

**Toward a New Business Model
for the
United States Postal Service**

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"It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change." -- Charles Darwin

Background and Preview

The U.S. Postal Service is in dire financial straits. It ran deficits of \$2.8 billion in FY 2008 and \$7.6 billion in FY 2009, and it projects a 2010 deficit of at least \$7 billion. These deficits will increase its debt to \$13.2 billion by the end of 2010, leaving it only \$1.8 billion short of the \$15 billion statutory limit on its borrowing capacity. Finally, its cash flow is turning negative. Clearly, this situation is untenable, which is why the GAO in July put USPS on its list of "high-risk" agencies.

The main cause of these deficits is a sharp decline in mail volume – from a high of 213 billion pieces in 2006 to fewer than 175 billion pieces in 2009 – and a large increase in the payments that USPS must make to a fund for its future retirees' healthcare. The reasons for the decline in mail volume are: 1) the gradually increasing diversion of business and personal correspondence to electronic mail; and 2) the current recession, which has led to major reductions in mailings, especially by such traditionally big mailers as the housing, financial and advertising industries. The reason for the increased healthcare payments is a requirement in the Postal Accountability and Enhancement Act (PAEA) of 2006 that strikes many observers as excessively front-loaded and aggressive in terms of its time frame.

The Postal Service has tried mightily to eliminate these deficits. Unable to do much about volume, it has focused on reducing costs by automating and streamlining its operations and reducing its workforce. And it has been impressively successful. Since 2002, as the USPS's Jordan Small noted in recent House testimony, "it has achieved cost reductions averaging more than \$1 billion annually." It reduced costs by \$2 billion in 2008, largely by reducing hours worked by 50 million, and it has reduced 2009 costs by a remarkable \$6 billion. Nevertheless, it has not been able to reduce costs fast enough to match the decline in revenues, in large part because the costs of delivering the mail are relatively fixed in the short term.

If it cannot eliminate the deficit, USPS may be forced to file for an "exigent" rate increase or to seek a Congressional subsidy -- one, for example that compensates USPS for the cost of providing universal services that would not be provided in a competitive market.¹ Neither of these courses of action is a satisfactory solution. Because more than 60% the mail is now commercial, mail volume is more price-sensitive than in the past, meaning that increases in postal prices risk defeating their purpose by further depressing volume.

As for a subsidy, it is always possible that the public, through its elected representatives, will choose to subsidize the traditional hard-copy mail system as

¹ An exigent rate hike is one that is above the rate of inflation that the PAEA mandated as a price cap for "market dominant products". The 2007 estimate for the additional cost of providing universal service is \$7.6 billion. (Cohen, McBride & Panzer, 2008).

the price of maintaining affordable universal service. Yet, that seems unlikely and unwise when the country faces unprecedented fiscal challenges and when much of the subsidy would go to supporting the delivery of advertising mail – a kind of mail that a majority of mail recipients find annoying (for details, see discussion below).

In short, the Postal Service faces extremely serious short- and long-term challenges. The obvious solutions to the short-term challenges are the ones the Postal Service is already pursuing. To boost volume and revenue, it is experimenting with volume discounts and seasonal sales. To cut costs further, it is seeking permission to: 1) modify its annual payments to fund current or future retirees' healthcare benefits; 2) close or consolidate some urban and suburban postal stations and branches; and 3) cut mail deliveries from six days-a-week to five.

In response to these cost-cutting proposals, the relevant House and Senate committees have held hearings, and the unions and mailers have staked out their positions. The Postal Regulatory Commission (PRC), the USPS Office of the Inspector General (OIG) and the Office of Personnel Management (OPM) have issued different projections of the retiree healthcare benefit liability (based on different assumptions about the medical rate of inflation and the future size of the postal workforce), and other experts have expressed their views. On Sept. 15, the House of Representatives approved a measure that should save the Postal Service \$4 billion this year. The Senate has yet to act, but this paper assumes that relief is forthcoming.

Fiscal relief and an economic recovery will buy time for the Postal Service, but they will not solve its long-term challenge of remaining a viable, self-supporting institution in a world of declining mail volumes. The fundamental problem is the Postal Service's business model itself. As the GAO correctly notes in its Aug. 6, 2009 report, that model "has relied on growth in mail volume to cover costs and enable USPS to be self-supporting."

Volume has declined dramatically the past few years, and the Postal Service projects that it will continue doing so, even if there is an uptick when the recession ends. It is possible that voting-by-mail and other new developments will slow down this decline, but mail volumes are falling around the world, and it would be irresponsible not to prepare for a future of still smaller -- possibly much smaller -- mail volumes.

The Postal Service's problem of declining mail volumes is complicated by the fact that the population of the United States is growing. As the population grows, the number of delivery points expands by about 1.5 million per year. The result is that daily volume per delivery point has fallen more than 20% over the past eight years – from 5.9 pieces in 2000 to 4.7 in 2008. Yet, costs of delivering to each delivery point are relatively fixed. There may be less mail to sort in advance, but the actual delivery takes as much walking or driving as far as when volumes were lower.

One argument for reducing delivery to five days a week is that it would increase the daily volume per delivery point to a projected 5.8 – just shy of the 2000 level of 5.9.

Another is that the public appears willing to accept a reduced frequency of delivery. In a Gallup Poll conducted this past June, 66% of those surveyed favored reducing delivery to five days a week, while only 38% favored raising stamp prices. The unions, understandably, are not happy about cutting delivery frequency, because it probably means further reductions in a workforce that has already been cut from a high of 803,000 in 1999 to 623,000 today. Mailers are more accepting, in large part because of their concern that if USPS doesn't realize the savings involved, it will seek an exigent price hike.

One reason the public may not be overly concerned about a reduction in delivery frequency is not only that a growing number of them use email. It is that the composition of the mail has shifted considerably over the past ten years. In 1998, first-class advertising and standard mail accounted for about the same proportion of total mail volume as did letters and other first-class mail. By 2008, first-class advertising and standard mail had increased to 60%, while first-class mail exclusive of advertising had fallen to 35%.

This paper argues that the Postal Service should cut delivery frequency, but that it should also offer alternatives. More basically, it argues that the real challenge USPS faces is to develop and implement a new business model, one that enables it to adjust to rapidly changing markets and technologies while still meeting its basic obligation to provide affordable universal service. It endorses the GAO's advice to "restructure USPS's operations, networks, and workforce to reflect changes in mail volume, use of the mail, and revenue," but it also urges consideration of new approaches to pricing, of new sources of revenue, of a new bargain with the workforce, and of the institutionalization of open-source innovation.² First though, it examines the argument that it is not necessary to cut the frequency of delivery or make other major change in the business model because there are ways to boost volume.

