a special revolving Fund at the Treasury which the Postal Service draws on to cover any expense. So the federal tax payments circulate back to the Postal Service. That's a subsidy worth \$850 million last year.

Finally, and this is really where we get into the economics of it, the Postal Service -- the monopoly over letter mail has created what economists call major economies of scale and scope. Protected from competition in its monopoly area it maintains this huge network of post offices and postal workers that reaches, as Congress requires and as Robert noted, 153 million delivery points 6 days a week. However, the Postal Service can leverage these economies of scale and scope to cut its costs in its competitive markets for package delivery and express mail. In the most consequential example the Postal Service's core function of delivering letter mail to most homes and businesses on a daily basis means it can pick up and deliver packages to or from any home or business at little additional costs. This produces what economists call a network advantage since a private competitor's cost to pick up and deliver exceeds the Postal Service's incremental cost to pick up and deliver the same package along with its normal service. At the same time the monopoly is the main reason the Postal Service needs subsidies. Think of it this way, in the absence of any legal monopoly the Postal Service would face full competition from private companies and be forced to undertake the strategies and investments necessary to match the productivity of the private sector in this area. It happens we can quantify that because the Bureau of Labor statistics found that from 1987 to 2012 the Postal Service productivity, labor productivity, grew at an average annual rate of seven-tenths of one percent per year. Private companies in the business of shipping, warehousing, storage, and delivery, the basic functions of the Post Office, recorded average annual productivity gains at 2.5 percent per year over the same years. So if the Postal Service had not enjoyed its monopoly over this 25 year period, it would have been forced to be as productive as its private sector counterparts. And by 2012 that higher productivity would have reduced its 2012 costs by \$20 billion. That's a

lot of money. That's even greater than the value of all the subsidies if you approach it as an economist would. It's much greater than the deficits that Post Office endures.

Now this is technically not a subsidy, but it represents an economic burden on everyone who uses the mail, and taxpayers, that arises directly from the monopoly position and in addition the subsidies, the effective economic subsidies associated with that position which reinforce the need to not compete.

Now the higher salaries and benefits that postal employees enjoy and the larger number of employees relative to some but not all private delivery firms account for less than half of those additional costs. The other half reflects the weak competitive pressures on the Postal Service to become more efficient and innovative, which ultimately lead to less effective management practices, investments, and operating procedures. This is not a criticism of the Postal Service, this is the way any subsidized monopoly responds. It is inherent in the position, and the problem is the position. And those costs are certain grounds I think for serious discussion about reforming the arrangements of the Postal Service.

Thanks.

MS. KAMARCK: Thank you, Robert. David?

MR. WILLIAMS: Thanks, Elaine. The Postal Service is the largest link in a worldwide communications and logistics infrastructure value chain. Like all infrastructures our role is to provide common solutions to problems that cannot be reasonably solved individually, and we're complemented by adjacent infrastructures that are both traditional and digital in the suddenly faster and global environment. So what are the new respective roles of the infrastructures and should the postal infrastructure adapt to this new speed of light ecosphere, and what are the rules of the road for the road ahead?

The first rule I would say is keep up no matter who you are. If you're a key player it's critical that you keep up. The world is turning at the speed of blur. And when key players can't keep up it creates distortions in the landscape. It's like trying to drive a car wearing magnifying glasses for the rest of us when one of us can't keep up. You individually of course need to keep up as well because no matter how young you are in this room your world is disappearing, it's passing around the bend and the river of time. This is true whether you're a mailer or great customer. The Postal Service and its unions, customs that are constantly in the way these days, Congress is purposefully slow and deliberative to avoid sort of ruling the country by the roar of the mob. And the universal postal union whose stodgy rules are designed to assist developing nations long after the cease to be developing nations. So keep up for god's sake. Don't find yourself in the way or clumsily picking winners or losers by your inaction.

The second rule I would say is velocity doesn't really matter without focus, focus on the new end game. Would everybody reach in their pocket and pull out a \$1 coin and hold it up? (Laughter) There were very efficiently made, very cheaply produced, that's great, but nobody wants them. (Laughter) Now you have a silver dollar, that's very impressive. The road ahead is not about encouraging consumption of efficiently managed but unwanted manufactured, but unwanted goods. It's about customer value creation.

Third, enjoy the new systems of the world and enable their value to your users. We shouldn't define the Postal Service literally as envelopes and parcels and traditional post offices. We need to define the Postal Service conceptually as an enabler of communications and logistic services in age of great upheaval and advancement, an age that left us with amazing gifts but unanticipated restraints. The last great disruptive wave and era for the Postal Service was the near simultaneous development of railroads

and the telegraph. The Postal Service at that moment didn't continue plodding along the postal roads that they built because that's who they were literally five seconds ago, it was the first one to the railroads, and the first ones to the air carriers, greatly helping both of those fragile infant industries. And as the value of mail increased it was also the first ones to the new highway system in America. History shows that the Postal Service rapidly adapts if they're allowed as it identifies better ways to serve Americans. So how should it adapt now to serve the emergent human and commercial needs of this new century?

