[COMMITTEE PRINT]

104th Congress
1st Session } HOUSE OF REPRESENTATIVES

MAIL SERVICE IN THE UNITED STATES: EXPLORING OPTIONS FOR IMPROVEMENT

A REPORT

PREPARED BY

CONGRESSIONAL RESEARCH SERVICE

OF THE

LIBRARY OF CONGRESS

FOR THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

DECEMBER 1995

Printed for the use of the Committee on Government Reform and Oversight

U.S. GOVERNMENT PRINTING OFFICE

21–612 CC WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-052155-6

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

WILLIAM F. CLINGER, JR., Pennsylvania, *Chairman*

BENJAMIN A. GILMAN, New York
DAN BURTON, Indiana
J. DENNIS HASTERT, Illinois
CONSTANCE A. MORELLA, Maryland
CHRISTOPHER SHAYS, Connecticut
STEVEN SCHIFF, New Mexico
ILEANA ROS-LEHTINEN, Florida
WILLIAM H. ZELIFF, JR., New Hampshire
JOHN M. McHUGH, New York
STEPHEN HORN, California
JOHN L. MICA, Florida
PETER BLUTE, Massachusetts
THOMAS M. DAVIS, Virginia
DAVID M. McINTOSH, Indiana
JON D. FOX, Pennsylvania
RANDY TATE, Washington
DICK CHRYSLER, Michigan
GIL GUTKNECHT, Minnesota
MARK E. SOUDER, Indiana
WILLIAM J. MARTINI, New Jersey
JOE SCARBOROUGH, Florida
JOHN B. SHADEGG, Arizona
MICHAEL PATRICK FLANAGAN, Illinois
CHARLES F. BASS, New Hampshire
STEVEN C. LATOURETTE, Ohio
MARSHALL "MARK" SANFORD, South Carolina
ROBERT L. EHRLICH, JR., Maryland

CARDISS COLLINS, Illinois
HENRY A. WAXMAN, California
TOM LANTOS, California
ROBERT E. WISE, JR., West Virginia
MAJOR R. OWENS, New York
EDOLPHUS TOWNS, New York
JOHN M. SPRATT, JR., South Carolina
LOUISE McINTOSH SLAUGHTER, New York
PAUL E. KANJORSKI, Pennsylvania
GARY A. CONDIT, California
COLLIN C. PETERSON, Minnesota
KAREN L. THURMAN, Florida
CAROLYN B. MALONEY, New York
THOMAS M. BARRETT, Wisconsin
GENE TAYLOR, Mississippi
BARBARA-ROSE COLLINS, Michigan
ELEANOR HOLMES NORTON, District of Columbia
JAMES P. MORAN, Virginia
GENE GREEN, Texas
CARRIE P. MEEK, Florida
CHAKA FATTAH, Pennsylvania
BILL BREWSTER, Oklahoma
TIM HOLDEN, Pennsylvania

BERNARD SANDERS, Vermont (Independent)

JAMES L. CLARKE, *Staff Director*
KEVIN M. SABO, *General Counsel*
JUDITH McCOY, *Chief Clerk*
BUD MYERS, *Minority Staff Director*

FORWARD

HOUSE OF REPRESENTATIVES,
Washington, DC, December 20, 1995.

The Committee on Government Reform and Oversight has been reviewing the efficiency and effectiveness of the U.S. Postal Service and the Postal Rate Commission. The committee's review is based on its jurisdiction under Rules X and XI of the House of Representatives on all Federal agencies and activities. Specifically, Rule X grants the committee jurisdiction over the "postal service generally, including the transportation of the mails."

In order to facilitate this review, the committee has compiled a procedures and processes by which postal policies, including rates, are established. This document has been prepared at the request of Subcommittee Chairman John M. McHugh by the Congressional Research Service for use by the members of the Committee on Government Reform and Oversight and the general public.

WILLIAM F. CLINGER, Jr.,
Chairman.

CONTENTS

Page

APPENDIXES

MAIL SERVICE IN THE UNITED STATES: EXPLORING OPTIONS FOR IMPROVEMENT

I. SETTING AND SCOPE[1]

It is a widely held ideal that the Nation's postal system should operate as a basic and fundamental service provided to the people by the Government "to bind the Nation together through the personal, educational, literary, and business correspondence of the people" (P.L. 91–375). Further, as a result of receiving such a service for nearly 200 years, many Americans regard convenient nationwide universal mail service at a uniform postage rate as a traditional function of government and virtually as a right. But changes in the communications industry and in Americans' views concerning the proper role of government threaten to make these ideals obsolete.

