



Fundamental Questions for the Future of the Postal Service

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Fundamental Questions for the Future of the Postal Service

Introduction

The U.S. Postal Service is facing a set of critically important decisions. The combined effects of the economic downturn, the disruptive consequences of electronic diversion, and a burdensome and flawed retiree health care prefunding schedule have contributed to \$20 billion of losses in the past 4 years. The Postal Service expects that it will not have enough cash to meet its payment obligations in 2011.

Less urgently, but of more importance in the long term, communications and parcel delivery have undergone radical transformation in recent years, yet the Postal Service has not modernized or been permitted to update important aspects of its mission to reflect the impact of globalization and the digital age. Instead, the Postal Service has been required to stand still in the middle of a revolution in the access and use of information.

In this emerging environment, neither the Postal Service's traditional functions nor digital age infrastructures offer perfect solutions to Americans' needs. Both information services and physical delivery are important, and determining the right course for the Postal Service's next 10 or 20 years is difficult. Nevertheless, decisions about the Postal Service's future will be required very soon, and debates have yielded few definitive conclusions.

We believe there is a need to step back from the immediate issues and take a deeper look at unanswered foundational questions concerning the role of the Postal Service. The answers to these questions can serve as beacons to navigate into the future. The Postal Service faces an array of conflicting and even contradictory mandates. Without a solid foundation to guide the transformation of the postal system, there is a risk of further piecemeal changes that will simply add to the confusion.

This paper poses eight fundamental questions that we believe are critical for determining the role of the Postal Service in the 21st century. We discuss some alternatives for responding to these questions, but we purposefully do not suggest answers. There are many possible answers. Policymakers, especially elected officials representing Americans, should engage in a disciplined, deliberative process to reach decisions about these foundational issues. The questions and some alternatives appear in Table 1. Clear and decisive responses to these fundamental questions are needed to develop a coherent, consistent postal policy for the present and the future. A failure to reach agreement will frustrate efforts to find a long-term strategy for the Postal Service. Any plan will lack the stability of consensus and fall prey to the same endless historical debates.

Table 1: Questions and Possible Alternatives

Question	Possible Alternatives		
1. What is the nation's essential need for the Postal Service in the 21 st century?	Mission Confined to Paper Communications	Mission Expanded to Accommodate Globalization and the Digital Age	
2. Is a profit-driven business or a national infrastructure best suited to carry out the Postal Service's mission?	National Infrastructure		Profit-Driven Business
3. How should the nation's Postal Service be financed?	Self-Financed	Supported by Appropriations	Supported by Universal Service Fund
4. What is the proper governance model for the Postal Service?	Government Entity with Board of Governors and Regulator	Government Department	Privatized Company with Board of Directors
5. What does the universal service obligation mean?	No Explicit Definition of Service Obligation		Explicit Definition of Service Obligation
6. Does monopoly-financed universal service assist or harm the Postal Service?	Assists		Harms
7. Should the Postal Service be allowed to expand into nonpostal services to supplement monopoly shortfall?	No Expansion of Services	Expanded Services but Only to Finance Unprofitable Post Offices	Expanded Services and Unfettered Competition
8. Should the Postal Service have additional social responsibilities beyond its core mission?	Incubation of New Transportation Technologies	Support of Rural Areas	Provision of Middle-Class Jobs

These questions cannot be answered in isolation. Each is best considered in relationship to others. For example, an answer to whether the Postal Service should be organized as a profit-maximizing business or a national infrastructure will be influenced by decisions on the Postal Service's universal service obligation, social responsibilities, and optimal role in the digital age. In turn, the nature of the Postal Service's mission will influence its governance model, financing method, and placement in the competitive marketplace. Finding a consensus among stakeholders and policymakers on the answers to these questions will not be an easy process, but if agreement is reached on the role of the Postal Service, developing a business model that will place the Postal Service on a sustainable path to provide vital services to the American people in the 21st century will be possible.