² In making these recommendations, the author wishes to note that he is not an expert on postal service operations or business models. In fact, he is not an expert on anything so much as a generalist who has worked in many domains. Yet, experts are often surprisingly wrong in their predictions; witness the intelligence failures regarding weapons of mass destruction in Iraq and the mistakes of financial regulators regarding the risks of mortgage-backed securities and derivatives. In his much-praised book, *Expert Political Judgment*, Philip Tetlock, borrowing from Isaiah Berlin's famous prototypes of the fox and the hedgehog, argues that the fox -- "the thinker who knows many little things, draws from an eclectic array of traditions, and is better able to improvise in response to changing events -- is more successful in predicting the future than the hedgehog, who knows one big thing, toils devotedly within one tradition, and imposes formulaic solutions on ill-defined problems" (from the inside flap of the dust jacket). Thus encouraged, I hope the following contributes something useful to the current discussion about the challenges USPS faces and how best to meet them.

Boosting Volume and its Limits

It is no doubt true that there are measures the Postal Service and other government organizations could take to increase mail volume. The Postal Service's recent summer sale and volume discounts are good examples. Both appear to have been quite successful.

There are at least three other possibilities for boosting volume -- or at least slowing its decline. One is voting by mail. This would help but is not a panacea, for even if all voters were required to vote by mail, there are not enough ballots cast each year to increase mail volumes by more than one percent. Moreover, voting over the Internet may replace voting by mail before long. Nevertheless, the expansion of voting by mail has been a helpful development, and while it should not be encouraged simply to assist the Postal Service, it should be encouraged if it is good public policy on its own merits.

A second possibility is to consider requiring other federal government agencies to use USPS rather than UPS, FedEx or other hard copy delivery services unless there are compelling reasons not to. I was surprised to learn that the Government Services Agency had a contract with a competitor of USPS for expedited mail. I am told that some government grant-making agencies encourage grant applicants to submit their applications via FedEx or UPS, presumably because they will be delivered to a specific person rather than to a building mailroom and thus are more likely to arrive by the application deadline. It would seem advisable for USPS to explore ways to offer delivery to individuals in big institutions rather than simply to mail rooms.

Curiously the same Internet technology that has undercut mail volume through the electronic diversion has also opened up some new opportunities through the expansion of postal shipping by such online providers of goods as Netflix, Amazon.com, and eBay. Yet, these opportunities appear fairly limited over the long run. One can already download many new books and read them on a portable Kindle reader. And Google has scanned most of the older books in major libraries in anticipation of making them available online before long. Similarly, Netflix plans to download films soon, just as Apple and other firms download music. Finally, the shipping of larger objects ordered on Amazon or eBay is a highly competitive business in which USPS still faces competition from UPS and FedEx.

The Curious Case of Do-Not-Mail: A third way to maintain volume is to prevent the passage of Do-Not-Mail (DNM) legislation. Such legislation is being advocated by citizens who wish to stop the delivery of unsolicited advertising mail. At least 19 state legislatures have seen the introduction of bills the past two years that would require the creation of state DNM registries analogous to Do-Not-Call registries. None of these bills has passed, but DNM advocates continue to press their claims that advertising mail harms the environment, renders recipients more vulnerable to identity theft and consumer fraud, and is a time-wasting nuisance.

Direct mail marketers, the USPS, and the postal unions respond quite correctly that the environmental effect is minimal (because most such mail is recyclable), that fraud and identity theft are rare, and that direct mail is much less intrusive than calls from telemarketers. They also make a more questionable point, arguing that advertising mail is a critical factor in the success of many businesses and nonprofits, especially small ones and start-ups, and therefore contributes to job growth and community prosperity. True, advertising mail would not exist if those who send it were not convinced that it's worth the expense and helps attract customers. It is wrong, however, to argue that because advertising mail may help start-ups get established and because most job growth comes from the expansion of small businesses, therefore advertising mail is important to community economic health.

Most start-ups are new pizza shops, dry cleaners, or similarly un-innovative businesses that pay low wages, never employ many workers, take business away from competing shops to the extent that they do succeed, and do very little to increase a community's productivity, exports, or wealth.³ Most job creation comes from that small fraction of rapidly growing small businesses known as "gazelles," and gazelles almost always represent innovations in technology (Microsoft, Google), business models (Wal-Mart, Southwest), or both (eBay, Amazon). Finally, the coupons that often come in advertising mail today are increasingly being distributed online, especially now that a growing number of websites "aggregate" them and make it easy for potential customers to find those they want online.

The main reason that USPS, its unions and the big mailers, oppose Do-Not-Mail registries is their realistic fear that they would lead to further declines in mail volume. USPS estimates that national implementation of DNM legislation "would place approximately \$6 billion of postal revenue at risk annually" (2008 Annual Report, p. 24). Although state DNM bills have rarely gotten out of committee, the mailing community fears that once one passes, other states would follow. Some DNM opponents therefore are calling for federal legislation that would pre-empt state jurisdiction in this case, doing so on inter-state commerce or other grounds.

This paper does not take a stand on the DNM issue. The reason it has gone into this much detail about it is to make a critical point, namely that an organization that justifies its monopoly on public service grounds (binding the nation, etc) has become so dependent on volume regardless of its purpose that it feels forced to justify and defend a type of mail "service" that 52% of the public view as a "big" or "very big intrusion" in their lives.⁴

³ See *The Illusions of Entrepreneurship*, by Scott Shane (Yale University Press, 2008).

⁴ According to the Congressional Research Service Report on Do Not Mail Initiatives, (updated Sept. 24, 2009), a 2003 Pew Internet and American Life Project telephone poll of 2,200 adults found that 19% of respondents thought unsolicited advertising mail was a "very big intrusion" in their own life; 33% found unsolicited advertising mail a "big intrusion," and 29% said it was a "small intrusion."

USPS already delivers 45% of the world's mail in a country that constitutes 5% of the world's population. Yet, it seeks to maintain mail volumes in order to cover the relatively fixed costs of a system characterized by excessive capacity. This makes sense for new services that meet real needs, such as returning unused medications or electronic components, or serving as a compliment to new markets such as films sent by Netflix. It makes less sense if volume is increasingly sustained by mail that does not meet real needs and is not desired by its recipients.

The counter-argument is that advertising mail is sustaining the system, and that without it the system will not be able to provide universal service at current rates without public subsidies (because the fixed costs are so high). That is true if the existing business model is taken as a given, but the business model could change. That may be difficult politically, given the understandable interests of the system's current stakeholders -- the mailers, unions, suppliers, and public -- in maintaining the status quo of high volume, low postal rates and a large workforce.

But even if those committed to the status quo can squelch the DNM movement, they are highly unlikely to be able to stop the ongoing decline in mail volumes. Consequently, the Postal Service must cut costs and/or develop new revenue sources, and to do that it must develop a new business model -- one not predicated on rising volumes.