Fourth, act as an intermediary, enabling seamless navigation between people's digital and physical lives. Gain an essential American neighborhood role in providing inputs to smart megacities of the future. We should equip our trucks and our carriers and our post offices to become a mobile sensor net collecting and uploading data to customers and to the smart city infrastructures. We should be testing Wi-Fi and cable strength in the neighborhoods, air quality, gas leaks, conduct meter readings. We should become neighborhood cohort centers for electricity reserves for the power grid, 3D print centers. We should build Wi-Fi towers on post office routes, Gene. Did you ever think of that?

MR. DEL POLITO: No.

MR. WILLIAMS: Gene suggested that. Micro warehousing for people and small businesses.

I guess rule five is we should act to protect the continuity of commerce during the coming supply chain wars. As the world becomes more digital and global the supply chain is being disrupted from the design and manufacturer of goods all the way to the last mile delivery of the products. Supply links are going digital and middle men are becoming embrittled and disappearing, leaving behind residual services that cannot

become digital and they cannot finance the middle men any longer. Here are a couple of examples, 3D printing and customers as creators are disturbing assembly lines and mass production with point of use manufacturing that changes everything. Chinese manufacturers are leaping over the entire supply chain to take goods straight off the assembly line and send them straight to your residence, nothing in between. Amazon is seeking to provide a one stop shop for the entire supply chain. We're also seeing the rise of peer-to-peer commerce for products and services. That also leaps all the way over the supply chain. Foreign shoppers in an increasingly global marketplace are often unable to buy U.S. goods without a U.S. delivery address.

Sixth, mediate disruption of the banking industry that blocks transactions for citizens and adds friction to commerce. Mobile banking has put a bank branch in everybody's palm. Even before this began one out of twelve Americans did not have a bank account. Bank branches may shrink from where they are today, 100,000 down to 10,000 bank branches remaining. High cost payday loans and currency exchanges have stepped into that vacuum that is rapidly growing. Many Americans can't engage in eCommerce just at the time that brick and mortar commerce is disappearing. The Postal Service could provide a financial services platform and front office services where there are no banks. Today 59 percent of our post offices, 17,000 locations are located in zip codes where there are no banks or a single bank in the entire zip code. Post offices could provide financial instrument exchange at a time when their instruments are proliferating. Prepaid and debit cards, we could cash checks, money orders, and we could become a loan mart platform.

Seventh, become a network matter stream. We're seeing the end of a very peculiar world war that went on for 10 years between the very cool bits and the stodgy atoms. I think kids in the future are going to be laughing at what we're doing



today. We're doing virtual work in a brick and mortar office, the worst of both worlds. We've been seeing digital as an end instead of a means. We've been insisting that digital communications are a passing fad in some instances, including at the Postal Service early on. Anyway, that's all sorted out now. We are after all atomic structures and packages don't beam themselves off the assembly line to your home. So digital matter streams are finally atomically correct, operating as the network matter stream.

So now how to optimally map citizens to those data streams, into the Internet of Things and to network matter streams. The Postal Service needs to continue to integrate its network matter stream with its users' data streams to enable eCommerce, eHealth, mobile banking, eGovernment, and soon eLearning.

We also have the huge burden of the universal service obligation that you've heard about today. It would be great if we could turn that liability into a wonderful asset for Americans and for the Postal Service. We need to understand the impact of digital communications on the USO. We shouldn't be fearing and viewing them as competitors, but in fact digital communications can lighten the load of the immense burden of universal service. We could provide seamless visibility to senders and recipients of items travelling through the fulfillment value chain, from smart postage and packaging, to intelligent mailboxes, and to virtual P.O. boxes.

In short we need to ask ourselves who are we now and not become distracted by the literal artifacts of yesterday. This evolution will also add to our viability and will be profitable and maybe very profitable, but while we're updating our role as a vital infrastructure being fueled by this we can't forget we have an additional responsibility, one additional to the universal service obligation. We must take friction out of commerce and we have to minimize transaction costs as we finance this immense infrastructure without taxpayer dollars. We're the largest of the world postal networks, 40

percent. We're the engine of the global network effect. The Postal Service doesn't perform this mission because it chooses to or because it's a business, it's our duty to you. We're sentinels for a system that incentivizes innovation and meritocracy. We're conflict free in keeping the playing field level and supporting efficient market forces in the United States.

