Government Use of the Postal System: A Valuable USO Component

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As technology advances the variety of communication channels, postal services continue to play a vital role as a communication channel for government/constituent communications. The government is a significant user of the mail and a major postal stakeholder. Governments rely upon their ability to reach all their citizenry and constituents by using the mail. Government use of the mail is an important facet of the universal service obligation (USO).

One vital function of the United States Postal Service is to form an essential communications backbone of the government in the United States, ensuring reliable and timely delivery of communications essential to the functions of government. Governments in general depend on the mail and have a stake in ensuring continuation of the postal networks despite trends toward electronic substitution in the private sector. Electronic substitution of mail does occur in the government sector but at a rate lagging the rest of society, based on a comparison of the overall United States First-Class revenue and the U.S. government’s expenditure on First-Class mail. When government depends heavily on the mail, it may exhibit a preference for a government-affiliated postal operator rather than for liberalization or privatization. Given the sizable reach of government postal operations (potentially all citizens), the government may be limited to using the Universal Service Provider (USP) post, preventing the government from realizing the savings offered by “cream skimming” competitors.

U.S. federal government agencies, in total, spent at least US$1 Billion on mailing and shipping services each year between 1997 and 2010. State agencies spent a

\footnote{1 U.S. Postal Regulatory Commission. The views in this paper do not necessarily reflect those of the Postal Regulatory Commission or the Commissioners. It reflects the views of the authors only. This paper will be presented at the Rutgers University Center for Research in Regulatory Industries, Workshop in Regulation and Competition, 19th Conference on Postal and Delivery Economics, St. Helier, Jersey, June 1-4, 2011.}
similar amount per year in the aggregate, and the mail volume from state agencies does not appear to be declining, according to anecdotal reports.³ Added together, local government agencies and public schools also spent an appreciable amount on mail annually. This paper identifies three ways in which governments could mail more efficiently and significantly reduce postal expenditures without harm to posts.⁴

This paper first discusses why governments use the mail, and how and why government mail is different from other types of mail. Next, it describes potential savings of up to US$100 million generated by further presorting of mail by the federal government, potential savings of up to US$250 million from centralizing state agency mail operations, and the importance of Negotiated Service Agreements. It also discusses the size and scope of the United States federal government use of the mail, and identifies the federal agencies that are the largest government mailers.

The paper posits that federalism plays a fundamental role in government mail, discusses why outgoing and incoming mail are qualitatively different, and points out the impact of government written communications. The paper addresses the basis for the continuing dependency of the government on mail service, and the reasons why substitution lag strongly affects the government mailer. Finally, the paper concludes that government mail is an important aspect of the Universal Service Obligation, and how that aspect may influence government policy regarding postal liberalization or changes in the USO.

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² United States Federal Government postal expenditure data was provided by the GSA, which asks all federal agencies to report their mail expenditures yearly. The data for 2010 can be found at http://www.gsa.gov/portal/category/101091. The authors are grateful for the assistance and insights provided by the GSA mail management staff and the mail managers at several federal agencies and states.

³ Data from the centralized mail operations of four states were reviewed, and the authors had discussions with other state mailing offices.

⁴ If the market is setting efficient price signals for access prices, the bottom line of the post is not affected by changes in entry preparation.
Why the Government Uses the Mail

The world’s earliest postal networks were established for the purpose of official communications by the sovereign and the government. Today, governments need to communicate with their citizens, and vice versa. Governments also must communicate with other levels of government.

In many countries, postal communications play a unique, invaluable role associated with the delivery of mail to a mailbox or some other physical location associated with a person or household. Electronic communications do not typically contain such an embedded personalized or geographic link. Linking a person to a postal address allows postal communication to retain its value for many users of the mail -- this is especially true for governments. While advertising mail may or may not target a specific recipient, or a specific set of addresses, government entities that use the mail generally send private and recipient-specific communications.

