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Is the Postal Service Like Greece?

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Introduction

At the PostalVision 2020 Conference earlier this year, Postmaster General Patrick Donahoe compared the U.S. Postal Service to Greece. "If we don't do something about the costs of this organization, we will look like Greece.... We need less expensive work hours, and we need more flexibility on who can do what jobs."[1] Several days later, the postmaster general repeated the analogy in an interview with Federal News Radio. "Look what's going on in Greece.... The key for us [to avert a Greek-style disaster] is this: Provide great service...at a very reasonable cost."[2]

In using Greece as a cautionary example, Mr. Donahoe probably had multiple objectives: reconcile stakeholders to the need for operational changes at the Postal Service, dissuade Congress from blocking adjustments that the Service can make under current law, and prod Congress to enact the Service's legislative agenda.

Although the postmaster general has made the Greek analogy only a few times in passing, the topic is worth considering in more detail. Greece's disastrous experience holds valuable lessons, applicable to the Postal Service, regarding the dangers of large and persistent deficits and the desirability of addressing financial problems sooner rather than later.

Even without the postmaster general's comments, the Greek analogy would have come to mind on August 1, when the Service defaulted on a legally required $5.5 billion contribution to the Retiree Health Benefits Fund (RHBF) at the U.S. Treasury.[3] The payment had originally been due in 2011, but Congress extended

[1] *See* Angela Greiling Keane, *Postal Service to 'Look Like Greece' Without Aid, Donahoe Says*, BLOOMBERG, June 12, 2012, http://www.bloomberg.com/news/2012-06-12/postal-service-to-look-like-greece-without-aid-donahoe-says.html. *See also* Emily Stephenson, *U.S. Postal Service going way of Greece, chief says*, REUTERS, June 12, 2012, http://www.reuters.com/assets/print?aid=USBRE85B1GQ20120612.

[2] *See* Ruben Gomez, *Postal Service Saves Billions Too Little*, FEDERAL NEWS RADIO, June 20, 2012, http://www.federalnewsradio.com/index.php?nid=851&sid=2426982.

[3] *See* U.S. Postal Service, *Postal Service Statement On Retiree Health Benefits Payment*, POSTAL NEWS, July 30, 2012, http://about.usps.com/news/national-releases/2012/pr12_0730rhbpayment.pdf.

the deadline. On September 30, it defaulted once more when it failed to make its 2012 RHBF contribution of $5.6 billion.[4] Fortunately, neither default delayed payments to workers, suppliers, or postal retirees. The unmade RHBF contributions were intended to help prefund the high future costs of the retiree health benefits the Service promises its workers. A strong case can be made that the current front-loaded RHBF contribution schedule should be stretched out, but the desperate cash shortage that prevented the Service from making even partial payments suggests that it would have defaulted in any event.

Arguably, the Service may also have defaulted in 2011, when it temporarily suspended some payments (about $115 million every other week) to the Federal Employees Retirement System (FERS), one of two pension funds for its workers.[5] Although the suspension seemed reasonable at the time on economic grounds because its FERS account was in surplus, the payments were still required by law. (The suspension began in June 2011. The Service resumed its FERS contributions and repaid the arrearage in late 2011 after receiving an unfavorable legal opinion from the Justice Department.[6])

In addition to its defaults, the Service maxed out its credit line at the U.S. Treasury in September, reaching its statutory borrowing limit of $15 billion.[7] It has warned that it will be perilously short of cash throughout 2013, meaning that if receipts are even slightly below expectations or costs above, it may be unable to pay workers and suppliers promptly and in full.

A further blow landed on November 15, when the Service reported that it lost $15.9 billion in 2012.[8] The deficit consists of the August and September payments on which it defaulted plus $4.8 billion of other losses.

Yet more bad news is that the FERS surplus has mostly disappeared, and the Service's other pension fund, the Civil Service Retirement System (CSRS), now shows a large projected deficit.[9] The cause is low interest rates, which dramatically reduce the earnings on pension fund assets. As a result, the money in the pension funds to pay future liabilities will grow more slowly than previously expected.

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4 *See* U.S. Postal Service, *Postal Service Statement On Sept 30 Retiree Health Benefits Prefunding Payment*, POSTAL NEWS, Sept. 26, 2012, http://about.usps.com/news/national-releases/2012/pr12_0930rhbpayment.pdf.