SETTING

In fiscal year 1994, the revenues produced by the network of post offices, mail carriers, vehicles, etc. of the U.S. Postal Service (USPS) equalled about 0.75 percent of Gross Domestic Product. However, the contribution of this portion of a country's infrastructure to its general well-being probably exceed its contribution to national output as usually defined. In the United States, as in most countries, postal service is a means of maintaining a sense of community as well as an important part of the communications and goods delivery systems.

The U.S. Postal Service was established in 1970 to convert the then existing Post Office Department into an entity that, still under some Government supervision, would provide mail service in the United States on a business-like, self-sustaining basis. Since then, the Postal Service has improved its operations to the point that it has not received any subsidy since the early 1980s.[2]

However, the USPS has come under stress in the last two decades as a result of new technology and competitors in communications and parcel delivery, and it has had difficulty adjusting. This has led to shortcomings in and dissatisfaction with its service; and the USPS has lost substantial portions of some markets—examples include overnight delivery and international mail—to both electronic media and "hard copy" competitors.

Critics point to delivery delays, actual losses (accidental and purposeful) of mail, "excessive" increases in postal rates, and a (perceived) need for subsidy by taxpayers. Among the causes of such

[1] Prepared by Bernard A. Gelb, Specialist in Industry Economics.
[2] As described in Chapter IV, the USPS does get small amounts of appropriations to compensate it for certain services rendered free.

failures, critics and some others say, are the shielding of the USPS from competition (resulting from its monopoly on first- and third-class mail), limitations on the USPS in setting rates and controlling costs, high pay of postal employees, and costly work rules. Some fear for the future solvency of the Postal Service.

Defenders of the Postal Service argue that it is disadvantaged by its mandates to both operate on a self-sustaining business-like basis and to serve the broad public interest by binding the Nation together. They point out that despite this handicap and others, the USPS receives no subsidy from the Federal Government. Moreover, opinion polls indicate that the public generally is satisfied with mail service.

Recently, strong political currents to reduce the role and size of the Federal Government have combined with the above-noted dissatisfactions to place the USPS under renewed criticism and demand for change. Proposals for change in the system of mail delivery in the United States range from limited internal reform of the USPS to conversion to an entirely private entity that, with no Government-given monopoly, would compete with others to provide mail service. Congress is in the process of addressing the following: How well, or how poorly, is the USPS performing? Why? Should changes be made? And, if so, what changes?

SCOPE

This report analyzes the effectiveness of the U.S. Postal Service in the context of its mandates and developments in the private sector. It describes other countries' efforts at postal service modification. It defines and describes concepts of privatization and other alternative structures and means that might provide postal service in the United States. It analyzes the likely effectiveness of selected alternative structures. And, in this context, addresses the question "Could a modified postal service do better than the U.S. Postal Service as presently constituted and circumscribed?"

The report is organized as follows. Chapter II describes the constitutional and statutory basis for Federally operated mail service, the mission that has been set for the U.S. Postal Service, and the rules and guidelines by which it must operate in fulfilling its mission. The next chapter shows how USPS' broad, multiple, and conflicting goals combined with its multiplicity of services, and involvement by the Postal Rate Commission, pose a difficult challenge to the Postal Service in the area of pricing.

Chapter IV discusses how the Postal Service serves the postal market, the competition it is encountering in its industry in particular and the communications industry in general, how its performance is rated by customers, and how these facts have been reflected in its financial results. This is followed by a chapter that explores some organizational characteristics that may underlie some of the Postal Service's difficulties in providing good mail service, holding down costs of operations, and responding promptly to, or even anticipating, changes in the postal and communications markets.

The next three chapters begin the exploration of possible change. Chapter VI presents some of the major types of alternative institutional and organizational arrangements that might be considered for restructuring the Federal postal service. Chapter VII describes in general terms the changes made by a number of other industrial countries to various aspects of their postal systems, particularly those changes and aspects that are relevant to postal service issues in the United States. And chapter VIII discusses some transitional issues regarding workforce terms and conditions of employment that policymakers would have to deal with in reshaping the USPS.

Chapter IX selects and depicts four types of structures as hypothetical alternatives to the existing U.S. mail delivery system. The alternatives are placed in the context of the generic options presented in the Chapter VI. Then, Chapter X analyzes how well each of the hypothetical alternative structures outlined in the previous section might do the job of providing postal service to the Nation, implicitly including how they would address the weaknesses of the current system.

The final chapter addresses the questions of whether a modified postal service would do a better job than the current one, and of whether a modified postal service could compete in a deregulated market. Four appendices provide additional background for the issues discussed in the main body of the report.