In the United States, all levels of government send mail tailored to their missions and objectives. Purposes of mail include categories such as notices, invoices, permits/licensing, benefits, voting, warning letters, education, surveys, military service, account statements, employment and tax information, legal correspondence, regulatory compliance, immigration documents, product recalls, voting materials, and aspects of law enforcement. Agencies use mail for recruiting, hiring, training, credentialing and security clearances, and retirement materials. The list seems endless.

Many government communications are triggered by explicit or derivative legal obligations that mandate the use of mail for transmission and delivery. The purpose of this is to provide assurance that the recipient (and only the recipient) receives and views their communication. The government is still dependent on the Postal Service, because the Postal Service is the only ubiquitous and affordable delivery service with addresses legally attached to recipient identity.

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5 The Persians, Chinese, Greeks, Romans, the Maurya Dynasty in India, the Mongol Empire and the European monarchs, among others, had well-organized postal networks, but those networks were largely limited to official purposes such as intelligence gathering, tax collection, and civil administration. On July 31, 1635, Charles I of England opened the Royal Mail to for public use.
**How Government Mail Differs**

Migration by government agencies away from the mail tends to receive significant publicity and attention. Examples in the U.S. include the discontinuance of certain mailings by the Internal Revenue Service and the Social Security Administration. However, the data show that such high profile examples of migration have not yet affected overall U.S. federal agency mail volumes.

Government use of mail differs appreciably from the use of mail by companies and other organizations because non-government mailers have greater flexibility to move to alternative electronic communications for some or all of their customers. Non-government mailers can offer incentives and penalties to convert customers from the mail channel to electronic channels. They can differentiate communication methods with their constituents by market segment or by geography. They can even accept the loss of some unwilling customers. In contrast, a government entity must serve everyone, and thus does not possess the same type of operational flexibility. Based on current information, it appears that most outgoing government mailings do not differentiate communication channel options (i.e. electronic and hard-copy) between citizens, in contrast to private mailers. Much government use of mail is mandated by laws that both obligate and specify the use of the mail channel. For example, the U.S. government mandates that federal agencies notify affected citizens following electronic data breaches.

It also appears that government communications that are not legally obliged to use the mail (such as informational newsletters) have in large part already migrated to other communication channels. The type of mail that is legally obliged is usually First-Class mail and the type of mail that is not legally obliged was typically Standard Mail or Periodical Mail. However, the government can in some instances change its mailing obligation by fiat, such as the Internal Revenue Service. Because those decrees usually affect society at large, any such changes in governmental mail policies receive appreciable publicity.
Why Government Agencies Differ in Mail Usage

Federal agencies all use the mail, but do so to varying degrees. The U.S. Department of Justice sends important legal notices through the mail, often via express parcels. The Social Security Administration and the Department of Veterans Affairs send a variety of benefits materials through the post. Those agencies have taken widely publicized phased steps to halt the mailing of benefit payments. Agencies that provide benefits have the option of using direct deposit instead of sending a check through the mail. The success of these agencies in reducing costs by sending fewer checks through mail has not changed their status as major mailers.

Savings from Federal Government Presorting of Mail

A small number of federal agencies (such as the U.S. Navy Anacostia Office and the Department of Homeland Security) have established successful presort mail facilities. These agency presort mail facilities accept mail from other nearby (different) agencies, prepare the mail to permit access to postal worksharing discounts, and split the cost savings with the originating agencies. This interagency mailing process produces cleaner, better-prepared and finely sorted mail that is more efficiently handled by the Postal Service. The overall volume of mail sent by government agencies, whether that mail is currently sent at single-piece First-Class rates or presort First-Class rates, makes it amenable to presort operations and discounts. Mail going through presort channels may have better address quality, and thus requires less forwarding and returns, resulting in better overall service. Data provided by U.S. federal agencies states that the return rate for government mailings ranges from 1 percent to 5 percent, suggesting that some agencies could improve service performance by using downstream access and its tangential benefits.