Changing the Business Model I: Pricing

Lower business volume is not always problematic. Some businesses make healthy profits by targeting those segments of the market that are willing to pay higher prices. *Newsweek Magazine* recently announced that it is going to double the price of its subscriptions over the next two years, knowing that circulation will fall but believing that total revenues will rise. In short, it is shifting its business model from one based on low margins and high volume to one based on higher margins from a smaller but more committed base of customers. It is shifting to value pricing.

Starbucks has managed to have the best of both worlds, high margins and high volume, by franchising stores that reliably produce exceptionally good coffee. It helps that many of their shops are pleasant places to relax and enjoy the experience.

European postal services demonstrate a variation on this approach. Mail volumes, even after adjusting for their smaller populations, are much lower than in the U.S., but stamp prices are much higher, enabling the postal services to continue providing their versions of universal service. In the U.S., however, the definition of universal service includes "affordable," and the 2006 PAEA limits price increases on USPS's market-dominant products to the urban inflation rate.

Remove the Price Cap: This cap on price hikes makes little sense for three reasons. First, the Postal Service has little control over its costs. It is obligated to deliver mail six days a week to a growing population. Rising fuel costs are a substantial cost driver over which it has little control, and the current deficits have curtailed its initiatives to invest in more fuel-efficient vehicles. But the real issue is labor costs. Nearly 80% of the Postal Service's expenses are for labor; much of that labor is hard to replace with capital; and compensation is determined through negotiations with powerful unions and mandatory arbitration.

The classic solution is to increase productivity through automation -- the kind that allows auto firms to produce the same number of cars today as 30 years ago with half the number of workers. The problem is that the Postal Service has already greatly automated the part of mail service that lends itself to mechanization: mail sorting -- most recently through the introduction of "intelligent mail" and the machine sorting of "flats." It is hard to see how it can automate delivery of hard copy mail to 150 million delivery points each day. And we know that it is very hard to increase productivity in fields in which services are provided to individual customers one at a time, fields like teaching and nursing. That is one important reason why education and health costs have risen far faster than the general inflation rate.

Second, the Postal Service's monopoly on letter mail and exclusive access to post boxes does not mean that it enjoys the normal power of monopolies to set prices. The fact is that electronic mail and the Internet have given users of the mail cheap and rapid options for communicating and paying bills. True, at current prices, many businesses and nonprofits continue to favor hard copy mail for advertising and fundraising, but their usage is quite price-sensitive. And since standard mail and first-class advertising mail constitute more than 60% of the mail today, the Postal Service has a built-in incentive not to raise prices arbitrarily, lest they cause even more rapid declines in volume than would occur otherwise.

Finally, even if the legislated price cap were lifted, the Postal Regulatory Commission (PRC) would still have to approve requests for rate increases, thus assuring protection of the public interest. There may be more the Postal Service could do, even within current law. As PRC Commissioner (and chair designate), Ruth Goldway noted in Senate testimony August 6th: "Postal products continue to be shaped by historic class differences, largely in place since the 1920s that may not make sense today. Potentially new markets could be developed around hybrid products that combine characteristics between classes -- for example, a standard mail product with guaranteed date of delivery."

The Postal Service should give serious consideration to this suggestion, but even if it makes the recommended changes, they would not substitute for removing the price cap. To be sure, lifting the price cap would not solve all the problems the Postal Service faces, but it would free it to test the market in promising ways.

Redefine “Uniform Prices”: A related issue is “uniform prices”. The current interpretation seems to be that uniform means that postal rates must be the same for all letters, regardless of the distance they travel. That is bad business policy because efficient prices reflect real costs. It is also bad environmental policy because one of the externalities in transporting mail long distances is higher CO2 emissions.

This paper recommends an alternative interpretation, one that defines “uniform” as charging the same rate for the same distance traveled. There is ample precedent for such a shift. In the 1930s and 1940s, the Postal Service charged a slightly higher price for the delivery of letters outside a city than within it. Later, it charged higher prices for delivery by air. The rationale there was that customers were voluntarily paying extra for faster delivery, but the pricing logic was the same: higher costs warranted a higher price. And the cost of shipping packages has always been a function of distance to the destination as well as weight.

The Postal Service may not want to establish different rates for different distances, given the administrative complexities, though it is already doing in a way with its destination entry discounts. The argument here is simply that the Postal Service should have the flexibility to align costs and prices more effectively. As with price hikes, the PRC would still be able to protect the public against abuse.

Offer Free Post Office Boxes: The argument for structuring prices to better reflect real (marginal) costs applies also to the renting of post office boxes. At present, the Postal Service provides free delivery to residents who live long distances from the post office, but charges those same individuals a monthly fee to rent a box at the post office, even though most post offices have unused rental boxes – and could add more fairly easily. The explanation is that under the Universal Service Obligation, the Postal Service is required to provide free residential delivery to all, but that post office boxes represent discretionary supplemental services for which a fee may be charged.⁵

The Postal Service should consider offering free post office boxes to anyone willing to give up free delivery to their home or place of business, for clearly, it is cheaper for the Postal Service to put the mail in a post office box than to deliver it.

Alternatively, it could offer free post office boxes to those willing to volunteer for getting the mail delivered to their home or business one, two or three times a week. In short, the Postal Service should experiment with the market for alternative delivery schedules and packages. They could offer special incentives– stamps, shipping discounts, etc. -- to those who save them more delivery time (because of

⁵ Rural delivery service is not provided to customers’ homes that are within a quarter-mile radius of the Post Office, unless those homes are on the direct line of travel of the rural carrier. Customers within this radius whose homes are not on the carrier's line of travel do not have to rent a Post Office box. They may place a rural box on the carrier's line of travel, or they may elect to receive mail from a Post Office box (Group E) without charge. (P.O. 250, Consumer Answer Book)

their location). They could also vary the post office box fee charged to persons who do not surrender their home or business box. (They would have to charge everyone the same fee for the same-size box, but they could raise the rate if demand outstripped supply, which could well happen as more people accept the offer of a free post office box (available 6 days a week) as a substitute for delivery to their home or business.) The larger theme is to experiment with customization.

The interest in post office boxes will grow if the frequency of mail delivery to homes and businesses declines. Right now, the discussion is limited to eliminating Saturday delivery. Yet, the fact that 80% of consumers are prepared to accept five-day-a-week delivery suggests that many, perhaps a majority, would be content with even lower frequencies, such as three days a week.⁶ I will discuss this in more detail below, including the possibility of individuals volunteering for reduced delivery frequency. The point here is to note the possibilities for encouraging public willingness to accept less frequent delivery, whether voluntary or not. That is more likely if they have attractive options.

True, the savings on delivery expenses are minimal as long as the postal worker has to travel that route anyway to deliver to many others on it. Over time, however, the number of mail recipients who give up delivery to their residence or business will rise, boosted by “social contagion” effects. Eventually, whole blocks or streets will disappear from the delivery network. Each time that happens, the Postal Service will realize significant savings, and the long-term cumulative effect could be enormous.

