

The Future of the United States Postal Service.

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I. The Post Office is Going Broke...

The United States Postal Service pre-dates nearly every other governmental institution we have. It was created in 1775 by the Second Continental Congress and expanded with the country. Mail service evolved from foot to horseback to stagecoach, from steamboat to railroad and from railroad to air, allowing a nation that was to eventually span an entire continent to communicate with each other on matters public and private. It has a long and proud history and it is going broke.

The short-term cause is the recession that began in late 2007 and the Congressional mandate that the USPS prefund its health care liability for future retirees. Hopefully the recession will soon end and Congress is working to see what can be done about the USPS's unfunded liabilities. But even if those two problems turn out to be short term, the USPS faces challenges that are unprecedented and long term; in a nutshell, the

Internet has moved the personal and business correspondence of the nation away from paper and mail.

The result has been a dramatic reduction in the volume of first class mail handled by the post office. These trends, from letter writing to email and from bill paying via the mail to bill paying online, are likely to become more pronounced as the Millennial generation grows to adulthood and their less tech savvy elders retire and die. Consider the following:

- The Internet began having an effect on mail almost as soon as Americans were on line. Between 1998 and 2002 the number of first class single piece letters dropped from 54.3 billion pieces to 49.3 billion pieces.ⁱ
- These trends have accelerated. All first class single piece mail has continued to decline since 2002. In 2004 the volume of single piece first class letters dropped to 48 billion. In 2005 single piece first class had dropped to 46 billion, the drop continued to 44 billion in 2006, 42 billion in 2007. By 2008 the volume had dropped to 39 billion.ⁱⁱ
- The USPS estimate for 2009 volume is 34 billion pieces of single piece first class mail.
- In spite of declines in mail volume, USPS adds approximately 1.2 million new addresses or delivery points to its operations each year.ⁱⁱⁱ

- The reason for these declines is clear. USPS estimates that there is a diversion of 600 million high margin mail pieces each year to email and electronic payments. For instance, in 2000 79% of U.S. households paid their bills by mail. This number dropped to 74% in 2002, 71% in 2003 and to 63% in 2005.^{iv}

- The volume of checks written in the United States has declined 385 (million?) between 1995 and 2006. In addition checks now comprise only 33% of non-cash payments made by individuals, businesses and government; down from 77% in 1995.^v

- Another indication of declining mail is a decline in the size of the North American paper market. Paper demand was down 5.4% in 2007 (*before* the current recession) making it one of the worst years ever in a market that has been declining since 2001.^{vi}

- As the use of electronic communication has accelerated and the recession deepened the USPS has lost over \$8.1 billion between 2007 – 2008.

- Mail volumes have also suffered from a desire among Americans to reduce the “junk mail” they receive. Spurred on by the success of legislation creating the Do Not Call List and the CAN_SPAM Act, Do Not Mail (DNM) legislation has been introduced in 18 states. This legislation would block

unsolicited mail to households and create a drastic reduction in USPS revenue.

It is therefore no wonder that the Government Accountability Office (GAO) concluded that "... the Postal Service's financial challenges are not a cyclical phenomenon that will fade as the economy recovers."^{vii} In July 2009, GAO placed the post office on its high risk list for the second time in the past decade, stating: "USPS has not been able to cut costs fast enough to offset the accelerated decline in mail volume and revenue..."^{viii} Nor can the post office raise prices. The Postal Act of 2006 mandated that the post office should continue to offer universal service and that it could not raise prices for the majority of its products faster than inflation as measured by the Consumer Price Index, thus preventing USPS from making up for its shortfall through higher prices. While this limitation on prices smacks of political interference it is probably not too far off the mark economically. For instance, first class stamp prices have stayed within the consumer price index for several decades.

Therefore the options for the USPS are no different than they are for any business for whom dramatically raising prices is not an answer – cut costs or find new sources of revenue. USPS costs are considerable – especially its proportion of fixed costs. The nature and scope of the work and the universal service mandate has meant the creation of an enormous workforce. With 630,000 career employees and 94,000 non-career employees it is the federal government's largest civilian agency.^{ix} In addition the post

office operates approximately 36,000 facilities nationwide.^x This enormous infrastructure, consisting of both people and real estate, can no longer be supported by the mail alone. Thus one of the options for the future is to cut the size of that huge infrastructure so that costs are more in line with revenues from mail but USPS lacks the authority to cut labor costs. A second option is to raise more revenues. Given that the core business of the post office has been shrinking and is not likely to return to pre-Internet growth levels, this means looking for new business opportunities. Under this approach the vast infrastructure of the USPS becomes, not a liability, but an asset to be leveraged in the search for new businesses.

In the private sector these two options would be equally feasible to an organization under duress, but in the public sector the second option is often more problematic. Some public sector organizations do evolve and gain new missions. For instance, the Rural Electric Administration was founded in 1935 to bring electricity to rural America. That mission accomplished, the REA lives on, providing a variety of other related services. But by and large government organizations are accustomed to having Congress define their mission. Not only is entrepreneurship foreign to the public sector culture it is often discouraged or severely limited by Congress. As long time student of the USPS, Murray Comarow writes, Congress has chanted the business efficiency mantra for 35 years while making it impossible to comply.^{xi} From a governance structure that impedes effective management to Congressional interference over closing even the smallest offices to worries that USPS might become an effective competitor to private sector enterprises, the second option for USPS – find new business – is as problematic as the first option of cutting costs.

Nonetheless this paper will argue that, before the USPS engages in a full-scale downsizing of its infrastructure, a downsizing that will substantially alter the universal service mandate, it should engage in a systematic year-long search for new business conducted with the full participation of its employees, stakeholders and unions. This exercise should be completed prior to union contract negotiations in 2010 and 2011. It should be conducted with the understanding that unless USPS identifies and designs new sources of revenue with the full support of Congress it will subject itself to base closing type legislation that would allow for substantial reductions in the size of USPS infrastructure according to objective criteria free from political interference.

