



# **THE POSTAL CONUNDRUM**

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**By**  
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## ABOUT THE AUTHOR

Murray B. Comarow was elected as a Fellow of the National Academy of Public Administration in 1974 and served on the organization's board of directors. An attorney, he was executive director of President Johnson's Commission on Postal Organization in 1967-1968, and executive director of President Nixon's Advisory Council on Executive Organization in 1970-1971. Additionally, he served as senior assistant postmaster general, distinguished adjunct professor in residence at American University, 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 the Executive Office of the President, senior management of the Postal Service, congressional committees and staff, the Academy, and private sector organizations and interest groups. It is the latest in a series of papers that Murray Comarow has authored on Postal reform. These include "How Not to Reform Government" and "Questions I Have Been Asked," published earlier this year, and "The Demise of the Postal Service?," published in 2002.

This article and the previously published papers may be accessed electronically on the Academy website at [http://www.napawash.org/about\\_academy/fellow\\_papers.html](http://www.napawash.org/about_academy/fellow_papers.html). The author may be reached at (301) 229-4187; by e-mail at [Profcomarow1@verizon.net](mailto:Profcomarow1@verizon.net); or by mail at 4990 Sentinel Drive, #203, Bethesda, MD 20816-3582.

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## THE POSTAL CONUNDRUM

BY MURRAY COMAROW

Many hospitals have Morbidity and Mortality conferences, “M&Ms” in medical jargon, to review the treatment of patients who die. These sessions constitute a continuous learning process, helping physicians detect ineffective and counter-productive procedures. An M&M conference on the reasons the postal reform patient died would be an interesting experiment. I’d guess it would end up with multiple finger-pointing, with no agreement on root causes. On that somber assumption, I will take a shot at explaining why the eleven-year postal reform effort, which seems about to expire, has dissolved into disarray. It took a long time and many forces to achieve this unfortunate result. Here are the dramatis personae of the drama.

**The Congress.** In passing the Postal Reorganization Act of 1970, the Congress, to its credit, put the inefficient, patronage-saturated old Post Office Department on a self-supporting basis, forbade patronage, and rid itself of its troublesome wage-setting and rate-setting functions. At the same time, it undermined its primary objective. While commanding that the Postal Service behave as much as possible like an efficient business, Congress deprived its Governors and managers of responsibility for prices and wages. It also capped executive salaries at unrealistically low levels, made it difficult to close or merge unprofitable facilities, and imposed other constraints.

It accomplished this contradiction as to postal rates and wages in two ways: (1) by creating a Postal Rate Commission that has de facto rate-setting authority; and (2) by giving arbitrators final authority to set wages. It may be argued, in fact, that arbitrators are the real rate-setters. They decide eighty percent of costs, leaving the PRC and mailers to squabble about the other twenty percent. Many mailers and postal executives refer to the Postal Service as a “business.” It is not. Congress won’t let it be. I will get back to the more recent activities of Congress later in this paper.

**Postal Service Governors.** The nine Governors are appointed by the President and confirmed by the Senate. As distinguished as they may be in other endeavors, few have experience in running major organizations, a sine qua non for board members in the private sector. FedEx, for example, has twelve outside directors. Ten head major corporations, one is president of a technological university, and one is a founding partner of a sizable law firm.

The Governors select the Postmaster General and his Deputy, who then become Board members. On March 2, 2001, the nine Governors signed a letter to the President calling for “an immediate bipartisan effort to modernize the Nation’s postal laws and regulations.” On September 15, 2005, however, they unanimously objected to current legislative proposals, H.R. 22 and S. 662, that would vastly increase the PRC’s power

and reduce the Board to a shell, among other flaws. The Board did not, however, place its alternative statutory version of postal reform before the Congress, a fundamental error.

**Postal Management.** While accomplishing a great deal in processing more mail with fewer employees, it has not recommended elimination of binding arbitration, nor has it proposed a tighter definition of “comparable” wages. These are the root causes of wages stubbornly holding at eighty percent of costs for over three decades, during which billions have been spent in modernization. The average postal clerk or carrier makes about \$65,000 a year, including benefits. Many believe that the Postal Service’s marketing efforts and attitudes toward customers do not approach the standards of successful businesses. Postal officials are often accused of an unreasonable reluctance to share information. Deserved or not, these perceptions are widespread, undermine trust, and bolster the view among members of Congress and mailers that the Postal Service should be more tightly regulated.

