



# **The End of the Postal Service?**

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**By**  
**Murray B. Comarow**

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On May 20, 1996, the Washington Post ran an Op-ed article co-authored by three colleagues and myself, headed “The End of the Postal Service?” The Post’s editors changed the heading to the less alarming “Delivery for the Postal Service.” I’ve resurrected the discarded title for this piece. The 1996 essay began by asserting: “The U.S. Postal Service is in deep trouble,” and recommended action to avert collapse.

The Post’s June 22, 2009 editorial, “Too Big to Mail,” rightly calls for the Postal Service to reinvent itself if it is to survive, but scants its core problems. The most critical problem: Congress has made it impossible, by law and by its behavior, to manage the Postal Service sensibly and efficiently. I will address that issue, but first, a comment on the editorial’s description of the Postal Service’s red ink balance. The statement that it lost \$2.8 billion in 2008 is technically accurate but misleading.

The facts are these: An ill-conceived December 2006 statute, the Postal Accountability and Enhancement Act (PAEA), requires the Postal Service to contribute about \$5.6 billion a year for ten years for future retiree health benefits, while continuing to pay premiums for current retirees. The Postal Service’s objections were dismissed. The Inspector General of the Postal Service, who reports to the President and Congress, recently said this about the purported \$2.8 billion loss: “Without the \$5.6 billion payment mandated by the PAEA, the Postal Service would have had a net income of \$2.8 billion.”

H.R. 22, a House of Representatives bill with 337 co-sponsors, would ease, but not correct, the situation by permitting the Postal Service to draw upon \$32 billion already set aside for future health benefits. It bears repeating: Postal Service revenues in 2008 more than covered operating costs, \$2.8 billion more. Projected losses for this year are also artificially inflated by \$5.6 billion.

These facts could have been learned with a phone call to postal headquarters, or to any union or mailer association. The Senate is a different story. Senators are divided and reportedly are awaiting White House guidance.

The editorial warns that “[t]he service must adjust to changing times—and fast.” Observers have been saying so even before the June 1996 Op-ed. The notion that we should follow Europe’s trend toward privatization, however, lacks analysis. Postal services in other industrial nations are experiencing economic problems like ours, plus strikes, an issue that privatizers like to deflect.

Are privatization advocates prepared to give postal workers the right to strike? An unlawful strike on St. Patrick’s Day in 1970 brought the Postal Service to its knees within days, causing great personal and economic hardship. Federal employees have been barred from striking since the beginning of the Republic, and the Postal Service is a

federal government agency, not “quasi-public” or “quasi-private,” as some have labelled it. It is technically a “government corporation,” a self-supporting agency engaged in a commercial-type activity.

The editorial says that

- The Postal Service is not a “real company.” True, although many insist on calling it a business. It’s not that, either.
- It is a “hybrid.” No, it is a government corporation, statutorily distorted by Congress in irrational ways.
- It is “hamstrung by a large and heavily unionized workforce, congressional management, and an antiquated business model.” All true, and each of these three points deserves explication.

Postal union members in general make more money than private sector workers in similar jobs. They enjoy greater benefits and contribute less for their share than other federal workers. An unprecedented 1970 law commands collective bargaining. If management and unions don’t agree on wages, an outside arbitrator decides. He is not responsible for cost control. His decision is final and unappealable. No other government agency, and no private sector company, is similarly burdened.

Collective bargaining with an arbitrator standing in the wings has consequences: In 2008, over 80 percent of costs were labor-related, a figure that has not changed much in forty years, and well above United Parcel Service or FedEx. Of the 44 cent stamp, 35 cents goes to labor. The other nine cents pays for post offices, trucks, equipment, supplies, cargo flights, and all the rest. The Federal Times reported that fewer than two percent of postal workers who were offered early retirement recently accepted the offer.

The Postal Service is also hamstrung by its very limited ability to set prices. This too results from the 1970 Act, which created a Postal Rate Commission (PRC), a radical innovation designed to keep the Board of Governors in line. This in addition to the Government Accountability Office, which has a section devoted full-time to postal matters; an independent Inspector General; the right to appeal to the federal courts; and oversight by a number of Congressional committees and subcommittees.

Few know and fewer remember that the administration’s 1970 bill did not include a PRC. It had no serious opposition in the House, but mailers, uneasy about a shift from Congressional rate-setting to Governors’ rate-setting, persuaded Senator Gale McGee (D.WY), who chaired the relevant committee, to add the PRC. That mailers have not always acted in their own interests is not hot news.

Among other powers, PRC was given de facto authority to set postage prices. (I say “de facto” because the nine presidentially-appointed governors may overrule the

PRC, but the statute makes it so hard that it did so only two or three times in more than three decades.)

The December 2006 PAEA re-named the PRC the Postal Regulatory Commission and entrusted it with even greater powers, which arguably have reduced the Board of Governors to little more than an advisory body. The Act also created new postal roles for the Treasury, the Federal Trade Commission, and the Office of Personnel Management. It did, however, loosen the PRC's grip on rates a little by permitting the Governors to raise prices not more than the rate of inflation on market dominant products, such as letters. The Governors have somewhat more flexibility to raise prices on its competitive services, such as parcels, which bring in about one tenth of its revenue.