Thanks.

MS. KAMARCK: Thank you. Gene.

MR. DEL POLITO: Well, I've been in this industry for 31 years and here we are once again at the Brookings Institution going about probing the nation's postal soul. (Laughter) And rather than sit up here and try to act as a social engineer I'd rather sit around and talk to you from my view of things from a very specific prism. And that is from the perspective of the people that I represent whose businesses are tied in one way or another to the use of mail as a vehicle for the transaction of business communication and commerce.

Now we're in the process of talking about postal reform and you've heard others talk about the definition of universal service obligations and so on. And I hope that my comments today might crystallize for you what mailers genuinely believe should be part of a postal reform package and what also should be part of their aspect of the definition of universal service. I'm not going to be talking about universal service from the perspective of the individual customer who's out there, I'm going to be talking about it specifically in terms of the way businesses would view it.

I don't choose to talk about the world the way that I would like it to be or the way that I would believe it to be. I have to talk about the world the way that it is. And when you take a look at the mail today and you look at business, business communication, business to consumer communication, consumer to business

communication, and tally it all up what you come to is the reality that 95 percent of all mail carried by the Postal Service today is business transaction related. Only five percent of the mail that the Postal Service carries is actually what you would characterize as personal communications. And my god, over the past several years we should quickly have realized that Facebook has all but supplanted mail as that vehicle by which grandma and the grandkids get together, talk to each other, exchange birthday greetings, and also share pictures with one another. But on the business perspective when you consider that 95 percent of all mail is business transaction related, I find it compelling to conclude that when you look at mail you have got to say it is an important part of the nation's economic infrastructure.

Now when we talk about infrastructure it's all too easy to lapse into the social engineer's perspective I was talking about, whether it's good or it's bad, it's fair, or it's unfair, none of which matters. When you talk about infrastructure the only thing that matters is: does it work. When you talk about electrical infrastructure I don't care how you get the electricity here, all I want to know is that when I hit the light switch the lights will come on, when I turn the faucet the water will come out. The same thing is also true with the mail. When I put the mail inside of the postal system I expect the mail to be delivered in a specific way. For us the way that we judge the quality of this infrastructure is does it or does it not facilitate the transaction of commerce. If we're using it for commercial purposes then obviously it should set itself up in a way that it facilitates using it for those particular kinds of purposes.

Now if you had to take a look at the postal system and say well, okay, how are you going to know that it's doing that? Well, first of all there are two key criteria as far as business mailers are concerned. Without a question, as I'm in the business of using the mail as a communication vehicle, mail service has got to be reliable, it's got to

be consistent, and it's got to be predictable because I am building other elements of my business around the belief that certain things are going to happen at a certain time. How will I be able to prove that? Well, clearly in order to be able to do that I must have how mail is provided through a measurement system that is transparent and accountable. I should be able to confront, be confronted with data that clearly says when you see these figures, when you see these facts, you clearly can make the determination that mail is being consistent and reliable and predictable.

Secondly is I must be assured that the costs upon which all mail services are based are accurate, complete, and transparent. And when I say the costs of all mail services I'm not just talking about market dominant services, I'm talking about competitive services as well. You know, in the days when (inaudible) was passed, we recast the (inaudible) into two parts, market dominant and competitive, and we subjected the market dominants with specific regulatory regime for a reason. And that is because you could not have competition within the market dominant area, you must take steps to be absolutely sure that there was not going to be this illegal, unwise subsidy going to competitive service for market dominant. The only way you can do that is to be assured that they costs upon which the Postal Service bases its prices and all of its other activities are accurate, complete, and transparent. The whole day of being able to go to the Postal Regulatory Commission and finally got them when you asked for the costs of competitive services you find everything redacted should be long gone. I as a user of market dominant services have an absolute right to be assured that when I pay a price for that particular service, that price is covering the cost of my service, not the cost of somebody else's. So we're looking for a way in which we can actually say that we've got an ability to measure the costs in a way so that we're sure that they're accurate, they're complete, and transparent.

Now the Postal Service to its own benefit is beginning to move very quickly for the implementation of its intelligent mail system which gives it the tools that are necessary to actually make those kinds of measurements and make them apparent. But I should not have to be able to go over to the Postal Regulatory Commission, and when I look for the data, I'm required to burrow down through 15 different spread sheets to hopefully find what I want to see. It should be there, it should be transparent, it should be discernible so that everybody who is using the system and has to be paying the costs associated with this system knows exactly what is being done.