**Postal Rate Commission.** The Postal Service is one of fifteen “government corporations.” TVA and FDIC are other examples. All but the Postal Service set their rates and fees without the involvement of another government agency. Postal rates, however, are basically set by the PRC. The nine Governors may overrule the PRC only under strict conditions and only if they are unanimous. That’s rarely happened. The PRC blurs management responsibilities and represents bureaucratic layering at its worst. It should not exist, but since it does, it would be better if the five commissioners had strong and relevant backgrounds in law, business, economics, or accounting. Not many commissioners have met this test. Experience in an interest group, such as a large mailer, a postal union, a postmaster association, or a competitor should be a bar to nomination, but it is not.

Some argue that the Postal Service’s monopoly on letter mail justifies regulatory oversight. Private sector companies that enjoy monopolies should be regulated, of course, for the simple reason that their first loyalty is to shareholders. Monopolies vested in government corporations, however, are administered by public officials whose sworn loyalties are to the public.

The PRC is apparently unwilling or unable to streamline its proceedings in a manner that would benefit all parties. In the hearings now under way, there are about 100 parties. The Postal Service will supply 47 witnesses, at present count, and the parties may present an even greater number. A panel of experienced administrative law judges might well find ways, consistent with due process, to simplify and compress this complex and expensive procedure.

**The Administration.** Presidents often nominate political supporters as postal governors and rate commissioners. Further, and despite the Administration’s tenuous grasp of postal issues, it has placed obstacles in the way of restoring proven employee pension overpayments to the Office of Personnel Management, now held in an escrow account, to postal customers. An additional \$3 billion dollars will be taken out of customers’ pockets on September 30, plus as much as \$71 billion more unless the issue is resolved. The

White House also insists, in the sacred name of “budget neutrality” on forcing postal customers to bear \$27 billion in military pension costs having nothing to do with postal operations. In the case of other federal agencies, as well as all private businesses, military pension costs are borne by the Treasury.

**The Presidential Commission.** On November 15, 1995, I testified before the House Subcommittee on the Postal Service that “postal executives function within a system of constraints which makes truly effective management impossible.” I argued that even if the nation’s best executives occupied every top postal position, they could not comply with the statute’s mandate for efficiency, and said, “I believe that the time has come for another non-partisan commission to consider the issues undermining the Postal Service....” It is common knowledge that most commission reports gather dust, but some succeed if they are properly designed and supported. The choice, as I saw it, was to do nothing, to the inevitable detriment of the postal community, or to take a step with a fair chance of success.

My plea got nowhere, except for private expressions of support from some postal officials and mailers. Pressure slowly mounted, however, and seven years later, on December 11, 2002, the President appointed a nine-member Commission to consider postal reform. The Administration’s reluctance to take this step may account for the fact that the Commission was given inadequate resources and a six-month deadline, much too short for its complex task. Some of its recommendations identified steps the Postal Service should take under existing law. Others suggested sensible statutory changes. The Commission avoided dealing, however, with the unprecedented issues of PRC as a de facto price-setter and wage arbitrators who control costs.

Presidential commissions are expected to serve the public. They are not looking for votes or contributions. They are not constrained by precedent or existing law. Most important, they should not be “realistic” evaluators of what may be politically attainable. That’s not their job. The 2003 commission fell into this pseudo-realistic trap by ducking PRC and binding arbitration issues. In 1968, pundits opined that the Kappel Commission was wasting its time, that it was politically naive, but its report resonated and had impact. I must acknowledge, however, that seven of the nine 2003 Commissioners voluntarily regrouped this year and supported the Governors’ view that the bills should not be enacted.