The Postmaster General, the Governors, and the previous Comptroller General, have testified that the postal business model is broken. Only a month before PAEA was enacted in December 2006, the Comptroller General told Congress that "the business model is outmoded," and recommended "a modernized business model," but he did not describe one. Adverse views were received with yawns and even disdain.

PAEA was enacted over the vigorous objections not only of a unanimous Board of Governors and the Comptroller General, but those of seven members of President Bush's 2003 presidential commission. The Board and the seven alumni of the 2003 Commission flatly asserted that PAEA would make the Postal Service virtually ungovernable.

Yet it has stayed on its feet due to Herculean accomplishments by Postmaster General Jack Potter and his team. In the last eight years, with the Governors' backing, Potter has cut 268 million work hours and reduced staff by more than 160,000 people, saving \$9.8 billion. He has introduced new vigorous marketing initiatives, modernized processing, and much more. These dramatic steps are essential but not sufficient. Congress' mismanagement and the recession have combined to place the Postal Service at serious risk of survival.

I am reminded of the Post's June 15, 2009 editorial, "We Don't Need the F-22." The jet fighter is described as a cold war relic, never flown in combat. Secretary of Defense Gates pleaded with Congress to set aside "parochial" interests, and said we should phase it out. The Air Force agrees and has contracted to replace it with the F-35 Joint Strike Fighter.

But Democrats and Republicans on the House Armed Services Committee have voted to keep producing the F-22 at huge cost. Have they no concern for the national interest? Perhaps as much as Congressional leaders who pressure General Motors (Government Motors?) to retain jobs in their states or districts. Perhaps as much as Congressional leaders who reflexively stymie any cost-cutting plan resisted by postal unions.

As Secretary Gates clearly implied, many members of Congress seem to see their main roles as job protectors, regardless of the adverse effects on taxpayers, and on the nation's overarching goals.

Why should postal customers expect better of such a Congress? It demands business-like efficiency from the Postal Service while simultaneously depriving it of the most essential management tools. Nine bi-partisan, presidentially-appointed postal governors are charged by law to act in the public interest, subject to multiple oversights. If they can't be trusted, do you fix this by selecting five presidentially-appointed commissioners to supervise them?

Evidently not. Congress decided that the PRC itself should come under the watchful eye of its very own Inspector General, who recently reported shortcomings in documentation for employee expenses. "What an absurd idea," wrote Plato, "a guardian to need a guardian?" Trust is an essential lubricant in governance. Bureaucratic layering is not a substitute. It is an impediment to responsible management.

Peter G. Peterson established a foundation with a gift of a billion dollars to examine our dysfunctional government. David Walker, the former Comptroller General mentioned earlier, has joined the Peterson group to do a Paul Revere on the scary budget and trade deficits. Tellingly, he adds that our greatest deficit is in leadership. He is familiar with Congress' mishandling of the Postal Service and knows that if it fails, it will exacerbate our economic situation.

Discouraged with congressional behavior that has abandoned its moral compass, Peterson recently wrote in Newsweek that our political system is broken and that "our representatives . . . are focused, not on the next generation, but on the next election. . . . Too often, our political leaders are just enablers, co-conspirators in a disingenuous and greedy silence."

Since the Peterson Foundation says it is centered on "fiscal sustainability," it should note that the Postal Service employs about 731,000 people. More than that, eight to nine million private sector jobs, in thousands of businesses, depend upon it, directly or to some degree. That translates into eight percent of our gross domestic product. The demise of this customer-supported American institution at this juncture would have a devastating impact, perhaps greater than the collapse of the automobile industry.

It is curious that the editorial holds up Switzerland as a model of postal excellence. Switzerland may well have excellent service, but its first-class stamp costs 92 cents, more than twice the price of our 44 cent stamp. Moreover, the United States is 200 times larger than Switzerland. Swiss population is less than three percent of ours.

Quantitative differences, if sufficiently great, become qualitative. A punch in the jaw and dropping a nuclear bomb may both be described as acts of violence, but the comparison is fatuous. The editorial also implied that the Swiss postal system is privatized. It is not. It is part of the Swiss Confederation, which is government-owned.

A word on the editorial's use of the term "junk mail," a common jibe. Thousands of businesses and nonprofits depend on direct mail. If it didn't pay off, they'd stop using it. Direct mail is keeping the Postal Service alive. As a newspaper addict, and a long-time Post subscriber, I feel terrible about the disappearance of newspapers. Still, as long as it's around, I expect my favorite paper to behave ethically. Like all newspapers, the Post is in head-to-head competition with direct mail advertisers. Failure to reveal that conflict of interest, and running down competitors with an editorial smirk is not fair journalism.