There is one other advantage to encouraging more people to get their mail at the post office. If people come in to pick up their mail, they are more likely to buy other products or services that the Postal Service sells on site. The revenue impact would depend on whether the Postal Service is able to offer new products and services for sale at its post offices, a possibility discussed in the next section. The point here is simply that pricing can take many forms, including “loss leaders” that increase the traffic in retail outlets and expose customers to many other possible purchases that make money for the establishment. A free post office box could act as a loss leader and thus revenue generator as well as a means to reducing delivery costs.

Value pricing raises other questions that cannot be addressed here. For example, a potential downside of having large numbers of people pick up their mail at the post office is the negative externalities. There is societal efficiency – from the number of person hours spent and the amount of fuel consumed -- to having the Post Office deliver the mail in ten minutes to everyone on the block vs. someone in each household or business traveling to the post office to pick up the mail. Thus, the main point is simply that USPS should investigate the potential that value pricing offers.

⁶ Mary Anne Gibbons & Linda Kingsley, “Sustaining Universal Postal Service,” PowerPoint slides for a presentation at the National Postal Forum, May, 2009, p. 15. (The 2009 Gallup Poll shows 66% favoring or strongly favoring delivery five days a week.)

Changing the Business Model II: New Products and Services

To speak of business model changes normally means to speak of new value propositions. Classic cases of firms that thrived by virtue of business model innovation are McDonald's, Toyota, Wal-Mart, FedEx, Blockbuster, Home Depot, Dell Computer, Southwest Airlines, Netflix, eBay, Amazon.com, and Starbucks. Poorly thought-out business models, on the other hand, explain the demise of many dot-coms in the late 1990s.

Many new business models today use technology in innovative ways, especially the Internet. Google gives away its basic search service in the expectation of attracting enough customers to make advertisers pay the costs. Other Internet service providers give away a basic service in the expectation of selling attractive upgrades or by charging the hotels, airlines, or other firms to whom they attract customers.

The Postal Service lacks the freedom of private sector firms to radically change its value proposition, but there are new services it could offer and new ways by which it could provide existing services. To be sure, it faces pressures to “stick to its knitting” from some powerful quarters. Yet, the current fiscal crisis makes change imperative, and thus represents an opportunity to press for greater freedom to change the way it does business. This section proposes three new ways to do so. It does not, however, discuss such possible new retail ventures as selling snacks via vending machines (because the profits would go the blind, not the Postal Service), or selling greetings cards or post-cards (because the Postal Service is already exploring these possibilities).

First though, it is useful to distinguish between two types of new products and services. One generates additional net revenue by selling new products and services, in the process leveraging the existing “sunk” infrastructure and staff costs. The second type serves as a substitute for existing services that are not profitable, thus reducing costs as well as generating revenue. The first type is illustrated by the first two proposals below, the other type by the third proposal.

Federal Agency Information One-Stops: The U.S. Postal Service owns most of its more than 32,000 retail outlets. With mail volumes and revenues down, there have been several suggestions for “repurposing” this existing and often under-utilized capacity. The Postal Service demonstrated its capacity to play important other roles during the crisis stemming from Hurricane Katrina, and no doubt, postal workers could be trained to play a larger role in emergency management. Yet, such events are rare, so the question remains, what other public purposes could be well served by taking greater advantage of the existing postal capacity.

One promising answer is to have post offices serve as multi-purpose federal information one-stop offices. The Postal Service already has a presence in most communities, so why not use it to extend the presence of other federal agencies? Post offices already serve as places where people can apply for a passport and

obtain federal tax forms. Yet, they could do much more. They could offer user-friendly computer stations that provide information on a variety of federally funded services and benefits, from employment services to services for the disabled, from food stamps to Pell grants, and from Medicaid to Medicare. The take-up rate for many of these services and benefits is lower than intended, and the federal agencies involved spend large sums to make citizens aware of their rights and eligibility. Thus they may be prepared to pay the Postal Service to help them with outreach.

Libraries already provide some such services through the computers they make available to the public. Yet, far more could be done. The federal agencies involved could develop an integrated software package that facilitates such searching. The Postal Service, in turn, could train one or more staff at each post office to provide effective help to customers as they search for information. They could also assist those who lack computer and Internet search skills to develop them, and they could advise them about other services of possible interest and about the location of the relevant program's closest office. Access to information is of critical importance in today's "information age", and the Postal Service, an organization that has long specialized in the communication of information, is well situated to help.

The challenge for the Postal Service is not simply to get other federal agencies to cooperate. It is to get them to pay it for providing such service, since presumably the service would be provided for free or a very nominal fee to customers. Will the federal programs that are the best candidates consider it a good value proposition, and will the White House encourage them to participate? The answers are unknown, so the first step may be to ask OMB to form an interagency commission that includes selected outside experts. The charge to this commission would be to figure out the costs and benefits of turning post offices into federal information one-stops and to make recommendations for next steps, one of which might be a pilot project in one or two cities.

Postal Savings Accounts: In a speech on April 14, 2009, President Obama called on our country to "lay a new foundation for growth and prosperity – a foundation that will move us from an era of borrow and spend to one where we save and invest." On September 5, he announce several new initiatives to increase savings, including regulatory reforms and legislative proposals.

One problem is that 16% of families lack bank accounts. Research shows that they find normal bank accounts expensive (especially the overdraft fees), inconvenient, and inhospitable. Consequently, they cash their paychecks at the offices of "payday lenders" who charge high fees and peddle small loans at exorbitant rates of interest. Furthermore, lacking bank accounts, they cannot take advantage of opportunities for the direct deposit of their paychecks, tax refunds, or other benefit payments (unemployment insurance, welfare and disability payments, etc.) much less accumulate savings in interest-bearing accounts.

These problems are most pronounced among the 22.5% of American households and 27.3% of households with children who are “asset poor.”⁷ According to the CFED⁸, a household is asset poor if it has insufficient net worth to subsist at the federal poverty level for three months in the absence of income, due to job loss or spousal abandonment for example, or if normal income is consumed by medical or other abnormal expenses.

The value of savings goes beyond providing a cushion to weather hard times, for savings are the first step to acquiring assets that can appreciate. And it is through the ownership of appreciating assets --a home, a small business, a college education, or stocks in a retirement account-- that millions of Americans achieve financial security and upward mobility.

A growing body of research demonstrates that many poor Americans are capable of saving a portion of their income if they have a place and encouragement to do so. And once they accumulate some savings, they tend to adopt more positive attitudes about themselves and their future and to plan and raise their children accordingly. In short, it is in the public interest to promote savings among the poor, because savings provide a cushion in hard times, making recourse to welfare and homelessness less likely, and the acquisition of appreciable assets facilitates movement into the middle class.