Fundamental Questions

1. *What is the Nation's Essential Need for the Postal Service in the 21st Century?*

What national infrastructure will the nation and its citizens need for communications and parcel delivery in the future? Determining the scope of the Postal Service's mission in the 21st century is crucial for answering the other fundamental questions. Should the Postal Service's mission remain confined to paper communications and parcels or should it update its mission to address the needs and shortcomings of globalization and the digital age — to bind the nation together in the 21st century as it has done in earlier centuries?

By statute, the Postal Service has “as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people.”¹ As the way we communicate is transformed, how should binding the nation together be interpreted? Is the Postal Service's traditional mission adequate given the changing nature of communications? Or should the Postal Service's role be to span the digital divide by offering services that facilitate private, confidential, and secure forms of communication as well as a safe and dependable economic platform? Such services could include

- Providing a safety net for those who have been or are about to be left behind as the digital revolution progresses;
- Addressing the shortcomings and unintended consequences of globalization and the digital age;
- Facilitating the symbiotic relationship between physical and digital communications and addresses;
- Addressing the emerging confidentiality and privacy problems of digital communications and information storage, and
- Providing a secure platform for financial transactions not currently possible on the Internet.

For example, the Postal Service already offers money orders as a safe and dependable alternative for the unbanked and those who cannot qualify for a credit card. Should it also offer the sale and redemption of digital currency instruments to assist the rapidly expanding number of people who receive their salary or benefits on cash cards and are subject to exploitation because of predatory fees and limited cashing locations?

Throughout its history the U.S. Post Office's mission has changed in response to changing circumstances. At the founding of the United States, it was sufficient to transport mail from town to town. Delivery to individual households emerged much later as an important postal function — first in cities and then in rural areas. Rural delivery

¹ 39 U.S.C. § 101(a).

freed farmers and other country residents from having to drive to town for news and correspondence. Parcel Post was initiated because rural areas needed more reasonably-priced access to the delivery of goods. When the telephone made same-day delivery of business correspondence less important, the number of daily business deliveries was reduced. Now, however, the Postal Service faces constraints on its ability to change.

The Postal Accountability and Enhancement Act provided a definition of postal services limited to the delivery of mail and packages and related services.² Halting modernization by freezing a program in time like an insect encased in amber represents an unprecedented ban for any government department or corporation. There are regular calls to modernize the federal government, but the Postal Service is forbidden from updating much of its mission. Should the definition of postal services remain static or is there a need to reimagine it?

² “[P]ostal service’ refers to the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto” 39 U.S.C. § 102(5).

2. *Is a Profit-Driven Business or a National Infrastructure Best Suited to Carry Out the Postal Service's Mission?*

What's the best structure for the Postal Service — a business that generates profits and forges alliances as needed with useful partners and customers or a national public infrastructure mandated to provide neutral services for users? Ultimately, the question of business or national infrastructure depends on the nation's purpose for the Postal Service. Will the Postal Service carry out its 21st century mission more effectively if its first responsibility is to maximize profits? Or is it better that the Postal Service see its first responsibility as serving the nation by maintaining the infrastructure that facilitates the nation's communications and commerce without any bias toward preferred customers?

Businesses can be extremely creative to ensure their survival, capable of jettisoning failing product lines and transforming their entire operations around new areas of opportunity. This innovation can bring great benefits, but a business is also focused on the bottom line and naturally puts its own self-interest above the common good. It may decide that, in a period of declining mail volume, it cannot afford to deliver as frequently as it does currently or that it should deliver only to lucrative locations and limit service to poor and remote areas. It may even move out of mail delivery into other business areas. If the Postal Service is a business, setting out explicit requirements for the level of universal service the Postal Service must provide would be important to ensure adequate service.

A business will form strategic alliances with major customers while perhaps providing less attention to regular citizens who generate less profit. It may provide privileged access to some customers based on their size and will not necessarily offer neutral treatment to all traffic. It will be more concerned about the interests of senders who pay than in the interests of recipients.