5 U.S. Postal Service, *U.S. Postal Service Institutes Cash Conservation Plan; Payment To FERS Suspended*, POSTAL NEWS, Release No. 11-074, June 22, 2011, http://about.usps.com/news/national-releases/2011/pr11_074.htm.

6 *See* Sean Reilly, *Postal Service to resume pension payments*, FEDERAL TIMES, Nov. 15, 2011, http://www.federaltimes.com/article/20111115/DEPARTMENTS02/111150304/Postal-Service-resume-pension-payments.

7 Eric Morath, *Postal Service Hits Borrowing Cap for First Time*, WALL STREET JOURNAL, Oct. 16, 2012, http://online.wsj.com/article/SB10000872396390443675404578060850778951388.html.

8 U.S. Postal Service, Form 10-K, Fiscal Year 2012, Nov. 15, 2012, at 78, http://about.usps.com/who-we-are/financials/10k-reports/fy2012.pdf. All data in this paper regarding U.S. Postal Service's finances refer to fiscal years. As with the rest of the federal government, the Service's fiscal year begins on October 1 and ends on September 30.

9 *Id.* at 38. The Office of Personnel Management (OPM), which prepares the numbers, cut the long-term interest rate assumption from 5.75 percent to 5.25 percent. *Id.* at 39. That is still substantially above current market interest rates.

Postmaster General Donohoe's Greek Analogy

A quick sketch of events in Greece may be helpful in explaining why the postmaster general saw that country as a primer on mistakes to avoid.

The Greek debt crisis burst into view in late 2009 when a new Greek government admitted that previous governments had been cooking the books to understate government deficits and debt.[10] Private lenders and other nations suddenly realized that Greece's finances were on an unsustainable path and that Greece had joined the Euro Group in 2001 on the basis of phony government deficit numbers.[11] Membership in the Euro Group gave Greece access to cheap credit, and it used that opportunity to embark on what amounted to nearly a decade of debt-financed Keynesian stimulus spending. The heavy spending failed to raise Greece's competitiveness and, by eroding financial discipline, probably had the opposite effect.

After Greece's true finances became impossible to hide, its credit rating soured and its borrowing costs soared. Other European governments and the International Monetary Fund (IMF) then stepped in and have provided a succession of bailouts. The adjustment has been painful, and Greece has consistently fallen short of promises to rein in government spending and public sector pay, which has generated international rancor and delayed recovery.

Greece's real GDP peaked in 2007 and has contracted in every year since then: a cumulative drop of 13.2 percent through 2011, with a 6.9 percent real decline in 2011 alone.[12] Greece's unemployment rate has leaped from 7.7 percent in 2008 to 25.1 percent in July 2012, and youth unemployment has hit a staggering 54.2 percent.[13] About one-third of the shops in Athens' commercial district have gone out of business.[14] Greece is in a full-blown depression that continues to worsen.

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[10] For an overview and timeline, *see* Louise Armitstead, *What's the Greek debt crisis all about?*, THE TELEGRAPH, Feb. 23, 2012, http://www.telegraph.co.uk/finance/financialcrisis/9098559/Whats-the-Greek-debt-crisis-all-about.html.

[11] The European Union (EU) has 27 member states. Seventeen of the countries, including Greece, also use a common currency, the euro, and are thus said to be in the Euro Group. According to the Maastricht Treaty of 1992, EU members are not supposed to permit their budget deficits to exceed 3 percent of gross domestic product (GDP). Respect for the 3 percent rule was regarded as especially important in the case of the countries adopting the euro.

[12] Organisation for Economic Co-Operation and Development, *GDP in US dollars, constant prices and PPPs*, http://www.oecd.org/statistics.

[13] Eurostat, *Employment and Unemployment (Labour Force Survey)*, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database; Marcus Bensasson, *Greece's Unemployment Reaches More Than Quarter of Workforce*, BLOOMBERG, Oct. 11, 2012, http://www.bloomberg.com/news/2012-10-11/greece-s-unemployment-reaches-more-than-quarter-of-workforce-1-.html. Eurostat is the European Union's official statistical agency. The Greek crisis and fears of contagion to other high-debt nations, including Spain, Portugal, and Italy, have hurt production and employment throughout Europe, but to a lesser extent than in Greece. The latest Eurostat data show an average unemployment rate in the 27 EU nations of 10.5 percent. *See* Eurostat, *Euro Area Unemployment Rate At 11.4%; EU27 At 10.5%*, Oct. 31, 2012, http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-31102012-BP/EN/3-31102012-BP-EN.PDF.