USPS is in a good position to help, and in the process to develop a promising new source of revenue for itself. The idea is to offer “postal savings accounts” that pay a modest rate of interest. The Postal Service would make money by pooling the funds from millions of small accounts and hiring professional investment managers to invest the money. These investments could be managed the way money market funds are managed, with the FDIC or some federal regulatory agency guaranteeing account holders against the loss of their principal. The details would need to be worked out with the Treasury Department, banks, credit unions and others. It would be desirable to conduct some pilots before trying to go national with the program.

In fact, the Post Office Department offered government-backed savings services from 1911 to 1966.⁹ The purpose was to provide safe saving services to moderate

⁷ See the CFED’s *2009-2010 Assets & Opportunity Scorecard, Executive Summary*, p. 9, at <http://scorecard.cfed.org>.

⁸ In the interest of full disclosure, I am a full-time employee of a nonprofit, CFED, that promotes asset-building for low-income Americans. CFED has not taken a position on postal savings accounts, but does support efforts to get the unbanked banked, does promote individual development accounts, and does lobby the federal government.

depositors and communities without banks, and also to: “offer immigrants the familiarity of postal saving accounts common in many of their home countries; encourage thrift among the working, poor and children; and pose no competition for banks. To placate the banking industry’s concerns... legislators built in a cap on deposits and relatively low interest rates.”¹⁰

Offering the convenience and reliability of the post office, postal savings accounts attracted depositors without any advertising, and total savings exceeded one billion dollars by 1933. “The system continued to flourish through the Second World War, but by 1948 higher interest rates and proven reform in the banking sector brought about a downward trend for postal savings from which the system did not rebound,” and Congress abolished it in 1966.¹¹

No doubt the banking industry would resist an initiative to re-establish postal savings accounts. To counter charges of unfair competition, the Postal Service would probably have to accept limits on the amount of savings in an account and on the interest rate offered. Under these conditions, and given the new world of ubiquitous ATMs and online banking, demand for accounts might be quite limited. Thus, it is far from clear that the Postal Service could generate revenues in excess of the marginal expenses involved, though the latter would be low, since the buildings and most of the needed staff are costs already being incurred to provide other services. Thus, this paper is not recommending adoption of a new postal savings system, but rather careful investigation of the market for such services. It also recommends studies of similar systems in other countries, and of the experience of the U.S. Post Office itself between 1911 and 1966.

Finally, this paper recommends exploring the possible case for federal subsidies for such a system, or at least for conducting the suggested studies and pilots. For at the end of the day, the primary argument for postal saving accounts is not to generate revenue for the Postal Service, but to help achieve such existing public goals as the curtailment of predatory lending, the facilitation of savings and investment, and the movement of poor Americans out of situations of financial instability, family stress, and dependence on public support. The U.S. Departments of Health and Human Services, Agriculture, Treasury, and Justice, already spend substantial sums to achieve such goals. If modest expenditures by the Postal Service would help those programs reduce costs or achieve better program outcomes, the federal government should be interested in financing those expenditures.

⁹ The information and quotes in this paragraph comes from a 2006 article by Lynn Heidelbaugh that is available on the website of the U.S. Postal Museum: www.postalmuseum.si.edu/museum/1d_PostalSavings.html

¹⁰ Ibid.

¹¹ Ibid.

Hybrid Services: Recent advances in scanning and security technologies make it possible to scan mail at the post office of origin and offer the addressee the choice between electronic and hard-copy delivery. Earth Class Mail, Inc. for example offers a service through which customers can go online, view color images of the fronts and backs of mailed envelopes, and “then decide which items to have opened and securely scanned so they can read the contents online, and which items should be recycled, shredded, archived, or forward shipped to them wherever they’re located – all with a few clicks of a mouse.”¹²

The money-making Swiss Post Office already offers this service. It is too early to evaluate its experience, but one interesting finding to date is that “three-quarters of the mail ends up leaving that first sorting center bound straight for recycling, either after being scanned to PDF or discarded unopened by customer’s choice.”¹³ The implications are enormous. It stands to reason that many subscribers would agree to a reduced frequency of delivery to the door, especially if offered a slight discount on their hybrid service fees. The option of such a service might make it possible to win approval for delivering hard copy mail just three times a week, which in turn would greatly cut delivery costs for labor, vehicles and fuel while also reducing the environmental damage that home delivery entails.

Much would depend on the demand for hybrid service, which in turn would depend on the costs of providing it. Initially, demand might be limited to professionals and managers who travel a lot and take laptops with them, and to businesses and individuals for whom speedy delivery is important. Yet, as numbers grew and economies of scale kicked in, it is conceivable that a large portion of the population would subscribe, just as they do to cable television and high-speed Internet services.

Would such a service help the Postal Service be financially self-sufficient? If it led to three-day per week delivery to the entire population, the answer is probably yes. If it prompted many people to surrender their home delivery boxes in favor of free post office boxes, it might. If the number of subscribers was high and many of them agreed to hard-copy delivery at home only when requested, it might, given the potential for dynamic routing. As with so many possible innovations, it would be important to field test various service packages.

One concern is that such a service would simply hasten the shift to electronic communication. Most hard copy mail originates as an electronic document that was later printed. If the printed version is delivered electronically, why bother with – and incur the expenses of -- the intermediate stages of printing and scanning? And if electronic communication displaces hard copy mailing, what future is there for

¹² Earth Class Mail statement about its service on its website: www.earthclassmail.com

¹³ “Georg Jensen” (pseudonym – author’s name unknown), “Going Postal: The Imminent Death of the U.S. Postal Service?” in the May-June 2009 issue of *The American Interest*.

affordable universal service to those who still depend on hard-copy mail? What future is there for the Postal Service itself?

These are important and difficult questions that deserve far deeper examination than this paper can provide. Nevertheless, I will offer a few thoughts. Electronic diversion is advancing in any case, and even standard mail is likely to decline in the face of improved customer targeting techniques and electronic options.

Indeed, hybrid mail may speed up electronic diversion, but it is worth the risk, because it will facilitate the needed transformation of USPS into a more innovative and adaptive organization. That transformation is unlikely to take place unless some new force is unleashed. It is unlikely because the mailers and the unions are too powerful politically and have too big a stake in the status quo. At a minimum, the Postal Service should experiment with hybrid service in some localities.

Changing the Business Model III: Toward a New Workforce Bargain

To be sure, the unions are in a difficult position. Labor compensation accounts for almost 80% of USPS's expenses, and the recent deficits are creating implicit pressure on the workforce to consider reductions in pay and benefits. Some observers argue that many postal workers are already paid more than their counterparts in the private sector, that their jobs are more secure, and that their retirement benefits more generous. Others point to the fact that the contributions of postal workers towards the premiums for their insurance benefits are smaller than the contributions of other federal workers, and that postal jobs are highly coveted, as evidenced by the number of applicants for every opening.

