

IRET Congressional Advisory

INSTITUTE FOR RESEARCH ON THE ECONOMICS OF TAXATION

IRET is a non-profit 501(c)(3) economic policy research and educational organization devoted to informing the public about policies that will promote growth and efficient operation of the market economy.

November 30, 2010

Advisory No. 270

OPPORTUNITIES FOR THE POSTAL SERVICE TO DELIVER NONPOSTAL GOVERNMENT SERVICES

Executive Summary

The U.S. Postal Service currently provides a small number of nonpostal government services, such as accepting passport applications, offering Selective Service registration forms, and renting excess space to other government agencies.

The Postal Service should work with other government agencies to offer more nonpostal government services. These activities will benefit the general public, other government entities, and the Postal Service itself if several important conditions are met:

- An activity under consideration must raise the quality or lower the cost of government services, such as by making government more accessible to the general public.
- The Service must receive enough compensation to insure that mail users do not subsidize the non-mail activity and the activity's value to the government or the general public exceeds its cost.
- The activity must not interfere with or distract from the Postal Service's core mission of mail delivery.

The Postal Accountability and Enhancement Act of 2006 (PAEA), as implemented by the Postal Regulatory Commission (PRC), allows the Service to engage in nonpostal government activities.

There are sound economic reasons for restricting new nonpostal *commercial* ventures by the Postal Service while permitting nonpostal *government* activities in cooperation with other government agencies.

The Service's thousands of local post offices, huge vehicle fleet, and hundreds of thousands of federal workers are potentially valuable resources in assisting federal, state, and local governments.

What additional nonpostal government services should be considered? Among the possibilities:

- provide more nonpostal government services in partnership with state and local governments;
- let other government agencies use postal vehicles as platforms for mobile sensor networks; and
- reduce fraud by making recipients of some government benefits appear at local post offices.

The Postal Service should examine its operations and resources, looking for activities that would assist other government agencies, help the general public, be profitable for the Service, and not impair mail delivery. It also should seek ideas from the postal community and federal, state, and local governments.

OPPORTUNITIES FOR THE POSTAL SERVICE TO DELIVER NONPOSTAL GOVERNMENT SERVICES

In developing its proposed 10-year business plan (the "Action Plan"), the U.S. Postal Service examined whether it could improve its bottom line by diversifying into nonpostal commercial markets.¹ To assist with the analysis, the Service hired a respected consulting firm, Accenture. When the study began, the Postal Service and Accenture both viewed nonpostal diversification favorably.

Nevertheless, after evaluating the U.S. Postal Service's challenges and opportunities, Accenture and the Service concluded that nonpostal commercial ventures should not be part of the 10-year business plan because of the government agency's "net losses, high wage and benefits costs, ... limited access to cash to support necessary investments ... and the relatively light customer traffic of Post Offices compared to commercial retailers."² The new products that the "Action Plan" envisions are all postal products. The Postal Service and Accenture deserve credit for their open-mindedness in examining the evidence and their integrity in accepting results they may not have expected or wanted.

The subject of this paper is a different category of nonpostal activities: nonpostal services provided in cooperation with other government agencies. The Postal Service's primary goal in offering nonpostal government services is to make government more accessible or in other ways raise the quality or lower the cost of government services. The motivation is not to earn money, although the Service should insist on receiving enough compensation to cover the products' costs and provide a reasonable contribution to overhead costs.

The Postal Service currently provides a small number of nonpostal government services

When people wish to contact government agencies, the Postal Service plays a vital role in its

traditional capacity: mail provides an easy, inexpensive, and secure way to transmit hard-copy communications. In addition, the Postal Service facilitates public access to the government in several ways not involving mail. For example, many post offices sell migratory bird stamps ("duck" stamps) for the U.S. Fish and Wildlife Service, provide Selective Service registration forms for the Selective Service System, and accept passport applications for the State Department. Its passport service is especially popular, with the Service reporting that it "handles about two-thirds of all passport applications."³

One noteworthy new nonpostal government service is something that will hopefully never be needed, but could be important if it is. Postal carriers are being trained to deliver medicines in the event of a biological attack. Tests have been conducted in Seattle, Philadelphia and Boston; the program is partially operational in Minneapolis-St. Paul; and six other cities are in the process of implementing it.⁴ While emergency plans in most cities envision making people travel to central distribution points such as schools, health centers, and municipal buildings, the advantages of using letter carriers to deliver medicines in the event of a terror attack are that the process would be fast, relatively orderly, and able to reach the infirm.

Less visibly, the Postal Service supplies other nonpostal services to many government entities. It sometimes leases excess office and parking space to government agencies, usually with the U.S. General Services Administration (GSA) acting as intermediary.⁵ The majority of the leasees are federal, but a few are state and local. Additionally, the Service occasionally leases excess space at its facilities to other government agencies for antenna towers.⁶ The Service mentions the possibility of furnishing vehicle supplies, mainly fuel, to other government agencies, although the Service was unable to locate any specific agreements in a 2008

**Table 1 Partial Listing of Postal Service Revenue from Other Government Entities
in Fiscal Year 2007 (amounts in thousands)**

Passport application fees	\$295,197
Migratory Bird Stamps	210
Lease payments from other government entities for parking, office space and antenna towers	27,070
Equal Employment Opportunity (EEO) complaint processing	243
Vehicle Supplies and Services to Government Agencies	9
Postal Inspection Service Reimbursements from Other Law Enforcement Agencies	0
Total of above	322,729

Source: U.S. Postal Service, "Initial Response Of The United States Postal Service To Order No. 74," submitted to Postal Regulatory Commission, Docket No. MC2008-1, June 9, 2008, accessed at <http://prc.gov/Docs/60/60110/Init.Resp.Ord.No.74.pdf>.

review.⁷ It has assisted some government agencies in processing Equal Employment Opportunity (EEO) complaints.⁸ The Postal Inspection Service, whose primary task is safeguarding the mail, sometimes lends a hand to other law-enforcement agencies.

Table 1 shows the Postal Service's revenue from some of the nonpostal services it offers to government entities. The largest revenue item by far is passport fees (over ten times more than the next biggest item). Revenue from nonpostal government services totals several hundred million dollars, which is a large amount but tiny compared to the Service's revenue from its postal operations (on the order of 0.5%, or \$1 in \$200). It is uncertain from the publicly released data how the Service's nonpostal government services affect its bottom line. Net income is revenue minus costs, and the Service has not publicly released the cost numbers needed to calculate the net income (or loss) on its various nonpostal government services.