There Are Encouraging Differences between the Postal Service and Greece

Thankfully, the Postal Service's problems are less serious and easier to solve than Greece's. In three welcome respects, the Service is in much better shape than Greece. First, it has not attempted to deny or soft-pedal its problems. The plunge in mail demand that began in 2007 due to intensified electronic diversion and the severe 2007-2009 recession took the Service and most of the postal community by surprise, but the Service quickly saw and acknowledged what was happening and began adjusting its operations to the drop in mail volume. For example, in 2010, when many observers still hoped that mail demand would soon rebound, the Service released a ten-year business plan that foresaw a long-term, large decline in volume.[15] If anything, the Service exaggerated the crisis by making the headline number a projected ten-year loss of one-quarter trillion dollars, while noting less conspicuously that over half of the hypothetical loss would not occur because of adjustments it planned to make using options available to it under current law. Although many elements of its plan and of the ideas it has floated since then are controversial, the Service deserves credit for sounding the alarm.

Thus, a second positive difference is that, in addition to sounding the alarm, the Service has engaged in significant self-help measures. Consider labor expenses. The U.S. Postal Service and the Greek government both have too many workers and provide above-market compensation packages, leading to excess labor costs. That hurts the Service, but Greece's labor problems are worse. In the Service's favor, the Postal Reorganization Act of 1970 (P.L. 91-375) removed patronage from its hiring and promotion decisions. Moreover, the Service has reduced its total workforce (career and non-career) by 30 percent from 1999 to 2011, primarily through attrition and buyouts, while maintaining acceptable service quality.[16] Labor costs remain a huge problem, however. No-layoff provisions in union contracts have hampered the Service's efforts to trim its workforce in line with plunging mail demand. Postal workers' fringe benefits are extremely generous and expensive compared to those of comparable workers in the private sector. Rigid labor rules hamper the Service's efforts to put its workers to the best use.

In Greece, government jobs are often patronage plums and the government, until recently, was expanding, not contracting, its bloated workforce.[17] Under intense international pressure and running out of money, the Greek government has, amid strikes and sometimes violent protests, begun reducing its workforce. Unlike the Postal Service, it is also cutting government workers' wages and pensions.

A third positive difference is that although the Service's losses are so extreme that they would almost surely have driven a private-sector business into reorganization or bankruptcy, they almost look good compared to the financial imbalances in Greece. In 2011, Greece's general government deficit equaled 22 percent of

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[14] *Crisis shuts a third of shops in Athens city centre*, REUTERS, Sept. 24, 2012, http://www.reuters.com/article/2012/09/24/us-greece-business-idUSBRE88N0NW20120924.

[15] U.S. Postal Service, *Ensuring a Viable Postal Service for America: An Action Plan for the Future*, Mar. 2010, http://about.usps.com/future-postal-service/actionplanforthefuture-march2010.pdf.

[16] *See* U.S Postal Service 2012 Form 10-K, *supra* note 8, at 107. *See also* U.S. Postal Service, *Annual Report, 2003*, at 58, http://about.usps.com/who-we-are/financials/annual-reports/fy2003.pdf.

[17] Andy Dabilis, *The Number of Public Workers in Greece Declines, says Census*, GREEK REPORTER, Apr. 10, 2012, http://greece.greekreporter.com/2012/04/10/the-number-of-public-workers-in-greece-declines-says-census/.

revenue.[18] For comparison, the Service's 2012 deficit equaled 24.4 percent of revenue (a $15.9 billion loss on $65.2 billion of revenue).[19] However, that percentage is based on two years of Retiree Health Benefits Fund assessments. If one excludes the $5.5 billion RHBF assessment originally due in 2011, the deficit would have been 16 percent of revenue. In 2011, Greece's gross government debt was about 400 percent of the government's yearly revenue (and 165 percent of the nation's GDP).[20] At the end of 2012, the Service's $15 billion of debt was 23 percent of its yearly revenue.[21]

The postmaster general said at PostalVision 2020 that the Service's debt-to-revenue ratio was 1.51 and close to Greece's debt-to-GDP ratio,[22] but that is based on an apples-to-oranges comparison. Mr. Donahoe appears to have taken the Service's ratio of unfunded liabilities to revenue, not its debt to revenue. Unfunded liabilities are typically much larger than debt because many future promises are not included in the debt number. For instance, the U.S. federal government's gross debt was $14.8 trillion at the end of 2011,[23] but one estimate placed its unfunded liabilities (mainly for health care, Social Security, and other entitlements) at $62 trillion—over $500,000 per household.[24] According to another study, Greece's ratio of unfunded liabilities to GDP was 8.75 in 2004,[25] which is several times worse than the comparable ratio at the Postal Service.

