The United States Postal Service: Back to Business

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The United States Postal Service is likely the most-encountered federal agency by the American public. Predating the Declaration of Independence, the establishment of the post office was integral to building the country's infrastructure and fostering communication between citizens. The United States constitution is intentionally vague on the construction of an administration, but specifically created a then-titled Department of the Post Office to aid in the regulation of commerce. Despite the USPS's deep roots in the foundation of American history, speculation concerning its ability to survive amid increasing numbers of private competitors has been an ongoing conversation since the mid-twentieth century. Financial forecasts are gloomy for the USPS, as researchers predict its financial doom and inevitable collapse in the face of a competitive market, dying clientele, and the dominating presence of a technological era.

Despite consistent criticism from agency and financial analysts, the USPS survives in 2015 amidst an era of dominating technology and an advancing private sector. In this research paper, I ask the following question: How has the United States Postal Service managed to survive despite significant competition from the private sector? Following the popular adage "if you can't beat 'em, join

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'em," I hypothesize that the United States Postal Service has adopted business savvy practices to increase efficiency and effectiveness of service, essentially reorganizing to mirror the structure of businesses in the private sector. I will first outline the impetus for organizational change, the astute nature of old agencies, and the merits and burdens of the business model and private sector. To support my hypothesis, I will draw evidence from legislative action, analyses of USPS's attempts to compete in the global market, and scholarly opinions of the effectiveness of USPS reorganization. This research paper serves to appraise the United States Postal Service's reorganization and assess its effectiveness in response to doubtful critiques from scholars and average citizens alike.

Literature Review

The United States administration is an evolving structure, slowly changing in response to criticism from citizens. The different eras of Public Administration reflect the priorities and interests of citizens, as the government attempts to accommodate them. Initially, the administration was created to be very small because of the anti-statehood mentality of the newly independent country. Over time, the administration shifted from only providing essential services to a large and overwhelming administrative state with an exponential growth rate. In the mid-twentieth century, there was a rising distrust in government and its ever-expanding size. In the late 1960s, scholars noted that "the popular image of a civil servant is increasingly that of a meddling, petty tyrant, interfering mindlessly with the everyday activities of his fellow citizens in the name of safety, nondiscrimination, or the furbish lousewort" (Marini, 1971, 258). This scathing depiction of the typical public sector employee captures the average citizen's view of the U.S. administration at large. In response to obvious citizen discontent, scholars of public administration began a search for an answer to the current administrative paradigm.

The prevailing Wilsonian ideology of the politics/administration was heavily critiqued beginning in the mid-twentieth century. In his "Introduction to the Study of Public Administration", President Wilson proposed "a civil service cultured and self-sufficient enough to act with sense and vigor, and yet so intimately connected with popular thought, by means of elections and constant public counsel, as to find arbitrariness or class spirit quite out of the question" (Wilson, 1884, 501). Wilson wrote in the midst of civil service reform, and his ideas were appropriate for that era of Public Administration. His projections fit well within the principles of scientific management popularized by Frederick Taylor and the idea that administration should be rooted in scientific practices rather than political discourse. However, a wide volume of literature began to question the ability of the bureaucracy to keep politics and administration separate.

More specifically, "the criticism of the "principles" was that they were but "proverbs" arrived at without thorough scientific investigation and deficient in combining the normative and causal without recognition of so doing and without appreciation of the implications and consequences" (Waldo, 1968, 463). Scholars began to publish work with the "intent to portray the intricate interrelation of administrative processes: to portray politics and administration as a continuous, indivisible process" (Waldo, 1968, 468). Thus, the rejection of the widely held notion of keeping politics and administration separate ushered in a new era of Public Administration.