A business will also not maintain facilities, plants, and services beyond those needed to carry out its optimal operations unless required. What happens to these network resources if a business-oriented Postal Service determines that although they may be needed for the nation's infrastructure, they do not generate enough return to pay for themselves? Should maintaining these cost centers be a requirement of the universal service obligation? Should the government subsidize them to cover losses in an age when monopoly revenues no longer cover costs? Policymakers through history have believed that a certain level of infrastructure should be maintained regardless of profitability in order to bind the nation and bridge divisive gaps such as differences in income, age, and geography.

If the Postal Service is focused primarily on maintaining and updating a public infrastructure, it may have fewer incentives toward innovation than a profit-oriented business. Instead, it will concentrate on maintaining its network and providing access to all customers regardless of size. It will remedy gaps and fill holes in existing service systems to ensure the broadest access possible. Universal service obligations would be better protected, but ensuring an effective level of innovation would be an increased

concern. Both policymakers and Postal Service leadership would likely want to encourage regular reassessments of the infrastructure needed to respond to the nation's demographic changes and other needs, particularly in a period of technological transformation.

A decision on whether the Postal Service is a business or an infrastructure is at the foundation of deciding how the Postal Service should be financed and governed. It also sets the stage for determining the Postal Service's responsibilities to its customers, relation to competitors, and obligations to society.

3. How Should the Nation's Postal Service Be Financed?

Today, monopoly revenue no longer sustains the postal system. Who should pay for the collection, processing, and delivery of mail, the nation's address system, the management of delivery points, and other postal costs? Self-sustainability was a principle of the Postal Reorganization Act of 1970, and until recently, the Postal Service was able to support itself with the revenue from its operations.³ While efficiencies and optimization could help improve the Postal Service's financial sustainability, the question of whether self-funding should be an important principle remains. Should the policy goal be for the Postal Service to remain essentially self-financed even if it means price increases or service reductions? Or should the government pay for the national infrastructure aspects of the Postal Service such as delivering mail in unprofitable areas or maintaining the national address system? Other options include

- Providing limited taxpayer support solely for specific universal service activities;
- Requiring delivery companies that do not otherwise provide universal service to contribute to a universal service fund as a condition of business, or
- Creating a universal service fund through public user fees as in the telecommunications industry.

If policymakers decide that the Postal Service should continue to be funded solely by revenue from mailers, then a business model, network structure, and pricing policy can be chosen to meet that goal. The Postal Service has substantial fixed costs. If it is determined that the Postal Service should support itself and mail volume continues to decline, the Postal Service will likely have to increase prices above inflation, expand into other business areas, or reduce service in a way that cuts fixed costs.⁴

If policymakers instead require the Postal Service to offer a level of service that cannot be supported by postal revenue, they should determine how and to what degree to compensate the Postal Service either through appropriations or from a universal service fund financed by other delivery companies or public fees. Taxpayer support is not unprecedented. The Post Office Department had a significant percentage of its operating expenses funded by taxpayers for most of its long history. As late as 1971, more than 25 percent of postal expenses were funded by appropriations. Support could be directed to funding universal service activities such as

- Providing safety net access to particularly inaccessible or unprofitable areas;
- Keeping open Post Offices that do not bring in enough revenue to cover their costs but are needed to assure reasonable access;

³ In fact, the Postal Service even contributed to the U.S. Treasury through excessive pension contributions that have been partially returned. Policymakers could reasonably decide that the Postal Service should make some contribution to its owner beyond funding its own operations. Such a decision, however, should be made explicitly rather than through mandated overpayments for federal benefits.

⁴ For an analysis of the implications of fixed costs on the Postal Service, see the study by George Mason University School of Public Policy published by the U.S. Postal Service Office of Inspector General, *Implications of Declining Mail Volumes for the Financial Sustainability of the Postal Service*, Report No. RARC-WP-10-006, September 29, 2010, http://www.uspsig.gov/foia_files/RARC-WP-10-006.pdf.