Federal government agencies should follow the lead of components of the Department of Homeland Security and the U.S. Navy by consolidating their mail preparation and mailing activities, and significantly expand interagency presort mail operations. By consolidating and presorting in Washington, DC as well as in other
locations with major concentrations of federal agency activity\textsuperscript{6}, the federal government agencies could save at least US$100 million per year.\textsuperscript{7,8}

\textbf{Savings from States Establishing Centralized Mail Operations}

In addition to the federal government’s use of the mail, states, counties, municipalities, as well as public educational institutions, also rely on the mail for communication purposes. Based on data from a small sample of 4 states, it appears that the states alone send up to US$1 billion in mail every year.

At the state government level, a number of states use outside presort mail businesses to handle their outgoing mail. In approximately 10 states, however, state government mail operations have been centralized, usually through an executive order of the Governor (\textit{e.g.} South Dakota) or else by statute (\textit{e.g.} Tennessee). Such centralization reduces waste, and redundancy, and excess metering equipment, reduces the possibility of financial leakage and builds mailing expertise in one location. Notably, it permits the use of presorted discount rates for state agency mailers who would otherwise be applying single-piece postage. It also improves the coordination with the postal operator, reduces the opportunities for mail failure, and coordinates mail piece design and production to achieve mailing efficiency. States adopting centralized mail services have recorded savings amounting to millions of dollars each year, up to 50\% of both postage and mailing operations costs. State agencies have expressed a preference for one-day delivery for mail destinating within the state, as is current practice. Thus, delivery frequency and a large operating network may have increased importance for these government mailers. Presorting would help ensure the continuation of current service levels.

\textsuperscript{6} There is an existing federal governmental structure well-suited to establishing these federal presort mail operations – the Federal Executive Boards. 28 Federal Executive Boards exist in key locations throughout the nation where a significant federal agency presence exists. See \url{http://www.feb.gov}.

\textsuperscript{7} Government mailing at the lowest possible presort rate would improve the Postal Service’s finances and the overall contribution to institutional costs, even though it would collect less revenue. There are also operational advantages to cleaner, better prepared mail.

\textsuperscript{8} At least US$500 million in mail was sent as First-Class OMAS metered mail in 2010. If this mail is sent at single piece rates, entering this mail as 5-digit presorted (the furthest downstream access price) would yield over 20\% savings, or at least US$100 million.
Like federal agencies, state governments should establish centralized mailing operations for agency offices in the state capital region, to take full advantage of presort discounts. The states that have already centralized their mailing operations provide a useful model that highlights the benefits of developing a source of institutional experience for presorting the mail. Government mailing agencies have learned that it is necessary to remove postage dispensing equipment from state offices unless the office can show some reason why its independent mail operation is indispensible or functionally unique. If all state governments centralized their mailing operations, they would save up to US$250 million per year in the aggregate.9

Possible Savings from Governmental Negotiated Service Agreements

The United States Government, via procurement channels at GSA, has negotiated discounted pricing on government procurement schedules for services from private express carriers such as FedEx and UPS. Inclusion on these procurement schedules makes it simpler and cheaper for agencies to use those private carriers. The federal government makes substantial use of FedEx and UPS services, according to GSA statistics. Recently, the Postal Service has been added to these procurement schedules, but without significant discounting compared to publicly available commercial rates.

The Scope of Government Use of the Mail

One measure of the business relationship between the post and the government is the relative size of the government as a consumer of postal output. Based on the government’s own historical logs of postal usage, it appears that in the United States, the federal government is the largest user of the mail. More than two percent of First-Class mail revenue is spent by the U.S. federal government alone. Counting state and other governmental users, at least percent of First Class revenue is due to government

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9 Of the four states sampled, the states averaged 25% postage savings by centralizing mail operations to reduce redundancy and maximize presorting discounts. Notably, the centralization of postal operations also led to improved service performance. The estimation of potential savings can be refined through additional data transparency by each state regarding current mailing operations and expenditures.
mailers. The following table provides historical details as to the amount of mail sent through the United States Postal Service and private carriers by federal agencies.