Scholars of Public Administration met at the infamous Minnowbrook Conference in 1968 to confer and establish a theory behind what they coined "New Public Administration". The classical definition of Public Administration is the efficient, economical, and coordinated management of public services (Frederickson, 1971, 295). New Public Administration added social equity to the classical objectives and rationale, and asked "does this service enhance social equity?" (Frederickson, 1971, 295). Social equity, by definition, "includes activities designed to enhance the political power and economic well-being of disadvantaged minorities" (Frederickson, 1971, 295). Essentially, New Public Administration aimed to maintain standards of efficiency and effectiveness while establishing a universal procedure and guarantee of services. Further, "decentralization, devolution, projects, contracts, sensitivity training, organization development, responsibility expansion, confrontation, and client involvement are all essentially counter-bureaucratic notions that characterize New Public Administration" (Frederickson, 1971, 298). New Public Administration also utilized cost-benefit analyses because it "provides a scientific or quasi-scientific means for attempting to get at the question of social equity" (Frederickson, 1971, 298). Such analyses also provide justification for reforming the classical objectives of traditional Public Administration.

Such cost-benefit analyses are a characteristic inherent of the market model, which economist Alice Rivlin deems "essentially an extreme form of decentralization" because it "makes the locus of decisions about how services should be produced not simply to the community, but to the individual consumer" (Rivlin, 1971, 312). Essentially, the private sector of the economy "relies on the profit motive to bring about improvement in the quality of goods and services offered to the consumer" (Rivlin, 1971, 312). Therefor, "if a business wants to survive, they have to attract customers by offering better products or lower prices than their competitors- or both" (Rivlin, 1971, 312).

Following in the footsteps of New Public Administration came the popularization of public choice theory, "based on micro-economic theory that views the citizen as a consumer of government goods and services" (Shafritz, Hyde, 2012, 373). The theory attempts to "maximize administrative responsiveness to citizen demands by creating a market system for government activities in which public agencies compete to provide citizens with goods and services" (Shafritz, Hyde, 2012, 373). Further, public choice theory criticized government for inefficiency an the lack of motivation to produce high quality results without the incentives of budget increase or agency expansion. Following the Watergate scandal and the controversial United States participation in the Vietnam War, citizen's trust in government continued to plummet. The government began to rely on public choice theory and made efforts to decrease its size, or decentralize. The devolution of government and objectives aimed to reduce costs while maintaining social equity and quality of services were modeled after the private sector, the image of efficiency.

However, it is necessary to acknowledge and describe the differences between the public and private sector in order to fully understand how the adoption of private sector practices is difficult in the public sector. The main difference between the two sectors lies organically in law. The public sector is bound by the rules and regulations that birthed it. Operating under high legal constraints, the public sector treads cautiously along the trails of government. Public agencies are "not primarily guided by their customers' wishes as they are bound to follow procedures stipulated by laws and guidelines" (Jurisch et. al, 2013, 5).

By contrast, the private sector's activities are not as heavily influenced by political boundaries and effectively portray the business sector's interests in the market. The private sector has clearly outlined goals and standards, while the policy directives tend to be more ill-defined in the public sector (Ring, Perry, 1985). This ambiguity in policy is intentional, as federal agencies stem from politicians competing for representation and power in government. The goals and actions of public agencies are the pawns of government.

Economically, while the public sector is often regarded as a passive actor in the market because of free-market principles inherent of liberal democracies, the private sector actively and aggressively competes for stake and power. Private sector organizations enjoy the freedom to selfishly structure themselves in a way that is most cost-efficient. Such structure includes the incorporation and application of economic rational-choice perspectives. The private sector utilizes the classical business model, prioritizing efficiency and effectiveness. Efficiency is simply defined as the ratio of output to input, while effectiveness is a comparison of output to standards, or expectations (Hedler, 1998, 52). The private sector is accountable for its profit and customer satisfaction, while the public sector's scope of impact is much more far-reaching. By comparison, public sector policymakers are "generally subject to more direct and sustained influence from a greater number of interest groups than are executives or managers in the private sector" (Ring, Perry, 1985, 280).

The stark contrast between the two sectors performance abilities often renders citizens and agency clientele disgruntled with the non-flexible nature of government. Public administration is practically paradoxical-the constraining negative force of "bureaucracy" is often at odds with the positive, highly idealistic image of public service (Hedley, 1998). To improve the public impression of the ever-expanding bureaucratic state, there is a significant call from agency employees and clientele for a shift from the organizational paradigm of traditional values to an adoption the classical business model inherent in the private sector.