Presidents traditionally send their Commissions’ reports to the Congress, requesting consideration of portions with which they agree, and expressing appreciation. On July 26, 2005, two years after the Commission’s report, the White House sent forth a “Statement of Administration Policy” on H.R. 22, including its hollow “budget neutral” position. The Statement did not mention the Commission. Among its explanatory contortions, it urged that the President be authorized to replace postal governors or PRC commissioners as he saw fit, without cause. There would be no better way to re-politicize the Postal Service than this astonishing reach for power.

**Government Accountability Office.** An arm of the Congress, GAO has been well ahead of its masters. It staked out a clear position: if the Postal Service is to continue to provide universal service at reasonable prices, it must be transformed into a new “business model.” To underscore its view, GAO placed the Postal Service on its “high risk” list. Translation: change or die.

GAO did not, of course, design a new business model; not its job. Still, it is regrettable that the key Senate and House Committees did not ask the Comptroller General whether some conflation of H.R. 22 and S. 662 would constitute a viable business model.

**Mailers.** Some mailers depend upon the Postal Service for their corporate health, or in some cases, their existence: magazines, weekly newspapers, direct mailers (I have been associated with direct mailer ADVOCATE for years), nonprofit organizations, and more. Other mailers, such as credit card companies, banks, business publications and catalog publishers, also depend on the mails, but argue that alternatives may be developed. Mailers don’t agree on very much. Most support postal reform publicly, while expressing deep reservations privately. Some say, in effect, “Let’s get the bills passed so that we can win on escrow and military pensions; we can fix the bad parts in conference or in the next session.” Wishful thinking, especially considering the Administration’s intransigence.

Mailers press the Postal Service to cut costs, but they are not present or accounted for in the crunch. Take the case of realignment and merger of postal plants and facilities. Spearheaded by the American Postal Workers Union, which is wired to protect members’ jobs, a national campaign is under way to block or minimize realignment. Local politicians, wired to protect local jobs, jumped on the APWU bandwagon. Postal managers are trying to comply with the injunction of classical economists to “move the work where it can be done best.” Mailers are AWOL.

**Postal Competitors.** Despite mutually beneficial contract arrangements, the United Parcel Service and Federal Express are still competitors of the Postal Service. Well financed, big contributors, and skilled lobbyists, UPS in particular sits at the right hand of the mighty. UPS representatives have been welcome at committee mark-up sessions to which the Postal Service was not invited. UPS supports these bills.

Major newspapers compete with the Postal Service for the same advertisers, for identical ads from department stores, supermarkets, small retailers, and others. They like to use the term “junk mail,” and they support these bills. That is their First Amendment right.

But they overlook their ethical responsibility to disclose their conflict of interest. If the Daily Blatt supports candidate Mary Smith, it should disclose that Mrs. Smith is married to the publisher’s son. If the paper opposes a local law that would injure its stockholders, it should say so. I have never seen such a disclosure by a newspaper with respect to postal issues. Journalism professors, ombudsmen, editors, take note.

Postal competitors have long demanded a “level playing field,” pointing out that the Postal Service pays no taxes, and is immune from zoning laws, vehicle registration, and the like. They do not mention the Postal Service’s legal limitation on executive salaries, or wage arbitration, or generous statutory pension and health benefits for postal workers. They ignore its universal service obligation, restrictions on offering new products and services, barriers to adjust prices to meet changing conditions, and restrictions on closing facilities. They don’t mention that nonprofit organizations, by law, are entitled to deep discounts; do private delivery services or newspapers lower their rates for nonprofit customers? UPS and FedEx are well-run companies and make tons of money, but it is fair to ask if they would prosper if faced with these constraints. If the playing field is not level, which way is it tilted?

One difference between the Senate and House bills relates to single-piece parcels. UPS lobbyists have been twisting arms to place these parcels in the “competitive” category, as the House bill would have it. The Senate bill would consider such parcels as “market dominant.” Without getting into the technical details, if the House/UPS version becomes law, the Postal Service says that retail parcel rates could jump forty percent. That would likely kill the Postal Service’s single-piece parcel traffic, since UPS, unlike the Postal Service, is free to price as it sees fit. Bulk parcel rates might go up as well, again benefiting UPS, but hurting mailers. Postal unions and postmasters are fighting this, as well as the Postal Service.