<table>
<thead>
<tr>
<th>Year</th>
<th>USPS Commercial Parcels and International</th>
<th>US Federal Government Postal Expenditure</th>
<th>GSA Rate for 1 lb USPS Express Mailpiece</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>$12.74</td>
<td>$1 billion</td>
<td>$12.74</td>
</tr>
<tr>
<td>1998</td>
<td>$12.74</td>
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<td>2005</td>
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<tr>
<td>2006</td>
<td>$12.74</td>
<td>$1 billion</td>
<td>$12.74</td>
</tr>
<tr>
<td>2007</td>
<td>$12.74</td>
<td>$1 billion</td>
<td>$12.74</td>
</tr>
<tr>
<td>2008</td>
<td>$12.74</td>
<td>$1 billion</td>
<td>$12.74</td>
</tr>
<tr>
<td>2009</td>
<td>$12.74</td>
<td>$1 billion</td>
<td>$12.74</td>
</tr>
<tr>
<td>2010</td>
<td>$12.74</td>
<td>$1 billion</td>
<td>$12.74</td>
</tr>
</tbody>
</table>

From 1997 to 2010, the federal government averaged $1 billion annually in USPS expenditures, and another $200-$250 Million in private carrier (e.g. FedEx Express Mail, UPS ground) expenditure. This ranks the federal government as one of the Postal Service’s largest customers. The federal government is also a major customer of FedEx and UPS, and enjoys a favorable business relationship with both carriers. The federal government’s market power with respect to FedEx is highlighted by the Priority overnight 1 lb parcel rate negotiated by GSA of $5.16. The government purchases a large amount of express services, and while the need for quick communication is clearly vital, this is an area where more judicious use could result in

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10 The GSA contracts for express small package delivery service with all eligible suppliers can be found at [http://www.gsaelibrary.gsa.gov/ElibMain/SinDetails?executeQuery=YES&scheduleNumber=48&flag=&filter=&specialItemNumber=451+1](http://www.gsaelibrary.gsa.gov/ElibMain/SinDetails?executeQuery=YES&scheduleNumber=48&flag=&filter=&specialItemNumber=451+1). The GSA rate for a 1 lb USPS Express Mailpiece is $12.74.
cost savings. Currently, the government exercises qualitative oversight by asking mail managers to use the express services judiciously.

**Most Active Federal Government Mailers**

The largest government mailers are listed below. In 1999, these agencies accounted for 57% of federal government expenditures with the USPS. By 2010, these mailers accounted for 90% of federal expenditures on the USPS. Certain agencies not listed, such as the Department of Justice, spend more on privately carried commercial parcels with companies such as UPS. The data provided in this table highlights an important issue with regard to the research in this paper. Federal agencies are composed of many sub agencies, and getting all sub-agencies to report timely and correct information often proves difficult.11

Table One: USPS Expenditures for the Eight Federal Agencies that Send the Most Mail

<table>
<thead>
<tr>
<th>Agency</th>
<th>1999</th>
<th>2000</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Commerce</td>
<td>$16,792,676</td>
<td>$185,088,783</td>
<td>$19,654,258</td>
<td>$223,925,175</td>
</tr>
<tr>
<td>Department of Defense</td>
<td>$110,328,505</td>
<td>$108,460,646</td>
<td>$57,792,798</td>
<td>$52,762,032</td>
</tr>
<tr>
<td>Department of Health and Human Services</td>
<td>$33,522,205</td>
<td>$27,325,244</td>
<td>$7,004,983</td>
<td>$55,194,822</td>
</tr>
<tr>
<td>Department of State</td>
<td>$7,003,690</td>
<td>$6,876,636</td>
<td>$73,669,019</td>
<td>$77,664,561</td>
</tr>
<tr>
<td>Department of Treasury</td>
<td>$220,084,969</td>
<td>$220,511,897</td>
<td>$273,511,498</td>
<td>$210,812,059</td>
</tr>
<tr>
<td>Department of Veterans Affairs</td>
<td>$82,390,608</td>
<td>$99,438,957</td>
<td>$164,684,744</td>
<td>$223,511,335</td>
</tr>
<tr>
<td>Social Security Administration</td>
<td>$126,705,684</td>
<td>$158,803,802</td>
<td>$242,992,445</td>
<td>$237,748,139</td>
</tr>
<tr>
<td>Department of Homeland Security</td>
<td>$27,424,876</td>
<td>$27,964,461</td>
<td>$54,571,834</td>
<td>$54,411,185</td>
</tr>
</tbody>
</table>