The law permits the Service to provide nonpostal services to other government entities

Congress has long viewed the Postal Service as the federal government agency that the general public sees most frequently, and it has supported cooperation between the Service and other

government entities. When Congress transformed the old Post Office Department into the Postal Service, the Postal Reorganization Act of 1970 explicitly authorized "Cooperation with other Government agencies":

"Executive agencies ... and the Government Printing Office are authorized to furnish property, both real and personal, and personal and nonpersonal services to the Postal Service, and the Postal Service is authorized to furnish property and services to them...[This] shall be under such terms and conditions, including reimbursability, as the Postal Service and the head of the agency concerned shall deem appropriate."⁹

While Congress has consistently endorsed cooperative efforts between the Postal Service and other government agencies, the Service's nonpostal *commercial* ventures are another story. During the decade that preceded enactment of the Postal Accountability and Enhancement Act of 2006 (PAEA), members of Congress, government watchdogs, and a Presidential Commission expressed concerns that many of the Service's nonpostal competitive-market activities lost money, received cross-subsidies from mail users, reduced economic efficiency, and unfairly competed against private-

sector businesses.¹⁰ In response, Congress included provisions in the 2006 law barring the Service from introducing new nonpostal services and ordering its regulator, the Postal Regulatory Commission (PRC), to review each existing nonpostal product to determine if it should continue.¹¹

Although Congress left intact the section of prior law authorizing the Service to cooperate with other government agencies, the question arose of whether Congress, in limiting nonpostal services, had inadvertently restricted the Postal Service's ability to work with, and be reimbursed by, other government agencies on nonpostal matters. In response to that and other questions about precisely what was prohibited, the PRC sought to implement the restriction "in a manner that reflects the statute, Congressional intent, and the realities of the Postal Service's operations."¹²

The PRC used its regulatory discretion to define "service", for purposes of the nonpostal-service restriction, as "[a]ny ongoing, commercial activity offered to the public for the purpose of financial gain."¹³ (PAEA had left the word "service" undefined.) Based on that definition, the nonpostal restriction does not apply to nonpostal *government* services.

The PRC's definition of "service" has been tested and upheld in federal court.¹⁴ The U.S. Court of Appeals for the District of Columbia Circuit agreed with the PRC that "the word 'service' was not defined by the statute" and noted that the regulator sought a definition which "encompassed the types of activities that ... were the cause for congressional concerns about the Service straying from its core responsibilities." The Court, which began its ruling by explaining why Congress wished to limit commercial "ventures [by the Postal Service] unrelated or only tangentially related to the delivery of mail," noted that the Commission's definition restricts the Service's nonpostal commercial activities. The Court further observed that "several revenue-generating activities – including ...services provided to government agencies – did not qualify as 'services'" under the PRC's definition and, therefore,

are not restricted. After citing the *Chevron* doctrine, under which a court will defer to an agency's "interpretation [of the law] ... if reasonable," the Appeals Court ruled that the regulator's interpretation "is quite reasonable and therefore permissible."

Accordingly, the Postal Service continues to have a legal green light to provide services to other government agencies based on cooperative agreements and can form new inter-governmental agreements in the future. While most of the government entities with which the Postal Service cooperates are at the federal level, the PRC's ruling also applies to nonpostal collaboration between the Service and state and local governments. (To avoid confusion, it should be noted that this study generally uses the word "service" in its economic sense of providing something helpful, which is much broader than the legal definition in the context of nonpostal services.)

The legal distinction between nonpostal commercial and nonpostal government activities is economically sensible

From an economic perspective, the legal restrictions placed on the Postal Service's nonpostal commercial activities are not needed or appropriate for its nonpostal government activities. The reason is that efforts by a government agency to expand into commercial markets raise concerns that are largely absent when one government agency provides services to, or on behalf of, another.

When a government entity wishes to engage in commercial activities that lie outside its government mission, a danger is that it will deploy one or more artificial, government-based advantages to try to displace more efficient private-sector businesses. Some of the possible government-based advantages are tax exemptions, exemptions from some of the regulations that normal businesses must obey, artificially low borrowing costs due to explicit or perceived government loan guarantees, the willingness of the entity's owner (the government) to accept below-market business returns, and cross-subsidies from the entity's government operations.

When used in commercial markets, these forms of disguised government aid weaken government revenues (due to the tax exemptions), put taxpayers at risk (because of the possibility of government bailouts), hurt competitors and their employees, and lower the economy's performance (by replacing more efficient producers with less efficient ones). If a government agency charges fees to those who use the government service, another danger is that consumers of the government service will be forced to subsidize the agency's non-core commercial activities.¹⁵

Some of these concerns are evident in the reaction to a proposal by the Japanese government to double the deposit and insurance limits at Japan Post's banking and insurance divisions. American and European trade officials are worried that this expansion would allow Japan Post's commercial operations to take business away from its rivals, including American and European companies operating in Japanese, because of the perception that accounts at Japan Post are government guaranteed. Accordingly, American and European trade officials are asking Japan to reconsider, pointing to "the lack of a level playing field" due to "Japan's preferential treatment of Japan Post."¹⁶ Economists in Japan are also fearful that the additional deposits and premiums would quickly flow to the Japanese Treasury via purchases by Japan Post of Japanese government debt, with the influx of money to the government undercutting financial discipline and propping up continued wasteful government spending.¹⁷

In contrast, most of these issues do not arise when one government agency performs services for another because the government is not expanding into new areas of the economy. Instead, inter-agency cooperation merely rearranges how the government produces and delivers its services. That is not a threat to taxpayers, private businesses and their workers, or consumers of public services, with one caveat that will be mentioned in the next section.

One of the main reasons why government entities are often less efficient than private-sector businesses is that they frequently bear government-related handicaps, such as high labor costs, onerous

work rules, political interference regarding the location of facilities, and other government restraints that prevent them from reacting as quickly to market forces as private-sector firms. These burdens push up production costs, and they often cause government enterprises to lose money in commercial markets despite their government-based advantages.

The Postal Service has its share of Congressionally imposed handicaps, and they reduce the attractiveness of having the Postal Service enter commercial nonpostal markets. However, they are not an argument against the Service helping other government agencies because most agencies have government-based handicaps of their own. When the Postal Service lends a hand to another agency, the burdens are more likely to change in specific composition than in total magnitude.