**Postal Unions.** Four unions represent 99 percent of the Postal Service’s 676,000 bargaining unit employees: the American Postal Workers Union; the National Association of Letter Carriers; the National Rural Letter Carriers Association; and the National Postal Mail Handlers Association. Their contracts expire on November 20 of this year. Separate negotiation sessions began on August 21, 25, 28, and 29. Mailers know that the escrow fiasco will push rates up, and more rate increases will be necessary if negotiators or arbitrators increase wages, or continue present levels of cost of living allowances and health benefits.

Union chiefs will try to get as much as possible for their members. That’s their job, and it will take a serious crisis of the General Motors/airlines variety before they acknowledge that if rates go up beyond affordable levels, their members’ jobs will be in jeopardy. Union leaders are well aware of the risks, but will not waver in their efforts to get top dollar and benefits, including continued wage and retirement COLAs. They will also seek job protection in automation and network redesign, limitations on subcontracting, and more. If they succeed, the Postal Service may be forced to increase outsourcing and worksharing. Some postal officials and mailers already believe that such measures may be inevitable. A note of caution: Federal employees are forbidden to strike; contractors are not. Strikes at key points could bring the Postal Service to its knees. The Postal Service and mailers must take this into account.

The APWU aside, the other three postal unions support postal reform, a position which I believe is not in their own long-term interests. Yet I sense that their ardor has cooled, as

issues such as single-piece parcels and a possible rate cap have surfaced with greater clarity.

**Management Associations.** There are three: the National Association of Postmasters of the United States (NAPUS); National League of Postmasters (NLP); and the National Association of Postal Supervisors (NAPS). They would like very much to have their salaries set by arbitrators, as in the case of unions, and NAPUS has worked toward that end. They do have the right to be consulted, but claim that this is not enough. The core difficulty is that they are managers, not employees. That distinction doesn't resonate with a postmaster who runs a one-person office.

For reasons which I have heard but do not understand, NAPUS and the supervisors have supported these postal reform bills. NLP has not. As in the case of the unions, NAPUS support seems to be weakening.

**Congress: A Reprise.** The results of this Morbidity and Mortality review: The patient, admitted eleven years ago, needed specific treatment. So said the Board of Governors, GAO, mailers, unions, and even competitors. It received the wrong treatment from H.R. 22 and S. 662. Postal reform in the House seems to have been launched on an announced objective: "We must find something for everyone." That meant the entire fragmented, internally competitive postal community, an impossible goal. Basic government policies should flow from basic values, whether the issue involves welfare reform, taxes, immigration, or the Postal Service. "Something for everyone" is not a basic value. Compromise, an essential lubricant in the political process, is not a guiding principle. Compromises down the line may be necessary, even beneficial, but legislation that affects millions of citizens, thousands of businesses, and nine million mail-dependent jobs needs to start, at least, with a coherent view. The organizing principle that should drive postal reform is to direct its managers to run it in a businesslike manner, and permit them to do that.

H.R. 22 and S. 662 would not permit the Board or the Postmaster General to do that. Those bills continue to be inconsistent with the nation's long tradition that federal workers' wages are set by government officials within statutory guidelines, not by arbitrators with no responsibility for controlling costs. The bills would give the PRC important roles with respect to universal service, the postal monopoly, and mailbox access. They would authorize PRC to investigate any complaint, and give it punitive powers. They would protect all existing union rights, including benefits that rank well above other federal employees. PRC would have greater power to impose cost increases the Postal Service doesn't want. PRC would design a "modern" ratemaking system. It would determine service standards, and would promulgate enforceable regulations.

If Congress is prepared to shirk its responsibility for these huge issues, mailers and unions should be profoundly concerned, and stop supporting a generic vision called "postal reform." Congress and the White House can and should do two things: return the escrow overpayments and see that military pension costs are paid by the Treasury.

Albert Einstein said: “Out of clutter, find simplicity; from discord, find harmony; in the middle of difficulty lies opportunity.” There is a way to do this. Hang “Do Not Resuscitate” signs on H.R. 22 and S. 662. Mailers, unions, and postmasters should unite on escrow and military pensions, issues of moral clarity. Fix those, then perhaps revisit reform. Real reform. Or not.