

Remarks of
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The U.S. Postal Service recently filed for a thirty cent first-class stamp, and for substantial increases in postage for other classes of mail. It will get its thirty cent stamp, or something very close to it.

Your thirty cents will be spent like this: labor gets a quarter; everything else gets a nickel. And this five-to-one ratio holds for the entire mail stream. That's right, the 40,000 post offices, the enormous fleet of vehicles, the sorters and optical scanners, the maintenance, the L'Enfant Plaza Headquarters--all that gets paid out of the nickel.

The Postal Service, in economic jargon, is "labor intensive." Over 83 percent of its costs go for wages and fringe benefits. By way of contrast, the federal judicial system, which one would think is as labor intensive as a system can get, spends a mere 56.5 percent of its budget on wages and fringe benefits. What is going on?

In 1970, Congress established the U.S. Postal Service "as an independent establishment of the executive branch of the government." Often referred to in the press as "quasi-government," or "semi-private" and the like, it is nothing of the sort. It is a government agency to which Congress entrusted certain powers such as the authority to set wages through collective bargaining.

In so doing, Congress commanded the Postal Service to pay its employees "comparable to the rates and types of compensation paid in the private sector." (Section 101(c), Title 39, U.S. Code.) Whatever "comparable" may mean, the present situation, after seven rounds of negotiation with the postal unions, is this: FY 1989 labor costs averaged \$38,430 per bargaining unit employee, according to the Postal Service.

Pay, including overtime:	\$28,689
Direct employee benefits:	6,356
Other benefits (workers' compensation, etc.)	<u>3,385</u>
	\$38,430

Postal Rate Commission sources argue that the true figure is much higher, if certain actuarial and other data are taken into account.

Postal workers should be grateful to their unions. Unlike other government unions, postal unions are a politically potent force. (For example, postal workers contribute only 25 percent to their medical coverage; other government employees contribute 35 percent.) Whether such compensation and fringes are in fact "comparable," as mandated by the law, should be of great interest to the Congress, the public, and to the business community. Let us see if this is so.

In February and March this year, the House Post Office and Civil Service Committee held a series of hearings. Witnesses included Postmaster General Anthony M. Frank; Board of Governors Chairman Robert Setrakian; PRC Chairman George W. Haley; top postal union officers; and major mailers of all classes of mail. With

rare exceptions (Vincent Sombrotto, President of the letter carriers union, said mail service would still be a bargain even at thirty cents) virtually all witnesses severely criticized postal management, with particular emphasis on its failure to control costs.

The testimony of Gene A. Del Polito, Executive Director of the Third Class Mail Association, was typical of many: "The Postal Service now wants . . . mailers to pick up the tab for its past two years of mismanagement and waste."

Moe Biller, President of the American Postal Workers Union, characterized his own testimony in a March 1, 1990, union bulletin headline: "Biller Blasts USPS Mismanagement." Even Ralph Nader, who evidently became an expert on postal matters simply by deciding that he was one, has joined the chorus.

Perhaps the most impressive private sector coalition to testify is the Mailers Council. It consists of 18 companies including such giants as American Express, Hallmark Cards, Merrill Lynch, Readers Digest, Sears, Time Warner, Times Mirror, and U.S. News and World Report. These companies employ about a million people. In addition, 19 trade associations are Council members, including catalog companies, retailers, record distributors, printers, and many more. In all, they cover and affect a major spectrum of the economy. The Council's members generate three-fourths of all the mail in the nation.

On February 21, 1990, Richard F. McLoughlin, President of Readers Digest, testified for the Council. He noted that "costs have been out of control and must be constrained. He cited

losses in 1987 and 1988, an "anemic surplus" in 1989, and a whopping \$1.6 billion deficit projected for 1990, despite the largest revenue increase in postal history.

There is no doubt that postal management has fallen short in several respects. The Postmaster General's 1989 Annual Report admits flatly, "We fell short of our goals." Board Chairman Setrakian told the Committee "to have a 19 percent increase over a 34-month period in which inflation will have gone up by about 13 percent is simply unsustainable and repugnant." Its inadequate control over work hours, its seeming inability to make better use of casuals and part-timers, are serious defects. When 73 out of 73 divisional managers receive incentive bonuses, something has gone awry. The Postal Service continues to be operations-driven; until it becomes market-driven, it will not be the customer-responsive, modern organization envisioned by the Kappel Commission, whose report led to postal reform.