When the Postal Service and other government agencies voluntarily agree to cooperate, they likely do so to reduce the cost or improve the quality of government services. That has the potential to benefit households and businesses throughout society.

The importance of paying the Postal Service for its assistance

Historically, the Service has had a mixed record in obtaining reimbursement for nonpostal government services. On the one hand, as was shown in Table 1, the government enterprise receives a fee when it handles a passport application, and it is paid rent when it leases excess space to other government agencies. On the other hand, it is sometimes conscripted without compensation.

For instance, the primary mission of the Postal Inspection Service, which is among the nation's oldest law enforcement agencies, is to safeguard mail and the mail system. However, Congress has also directed the Inspection Service to investigate illegal activities carried out using mail, and that has led it to investigate, among other matters, a fake Howard Hughes autobiography, a televangelist's diversion of charitable donations for personal gain, an international art fraud scheme, child pornography

cases, security fraud cases, narcotics cases, and a kickback scheme by two of the nation's premier class-action trial lawyers.¹⁸ Investigations like these may be commendable, but they have little to do with mail-system security, and are closer to general law enforcement. Nevertheless, the Postal Service does not normally receive government compensation on these cases, despite its valuable assistance to the FBI, the Secret Service, the Security and Exchange Commission, local police forces, and other law enforcement agencies.¹⁹ The 2003 Presidential Commission called for change. It recommended that mail users continue paying for "[o]nly those activities ...that directly support the safety and security of the nation's mail" while the government begins compensating the Service for "[t]he cost of law enforcement operations that track broader crimes committed through the mail..."²⁰

It is highly desirable at several levels that the Postal Service receive payment when it performs nonpostal government services. First, the Service's finances are under enormous pressure because its mail revenue has declined while political constraints restrict its ability to manage its costs. The Service's financial ability to perform its core government-assigned mission should not be further strained by having to do nonpostal government work gratis.²¹ Second, it is unfair to force mail users, who pay the Service's bills, to subsidize activities not related to mail. When the Postal Service incurs costs in providing nonmail-related public services, it should charge for its work so that the costs are not shifted to its mail customers. Third, concerned about its finances, the Postal Service may be reluctant to undertake nonpostal government activities, or unwilling to spend the time and money needed to do them properly, if it is denied compensation. That would be inefficient if the activities are worth their costs and if the Postal Service can do them more efficiently than other government agencies. Fourth, to promote transparency, the costs of nonmail-related public services should not be hidden by covertly shifting them to mail users; they should be paid explicitly through inter-agency agreements by the government agencies receiving the help or by the members of the public obtaining the nonpostal

government services. (Funding could alternatively come from Congressional appropriations, but that is an inferior solution because Congressional funding has often proven unreliable in the past.)

Delivering the mail can help the Postal Service deliver nonpostal government services

An examination of the characteristics of the Postal Service's operations and workforce can shed light on where opportunities may exist for greater inter-governmental cooperation. This section discusses some of the Postal Service's potential collaborative strengths due to its capital, labor, and operational characteristics. The next section examines some of its weaknesses.

Five of the Service's major assets in the context of non-mail public services are its thousands of post offices open to the general public, its potential visits on most days of the week to 130 million homes and businesses throughout the nation,²² its real estate inventory, its fleet of vehicles, and its hundreds of thousands of federal employees.

Post offices are found in communities across America, from major cities to small towns. There were approximately 35,700 post offices in 2009, of which the Service operated nearly 32,000, with the remainder run by contractors.²³ The Service notes that it has more post offices "than McDonald's, Starbucks, Walgreens and Wal-Mart have retail stores combined."²⁴ In many localities, especially rural ones, the post office is the only federal building for miles around. The local post office is closer to many people than state office buildings, and sometimes it is more conveniently located than municipal buildings. Accordingly, post offices would often make convenient access points to government services for the general public, especially in rural areas. The current passport application program is based in part on this Postal Service strength.

Another potential asset in terms of inter-governmental services, if it can be efficiently harnessed, is that postal carriers travel to every home and business delivery address in the nation on most

days of the week. No other government entity comes anywhere close to providing that level of physical outreach. The question is whether letter carriers could deliver additional public services without compromising the cost and speed of mail service. (Other parts of the government already utilize the Service's unique physical outreach, of course, when they send mail to individuals and businesses.)

To support its nationwide collection, processing, and delivery network, the Postal Service has assembled a vast real estate inventory. At the end of 2009, it owned 8,419 properties, with 200 million square feet of interior space and 900 million square feet of land.²⁵ In addition, it leased 24,516 properties from the private sector and occupied space at 329 nonpostal government properties.²⁶ With so many properties, there are bound to be some that the Postal Service is not fully using. Some of this excess space could be rented to other government agencies for mutual advantage. The Postal Service is already pursuing this opportunity to a limited degree. As noted earlier, it earned \$27 million in 2007 by leasing excess space to other government agencies.

The Postal Service possesses the largest civilian vehicle fleet in the nation, with almost 220,000 vehicles in 2009.²⁷ The majority are local delivery and collection vehicles that travel fixed routes on most days of the week. Michael Ravnitzky, Chief Counsel to the Chairman of the Postal Regulatory Commission, has suggested that, without interfering with or distracting from normal mail operations, these vehicles could be treated as mobile platforms and outfitted with sensors to help federal, state, and local governments conduct various types of measurements. One possibility, for example, would be monitoring local environmental pollutants.²⁸

Another possible advantage is that most Postal Service employees are seasoned, responsible workers. In cases where government agencies do not want to delegate tasks to the private sector, the Service and its workers possess the further attraction that the Postal Service is a government entity and its employees are federal workers.²⁹ Other agencies might also be reassured by the fact that the Service

has two respected, internal watchdogs to discourage misconduct: the Postal Inspection Service and the Office of Inspector General. If postal workers were replacing private-sector workers, a major concern would be whether they would be cost competitive in terms of wages and benefits. This is less of an issue if postal workers undertake tasks otherwise performed by nonpostal government employees. While some federal workers are underpaid (especially the most capable), recent data indicate that, on average, federal workers receive higher wages and far richer benefits than comparable private-sector workers.³⁰ Compensation varies widely among state and local governments, but many of those entities would find that postal workers are no more expensive than their own workers.³¹

Conversely, delivering the mail hinders the Service's ability to provide some nonpostal government services

One consideration is that because postal facilities are designed with mail service in mind, they may not be suitable for government services with very different size and layout requirements. For example, many state motor vehicle departments could improve public access by locating some auxiliary branches in local post offices. However, while most post offices have enough space for postal operations, few have sufficient extra space to accommodate the large waiting areas typical of full-service DMV branches. On the other hand, some of the less complicated DMV transactions could probably be handled at a post office counter or a small area to the side, and offering that option would be a convenience to drivers.