- Offering public infrastructure services like address and delivery point management;
- Forging links between the government and its citizens through counter services, call centers, and e-government Internet portals, and
- Providing services to the lengthening tail of those who are being left behind as globalization and the digital revolution progress.

The federal government should also take responsibility for constraints that hamper the Postal Service's ability to operate efficiently such as pressure to keep unneeded Post Offices and mail processing facilities open. Whenever Congressional action equated to increased costs, appropriations could be required as with other government programs.

Unless a specific determination is made about how the Postal Service should be funded, there is a danger that the Postal Service's current cost and regulatory structure will cause it to drift from self-sustainability into a situation in which either government support or collapse is inevitable. If the Postal Service continues to lose money, there may be pressure for Congress to raise the debt limit continually. Ultimately, the Postal Service could amass a debt to the federal government that it would not be able to pay back. The Postal Service's financial situation and accumulated debt require a timely policy decision on this question.

4. What Is the Proper Governance Model for the Postal Service?

What type of governance structure is appropriate for the Postal Service? The question of whether the Postal Service should be a business or an infrastructure will greatly influence its governance model. If the Postal Service is a business, a corporate board structure might be a preferred model. For a national infrastructure, maintaining governmental accountability and a level playing field for customers is essential. In this case, a governmental model like the current structure or that of a government department might be preferable.

The Postal Service's current governance model has often contained contradictions. The Postal Service is a government corporation with a mandate and mission to provide universal services financed by a monopoly including the nation's address and delivery point management systems. Like a private sector corporation, it has a Board, yet the Board of Governors is not charged to represent shareholders interested in the Postal Service's profitability. Instead, the Governors "represent the public interest generally."⁵ In fact, the Postal Service has no residual claimants like shareholders to benefit from profitability, so there is little incentive for the Postal Service to seek profitability at the expense of its mission. Yet, like a private sector utility, the Postal Service also has a regulator, the Postal Regulatory Commission (PRC), to protect customers and competitors. The authority of the PRC is limited solely to the Postal Service and does not include other participants in the delivery market. Most regulators regulate an entire industry.⁶ In addition, the Postal Service is accountable to Congress and, like a typical federal agency, has an Inspector General, and is subject to review by the Government Accountability Office. Without bright lines between the respective roles, there is overlapping oversight that ultimately creates drag on efficiency and makes the Postal Service vulnerable to contradictory mandates from overseers.

There are many possible ways to structure the Postal Service. In a report on its future business model,⁷ the Postal Service suggested five options:

- (1) Keeping its current structure but adding more autonomy and flexibility to control costs and raise revenues such as the ability to offer new nonpostal products;
- (2) Becoming a government agency supported by appropriations;
- (3) Becoming a government-owned delivery network — mail processing and transportation would be privatized, although retail could be retained;
- (4) Staying government-owned but liberalizing to act much more like a business, and
- (5) Becoming privatized.

⁵ 39 U.S.C. § 202(a)(1).

⁶ The phenomenon of a government agency assigned to provide some form of oversight or advice to another government agency is not unusual, but the Postal Regulatory Commission is the only federal agency assigned solely to regulate another federal establishment.

⁷ U.S. Postal Service, *Assessment of U.S. Postal Service Future Business Model*, November 2009, http://www.usps.com/postallaw/pdf/USPS_FutureBusinessModelPaperForGAO_Final.pdf, pp. 30-6.

Each of these structures would require a different form of oversight and would affect decisions on the extent of the universal service obligation, the level of the monopoly, the ways prices are set and workers are hired, and the dominant way of relating to customers — advantageous alliances with economically powerful customers or a focus on unbiased and equal services to all users.

