

# The Strange Case of the Postal Service's Disappearing Board and the Warning It Provides

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## Key Findings

- Some stakeholders and policymakers argue the Service could strengthen its bottom line if it entered nonpostal commercial markets like supply chain management and banking. However, there are many good reasons for the current limitation on nonpostal commercial activities.
- One is the danger that political interference would prevent the Postal Service from following sound business practices and further weaken it financially.
- The political risk is illustrated by the Senate's failure to confirm any Postal Service Governors since 2010. Only one remains in office, and his term expires in December.
- Senator Bernie Sanders has reportedly been using the Senate prerogative of placing holds on confirmation votes to express his displeasure with Postal Service efforts to reduce its footprint, and costs, as it struggles with declining mail demand.
- The Postal Service's disappearing Board of Governors underscores the point that the pocketbooks of mail users, taxpayers, and the Postal Service itself are best protected if the government agency stays out of new nonpostal commercial markets.

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The Postal Service's finances are challenging. Buffeted by falling demand for its most lucrative product, First-Class Mail, and by high costs, especially for labor, the Service lost \$5.1 billion in 2015 and has suffered cumulative losses of \$56.8 billion over the period 2007-2015.<sup>1</sup> The government enterprise expects another multibillion-dollar deficit in 2016.

It is sometimes suggested the Postal Service could improve its bottom line by diversifying into new, nonpostal ventures. For example, the Postal Service's Office of Inspector General (OIG) is enthusiastic about logistics and recommends starting with warehousing and other logistics services for small businesses.<sup>2</sup> The OIG also thinks the Postal Service could make money by offering financial products, particularly services directed to the unbanked and underbanked.<sup>3</sup> The American Postal Workers Union and Sen. Elizabeth Warren (D-MA) are among those who vigorously support this proposal, although the Postal Service itself is skeptical.<sup>4</sup>

Current law bars the Postal Service from entering new nonpostal commercial markets.<sup>5</sup> However, Sen. Thomas Carper (D-DE) has introduced postal legislation that, among its many provisions, would permit nonpostal expansion subject to regulatory approval.<sup>6</sup>

But is nonpostal diversification really a good idea? Limits were placed on the Service's nonpostal commercial activities for a number of reasons. Those considerations are still valid. Moreover, a recent and seemingly unrelated phenomenon – the rapid disappearance of independent Governors from the Postal Service's Board – is a warning that nonpostal expansion is not in the best interests of mail users, taxpayers, or the Postal Service's financial viability.

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- 1 For the 2015 loss, see U.S. Postal Service, Form 10-K, FY 2015, Nov. 13, 2015, p. 12, <http://about.usps.com/who-we-are/financials/10k-reports/fy2015.pdf>. For cumulative 2007-2015 losses, see U.S. Postal Service, Form 10-K, various issues. Unless stated otherwise, all years are Postal Service fiscal years, which run from October 1 to September 30.
  - 2 See Office of Inspector General, U.S. Postal Service, "Opportunities for the Postal Service – Micro-Warehousing and Other Logistics Support Services," Report No. MS-WP-14-003, March 13, 2014, [https://www.uspsoig.gov/sites/default/files/document-library-files/2015/ms-wp-14-003\\_0\\_0.pdf](https://www.uspsoig.gov/sites/default/files/document-library-files/2015/ms-wp-14-003_0_0.pdf); and Office of Inspector General, U.S. Postal Service, "The Global Logistics Revolution: A Pivotal Moment for the Postal Service," Report No. RARC-WP-13-010, June 3, 2013, [https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-13-010\\_0.pdf](https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-13-010_0.pdf).
  - 3 See Office of Inspector General, U.S. Postal Service, "The Road Ahead for Postal Financial Services," Report No. RARC-WP-15-011, May 21, 2015, [https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-15-011\\_0.pdf](https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-15-011_0.pdf); and Office of Inspector General, U.S. Postal Service, "Providing Non-Bank Financial Services for the Underserved," Report No. RARC-WP-14-007, January 27, 2014, January 27, 2014, [https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-007\\_0.pdf](https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-007_0.pdf).
  - 4 See American Postal Workers Union, "Campaign for Postal Banking," <http://www.apwu.org/campaign-postal-banking>; Elizabeth Warren, "The Big Benefits of Postal Service Banking," U.S. News & World Report, July 7, 2014, <http://www.usnews.com/opinion/articles/2014/07/07/why-the-postal-service-should-offer-banking-services>; and U.S. Postal Service, "USPS Responds to OIG Financial Services White Paper," June 3, 2015, [http://about.usps.com/news/recent-statements.htm#toggle\\_oigwhite](http://about.usps.com/news/recent-statements.htm#toggle_oigwhite).
  - 5 Postal Accountability And Enhancement Act (P.L. 109-435), sec. 102, Dec. 20, 2006.
  - 6 S. 2051, Improving Postal Operations, Service, and Transparency Act of 2015 (iPost), sec. 303.
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## Reasons for the restriction on the Service's nonpostal commercial activities