The paper will begin by examining the European experience; it will then look at the most frequently discussed ways to cut the USPS infrastructure and at some ideas for expanding revenue. It will end by laying out a process designed to explore the entrepreneurial options that might be available and the changes that would have to be made to turn the USPS into a more entrepreneurial enterprise.

II. The European Union Breaks national postal monopolies...

Twelve years ago, the European Union mandated a gradual opening of post markets to competition in its Member States. In 1997 the European Union published Directive 97/67/EC, the Directive on Postal Services, designed to standardize postal delivery among the EU states. It also called for the “liberalization” of postal services across Europe – meaning an eventual end to the nation state’s post office monopoly. In

2008 the European Union announced a plan to eliminate the remaining postal monopolies by member states between 2011 and 2013. At first, the EU limited the postal monopoly in each country to mail under 350 grams or 12 ounces. Liberalization proceeded so quickly in some countries that by 2000, Denmark, Germany, Spain, the Netherlands, Italy, Sweden and Finland had unilaterally adopted measures to allow postal competition in their territories below the required 350 grams.^{xii} Initial enthusiasm was such that representatives of national postal organizations in Sweden, the Netherlands, Germany and Finland in November 2002 lobbied to support proposals for a complete liberalization of the postal sector across Europe. They criticized the European Commission for failing to set a deadline for the lifting of all restrictions on competition.^{xiii} In 2003, the European Commission restricted the postal monopoly to mail under 100 grams or 4 ounces. The EU further curtailed this limit to 50 grams or 2 ounces in 2006.^{xiv} By that year, the United Kingdom, Sweden, Finland and Estonia had lifted all restrictions on postal competition in their countries.^{xv}

While transformation of the postal services in Europe has been extensive it has not been smooth.^{xvi} In country after country postal services closed offices and as they lost their monopoly they were forced to do some painful downsizing resulting in disruptive strikes. For instance, from 1999 to 2002 the Finnish postal operator Finland Post Corporation faced a difficult restructuring process that was prompted by the termination of its partnership with Leonia, the state-owned bank, a partnership that had lasted for 110 years. The announcement of plans for the separation of the bank from the postal services sparked a strike by approximately 1,700 postal workers at 500 offices in 1999. The postal workers' union noted that the move, then projected for 2001, could lead

to job losses for up to 2,000 employees. The agreement between the bank and the post office had enabled customers to receive loans and pay bills at post offices throughout the country.^{xvii} Approximately half of the 25,000 employees at the post offices had worked on banking matters until then.^{xviii}

The French post office, La Poste experienced a number of strikes by workers as it moved to adapt its business models. In September 2004, 320,000 postal employees held a strike to protest against a proposal for restructuring which could lead to the closure of up to half of the 14,000 branches then in operation.^{xix} In January 2005, La Poste terminated free telephone landline and credit card membership fee discounts for pensioners. Approximately 130,000 pensioners responded by threatening to vote no on the May referendum on the constitution of the European Union.^{xx} In September 2008, an estimated 120,000 postal workers held another strike to protest proposals to eliminate jobs and post office branches in preparation for the full repeal of the national postal monopoly.^{xxi}

From 1999 to 2007, Deutsche Post (in Germany) undertook a number of cutbacks and faced strikes in response to these measures. On September 16, 1999, the trade union of the postal carrier called a strike to protest against the announcement that Deutsche Post would shut 2,000 branch offices.^{xxii} In May 2001, after negotiations with union representatives, Deutsche Post officials stated they would cut 8,000 positions in the mail transportation division by 2004.^{xxiii} The following year the postal carrier moved to close 1,000 branch offices and thousands of mail boxes.^{xxiv} Weeks later, workers suspended activities at 5,000 out of the 13,000 remaining branches to protest this announcement. Postal workers at the 8,000 branches located in private businesses and supermarkets, however, did not observe the strike.^{xxv} In 2004, Deutsche Post announced it would shut

600 postal offices by the end of the year and replace them with branches located in private businesses.^{xxvi}

But while transformation of postal services in the European Union has not been smooth the European postal services have experimented, often successfully, with a wide variety of new services, services that have taken them far beyond their own borders and that have transformed them from public sector monopolies to hybrid or fully privatized entrepreneurial organizations. In the Netherlands, for instance, the government run post office was privatized in 1989 – the first of the European nations to do so. In the years since it has become one of the most successful entrepreneurial postal organizations in the world – avoiding, in the process, some of the pain felt in other countries. For instance, in late 2006, TNT revealed plans to eliminate 7,000 positions within the company due to decreased use of mail services from internet use. They predicted that they might need to eliminate as many as 11,000 positions by 2010. TNT then maintained a staff of 92,000 worldwide, including 58,000 in the country, of whom 25,000 were in the delivery services.^{xxvii}

But TNT was able to save jobs by moving aggressively to turn itself into a global industry. For instance, their move into the Asian market was so successful that by the end of 2007 TNT had increased staff positions worldwide to 114,000 mostly from additional recruitment for services in Asia. Sales in the express delivery department increased over 40 percent in Asia during that period.^{xxviii} Moreover, in 2004 TPG launched a business mail delivery service in the United Kingdom. In 2007 it achieved two contracts totaling 150 million pounds with British Gas and BT, the largest bulk

mailer across Britain – a move that did not please Britain’s Royal Mail – to say the least!^{xxix}

For the privatized Dutch postal service expansion into other businesses in other countries over the years has helped to cushion declines in domestic mail. Yet recently even the highly successful TNT announced that they would be laying off 11,000 workers, the largest layoffs in any single corporation in Dutch history.^{xxx}