**Federalism and Government Mail**

The significance of mail as a means of government communication in the United States has been influenced by the federal form of American government. Generally, in a federal political system, there are two or more levels of government that exist within an established territory and govern through common institutions with overlapping or shared powers as prescribed by a constitution. The sovereign states (and local governments such as counties and municipalities) each need a reliable means of communicating with their respective inhabitants and citizens. The national mail system facilitates such communication. In the United States, the mail is used to reinforce and

11 With respect to Table One (above), information regarding the 2009 and 2010 Postal Service expenditure for a sizable (over $100 million in 2008) Treasury Department agency (FMS) is not currently available. The data provided in this table (and in this paper) should be considered a lower bound estimate of how much agencies spend on the mail.
cement the connections between citizens and their governments at each level (local, state and federal). Thus, a national postal system helps preserve a vigorous federal system consisting of a federal government, state governments and subordinate governmental bodies.\textsuperscript{12}

**Outgoing and Incoming Government Mail Distinguished**

Outgoing government mail and outgoing government mail have different characteristics and implications. Incoming mail is largely single-piece First-Class letter mail and requires special accommodation and manual handling for processing by the governmental recipient. From a government operations standpoint, it is desirable to reduce this type of mail because of the need for staff and the cost to the government of handling. In fact, governments are moving toward substitution for many functions that would otherwise use incoming mail by encouraging citizens to use email to contact their congressmen, and use e-file tax options. Information regarding the extent of incoming mail volumes, cost to the government, and the mail volume multiplier effects of such communication is not currently available.

Outgoing mail on the other hand contains a larger proportion of presorted bulk First-Class letter mail. It obligates capital expenditures rather than tying up labor resources. Government relies primarily on outgoing mail to reach individuals, households and businesses in a way that gains the attention of the recipient. As a result, some outgoing government mail is unlikely to be subject to substitution in the near future.

**The Impact of Government Written Communications**

A letter communication from the government is perceived as more important than other forms of communication. There are many reasons for this. First, the government sender paid money to send it and to identify the proper location to which to send it, and

\textsuperscript{12} Several nations have federal governments, including, for example, Switzerland, Canada, India, Germany, Australia, and Austria. Although data are not yet available, it is reasonable to speculate that a country with a federalist structure may produce more mail and may place greater reliance on the postal system than countries with a unitary structure (such as France). Similarly, localities with extensive local home rule provisions may produce more mail.
the recipient generally feels obligated to open and read it. Electronic transmission
doesn’t involve the same administrative investment and lacks the same guarantee of
personalized delivery.

Second, Email is not tied to a geographic location and thus does not carry the
same implicit jurisdictional message. Furthermore, an email sent to an incorrect
address will not find the intended recipient, while a First-Class mailpiece will be
forwarded. As an example, warning letters from the Food and Drug Administration,
notifying companies of a regulatory problem, convey a sense of gravity and importance
that would not be found in an email or fax. Letters say unequivocally: “We know where
you live.”