On the other hand, I freely acknowledge that altering the embedded culture of an autocratic two-hundred-year-old institution is no work for the faint of heart. PMGs recruited from the private sector have not distinguished themselves at the bargaining table, nor have they made much of a dent in changing the institutional mind-set. (The reasons for this are complex, and go well beyond glib "they were captured by the bureaucracy" assertions. Hint: five PMGs in six years is not the way to go.) If there is any bright side to this gloomy view, it is this: Many first-rate postal executives are entirely aware of the "culture" problem, find it galling, and are working within their limits to change it.

It would also be fair to freely acknowledge management gains.

- Reduction of 20,000 employees since May 1989
- Positive productivity figures for the last two quarters
- Independent measurement of first-class service
- Implementation of a dozen or so worksharing measures developed jointly with customers
- A Strategic Plan which sets the ambitious--perhaps too ambitious--goal of running the USPS at cost levels two percent below inflation.

Let me return, however, to the Mailers Council. Mr. McLoughlin concluded his testimony by asking the Congress to do two things: (1) Double its USPS oversight hearings; and (2) hold the Postal Service accountable for results, comparing its performance from hearing to hearing.

Suppressing personal reservations as to their efficacy, I have no real quarrel with these suggestions. They can do no harm, and they might do some good. I invite your attention, however, to that portion of the Mailers Council testimony which dealt with labor costs. I quote it in its entirety:

[W]e believe conditions are not optimal for restraining resource costs and, in particular, labor costs. Costs such as transportation are not easy to restrain when the price of gasoline is rising. Moreover, since labor consists of some 83% of the overall amount of postal costs, a rational and constructive collective bargaining agreement in the mutual interest of the Service and

its unions, as well as the public interest is essential. Yet, with mandatory, binding arbitration the incentive for either side to engage in true negotiation is diminished in any year including this one. Further, once again a negotiation has coincided with a rate case. And once again this has provided a built-in incentive against discipline in the negotiation from either side. Nonetheless, we urge parties on both sides of the upcoming negotiations to do their utmost to reach an accommodation that serves the public and the mailing community, and which will in turn serve them. To the extent that they can mutually contribute to restraint in postal inflation, it will be rewarded with continued growth in volume and a secure future.

With no disrespect to Mr. McLoughlin, whom I have never met, nor to the Council, I am compelled to suggest that a fair translation of its position on labor costs comes to this:

The Mailers Council doesn't want to risk tackling this hot issue. We may look bad. We can't win. There may be unpleasant consequences. We have no recommendations to offer.

Let us turn to another prestigious organization, the Direct Marketing Association. On March 2, 1990, its Senior Vice President, Richard A. Barton, issued a "Washington Alert" to its members. This consisted of public relations guidance, suggesting points to stress in dealing with the media and the public on rates and advertising mail. For example:

- Consumers like direct mail
- High postal rates hurt businesses
of all sizes
- High postal costs are driving
advertisers toward private delivery.

And so forth, with data to bolster each assertion. Quality work. Guess what went unmentioned: labor costs, about which the Postmaster General said in his testimony "If we can't control that item we don't have a prayer." About which Chairman Setrakian said, "The issue can't be ducked."

This central imperative has been avoided by virtually the entire mailing community. If all the recommendations in mailers' testimony were accepted and acted upon, the intractable fact is that they would have only modest impact. I don't look down my nose at that. I value efforts which produce decent results at the margins. Especially in government, words like "solution," when applied to a complex political/economic/cultural bag of worms are worse than inappropriate--they are mischievous.

And heaven knows, this is indeed a complex situation. I would argue that the present level of labor costs is the result of these factors, in varying degrees:

- Ineffective management
- Politically potent unions
- Vote-conscious Congress
- A misconceived arbitration provision
- Passive industry
- An uninformed public

The question must be asked: What is the proper stance for the Postal Service and for its customers with respect to labor costs? Anyone who believes that a union-busting position can prevail is probably smoking funny cigarettes. On the other hand, avoiding the issue is a guaranteed, four-star loser. Is there a

responsible approach, with a fair chance of influencing the course of events in the short term or at least in the next round of labor negotiations? I think there is, and it is based upon a powerful democratic principle: Consumers have the right to ask questions about how the government spends their money. Without inflammatory rhetoric, it strikes me as fair that the folk who pay postage say to the Congress: "Most of what we pay goes to labor. Is \$38,430 a year really comparable to similar work in the private sector?"

