



Is the Postmaster General Overpaid?

By
Murray B. Comarow

March 19, 2009

Is the Postmaster General Overpaid?

By Murray Comarow

March 10, 2009

Congressmen and the media have castigated the Postal Service's governors for awarding Postmaster General John E. Potter \$800,000 in compensation. Critics point out that the Postal Service is losing money, and compare the governors' decision to the cupidity of banks and automobile companies whose boards have paid CEOs outrageous sums even as they lead their firms into the tank. Potter's compensation "just doesn't smell right," said Rep. Jason Chaffetz, ranking Republican on the subcommittee that oversees the Postal Service. The subcommittee's chairman, Rep. Stephen Lynch, is more specific, declaring that "the huge increase in pay for Mr. Potter is incongruent with the post office's recent performance."

The Postal Service is struggling on many fronts, and may be unsustainable in its present form. On March 25, therefore, the subcommittee will hold a hearing said to focus on the Postmaster General's compensation, which the chairman and ranking member have already pre-judged as excessive. It is true that the Postal Service lost \$2.8 billion last year, and may lose \$6 billion this year. Technological changes and the recession have had a serious impact on revenue. It is also true, however, that the Postal Service would have covered last year's costs, in fact, would have shown a profit, but for an unprecedented provision in a December 2006 postal reform act.

That law, euphemistically called the Postal Accountability and Enhancement Act, was passed despite protests by a unanimous postal Board of Governors. (It was inexplicably supported by most mailers, and rationally by postal unions, whose interests the Act protects.) The provision in question directed the Postal Service to pay about \$5.4 billion dollars a year, for ten years, into a fund for retirees' future health benefits. No other federal agency (and of course no private company) is stuck with this senseless burden. Since the Postal Service is funded by customers, not taxpayers, the \$5.4 billion comes out of customers' pockets.

Criticism of Potter's compensation, if justified, should be based on factors other than the baseless assumption that he was to blame for the Postal Service's red ink. Most members of Congress are blissfully ignorant about postal stuff, except when their local post offices are threatened. One would expect, however, that the chairman and ranking member of the oversight subcommittee should know that the \$5.4 billion annual payment mandated by Congress is the proximate cause of last year's deficit. As I write, 126 Representatives are cosponsoring a bill (H.R. 22) to deal with an issue that Congress went out of its way to create.

The same flawed 2006 Act also set a Consumer Price Index inflationary cap on postage price increases. (The scheduled May 11 increase is thus limited to 3.8 percent.) Of course that does not apply to postal costs. The Postal Service must pay whatever the market charges for whatever it buys. Potter is also required by law to negotiate wages with the four postal unions. If there is an impasse, an arbitrator decides how much employees are paid, the only federal agency in U.S. history so constrained. The average clerk or carrier makes \$66,929 per year, including benefits that are more generous than those of other government workers. As a result, labor accounts for 80 percent of operating costs, far more than UPS or FedEx.

To stay under the CPI price cap, Potter could not reduce wages or benefits, but in the last few years did reduce the workforce by 120,000 people, without layoffs. That was a remarkable achievement, since our population continued to grow during that period, creating two million more delivery stops a year. Other cost-cutting steps include a planned 100 million work hour reduction (of which 36 million has been achieved), and staff cuts in headquarters and field offices. Plans to consolidate 30 to 40 processing plants are certain to run into political opposition, but are also under way. Concurrently, aggressive marketing efforts to increase revenue are intensifying.

Potter's reputation as a manager, even among his critics, is hard to top. A recent Ponemon Institute survey reveals that for the fifth straight year, the Postal Service is the most trusted government agency. A 2003 presidential commission found that two-thirds of the public are satisfied with their postal service. The Institute for Research on the Economics of Taxation, in its February 4, 2009 Congressional Advisory, wrote: "[T]he Postal Service's current top management is highly regarded in terms of knowledge of postal operations and general competence."

None of this suggests that postal management should be free from criticism. In a customer-supported framework, each segment fights for lower prices. If newspapers, magazines, or nonprofits pay less, catalogs, direct mail, and letters pay more. The reverse is just as true. Advocates for a specific type of mail attack adverse decisions on legal, political, or cultural grounds. In other writings, I have faulted the Postal Service for poor congressional relations, for its marketing strategy (which has notably changed), and for its reluctance to vigorously seek relief from laws that generally constrain its ability to manage, and specifically limit its ability to set prices, wages, and benefits.

On March 3, Dow Jones and others reported that President Obama's 2010 budget would have postal workers, who pay 17 percent of their health benefit costs, pay 27 percent, like other federal workers. Postal workers pay no life insurance premiums. The 2010 budget would have them pay 67 percent, like other feds. The proposed realignment would save postal customers about \$9.5 million in ten years, and it came under immediate assault. The Postal Service should strongly support these changes. Will Congress go along? Don't hold your breath. Union and postmaster votes and cash usually trump Postal Service initiatives. Union President William H. Young promptly issued the following statement: "We are aware of the problem in the budget. We are working with a friendly administration to resolve it." Translation: "Don't worry, it won't happen." He's probably right.