In 2000 and 2001, Finland Post Corporation launched new services in the areas of electronic communications and business logistics. In February 2001, the organization announced it would introduce Internet terminals for customers in 300 of its branches.^{xxxi} Moreover, in January 2001 the organization started NetPosti, the first digital mailbox service in Europe. NetPosti enabled customers to choose to receive particular types of mail electronically and others on paper and established a link to online banking services. It thrives today, as an electronic internet-based transaction service free to everyone in Finland aged 15 and older. By December 2001, 70,000 customers registered for the service.^{xxxii} By 2002, an additional 60,000 consumers and 100 companies used the service, and by 2007 it was sending 62 million letters annually and was used by 2000 companies.^{xxxiii}

In 2001, the first year without Leonia bank, the operating profit of Finland Post fell by 65% to 32 million Euros. Yet the newly established units for Electronic Messaging Services and Logistics Services grew by 29% and 21%.^{xxxiv} During the first six months of 2002, Finland Post achieved an operating profit of 37.8 million Euros, a 7% increase, based on a turnover of 552.9 million Euros, which stemmed largely from the strength of the Electronic Messaging and Logistics Services.^{xxxv}

With the continued growth, Finland Post managed to protect most of its positions despite the loss of the banking service. Between 1999 and 2002 it cut 2,000 jobs and transferred 1,100 post offices to private businesses. In 2002, it retained 22,809 employees and served as the second largest employer in the country. Employees, however, continued to protest against the changes and in May 1,300 workers went on strike at 300 post offices.^{xxxvi}

In France, from 1999 onwards, the national postal operator La Poste, (300,000 postal workers and operated 17,000 branches,) added a range of new internet and banking services.^{xxxvii} In September 1999, La Poste joined with France TCICcom to introduce an “electronic commerce”^{xxxviii} service which established online sites for orders, payment and delivery. In 2000, La Poste launched an email service with free accounts and terminals in its branch offices. The service enables customers to relay messages through the Internet, telephone and Minitel, a telephone system that accesses the internet through telephones with screens. By 2001, 250,000 citizens opened email accounts through the post office server and by 2002 the network obtained one million users.^{xxxix}

In 2003, La Poste initiated dial up and broadband internet access for a monthly subscription fee.^{xl} The following year La Poste presented an electronic registered letter service that enables customers to upload letters through the postal website which employees print and deliver.^{xli} Also that year La Poste lowered its email and internet rates and reported that 3.6 million customers had registered for these services.^{xlii}

In 2002, La Poste maintained the second largest bank in France and served 28 million customers, however, French law barred the bank from providing mortgages, other forms of credit and home insurance. Officials from La Poste campaigned for permission

to introduce these services and in return agreed to accept a limitation in the postal monopoly to mail below 50 grams. A coalition of banks and insurance groups petitioned the government to bar La Poste from implementing these services. In 2005 the National Assembly passed legislation which authorized La Poste to grant mortgages and insurance.^{xliii} In December 2005, the government approved the plans for the establishment of La Banque Postale, a new banking system of La Poste on 1 January 2006. This move prompted four of the largest banks in the country, Société Générale, BNP Paribas, Banque Populaire and Crédit Agricole to appeal to the European Commission to bar the formation of the postal bank. The latter, however, refused the petition.^{xliv}

The German postal service was completely corporatized in 1994 and over time the German government has reduced its ownership in the company to 31%. The German national postal organization Deutsche Post is the largest in Europe and it operates the Deutsche Postbank and DHL, the international express delivery carrier and largest logistics company in the world. There is no longer a mandate for any one entity to provide universal service. Rather, the German postal regulator is empowered to intervene when the private market fails to deliver to some part of the country. Since 1998 several hundred private operations have come into existence in order to compete in this market.

More comprehensive surveys of the postal experience in other advanced industrial economies can be found but this brief review of a few countries reveals some important lessons. First, while most European postal services have given up their postal monopoly the process has not been without serious disruption and conflict due to the downsizing of the domestic postal infrastructure. While postal workers in the United States are not

allowed to strike as a result of the 1970 postal legislation, the fact is that efforts to downsize the U.S. postal infrastructure have been and will continue to be every bit as contentious as they were in Europe. Second, however, is the fact that many European postal organizations have made the transition to new business models quite successfully. Once out from under government control and ownership, organizations in the Netherlands and Germany, for example, have been quite adept at competing in the international arena. Countries such as Canada, the UK, Italy, France, New Zealand, Sweden and the Netherlands are permitted to conduct mergers and acquisitions and to create subsidiaries and in doing so they have preserved jobs and expanded revenues.^{xlv}

Of course there are many differences between the US situation and that in Europe. The economic unification of Europe forced it to face this large-scale transformation. The creation of a common economic market needed the creation of a European wide framework for postal delivery and this necessitated ending individual country monopolies. That is obviously not the case in the United States. Hence, the challenge for the USPS is to try and come up with a win-win scenario; one in which innovation and entrepreneurial activity occur in a way that minimizes the need to dismantle the postal infrastructure. It is to this that we now turn.

III. Downsizing the Postal Infrastructure; a strategy with limits

Given the need to change, the simplest option for the post office is to cut its infrastructure. Most studies of the USPS emphasize the substantial fixed costs of the operation. The problem, however, is that the fixed costs are part and parcel of the Universal Service Obligation. Decrease the fixed costs too much and you inevitably erode, over time, the capacity to meet the universal service obligation. The President's Commission on the United States Postal Service confronted this reality when it recommended that the Postal Regulatory Commission "...periodically review the scope of the monopoly with an eye toward narrowing it over time, so long as a greater reliance on a thriving private postal marketplace can occur without sacrificing universal, affordable access to essential postal services."^{xlvi} This statement more or less explicitly confirms that one way to meet the current crisis is to simply let the USPS as we know it disappear.