**Long-Term Dependency of the Government on the Postal Service**

Electronic substitution is a fundamental phenomenon impacting postal volumes
and postal operators. Over the last decade, government mail has been less susceptible
to electronic diversion. The table below contains a comparison of U.S. federal
government postal expenditure with overall United States Postal Service First-Class
revenue. The (temporary) peaks in 2000 and 2010 are attributable to the impact of the
U.S. decennial census.

United States Postal Service revenue from First-Class mail has entered a period
of accelerating decline. The United States Federal Government expenditure on First-
Class mail has increased 11% from 1998 to 2009 (by choosing an end point of 2009.
The analysis excludes the volume-inflating effects of the Census in 2010). Thus,
federal government mail expenditures has run counter-trend, increasing First-Class mail
spending in a decade in which that class of mail experienced a 2.8% annual decline in
volume.
Substitution Lag and Government Mail

Substitution lag associated with government mail use appears to play an important role in this counter trend.

The two primary drivers for mail volume decline are electronic substitution and price sensitivity (both ordinary price response, and variation in elasticity over time). Government use of mail has very low elasticity; the government has few readily available substitution options and may not be inclined to exercise such options.

The Social Security Administration and the Department of Veterans Affairs send a variety of benefits materials through the post. Those agencies have taken widely publicized phased steps to halt the mailing of periodic benefit payments, citing yearly savings of over $100 million, including costs such as postage, mailing operations, and overhead. While agencies that provide benefits can shift to offering direct deposit only, the success of these agencies of reducing their costs by sending fewer benefit checks has not changed their status as major mailers. Currently, over 85% of Social Security
beneficiaries are enrolled in direct deposit, and do not receive checks through the mail.\textsuperscript{13} Yet there has been an increase of over $100 million in postal expenditures by the Social Security Administration in the past ten years.\textsuperscript{14} This counterintuitive result may stem from the fact that most recipients already received direct deposit, and the transition away from mailing benefit checks affected only a small portion of the population.

Governmental mail senders are not immune from electronic substitution (or price effects), but the effects of electronic substitution may be deferred for some time by certain unique attributes of government mail. There are several reasons for this:

- **Citizens largely expect their communications with the government to be by mail.** Citizens may want the flexibility to contact government agencies through various means, but the link from government to household, resident and business relies on the mail. This may be affected by demographics, as studies have shown older people prefer to receive communications through the mail. These citizens may require more frequent communication with the government due to their status as benefit recipients.

- **The government-citizen relationship tends to be mandatory** rather than discretionary. Companies can provide incentives and penalties to encourage electronic substitution, and accept the fact that some customers will opt not to continue. Private companies can choose not to communicate with potential clients if the costs of communicating via the mail outweigh the benefits. The government usually cannot act in such a detached and aggressive fashion. People have the option (or believe they have the option) whether or not to continue their relationship with a particular business, but those people are obligated to conduct their government transactions with a specified governmental entity. From another perspective, government substitution occurs by fiat or

\textsuperscript{13} http://newsfeedresearcher.com/data/articles_b19/security-social-checks.html

\textsuperscript{14} See table: USPS Expenditures for the Eight Agencies that Send the Most Mail.
dictate; business substitution occurs via market forces, and because of that
government cannot easily switch away from a working, affordable mail system.

- **Government agencies are subject to legal or regulatory obligations** to use
  the mail rather than a substitute to conduct official business. There is an
  interlaced web of federal, state, and local laws, regulatory directives and court
  rules that necessitate notification by mail or personal delivery; there is not yet the
  flexibility in the laws to substitute electronic methods without an explicit
  arrangement. Rarely have agencies seized the authority to alter the operant law
  to permit substitution; the Internal Revenue Service is an example.

- **Government agencies may not perceive electronic substitutes as
  sufficiently robust, reliable or ubiquitous to conduct necessary official
  business.** First, the mailbox links the physical address with the identity of the
  recipient. No officially accepted mechanism yet exists to tie email addresses with
  physical addresses in order to assure reliable receipt. There are companies
  offering various forms of address-based email, but no accepted standards. Email
  is oriented toward individuals rather than households, yet much government mail
  relates to the household as well as the individual. Second, use of the mail
  provides much added value. The mail system provides sophisticated forwarding
  and return services at a reasonable price. The mail handling channel is owned
  by the postal provider from start to finish, providing security and integrity
  assurances that are missing in most electronic communications where data is
  handed off through a series of unrelated parties.