A few words should be said about retiree health benefits funding and the deficit. If Congress did not require the Service to put aside money to pay the costly health benefits it promises its workers after they retire, the deficits it reported in the last several years would have been substantially reduced and so would its reported deficits in the near future. Some stakeholders claim from this that the Service's problems are artificial, the fault of a funding requirement Congress imposed in 2006 as part of the Postal Accountability and Enhancement Act (PAEA, P.L. 109-435). They assert that the Service is, in reality, in fairly good shape. For example, Fredric Rolando, president of the National Association of Letter Carriers, declared, "The Postal Service has performed well in operational terms, nearly breaking even despite the worst recession in 80

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18 The numbers cited in the paragraph for Greece were calculated using Eurostat, *Total General Government Revenue (tec00021)*, *Total General Government Expenditure (tec00023)*, and *General Government Gross Debt (tsdde410)* [hereinafter Eurostat Finance Statistics], all available at http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/data/main_tables.

19 *See* U.S Postal Service 2012 Form 10-K, *supra* note 8, at 78.

20 *See* Eurostat Finance Statistics, *supra* note 18.

21 *See* U.S Postal Service 2012 Form 10-K, *supra* note 8, at 92.

22 Jennifer Liberto, *Postal chief: If we do nothing,we're Greece*, CNNMONEY, June 12, 2012, http://money.cnn.com/2012/06/12/news/economy/postal-service/index.htm. Mr. Donahoe said the debt-to-revenue ratio was 1.51.

23 U.S. Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, FY 2013*, Table 7-1, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/hist.pdf.

24 Dennis Cauchon, *U.S. funding for future promises lags by trillions*, USA TODAY, June 13, 2011, http://usatoday30.usatoday.com/news/washington/2011-06-06-us-owes-62-trillion-in-debt_n.htm. If it is hoped that governments will keep their promises, the ratio of unfunded liabilities to revenue may be more important than that of debt to revenue.

25 Jagadeesh Gokhale, *Measuring the Unfunded Obligations of European Countries*, NATIONAL CENTER FOR POLICY ANALYSIS POLICY REPORT NO. 319 (Jan. 22, 2009), http://www.ncpa.org/pdfs/st319.pdf.

years."[26] It should be noted, however, that even if the RHBF is entirely ignored, the Service would have lost $4.8 billion in 2012, $5.1 billion in 2011, $3.0 billion in 2010, and $2.4 billion in 2009.[27] Losses of $4.8 billion, $5.1 billion, $3.0 billion, and $2.4 billion caused by problems other than the RHBF do not equal performing well. No wonder Postmaster General Donahoe characterized as "irresponsible" the argument that the Service would be fine except for retiree health benefit contributions and said, "The idea that if we just eliminate the prefunding… we'll be OK—wrong!"[28]

Mr. Rolando and others also argue that because the RHBF "already has $45 billion [of assets], enough to pay for decades of future retiree health care," Congress should not require the Service to make further contributions.[29] The flaw in that argument is that although its projected assets in the fund were $45.7 billion at the end of 2012, its projected liabilities were $93.6 billion, leaving an unfunded liability of $47.8 billion.[30] If Congress let it cease contributing to the retiree health fund without also enacting reforms to dramatically reduce projected liabilities, it would virtually guarantee a huge taxpayer bailout of the Service down the road.[31] The call for a prolonged contribution holiday is reminiscent of the approach that has landed the Greeks in so much trouble.