As we saw in Section II this is what has happened, for all practical purposes, in many European Union nations. As national posts downsized under E.U. directives private sector companies entered the market and picked up the pieces. The transformation has come at a cost; in both labor disruptions and in increases in prices to average citizens. But there is still mail service throughout the E.U.

While productivity in any organization can be improved, increased productivity is no longer the answer to the USPS's problems. Over the years USPS has led technological innovation in the areas of bar codes and computer processing. Most mail processing these days is automated. Over the years the USPS has introduced ZIP Codes,

optical scanners and delivery barcode sorters. They have also incorporated the private sector into their basic work. In contrast to individual postal organizations in Europe before liberalization, the USPS has had three decades of experience in using the private sector to enhance postal productivity. Since 1976 USPS has provided “worksharing” opportunities to the private sector. These allow customers to prepare mail, handle mail, and engage in some transportation that would otherwise be performed by the Postal Service. In contrast, in Europe, postal authorities are still struggling to permit “downstream access.”

In the last five years various productivity measures, such as deliveries per work hour, have increased. Using a measure similar to that used by the U.S. Bureau of Labor Statistics to measure productivity growth in the economy, the USPS uses a measure called the Total Factor Productivity measure. This measures outputs and resources to produce an assessment of productivity in postal processing and delivery. In recent years productivity increases have been respectable. According to USPS “TFP has increased consecutively over each of the last eight years, a cumulative improvement of 19.6 percent since 1985.” However the report goes on to state what is the crux of the problem, “In 2008, despite the reduction of 50 million workhours, TFP declined primarily due to volume declines so rapid and so large (4.5 percent) that it was impossible to adjust resources with sufficient speed to maintain positive TFP.”^{xlvii} This view is corroborated by Michael Crew, Director of the Center for Research in Regulated Industries at Rutgers “Productivity [of the USPS] has improved, probably faster than any time in its history. “The problem is, it's not enough.”^{xlviii}

Since productivity increases cannot solve the current problem the most commonly discussed options involve reductions in service such as: reducing the number of delivery days per month by ending Saturday mail delivery; changing service standards; closing post offices and other facilities such as processing plants. The second most commonly discussed options are to raise stamp and other prices to cover the cost of the infrastructure and to provide federal funding to cover USPS debt. Both options are problematic and are likely not to solve the problem but would further contribute to a downwards spiral.

Take, for instance, the idea of cutting the frequency of mail delivery from 6 days to 5 days by getting rid of Saturday delivery. Of all the cuts in service contemplated, the reduction from six day delivery to five day delivery is the option that the public seems to accept the most. In a recent Pew poll 52% of the public said they were willing to accept five day delivery and 14% strongly favored five day delivery as a means of helping the Post Office cope with its losses.^{xlix} In the same poll 66% of the public said that they'd favor reducing the days that the post office is open to five o'clock.¹ Recently the USPS announced that it was looking to close or consolidate 700 post offices and that it was reviewing 3200 out of its over 32,000 post offices nationally, an announcement that has been met with predictable outcries of concerns from citizens who fear their post office might be closed.^{li} While respondents in the Pew Poll were split on the debate about whether to close post offices generally, a majority of those surveyed would be against any plans to shut their local post office. In response to this question, 51% "oppose" and 37% "strongly oppose" such a proposal.^{lii} Office closings are especially difficult for just this reason.

While there is no doubt that cuts in service would save money the key question is – what would it do to volume? Would it decrease volume to such an extent that the revenues lost would exceed the savings gained? Since there is no way of knowing what decreases in service would do to volume, one way to look at this problem is to ask at what point would a volume decrease offset any gains made by fewer delivery days? A study by the Postal Regulatory Commission calculated that an 8.6% decrease in volume would be needed before gains from 5 day delivery would be wiped out, a 17.2% decrease in volume would be needed before gains from a 4 day delivery schedule would be wiped out and a 25.8% decrease in volume would be needed before gains from a 3 day delivery schedule would be wiped out.^{liii} At some point reducing the days on which post offices are open until 5 o'clock and closing offices will also reduce volume since customers will seek alternatives – either electronic or private.

And any cuts in service, even modest ones, are likely to add to the trend away from the mail because cuts in service will be an additional incentive to switch to electronic means of communication for those who do not use it already and it will increase the frequency of use of electronic communications for those who are already communicating online. This will vary, of course, by region. It is realistic to expect that in densely populated areas private companies would fill the void left by USPS withdrawal; in sparsely populated areas there will either be less service altogether or alternatives with very high prices. The irony is that reductions in service will initially save money but will eventually lead to further reductions in volume, accelerating, for instance, the growing movement towards paying bills and conducting other business over the internet. Further reductions in volume will necessitate further cuts in service. This is

why moves to dismantle the legacy infrastructure of the USPS will inevitably erode the core universal service mandate.

A similar problem exists with raising prices so that they fully cover costs. In May 2009, USPS increased the price of first class stamps to \$.44 – the third year in a row that prices went up, a result of the 2006 Postal Accountability and Enhancement Act. The public is not wild about repeated increases in the price of stamps. In the Pew poll cited above increasing the price of stamps was favored by only 38% of the public as a means of solving the USPS crisis.^{liv} The problem with price increases is the same as the problem with service cuts. The more the price increases, the more likely it is to create volume decreases. The same slippery slope exists.