Now let me make this really, really clear. From the mailer's perspective, we don't care how the Postal Service goes about structuring its work rules, we don't care how it goes about compensating its workers, we don't care how it ends up dealing with its employee relations, and we couldn't care less whether Congress likes it or not. All of these matters are of no concern to mail users. The only thing that matters is does the postal system satisfy the mission that it was given as part of the nation's infrastructural system. If it does and if we get from it those reliable services based on costs that are accurate and transparent, we have received everything that we need to get from a postal system today and we can leave it to those who would choose to worry about the other aspects to handle those aspects itself.

Here are some of the realities people need to keep in mind. The entire cost of operating this nation's postal system is paid for by the people who use the mail, who send the mail. So that 95 percent element of the business, that's business transaction related, that's where it gets the lucre that's necessary in order to be able to make this thing go. We've talked about the division between market dominant and competitive, we've talked about the fact that it's subjected to a regulatory regime. Again, it's subjected to a regulatory regime because it has not one monopoly but two

monopolies that control what happens within the mail, not only over the carriage of mail but also the deposit of mail in mail receptacles.

Now I haven't said anything about prices and the only thing I'm going to say about prices is before the enactment of the Postal Accountability Act the Postal Service was quite proud of itself in saying we have always been able to operate by keeping postal prices within the ranges of inflation. Well, no one thought that that was going to be different the day the Postal Accountability Act was passed. And, okay, we ended up going through a deep recession that had some structural impacts on just about every business that there was in America. But what's the problem when you see that the costs of operating the system are exceeding the revenues that you are now able to gain because of the transformation that has occurred in terms of the way that we communicate and we do business. It's not because you're being overly regulated, it's because your costs have not been reduced to the level of the changes that have been going on within your own business. We believe generally that mail services still should be offered roughly within the context of inflationary limits. Do we mean to say that they have to be as they are defined today, limited by CPI constraints applied at the class level? Well, maybe that's not necessarily so and maybe that's what the Regulatory Commission needs to take a look at as it goes forward. But we also need to be mindful that maybe what's wrong with taking a look at that kind of constraint is not whether or not it's tied to inflation, but the manner in which it's defined. We continue to define mail services today exactly the way we did even before postal reorganization had taken place. We talk about first class mail, we talk about periodicals, we talk about advertising mail, we talk about packages. Why? Those elements are not at the heart of what drives the Postal Service's business. The elements that are at the heart of what the Postal Service does and what drives its business are determined by the shape of the mail pieces. So

perhaps if we redefine classes in accordance with the way the Postal Service actually processes mail within the system we might find that instead of having a heterogeneous grouping of costs and packages and services, we may be able to define them a little bit homogeneously so that we can appropriately apply the limits to whatever they have to be.

MS. KAMARCK: Great. Thank you very much. This is a lively discussion. I want to take some questions from the audience, and I'm going to start off by talking about four things that I've heard here. One is, David, you really laid out a vision of all sorts of things the post office could be doing in the future. And so I want -- and many of those are very intriguing. Some of you know the post office is already doing a lot of experimentation, getting into the business of grocery delivery, their partnership with Amazon for Sunday delivery, you know. So there are a lot of thought and entrepreneurship going on.

My first question is does the Postal Service as currently organized have the capacity, the managerial capacity to actually develop competitive products?

Second, and it's related to this and related to Rob's discussion is well, okay, if the post office gets into these, right, how do we deal with the subsidies that the post office enjoys from the federal government because as the post office moves into new territory it is obviously going to compete with existing businesses and entities. So how should we think about that, what should Congress think about that?

Third, maybe for you, maybe for the whole group, there's this weird \$10 million limit on the market test products which seems kind of ridiculous given that every other number we're talking about here is billions and the entrepreneurial side of this is limited to millions. And so should that be changed?

And finally how should we think about the monopoly post office, which Rob describes, and the competitive post office which I think you really described, David.

I mean should they be separate entities? What should we do with those two pieces of the business?

So those are just a couple of things that I was thinking about. I made four questions into one and let's open it up.

MR. TAUB: Sure. Thanks, Elaine. I think it's helpful as we look at those questions to just quickly give a little context as to where we are today. Until 1970 the post office department was a cabinet level agency. The postmaster general usually had been the campaign manager for the president and was appointed then the postmaster general, given all the patronage at the time. And --

MS. KAMARCK: A good job to have.

MR. TAUB: The postmaster general sat in the president's cabinet. 1970 came along, because of all the financial challenges for the Postal Service and its managerial and created this business like entity that we have today. So it really removed a lot of the political involvement. And a key part of that was the Postal Service no longer had its rates set by Congress, but this little agency called the Postal Rate Commission at the time was created to set rates. So until 2006 that was the law we operated under and generally speaking whenever the Postal Service felt the need to change rates and it needed more money, it would come to the Commission and the Commission would gear up and over a nearly year-long process would set the rates in essence. The Postal Service had a sole authority to set its own revenue requirement generally speaking. So if it needed say \$5 billion it would generally get \$5 billion. The issue was would first class pay more than second class or third class.