Greece Shows the Need for Speed but the Postal Service Has Difficulty Moving Quickly

The most crucial warning from Greece is that while it is painful to deal with financial imbalances promptly, the pain is many times greater if reform is pushed down the road. Delay lets imbalances worsen and deficits cumulate. In Greece today, production and living standards have plummeted since 2008, parts of the social safety net are in tatters, a quarter of the labor force cannot find jobs, and many young workers are either looking to emigrate or resigning themselves to becoming part of a lost generation because over half of those seeking jobs cannot find them. It did not have to be this way. If the Greek government had put its house in order a decade ago instead of going on a massive and prolonged deficit-spending binge, it might have been one of the ascending economies in Europe, such as the Czech Republic (1.7 percent real GDP growth, 6.7 percent unemployment, and 41.2 percent gross government debt in 2011) or Poland (4.3 percent real GDP growth, 9.7 percent unemployment, and 56.3 percent gross government debt in 2011).[32] Instead, by the time Greece could no longer kick the can down the road, there were no good solutions and enormous pain was unavoidable.

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[26] Fredric Rolando, *Congressional politics to blame for Postal Service's red ink*, DALLAS MORNING NEWS, Sept. 30, 2012, http://www.dallasnews.com/opinion/latest-columns/20120930-fredric-rolando-congressional-politics-to-blame-for-postal-services-red-ink.ece.

[27] *See* U.S Postal Service 2012 Form 10-K, *supra* note 8, at 109.

[28] *See* Liberto, *supra* note 22.

[29] Fredric Rolando, *Statement from Fredric Rolando, president, National Association of Letter Carriers on the August 1st Postal Service "Default,"* PRNEWSWIRE, July 30, 2012, http://www.prnewswire.com/news-releases/statement-from-fredric-rolando-president-national-association-of-letter-carriers-on-the-August-1st-postal-service-default-164285916.html.

[30] *See* U.S Postal Service 2012 Form 10-K, *supra* note 8, at 42.

[31] For a detailed examination of the retiree health benefits funding issue, *see* Michael Schuyler, *Why The U.S. Postal Service Is In Greater Financial Trouble Than Most Foreign Posts—The Role of Postal Retiree Health Care Benefits*, IRET CONGRESSIONAL ADVISORY NO. 283 (Apr. 11, 2012), http://iret.org/pub/ADVS-283.PDF.

[32] *See* OECD Statistics, *supra* note 12. *See also* Eurostat Finance Statistics, *supra* note 18.

The evidence from successful fiscal consolidations, such as those of New Zealand in the mid-1980s and Canada in the mid-1990s, is that the recovery begins soonest, and is strongest, if government deficits are reduced primarily through lower government spending, not higher taxes.[33] In that respect, the Greek contraction has probably been worse than necessary. Political opposition within Greece has prevented the government from cutting spending and relaxing anti-competitive government regulations as much as credit markets and other nations think appropriate.

Ordinary businesses also find that it is better to address financial problems sooner rather than later, which explains why the first response of businesses encountering disappointing results is often to trim spending. To its credit, the Service has achieved large cost savings since its crisis began, but it has made less progress than a successful private-sector business because of congressional micromanagement,[34] powerful unions, and the regulatory process. For instance, if not for a rider that Congress has inserted into annual appropriations bills since the early 1980s, the Service would have eliminated Saturday mail delivery in 2009 or 2010, saving roughly $2 billion or $3 billion annually (depending on whether one accepts the estimate of the Postal Regulatory Commission or the Service.)[35]

Because the Service carries out a government-assigned mission and possesses statutory monopolies on non-urgent letter delivery and mailbox access, it is thoroughly proper that it be subject to congressional and regulatory oversight. Congress and the Postal Regulatory Commission (PRC) should ensure that the Service upholds its public service mission of providing reliable and economical postal access and delivery to everyone in America (the Universal Service Obligation), that it not shift costs to taxpayers, and that it not take advantage of its mail monopoly to treat postal customers unfairly. Congress and the regulator should not automatically rubber stamp whatever postal management proposes. On the other hand, Congress should not force the Service to incur higher operating costs than are needed to perform its core mission. Further, Congress should be cautious about standing in the way when the Service identifies changes that, although having some negative impact on service quality, would yield major cost savings and do less harm than the alternatives.