Finally, the USPS could ask Congress for federal funding to cover its deficits. The Postal Reorganization Act of 1970 authorizes a subsidy which the Postal Service has not requested since 1983. But USPS has never requested the subsidy. While Congress is likely to help out with bills such as H.R. 22 which will alter the scheduled USPS payments for funding retiree health benefits, given the large deficits it is already facing, Congress is not likely to want to get into the business of providing subsidies for an organization that has been, until recently, self supporting. Moreover, the public is not supportive of this idea. In response to a question on whether the federal government should provide funds, 9% “strongly favor” and 39% “favor” the idea, whereas 35% “oppose” and 13% “strongly oppose” it. A further 4% held “no opinion” on this debate.^{lv}

IV. An Entrepreneurial Past... and Future?

Downsizing the postal infrastructure is likely to result in a long slow decline in the USPS as we know it. The alternative is to aggressively search for new business opportunities and therefore new sources of revenue. But for more than a century every entrepreneurial impulse of the USPS has been fought by private sector companies who feared the intrusion of the government into their business – even when it has often been a business that would make economic sense for the post office to be in. An interesting essay by Richard Kielbowicz illustrates how, a hundred years ago, the Post Office Department waged successful campaigns to expand into the banking business and into parcel post delivery and how it failed to expand into the telegraph and telephone business. A brief review shows how, as the saying goes, the more things change the more they stay the same.

Richard Kielbowicz, describes how “The financial panic of 1873, which brought the collapse of three leading securities firms and a ten-day closure of the New York Stock Exchange, prompted the postmaster general to recommend a postal savings system.”^{lvi} At the time the idea was intriguing for two reasons. First of all, the United Kingdom and Canada had recently established postal savings banks. Secondly populists, disheartened by Wall Street’s excesses (sound familiar?) argued that a savings system was a logical extension of the post office’s responsibilities and that postal banks would “... encourage thrift among immigrants, the working class, and rural inhabitants.”^{lvii}

Not surprisingly, bankers lobbied aggressively against the establishment of a postal savings system even though its supporters argued that those most likely to use the postal savings institutions would be people, especially Southerners and Westerners, who

lived hundreds of miles away from commercial banks. But these efforts failed until the next panic in 1907 saw the collapse of many more banks and a second wave of distrust in the financial system. At this point President Theodore Roosevelt got behind it and in 1910 Congress enacted the Postal Savings Law. American bankers spent 1 million dollars to block the legislation (more than 22 million dollars at today's prices). While they did not succeed at blocking the law, they did succeed in structuring the legislation so that the new postal savings program would not provide much competition. Interest rates were set at 2% (private banks then were offering twice that much) and Congress set a maximum deposit of \$500.

Nonetheless, the new banks immediately attracted customers from rural areas and immigrants. They flourished during the Great Depression when, once again, Americans lost faith in the banking system. The program ended in 1966 when “the federal insurance of private savings accounts and the nearly universal access to banks had rendered postal savings superfluous.”^{lviii}

A second example of postal entrepreneurship came when the USPS got into the parcel post business. At the turn of the last century, the Post Office Department was forbidden to accept any packages weighing more than four pounds. This prohibition spawned the creation of a series of four large express parcel post companies – Adams, American, United States and Wells Fargo. But these companies took advantage of their uniquely important status and a burgeoning market due primarily to the introduction of catalogues and catalogue sales. Progressive era muck-rakers discovered that the companies regularly cheated their customers; overcharging, sending packages by circuitous routes and colluding between themselves and the railroads to keep costs high.

Although the companies mounted an intense political campaign against “government takeovers” the post office was able to argue to Congress that “A full-fledged parcel post would develop profitable routes that compensated for the unprofitable ones found in any system promising universal service.”^{lix} The Post Office Department was allowed to get into the parcel post business and within a year, the express companies stopped competing in small towns. They consolidated during the first World War but they were, in the end, undercut by the postal presence in their business.

The third entrepreneurial venture of the last century that Kielbowicz writes about was the Post Office Department’s attempt to get into postal telegraph and telephone. It was a natural place for the post office to go – after all the first telegraph line had been built in 1844 with federal funds operated by the Post Office and at the time most other nations “regarded the telegraph and telephone as natural extensions of the state’s mail monopoly and operated them under a postal ministry.”^{lx}

But unlike the banks and express companies of the early twentieth century, the new private sector monolith, AT&T, was ready with a sophisticated campaign against any further expansion of the post office into telecommunications. The plan died in Congress when Democrats who had backed it decided that new powers granted to the ICC to regulate the industry were sufficient. Shortly thereafter, however, the first World War broke out and the federal government nationalized both the railroads and the nation’s wire communications. However, “Because the authorizing legislation required government to pay equitable compensation to the telecommunication companies, Burleson [the Postmaster General] was forced to raise phone rates and institute service

charges.”^{lxi} The public wasn’t pleased. After one year as a government company postal telegraph and telephone was returned to the private sector.

These three stories from a century ago contain important lessons for the twenty first century USPS. In times of economic uncertainty the USPS has certain important assets – among them public trust. While it is unlikely that USPS will attempt to get back into the banking business, its successful half-century in that business was built on public trust and on the ubiquity of its presence in every American community no matter how remote. Second, the USPS can in fact put private sector companies out of business. The early express companies had not behaved very honestly in the market place therefore no one missed them much when they were gone; but the story is not necessarily the same for their modern counterparts. Thus fears from the private sector that USPS will take over an industry segment it enters are justified and need to be taken seriously. And finally, the decision to keep USPS out of the embryonic telecommunications business kept the USPS from defining itself more broadly as a communications arm of the federal government.

The USPS has had an entrepreneurial past. It need not be destined to simply wither on the vine. Business schools teach that most successful businesses grow from their core – meaning that they recognize how to take advantage of their core strengths. Until now the legacy infrastructure of the USPS has been seen as the primary obstacle to its future solvency. But what if we look at that infrastructure as creating a competitive advantage for the post office in the future? USPS has significant advantages that, under the right circumstances, could be leveraged into new sources of revenue. For instance:

- USPS enjoys high levels of **trust** among the American public, higher than any other government agency.
- It has an infrastructure that is unparalleled in America, with **real estate** everywhere in the country including the very most rural outposts.
- And it has a **network** capable of last mile delivery all over the country.