Jump ahead to 2006, after 12 years of effort the postal laws were changed. Gene had referenced this Postal Accountability and Enhancement Act. And one of the key areas that was focused on was trying to modernize this rate setting. So



instead of this long year-long process before the post office could change any rate, the idea was give the Postal Service more modern flexibility to change its prices. But as we've talked about because there are captive customers in the market dominant side this Postal Rate Commission was turned into the Postal Regulatory Commission, more powers and authorities to get the data, ensure that it was all out there, and that the Postal Service wasn't violating an inflation rate.

But there is also a recognition in the debate that resulted in the law of 2006 was while there's this whole competitive category of products it is relatively speaking much smaller in volume in revenue than the market dominant side. And Gene alluded to ensuring that customers on the market dominant side were not subsidizing the competitive market. So a regulatory regime was set up to say on the competitive side it will be regulated, unlike a price cap, with ways to ensure that cross subsidies aren't occurring. Every single competitive product has to cover its costs. Every single competitive product collectively have to kick into the overhead at a percentage that the Commission sets, and the Commission looks at that not only regularly, but annually. In fact at the end of this week we're issuing -- the law mandates an annual compliance report. Are rates and fees set in compliance with law, are service standards being met. And we report on that and we can order the Postal Service to take corrective action.

As part of that separation the law said look, on these competitive products they are operating in a commercial marketplace and the Commission needs to provide protection for information of a competitive nature. As the Commission gets it, set up rules much like a federal court would do. The Commission sets those rules up; about 2008 they took effect. The Commission has been operating under that. Can it be improved? Sure thing. And the Commission has a role now to deal with a lot of these issues, whether costing can be improved, we've got 45 years from the 1970 law of how

costing has been refined. The Postal Service puts a lot of money into it. The Commission is constantly ordering and looking at improvements. And any party at any time can come to the Commission and start a rule making to improve this process. So the good news is on this score we don't necessarily need to have an Act of Congress, we have a vibrant regulatory system set up from 2006 that can handle it.

And my last point, to go what you had raised was these areas of new products. The law set up the Commission as the one who calls the balls and strikes on: can the Postal Service get into new products. The law made a decision in 2006 for better or for worse that the Postal Service could only offer postal products. Non postal products were barred by law from the Postal Service getting into. That would take an Act of Congress to change. But within that framework of what's postal, there is clearly a lot of flexibility and the Postal Service, as they have, have come to the Commission and can continue to do so. I would add if the law is changed we now have what we didn't have in '06, a regulator that has been in place looking at these things. And so if Congress were to say let's broaden the aperture of what they can get into you could now put that into a process where a regulator can look under whatever criteria that the law would look at, fair competition issues, things of that nature. But I would argue that gets us off from we should first look at what is it that we need from this institution to provide as a government agency, and that should inform what then are the other things that should be done to do that.

MS. KAMARCK: Anybody else?

MR. SHAPIRO: I fortunately only have to operate under the laws of economics and none of the laws of Congress. (Laughter) From an economic point of view a single organization that's providing a monopoly public service and a private good is always problematic. It is inherent, it is built into the structure, cross subsidization, and

it is pervasive and significant. We're doing a new study of that where we'll try to lay that out, but just think about the example of delivering a package at the same time you're delivering the mail. The incremental costs of delivering that package given that you already have these enormous economies of scale and scope based on the monopoly product. We would be very uncomfortable if we said that the military could have a private business for private security forces. I don't see any difference frankly.

Second, you know, the Congress at least, as Robert just noted, has limited the activities of this government agency in the private market to postal products. We heard from our friends proposals for a whole line of new products. This would only compound the problem. The notion that the Postal Service has the expertise to handle banking services and financial services, to me this is -- you know, in the 1970s the oil companies had a lot of money because oil prices had skyrocketed and they said we are all going to become conglomerates. And they started buying businesses that had nothing to do with the oil business. And 10 years later they had sold off virtually all of them at a loss because all of the managers from Harvard Business School and engineers and scientists who ran Exxon Mobil and Shell and Chevron had absolutely no experience in the refrigerator business. And they had no business in financial services which they also got into. We have a very vibrant and effective and efficient market in all of those services. And I was once advising a very wealthy family who were thinking of getting into the private equity business, and the VC business because they thought they had all this money and how should they spend it. This would be fun. And I said to them the first question you have to answer is on what basis do you believe that you can do this better than all the people who are already doing it because that's the only justification. Otherwise you should invest in them. And while this is the same issue with respect to after all the investment ultimately comes from all the people who use the mail, who would

have to provide the resources to get into banking or et cetera. I think we need to think of it in exactly the opposite way. I think we need to think of it in terms of a public service function which is entirely separate from and unable to subsidize the private sector business. Otherwise we undermine the innovation and effectiveness of what is a very effective private sector in delivery.