It might seem that the Service could just buy or rent bigger facilities and sublease the extra space to other agencies. However, as the Service understands, its expertise does not lie in being a landlord and property manager for other government agencies. A different federal entity, the General Services Administration (GSA), has that assignment. Incoming Postmaster General Patrick Donahoe sensibly declared that the Service has the goal of "aligning space with operational requirements" and

not "acquiring space over and above its needs."³² If the Service stays true to that objective, many facilities will have some excess space because it is not possible to exactly match space with operating needs, but the amount of unneeded space will be modest in most cases. To be sure, the massive decline in mail demand in recent years has created large quantities of excess space at some facilities, but the first option to consider in those cases is selling the excess space, rather than trying to be a general property manager.³³ If the Service retains the space, possible obstacles to subletting it to other government agencies are a facility's location, its state of repair, and historic restrictions.

Another limitation is that while postal workers could, with a small amount of training, offer general information about a number of government programs, they could not knowledgeably discuss nonpostal programs' finer details. The reason is that postal workers are skilled at providing mail service, but they do not have special expertise regarding nonpostal programs. For instance, although it would be nice if one could go to the local post office counter for tax preparation help or questions about Social Security benefits, postal employees simply are not equipped to supply such information. A feasible possibility, however, would be a service in which clerks at post office counters are handed tax returns by tax filers, note which forms each return contains, whether or not a check is attached, give the tax filer a receipt showing this information, and then place the tax return in the mail. At present, many tax filers pay for services like certified mail with return receipt to verify that they filed their taxes, but this alternative would be superior in that it would show which forms were submitted and give tax filers their proof immediately. (For this option to afford taxpayers adequate protection, Congress would need to enact legislation granting the proposed tax-submission receipt stamped by a postal employee the same evidentiary status as a postmark affixed to a letter by the same employee, but such legislation should be noncontroversial and easily passed.)

Another consideration with many government products is that Postal Service access is less valuable

now than in the past because the Internet offers an alternative. For example, young men can still obtain Selective Service registration forms at the local post office, but the Selective Service System now recommends online registration as "easiest and fastest".³⁴ Similarly, when post offices stocked basic tax forms some years ago, that was a welcome convenience for taxpayers, but these days one can quickly obtain even the most arcane tax forms online.³⁵

Furthermore, if the number of post offices declines over time in response to weak mail demand and the high cost of serving customers there, that will lessen the Service's ability to provide access points for other government services. In 2003, the bipartisan Commission on the Postal Service noted that selling \$1 of stamps cost the Service 7 cents at a post office but only 1.6 cents at a convenient alternative outlet such as a grocery store or ATM machine; the Commission recommended less reliance on post offices and more on other sales outlets.³⁶ Following that advice, the Service's 10-year business plan calls for fewer post offices and greater use of alternative channels.³⁷ This is a worldwide trend, and many foreign posts are far ahead of USPS in reducing the number of post offices they operate in favor of other retail outlets. However, while non-post-office alternatives, such as being able to buy stamps in the checkout line at the grocery store or over the Internet, are handy for the customer and economical for the Service, they do reduce the Service's physical presence in the community.

Several proposals regarding how the Postal Service might further assist other government agencies

The Postal Service currently offers a small number of nonpostal government services. What additional assistance might the Service provide, given its strengths and weakness? Four ideas are discussed below, but there are undoubtedly many others. The real message is to be alert for opportunities.

To be clear, the discussion here does not include ways in which governments currently use the mail, and it does not examine ideas for new or expanded governmental mail uses, such as the growing movement to allow citizens to vote by mail. (PRC Chairman Ruth Goldway, expressing her personal views, is a leading advocate of the Vote by Mail Program and has frequently testified before Congress in its favor.³⁸) This discussion is also not about the ways in which the Postal Service and its employees, like many American businesses and workers, engage in voluntary public service, such as the National Association of Letter Carriers' annual food drive.³⁹

Partnership opportunities with state and local governments.

Historically, when the Postal Service has provided nonpostal government services, it has usually done so on behalf of federal agencies. Cases in which it has partnered with state and local governments are rare. Two factors have contributed to this tendency. First, the Postal Service is a federal entity and collaborating with other parts of the federal government may seem more natural than working with state and local governments. Second, the law that created the modern Postal Service specifically authorized federal-level cooperation,⁴⁰ but did not mention partnering with state and local governments.

Neither of these factors ought to be a bar to closer collaboration in the future. Although the Postal Service is a federal entity, it should be open to working with state and local governments, and vice versa, when that would lead to higher quality or less costly government services. Regarding legal considerations, the old law was never interpreted to prohibit the Postal Service from partnering with state and local governments on nonpostal matters, and the PRC's interpretation of PAEA does not prevent the Postal Service from assisting state and local governments, either.⁴¹

For example, if one lives in an area where the nearest post office is 2 miles away but the relevant state or local office is 20 miles distant (or maybe

close by but always crowded), it would be a welcome convenience if an individual could go to the nearby post office to buy a hunting or fishing license, conduct a limited range of DMV transactions, submit a state or local tax return and receive verification that it was submitted, or obtain and submit various state and local application and registration forms. As already noted, for the service to make sense, it must add value for the state or local government or the customer; it must not require an expertise that postal employees do not possess; and it must not require more space than the post office has available. In addition, the Postal Service's participation must have sufficient value that the participating government or the customer is willing to pay the Service enough to meet its extra costs.

More partnerships between the Postal Service and state and local governments (and federal agencies, as well) would be especially valuable in rural areas. One reason is that government offices are often far away, which increases the odds that the local post office will be closer and more convenient. That would improve access to nonpostal government services. Another reason is that greater collaboration would bring added business to often quiet rural post offices. For rural post offices that are currently losing money, the extra activity would be enough to lift some of them into the black and it would narrow losses at the others, assuming the Service is compensated for its nonpostal government work. That would ease the financial pressure on rural post offices, which would be good for mail users.⁴²

The specific collaborations that are most attractive will vary from area to area depending on state and local governments' needs and the capabilities of local postal facilities. State and local governments and the Postal Service should begin exploring possibilities now.