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15 Moreover, in large parts of the United States, broadband internet service is simply not available. See, e.g.,
http://www.broadbandmap.gov. See also “For Much of Rural America, Broadband is a Dividing Line”, by Kim
Severson, New York Times, Feb. 18, 2011 at A1, A18; OECD broadband portal at
http://www.oecd.org/document/54/0,3746,en_2649_33703_38690102_1_1_1_1,00.html
• **The government does not face the competitive pressure as commercial mailers.** In the commercial market for mail, the aggregate demand curve is a function of many firms who individually determine how to use the mail in a competitive market. The same constraints do not apply to the government, which generally does not compete for citizens. As such, the government demand curve will more closely resemble a step function, where individual agencies decide to use substitution. Thus, the individual decisions of the largest eight government agencies have a disproportionate effect on postal expenditure by the government. These agencies are not competing for the most cost effective medium for communicating against other government agencies performing similar function. In the commercial market, many firms compete in the same market, constantly pushing each firm to create new efficiencies. These firms are constantly developing new methods to interact with consumers, including novel uses of the mail. Effective innovation by one firm can force other firms engaged in the competitive marketplace to alter their communications tactics. In contrast, the government acts more like a single source buyer. An innovation in communication methods by one agency does not force another agency to change its approach to interacting with citizens or risk losing those constituents.

Electronic substitution of government mail is slowed by these factors. On the other hand, there are factors that can accelerate electronic substitution in the government environment. In the fall of 2001, an anthrax agent was mailed to certain legislative offices. This action, which resulted in fatalities, altered the way in which citizens communicate with their federal elected officials. Screening and irradiation was instituted that caused delays and damaged mail, and likely induced some senders to use alternate means.
THE GOVERNMENTAL MAILER AND THE USO

The Importance of the USO to the Government

The aggregate quantity of mail sent and received by federal and state agencies is large and significant. This suggests that the interests of this important mailstream participant must be taken into consideration in defining and executing the Universal Service Obligation (USO). It is possible that the interests of the government mailers are already being taken into consideration implicitly through political oversight and involvement. In a 2008 report mandated under the U.S. postal reform law, the Postal Regulatory Commission defined the USO using seven principle attributes: geographic scope, product range, access, delivery, pricing, service quality, and enforcement mechanism.16

The governmental mailer has several USO-related priorities:

- An accurate central mail address tracking system with a timely address correction mechanism
- The ability to mail everywhere in the nation
- Geographically uniform rates throughout the nation
- Predictable and consistent delivery performance, and for state and local government mailers, rapid delivery within a geographic area
- Security and sanctity of the mail, legal protections for the mail and an enforcement apparatus such as the Postal Inspection Service
- Security screening of inbound mail but not excessive delays in receipt
- The contingency value of continuing to operate a communication channel of last resort, even if at a reduced level, in the event of natural disaster or other disruption in normal electronic communications

The manner in which the government currently uses the mail highlights some of these concerns. Predictable delivery performance and service performance measurement of federal mail is important for several reasons. Governments have a

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high sensitivity for delivery turnaround; over $200 million is spent by the U.S. government each year on express mail when the relatively speedy First-Class service is not fast enough. Furthermore, security issues regarding the mail are vital for incoming mail service with respect to mail-related terrorism. With respect to outgoing mail, the government has a vested interest in ensuring that citizens are not “spoofed” by counterfeit mail with the appearance of official notice. Law enforcement ensures that both of these USO security goals are achieved.