The rejection of formerly recognized standard norms and practices can often be threatening to senior executives in public agencies, who worked to secure the agency's establishment, safety, and survival. However, senior support is instrumental in fostering employee enthusiasm, overcoming resistance to proposed change, and managing obstacles. This process of change in established agencies is outlined by Downs, where he notes that as time passes, "bureaus tend to diversify to protect themselves from fluctuations in demand" (Downs, 1967, 246). Further, Downs acknowledges that the older a bureau is, the "less likely it is to die because leaders become more willing to shift the major purpose in order to keep the bureau alive" (Downs, 1967, 246).

The demand for change is often manifested in a public agency's struggle to reorganize to fit the model set by the private sector. Because the private sector is viewed as generally more efficient and effective, the public sector attempts to fashion itself in a similar manner in hopes of achieving similar results. It makes sense for the United States Postal Service to shift its traditional practices to those deemed to be more business-conscious. Though the USPS does not fall short on historical integrity, it must consciously approach the market with the consideration of economic rationale in order to survive. The aforementioned inherent differences in the public and private sector will prove as obstacles to successful organizational change in the Postal Service's ability to transform into a pseudo-commercial enterprise.

Further, many scholars question the legitimacy of a public organization utilizing business sector practices. The traditional expectation of the bureaucracy "imagines a bureaucracy consisting entirely of executive agencies under the control of the President" (O'Connell, 2014). These conventional agency standards are not accurate. In reality, many agencies push the boundary between the public and private sector, tangled in a complex organizational structure. Agencies often "start more centrally within the Executive Branch and formally move to a boundary with the private sector, another governmental entity, or a different federal branch" (O'Connell, 2014, 871). These agencies tiptoe the line of the private sector, but their creation was a rational, politically conscious move. Boundary agencies allow political actors to invest in goods on both the public and private sector. However, the shift of a more business-like structure of executive agencies brings about the question of democratic legitimacy. Is the corporation really legitimate if it is active in the market and practically private?

To solve this question of legitimacy and the problem of outstanding deficits, many scholars advocate the complete privatization of the U.S. Postal Service. Many European countries have successfully privatized, or at least partially privatized, their postal operations. Doing so saves money and allows for greater access to services, as the private sector has more flexibility in changing structure. The principal argument against privatization, of course, is that there is no guarantee of universal service, thus undermining the goal of social equity. Access to the U.S. Postal Service is practically taken as a political right. Citizens expect a certain standard that the private sector may not be able to deliver with the same price tag.

I will test my hypothesis by using qualitative data like postal reform acts, direct actions of competition, and partnerships within the private sector by the USPS.

Analysis

Prior to 1970, Congress directly managed the widely dispersed operations of the Department of the Post Office. Congress "retained the right to establish and regulate post office, a right of considerable power in a growing nation that depended heavily on the mails, for the conduct of business and the maintenance of communications" (Biggart, 1971, 411). The flaw in this design was that Congress made decisions for the Post Office Department from a political stance, often juxtaposing employee and customer satisfaction against political motives. Because the post office was so widely utilized, "Congress and the Executive branch shared the single largest source of patronage in government" (Biggart, 1971, 412). Biggart further notes that "the pool of favors was traditionally managed by the Postmaster General who was typically the President's campaign manager or close political advisor; his postal management chores were usually second to his political duties" (Biggart, 1971, 412). Service and overall efficiency suffered under Congressional management.

In 1967 President Lyndon B. Johnson appointed the Commission on Postal Reorganization, chaired by Frederick R. Kappel to "determine whether the postal system as presently organized is capable of meeting the demands of our growing economy and expanding population"(Kappel, 1968, iii). It is important to note that the Commission on Postal Reorganization, more commonly known as the Kappel Commission, was composed of several successful businessmen, including the Dean of the Harvard Business School and the President of AFL-CIO. At the time, the businessmen found the current organization of the Post Office to be inefficient and inappropriate in regards to standard business norms. To remedy this situation, the Kappel Commission recommended: a self-supporting government corporation, elimination of patronage (with controlled top jobs), that rates be set by a Board of Directors, and that labor management impasses over contracts and pay be referred to the President (Kappel, 1968).