Until 2006, the government-owned U.S. Postal Service (technically part of the federal government's executive branch<sup>7</sup>) could, and sometimes did, enter nonpostal commercial markets. However, those forays were often controversial and the results usually disappointing. Accordingly, in what was regarded as a common-sense reform, the Postal Accountability and Enhancement Act of 2006 (PAEA) stipulated that the Service cannot sell nonpostal commercial services, except for some nonpostal products it offered at the start of 2006.<sup>8</sup>

Consider some of the problems that may arise when the Postal Service enters nonpostal commercial markets.

- Career postal workers' compensation packages (wages and, more so, benefits) are high relative to those of comparable workers in the private sector. Those above-market costs decrease the odds that nonpostal ventures will be profitable.
- Contrary to assurances that nonpostal endeavors will churn out profits to support mail service, there is apprehension the financing would run in the wrong direction, with traditional mail products, especially those within the postal monopoly, cross-subsidizing nonpostal activities.
- The Service's opaque cost accounting, according to which 46 percent of total costs are counted as overhead instead of being attributed to products, adds to the worry about perverse cross-subsidies by making them easier to conceal.<sup>9</sup>
- Another worry is that the Postal Service is often willing to accept relatively low margins in competitive markets. For example, on average, the Service priced its competitive postal products (mostly package and shipping services) at 138 percent of attributable costs in 2015, but priced market dominant mail, most of which lies within the postal monopoly, at a much higher 183 percent of attributable costs.<sup>10</sup> (If both margins seem high, remember they exclude the 46 percent of costs the Service counts as overhead.) Two dangers of pricing to cover costs, but not by much, is that it may sacrifice potential profits and that it does not leave much room for error if losses are to be avoided. Nonpostal commercial products, of course, are competitive market products.
- A bipartisan presidential commission recommended in 2003 that the Service's nonpostal ventures be limited, fearing they would otherwise distract postal workers and managers from their more important core mission of providing reliable and economical traditional mail service throughout the nation.<sup>11</sup>

7 39 U.S.C., sec. 201.

8 39 U.S.C., sec. 102.

9 See Postal Regulatory Commission, "Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2015, March 29, 2016, pp. 87-89, <http://www.prc.gov/sites/default/files/reports/FY%202015%20Financial%20Analysis%20Report.pdf>.

10 *Ibid.*

11 President's Commission on the United States Postal Service, "Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service," July 31, 2003, [https://www.treasury.gov/press-center/press-releases/documents/pcusps\\_report.pdf](https://www.treasury.gov/press-center/press-releases/documents/pcusps_report.pdf).

- The presidential commission was also concerned that the Service might deploy its various government-based privileges to take business away from more efficient private-sector companies, which would reduce the economy's efficiency and growth.
- Perhaps most decisively, a number of unsuccessful nonpostal initiatives in the 1990s and the start of this century convinced many in the policy community that while postal managers are highly skilled at moving the mail, they are much less adept in nonpostal areas. An influential GAO report in 1998 examined the Service's new postal and nonpostal products in the mid-1990s.<sup>12</sup> People were surprised by the range of nonpostal products, such as catalog shopping at post office kiosks and bill processing for a credit card company, and the losses most of those products incurred. Several years later, the perception was reinforced when the agency's Board of Governors had to push management to scale back e-commerce forays whose annual costs had climbed to \$33 million against gross revenues of \$2 million.<sup>13</sup>

In the last few years, the Postal Service has gained more flexibility to use non-career workers, whose wages and benefits are lower than those of career employees, which means the Service's cost disadvantage is not as great as previously. On the other hand, a larger share of its costs is now categorized as general overhead, which increases the potential for hidden cross-subsidies.

## The Postal Service's Disappearing Board

Intertwined with the issues described above is political interference. A vivid illustration is a problem the Service confronts today regarding its Board of Governors. The problem is in no way the Service's fault, but it underscores the point that mail users, taxpayers, and the institution itself are best served if the Postal Service does not enter new nonpostal markets.