The migration towards privatization and liberalization has become common in other countries, although the enthusiasm for liberalization has cooled in the aftermath of the recession.⁸ It is uncertain how much public appetite for privatization exists in the United States. If the Postal Service were privatized, the Board of Governors would act more in the manner of a corporate-style board of directors selected to maximize shareholder profit and focused on the well-being of the Postal Service institution rather than maximizing services to citizens. Private sector labor law might apply with strikes and lockouts permitted. Managers would face new demands to ensure profitability. For an organization oriented towards public service, the cultural change could be dramatic. It would also be hard to reverse. Once a privatized company eliminated certain infrastructure, bringing it back would be difficult and costly.

As an appropriations-supported federal agency, the Postal Service would likely be managed under the executive branch and overseen by a Congress restrained by the limits of appropriations. For federal agencies, there are checks and balances between White House leadership and Congressional oversight. In the Postal Service's present operations, the White House does not play the traditional role of balancing Congressional actions. How would executive support and oversight change? Would a regulator be needed any longer, since it is the role of government to care for its citizens? In such a structure, the Postal Service might lose some of the unique exemptions from federal rules that allow it to operate in a more businesslike manner such as the ability to contract outside of the federal procurement process. Postal unions might lose their unique bargaining rights.

If the Postal Service were liberalized and given more freedom to act like a business, the oversight structure would be altered. The Postal Service would likely be permitted to expand into new business areas, but some of the Postal Service's monopoly privileges might be reduced.

⁸ Privatization refers to the ownership of the post. Liberalization refers to how much competition is permitted for postal activities.

5. *What Does the Universal Service Obligation Mean?*

What are the requirements of the universal service obligation? Another way to ask this question is: What is the basic level of service policymakers will accept for citizens? One of the reasons commonly provided to support the existence of the postal monopoly is to fund universal service, but monopoly revenues are now unable to pay for the postal network. If the Postal Service is not capable of sustaining what policymakers consider a minimum necessary level of service through its business model, then service and access levels need to be re-examined and additional sources of revenue devised.

The Postal Service's universal service obligation has traditionally been expressed only in general terms.⁹ It is usually understood to include the collection and delivery of mail across the country at a reasonable price, retail service in rural and other unprofitable areas, and services such as address management. There are advantages to not shackling the Postal Service with specific requirements. It makes it easier to adjust the level of service in response to changing conditions.¹⁰ Yet, without knowing the minimum level of service that is acceptable, it is difficult to determine under what circumstances intervention would be necessary. For example, delivery to the door is customary in many places, but it is not universal and may come to be viewed as a premium form of delivery service since cluster boxes are increasingly common. Explicitly determining the minimum required level of service helps set a lower bound to the size of the Postal Service. It also helps determine at what point government financing or operational changes are needed to maintain service levels.

Of course, the level of service the Postal Service provides is also a business decision. The Postal Service might have commercial reasons for maintaining higher levels of service, even beyond what policymakers would consider adequate, as greater service levels enhance the value of the delivery network to mailers. In certain circumstances, additional service in some areas might pay for itself or subsidize less lucrative delivery routes.

The ultimate definition of universal service, however, is a question to be determined by Congress. The Postal Service's universal service obligation is not only a matter of postal policy; it is also a matter of national policy. The Postal Service is often the most visible face of the federal government throughout the country, and the nation has a strong interest in the definition of universal service. Congress is in the best position to decide how to pay for universal service by making the necessary policy tradeoffs between the postal price level, the level of governmental support, and the required level of service. Policymakers might have a range of opinions about the appropriate minimum level of service. Some might view a Postal Service guarantee of once-a-week delivery to every household as adequate. Others might consider any drop from 6-day delivery to be too much. Any guaranteed level of service beyond what an optimized Postal Service

⁹ One of the more specific requirements appears in annual appropriations riders that mandate the Postal Service maintain 6-day delivery and rural delivery at the levels it provided in 1983. These riders also state that the Postal Service cannot use appropriated funds to close small Post Offices.