Data-collection sensors on postal delivery vehicles.

Michael Ravnitzky suggested a nonpostal government service that utilizes the Service's large fleet of delivery vehicles.⁴³ The ingenious proposal

is outside the box and based on technology.⁴⁴ It will be up to the Postal Service and other government agencies to evaluate its practicality.

The basic idea is that valuable data could be obtained by placing mobile sensors on postal vehicles as they make their rounds. Some of the possibilities Ravnitzky mentions are monitoring air quality, detecting pollutants, pothole mapping, sniffing out methamphetamine labs, and gathering weather data. The sensors used would depend on the type of data collected. Some of the applications might interest private industry, but most would involve government agencies. Ravnitzky argues that postal vehicles normal delivery routes would be a highly "efficient ground-based mobile sensor network" because they "reflect locations of human activity and the trucks traverse those routes daily."⁴⁵ He adds, "While sensors at fixed locations are confined by functional and geographic limitations, a mobile sensor network using postal trucks can provide tightly-interlaced, overlapping fine-grained coverage across a broad area."⁴⁶ The detailed, frequently-updated geographic coverage would produce maps making it easier and faster to spot two types of anomalies.

Suppose, for example, a local government wishes to monitor several pollutants. The map profile it obtains from the dense network of mobile sensors would accurately show if some locations have higher concentrations of pollutants than others. That information, which would likely escape notice if the government employed just a few fixed sensors, could be very valuable. Also, because the sensors would be traversing the same routes most days of the week, sudden, localized changes in pollution levels would be apparent almost immediately.

While the sensors would require a small amount of space on postal vehicles, they would not distract the Service from its core mission because the Service would not be responsible for maintaining the sensors or have to alter its routes. Essentially, the Service would be renting space on its trucks in much the same way that it currently rents space on some of its properties for antenna towers. The government agencies deploying the sensors would gain useful

information, and the Postal Service would gain income.

Ravnitzky cautions that some potential uses raise privacy concerns. To protect both civil liberties and its valued reputation for trustworthiness, the Service should be extremely cautious in any cases where privacy would be an issue.

Reducing government-benefit fraud.

Government benefit programs often have problems with fraud. The consequences are serious. Government benefit programs are more expensive than they should be, which further strains government budgets and taxpayers' wallets. Fraud offends our sense of fairness because it rewards dishonesty and the undeserving. It reduces our respect for the rule of law. If fraud is widespread, it decreases support for government benefit programs.

In one type of fraud, benefits are claimed for people who are nonexistent, not alive, or already collecting benefits elsewhere. For example, federal prosecutors recently charged that a man bilked the government out of \$336,000 in federal retiree benefits by allegedly impersonating his dead father on the telephone and in writing for nearly 17 years.⁴⁷ This type of fraud could be reduced by applying a simple verification procedure involving local post offices.

The verification process would require people receiving certain benefits to go to a nearby post office with identification showing that they are whom they claim to be. While some fraudsters would show up in person, perhaps with newly forged documents, many would be deterred by the extra risk and work. The power of a simple test, easily passed by honest people, to lessen (although not eliminate) fraud through impersonation was shown in a different setting in 1987 when the federal government began requiring tax filers to list the social security numbers of their dependents on their tax returns. With that modest requirement, seven million dependents suddenly disappeared; they had never really existed.⁴⁸

This proposed verification service could be useful to federal, state, and local governments. With little effort on their part and little inconvenience to people receiving benefits, government agencies at all levels could improve legal compliance and, in some cases, save significant money. Government agencies contracting with the Postal Service for this service would have the reassurance that the verification work was being handled by an official federal government agency staffed by federal employees.⁴⁹ Naturally, it would be up to each government unit to decide which of its benefit programs should have this safeguard and how often recipients should be asked to visit their post office.

For recipients, the process would be no more burdensome than going to the local post office to buy stamps or mail a parcel. In the rare cases when visiting the local post office would be impractical or a hardship, government agencies could establish alternative procedures. Most verifications would be routine and move quickly. When questions arose, the Service could refer people back to the agency providing the benefits.

The current passport-application program suggests what would be required of the Postal Service. The Service would need to establish internal procedures for recording beneficiaries' visits and communicating with the government agencies it was assisting. Beneficiaries' visits would take a small amount of time at post office counters, but they would not disrupt normal mail service. In return for its help, the Service should be fully compensated for its time and effort.

Postal employees as census workers: a missed opportunity.

The Postal Service played an important role in the 2010 Census, with the Census Bureau sending over 120 million census forms through the mail in March alone. Moreover, the Census Bureau was one of the first users of the new Intelligent Mail Barcode (IMb). IMb added \$25,000 to the Census's postage bill, but saved an estimated \$41 million in follow-up costs through better tracking of which mailings were

delivered successfully and who returned their census forms.⁵⁰

In another sense, though, the Postal Service may have been underutilized. To conduct the 2010 census, the Census Bureau hired 565,000 temporary workers.⁵¹ At the same time, due to a massive and unexpected drop in mail demand, the Postal Service had tens of thousands of excess workers, many of whom it placed in "standby rooms", where they had no work and were paid to be idle.⁵² An opportunity existed for both federal agencies to gain: the Service could have reduced its excess payroll and the Census Bureau could have acquired seasoned federal workers, many of them knowledgeable about local communities. To be sure, the Census jobs would not permanently have decreased the Postal Service's payroll because the jobs were only temporary. Nor could the collaboration have met more than a small share of the Census Department's hiring needs; underutilized postal workers number in the tens of thousands while the Census required hundreds of thousands of workers. Nevertheless, the Postal Service would have benefitted for several months, and the Census Bureau would have gained a head start on assembling its team of census takers. Representative Jason Chaffetz (R-UT) recognized this confluence of interests and introduced legislation (H.R. 3167) to facilitate the temporary reallocation of federal employees. However, his proposal never made it out of committee.

