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Postal Success Hinges on Pricing Flexibility

The U.S. Postal Service functions under contradictory and obscure mandates that pose daunting and perhaps insoluble management challenges.

To obey these mandates, a real business would need to be rationally organized, with a fair measure of control over its prices, wages and facilities. But the postal service's structure is irrational, and its influence over prices, wages and facilities is limited.

For example, the Postal Rate Commission has authority over prices. The postal Board of Governors can reverse the rate commission only if the governors are unanimous and if the governors conclude that the recommended rates are insufficient to cover expenses.

Wages constitute another contradiction to Congress's efficiency mandate. In 1970, just before the Nixon administration returned the postal service based on a Johnson administration report, wages

were set by Congress, with raises often coming just before election day.

The reforms bought off postal unions with two pay raises totaling 14 percent and authority for independent arbitrators to set wages if collective bargaining fails.

Federal wages always have been set by the president and the agencies under congressional guidelines. Only in the postal service does the matter go to an arbitrator if management and labor do not agree.

Consider the effect: In 1968 the inefficient and highly subsidized Post Office Department spent 80 percent of its revenues on labor. Today, after tens of billions of dollars invested in technology, the ratio of labor costs to revenue still hovers at nearly 80 percent.

The most vital changes the postal service needs are controls over prices and wages. The Postal Rate Commission is a unique anomaly — a small bureaucracy layered on

a big bureaucracy, with control over prices. The rate commission was a last-minute, ill-conceived insertion by the

1971 and should be abolished. Law already requires that rates be equitable and in the public interest.

Wages should be set by the governors after collective bargaining and nonbinding mediation. The mediator's recommendation should be advisory to the governors, who have the duty to balance comparable wages with service and budget needs.

The postal business suffers from still more constraints on its business decisions.

Most small post offices lose money. However, the law says no small post office can be closed solely for operating at a deficit. As a result, only a handful of these unprofitable small offices have been closed.

Many small post offices could be replaced by contract postal units in local scores.

There already are 6,050 such units in the United States.

These contracts are a good deal for the postal service: no facility to build or lease; modest compensation. But pointing this out enrages thousands of postmasters.

I do not advocate wholesale closure of small post offices, whose value cannot entirely be measured by economic yardsticks. But case-by-case conversions to contract operations when it makes sense in terms of better service and lower costs should not be taken off the table.

The postal service deserves much credit for good performance with one hand tied behind its back, but it can stay in business only if it is granted pricing flexibility to meet competition and satisfy its customers, and if it holds down labor costs or contracts out large chunks of its operations.

The organizing principle of earlier postal reform was to

provide a public service in a businesslike way as possible. Starting with binding arbitration and the Postal Rate Commission, Congress has undermined that principle.

Bit by bit, it has further weakened it. If in the next legislative session, Congress approves HR 22, the postal reform bill, it may recreate an unmanageable institution.

The key features of HR 22 involve price caps, productivity offsets and financial incentives to encourage employees to be more efficient. No fundamental reforms to the above wage, price and business issues are on the table.

Perpetuating the postal service's current inefficiencies would afford its competitors and critics an excuse to return it to a politically driven agency or to privatize it.

Murray Comarow was assistant postmaster general from 1970 to 1972 and helped draft the postal reorganization law of 1970.