¹⁰ For a discussion of this issue, see U.S. Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly*, December 19, 2008, <http://www.prc.gov/Docs/61/61628/USO%20Report.pdf>, p. 18.

could afford would need to be financed by increased prices, cost cutting, taxpayer funds, or another funding method.

Without definitive guidance on the meaning of universal service, the Postal Service cannot determine its minimum required cost structure. Mailers may be required to pay more in rates than necessary, and taxpayers may be required to make unnecessary contributions.

6. Does Monopoly-Financed Universal Service Assist or Harm the Postal Service?

Do the benefits of monopoly funding for universal service outweigh its costs? The Postal Service's monopoly includes two parts: the letter monopoly and the mailbox monopoly. The letter monopoly prevents anyone but the Postal Service from carrying a letter that weighs less than 12.5 ounces or costs less than six times the price of the First-Class stamp outside the mail.¹¹ The mailbox monopoly forbids anyone including other delivery services from using the mailbox. In return, the Postal Service provides universal service throughout the country. Are both parts of the monopoly still necessary to preserve the Postal Service's financial viability and ensure that postal services are available to all?

The Postal Service is subject to price regulation in order to protect monopoly customers from excessive prices and to defend competitors from a Postal Service that could unfairly cross-subsidize its competitive products with monopoly revenues. While the monopoly has no doubt prevented the Postal Service from losing some revenue, does the revenue preserved outweigh the costs of this regulation? The PRC estimated the value of the combined letter and mailbox monopoly to be approximately \$2 billion in fiscal year (FY) 2009.¹² Universal service, the price cap, and disproportionate payments to the federal government for retiree benefits cost the Postal Service significantly more.

One could even argue how effective the monopoly is at protecting the Postal Service from competition. Competitors such as express delivery firms emerged despite the monopoly. Alternate delivery services operate in many cities by leaving advertisements near the doorstep or hanging on doors instead of in the mailbox. (Of course, it is possible these services would be much more successful if there was no mailbox monopoly.) And the monopoly cannot protect the Postal Service from its greatest current threat — digital alternatives to the mail.

Supporters of the legal monopoly argue that private sector competitors may "creamskim" the most profitable Postal Service routes leaving remote or unprofitable areas without service. But the liberalization of monopoly protections in Europe has not resulted in significant competition for the delivery of addressed mail (in contrast to unaddressed flyers and leaflets). Delivery competition is particularly weak when the incumbent post offers direct access to its delivery network as the Postal Service does through worksharing. Delivery is difficult and expensive work, and the largest provider receives benefits from substantial economies of density due to the volume of mail it delivers. A legal monopoly may not be necessary or sufficient to protect the Postal Service and fund universal service. Instead, taxpayer financing of specific universal service activities or a universal service fund may be a preferable method of funding uneconomic postal services. Users of the postal system could pay a universal service fee that would subsidize postal services in poor and remote areas on the model of the

¹¹ 18 U.S.C. § 1696 and 39 U.S.C. § 601.

¹² U.S. Postal Regulatory Commission, *Annual Report to the President and Congress*, December 2010, http://www.prc.gov/Docs/71/71322/PRC_AR_2010_highres_1558.pdf, p. 31. The value of the monopoly has fallen by more than \$1 billion from the PRC's estimate for FY 2007 because of the decline in volume and higher fixed network costs.

telephone network. Alternatively, delivery companies that did not provide universal service could either support the postal network by paying the Postal Service for last mile delivery or bypass the postal network but contribute to a universal service fund that would subsidize postal services.

7. Should the Postal Service Be Allowed to Expand into Nonpostal Services to Supplement Monopoly Shortfall?

The monopoly does not generate enough money to pay for the postal system. Additionally, Congress has expressed an interest in maintaining the current level of Post Offices even though many lose money. As a result, an additional income stream is needed. Could revenue from nonpostal services bridge the gap? The Postal Service has argued in its recent plan for improving its future viability that it should have more flexibility to offer new products consistent with its mission, and the Postal Service's consultant Accenture found that international posts that have diversified business units tend to outperform their peers.¹³ Yet, as the GAO has pointed out, the Postal Service's ventures into new business areas have not always been successful.¹⁴ Of course, early failures are a hallmark of innovation. The risk of failure can be successfully managed, but a cultural change may be needed. The Postal Service's business practices and operations are focused on delivering the mail. Adapting to new roles may require a change in focus.