While business may choose to send an urgent, but not legally binding, commercial offer via electronic substitutes if the post cannot meet its timeline requirement, most government agencies do not have an electronic mailing list for its urgent communications. If the business cannot reach the consumer via electronic means, it can choose to send hard copy communication through the post if it thinks that communication will be profitable. The government does not have this alternative. As a result, delivery frequency may be more important to government users than to other mailers.

For similar reasons, geographically uniform rates affect a government mailer more than other postal users. The government mailing list contains every citizen, rural or urban. Since the government mails due to legal mandate instead of profit motive, the government cannot adjust its mailing list to selectively send only to profitable customers.

Effects of Liberalization or Reduction in the USO on the Government Mailer

When a post is liberalized or privatized, the effect on mailers is uncertain. Much research has been done on what occurs when a post’s monopoly is reduced, however, these effects have not focused on the government mailer. Historical analysis has shown that bulk mail prices are generally reduced. Single-piece prices have risen in some instances, remained stable in some countries (reduced in inflation-adjusted terms), and been reduced as postal liberalization takes effect. As such, the price effect of reduced postal monopoly varies for single-piece mailers, but is favorable for bulk mailers.

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17 [http://www.wik.org/fileadmin/Konferenzbeitraege/2010/12th_Koenigswinter_Seminar/S3_5_Groebel.pdf](http://www.wik.org/fileadmin/Konferenzbeitraege/2010/12th_Koenigswinter_Seminar/S3_5_Groebel.pdf)
Collectively, the government, including all federal agencies, states, and localities, is the largest mailer in the United States. Yet, paradoxically, it can be most appropriately characterized as a single-piece mailer. Many government agencies presort some of their mail, but the majority of government agencies send mail primarily at single-piece rates. This is of significant concern for the government mailer in a liberalized environment. In the United States, the monopoly privileges provided to the United States Postal Service are granted with many restrictions, such as the inflation based CPI cap and the USO. Currently, the government (as a mailer) benefits financially from these obligations and restrictions. If the monopoly is reduced, and the USO is removed, the government mailer may face serious difficulties.

As long as the government uses the mail as its primary communication channel and sends significant amounts of single-piece mail, liberalization could have negative effects for it. The mail generally considered most likely to be attractive to postal competitors is bulk mail, often Standard bulk mail. The government sends little of this mail. Further, given the government’s clear preference for speed of communication (express mail), geographically equal rates (much government mail is sent to rural citizens) and frequency, the government mailer would suffer if these characteristics are reduced in a liberalized environment. Furthermore, while the government could exercise market power, the current decentralized infrastructure for entering government mail may not provide negotiation flexibility that the overall scope of the government mailing operation might imply.

Conclusion

In the United States, the federal structure of the government, as well as the trends of mail-based government communication, has led to the government being a major consumer of postal services. All levels of government could realize significant savings by working together to presort their mail. Federal agencies could save at least US$100 million per year by expanding worksharing and establishing cooperative presort operations in cities with a significant federal presence. States could generate aggregate savings of US$250 million per year by instituting centralized mail operations in
geographic proximity to the state capital. Government mailers may benefit from taking advantage of Negotiated Service Agreements.

To date, electronic substitution for the mail has occurred less in government-related communications than it has in other sectors; agencies rely on the secure, reliable and ubiquitous communication services provided by postal networks.

The unique link between address and identity attaches government to the mail than other types of postal consumers. In the United States, this is exhibited by the fact that government use of First-Class mail has increased at a greater rate than the industry at large. Changes in USO and ownership affect all users of the mail, but government may be affected by these changes more than other users.

In the United States, the government currently reaps significant financial and operational benefit from the current structure of the mailstream, and this benefit may cause resistance to systemic change. Specifically, the heavy dependency of government on the mails and the USO function of government mail may influence (and constrain) the degree to which postal “liberalization” or privatization can be encouraged and endorsed by the government. Because the federal government ultimately decides the degree to which postal liberalization will or will not occur, its reliance on the mail is likely to be a significant factor in that decision-making.