MS. KAMARCK: David, Gene?

MR. WILLIAMS: You can tell Robert and I have a slight different view of the road ahead. But I'm pleased that when you said friend you didn't put that in air quotes. (Laughter)

Accenture did a very valuable, useful worldwide study of world posts and they looked as a subset of the world posts that first began to emerge from the devastating blow of social networking and the economic downturn and so forth that had so devastated postal services. They said all of the winners had three aspects. They were lean; I would certainly give the U.S. Postal Service pretty good grades for that. They've undertaken an enormous effort to become smaller and more lean. Smart, efficient. The Postal Service is embarking down that road. The third is they are entrepreneurial, they are diversified, which the U.S. Postal Service is not. They're saying those are the three key essential ingredients to survive in today's world as a postal service. I think one of the keys to staying out of trouble if we do begin to enter the area of diversification is to enable not to compete with commerce. And we certainly have many ways to do that.

As far as who would do this, I agree and understand that we have a traditional workforce that's been narrowly focused on mail and parcels in the past. But the Postal Service has the longest tradition of all, the federal departments and probably within the world, of creating effective partnerships with the private sector. First of all

we're the long pole in the tent of the postal industry, a trillion dollar industry. They've had a long tradition of work share discounts to achieve the lowest combined cost for delivery of services, co-opetition with the other carriers has been very effective where we use their air transport, they use our last mile delivery. It's been a long rich history of combining with the private sector to expand into areas where the expertise lies. But there's value as I said in a common infrastructure, particularly in industries that are being severely disrupted. The supply chain and the banking industry are two examples. We need to be there. We can't leave with everybody else. There won't be those essential services that are left behind and abandoned and cannot go digital. There needs to be some infrastructure left for the American people and for commerce

MR. DEL POLITO: Off of Dave's point. You know, I'm old enough to remember the days of Watergate, and if you remember the key saying in Watergate was follow the money. If you want to know how a postal system that is owned and operated by the government under a statutory monopoly is going to function you have to ask yourself what are the incentives. If you follow the incentives you'll understand how it will behave. If you look at the private sector, the incentives out there are to maximize your gains and minimize your costs. Well, those incentives just do not exist within a governmental bureaucracy. To translate those incentives into more human terms we might say the incentives are to maximize pleasure and to minimize pain. And if you just look at the way the postal system today, most service functions vis a vis Congress, it is not out there trying to maximize its pleasure, but it's doing everything it can to minimize its pain. So consequently how it will function is going to determine what result is. And currently what we're looking at is something that is the antithesis of what you would expect to see of an enterprise that truly can exist within a competitive environment.

MS. KAMARCK: Thank you. And this is a complicated issue. I think it's time to open it up to the audience. Yes, sir? Right here.

MR. GROTSKY: Are there microphones out?

MS. KAMARCK: Yeah, there are some microphones.

MR. GROTSKY: I'm Mark Grotsky, retired CEO. The thing I had learned about running an organization, even though it was a not for profit I was a CEO over, you know, we needed revenue. And the limits on revenues seems to be the heart of the problem. And we talk about businesses. I don't know any business that restricts its price increases to how they choose some other criteria other than what the market would bear. If the market would bear lower -- it needs lower prices they lower the prices. The market needs higher prices, could bear higher prices, they raised the price. I think that the biggest problem -- one of the big problems was the new regulatory regime in the post office, and Congress has limited them to external inflation as the limit on how much you could raise total revenue. At the same time it has mandated above inflation costs to the system. And until you fix that there's absolutely no way, you know, you could get 50 new banks or products, or stuff like that. You're still not going to be allowed to raise the revenue and the system is going to fail.

Can you comment on that?

MR. TAUB: Well, you hit on a key point, you know, referencing a system that by law mandates that it's market dominant products, which is where you have the captive customers, needs to be regulated under a CPI system. Gene referenced it earlier, the law did say after 10 years the Commission needs to look at the full 10 years of experience and assess improvements, changes, how that might operate. The idea was on the competitive side the competitive marketplace would be that limit.

If you go back to 2006 when this law was being finalized and put in place after 12 years of long effort, and a lot of it really was focused on the prices, the products, the flexibility for the Postal Service, there was an issue that got bubbled up toward the back end which was this idea of prefunding future retiree health benefits.

MR. GROTSKY: Yeah, that's the issue I brought up. That's what I'm talking about.

