

THE UNITED STATES' POSTAL CONTRADICTION

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On May 15, 1998, William J. Henderson became the seventy-first Postmaster General of the United States. A postal employee for 26 years, and the son of a lifelong postal employee, he bosses 823,918 clerks, carriers, and others who deliver 196 billion pieces of mail a year to 144 million businesses and households. That's more in a week than United Parcel Service and FedEx combined in a year. He took command at a propitious moment: the one cent rate increase due next January 10 will be the first since 1994, the books show a profit, and service is generally good. The public (89 percent) is pleased with postal performance, more than any other government agency, more than most businesses, and miles ahead of the people's sour view of Congress or the press.

Not a bad legacy from his predecessor, Marvin T. Runyon. So good that the Congress, let us imagine, has authorized the Postal Service to sell shares to investors. In this scenario, PMG Henderson meets with Wall Street securities analysts to tout the financial health of his organization, citing its profitability, good service, and high public rating. On the face of it, an attractive opportunity.

Not so fast. The Postal Service is a government entity, not "quasi-government" or "semi-private" as labeled by some pundits. It functions under contradictory and obscure statutory mandates which pose daunting and perhaps insoluble management challenges. The law requires the Postal Service to be efficient and businesslike. While it is not a business, the law requires that it behave like one.

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. In fact, the Postal Service's structure is irrational, and its influence over prices, wages, and facilities is limited. To run the Postal Service, the President appoints nine Governors, subject to Senate confirmation. They select the

Postmaster General and his deputy, and are charged by law to direct the "exercise of the power of the Postal Service." But to decide how much stamps should cost, a central revenue responsibility of its "business," the President appoints five other officials, who must also be confirmed by the Senate. They constitute the Postal Rate Commission, another government agency entirely independent of the Postal Service, and staffed by over fifty lawyers, economists, and the like.

The Postal Rate Commission holds hearings which take up to ten months, involve as many as a hundred parties, and result in "recommended" rates to the Governors. The catch is that the Governors can only reverse the PRC if they are unanimous, a rare occurrence, and then only if they conclude that the "recommended" rates are insufficient to cover expenses.

Wages constitute another contradiction to Congress's efficiency mandate. In 1970, the Nixon administration acted on Lyndon B. Johnson's initiative to reform the old Post Office Department, a patronage-saturated, outdated operation which survived because Congress bailed it out year after year. Few taxpayers knew that their tax dollars made up the difference between postal revenues and postal costs. An eight cent stamp, for example, concealed a 20 percent subsidy, and really cost ten cents.

Further, about 60,000 patronage jobs, postmasters and rural carriers, were available to the party faithful. Thousands more jobs were politically chosen, less openly. Construction and equipment contracts, location of facilities were steeped in politics. Wages were set by Congress, with raises often coming just before Election Day.

The postal unions, fearful of losing their Congressional ties, fought the Nixon-Johnson reform effort. They were bought off by two pay raises totaling 14 percent and by adding a provision that authorizes independent arbitrators to set wages if collective bargaining fails. Let's

be clear about this: Since the founding of the Republic, federal government wages have been set by the President and the agencies under Congressional guidelines. In the case of the Postal Service alone, if management and labor don't agree, the matter goes to an arbitrator (technically three, but two are chosen by the parties, and the one "neutral" arbitrator decides.). There is no appeal from the arbitrator's award.

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 state-of-the-art technology, the ratio of labor costs to revenue still hovers at nearly 80 percent. Starting pay for a mail processor is \$12.87 an hour; for a carrier, \$13.61. Fringes add another 40 percent to costs. The average runs about \$50,000 a year, including retirement and health benefits. How that came about, from the customer's perspective, is not an inspiring saga.

In the early 1970s, with postal unions threatening unlawful strikes, frightened mailers and postal officials caved in to union demands and political pressure. In particular, they distorted or ignored the meaning of a key phrase in the Postal Reorganization Act of 1971, that postal workers should be paid "comparable to the rates and types of compensation paid in the private sector." But there were no really "comparable" private sector jobs, claimed the unions, a claim that might surprise any number of companies whose clerks sort and distribute letters and packages.

