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Delivery for the Postal Service

The U.S. Postal Service is in deep trouble.

It is losing market share to competitors in five of its six product lines: packages, international mail, correspondence/transactions, expedited mail and publications. The only market share growth has been in advertising mail. By the end of this century, the Postal Service estimates that a third of its customers will have stopped using the mail to pay their bills.

And the intensity of the technological assault increases daily. Faxes, e-mail and expanding use of 800 numbers are cutting into postal markets at a rising rate. Already, more Americans order merchandise through 800 numbers than through the Postal Service.

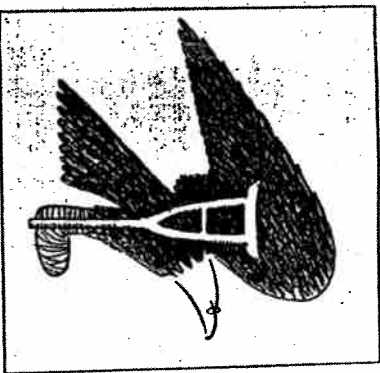
In 1994, electronic messages grew 122 percent. Add to that the growth of alternative delivery networks and the loss of catalogue business to competitors such as UPS and FedEx. These challenges will not go away; they will increase.

To make matters worse, the money the Postal Service has invested in modernization has had little impact on productivity. Twenty-eight years ago, 83 percent of the Postal Service's total budget went to wages and benefits. Today, after the expenditure of billions of dollars for automation, there has been a substantial increase in the number of employees. Labor costs are still 82 percent of the budget. It costs more to process a piece of mail today than in 1991.

To stay afloat the Postal Service may have no choice but to cut back on service and close thousands of facilities. This in turn could lead to further losses, as dissatisfaction mounts. The American people may well be left with a postal service that has nearly a million employees and yet whose only significant function is to deliver advertising mail and greeting cards.

What's to be done?

Keep in mind that the U.S. Postal Service is an arm of the government. It has been called "quasi-government" and sometimes "quasi-private," but it is not "quasi" anything. It is a 100 percent federal government entity to which Congress has granted limited independence and certain powers, such as collective bargaining and the right to use the money it collects. And even while Congress gave the Postal Service its "independent



BY ANDRÉ FRANCOIS

denance" a quarter of a century ago and transformed it into a "businesslike," self-sustaining government corporation, it interposed a number of obstacles that would make it impossible even for a team of the best business executives in the country to run the Postal Service efficiently. Among these constraints:

The Postal Rate Commission (PRC). Headed by five commissioners appointed by the president, it is the only government agency whose primary job it is to set rates on prices for another government entity. Thus pricing authority is divorced from management responsibility and also, substantially, from market considerations. Not only is the Postal Service not free to set prices for its services—without PRC approval it cannot even determine what services it will offer. When a business determines that it needs to raise its prices, it is free to do so immediately—before it starts losing money. With the Postal Service, it takes about five to six months to prepare its rate case; the PRC then has 10 months in which to issue a recommended decision.

Banding Arbitration and Labor Relations. The U.S. General Accounting Office (GAO) calculates that the Postal Service has 860,625 employees. Of these, the Postal Service bargains over the

wages and benefits of 760,899, represented by four unions. If there's an impasse, the law mandates binding arbitration. The consequence? Of the 32 cents you pay for a first-class stamp, 26 cents is paid to postal employees. The rest goes for post offices, vehicles, automated equipment, etc.

In arbitration, one person with no responsibility for the consequences decides how much should be paid to clerks, carriers and others, as well as their health benefits and their grievance rights. In effect, the arbitrator determines how much you pay for stamps.

Another labor issue turns on that phrase in the statute that speaks of compensation for postal employees "comparable to . . . compensation paid in the private sector." This was clearly intended to refer to compensation for similar work. Yet the postmaster general in 1971, pressed by mailers who feared an unlawful strike, agreed to interpret the phrase to mean comparable wages in other highly unionized industries unrelated to the sorting and delivery of mail. That interpretation, plus concessions on COLAs, layoffs and part-timers, laid a foundation for subsequent arbitrators' awards resulting in today's average pay for clerks and carriers of more than \$45,000 a year including fringe benefits. Most private-sector employees doing similar work make far less.