MR. TAUB: Yeah. A huge liability that future rate payers are going to hit with. And at the time the decision was made, look, this makes sense for the Postal Service to start prefunding that. What came out of the legislation and that was signed into law actually locked into place for 10 years specified payments of upwards of \$5 million or more per year for 10 years. After the 10 years it was then re-amortized over 40 years. Back in 2006, if we all go back to then, and certainly from the Postal Service perspective that was -- they were at their peaks of revenue, volume, and the Postal Service at that time their general focus was look, this is going to be tough for 10 years, but given where we're at I think we can get through those 10 years, make those payments, and we'll be in a good spot. None of us would have predicted that the very next year our nation went off into a great recession that rivaled the depths in some cases of the great depression, and with it mail volume and revenue. And I think you hit upon the key point, this in some ways while good intentioned, because it was locked into statute, to undo it creates scoring issues and it became a recipe for insolvency.

MR. WILLIAMS: And there's an equally significant issue in revenues not just from the inflation cap, but from the deeply discounted rates that non letter mail receives. That's periodicals, it's mainly advertising. It's all the mailers you get and that is an increasing share of the volume. And the Congress has mandated deeply discounted rates, and they've done this in the way Congress operates. Does it have to be

described? (Laughter) But if you need him we have one of America's premier political scientists here to explain it. Now that's not a subsidy, that's a cost and it's under "universal service obligation". If we are going to have a hybrid form of a system which is that provides delivery that competes with private companies, then we also have to introduce more competition into the other side of the market. And the first way to do that is to get rid of those discounts, get rid of all of them, and let other companies compete for that business at a market rate.

MS. KAMARCK: I think Gene may want to say something about this and David, and then we'll --

MR. DEL POLITO: Well, not specifically about that, but let's talk about the dilemma that you posed. The dilemma you posed was how do you make things work when you limit the amount of income they can make on the basis of an external factor like inflation versus what Congress does to it in order to be able to tell it what it has to do. You've got at play here, and you'll never be able to satisfy or successfully resolve the Postal Service's dilemma until you can come up with the answer for this, you've got at play here a different ideological perspective that drives Congress. If you were to ask Rand Paul what he would expect the Postal Service to be like and contrast it with what Bernie Sanders would say he thinks the Postal Service would be like, it would be like night and day. I mean the thing is the Congress has never said if this is what we want to have there needs to be a way by which it gets funded. Now we can all talk about raising everybody's rates, but here's the important thing to keep in mind, you may compel people as to who can put it in the mailbox or not, but today with electronic communication you don't have to mail. So if you end up doing things that now makes it apparent to a business that the prices you're charging no longer facilitates their ability to use this successfully as a way of communicating and transacting business, they'll take their



business elsewhere, but you still have the mandates. How do you fund the mandates in the absence of sufficient revenue of the revenue now has an opportunity to leave?

MR. WILLIAMS: I guess what I would like to point out is that what Robert said was very important, the moment of passage of this legislation was important to remember. An enormous, robust, expanding business that was approaching a cliff where I think the legislators felt that mail was expanding, but there would be a time in which it would totally evaporate, there would be no Postal Service in the future. All of which turned out to be quite wrong. But the CPI cap was intended as a surrogate for efficient market forces because as Robert pointed out really well, absent those federal bureaucracies, any bureaucracy absent efficient market forces tends toward bloat. So it was hoped that if there was enough pressure applied that that would be policed and take care of itself. And it was an expanding market. CPI caps anywhere tend to work in an expanding market. They don't work very well where the market is stable, and they are a disaster where the market is declining, which is exactly what occurred. The other great pressure was prefunding, pay \$5.5 billion a year. The Postal Service in its history had never made \$5 billion dollars. We make or lost \$1 billion. We never made a single payment. We borrowed to make every single payment. We borrowed against a bill that we didn't have that would someday arrive. So that was an odd one. And it was in the hands of OPM. OPM had a couple of things going on there. One, they were desperate for money to manage what had been a fairly poorly managed pension fund for all of the government. Secondly, there were competence problems. They had just tried to collect our pension amount to prefund earlier than that. They missed a \$171 billion debt by \$71 billion. That's pretty bad. That's more than (laughter) -- they missed the math problem by more than a third.

Congressional determination, and a lot can be said for it, we have now put aside \$335 billion. We are the most attractive takeover target in the corporate world today, but we have paid dearly for that. We've suffered an enormous blood loss.

MS. KAMARCK: Thank you. I think there's a question back there. Sir?

MR. BYRD: Yes, good morning. Thanks for the panel. My name is John Byrd with the Business Coalition for Fair Competition, BCFC, and we're very interested in knowing what kind of remedies would be offered, whether it's Congressional or regulatory that would take a look at the evolving market conditions, the current financial challenges. And then the second part to the question would be the mismanagement that's ongoing. Where is that most pronounced? So to the extent that you can kind of weave each of the panelists' remarks about that I'd appreciate it.

