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**Hearing before the Committee on  
Homeland Security and Governmental Affairs  
United States Senate**



**Oral Statement**

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**David C. Williams  
Inspector General  
United States Postal Service**

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Mr. Chairman and members of the committee, I appreciate the opportunity to testify today. Starting in 2007, the Postal Service was hit with rapid volume loss due to the economic downturn and to Internet diversion.

The decline in mail volume now appears to be slowing, and the financial crisis, though serious, is leveling off. The Postal Service has taken dramatic and successful actions to optimize its network to reduced demand. A focus today, however, is on the revenue side. My office has conducted two related studies.

The first study found the Postal Service's ability to generate needed revenue under the CPI price cap is largely dependent on unlikely increases in volume. This is true for any labor intensive enterprise subject to price controls. The Postal Service's obligation to deliver daily to a growing number of addresses, alone, assures that it will remain labor intensive.

Mail volume was expanding significantly when the CPI cap was deployed. Also, at that time the monopoly – even with the universal service requirement – was a lucrative asset. These conditions suggested the need for a price control, since monopolies can be impervious to efficient market forces. In 2007 mail growth abruptly reversed. With fewer pieces of mail going to a delivery point, each remaining piece of mail had to raise more revenue to pay for the costs of delivery. Sufficient revenue above inflation was unavailable under the price cap.

Recent volume losses combined with the price cap imperil the Postal Service's ability to provide universal service while remaining self-funded. The price cap was intended to protect trapped monopoly customers, but the monopoly has lost much of its value, since there is powerful competition for each type of mail today – advertising, personal communications, business transactions, and parcels. Customers have alternatives, and the diminishing monopoly combined with the universal service requirement is now a growing liability. Our study suggested adjusting the CPI cap to take into consideration volume fluctuations and the revenue generated per delivery point.

The second study examined how sensitive postal customers are to price increases above CPI. We found that for moderate, predictable price increases, postal products generally have low price elasticity. That means small increases would provide badly needed revenue. As prices are increased, some volume will leave, but the associated revenue loss will be more than offset by revenue from the price increase. The study examined 20 years of data through 2012 and looked for any changes to price sensitivity, including from the Internet and the recession.

We are not saying that all postal customers have a high tolerance for price increases. Some customers remain price sensitive. Rather, as a whole, the demand for these products has low price elasticity. Current fears of a postal collapse are likely a far greater risk than small price increases.

Pricing freedom through efficient market forces should be used when possible. Casting them aside in favor of artificial controls has been problematic and is problematic for the Postal Service today. Efficient market forces have a long history of successfully disciplining companies. If the Postal Service loses customers with excessive prices, it will suffer the same punishing consequences as any other business.

New innovative technologies offer many opportunities to improve core Postal operations and customer service:

- Vast data, now generated throughout the network, can be mined for operational efficiencies.
- GPS can optimize routes, manage the fleet, and track packages.
- Mobile imaging can provide customers visual delivery confirmation.
- Sensors and RFID technology can digitally link postal equipment and vehicles, providing real-time visibility into all aspects of the network, joining the Postal Service to the Internet of Things.

In this remarkable, but highly imperfect digital age, citizens and businesses also face fundamental problems: loss of privacy, security, and confidentiality; the fragmentation of messaging – Toyota couldn't connect the dots between written correspondence and email complaints several years ago; the difficulty of navigating e-government services; the risk of buying online from unknown

individuals; uneven broadband and banking access; and expensive e-commerce middlemen that inhibit entrepreneurs and small businesses.

The Postal Service can help address these problems:

- Secure electronic messaging can preserve privacy, security, and confidentiality for citizens and businesses.
- Storage and integration services can give people tools to organize communications in a multi-channel world.
- The Postal Service can offer seamless e-government services by supporting a digital platform with its network of post offices and delivery carriers.
- The 1) creation, 2) storage, and 3) validation of digital identities would protect against the risks of transacting with unknown people and businesses.
- Post offices can become centers for continuous democracy by serving as hubs to gather citizen input.
- The sale of single-use cash cards and the cash redemption of digital currency can provide alternatives for the unbanked, enabling their participation in commerce.
- Virtual P.O. Boxes can offer citizens and foreign buyers of U.S. goods delivery of their packages anywhere and anytime and support businesses with back-end operations such as micro-warehousing.

- The Postal Service already has a physical network underlying the emergent wired digital infrastructure. By further enabling that network, the Postal Service can assure that e-commerce is seamlessly supported by powerful fulfillment services for physical goods.

The Committee's attention on revenue and innovation is tremendously important, and prefunding, which the Committee will address next week, is also a substantial factor in the plight of the Postal Service's finances. Part of the need for price increases and the absence of investment capital for innovation are directly tied to the financial drains from prefunding. Thank you.

*For the studies mentioned in this testimony, see [Revisiting the CPI-Only Price Cap Formula](#) and [Analysis of Postal Price Elasticities](#) on [www.uspsaig.gov](http://www.uspsaig.gov).*