Hard-pressed, postal managers pegged postal wages to levels in highly unionized industries with little resemblance to postal operations, and signed off on no-layoff and generous cost-of-living concessions to boot. And so collective bargaining, with unions rattling the "no contract-no work" saber, no countervailing pressure from mailers and an arbitrator waiting in the wings, resulted in "negotiated" contracts in 1971, 1973, 1975, 1978 and 1981. Since that time,

and especially since President Reagan destroyed the air traffic controllers union as a result of their unlawful strike, unions have generally relied upon arbitrators to get much of what they want. (An outstanding exception is the National Rural Letter Carriers Association.) The current agreements with the biggest unions ran out in November, and despite Henderson's praiseworthy desire to reach agreement, I doubt he will be able to do so without giving them much of what they want.

Part of the reason stems from the nature of arbitration, which undermines the collective bargaining process from day one. Reaching agreement subjects union leaders to charges of "sell-out" from their rivals who aspire to leadership positions and ask, "Why not take the next step?" Indeed, why not. Arbitrators rarely cut back on what management already offered. Bargaining with one eye on arbitration has another effect: It tempts both parties to take extreme positions, on the theory that the arbitrator will split the difference. (That is not always the case, but the perception is there.)

Binding arbitration covers more than wages. Ever see postal employees chatting up in back of the counters when there are long lines of customers? They may well be supervisors who'd like to pitch in but can't—the union contract won't let them. When managers tried to save costs by changing the way city carriers prepared their mail before delivery, the union protested. The issue went to an arbitrator who ruled in their favor. Thousands of grievances filed by postal unions are decided by arbitrators, or worse, settled by managers with strong cases who want to avoid a procedure in which they are attacked as the bad guys. There may be more settlements.

In an August 28 interview with the Federal Times, Henderson said that "the postal service needs to hold managers accountable for losing grievances." Managers already know how not to "lose" grievances: simply cave in.

Henderson is well aware of the impact of binding arbitration on wages and working conditions, as well as grievances. In a remarkable interview with National Newspaper Association leaders on July 7, 1998, he said:

I think that binding arbitration doesn't allow management and the unions to be true, because you don't have to work out your problems. It's like siblings fighting—you don't have to solve it. I could go to my mother or father and they'll make a decision. Binding arbitration keeps you in that sibling rivalry. Because there are no consequences to it, there's no fallout from it. There's no strike, there's no blackout. There's none of that. So you end up squabbling and then going off saying, "Well, Mama made that decision. And that's it." That's OK when you're mediocre in your performance. But when you get to be more competitive that's no longer appropriate. You've got to fix it.

The first PMG since postal reform to confront this smoldering issue, he will receive little support. The Clinton administration and both Republican and Democratic members of Congress actively seek union funds and votes. Shortly after Henderson's appointment, Representative John M. McHugh's Postal Service Subcommittee held oversight hearings, including another look at the sheer volume of grievances. One member after another, Congressman Benjamin A. Gihnan (R-NY) in particular, held management responsible, "How could you let things get so bad?" was the theme from both parties.

I thought Henderson, an uncommonly articulate and quick-thinking man, might say something like, "Mr. Chairman, we take our share of the blame. But it takes two to tango, and even some of our best managers have a high level of grievances because some union reps have

their own agendas." No such response, only promises to do better. He might also have pointed out that union reps in grievance proceedings are on full pay, and some are paid a healthy per diem, in addition, out of union funds. Not exactly an incentive to settle. Congressman McHugh's H.R. 22 proposes a study of labor relations, but the arbitration issue would not be addressed by that study.

Even the mildest reform measures are likely to experience heavy weather. Congressman Henry Waxman (D-CA) told the National Association of Letter Carriers convention on July 17 that he opposes legislative reform: "[W]e don't think the postal system is broken, and we don't need any drastic changes..." Waxman is the top Democrat on the Governmental Reform Committee, which passes on reform measures. The union's president, Vince Sombrotto, promised to influence this year's elections "like we have never been involved before." Citing postal profits, Sombrotto said, "We want our share." American Postal Workers Union President Moe Biller chants his mantra, "Show me the money." Negotiations with both unions are under way.

On September 21, 1998, the same Congressman Gilman offered this amendment to H.R. 22:

It is the sense of the Congress that nothing in this section should restrict, expand, or otherwise affect any of the rights, privileges, or benefits of either employees of the United States Postal Service, or labor organizations representing employees of the United States Postal Service, under chapter 12 of this title, the National Labor Relations Act, any handbook or manual affecting employee labor relations within the United States Postal Service, or any collective bargaining agreement.