Thank you.

MS. KAMARCK: Want to start down here? Anybody want to pick those up?

MR. DEL POLITO: Well, in terms of the mismanagement, again I'll leave that to somebody else. But to your earlier point Rob I think may have put his finger on it, and that is the time of having a hybrid system, one that is supposed to act like a business and one that is not supposed to act like a business maybe well past us. It may be time to start saying if there are certain core services which we know the nation needs and we want to restrict who can provide them, they ought to be organized separately and distinctly from those services that we would like this other element of the business enterprise to undertake to be able to operate more competitively within the marketplace. And that would mean you would have to restructure competitive services under a corporate structure that would require it to have the same sorts of sets of books, the

same sorts of constraints that you apply to anybody else in the private sector where the whole issue of cross subsidy is immediately ruled out.

MS. KAMARCK: Anybody else have a comment on that?

MR. SHAPIRO: I just want to say in the defense of the Postal Service here that I don't think it's really an issue of mismanagement. I think it's an issue of responding to incentives. The problem with any entity which enjoys effective insulation from competition, and this applies to market dominant private companies, as well as this unusual hybrid, is that the need to figure out how to be more efficient and in particular how to innovate, what kind of investment should you be making and what kind of investment should you be pulling back on? Those incentives are absent. And consequently they become less efficient, they become less innovative, and their cost relative to the product declined. And we see, you know, the BLS has quantified that. That's what productivity captures. And that's not because they have bad managers. I don't think they have any -- that the quality of the managers there is any worse than the average for the private sector. I think that that the way they are forced to operate is different, and it has predictable economic consequences.

SPEAKER: I think if you think about what the postal infrastructure is about it's instructive to your question. They provide universal service to all of America, even places that are not profitable. They do so at the lowest possible cost so that we energize commerce, we don't destroy commerce. And we are conflict free with regard to picking winners and losers. Now hold that thought. In Europe they attempted all this. Something very curious happened. There were no serious takers. They said would anybody else like to do these three things (laughter). No serious takers. So is there some value in having someone just focused on energizing commerce with no conflict of

interest, and who is charging as little as they possibly can to survive. I think so. I think that's the very definition of a national infrastructure.

MR. SHAPIRO: It did work in Sweden. Sweden is the case -- Sweden has the most competitive open system and it's worked quite well in Sweden. But I would not claim that Sweden -- that the problems facing a small homogeneous society and the one facing ours are the same. It would be different and more complicated. But they went to full privatization.

MS. KAMARCK: I think we'll do the last question. The lady up here. Yes.

MS. MITTLEMAN: My name is Elaine Middleman. I'm an attorney. I got involved in postal issues when the post office by my house was closed even though it was very profitable, by Tysons Corner. And so I'm in favor of post offices I have to say and so I appreciate your point of view. Your point of view frankly I don't understand because it's like you want to start from scratch and pretend none of this exists which maybe in a perfect world that would be great, but that's not where we're at.

But one thing that I think has troubled me with this prefunding requirement and everything the reporters always talk about the Postal Service is bleeding, you know, billions of dollars, and they don't seem to understand the concept of operating revenue, operating income. This \$5 billion requirement makes it look like that it's a dysfunctional business when in fact as you pointed out the last mile delivery is vital to the economy. And I think many people rely on the post office. When I go I look at everybody and they're all standing there, they have a reason to be there, they have a little piece of paper, they want someone to help them with something, they're not just buying stamps. So it's a very important part of our infrastructure.

MS. KAMARCK: Robert, do you want to take that?

MR. TAUB: I think a key point to -- whatever one thinks of the prefunding requirement we have to deal with the fact that it's the law of the land. And hence because of that they're not meeting certain obligations that are required by law to meet. And more importantly it has real world application. You know, I went through what I saw as the bad news, the good news, and the operating income certainly is some good news. But the reality is with those requirements and the law as it is the liquidity is just not available there.

MS. MITTLEMAN: (off mic).

MR. TAUB: That would require legislation and then we get into scoring issues of whether an increased deficit. And that's a challenge for Congress to sort through. At the end of the day it's like everything, it's going to need 218 votes of the House, 51 or 60 in the Senate, and a presidential signature. But until any of that happens it is what it is, and it has the effect of the Postal Service where they're at, and as a result of a variety of these factors -- you know, we know they've cut \$16 billion in costs since the law took effect.

MS. KAMARCK: I think we're going to have to close this now because we've come to the end of our time. Thank you very much for opening up this issue to us and we hope that Congress is listening.

(Applause)

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