The Kappel Commission's recommendations served as the impetus for the Postal Reorganization Act of 1970, which created a new United States Postal Service as an independent branch of government free from Congressional political interference. Instead of appointing the Post Master General by means of political patronage, the position was selected by a Board of Governors that served as an executive committee, which was very similar to the Board of Directors that exists in private sector companies (Morris, 2013). Under the Postal Reorganization Act, wages were set by collective bargaining between management and the union rather than Congress. The newly created USPS would no longer be directly funded by Congress, though it had the option to borrow up to $15 billion from the government in order to keep up with evolving industrial needs (Morris, 2013). Ultimately, the United States Postal Service (USPS) would act like a commercial entity, relying on sales of postage, mail, and other services for revenue. The Reorganization Act was the first step in molding the USPS into a business-like enterprise.

Prior to the Postal Reorganization Act, the Post Office Department's main priority was quality of service. Because the Department was funded by appropriations from Congress, it was not motivated to operate from a profitable standpoint. Its mission was to provide the American public with universal services at affordable prices, including uniform prices, quality of service, access to services, and six day delivery to any part of the country (Carbaugh, Tenerelli, 2011). However, the USPS had to "transform the notion of service without regard to costs, quality, or customer preferences, to a concept of service that would be consistent with economic rationality, satisfying the most customers at the lowest cost" (Biggart, 1985, 485).

The USPS would have to reckon with the challenge of reconciling standards of convenience, speed, and costs with the universal guarantee of service inherent in public agencies. The introduction of private shipping companies like the United Parcel Service and FedEx coupled with USPS's financial independence forced the USPS to acknowledge and reckon with the market. The USPS is now a public authority, or a "corporate body authorized by legislative action to function outside of the regular structure of government to finance, to construct, and, frequently, to manage revenue-producing enterprises operated as public benefit" (Hedler, 1998, 252). The most resonating success of the reorganization initiated in 1970 was "transforming the post office management's self-image as a passive dispenser of service, to that of an active competitor in the market" (Biggart, 1985, 487).

The Reorganization Act did not come without strings attached. The Postal Rate Commission was created by the Reorganization Act, and was tasked with approving all changes in postal rates and fees. Each time the Postal Service seeks to change its rates, it must "present a rate-making case consisting of expert testimony on the need for the increase, coupled with financial and mail volume data supporting the request" (Porras et.al, 2000). The problem with this restriction is that virtually anyone can intervene with this process because USPS records are public. This is a dilemma because public interference can slow down the process of making changes and adapting to meet customer demands. The lengthy and formal process to change its rates takes approximately one year. Because of this delay, the Postal Service "cannot react to financial or marketplace fluctuations via price adjustments" (Porras et. al, 2000). Essentially, the USPS was given a role as a business of government, but has little autonomy to compete successfully in the market without lengthy debates over proposed change. Thus, the competitive attitude essential to businesses in the private sector is denied to the USPS.

Nonetheless, the United States Postal Service continued to shape its practice by modeling those of private sector businesses. All of these changes, however, were not welcomed. In 1999, FedEx sued the United States Postal Service for false advertising. In 1997, the USPS ran ads comparing its Priority Mail to FedEx and UPS's guaranteed two-day delivery, while Priority Mail is neither tracked nor guaranteed. Ultimately, the National Advertising Review Board concluded "USPS need not modify its comparison ads because it determined consumers were unlikely to assume that Priority Mail was also tracked and guaranteed" (Robinson, 1999, 31). The USPS's attempt to match major competitors through aggressive advertisement was criticized and flawed in design from not only the private sector, but the public sector, too.

In 2001, USPS continued to increase competition with the private sector by offering its first-ever discounts on two and three day delivery service between United States cities and foreign countries. The discounts were "aimed at leveling the playing field with private rivals like FedEx and UPS, who frequently use price breaks to lure larger customers"(Brooks, 2001). This expansion into the global market was not restricted by Congress, though discounts within the national market are not as easy to handout due to strict regulations from government. In order for the government to meet its goal of social equity in alignment with New Public Administration, it is hesitant to offer discounts for fear that they might disadvantage a certain group.

The USPS continued to follow in its competitor's footsteps despite significant criticism for attempting to run as a private organization with heavy government regulations. In July 2005, the USPS rolled out a new tracking system to track every package assigned a barcode. The USPS tracking plan aimed to "improve customer service and obtain data that will be used internally to improve network management and package flow" (Keane, 2005). Though the USPS took a promising step in the right direction in terms of business-savvy, it was still leaps and bounds behind the private sector. Private companies like FedEx and UPS began collecting data on shipments to monitor their own operational costs far before the USPS. In 1991 UPS began tracking shipments and FedEx launched an Internet tracking interface in 1994.