Grievance procedures are further barriers to efficiency. Any union employee dissatisfied with his wages, hours or other aspects of his job may initiate a complex 14-step procedure. The GAO reported that in 1993, 51,827 such grievances were appealed beyond local management-union levels. By 1995 that number was up to 73,300.

Legislative Controls. The law requires a complex and lengthy procedure before the Postal Service can close a small, inefficient post office. William J. Henderson, the Postal Service's chief operating officer, estimates that 26,000 small post offices cost more than \$4 for every dollar they take in, and asserts that other ways are available to provide better service. We certainly do not suggest that all these 26,000 post offices should be closed, but in clear cases, postal managers should be able to move decisively.

There is also congressional resistance when

postal management undertakes moneymaking activities. This is especially true with respect to competitive activities and experimental rates. Postal Rate Commission approval, even for experimental rates, can take months. Most business mailers support the concept of a postal service with more freedom to set rates and introduce new products and services. Some believe it should be allowed to make a profit, to negotiate prices, to innovate and to reward customers who prepare their mail efficiently.

Congress has also disregarded its own mandate for an efficient, self-supporting postal service by using it as a "cash cow," milking it over the years for \$8.3 billion for deficit reduction—a disguised tax on postal customers.

Why can't these obstacles be removed by legislative action? Some could if there were a consensus among the mailers' groups and labor—and in Congress. But experience has shown, as Sen. Ted Stevens, chairman of the Postal Affairs Committee acknowledged, that these groups are too diverse to develop such a consensus.

And even if a partial legislative solution were possible, it would be only patchwork. It wouldn't speak to the future of the Postal Service and its ability to master change. Only a nonpartisan, blue-ribbon commission, free of administrative and other constraints, is capable of doing all that now needs to be done.

There is precedent for just such a commission. In 1967, in the wake of a massive mail stoppage in Chicago, President Lyndon B. Johnson appointed a Commission on Postal Organization (headed by Frederick R. Kappel, then board chairman of AT&T) to look at the post office. In June of 1968, the commission announced its finding that "the procedures for administering the ordinary executive departments of Government are inappropriate for the Post Office."

The Kappel Commission recommended that the Postal Service be turned into a self-supporting government corporation, that patronage control of all top jobs, all postmaster appointments and thousands of other positions, be eliminated; that postal rates be set independently of Congress; and that the postmaster general be

named by a presidentially appointed board of governors, which would also become the Postal Service's policy-making arm.

The commission's proposal formed the basis of the Postal Reorganization Act of 1970. Despite flaws, that act saved the Postal Service from disaster—at least for a while.

Now the time has come for another commission. To be credible, it should be made up primarily of leaders of business, finance and labor with no special connection to postal matters. Among the basic questions it needs to consider:

- Should universal service, whether or not at uniform prices, be required by law?
- Should any part or all of the Postal Service be spun off to the private sector?
- Should the postal monopoly on letters (and some advertising mail) be rescinded or modified?
- What is to be done about binding arbitration, postal unions' right to strike, the comparable pay provision, work rules and grievance procedures?
- How do we speed up and simplify the rate-making process?
- Should private deliverers have access to residential mailboxes? (At present they do not.)
- Should nonprofit organizations, ranging from local charities to the AARP, continue to pay less than other postal customers?
- Should the Postal Service be permitted to bid against private companies for major contracts? (It was precluded from bidding for the government-wide contract for expedited delivery that was awarded to FedEx.)
- Is a part-time board of governors still an appropriate body to direct the Postal Service?

These and other matters the commission will deal with are controversial and do not lend themselves to quick legislative solutions or patchwork solutions. The sooner a first-rate nonpartisan commission gets to work on them the better. Time is running out on the U.S. Postal Service.

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