Offering nonpostal services would bring the Postal Service into competition with private sector businesses. The Postal Service already competes directly in the parcel and express markets. It also offers money orders in competition with banks, wire transfer companies, and retailers. In addition, the Postal Service is an indirect competitor in other markets like advertising where direct mail competes with newspapers, television, the Internet, and other media. Should the Postal Service seek out new areas of opportunity even if it means entering into competition with additional businesses? And how should this new competition between the Postal Service and the private sector be conducted? Policymakers may have different views on how much the Postal Service should be permitted to expand its services to supplement the monopoly:

- The Postal Service should stick to its current offerings. The Postal Service should not seek to enter any new business areas where it would compete with private sector firms. Instead, it should embrace "coopetition," working with its competitors, for example, by serving as the last-mile provider for other delivery firms. Everyone reaps the environmental, safety, and economic benefits of having a single truck drive through neighborhoods rather than several.
- The Postal Service should expand into new businesses but selectively, for example, by only providing non-postal services in support of money-losing post offices. Offering additional services such as the sale and redemption of digital currency instruments for the unbanked and underbanked could help transform Post Offices from cost centers to profit centers.

¹³ U.S. Postal Service, *Ensuring a Viable Postal Service for America: An Action Plan for the Future*, March 2, 2010, http://www.usps.com/strategicplanning/pdf/ActionPlanfortheFuture_March2010.pdf, p. 14, and Accenture, *Is Diversification the Answer to Mail Woes? The Experience of International Posts*, http://www.usps.com/strategicplanning/pdf/Accenture_Presentation.pdf, February 2010.

¹⁴ U.S. Government Accountability Office, *U.S. Postal Service Strategies and Options to Facilitate Progress toward Financial Viability*, <http://www.gao.gov/new.items/d10455.pdf>, pp. 42-3.

- The Postal Service should aggressively enter new business areas and engage in unfettered competition with private sector firms including its parcel competitors, competitors in the mail preparation industry, and potential competitors in other business areas. The Postal Service should act like some corporatized and privatized posts in other countries, seeking profitable business advantage wherever it can.

The answer will differ greatly depending on whether policymakers believe the Postal Service should be a national public infrastructure run by the government or a privatized business.

8. *Should the Postal Service Have Additional Social Responsibilities beyond Its Core Mission?*

Throughout its history, the Postal Service has provided societal benefits beyond mail delivery. What are the Postal Service's responsibilities to society in areas beyond its traditional functions?

In the United States, mail has fostered the growth of transportation networks and the adoption of new technologies. In the early 1800s, mail helped subsidize the extension of stage coach lines throughout the country before moving to rail networks. Rural delivery promoted the paving of roads in rural areas, and the Post Office played an instrumental role in supporting the infant passenger air industry in the early 20th century. Today, the Postal Service is considering transitioning to electric vehicles, a change that could transform U.S. transportation technology. Should promoting new technologies to the benefit of the nation be a Postal Service obligation?

Even today, the Postal Service is an important link connecting far-flung areas to the rest of the nation. In parts of Alaska, mail is the primary means used to transport groceries, merchandise, and many other necessities. In some rural communities, Post Offices are the focal point of the town and the last remaining business. They provide a place for residents to connect to one another, but they may not be needed to provide universal postal service. Should the Postal Service be responsible for continuing to finance these ties?