The report of the presidential commission I served forty years ago led to the 1970 statute that ended widespread patronage and made the Postal Service self-supporting. These are no small things. We believed, however, that it must also be given authority to do the job, well and truly. These include substantial control over wages, prices, and facilities, all of which run into a Congress-created morass. The Postal Service has too many unused or under-utilized post offices and plants. Every attempt to close or merge them is met with fierce resistance from unions, postmasters, and Congress, their dependable allies.

While the Board of Governors has described the Postal Service's business model as broken, it has not specifically proposed a better model. It should do so, in the form of amendments to the crippling statutes, setting forth exactly how its "business" should be shaped. Its justification has been, "Why squander our political capital on legislative proposals that will be dead on arrival?" Or, "The unions won't like it and we need to work with them; besides, they have the political clout."

Sounds superficially reasonable, and that's what it is, superficial. It is a serious mistake. The Board still retains the right, and has the solemn duty, to present Congress with critical reforms in a formal and public way.

The public and the postal community—unions, postmasters, mailers—should be kept informed so that they may support or oppose the Postal Service; that is their right. Advance discussions with key committees are imperative, so long as members understand that postal leaders are not seeking permission to go forward. Media, academics and other opinion-shapers should also be informed, short of crossing the line into lobbying. Fear of lobbying has also been cited as an excuse for inaction. That's a red herring. Another red herring is the notion that since the Postal Service has a monopoly on letters, it should have an outside regulator. This is true of private monopolies, whose directors have a fiduciary duty to maximize profits. Not so a government monopoly.

I have not dealt here with the role of mailers, the people who pay for the whole operation. Most mailers supported PAEA, partly based on promises of financial relief. Instead, they got, and are paying for, the annual \$5.6 billion contributions.

They were also entranced by the rate cap concept for market dominant products. I warned in a June 2007 article: "The rate cap may work if there are no extraordinary costs,

and if labor arbitrators respect the cap.” I should have added “if there is no serious decline in revenue.” The Postal Service will soon run out of money, and is faced with deciding whether to try to increase its \$15 billion debt limit, skip legally-required payments to the Treasury, ask Congress for taxpayers’ money to bail it out (sound familiar?), or hold back wages required by collective bargaining agreements. The latter is the most unlikely, but there is no good answer.

PAEA also provides for price increases in “exigent” circumstances, if approved by the PRC. Congress seemed to have had in mind, however, floods, earthquakes, strikes, and other such “extraordinary” events, not recessions. So that provision may not even be a lawful alternative.

Some mailers who publicly supported PAEA while privately expressing their doubts are having buyers’ remorse. Because they are so fragmented and because they, too, are reluctant to fight for changes which they see as DOA, their influence on the Hill is limited. On both sides of the aisle, pandering to postal unions and to competitors is endemic. I have criticized the Postal Service for its weak outreach to the public. Our citizens have high regard for the Postal Service on a personal level, but are woefully uninformed about its essential role in our economy. Most don’t know how much postal workers make, or even that it is customer-supported.

The media are complicit in this. It is rare that one reads, or sees on television, anything but casual mention of the Postal Service. The third group, one that depends for its corporate lives on the postal Service, baffles me completely. I refer to mailers. They see the Postal Service in peril, they know that many of them will go down the tube if it fails, but they have never formed a strong and ongoing coalition to educate the public.

Moving forward as I suggest is hardly original. Even if such efforts fail, they may generate improvements, or be the basis for future gains. The presidential commissioners I worked for in 1967-68 were assured by key legislators and scoffing pundits that we were wasting our time. Most presidential commissions fail, after all. We ourselves were far from confident of success, but believed we had a fighting chance. Two years after our 1968 report, we had achieved a high degree of reform, flawed though it was by chokeholds on pricing and wages. DOA legislative initiatives sometimes succeed.

Funny coincidence: My wife, Donna, and I had a meal at City Lights, our favorite Chinese restaurant in Bethesda. My fortune cookie read “They fail, and they alone, who have not striven.”

Nice to have 60 years of experience validated by a fortune cookie.

## ABOUT THE AUTHOR

Murray B. Comarow was elected a Fellow of the National Academy of Public Administration in 1974 and has served on its board of directors. An attorney, he was of counsel to two law firms and was a consultant to a major mailer. He was executive director of President Johnson's Commission on Postal Organization in 1967-68, and executive director of President Nixon's Advisory Council on Executive Organization in 1970-71. Additionally, he served as senior assistant postmaster general, distinguished adjunct professor in residence at American University, Acting Dean of its College of Public and International Affairs, 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 Congress, the Executive Office of the President, the Postal Service, and the private sector. It may be considered against the background of some of his more recent essays:

- Is the Postmaster General Overpaid? March 2009
- A Member of Congress Repents, September 2008
- The Dysfunctional Behavior of Mailers, August 2007
- What Does Postal Reform Do? June 2007
- The Strange Case of Postal Reform, February 2007
- The U.S. Postal Service is a Government Corporation, So What? November 2006
- The Postal Conundrum, September 2006

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