The Board of Governors has an authorized size of eleven: the Postmaster General, the Deputy Postmaster General, and nine independent members known as Governors, no more than five of whom may belong to one party.<sup>14</sup> The Governors are appointed to seven-year terms by the President, subject to Senate confirmation.

Currently, however, the Board is down to three members: the Postmaster General, the Deputy Postmaster General, and a lone Governor. Although the Administration nominated five individuals for Postal Service Governorships in 2015, the Senate confirmed none. In fact, the U.S. Senate last confirmed a Postal Service Governor in 2010. As terms expired, the number of independent Governors decreased. The only remaining Governor is former Congressman James Bilbray, and his term will expire in December.

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12 U.S. General Accounting Office, "U.S. Postal Service: Development and Inventory of New Products," GAO/GGD-99-15, November 1998, <http://www.gao.gov/archive/1999/gg99015.pdf>.

13 For a fuller discussion, see Michael Schuyler, "Postal Service Cancels Some Electronic And Financial Services Products; Should Cancel More," IRET Congressional Advisory No. 167, March 19, 2004, <http://iret.org/pub/ADVS-167.PDF>.

14 39 U.S.C., sec. 202(a).

The Senate's inaction had been a bit of a mystery, but Mr. Bilbray pulled away the curtain when he explained, "Since 2010, [Sen.] Bernie [Sanders] has held up every nomination for Governor unless we stop closing processing centers and reopen the ones we already closed, which would cost over \$1 billion [annually]."<sup>15</sup> It is also being reported that Sen. Sanders' latest round of holds may reflect displeasure with two of the President's nominees to the bipartisan Board.<sup>16</sup> Sen. Carper likewise deplored the loss of all but one Governor and, without naming names, criticized "[o]bstruction in Congress."<sup>17</sup>

If the U.S. Postal Service were a modest enterprise with few employees, low revenue, lower costs, and a stable business model, the evaporating Board might be a picaresque but fairly harmless story about what can happen when the government runs a business. In reality, though, the U.S. Postal Service is a massive organization that delivered 154.2 billion pieces of mail in 2015, reported revenue of \$68.9 billion, employed 622,000 workers (career and noncareer), and has a presence in every city and town in the nation.<sup>18</sup> Mail service remains vital for millions of households and businesses.

The diminished Board would also be less worrisome if the government enterprise were financially stable instead of chronically in the red. Boards, perhaps following the maxim of not fixing what isn't broken, often defer to management when organizations are financially successful, but tend to become more active when organizations lose money or encounter other difficulties. If there were ever a time when the Postal Service should have a full complement of board members, the time is now. Like board members at business and nonprofit organizations, Postal Governors improve accountability by forcing managers to explain and defend their actions, and they provide a sounding board that postal executives can use in thinking through current problems and future plans.

Moreover, even if the Governors provided no benefits in these areas, their presence would still be important because they have key statutory responsibilities.<sup>19</sup> The Governors select and, if dissatisfied, can remove the Postmaster General. The Governors, as opposed to the full Board, are also the ones who propose changes in postal rates and mail classes. In addition, at least four Governors are needed for the Board to have a quorum.

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15 Peter Urban, "Nevada's Bilbray Stands Alone on Postal Service Board," *Las Vegas Review-Journal*, December 13, 2015, <http://www.reviewjournal.com/politics/nevada-s-bilbray-stands-alone-postal-service-board>.

16 Al Urbanski, "Postal Board of Governors Is Down to One Member," *Direct Marketing News*, December 9, 2015, <http://www.dmnews.com/postal/postal-board-of-governors-is-down-to-one-member/article/458578>.

17 Senator Thomas Carper, "Congress Must Act Now to Restore Appropriate Oversight of U.S. Postal Service," Senate Committee on Homeland Security & Governmental Affairs, *Minority News*, December 8, 2015, <https://www.hsgac.senate.gov/media/minority-media/senator-carper-on-usps-board-of-governors-congress-must-act-now-to-restore-appropriate-oversight-of-us-postal-service>.

18 Postal Service, Form 10-K, FY 2015, *op. cit.*

19 For a fuller discussion of the governance issues raised by the Postal Service's loss of most of its Board, see Kevin R. Kosar and Daniel J. Richardson, "The U.S. Postal Service's Ghost Ship Board," *R Street Policy Study No. 51*, February 2016, [http://www.rstreet.org/wp-content/uploads/2016/02/RSTREET51\\_2016.pdf](http://www.rstreet.org/wp-content/uploads/2016/02/RSTREET51_2016.pdf).