The Service has displayed considerable skill in adjusting to lower mail volume, but there may be room for improvement. Consider two examples. In July 2011, the Service proposed to study for possible closure more than 3,650 post offices, most with low revenue. The plan generated strong opposition because it would have sharply reduced postal access in thousands of communities while saving the Service comparatively little.[36] In

[33] For a scholarly study that reached this conclusion after investigating a large number of fiscal consolidations over the last several decades, *see* Alberto Alesina, Carlo Favero, & Francesco Giavazzi, *The Output Effect of Fiscal Consolidations*, NATIONAL BUREAU OF ECONOMIC RESEARCH WORKING PAPER NO. 18336 (Aug. 2012).

[34] For a fuller discussion, *see* Michael Schuyler, *Why The U.S. Postal Service Is In Greater Financial Trouble Than Most Foreign Postal Services—The Role Of Government Micromanagement*, IRET CONGRESSIONAL ADVISORY NO. 282 (Mar. 30, 2012), http://iret.org/pub/ADVS-282.PDF.

[35] For a fuller discussion of this issue, *see* Michael Schuyler, *The Postal Service Asks To Eliminate Saturday Delivery; Congress Still Has Questions*, IRET CONGRESSIONAL ADVISORY NO. 267 (July 7, 2010), http://iret.org/pub/ADVS-267.PDF.

[36] For a description and analysis of the plan, *see* Postal Regulatory Commission, *Advisory Opinion on Retail Access Optimization Initiative*, Docket No. N2011-1 (Dec. 23, 2011), http://www.prc.gov/Docs/78/78971/N2011-1_AdvisoryOP.pdf.

response to the criticism, the Service dropped the mass-closure idea. Instead, in May 2012, it proposed reducing the hours at over 13,000 post offices (to 6, 4, or 2 hours on weekdays).[37] Although the new plan would affect more post offices than the earlier proposal, it has aroused less opposition, perhaps because communities would still have their post offices, albeit for fewer hours per day. The Service estimates the plan would save about $500 million yearly. Several leading foreign postal services, though, have found a different model—franchising, often to small, local businesses—that might lower retail postal costs even more, which is good for the postal service, while usually lengthening retail hours and maintaining nearly the full range of retail services, which is good for consumers.[38] In this country, in contrast, the Postal Service seems cool to the idea; the number of post offices not owned and operated by the Service (known as contract postal units and community post offices) fell 12.8 percent from 2007 to 2012.[39] The Service has failed to explain why it is not adopting what appears to be a win-win business model.

A second case in which the Service may be selecting an inferior approach concerns its distribution network. With the plunge in mail volume, it needs to streamline its mail-processing network, especially because it built the network on the assumption that mail volume would rise forever. The Service has developed and begun implementing a rationalization strategy, but, controversially, the Service's approach would slow mail delivery, notably for first-class mail. In examining the plan, the PRC concluded that the Service is making the task unnecessarily difficult and disruptive by measuring productivity incorrectly.[40] If the PRC is right, a modified consolidation plan could save at least as much as the Service's approach without seriously harming service standards.

The Federal Government Has Its Own Financial Problems

An unsettling point is that although the U.S. Postal Service's financial imbalances are mild compared to those in Greece, the overall U.S. federal government is rapidly moving into Greek territory. In fiscal year 2012, based on preliminary data, almost one-third of federal spending was done with borrowed money, and the federal government's budget deficit for the year was 6.9 percent of GDP.[41] The federal government's

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[37] For an evaluation of this newer plan, *see* Postal Regulatory Commission, *Advisory Opinion on Post Office Structure Plan*, Docket No. N2012-2 (Aug. 23, 2012), http://www.prc.gov/Docs/85/85013/N2012-2_Adv_Op_082312.pdf.

[38] *See* U.S. Government Accountability Office, *Foreign Posts' Strategies Could Inform U.S. Postal Service's Efforts to Modernize*, GAO-11-282, (Feb. 2011), at Highlights and 19-21, http://www.gao.gov/new.items/d11282.pdf.

[39] *See* U.S Postal Service 2012 Form 10-K, *supra* note 8, at 108; U.S. Postal Service, *Form 10-K, Fiscal Year 2011*, Nov. 15, 2011, at 88, http://about.usps.com/who-we-are/financials/10k-reports/fy2011.pdf. Over the same period, the number of USPS-operated post offices declined only 2.6 percent. The Service is now touting what it calls Village Post Offices, but, notwithstanding their warm and fuzzy name, they would offer only a few postal services and have received tepid reviews.