It would take a lot of hard research to uncover a more deferential provision.

At this point, our hypothetical security analysts are glancing at their watches, but they ask more questions and learn that this "business," as some postal officials call it, directed by Congress to be efficient, suffers from still more constraints.

Most small post offices lose money. Many could be replaced by "contract postal units" in local stores which are open commercial hours, rather than 9:00 a.m. to 5:00 p.m. There are 6,050 such units in the United States, including 20 in the Washington area. The 1971 law, however, erects a high barrier: "No small post office shall be closed solely for operating at a deficit..." As a result, only a relative handful have been closed, usually after a two or three year procedure, and only after satisfying the Postal Rate Commission—another government agency, remember?—that procedures were meticulously followed, and that the closing was not due to a deficit.

The Drug City Pharmacy in Dundalk, Maryland has had a Contract Postal Unit since 1977. Its average yearly revenue is over \$320,000. The Postal Service pays the owner, Harry Lichtman, \$15,960 a year. Good deal for the Postal Service. No facility to build or lease, modest compensation. What's in it for Mr. Lichtman? Traffic, the engine that drives retail businesses. His CPU doesn't take bulk mail or set meters, but it handles almost everything else his customers need: stamps, parcels, money orders, and the like.

Pointing this out enrages the 28,000 postmasters, whose associations (they are offended if you call them unions, although their behavior is scarcely distinguishable) swing into action. The National Association of Postmasters and the National League of Postmasters are long-time rivals, but on this they are united. They will also soon begin bargaining for more money, restoration of cost of living allowances, paid convention leave, and more.

In any event, closing small post offices is a dead or at least a moribund issue. Neither Henderson nor his predecessor have shown any taste for taking on the politically powerful postmasters. Both said that they have no plans to close unprofitable post offices. Nor do I advocate wholesale closure of small post offices, whose value cannot be entirely 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 entirely taken off the table.

Similar political pressures protect non-profit organizations, more accurately termed the non-profit industry. Represented by both the Alliance of Nonprofit Mailers and the National Federation of Nonprofits, their clients get their money's worth. Effective January 10, 1999, a few hundred sales letters from your local hardware store will cost thirteen cents each. Similar letters from a non-profit soliciting money will cost seven and two-tenths cents each. That is because the Postal Service is permitted to charge non-profits only half of the "institutional costs" which normal businesses are charged. Since the law requires the Postal Service to be self-supporting, the result is that private businesses and your personal mail subsidize the non-profits. Congress is free to make that decision. They should implement it, however, by appropriating funds to the Postal Service—or directly to the favored non-profits—rather than take it out of the hides of the rest of us.

The 1971 statute under which the Postal Service operates was a huge leap forward. It abolished patronage, forced the Postal Service to live on its income rather than on taxpayer subsidies, and permitted good men and women—especially women—to get the good jobs that had been cherry-picked by politicians. But a quarter century's experience reveals the need for change.

The most important are control over prices and wages. The Postal Rate Commission is a

unique anomaly: a small bureaucracy layered on a big bureaucracy, with virtual control over prices and other functions. Neither the postal reform commission nor the Senate or House reform bills envisaged it. It was a last minute, ill-conceived insertion by the joint conference committee, and should be abolished. Full due process hearings should be conducted by a panel of three expert administrative law judges (detailed from other agencies) to protect the interests of all parties. Their decision should be subject to review by the Governors, as in the case of decisions by other rate-setting agencies, and the federal courts.

The usual objection to eliminating the PRC is that monopolies should be regulated. After all, the argument goes, corporate monopolies such as utilities are regulated by federal or state agencies. Superficially appealing, this line of reasoning conveniently ignores the differences between private and government monopolies.

In the case of a corporate monopoly, shareholders look to management to maximize profits. In the case of the postal monopoly, there are no "profits" in that sense; the law requires that the Postal Service break even, and that rates be set equitably and in the public interest. There are no similar guidelines on UPS or FedEx, who set their rates, as they should, based on corporate self-interest.

Wages should also be set by the governors after collective bargaining and non-binding 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 statute should also be amended, as the McHugh bill provides, to require appointment of governors who have had experience in running large enterprises. The first governors appointed by President Nixon were such a group, but most later appointees, however public-spirited and distinguished in their fields, lacked the background necessary to direct the activities

of a huge, complex organization.