Admittedly, it would have been necessary to work out some important details before temporary reassignments would have been feasible. For example, because postal workers receive wages and benefits averaging about \$40 per hour (approximately \$80,000 per year) while temporary census workers generally earned wages ranging between \$10 and \$20 per hour depending on the locality,⁵³ it would have been unattractive for Census to accept responsibility for the full pay of reassigned postal workers. Would the Postal Service have been happy with temporary transfers if Census paid \$15 or \$16 per hour to the postal workers it received while the Service continued paying the remaining \$24 or \$25? The Census jobs have come and gone, but this example

suggests that the Postal Service is underutilized as a nonpostal resource for other government agencies.

Representative Chaffetz and PRC Chairman Goldway both hope to lay the groundwork for greater Postal Service involvement in the 2020 Census. Representative Chaffetz has introduced legislation (H.R. 3373) calling for a feasibility study of using postal workers as census enumerators in 2020. Chairman Goldway, who believes post offices could "[p]rovide a one-stop shop for [many] government services," recommended in Congressional testimony that the Postal Service "participate as a full partner in the nation's 2020 census, thereby saving the country hundreds of millions of dollars."⁵⁴

Conclusion

The Postal Service has repeatedly demonstrated through its actions that it is willing to assist other government agencies in providing nonpostal government services. However, the Service's government collaborations are few in number and small in dollar amount, compared to its thousands of

locations and hundreds of thousands of workers. Are opportunities being overlooked that would improve the quality or lower the cost of government services, strengthen the Postal Service's bottom line, and not interfere with mail delivery?

While the Service intelligently decided not to include new nonpostal commercial services in its 10-year business plan, this paper concludes that it should be alert to the possibility of offering additional nonpostal government services.

The Postal Service would be wise to take several steps. Internally, it should examine its operations and resources, looking for activities that it thinks would assist other government agencies, help the general public, be profitable for the Postal Service, and not impair mail delivery. It should also seek ideas from the postal community. Additionally, the Postal Service should consult with federal, state, and local governments about possibilities for cooperation.

Michael Schuyler
Senior Economist

This is another of a continuing series of IRET papers examining the U.S. Postal Service. IRET began its work in this area in the mid 1990s. Norman Ture, the organization's founder, believed that growth and prosperity are advanced by restricting government to a limited set of core functions. From this perspective he was concerned about the activities of government owned and sponsored businesses. The Postal Service stands out among government businesses because of its size – it currently employs about 25% of the federal government's civilian workforce. For many years – but fortunately much less so in recent years – it was also notable for aggressively trying to expand beyond its core mission into nonpostal commercial markets.

Endnotes

1. The Postal Service has placed a page on its website with links to many "Action Plan" documents. See <http://www.usps.com/strategicplanning/futurepostalservice.htm>.
2. U.S. Postal Service, "Ensuring a Viable Postal Service for America: An Action Plan for the Future," March 2010, p. 16, accessed at http://www.usps.com/strategicplanning/_pdf/ActionPlanfortheFuture_March2010.pdf.

3. U.S. Postal Service, "Initial Response Of The United States Postal Service To Order No. 74," submitted to Postal Regulatory Commission, Docket No. MC2008-1, June 9, 2008, p. 16, accessed at <http://prc.gov/Docs/60/60110/Init.Resp.Ord.No.74.pdf>.
4. Mimi Hall, "6 Cities To Train Mail Carriers To Dispense Anti-Terror Drugs," *USA Today*, updated August 2, 2010, accessed at http://www.usatoday.com/news/washington/2010-08-02-postal02_ST_N.htm.
5. Postal Service, Initial Response to PRC Order No. 74, *op. cit.*, pp. 12-13. The Service noted in the filing that it had over 200 agreements with GSA, most of which were inter-agency memoranda of understanding/agreement (MOUs/MOAs), not formal leases.
6. *Ibid.*, p. 12.
7. *Ibid.*, pp. 13-14.
8. *Ibid.*, p. 24.
9. Postal Reorganization Act of 1970 (P.L. 91-375), sec. 411, August 12, 1970.
10. For example, the U.S. General Accounting Office discovered in a 1998 study that most of the Service's new nonpostal commercial products were losing money, and it found in a 2001 study that the Service's e-commerce ventures were being cross-subsidized by its postal operations. (See U.S. General Accounting Office, "U.S. Postal Service: Development and Inventory of New Products," GAO Report No. GAO/GGD-99-15, November 1998, accessed at <http://www.gao.gov/archive/1999/gg99015.pdf>; and U.S. General Accounting Office, "U.S. Postal Service: Update on E-Commerce Activities and Privacy Protections," GAO Report No. GAO-02-79, December 2001, accessed at www.gao.gov/new.items/d0279.pdf.) In 2003, a bipartisan Presidential Commission recommended that the Postal Service focus on its core postal mission rather than "diverting limited resources" to pursuing "an undefined array of new [nonpostal commercial] revenue streams..." (See President's Commission on the U.S. Postal Service, "Embracing The Future; Making The Tough Choices To Preserve Universal Mail Service," July 31, 2003, p. 28, accessed at <http://www.treas.gov/offices/domestic-finance/usps/pdf/report.pdf>.) Also see Michael Schuyler, "Empire Building At The Postal Service," *IRET Policy Bulletin*, No. 87, May 19, 2003, available at <http://iret.org/pub/BLTN-87.PDF>. The Service helped trigger these concerns when it began a vigorous push in the mid 1990s to expand into nonpostal commercial markets.
11. PAEA (P.L. 109-435), sec. 101 defines the term "postal service", a definition that had been lacking in prior law. PAEA, sec. 102 removes the Service's authority to offer new nonpostal products and subjects existing nonpostal products to PRC review. (To qualify as existing, the nonpostal service had to be offered on both January 1, 2006 and PAEA's date of enactment.)
12. Postal Regulatory Commission, "Review Of Nonpostal Services Under The Postal Accountability And Enhancement Act," Docket No. MC2008-1, December 19, 2008, p. 14, accessed at http://www.prc.gov/Docs/61/61647/Order_No_154.pdf.
13. *Ibid.*, p. 15.
14. United States Court of Appeals for the District of Columbia Circuit, *United States Postal Service v. Postal Regulatory Commission and United States of America*, No. 09-1032, decided March 30, 2010, accessed at <http://pacer.cadc.uscourts.gov/common/opinions/201003/09-1032-1237256.pdf>. The case arose because the Postal Service believes fewer activities should be subject to the nonpostal restriction than the regulator claims and sued in federal court. As discussed in the text, the court ruled in the regulator's favor. All succeeding quotes in the paragraph are also from that decision.
15. The discussion here is of government agencies, but it should be mentioned that government-based favors can also distort markets when granted to private-sector companies. The government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac offer an especially disastrous example. Originally created by the federal government, Fannie and Freddie were later spun off to the private sector, but they retained numerous government ties and privileges. The government links convinced lenders that Washington stood behind the GSE's debts, which permitted Fannie and Freddie