[40] For a summary of the PRC's findings, *see* Postal Regulatory Commission, *PRC Issues Advisory Opinion Analyzing USPS Plan to Change Service Standards*, Press Release, Sept. 28, 2012, http://www.prc.gov/prc-docs/Newsroom/PressReleases/N2012-1%20Press%20Release%20-%20Final_2910.pdf.

[41] Department of the Treasury, Financial Management Service, *Final Monthly Treasury Statement of Receipts and Outlays of the United States Government, For Fiscal Year 2012 Through September 30, 2012, and Other Periods*, http://www.fms.treas.gov/mts/mts0912.pdf; Bureau of Economic Analysis, *National Income and Product Accounts Tables, Table 1.1.5*, http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1.

gross debt was 101.8 percent of GDP, which is substantially lower than Greece's but already in the range where rising government debt frequently becomes a serious drag on economic performance.[42]

The federal government's fiscal distress is relevant in assessing its willingness and ability to aid the Postal Service financially. If the Service runs out of cash and threatens to close its doors, Congress would undoubtedly write a check to prevent a shutdown. However, the federal government's own money problems reduce the odds that it would allow the Service to return to the government agency model of the old Post Office Department (the Service's predecessor), in which the organization chronically ran large deficits and Congress made up the difference through appropriations.[43] The low probability of long-term federal aid means adjustments need to be made within the Service to pull the enterprise out of the red. Leaving aside the federal government's diminished fiscal capacity, the government agency model is a harder sell now than in the days of the Post Office Department because the Service has become less essential for conveying news, sending personal communications, and paying bills; advertising now comprises over half of mail volume.

Conclusion

Postmaster General Donahoe used the Greek analogy to help people understand the peril to mail users if the Postal Service were to resist the operational changes needed to control its costs. The government agency's finances amply justify the postmaster general's warning. If the Service follows Greece's path of pretending for as long as possible that problems do not exist, the eventual outcome will be extraordinarily bleak. Although some of the Service's proposals are open to criticism, it is to be praised for firmly rejecting the Greek approach and, instead, attempting proactively to return to financial self-sufficiency.

Events in Greece are leading to a seismic shift at that country's own postal service. Because of the disaster Greece created through its financial profligacy, it is selling various state-owned properties and enterprises—including potentially its entire 90 percent stake in Hellenic Post (ELTA)—as it struggles to pay down its debt, mollify the IMF and other European nations, and attack inefficiencies in the Greek economy.[44] Greece

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[42] Department of the Treasury, Bureau of the Public Debt, *Monthly Statement of the Public Debt of the United States, Sept. 30, 2012*, http://www.treasurydirect.gov/govt/reports/pd/mspd/2012/opds092012.pdf; Bureau of Economic Analysis, *National Income and Product Accounts Tables, Table 1.1.5*, http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1. Several studies by Reinhart and Rogoff that examined data from a large number of countries over more than two centuries have found that economic growth often slows sharply when gross government debt exceeds 90 percent of GDP. *See, e.g.*, Carmen M. Reinhart & Kenneth S. Rogoff, *Growth in a Time of Debt*, AMERICAN ECONOMIC REVIEW (May 2010), http://www.ycsg.yale.edu/center/forms/growth-debt.pdf. The United States, disturbingly, has already shot through the 90 percent threshold, and its gross government debt is still climbing. (Government debt is sometimes expressed exclusive of debt held in Federal accounts. Net federal debt was 67.7 percent of GDP at the end of 2011. However, Reinhart and Rogoff's findings relate to gross debt, not net debt.)

[43] The Post Office Department's deficits averaged 22 percent of revenue in the second half of the 19th century and 22 percent of revenue in the period 1946-1970. *See generally* U.S. Post Office Department, *Annual Report*s.

[44] *See* Victoria Mindova, *PAME is preparing to fight the privatization of Hellenic Post*, GRREPORTER, Aug. 23, 2012, http://www.grreporter.info/en/pame_preparing_fight_privatization_hellenic_post/7500; Paul Tugwell, *Greek Post Office Sale to Begin This Year, Naftemporiki Reports*, BLOOMBERG, Sept. 10, 2012, http://www.bloomberg.com/news/2012-09-10/greek-post-office-sale-to-begin-this-year-naftemporiki-reports.html. For a broader view of the forces driving privatization in Greece, *see* Nick

is not the only nation selling state-owned businesses, including its postal service, in response to financial pressures. As part of an aid agreement with the IMF, Romania is reducing its stake in numerous government enterprises, including Posta Romana.[45] A lesson here is that a government in financial crisis may feel compelled to privatize its postal service, even if such an action would be politically unthinkable in normal times.