At the same time, the unions have cooperated well with USPS management on the needed downsizing of the workforce. Over the past several years, the postal workforce has been cut from its 1999 high of 803,000 career employees to a current figure of 623,000. In his August 6 testimony, PMG Potter indicated that further cuts are in store, quite possibly to a level of 550,000. To date, all the reductions have been done via attrition, and the age distribution of the workforce suggests that this will continue to be the case. That does not mean, however, that the downsizing has been painless for postal workers, for it has involved many adjustments, including reassignments to different routes, jobs and locations.

The challenge for management is to continue to work well with its unions on further downsizing its workforce while obtaining reasonable concessions on wages, benefits, and work rules. In the past pressing for concessions has led to breakdowns in negotiations and thus binding arbitration as called for by the

relevant laws.¹⁴ USPS management believes that binding arbitration tends to ratify the status quo, as arbitrators seek to balance the demands of the two parties.

Postal Service executives have tried to persuade the unions that mail volumes are not going to recover. They have tried to enlist union cooperation in the creation of a new postal service that may employ far fewer workers than it does now but that will be viable in the long term. It is my view that they could do still more. In the process, they should emphasize that the only alternative for USPS is to pursue cost-cutting strategies that include “sharing the pain”. In particular, the Postal Service needs to convince the unions to accept “productivity bargaining,” a form of collective bargaining that yields agreements under which pay raises are conditional on changes in employee working practices designed to increase productivity.

Persuading the unions to accept such changes will require the tacit cooperation of Congress, the Administration, and others. That will not be easy at a time when the House, the Senate and the White House are controlled by Democrats who enjoyed strong support from the postal unions in recent elections. Yet, I believe it is possible in today’s climate of fiscal crisis. Note, for example, that the Administration has made certain kinds of state funding for education under the stimulus bill conditional on new teacher evaluation systems (based in part on student achievement), even though such systems are strongly opposed by the powerful teacher unions.

To persuade the unions and their political allies will require USPS management to make its case aggressively not only to the unions, the Administration and key Congressional leaders, but to postal employees and the public. To engage employees and the public in an open discussion about the challenges the traditional Postal Service faces and the possibilities for modernization, this paper proposes that USPS make use of the “collective intelligence” techniques discussed in the next section.

Defenders of the status quo may point to the fact that the Postal Service is one of the last places where minority group members and those without a college degree can achieve a middle-class standard of living. The answer to such arguments is that if the public wants to subsidize a traditional postal service and its employees, it’s free to do so through tax-financed appropriations. If not, it needs to free management to press for adjustments the way the Big Three auto firms did with their unions. The argument here should emphasize the tension between providing universal service without subsidies AND paying premium compensation to a large workforce, noting that it’s hard enough for USPS to do either without raising prices faster than inflation, much less both, and that in a time of declining volume per delivery, something has to give.

¹⁴ Over the course of the Postal Service's history with its 4 major unions, 18 national agreements have been reached voluntarily, while 14 required interest arbitration.

Making the case for change is hard because a substantial portion of the American economy is often said to be dependent on a postal service that offers today's services at today's prices – whole industries, from paper producers and greeting card companies to nonprofits, publishers, and retailers who depend on catalog sales. Yet, we know that subsidies distort markets and that ending them normally yields a more productive economy that provides more high-paying jobs, not fewer.

To be sure, the adjustment process can be very painful, and those hurt by it are much more vocal than those unknown souls who will gain from job expansion in industries that benefit from the shift in demand away from mailers and their suppliers. That pain is a strong argument for better unemployment insurance and job training, but it is not a good argument for subsidizing industries that the market no longer will sustain at their true costs of operating.

In discussing labor issues, I have not addressed the rapidly increasing costs of paying retirement and health benefits to retired postal workers. Already the number of postal retirees and their survivors exceeds 450,000. With the ongoing downsizing of the workforce, this number may soon surpass the number of current career employees.

There are no easy answers to the challenge of “legacy costs,” and the only thought this paper has to offer is this. If the Postal Service cannot pay its bills, Congress will find itself under pressure to bail out the system so that it can meet its obligations. That potential should help Congress and the unions to appreciate the necessity of business model changes that will ensure the Postal Service's long-term viability.

This paper has suggested that one way to change the debate about that business model is to introduce new services like postal savings accounts and hybrid mail accounts, services that would create new beneficiaries and unleash new forces for additional change.¹⁵ The next section examines a more systematic and modern way of promoting innovation and adaptation.

Changing the Business Model IV: Open-Source Innovation

Throughout this paper, I have alluded to the importance of innovation and adaptability without discussing how a large, bureaucratic organization can develop such traits. The short answer is to open up the innovation process and harness the creativity of employees, customers, and other outsiders. This is relatively easy to do with today's Web 2.0 technologies, but it requires a willingness to be transparent and take risks.

¹⁵ I have not discussed other new products and services, such as the expansion of services for the safe disposal or recycling of unused medications and old cell phones, computers and related equipment, because USPS is already looking into these.

Consider the case of Amazon.com. In the words of John Kao, author of *Innovation Nation*:

Amazon.com's chief executive, Jeff Bezos [shook] the foundations of business when he and his top team debated whether to invite outsiders to share the \$7 billion online retailer's most valuable asset – a huge database containing a decade's worth of customer reviews, prices, sales rankings, inventories, and so forth. This was the treasure Amazon had spent more than \$1 billion to create and protect from competitors, the secrets of its success that outside entrepreneurs and programmers would give anything to scavenge. Traditionalists were aghast, but Bezos argued that opening up Amazon was precisely the way to capitalize on its knowledge. By allowing smart outsiders to sample the information like a giant hors d'oeuvre tray, he reasoned, Amazon would inspire many to build new Web sites that could lead to potentially profitable partnerships for Amazon.... His instinct was dead-on. More than two hundred thousand digital foragers have since responded to an open-data site called Amazon Web services, which was started in 2002. About one-third have used the company's free software to create hundreds of new moneymaking Web sites and shopping interfaces that link Amazon's eight hundred thousand independent sellers and their customers. Many of the digital developers have become Bezos's most ambitious business partners overnight. What was an experiment four years ago is now "a core part" of Amazon's strategy....¹⁶

According to Kao, Amazon's breakthrough was "contagious." He points in particular to the success of Linux, noting that "the worldwide programmers working voluntarily to develop this open-source software have sold a majority of U.S. companies on the value of their work – which is given away free...." A majority of U.S. businesses report replacing Microsoft's Windows server software with Linux. "Perhaps the most enthusiastic switcher to date is IBM, which remodeled much of its business around open-source software."¹⁷

It is not only hi-tech companies that are making good use of an open network model of innovation. "Proctor & Gamble, long famous for its insistence on 'invented-here' products, has announced that it wants to source the majority of its innovations from outside its corporate walls." The 3M Company claims that customer-created innovations have been eight times more valuable than those created by 3M itself. "Staples runs an annual 'Invention Quest' competition for new products."