There are no precise guidelines for setting a Postmaster General's compensation, but comparing top jobs in the private sector, in foreign posts, and in U.S. agencies may help. In 1968, a presidential commission created by President Johnson (later supported by President Nixon) recommended that the tax-supported, politics-driven Post Office Department be transformed into a self-supporting government corporation mandated to function like a business. The bill passed the House 359 to 24, and the Senate, 76 to 10. The commission's report, on which much of the 1970 Postal Reform Act was based, recommended that a board of directors select top management officials and "set their compensation at levels competitive with private industry."

Other parts of the report stress the need for top managers: "What the Post Office needs is management leadership. It needs a management free to

manage with all that entails.” The men who signed that report four decades ago, mostly conservative tycoons, were not soft on bureaucrats. Based on their own experience, they knew that first-rate executives were hard to find, and that money mattered. By this standard, compensation of Postmasters General has been shamefully inadequate for decades.

Thirty-five years later, President Bush created the postal commission referred to earlier; its 2003 report dealt with executive compensation in words reminiscent of its predecessor’s: “[T]he Postal Service should be authorized to establish rates of pay for officers and employees at levels competitive with the private sector.”

After decades of foot-dragging, Congress paid attention. The 2006 Act authorized the postal governors to pay as many as 12 executives up to 120 percent of the Vice President’s \$221,000 a year compensation. In January of 2008, the governors set Potter’s salary at \$263,575, within the statute’s guideline. He will also get \$135,041 (performance bonus) when he leaves. Of the rest, \$381,496 represents the increased value of his Civil Service pension, from which he will receive monthly payments when he retires. Finally, \$77,347 is for legally required security measures, and about \$8,000 for miscellaneous items. These don’t grab the public’s attention the same way as conflating the amounts and reporting \$800,000, a misleading spin all too common in our town.

As noted, comparisons to private sector CEOs, once informative, give little guidance. Many CEOs have been scandalously rewarded, even as they lead their companies down the drain. Fannie Mae: \$8.7 million; Freddie Mac: \$3.4 million. Even these amounts are dwarfed by executive compensation in banks, investment and insurance firms, and automobile companies. Reportedly, Merrill Lynch paid its top ten executives \$210 million in bonuses as they were going broke and about to be swallowed by Bank of America. The AIG bonuses, \$165 million to executives who led the company to the edge of the cliff, is a nightmarish scenario created by equal measures of greed and incompetence. These are hardly the competitive comparisons the two presidential commissions had in mind.

A few better comparisons. The head of the Tennessee Valley Authority, a federal government corporation like the Postal Service, gets \$2 million (\$655,000 salary, \$1.1 million incentives, \$300,000 deferred). The chairman of the Public Company Accounting Oversight Board: \$654,650.

These are important agencies, but don't approach the national impact of the Postal Service, with 700,000 people and \$75 billion in revenue. Eight to nine million private industry jobs depend on it, directly or indirectly.

Less well known is how much leaders of foreign posts are paid, ranging as high as \$4 million in the case of Deutsche Post. New Zealand Post's CEO's annual pay is \$733,000. That nation's population of 4.2 million is about 1.4 percent of ours.

Who are the governors who set the PMG's compensation? There are nine, all appointed by the president and confirmed by the Senate. They serve for seven years, and not more than five may be from one political party. They are paid \$30,000 a year, plus \$300 a day for not more than 42 days. For some, at least, it is a form of public service. Reckless spenders they are not.

In this critical juncture in our national life, Congress should focus on keeping the Postal Service alive and healthy. The Board of Governors and former Comptroller General David Walker have testified that its basic business model is broken. Collapse or serious weakening of the Postal Service will result in further unemployment and bankruptcies of many postal-dependent businesses. Scoring political points on the back of a respected Postmaster General deflects the central issue that Congress has yet to confront. Just demanding a businesslike operation is empty rhetoric. Congress must give the Postal Service genuine and flexible authority to manage this vital national institution.

ABOUT THE AUTHOR

Murray B. Comarow was elected a Fellow of the National Academy of Public Administration in 1974 and has served on its board of directors. An attorney, he was of counsel to two law firms and is a consultant to a major mailer. He was executive director of President Johnson's Commission on Postal Organization in 1967-68, and executive director of President Nixon's Advisory Council on Executive Organization in 1970-71. Additionally, he served as senior assistant postmaster general, distinguished adjunct professor in residence at American University, Acting Dean of its College of Public and International Affairs, partner at Booz, Allen, and Hamilton, executive director of the Federal Power Commission and acting deputy general counsel in the Office of the Secretary of the Air Force.

This article should be of interest to Congress, the Executive Office of the President, the Postal Service, and the private sector. It may be considered against the background of some of his more recent essays:

- A Member of Congress Repents, September 2008
- The Dysfunctional Behavior of Mailers, August 2007
- What Does Postal Reform Do? June 2007
- The Strange Case of Postal Reform, February 2007
- The U.S. Postal Service is a Government Corporation, So What? November 2006
- The Postal Conundrum, September 2006

The views expressed in this document are those of the author alone. They do not necessarily reflect the views of any client or of the Academy as an institution.

This and the previous papers may be accessed on the Academy website at http://napawash.org/about_academy/fellow_papers.html. The author may be reached at Profcomarow1@verizon.net; or at 4990 Sentinel Drive, #203, Bethesda, MD 20816-3582.