Public Trust

According to public opinion polls, respondents have consistently given favorable ratings of the U.S. Postal Service. In a 1987 survey of 1,997 individuals by the Roper Organization, 57% of respondents responded that they had received “good service” and 16% noted they had received “excellent service” at the post office. By contrast, only 20% responded that the service was “fair” and 6% depicted the service as “poor.”^{lxii} Over a decade later in a survey by the Associated Press in January 1999, 50% of respondents among a sample of 1,015 cited the performance of the U.S. Postal Service as “good” and 22% characterized it as “excellent.” Only 21% described it as “fair” and 7% complained it was “poor.”^{lxiii} Moreover, the majority of respondents in this survey felt that the quality of the service had remained steady between 1994 and 1999, with 60% noting it was “about the same” and 29% responding it had become “better.” Only 9% of respondents felt the service had become “worse” over this period and another 2% replied they “don’t know.”^{lxiv}

The USPS consistently ranks at the top of federal agencies in terms of trust. A survey done by Roper found that the Postal Service has an 81% favorable rating with nearly half of its ratings “highly favorable” – making it the most popular agency in the

federal government.^{lxv} Another survey, the Ponemon Institute's privacy trust study of the United States Government, found that the Post Service earned a score of 86% and was ranked by U.S. consumers as the most trusted government organization for privacy, a rank held since the study began in 2005.^{lxvi}

In a recent Gallup poll in June 2009, the vast majority of respondents argued that it was critical for the Postal Service to remain in business. In response to this question, 76% noted this was "very important" and 19% said it was "somewhat important." Only 4% noted it was "not too important" and 1% said it was "not important at all" for the Postal Service to continue operating.^{lxvii}

Trust is a valuable commodity in the business world; companies that make shoddy and/or dangerous products quickly discover that they lose the public's trust. The American public's trust in the privacy of the post office could turn out to be a valuable asset. Take, for instance, Americans' experience with the Internet. So far it has been a mostly benign experience. But identity theft is on the rise. One FTC (Federal Trade Commission) study found that one in eight Americans in the past five years has been affected by internet identity theft. Month by month the public is becoming aware of elaborate scams like "spoofing" and "phishing" which are often used to steal information. And recent security breaches at places like Choice Point, Bank of America and LexisNexis have made big news. According to the Department of Homeland Security, the loss or theft of personal online data soared 300% in 2007 to 79 million records. The computer systems of financial institutions are under constant attack for the same reason that Willie Sutton robbed banks – that's where the money is. While financial institutions

work hard to close the holes in their systems the attacks are constant and the ability of thieves to intercept sensitive financial transactions can be expected to improve over time.

Identity theft is America's fastest growing crime. In a speech from former Department of Homeland Security Secretary Michael Chertoff, he mused that the USPS was ideally situated to take part in the evolution of the government's role in validating identity. He points out that the Post office is already the primary issuer of passports – an extremely important piece of personal identity. In the speech he expands on that model as follows: “one of the things I hope to see is, as the Post Office re-engineers itself over the next, you know, few years, they increasingly look at whether they can be in the business of servicing identity management. They can – because every town has a post office.”^{lxviii}

Given this situation one direction USPS could look in for expanding its revenues would be to turn its attention to ways that it can leverage its high trust and reputation for privacy. For instance, there may eventually be a market for secure computer networks (akin to the closed networks the military uses such as SIPRANET) for the purpose of interacting with the government in sensitive personal transactions such as filing income taxes or legal documents.

Other postal services have begun to offer what is referred to as “hybrid mail,” the combination of electronic and paper processing. Australia Post offers a service where it prints a customer's document, folds it envelopes it and dispatches it. Royal Mail is doing the same. Fed Ex office offers a local printing service. The USPS should look for opportunities to provide similar services to the public – particularly around sensitive documents.

Finally, customization and personalization are key to the economy of an information society. For instance, PictureItPostage (<http://www.usps.com/postagesolutions/pictureitpostage.htm>) allows you to customize your stamps by putting photos on them. Not many people know about this because not many young people mail things. But young people customize their phones, their Facebook pages and their clothes so it is only natural that they should want to customize their stamps.

Real Estate as a Strength - One Stop Shops for Government

The legacy infrastructure of the USPS means that it has offices all over the country. Closing post offices requires an arduous legal process. By law post offices cannot be “closed solely for operating at a deficit.”^{xix} And even if it were not for the law, closing post offices is always politically controversial. While no such law governs processing facilities, closing these are also usually met with political resistance.

In recent years the USPS has been making every effort to increase services at their offices and to include at post offices as many ancillary mail services as possible – such as selling packing material and packing things for customers. By partnering with an independent company Card Store, the USPS now offers cardstore.com a service whereby someone can design a card on line and the post office then mails it and stamps it. But while expansion of services around the mail can probably be increased, it is not likely to make up for the coming large drops in mail – thus more creative uses need to be found for the existing real estate.

The postal real estate is usually seen as a problem. It could, however, turn out to be an advantage. Some years ago the Social Security Administration made the transition from serving seniors at their offices around the country to serving seniors over the telephone. They soon learned what many people who work on the front lines of American government have learned. The public does not distinguish very clearly between local, state and national governments. Government is simply government to them. What the social security operators found is that they were being asked questions not just about retirement benefits but they were being asked about housing programs and all sorts of other governmental programs that were not run by the Social Security Administration.^{lxx}

Even though the operators were under pressure to make certain performance goals management decided that the operators should spend some time simply helping the elderly people who called in – some after all, simply wanted someone to talk to. It is no wonder that year after year the Social Security Administration gets consistently high customer service evaluations.^{lxxi}

The insight that the public perceives all branches of government as one is behind a concept known as the one stop shop. This idea has been around for several decades. The point is to put all the different bureaucracies that a person would need to say – start a business – or get housing and food assistance – in one place. It has operated successfully around the world.

