



# **POSTAL REFORM: QUESTIONS I HAVE BEEN ASKED**

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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 a sequel to Murray Comarow's April 2006 essay, "How Not to Reform Government." He published a prior paper, "The Demise of the Postal Service?," in October 2002.

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**POSTAL REFORM: QUESTIONS I'VE BEEN ASKED  
BY MURRAY COMAROW**

This is a sequel to my April essay, "How Not to Reform Government," that generated an unusual number of reactions, pro and con. Some reactions fell into neither category, but were openly puzzled about the complex vectors generated by Congress, the Administration, the Postal Service, mailers, unions, competitors, and more.

I have taken the liberty of rephrasing and arranging these questions in a coherent way, and have answered them as best I can. Even if you are resolute enough to read this sequel I am afraid you will remain baffled, as I am, by some of the inconsistencies and paradoxical behaviors of the actors in this drama.

**Q.: The Postal Service is operating on a break-even, patronage-free basis. Service is generally good, some of it at all-time levels. Why the push for another reform?**

A.: The push started eleven years ago in a House Committee chaired by John McHugh. Even before then, some of us believed that the Postal Service was headed for trouble. Our Washington Post op-ed of May 20, 1996 sets forth our reasons.

**Q.: Could you summarize them?**

A.: The impact of e-mail, the Internet, and other technologies, as well as increased competition, caused a decline of first-class mail, the most profitable category. For the first time, it's less than fifty percent of the mail stream. Despite deep work force cuts and huge investments in mechanization, labor costs still hover around eighty percent, just as they did in 1967. Adjusting prices to meet escalating costs or changing market conditions requires long and complex hearings before the Postal Rate Commission, a five-member regulatory agency. The Comptroller General of the United States placed the USPS on his "high risk" list, and said that, to survive, it must change its basic business model.

**Q.: Do you agree with him?**

A.: Absolutely, although I wish he had been more explicit in describing the statutory and political constraints that hamper effective management.

**Q.: Can you be more explicit?**

A.: Sure, but first let me say that the 1970 Postal Reorganization Act demands that the Postal Service function much like a business. That was its organizing principle. That same statute, however, established the Postal Rate Commission, which not only recommends prices, but has its finger in a number of other things normally left to managers.

**Q.: If the PRC only recommends stamp prices, what's the problem?**

A.: The law permits the Postal Board of Governors to overrule the PRC only under certain conditions, and only if the nine governors are unanimous. That's happened only two or three times since 1971, so the PRC's recommendations are virtually final.

**Q.: What was Congress thinking when it created the PRC?**

A.: Mailers had long enjoyed cozy (sometimes too cozy) relationships with the Congress when it set rates. Delegating this authority to nine presidential appointees made them nervous. Besides, they argued that the Postal Service had a monopoly over letter mail, and that a monopoly should be regulated. Congress went along, much to the dismay of Postmaster General Winton M. Blount, perhaps the key figure in postal reform, together with former PMG Lawrence F. O'Brien, who launched the effort.

**Q.: Many would say that the mailers had a valid point; shouldn't monopolies be regulated?**

A.: In the private sector, of course they should. An electric company's primary goal is to make money, to increase dividends to shareholders. If it's a monopoly, it must be reined in. If you own the only river bridge within fifty miles, if you are not regulated, you can set exorbitant fees. (Libertarians would undoubtedly disagree.) But government monopolies are a separate category.

**Q.: Why so?**

A.: Because they are headed by government officials who are charged with upholding the public interest. They are not driven by shareholders' demands.

**Q.: I'm not convinced; you would just trust the postal governors to set rates?**

A.: Not at all. First, the statute has rate-setting guidelines. Second, ratepayers receive due process. (The Kappel Commission recommended a three-person board of expert examiners.) Third, the governors would not only be required to stay within statutory guidelines, but must base their decisions on the record. Fourth, their decisions could be appealed to the Federal Court of Appeals for the D.C. Circuit. Arbitrary and capricious actions are not likely to survive the process.

**Q.: Do other federal agencies set their own prices?**

A.: Many. Of those, eighteen are self-supporting. They are called "government corporations." Their operations are paid for by their customers or users, not by taxpayers.

**Q.: Can you give a few examples?**

A.: The Tennessee Valley Authority sets prices for wholesale power in 158 electric systems and directly serves 61 large companies and customers in parts of seven states. The Federal Deposit Insurance Corporation charges banks and savings associations for the costs of insurance coverage. The St. Lawrence Seaway Development Corporation, part of the Department of Transportation, sets fees for ships that traverse the waterway between the Atlantic Ocean and the Great Lakes. These are “government corporations.” A complete list is contained in a March 23, 2006 Congressional Research Service Report, “Federal Government Corporations.”

**Q.: So the USPS is a government corporation?**

A.: Yes, in every way but its statutory name. The postal unions resisted reform in the late 60s and referred to the proposed organization as a “soulless corporation” run by a “Board of Directors.” Semantic changes, to placate them, referred to the new entity as “an independent establishment of the executive branch” run by a “Board of Governors.” The CRS study I mentioned includes the Postal Service in its list of government corporations.

**Q.: Was Congress aware of these government monopolies in 1970?**

A.: Many members were familiar with them, but mailers’ anxieties, plus their own, created the PRC. It was a radical step. Since the ratification of the Constitution in 1789, no customer-supported government agency has been regulated by another agency with respect to prices or fees. I would expect business executives to be the first to decry bureaucratic layering, but that is not the case.

**Q.: You were executive director of the Kappel commission whose 1968 report played a major role in postal reform. Did the commission consider a PRC?**

A.: They did indeed, and specifically warned against it. Most of the commission members headed top corporations: AT&T, General Electric, Bank of America, Federated Department Stores, Cummins Engine, Campbells. Some knew government well, having served previous presidents. The four non-business members, including the famously conservative dean of the Harvard Business School, fully agreed.