By comparing the U.S. Postal Service to Greece, Postmaster General Donahoe was attempting to lessen the danger that the Service will become like Greece. Ironically, the Service's leaders are sometimes accused of trying to tear down the Service in hopes of eventually privatizing it. Their actions, in fact, go in the other direction. Public sentiment for privatization tends to increase if a government-owned postal service is staring into a deficit abyss or suffers a breakdown in basic mail delivery. That is what has happened, for instance, in the United Kingdom, where Royal Mail, burdened with a massive pension debt and beset by strikes, is in the process of being privatized.[46] The Service's efforts to address its financial imbalances sooner rather than later is, in effect, an anti-privatization strategy.

Similarly, one of the major postal reforms bills in Congress, the Postal Reform Act of 2011 (H.R. 2309), is often accused of paving the way for privatization. In fact, it would do the opposite. The House bill takes a tough-love approach and contains several controversial provisions. These include the creation of a Commission on Postal Reorganization Act, modeled on the successful military Base Realignment and Closure (BRAC) Commissions, as well as the creation of a Financial Responsibility and Management Assistance Authority, modeled on the effective District of Columbia Financial Control Board. No position is taken here on whether those provisions ought to be part of postal reform, but it should be noted that BRAC Commissions have saved the military billions of dollars and the DC Financial Control Board helped revitalize the District of Columbia. Those earlier, bipartisan efforts were not intended to privatize the Defense Department or the District; the goal was to help government run better.

Finally, another major reform bill, the Senate's 21st Century Postal Service Act of 2012 (S. 1789), differs in many respects from the House bill but does include several provisions that would give the Service more

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Skrekas, *Greece Pledges No Fire Sales in Privatizing Assets*, WALL STREET JOURNAL, Sept. 28, 2010, http://online.wsj.com/article/SB10001424052748703882404575520053908437506.html; Manfred Ertel, *Greek Privatization Plan Faces Massive Domestic Resistance*, SPIEGEL ONLINE, June 7, 2011, http://www.spiegel.de/international/europe/desperate-bid-to-cut-deficit-greek-privatization-plan-faces-massive-domestic-resistance-a-767199.html.

[45] *Finance Ministry: The Romanian Post is to be privatized. This decision is irreversible*, ANTENA 3 ROMANIA, July 26, 2012, http://www.antena3.ro/en/business/finance-ministry-the-romanian-post-is-to-be-privatized-this-decision-is-irreversible-177401.html; *Belgian post operator 'bpost' to hold talks over potential investment in state-owned Romanian Post*, ROMANIA-INSIDER.COM, Sept. 19, 2012, http://www.romania-insider.com/belgian-post-operator-bpost-to-hold-talks-over-potential-investment-in-state-owned-romanian-post/65353/. In contrast to Greece, Romania moved quickly, has come close to meeting its targets, and its prospects are encouraging. The Romanian government's deficit is now only slightly too high, government debt is low, unemployment is moderate, and the economy grew in 2011.

[46] For a brief overview, *see* Brian Groom, *Royal Mail to Deliver IPO in 2013*, FINANCIAL TIMES, Mar. 25, 2012, http://www.ft.com/intl/cms/s/0/a43beb3e-7525-11e1-90d1-00144feab49a.html#axzz28uyskmQ6. For the report that convinced political leaders of the need for privatization, *see* Richard Hooper, Deirdre Hutton, & Ian R. Smith, *Modernise or decline: Policies to maintain the universal postal service in the United Kingdom* (Dec. 16, 2008), http://www.bis.gov.uk/files/file49389.pdf.

operational flexibility to control its costs. A final irony is that although the Senate bill is not accused as frequently of being a privatization vehicle as the House bill, it would be the less effective of the two at closing the door on privatization. Due to political compromises, it would place some new restrictions on the Service's ability to modify its post office and mail processing networks, which would lessen its ability to return the Service to self-sufficiency. If the House and Senate fashion a bill from the best parts of H.R. 2309 and S. 1789, they can do their share to help the Postal Service avoid becoming like Greece.

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