It is time, as well, for Congress to reconsider the question of part-time governors. That they more than earn their pay is beyond dispute. Most governors invest far more time and energy than their \$30,000 annual pay covers. Their responsibilities are so complex as to justify substituting nine part-timers with five full-timers, who would appoint the PMG, as today. That arrangement would continue to insulate the Postal Service, at least to some extent, from political pressures.

Legislative reform is essential if the Postal Service is to survive, but the reforms presently contemplated, some of which have value, are marginal, not fundamental. There is no present crisis, but every postal official and knowledgeable mailer knows that the economic trends are grim. The highly profitable "correspondence and transactions" category (bills, bill payments, bank statements, letters) is threatened by new technology and changing business practices. That category represents 59 percent of postal revenue, and the Postal Service's share of the market is declining. The same is true of package services, international mail, and special services. Only advertising mail and periodicals are stable, but the market place is changing rapidly.

Lobbying by competitors such as UPS, FedEx, and newspaper associations is increasingly intense and effective, partly as a result of the Postal Service's inept handling of its relations with Congress before Henderson's regime. UPS President James Kelly has stepped up his public relations and legal assaults on the Postal Service, arguing that it does not compete fairly, since it does not pay taxes and is exempt from parking restrictions and the like. Kelly demands a "level playing field," but neglects to mention that the Postal Service carries a mandatory public service burden: to provide universal service at uniform prices which largely flow from an arbitrator's decision. Some observers unkindly speculate that the UPS assault may

be partly calculated, in the spirit of Wag the Dog, to draw attention away from the continuing effects of its ineptly handled strike last year.

The question that Congress and the administration should face is not what's best for the Postal Service. It's what kind of Postal Service, if any, is best for the nation. The options range from privatization a la Cato's libertarian philosophy to return to direct political control. Neither of these extremes nor any other fundamental reforms are on the table. The key features of McHugh's bill involve price caps, productivity offsets, and financial incentives to encourage employees to be more efficient.

Another wrinkle in the McHugh bill would divide postal functions between competitive and noncompetitive activities, and require equivalent revenue contribution between them, a proposal which ignores market realities. The former would be run by a private company which would be subject to taxation and state and local regulation. Incredibly, there are no limits on the activities that company could undertake. Bifurcating the Postal Service in this way would create a whole new array of intractable management problems. In any event, the bill evades the root causes that may either erode the Postal Service, or require the huge taxpayer subsidies that kept it afloat until 1971. I am reminded of the late Eric Sevareid's dictum that "the major cause of problems is solutions."

The securities analysts have stopped looking at their watches and are edging toward the door, thinking, "Why is this guy wasting our time? The Postal Service is sliding toward oblivion, it can't control its costs, it can't set prices, it can't close unprofitable offices, its business customers subsidize its non-profit customers. Forgetaboutit."

They're right, and there is no major player or group of players in the postal arena able and willing to tackle the pathologies.

- The Clinton administration enjoys massive union support and, in light of the election returns, is not about to jeopardize that support.
- Republicans likewise court union votes and money; in the last ten years, over one-third of union members voted Republican in congressional races.
- The fractious mailing community is a whirlpool of contentious interests—first class mailers, advertisers, cataloguers, parcel shippers, non-profits can't seem to set aside their conflicting goals and unite even on cost control, which should be an overarching issue. (Full disclosure: a major advertising mailer is a client.)
- The Postal Service itself doesn't have the stomach for a full-court press. I asked former PMG Marvin Runyon on several occasions why he didn't propose genuine legislative solutions; he said that any such proposals would be Dead On Arrival.

He may have been right, but he was wrong, nevertheless, not to lay the facts before the Congress. The Postal Service deserves much credit for good performance with one hand tied behind its back, but it can stay in business only by holding down labor costs, or by contracting out large chunks of its operations, and by finding new sources of revenue, never mind the coffee cups and tee shirts. It has already outsourced its Priority Mail system to Emery Worldwide Airlines, signing a \$1.4 billion dollar contract last year. Emery is doing what postal clerks and mail handlers once did: process the mail, but at lower cost. The clerks' union wants that contract terminated, and aims to block future outsourcing. The carriers' union takes the same position against outsourcing.