No governmental organization is better situated to be the one stop shop for government at all levels than the U.S. Postal Service. It started down this road in 1972 when local post offices started offering passport services. Issuing passports is the only

customer type interaction that the State Department engages in. The State Department obviously does not have a domestic network of offices capable of serving the public. So the State Department now authorizes Acceptance Agents at post offices around the country (and also at some libraries and state and local government offices.) Although these agents do not issue passports, they can verify identity and submit the application to the State Department. Recently some post offices have added a service so that applicants can have their passport photo taken at a post office.

The USPS should explore, with other government agencies, local, state or federal, how they can help them in their mission by the fact that they have such an extensive network of valuable real estate. It does not even need to be the same in every post office. But the fact is that the USPS real estate could be turned into an invaluable resource for the provision of all kinds of government services; from buying a state fishing license to renewing a car registration to applying for Medicare.

The fact is that even in the Internet age – real estate is valuable. If it weren't DHL would not have entered into an agreement with Walgreens to handle shipping from its 6,158 stores, nor would Fed Ex have acquired Kinko's in order to give it more store fronts. The value of looking for more opportunities to use USPS real estate for other governmental purposes is that this is a potential new source of revenue for the post office that *would not* compete with the private sector but that could expand the outreach to citizens of government organizations too strapped to serve the public in their own store fronts.

Finally, government, unlike the private sector, cannot simply decide to exist only on-line. It needs to be able to serve people who are unbanked, and people who cannot,

for whatever reason (age, economic status), use the internet. As more and more government transactions move to the internet, all sorts of government organizations, local, state and federal, will need *less* real estate but they will still need *some* real estate. And no public sector organization has the reach in real estate that the USPS has.

The postal network and the possibility of last mile delivery

Under the universal service obligation, the USPS has built a system that delivers to every address in the United States. These addresses have kept increasing even as the mail itself has decreased. As with postal real estate, the extent of the delivery networks is usually seen as a problem. Instead USPS should try to look at it as an advantage. The letter carriers are the ones who are best able to see what citizens need and they should be enlisted to look for opportunities to expand the uses of the existing delivery system.

As the country becomes more environmentally conscious and tries to cut down on its carbon footprint, multiple trucks, from Fed-Ex to UPS to USPS delivering packages to the same street create a large carbon footprint and an obvious environmental problem. Thus USPS may want to consider arrangements whereby they become the “last mile” delivery source for other delivery services. There are already joint endeavors at some post offices, where Fed Ex has drop off boxes. USPS should explore the possibility of becoming the “last mile” deliverer for a range of products and delivery services. The people best able to explore this option are the letter carriers themselves. And there is precedent for this kind of employee participation through the “submit a lead” and “customer connect” programs.

Will Congress let the USPS Compete?

Making the USPS into an entrepreneurial organization that attempts to increase revenue by leveraging its core competencies is a tall order. It involves a cultural shift on the part of employees that are accustomed to working in a public sector organization. However, that cultural shift is not as daunting as it would be in most other government organizations – after all the USPS has been in competition with private sector deliverers for some decades now.

The more serious obstacle to an entrepreneurial USPS is the plethora of legal obstacles that they would have to overturn in order to be allowed to compete. Consider for instance, the fact that in order to *test* a new product, the USPS has to first receive PRC (Postal Regulatory Commission) approval. Under Subchapter III, Section 3641 of the 2006 Postal Accountability and Enhancement Act, the USPS is constrained in what they can test. For instance:

“MARKET DISRUPTION- The introduction or continued offering of the product will not create an unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer, particularly in regard to small business concerns (as defined under subsection (h)).”

“DOLLAR-AMOUNT LIMITATION- (1) IN GENERAL- A product may only be tested under this section if the total revenues that are anticipated, or in fact received, by the Postal Service from such product do not exceed \$10,000,000 in any

year, subject to paragraph (2) and subsection (g). In carrying out the preceding sentence, the Postal Regulatory Commission may limit the amount of revenues the Postal Service may obtain from any particular geographic market as necessary to prevent market disruption (as defined under subsection (b)(2)).

`(2) EXEMPTION AUTHORITY- The Postal Regulatory Commission may, upon written application of the Postal Service, exempt the market test from the limit in paragraph (1) if the total revenues that are anticipated, or in fact received, by the Postal Service from such product do not exceed \$50,000,000 in any year, subject to subsection (g). In reviewing an application under this paragraph, the Postal Regulatory Commission shall approve such application if it determines that--

`(A) the product is likely to benefit the public and meet an expected demand;

`(B) the product is likely to contribute to the financial stability of the Postal Service; and

`(C) the product is not likely to result in unfair or otherwise inappropriate competition.”

Note the inherent contradiction in the law. A new product should “contribute to the financial stability of the Postal Service” and yet, with deficits running into the billions the USPS can only test products expected to bring in \$10,000,000 per year!

The contradiction in the law is part of a pattern in effect ever since the USPS stopped receiving appropriations – Congress wants it to be self-sufficient but doesn't want it to make money. For example, in the mid-1970s the post office was told to remove copy machines from post offices under pressure from lobbyists representing office equipment stores who feared that USPS was taking away its business. Later when the USPS initiated a "Pack and Send" service, the outcry from Mailboxes Etc. and other private packing stores successfully challenged the service. Years later, when Internet shopping took off, the delivery of packages to individual households should have resulted in a dramatic increase in USPS business. But parcel shipments were generated by large organizations and the USPS was not allowed to negotiate discounts and thus lost business. It was forbidden *by law* from lowering prices to get more business. This resulted in the entirely incredible situation in the 1990s where the United States Government negotiated an agreement for the delivery of U.S. government package services with Fed Ex because the USPS was not allowed to negotiate for lower prices!