to dominate the secondary mortgage market by borrowing astonishingly large amounts at extraordinarily low interest rates. Egged on by their own shortsightedness and political pressure from Washington, Fannie and Freddie dramatically loosened their lending standards over time. Their dodgy loans significantly intensified the housing bubble and the damage after the bubble popped. (See Peter J. Wallison, "Cause And Effect; Government Policies And The Financial Crisis," *Critical Review*, June 1, 2009, accessed at <http://www.aei.org/article/101071>.) Estimates of the eventual direct cost to taxpayers of bailing out Fannie and Freddie range from \$160 billion to \$1 trillion, and that does not count the indirect costs due to a deeper and longer recession. (See Lorraine Woellert and John Gittelsohn, "Fannie-Freddie Fix At \$160 Billion With \$1 Trillion Worst Case," Bloomberg, June 13, 2010, accessed at <http://www.bloomberg.com/news/2010-06-13/fannie-freddie-fix-expands-to-160-billion-with-worst-case-at-1-trillion.html>.)

16. Office of the United States Trade Representative, "United States, European Union Raise Shared Concerns On Japan Post," Press Release, May 21, 2010, accessed at <http://www.ustr.gov/about-us/press-office/press-releases/2010/may/united-states-european-union-raise-shared-concerns-jap>.

17. See, for example, Hiroko Nakata, "Critics See Distorted Interest Rates, No Hope For A 'Level Playing Field'," *The Japan Times*, April 15, 2010, accessed at <http://search.japantimes.co.jp/print/nn20100415f1.html>.

18. Most of these examples are drawn from U.S. Postal Inspection Service, "A Chronology Of The United States Postal Inspection Service," accessed at <https://postalinspectors.uspis.gov/aboutus/History.aspx>.

19. It is paid only on the rare occasions when its agents are actually detailed to other law enforcement agencies.

20. See President's Commission on the U.S. Postal Service, "Embracing The Future; Making The Tough Choices To Preserve Universal Mail Service," *op. cit.*, p. 100.

21. To be clear, the discussion here is about payments for activities outside the Postal Service's core mission, not about compensation for mail-related activities. Congress requires the Postal Service to perform some postal tasks at less than full compensation, often connected with its Universal Service Obligation (USO).

22. The Postal Service says it delivers to 150 million addresses daily, but that number includes 20 million post office boxes. The number of delivery points outside of post offices is 130 million. (See U.S. Postal Service, *Annual Report, 2009*, p. 76, accessed at http://www.usps.com/financials/_pdf/annual_report_2009.pdf.)

23. U.S. Postal Service, *Annual Report, 2009, op. cit.*, p. 33. The number in the text includes branches and stations (because they are equivalent to post offices in the eyes of most customers) but excludes carrier annexes.

24. U.S. Postal Service, "Ensuring a Viable Postal Service for America: An Action Plan for the Future," Presentation, March 2010, p. 13, accessed at http://www.usps.com/strategicplanning_pdf/Ensuring__Viable_USPS_presentation.pdf.

25. U.S. Postal Service, "Comprehensive Statement On Postal Operations, 2009," p. 35, accessed at http://www.usps.com/strategicplanning/cs09/CSPO_09.pdf.

26. *Ibid.*

27. U.S. Postal Service, "Annual Report, 2009," *op. cit.*, p. 33.

28. See Michael J. Ravnitzky, Postal Regulatory Commission, "Offering Sensor Network Services Using The Postal Delivery Vehicle Fleet," Paper and Slides, Presented at the 18th Conference on Postal and Delivery Economics, Porvoo, Finland, June 4, 2010, accessed at http://prc.gov/prc-docs/library/refdesk/techpapers/Ravnitzky%20Postal%20Sensors%20Paper%20070910-MJR-1_1306.pdf and http://prc.gov/prc-docs/library/refdesk/techpapers/Ravnitzky%20Finland%202010%20Presentation_1305.pdf.

29. In some cases, though, government agencies would actually prefer to partner with private contractors, believing them to be more economical and responsive than government entities. The Postal Service's status as a federal enterprise with federal employees would then work to its disadvantage.

30. See Andrew G. Biggs And Jason Richwine, "The Government Pay Bonus," *The Wall Street Journal*, July 6, 2010, accessed at http://online.wsj.com/article/NA_WSJ_PUB:SB10001424052702303828304575180421298413374.html#printMode. Another study found that, for nine years in a row, federal workers' average wages and benefits have

grown more rapidly than those of private-sector workers. (See Dennis Cauchon, "Federal Workers Earning Double Their Private Counterparts," *USA Today*, updated August 13, 2010, http://www.usatoday.com/money/economy/income/2010-08-10-1Afedpay10_ST_N.htm.)

31. This is especially true in states and localities that have increased wages and benefits rapidly in recent years. For example, the wages and benefits paid by Montgomery County, Maryland have soared by over 50% in the last decade, and *average* employee compensation now exceeds \$100,000. (See Brian Hughes, "Taxpayers Fork Out \$100,000 For Montgomery Worker Compensation," *Washington Examiner*, November 24, 2010, accessed at <http://washingtonexaminer.com/local/maryland/2010/11/taxpayers-fork-out-100k-montgomery-worker-compensation>.)

32. Patrick R. Donahoe, "Statement Of Patrick R. Donahoe On Behalf Of The United States Postal Service," submitted to the Postal Regulatory Commission, Docket No. MC2008-1, June 23, 2008, p. 5, accessed at <http://prc.gov/Docs/60/60256/Donahoestatement%20FINAL.pdf>.

33. Although declining mail demand is the major reason for excess space these days, changes in the Service's distribution network can also produce significant unneeded space at some facilities. The Service's Office of Inspector General (OIG) has recently issued several reports examining how well the Service identifies and responds to excess space. In studies of the Northern New Jersey, New York, and Chicago districts, OIG finds the Service "has made progress" on these fronts but "can do more to dispose of excess interior space in a timelier manner." (See, for example, U.S. Postal Service, Office of Inspector General, "Audit Report – Facility Optimization: Northern New Jersey District," Report Number DA-AR-10-008, August 25, 2010, p. 2, accessed at http://www.uspsig.gov/foia_files/DA-AR-10-008.pdf.)

