

**By STEVEN GREENHOUSE**

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**The United States Postal Service has long lived on the financial edge, but it has never been as close to the precipice as it is today: the agency is so low on cash that it will not be able to make a \$5.5 billion payment due this month and may have to shut down entirely this winter unless Congress takes emergency action to stabilize its finances.**

**In recent weeks, Mr. Donahoe has been pushing a series of painful cost-cutting measures to erase the agency's deficit, which will reach \$9.2 billion this fiscal year. They include eliminating Saturday mail delivery, closing up to 3,700 postal locations and laying off 120,000 workers — nearly one-fifth of the agency's work force — despite a no-layoffs clause in the unions' contracts.**

**The post office's problems stem from one hard reality: it is being squeezed on both revenue and costs.**

**As any computer user knows, the Internet revolution has led to people and businesses sending far less conventional mail.**

**At the same time, decades of contractual promises made to unionized workers, including no-layoff clauses, are increasing the post office's costs. Labor represents 80 percent of the agency's expenses, compared with 53 percent at United Parcel Service and 32 percent at FedEx, its two biggest private competitors. Postal workers also receive more generous health benefits than most other federal employees.**

**The Senate Homeland Security and Governmental Affairs Committee will hold a hearing on the agency's predicament on Tuesday. So far, feuding Democrats and Republicans in Congress, still smarting from the brawl over the federal debt ceiling, have failed to agree on any solutions. It doesn't help that many of the options for saving the postal service are politically unpalatable.**

**"The situation is dire," said Thomas R. Carper, the Delaware Democrat who is chairman of the Senate subcommittee that oversees the postal service. "If we do nothing, if we don't react in a smart, appropriate way, the postal service could literally close later this year. That's not the kind of development we need to inject into a weak, uneven**

**economic recovery.”**

**Missing the \$5.5 billion payment due on Sept. 30, intended to finance retirees’ future health care, won’t cause immediate disaster. But sometime early next year, the agency will run out of money to pay its employees and gas up its trucks, officials warn, forcing it to stop delivering the roughly three billion pieces of mail it handles weekly.**

**The causes of the crisis are well known and immensely difficult to overcome.**

**Mail volume has plummeted with the rise of e-mail, electronic bill-paying and a Web that makes everything from fashion catalogs to news instantly available. The system will handle an estimated 167 billion pieces of mail this fiscal year, down 22 percent from five years ago.**

**It’s difficult to imagine that trend reversing, and pessimistic projections suggest that volume could plunge to 118 billion pieces by 2020. The law also prevents the post office from raising postage fees faster than inflation.**

**Meanwhile, the agency has had a tough time cutting its costs to match the revenue drop, with a history of labor contracts offering good health and pension benefits, underused post offices, and laws that restrict its ability to make basic business decisions, like reducing the frequency of deliveries.**

**Congress is considering numerous emergency proposals — most notably, allowing the post office to recover billions of dollars that management says it overpaid to its employees’ pension funds. That fix would help the agency get through the short-term crisis, but would delay the day of reckoning on bigger issues.**

**The agency’s leaders acknowledge that they must find a way to increase revenue, something that will prove far harder than simply slicing costs.**

**In some countries, post offices double as banks or sell insurance or cellphones. In the United States, the postal service is barred from entering many areas. Still, the agency is considering ideas, like gaining the right to deliver wine and beer, allowing commercial**

**advertisements on postal trucks and in post offices, doing more “last-mile” deliveries for FedEx and U.P.S. And offering special hand-delivery services for correspondence and transactions for which e-mail is not considered secure enough.**