The Postal Service has a proud history of offering its employees a stepping stone to the middle class for workers without college degrees and a tradition of promoting from within. Many of the Postal Service's senior officers started as front-line postal workers. The Postal Service's success as a middle-class employer is rooted in the collective bargaining framework established in law. Among federal employees, Postal Service workers have unique rights to bargain collectively for wages, and if no agreement is reached through negotiations, the parties must go to mandatory binding arbitration.¹⁵ In the private sector, both parties usually must agree to submit to binding arbitration. The Postal Service is also required by law to set compensation and benefits at levels comparable to the private sector and to participate in certain federal benefit programs such as the federal pension system.¹⁶ Bargaining is therefore primarily over wage levels and work rules. When bargaining over benefits has occurred, the result has been benefit levels more generous than the rest of the federal government as in the case of health insurance.

If mail volume continues to decline, the Postal Service's labor practices may come into conflict with its financial viability. Compensation levels may have to become more market based, and workplace practices more flexible and better adjusted to the ebb and flow of the mail business. Recent Office of Inspector General reports found that parcel

¹⁵ Postal Service employees are not permitted to strike.

¹⁶ 39 U.S.C. § 1003(a) states in part "It shall be the policy of the Postal Service to maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy."

companies and presort bureaus use far more flexible staffing practices than the Postal Service.¹⁷

Should the Postal Service's relationship with its workforce be like that of any other employer or does the Postal Service, as a federal employer with a large craft workforce, have special obligations towards its employees? Any effort to rethink the Postal Service's role without considering its collective bargaining framework will likely haunt the Postal Service as it attempts to optimize the efficiency of its infrastructure, yet such rethinking must be carefully considered. Throughout the U.S. economy, well-paid, full-time blue collar positions with generous benefits are disappearing. To what degree are policymakers prepared to see these types of positions disappear from the Postal Service and the nation? Alternatively, to what degree can a self-sustaining postal system with shrinking volume afford to fund social benefits not essential to its mission?

¹⁷ U.S. Postal Service Office of Inspector General, Management Advisory Report – Benchmarking Postal Service Parcel Productivity, Report No. EN-MA-09-002, March 31, 2009, http://www.uspsoig.gov/foia_files/EN-MA-09-002.pdf and Management Advisory Report – Benchmarking Best Practices with Presort Bureaus, Report No. EN-MA-10-004, June 7, 2010, http://www.uspsoig.gov/foia_files/EN-MA-10-004.pdf.

Conclusion

We believe the eight questions described in this paper are fundamental for determining the role of the Postal Service in the future. If the Postal Service were created today, its mandate would contain direct answers to these questions. Each question can help guide policymakers in designing the structure of the Postal Service and directing its future operations, but the answers should be considered together as part of a consistent framework. For example, a policymaker may want the Postal Service to remain self-sustaining and provide excellent wages and benefits while maintaining a very high level of service at a low price. Such an outcome may not be possible. By assigning priorities, it is possible to structure the Postal Service to achieve the most important goals.

A consensus on the answers to these fundamental questions could provide a stable foundation for the Postal Service's future that will allow the Postal Service to respond with greater agility to the problems it faces. The Postal Service has an array of vocal stakeholders with narrow or conflicting interests and views of the Postal Service's role. In addition, it has many important stakeholders with less of a voice such as recipients, small mailers, and the digital community. Without broad agreement on foundational principles, efforts to find a long-term strategy for the Postal Service could be mired in endless and repetitive debate. The Post Office has been a part of the nation since its founding. Its role has been reinterpreted many times. Critical shortcomings of globalization and the digital age risk disadvantaging Americans in the 21st century:

- Digital communications lack the level of privacy, confidentiality, and security desired by citizens and are vulnerable to disruption;
- Digital companies refuse to be held to standards of accountability when problems occur and may seek to privilege one type of communication over another;
- There is a lengthening tail of digital refugees, which will only increase as the digital revolution progresses, and
- Ultimately, digital communication is not sufficient; physical delivery is still essential for some items.

These forces may divide rather than bind the nation together. Careful thinking about the Postal Service's role now could help bridge these divides while preserving the Postal Service for the future.