34. Selective Service System, "How To Register," accessed at <http://www.sss.gov/FSregist.htm>. In addition, there is a staff member at the majority of high schools with Selective Service registration information. (*Ibid.*)

35. One does need a computer with at least a dial-up Internet connection to do this at home. With so many local public libraries offering computers with Internet access, an alternative is to download the desired forms there.

36. President's Commission on the U.S. Postal Service, "Embracing The Future; Making The Tough Choices To Preserve Universal Mail Service," *op. cit.*, pp. xviii, 83.

37. U.S. Postal Service, "Ensuring a Viable Postal Service for America: An Action Plan for the Future," Presentation, *op. cit.*, pp. 32-33.

38. See, for example, Ruth Y. Goldway, Postal Regulatory Commission, "Statement before the House Administration Elections Subcommittee," Subcommittee on Elections, Committee on House Administration, October 16, 2007, accessed on the Internet at http://cha.house.gov/UserFiles/38_testimony.pdf.

39. See National Association of Letter Carriers , "NALC Food Drive," Updated June 4, 2010, accessed at <http://www.nalc.org/commun/fooddrive>.

40. Postal Reorganization Act of 1970 (P.L. 91-375), sec. 411.

41. Senator Thomas Carper (D-DE) has proposed legislation that would explicitly authorize cooperation with state and local governments ("Postal Operations Sustainment and Transformation Act of 2010," S. 3831, sec. 3(c)).

42. In developing its 10-year Action Plan, the Postal Service asked whether post offices would make attractive outlets for selling nonpostal commercial services in that mail users passing through would be potential customers. It concluded that postal foot traffic is too light for that to be much of a draw. (One telling statistic is that the average post office counter has only one-tenth the traffic of the average Walgreens. See McKinsey & Company, "Envisioning America's Future Postal Service; Options for a Changing Environment," March 2, 2010, p. 7, accessed at http://www.usps.com/strategicplanning/_pdf/McKinsey_March_2nd_Presentation2.pdf.) However, low customer foot traffic is not a deterrent for offering nonpostal government services because people would often come specifically for the government services. Low customer traffic might actually be an advantage because post offices that are quiet are more likely to be able to provide other government services without subjecting mail customers to longer waits.

43. Michael J. Ravnitzky, "Offering Sensor Network Services Using The Postal Delivery Vehicle Fleet," paper and slides, *op. cit.*
44. In other original work, Ravnitzky recognized that the requirements of the Service's delivery vehicles dovetail with the abilities of electric vehicles. He concluded that converting existing vehicles to electric power or replacing them with electric vehicles would be consistent with efficient mail delivery and provide a large-scale, national test of electric vehicles. (See Michael Ravnitzky, Postal Regulatory Commission, "Electric Vehicles for Mail Delivery: Identifying Key Issues," Paper and Slides, Presented at the Advanced Workshop in Regulation and Competition, Center for Research in Regulated Industries – Rutgers University 28th Annual Eastern Conference, Skytop, Pennsylvania, May 13-15, 2009, accessed at <http://prc.gov/prc-docs/library/refdesk/techpapers/prcstaff/Ravnitzky%20Eastern%20Conf%20%20Paper.pdf> and <http://prc.gov/prc-docs/library/refdesk/techpapers/prcstaff/Ravnitzky%20Eastern%20Conf%20slides.ppt>. Ravnitzki has noted that the papers represent his personal views, not necessarily those of the PRC.) Subsequently, the Postal Service's Office of Inspector General also examined the issue and largely agreed with Ravnitzky's findings. (See Office of Inspector General, U. S. Postal Service, "Electrification of Delivery Vehicles," August 28, 2009, accessed at http://www.uspsog.gov/foia_files/DA-WP-09-001.pdf.)
45. Ravnitzky, "Offering Sensor Network Services Using The Postal Delivery Vehicle Fleet," Paper, *op. cit.*, p. 1.
46. *Ibid.*
47. "Officials: Man Impersonated Dead Dad," *Washington Post* (blog), September 17, 2010, accessed at <http://voices.washingtonpost.com/local-breaking-news/crime-and-public-safety/prosecutors-man-impersonated-d.html>.
48. John Szilagyi, "Where Some of Those Dependents Went," in *1990 Research Conference Report: How Do We Affect Taxpayer Behavior*, Internal Revenue Service, March 1991, pp. 162–163, cited in Jeffrey B. Liebman, "Who Are the Ineligible EITC Recipients?" *National Tax Journal*, December 2000, pp. 1165-1186, accessed at <http://www.ksg.harvard.edu/jeffreyliebman/ntjeitc.pdf>.
49. To meet this condition, verifications could not be done at contract postal units, which are run by private contractors. This would be one of the rare instances in which contract postal units could not provide as much service to the public as a regular post office.
50. Jean Spencer, "U.S. Census Tracks Mail, Raising Fears Among Some," *The Wall Street Journal*, March 19, 2010, accessed at <http://online.wsj.com/article/SB10001424052748704059004575127762652979700.html>.
51. Haya El Nasser and Larry Copeland, "Census To Cost \$1.6 Billion Less Than Budgeted," *USA Today*, updated August 27, 2010, accessed at http://www.usatoday.com/news/nation/census/2010-08-10-census10_ST_N.htm.
52. Gregg Carlstrom, "Paid To Do Nothing: 11,000-Plus Postal Workers Idle At Any Given Time," *Federal Times*, September 7, 2009, accessed at <http://www.federaltimes.com/article/20090907/DEPARTMENTS02/909070306/1026/DEPARTMENTS02>.
53. For the pay of census takers in different localities, see the Census Bureau's interactive Local Census Office Map at <http://2010.census.gov/2010censusjobs/how-to-apply/local-office-map.php>. Total compensation of census takers would be 7.65% higher if one counts as benefits the employer share of social security and hospital insurance taxes.
54. Ruth Y. Goldway, Chairman, Postal Regulatory Commission, "Testimony," before the U.S. Senate Homeland Security and Governmental Affairs Committee, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, April 22, 2010, accessed at http://www.prc.gov/prc-docs/home/whatsnew/Chairman%20Goldway%20Senate%20Testimony%204%2022%2010%20FINAL_869.pdf.