**Q.: You mentioned labor costs; why do they still constitute four-fifths of postal costs?**

A.: Mainly because the law authorizes arbitrators to set wages if management and labor reach an impasse. There is no appeal. Another reason derives from an old mistake by the Postal Service, but let’s hold that for a minute. Remember I said that there was no precedent for a PRC? Same comment on wage-setting. No federal agency has ever been forced to negotiate wages under threat or actuality of binding arbitration. However competent an arbitrator may be, he (they have all been men) is not responsible for

keeping costs in line. Experts have testified that many postal workers enjoy about a thirty percent wage premium, compared to the private sector. In the rest of the Federal government, wages are set by public officials under the law.

**Q.: What's the other reason?**

A.: It's the "comparable pay" issue. Postal workers' pay had always been set by Congress. The Kappel Commission's report, supported by Presidents Johnson and Nixon, recommended postal wages comparable to similar work in private companies. As reform gained momentum in 1969-70, the unions lobbied for a provision that would get their members top pay. They succeeded in the House; H.R. 17070 provided that postal pay was to be comparable to pay levels in major private sector industries, such as auto and steel. The Senate bill, however, omitted that provision. In the Senate-House conference, the Senate version prevailed. (Report No. 91-1363, August 3, 1970.)

**Q.: So the unions lost.**

A.: Yes, they lost on the Hill, but in the first collective bargaining session shortly after reform, the union repeated its demand for pay comparable with big industries. I was in a senior slot at the Postal Service, and all of us opposed the demand. PMG Elmer Klassen, said to have been a hard-nosed labor negotiator as President of American Can, was also opposed. Recalling that no one had been punished by the unlawful postal strike in March 1970, the unions rattled the strike saber. Mailers panicked and put great pressure on Klassen. He caved, and mailers are still paying the bill. Ironic—a pro-labor Democratic Congress dug its heels in, but business executives were cowed by the threat of another strike, and a reputedly tough PMG surrendered.

**Q.: Congress worked on reform for eleven years, and unanimously passed two similar bills to fix things. Your April article trashed both bills. What gives?**

A.: The bills will do more harm than good. They further erode the Postal Service's ability to operate. Sections 3652 and 3653 of H.R. 22 should be read by anyone who supports reform. Those and other provisions should alarm any business or government executive who knows beans about management.

**Q.: Are you saying that H.R. 22 would not create the new business model the Comptroller General had in mind?**

A.: I wish someone would ask him that precise question, but yes, that's my take on it. More to the point, in January, the Board of Governors unanimously told Congress that they'd rather stay with the present law, despite its shortcomings, than support H.R. 22. They were castigated for that announcement, but they were right.

**Q.: You also mentioned the 2003 Presidential Commission.**

A.: That's a remarkable story. Commissions generally deliberate, write a report, and vanish. Yet seven of the nine commissioners took it upon themselves to tell Congress that the bills would be bad news. I can't recall any similar episode.

**Q.: Since it was, after all, the President's commission, was the White House impressed?**

A.: Not to my knowledge. They seem to be stuck in a "budget-neutral" rut concerning the key escrow and military pension provisions, which should be extracted from the bills and enacted separately.

**Q.: Given our staggering deficits, what's wrong with the administration taking a budget-neutral stance for a change?**

A.: I'd guess that's what they're counting on—budget-neutral does have a fiscally responsible resonance. A moment's reflection, however, exposes it as a debater's ploy.

**Q.: What do you mean?**

A.: People whose revenues support a government corporation have, in effect, entered into a contract with Uncle Sam. They agree to pay all the costs of running the outfit: USPS, TVA, FDIC, whatever. So there's no burden on taxpayers. Uncle Sam says, in return, we won't charge you more than it takes to run the agency, that wouldn't be fair.

**Q.: How does that relate to escrow and military pensions?**

A.: In logic and in equity, neither have anything to do with the budget. The escrow represents money that mailers have been overcharged. It should be refunded in some form. The Treasury has no moral claim on it. The military pension issue is equally clear. Mailers should not be forced to pay for pension costs that have nothing to do with the Postal Service. The Office of Personnel Management should not be the sole arbiter on pension recalculations. It should be turned over to, or at least reviewed by, an expert and credible outside group.

**Q.: Any other criticisms?**

A.: I'll just select two. The first is labor costs. Congress continues to demand more effective governance, but again turns a blind eye to four-fifths of costs. Second, some mailers delude themselves that H.R. 22 contains a rate cap. It only looks that way. The arbitrator would remain free to make whatever award he saw fit. To fill this glaring loophole, the statute would have to limit the award so as not to exceed the rate cap. In effect, cap the arbitrator. Of course, if Congress tries this (not a chance) unions would kill the bill.

**Q.: Any final thoughts?**

A.: Both the 1968 and 2003 presidential commissions stressed management flexibility. Congress gives lip service to that principle, but jettisons it legislatively and politically.

**Q.: Any hope of turning that around?**

A.: I'm not optimistic. Most members knew little about the issues, yet passed both bills, the Senate by unanimous consent, the House 410-20. That does not make sense for a complex reform of an agency that 9,000,000 jobs rely upon one way or another. It violates democratic principles.

**Q.: If you were Jim Miller or Jack Potter, what actions and steps would you be taking to insure the long-term viability of the Postal Service?**

A.: I would draft legislation that clearly represented the Postal Service's views. Objecting to bad legislation is not sufficient. I would also recognize that mailers' relationships with the Postal Service have deteriorated. That is the unfortunate reality, and must be addressed.