¹⁶ John Kao, *Innovation Nation* (Free Press, 2007), pp. 167-68.

¹⁷ *Ibid*, pp. 171-72.

All this online collaboration has been greatly facilitated by the development of new technologies, most notably Wikis. In Kao's words:

Wikis are Web sites that allow anyone to post material and edit it in his or her own language without knowing the complex programming lingo required for posting material online.... The wiki's software's remarkable features spawned the free online encyclopedia Wikipedia, which attracts 45 million visitors a month, many of them eager to contribute some chunk of expertise to what now weighs in at 1.8 million entries in English, dwarfing the Encyclopedia Britannica's mere 120,000 entries.¹⁸

Wikipedia is wonderful example of the power and efficiency of "collective intelligence" or "crowdsourcing." Corporations can tap into such intelligence to solve specific problems, design new products, or test the market for new services and products. Recently Netflix, the movie rental company, offered a million dollar prize to the first person or team that produced recommendation software that did a 10% better job than its in-house software, Cinematch, of predicting the movies customers would like. Two teams surpassed the 10% bar, and Netflix has decided that the contest was such a good investment that it is planning another one. To quote the September 21, 2009 article by Steve Lohr in the N.Y. Times, blog, Bits:

The Netflix contest has been widely followed because its lessons could extend well beyond improving movie picks....The way teams came together, especially late in the contest, and the improved results that were achieved suggest that this kind of Internet-enabled approach, known as crowdsourcing, can be applied to complex scientific and business challenges.

There are now academic centers that focus on how best to harness "the wisdom of crowds" for particular purposes and under particular conditions. One that warrants the Postal Service's attention is the MIT Center for Collective Intelligence. See in particular its 2009 publication: "Harnessing Crowds: Mapping the Genome of Collective Intelligence," by Thomas Malone, Robert Laubacher, and Chrysanthos Dellarocas. These authors have consulted with many major corporations, and have told me they are willing to work with the Postal Service.

How is all this applicable to the U.S. Postal Service, a federal government agency with a mandate to deliver the mail to everyone? The answer is well explained in its own June 2008 publication: *Business Environment Assessment: 2009-2013*. The authors of that report acknowledge the need for a new business model that takes account of rapidly changing technologies and markets. They wisely call for greater emphasis on understanding customers, engaging employees, mining data, and practicing IBM-style "collaborative innovation."

¹⁸ Ibid, p. 174

My impression is that there has not been much movement to implement these suggestions. That is understandable in the current crisis, especially given how difficult it is to change long-established ways of doing business. Yet, a crisis is also an opportunity to push through needed reforms. Thus, this paper recommends a crash program, driven by the Postal Service's most senior managers, to implement the BEA's recommendations.

More specifically, it recommends using the latest collective intelligence technologies to conduct market research – not only to ascertain the aggregate level of interest in new products or services, but to identify particular demographic and “taste” niches, to refine products or services, and to develop new ones. For example, ask customers about reducing home delivery in exchange for free post office boxes; probe their interest in hybrid services – under what conditions, at what price. To be sure, there are sampling issues to resolve, but I believe they can be overcome.

One simple application is to stamp design. Rather than paying employees to design stamps, sponsor contests the way Threadless does. “In Threadless, anyone who wants to can design a T-shirt, submit that design to a weekly contest, and vote for their favorite designs. From the entries receiving the most votes, the company selects winning designs, puts them into production, and gives prizes and royalties to the winning designers.”¹⁹ In place of royalties, the Postal Service could offer to prominently feature the name and photo of the winning designers on its web site. That would be enough to motivate many creative youth.²⁰

By the same token, engage business school professors and their students in a contest to come up with the best new business model for the Postal Service or the best way to institutionalize open-source innovation there. This contest could be judged by outside experts from companies and consulting firms that understand open-source innovation and the constraints under which the Postal Service operates.

As for employees, engage them in discussions of ways to improve operations. Once the level of trust is improved, ask them also about work rules and the trade-offs among the values they place on various aspects of their jobs and the compensation for it. If collective bargaining agreements restrict such direct management communications with employees, seek changes in them, offering in the process to share the findings with the unions. (I realize that it's easy for me to say that, much harder for management to do.)

¹⁹ Malone, Luabacher and Dellarocas, “Harnessing Crowds: Mapping the Genome of Collective Intelligence,” (MIT Center for Collective Intelligence, Feb. 2009) p. 2. See also the work of David Bollier, author of *The Rise of Collective Intelligence* (Aspen Institute, 2007).

²⁰ For a thorough treatment of the role and structure of such prizes, see the recent 2009 report by McKinsey & Company: “*And the Winner is...*” *Capturing the Promise of Philanthropic Prizes*; www.mckinsey.com

In doing any of this, it is important to structure participation, including the rules and incentives, correctly, and to test the procedures in single cities. A recent experiment in “open government” by the White House Office of Science and Technology did not go as well as hoped, in part because too many crackpots participated.²¹ This is where good consultants on collective intelligence applications can be very helpful.

The general point is that the Postal Service should open up the conversation about its products, services and business model. Such an opening-up will generate thousands of new ideas for improving the existing system, and help develop forms of “mass customization” that allow different sets of customers to opt for different delivery and service packages. It will help with exploiting the full potential of dynamic routing.

Opening up the conversation will also weaken the current domination of mailers and unions in the politics of postal reform. Those groups largely support maintenance of the current business model. To be sure, there are important differences between and among them, and several of their leaders are genuinely concerned to find solutions to the current problems. Opening up the conversation would help by mobilizing broad and tangible support for new ideas that otherwise will not get taken seriously. It could even lead to a needed national conversation about the appropriate definition of the universal service obligation in today’s new world of digital technologies and wireless communications.

Implementing the BEA’s recommendations along the lines I have suggested will require changes in organizational structure and a new Office of Postal Innovation. The Postmaster General, his Executive Committee, and others will know far better than I how to design that office, but they should first investigate how other large firms have organized this function. Clearly, it will need sufficient staff, budget, and authority. To be effective, it will also need considerable freedom to explore and test new ideas. This Office of Postal Innovation should be separate from the departments that have overseen the development of Intelligent Mail, sorting machines for flats, and more fuel-efficient vehicles, for the mission of the new office is less an engineering one and more one of developing a better business model.

It is important that an Office of Postal Innovation has the full backing of the Postmaster General and be headed by a senior vice president who reports to him. It is important that its staff not be bogged down writing reports requested by others. The staff should consist of creative and entrepreneurial individuals who are prepared to think “outside the box” and to use the latest Web 2.0 technologies for crowdsourcing.