In 2006, Congress passed the Postal Accountability and Enhancement Act (PAEA) that was intended to provide the USPS with more opportunities to generate additional revenue. This reform was in response to the Postal Service's sky-rocketing debt and decline in first class mail. The first class mail monopoly is the foundation upon which the U.S. Postal Service built its future, and with the introduction of web services, its usefulness decreases more everyday. The U.S. Postal Service desperately needed to make smarter business choices, but was held back by government restrictions. PAEA "granted the USPS greater flexibility to set prices, test new postal products, and retain earnings so that it could finance necessary capital investments and repay its debt" (Carbaugh, Tenerelli, 2011, 133). This piece of legislation also lifted the rate-making structure infamous for being a tedious and long process. Under the new structure, the USPS has the authority to announce rate changes as long as they are not in violation of legal requirements (Carbaugh, Tenerelli, 2011). The push and pull for autonomy in business practices and adherence to regulations and procedures continued with this act. Congress gave the USPS more power to make business decisions, but tacked on the requirement of "not violating any legal requirements".

The Postal Service is considering halting the delivery of mail on Saturdays. Saturdays are the least productive days for the corporation, and stopping mail deliveries on Saturdays would save an estimated $2 billion (O'Keefe, 2013). Other proposed reforms include "Village Post Offices", where local businesses in small towns could operate as a small post office.

In 2013, the U.S. Postal Service struck a deal with the massive online retailer, Amazon, to deliver Amazon packages on Sundays. This strategic move is part of the corporation's goals to "diversify their services and expand their role in the e-commerce market" (Nixon, 2013, 1). This partnership also took away business from private competitors FedEx and UPS, which do not deliver on Sundays.

In 2015, the Government Accountability Office listed the U.S. Postal Service as a high risk agency because of insufficient funds needed to cover its financial obligations. The GAO reported that "mail volume has declined by 27 percent from its peak—213 billion pieces—in fiscal year 2006 to about 155 billion pieces in fiscal year 2014" (GAO, 2015). As mentioned earlier, this decline exposes the weakness of USPS's business model, as they relied on mail volume for revenue to cover costs and expenses. At the end of the 2014 fiscal year, "USPS had about $102 billion in unfunded liabilities: $87 billion in unfunded liabilities for benefits, including retiree health, pension, and workers' compensation liabilities, and $15 billion in outstanding debt to the U.S. Department of the Treasury—the statutory debt limit" (GAO, 2015). In response to the U.S. Postal Service's outstanding debt, the GAO recommended that "Congress and USPS need to reach agreement on a comprehensive package of actions that Congress can pass to improve USPS's financial viability, including (1) modifying USPS's retiree health benefit payments in a fiscally responsible manner; (2) facilitating USPS's ability to better align costs with revenues; and (3) requiring any binding arbitration in the negotiation process for USPS labor contracts to take USPS's financial condition into account" (GAO, 2015).

Conclusion

The presented evidence shows how the United States Postal Service makes strategic attempts to act like a business, even though they are not allowed to do much because of Congressional restrictions. The common theme of the Postal Service's development is that they are held back from making profits because the government is afraid to allow a government corporation to enter the market and compete, which would be seen as aggressive and unfair by the private sector. The U.S. Postal Service does not receive funding from Congress, and is self-supporting. The government corporation is expected to be financial responsible, which includes making smart business moves. However, the corporation is in a bind because it is given the responsibility of paying its own bills without the freedom to make enough money to do so.

From my research, I've noticed a big problem of judging the public sector's performance with the criteria set by the private sector. The two sectors are inherently different in the nature of how they make decisions. Though they may have similar goals, their ability to act is not congruent. The United States Postal Service did re-structure itself to look more like a business, as my hypothesis suggested. However, it is still failing because of serious restrictions on its ability to act like a business. I recommend further research on how different standards and criteria for judging the performance of the Postal Service can be developed separately from those accepted as normative by the private sector.

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