But the corollary or pre-condition to the exercise of that principle is information which convinces people that they have a stake in the issue. The West Virginia school teacher, the small retailer in Boise cannot raise such questions unless they are informed.

In December 1984, Dr. Clark Kerr, Chairman of the Board of Arbitrators, had this to say in his arbitration award:

Since July 1970 . . . [wage] rates in the Postal Service have gone up substantially faster than in the private sector . . . This award reflects a policy of "moderate restraint" . . . These discrepancies did not develop over-night and it would be a mistake to try to correct them too hastily. This award interprets moderate restraint as a slowing of wage increases, as against the private sector, by one percent a year or for three percent in total over the life of this contract . . . This does not dispose of the problem. Moderate restraint may also be necessary in future years to approximate the guidelines of comparability as established by Congress.

I have been told that United Parcel Service and Federal Express drivers make about as much as postal carriers. On the other hand, I understand that sorters and processors for those organizations earn about nine dollars an hour, as compared to more than fourteen dollars (not including any fringes) in the Postal Service. An internal PRC study claims that state and local employees whose jobs are similar to postal jobs earn about \$10,000 a year less. Perhaps these assertions are inaccurate, but shouldn't they be carefully examined by a credible and neutral source such as the General Accounting Office, or a major accounting firm?

Some argue that postal pay and fringes should be compared to highly unionized industries, regardless of the kind of work their employees do. At one point, indeed, the automobile and steel industries were used as benchmarks in the negotiations, to the credit of strong and skillful union leaders, and to the dismay of those who expected more from postal management. Compensation for automobile workers is down 33 percent since 1971, in real dollars. Will they still be used as benchmarks? Consider the further fact that only 16.4 percent of the U.S. work force is unionized. In the service industries, only six out of 100 employees are union members.

It is essential that postal management raise these issues when they come to the bargaining table in August. Essential, but not sufficient. The public--not to mention major customers--must

ask the Congress, the Board of Governors, and the Postmaster General for explanations. They will not do so unless they are supplied with hard facts. The companies and associations on the Mailers Council, the Direct ^{Marketing} Mail Association, and others have the ability to do this if they have the will to speak out collectively.

As usual, the postal unions are well ahead of management and industry in going public with their case. Vince Sombrotto has been an effective spokesman on talk shows, poorly balanced by James C. Miller III, whose privatization pitch sells not in Peoria nor in Pittsburgh. Joel Popkin, the economic consultant to the two big unions, had a column in the Washington Post of March 19, 1990. He wrote:

The USPS's labor costs, including all the fringe benefits and overheads, of sorting a one ounce unpresorted first-class type-written letter on non-automated equipment is only about five cents.

He goes on to say that if the letter has a nine-digit zip code, or is barcoded, etc., the cost of labor sorting falls as low as two cents. Doesn't sound much like 25 cents out of a 30 cent stamp, does it?

Closely related to the comparability question is the issue of arbitration. In the March 7 hearing before the House Committee, Mr. Setrakian recommended the elimination of mandatory arbitration. Congressman McCloskey then polled the five Governors who sat with Mr. Setrakian at the table. Four expressed dissatisfaction with the procedure, and said a change should be considered. They

were Governors Hall, Junco, Mackie and Pace. Two of the four mentioned "final offer" arbitration. Mr. Griesemer said, "I hate arbitration," but added "I'm not ready at this point to say [it should be changed]."

The Governors were thereupon castigated by Congressmen McCloskey, Hayes, and Horton, for interfering with the negotiating process. One heard such comments as "if it ain't broke, don't fix it," and my favorite, the assertion that the unions were being "mild and almost humble" in their demands. I am not making this up.

In recent testimony before the Postal Rate Commission, Federal Trade Commission staff said:

Postal customers . . . lack the organization, resolve, and cohesiveness shown by postal employees in the political arena.

If they are right, the future may be bleak for major mail users, and for those who depend upon them for jobs, goods, services, and sales. Politics, like nature, abhors a vacuum. So long as Congress feels pressure only from one element in the equation, the principle of comparability will be ignored and postal costs will continue to rise. What is needed? Organization, resolve, and cohesiveness.