²¹ See Appendix A for an account of OSTP’s initiative and a similar one by the Veterans Administration.

In addition to an Office of Postal Innovation, I recommend the formation of a new advisory council consisting of outside experts on business innovation and re-invention. Those experts should include seasoned executives who have been intimately involved in creating and implementing new business models, such as the recently retired CEO of Southwest Airlines, Herbert D. Kelleher, and Amazon's Jeff Bezos. It should include leaders from consulting firms that advise firms and government agencies on how to be more innovative, such as David Silverstein, author of *The Innovator's Toolkit*, and Peter Skarzynski, author of *Innovation to the Core: A Blueprint for Transforming the Way your Company Innovates*.

It should include academic experts on business models, innovation, and collective intelligence, such as Henry Chesbrough of the Harvard Business School and Thomas Malone, the director of the MIT Center on Collective Intelligence. And it should include some individuals who are familiar with the constraints that government organizations face, such as Wayne Clough, the former president of Georgia Institute of Technology who now runs the Smithsonian Institution; Michael Crow, the very innovative president of Arizona State University; and John Kao, who has worked with military and intelligence experts to develop more open models for collecting and analyzing vital information.

Finally, it is important to foster a culture of innovation in the Postal Service, one that permeates the entire workforce. That will require more than jawboning. It will require a new incentive structure that rewards fresh ideas and does not penalize reasonable risk-taking. It may require a certain amount of de-bureaucratizing the organization— of flattening the organizational structure and loosing the top-down, command and control system. None of this will be easy. Bureaucracies are very efficient at the mass production of the same product or service; their systems of standardization and accountability foster high levels of predictable and precise performance. They are especially appropriate when they are government agencies accountable to elected officials and their representatives.

Big bureaucracies are not good, however at nimbly adapting to new circumstances. When I was a boy, we had a neighbor, a man in his 50s who was “retired” at a surprisingly young age for a businessman. One day I asked my dad the story. He told me that this neighbor had enjoyed great success for many years as the CEO of a company that made fountain pens. But the business eventually collapsed because its leadership did not take seriously the challenge presented by the rise of ball-point pens. The point is: innovation is the only insurance against irrelevance.²²

²² Today's newspaper industry faces many of the same problems as USPS; it is committed to its traditional approach to collecting and delivering news, but faces devastating volume and revenue declines. For a discussion of its efforts to adapt, see the Oct. 6 National Public Radio story by David Folkenflik: *Jeff Jarvis: Rewriting Media's Business Model (Again)*, <http://www.npr.org/templates/story/story.php?storyId=113512103>.

Conclusions

This paper has not addressed several issues that warrant attention. These include the governance of the Postal Service and the possibility of privatization (some of which has already occurred through “work-sharing” and outsourcing). They include the practice of long-term “scenario planning” of the type pioneered by Shell Oil. And they include the risks of losing the “last mile” advantage that the Postal Service currently enjoys if it changes its business model in some of the ways I have suggested.

Rather, this paper has focused on the main challenge for the U.S. Postal Service, which is to change its business model. As the management guru Peter Drucker once said, “There is nothing quite so useless as doing with great efficiency what should not be done at all.” It is my view that the Postal Service should not be delivering ever fewer pieces of mail to ever more delivery points every day. By seeking to reduce the frequency of delivery to five days a week, it is moving in the right direction, but it must move more boldly and swiftly if it is to prosper in the emerging world of far lower mail volumes.

I have made some suggestions for cutting labor and delivery costs and for creating new revenue streams via savings accounts, hybrid electronic services, and having post offices double as federal information one-stops. Perhaps these ideas have some merit, but probably not, for they represent little more than the hunches of one observer. The key to developing great solutions is to harness the wisdom of crowds and to institutionalize the capacity for on-going innovation and adaptation.

APPENDIX A: Selected White House Open Government Blog Items

FRI, AUGUST 7, 6:08 PM EST

Opportunities to Participate

Posted by Robynn Sturm

The Department of Defense is reviewing its Web 2.0 guidance and wants your help. New technologies - such as Aristotle, DoDTechipedia/Defense Solutions, and TroopTube - promise to quickly deliver the best innovation to the military, reduce duplication by connecting experts, and connect military friends and families with their loved ones. At the same time, new technologies bring new vulnerabilities. On July 31st, 2009, the Department of Defense launched the Web 2.0 Guidance Forum to inform a responsible and effective use of emerging Internet-based capabilities. You can share your thoughts, experiences, research and links through Thursday, August 20th.

Also, don't forget to weigh in on the Federal Web Sites Cookie Policy Forum. The Forum has already received 70 comments, providing valuable perspectives, and will wind to a close on Monday, August 10th.

Robynn Sturm is Assistant Deputy Chief Technology Officer

FRI, AUGUST 7, 5:55 PM EST

Data from Public Consultation on Open Government

Posted by Michael Baldwin

Thanks to everyone for participating in the public consultation on open government. Phase I, "Brainstorm," ran from May 21-28th and elicited 900+ ideas and 33,000 votes. Phase II, "Discussion," ran from June 3-21 and attracted more than 1,000 comments in response to 16 topics. Phase III, "Drafting," which lasted from June 22-July 6, resulted in 305 drafts by 375 authors, with 2,256 of you voting on those drafts. We are in the process of reviewing all these materials, as well as submissions we received via mail and email (posted online in "From the Inbox") along with input from government employees in order to prepare our report and recommendations.

We invite you to help distill what we've learned. You can download the content from each of the three phases of public consultation here.

We will post further updates as the review process matures.

Michael Baldwin is an Office of Science & Technology Policy Student Volunteer from Harvard Business School.

Veterans Administration: It is this same belief in the ingenuity of the American people that guides the Administration's efforts to make government more effective, innovative, and open. Thus, on August 17th, the President turned to the front-line workforce to troubleshoot the backlogs and delays that have plagued the Veterans Benefits Administration. In his [address](#) to the Veterans of Foreign Wars convention, President Obama challenged them to "come up with the best ways of doing business, of harnessing

the best information technologies, of cutting red tape, and breaking through the bureaucracy. The President turned to VA employees because he knows they have a unique ability to see what's going wrong - why the backlogs continue to grow, why the delays are so long, why the claims processes can be so confounding – and with their own creativity and commitment would generate a mountain of ideas for improvement.

Under the leadership of Secretary Eric Shinseki and Under Secretary for Benefits Patrick Dunne, the VA launched the "innovation competition", starting with a web-mediated idea management tool that made it easy, convenient, and electronically safe for VBA employees to submit their original ideas. The platform enables unprecedented levels of collaboration and comment, and even allowed participants to "vote" on the ideas they thought would have the greatest, far-reaching impact. The VA innovation competition will create a new channel for best ideas to rocket right to the attention of the President and Secretary Shinseki, and for the outstanding employee-innovators behind those ideas to get some serious recognition.