When Henderson took the helm, he promised to focus on public policy, people, and performance. A major public policy issue is the monopoly on first-class mail, and its traditional offspring, the sanctity of residential mail boxes. On August 31, at the annual Postal Forum,

Henderson predicted that the Postal Service will not be able to maintain its letter monopoly indefinitely, nor will Congress continue to block private delivery to mailboxes. His prediction hung in the air; no message was delivered as to the pros and cons of the monopoly and the mailbox restriction. If the monopoly is eliminated, will Congress free the Postal Service from its universal service mandate, or from price regulation? Not a chance.

On the same occasion, he said that the Postal Service "needs to be deregulated and commercialized." Since the son of H.R. 22 would in fact strengthen PRC regulation, will he resist those provisions? In a recent issue of Mailing Systems Technology, Bill McCart wrote, "Without [monopoly] protection, private companies will pick off the high-volume markets and offer service at well below USPS rates. Private companies will be able to do this and still make a profit, because they can decline to serve...any area that isn't profitable. If it wants to continue providing universal service, the USPS would have to scrap its current rate structure. That means the end of all one-price-anywhere-in-the-country rates, especially First-Class mail... You might pay—in today's dollars—15 cents to send a letter within your city, but 98 cents to mail it to a rural area on the other side of the country."

As McCart says, this isn't necessarily all bad. What is bad is to permit the Postal Service to slide into such a situation without prior analysis. A careful examination will not occur unless the Postal Service itself faces the basic contradictions embedded in the present law, and proposes clear and bold steps to deal with them.

Some will argue that Postal Service proposals to eliminate arbitration, reduce the power of the Postal Rate Commission, and the like, would be Dead on Arrival, as Marvin Runyon was advised by Larry Speakes. That may prove to be the case, given what's described as "political realities," but not necessarily. The DOA prophets are often wrong. In 1967, postal reform was

also thought to be DOA by the chattering class. The same is true of the creation of the Department of Defense and a separate Air Force: few believed that the West Point-Naval Academy lobbies could be defeated. The same is true of the establishment of the Environmental Protection Agency, in the face of powerful committee chairmen eager to preserve their separate turfs: HEW-air pollution, Interior-water pollution, and the like.

Congress has been kind to postal competitors. In October, it acceded to corporate lobbying and put the State Department in charge of international mail agreements. Nor will the Postal Service represent the United States at the Universal Postal Union. A State Department official told me privately that State did not seek these responsibilities. Even more remarkably, there were no hearings. It is possibly relevant that for 1997 and the first half of 1998, UPS was number one in corporate PACs (\$1,766,976). FedEx was third (\$1,352,296).

Other competitors include Parcel Express, Mail Boxes, Etc., and the Coalition Against Unfair Competition, which claims to represent about 10,000 businesses. Yet another coalition, the Main Street Coalition for Postal Fairness, says it represents mailers responsible for 40 percent of mail volume. All lobby against misuse of monopoly power and postal plans to offer fund transfers, copy service and the like. The conference report on the notorious 3,823-page omnibus budget bill, passed three hours after it was moved for adoption, requires the Postal Service to delay any new competition or nonpostal services until it reports to Congress—a clear shot across its bow, and another victory for the lobbyists.

The organizing principle of postal reform was to provide a public service in as businesslike a way as possible. That mandated a reasonable degree of insulation from politics. Powerful symbols of that guiding principle were removal of the Postmaster General from the Cabinet, abolition of patronage, and reliance on customers, not taxpayers, for revenue.

Starting with binding arbitration and the Postal Rate Commission, the Congress has undermined that principle. Bit by bit, it has further weakened it and in the next legislative session, it may recreate an unmanageable institution, affording its competitors and critics an excuse to return it to a politically-driven agency, or to privatize it.

That may be welcomed by some of the players in this game, but it could be bad news for the millions of individuals and businesses who rely on the mail. The Postmaster General understands this, but understanding is not enough. Diagnosing legislative pathologies of our society is appropriate for academics and the prime time talking heads. Leaders search for ways to translate insights into political action.

In the present climate, especially with Republicans still struggling with the recent election results, this will be extremely difficult. It will require mobilizing support from the more far-sighted mailers—and perhaps even one or two associations or unions—who see reform as responsive to their own concerns. A blue-ribbon presidential commission would probably be the most effective approach, but don't hold your breath.

Other possibilities include an all-encompassing study by a highly credible group, perhaps a joint American Enterprise Institute-Brookings Institution effort. This might draw upon former Postmasters General, Governors, and PRC chairmen, as well as the usual suspects. But the game cannot begin before the kick-off, and that is up to William J. Henderson.