In addition to the explicit road blocks to competition in the law, the USPS is also saddled with a governance structure that seems at times, perfectly designed to stifle innovation. The Postal Rate Commission was established as an independent agency by the Postal Reorganization Act of 1970 to oversee the work of the Postal Service. From its inception the Commission held public hearings regarding a range of service issues, from proposed changes to the postal rate and other recommendations to the Postal Governors.^{lxxii} The Postal Accountability and Enhancement Act, which was enacted on 20 December 2006, changed the name to the Postal Regulatory Commission. This

legislation increased the capacity of the Commission to intervene regarding decisions on postal rates. In addition, it authorized the Postal Regulatory Commission to establish new mechanisms and reporting procedures to help monitor the finances and services of the postal office.^{lxxiii} The legislation mandates that the USPS submit annual reports to the Postal Regulatory Commission on its finances.^{lxxiv} It introduced measures to enable the Postal Regulatory Commission to expedite decisions on proposed postage rate increases.^{lxxv}

The Commission comprises five Commissioners who are appointed by the President, approved by the Senate and serve six-year terms. These terms may be extended for up to one additional year or longer when there has been a delay in appointing a successor. Up to three Commissioners may belong to the same political party. It is essentially a political body. In addition, the Commission maintains a staff with training in law, economics, finance, statistics and accounting. The Commission runs four divisions, the Office of Accountability and Compliance, the Office of General Counsel, the Office of Public Affairs & Government Relations, the Office of Secretary & Administration and the Office of Inspector General. The Office of Accountability and Compliance provides analysis on domestic and international issues, including postage rates and proposals to close post office. The Office of General Counsel provides legal advice and handles formal complaints. The Office of Public Affairs & Government Relations issues statements to the media and liaises with representatives of Congress, federal agencies, and the Postal Service. The Office of Secretary & Administration maintains official records and the Office of Inspector General undertakes investigations

of any programs of the Commission.^{lxxvi} Thus it is a political body with the bureaucratic capacity to micro-manage.

Which it does. Although the Postal Regulatory Commission frequently has intervened to block a variety of initiatives and proposals for postage rate increases by the U.S. Postal Service – thus presumably serving the public interest function of the USP, it also acts as another bureaucratic layer impeding innovation. For instance, the USPS has to gain permission from the PRC to conduct a *study* – not to change a system or introduce a new product but simply to conduct a study. For example, the Postal Service filed for permission to develop separate cost avoidance estimates for destination entry discounts for Standard Mail. In other words, the Postal Service had to file for permission to improve and expand upon the data it provides!^{lxxvii} No entrepreneurial organization could be successful in a rapidly changing economy with such a governance structure.

V. Creating the grand bargain – a methodology

The USPS is at a crossroads. Money saving steps to dismantle its extensive infrastructure are likely to result in further reductions in mail volume which is likely to result in the need for further dismantlement of USPS infrastructure. So before it goes down this path, USPS should invest in a two simultaneous exercises.

The first should be to develop a plan for the privatization of the USPS – by which I mean a systematic plan to place all or most USPS functions in the private sector. The new entities created would be placed under a new regulatory authority empowered to take

steps to make sure that plans, including subsidies, were available for those areas of the country (mostly remote) that it would be left out or underserved in a fully privatized mail system. This plan would attempt to learn from Europe, which, as we've seen, has largely replaced national postal monopolies with a patchwork of hybrid public and private organizations regulated by national governments.

A second and simultaneous undertaking would be to conduct an entrepreneurial exercise involving all USPS employees – especially letter carriers and those who work on the front lines with the public in post offices – to ascertain if there are areas where the USPS can expand revenues sufficient to make up for the decrease in mail volume. To do this the statutory prohibition on testing new products would have to be lifted. Having accomplished that, USPS should create a series of teams – mostly consisting of USPS employees (consultants should only be used to help facilitate the work) and give these teams a year to explore options for raising revenue. Following are examples of what some of those teams would look like. For instance:

- A team could be asked to explore new services and the expansion of services related to the mail such as packing, greeting cards, personalized stamps, etc.

- A team could be tasked to explore the concept of secure Internet communications and electronic identity authentication with an eye towards leveraging the USPS reputation for and experience with privacy.

- A team could be tasked to comb the federal government for services akin to the passport service that could be offered at post offices in order to turn local post offices into store fronts and one stop shops for a variety of government services.

- A team could be tasked to explore opportunities for partnering with state and local governments in the use of USPS real estate.

- A team could be tasked to explore potential partnerships with private sector carriers that could have the effect of reducing the overall carbon footprint of the mail and package delivery system.

As teams identify opportunities they should be required to submit them to “design labs” in an effort to further assess their feasibility and their potential for profit.

At the end of this process *both* reports should be presented to Congress simultaneously. Congress would then have before it two distinct plans. (Hopefully, by the time these proposals are complete, the current recession will be ending and this discussion can take place in the context of the long term structural changes affecting the USPS.) On the one hand, Congress could decide to privatize USPS thereby re-inventing what it means to have universal mail service in the United States, much as has been done in Europe. On the other hand, Congress could decide to allow the USPS to pursue entrepreneurial options under a statutory and governance structure more suited to

entrepreneurism and innovation than the current system. And, of course, there are many options in between privatization and making more revenues. For instance, Congress could decide that entrepreneurial activities should be limited to only those installations that do not make enough money doing USPS business to cover their costs.

The USPS exists right now in a never never land. It is not fully public and it is not fully private. It is supposed to compete and innovate but it is stifled by law and saddled with a governance structure that impedes innovation. It is time to decide its future.

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