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In November 2014, shortly before the Board lost its quorum, it delegated its powers to a “Temporary Emergency Committee” composed of the Postmaster General, the Deputy Postmaster General, and any remaining Governors.<sup>20</sup> The Board also passed a resolution that matters solely within the power of the Governors could be decided by the remaining Governors – as long as any are left – without the need for a quorum. While the Service argues that the delegation of authority is permissible, Mr. Bilbray cautions, “There is a question about whether the courts would hold this valid.”<sup>21</sup> It would be safer not to have to test the emergency rules in court.

Sen. Carper contrasted the fate of the U.S. Postal Service’s Board of Governors with normal, responsible, business practice. “This would never occur in the private sector because shareholders would demand oversight from a strong board to protect their investment.”<sup>22</sup> Further, it is ironic that while Washington often extols the value of independent directors at private businesses and nonprofits, its own behavior has deprived the Postal Service of all but one independent Governor.

## Learning from experience

The view that rich opportunities await the Postal Service in nonpostal commercial markets relies on the implicit assumption that Washington would allow the Service to follow sensible business practices in those markets. That assumption is too optimistic.

A wonderful quote, often misattributed to Albert Einstein, reads, “Insanity is doing the same thing over and over again but expecting different results.”<sup>23</sup> What has happened to the Board of Governors should remind us that political interference is part of Washington’s DNA. If the Service entered a new nonpostal, commercial market and the new products attracted a political constituency, experience teaches that Congress likely would intervene if the Service decided that, for business reasons, it had to increase prices or reduce service levels for the new products.

For instance, if the Service began selling logistics services such as warehousing, order processing, and packaging of merchandise, and if the new services were substantial enough to attract Congress’ attention, it is thoroughly predictable that members of Congress would push to have facilities located in their states and districts. It is also predictable that once the facilities were established, Congress would apply more pressure if the Postal Service later decided for business reasons to close or downsize the facilities. That political micromanagement would drastically reduce the chances of the new products being profitable. And if the new products turned out to be financial drains, it is mail users and perhaps taxpayers who would be called upon to cover the losses.

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<sup>20</sup> Postal Service, Form 10-K, FY 2015, *op. cit.*, p 1.

<sup>21</sup> Urban, “Nevada’s Bilbray Stands Alone on Postal Service Board,” *op. cit.* The Service claims the emergency rules are permitted by 39 U.S.C., sec. 402.

<sup>22</sup> Carper, “Congress Must Act Now to Restore Appropriate Oversight of U.S Postal Service,” *op. cit.*

<sup>23</sup> See Michael Becker, *Becker’s Online Journal*, November 13, 2012, <http://www.news.hypercrit.net/2012/11/13/einstein-on-misattribution-i-probably-didnt-say-that/>

Or suppose the Service introduced an array of low-fee financial services aimed at the unbanked and underbanked. Advocates for those services often claim they are needed as an alternative to more expensive private-sector financial services. But as one defender of postal banking acknowledged when explaining why credit unions do not already fill this niche, there is a reason for the existing fees. Credit unions have found they lose money when making small, short-term loans to people with poor credit histories unless they charge high fees or impose numerous restrictions.<sup>24</sup> It is assumed that the Postal Service, somehow, would do better. More realistically, the Postal Service would quickly discover the proposed business model was wildly unprofitable.<sup>25</sup> At that point, imagine the political uproar if the Service attempted to increase its fees sharply. Trying to fight both agile competitors and a politically interventionist Congress would invite failure and put mail users and taxpayers at risk.

## Conclusion

Although it has been six years since the Senate voted to confirm any Postal Service Governors, Congress has no trouble holding votes to name post offices, and the 114th Congress has so far named 17.<sup>26</sup> These are strange priorities given the Postal Service's importance and the difficulties it confronts. For the sake of proper oversight, the Senate should hold the confirmation votes needed to return the Board of Governors to its authorized strength.

This episode does serve one useful purpose. It furnishes a clear warning of the political interference which would undoubtedly follow if the Postal Service ventured into new nonpostal, commercial businesses. That adds to the reasons why the Postal Service should stay out of those markets.

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24 Ellen Brown, "Warren's Post Office Proposal: Palast Aims at the Wrong Target," *The Web of Debt Blog*, March 13, 2014, <https://ellenbrown.com/2014/03/13/warrens-post-office-proposal-palast-aims-at-the-wrong-target>.

25 The Postal Service's leadership is well aware the proposed expansion could easily become a financial albatross. Its statement summarizing the problems is well worth reading. (U.S. Postal Service, "USPS Responds to OIG Financial Services White Paper," *op. cit.*)

26 The number is based on data from <https://www.congress.gov>.

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