CAVEATS

This report starts with no assumption that government should, or should not, be involved in providing postal service. The paper also does not explore what is the "proper" role of government or the appropriateness or efficacy of privatization per se, issues in which value judgements, preferences, and political philosophy often come into play. Rather, in exploring options, the focus is narrowly on how the current mail service system in the United States could be improved using criteria mainly, but not exclusively, related to operational effectiveness. The question of what combination of service, organizational, and institutional attributes would be *best* is not addressed.

II. ESTABLISHMENT, MISSION, AND RULES OF OPERATION OF THE POSTAL SERVICE

This chapter describes the constitutional and statutory basis for Federally operated mail service, the mission that has been set for the U.S. Postal Service, and the guidelines and rules by which it must operate in fulfilling its mission. These guidelines and rules cover matters such as the Postal Service's mission, its protection from competition, the manner in which postal rates are set, and the law governing labor relations.

ESTABLISHMENT AND STATUTORY BASIS [3]

The notion that postal service would be provided to the Nation by a Federally operated and/or supervised entity stems from the origins of the U.S. Government, and has persisted through changes in the form of that entity. The Articles of Confederation and the Constitution gave Congress the power to establish post offices and

[3] Prepared by Thomas J. Nicola, Legislative Attorney, from the more complete treatment in Appendix 1 of the constitutional and statutory basis for Federally operated mail service.

post roads. From the adoption of the Constitution until 1970, Congress managed the posts and set postal rates through legislation.

The Act of May 8, 1794, established the Post Office as a permanent Department of the Government, set postage rates, established post offices and roads, included regulations governing operations, and provided for a Postmaster General to direct operations. This statute set a precedent, not to be altered until 1970, that the Congress and the President would have formal control over the Post Office's operations—including the prices charged, scope of activities, location of post offices and delivery routes, and appointment of top officials.[4]

The Postal Reorganization Act of 1970 (P.L. 91–375) established the United States Postal Service as an independent entity of the executive branch of the U.S. Government. The Act authorized the USPS to provide postal services, specified a broad organizational structure, and imposed a number of limitations on the Postal Service's operational discretion. Some of these will be discussed below and in subsequent portions of this report. While the establishing statute does not designate it as a corporation, the USPS essentially functions as one.

The affairs of the Postal Service are directed by an 11-member Board of Governors. Nine are appointed by the President, by and with the consent of the Senate. The other two are the Postmaster General and Deputy Postmaster General, both of whom are voting members of the full Board. Not more than five of the nine may be from the same political party. Governors, who have 9-year terms of office, which are staggered, may be removed only for cause.

MISSION OF THE POSTAL SERVICE

While a major purpose of establishing the U.S. Postal Service was to provide mail service in the United States on a business-like basis, the Postal Reorganization Act also assigned the USPS a broad mission with significant public service elements. Postal service is envisioned as a means of maintaining a sense of community as well as an important part of the communications and goods delivery systems. Among other things, the USPS is directed to. . . .

- operate "as a basic and fundamental service provided to the people by the Government . . . to bind the Nation together through the personal, educational, literary, and business correspondence of the people,"
- "provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self sustaining,"
- "achieve and maintain compensation for its officers and employees comparable to the rates and types of compensation . . . in the private sector,"
- establish postal rates "to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis," and
- set postal rates and fees so that they "provide sufficient revenues so that the total estimated income and appropriations . . . will equal as nearly as practicable total estimated costs of the Postal Service."

[4] Appointment of officials by the President requires the consent of the Senate only.

Pursuit of these multiple and sometimes conflicting goals poses a difficult challenge to the Postal Service.[5]

THE POSTAL SERVICE'S EVOLVING MONOPOLY[6]

The concept of a Government-run postal monopoly is inherited from 16th-century England—where the Crown controlled the post as a means of raising revenue. As noted in Appendix 1, the Articles of Confederation followed English precedent, granting to the Government "the sole and exclusive right and power of establishing and regulating post offices;" the constitution adopted by the newly independent colonies, however, omitted the "sole and exclusive" language. The omission sparked a continuing controversy over whether the framers of the Constitution intended to establish a postal system as a Federal monopoly, empower Congress to do so, or to authorize a Federal system subject to whatever market competition might arise.

Controversy notwithstanding, in 1792, Congress passed the first of the postal monopoly laws, later referred to as the Private Express Statutes (PES), under the perceived authority of the Constitution. 1 Stat. 232 (1792). This statute prohibited the private carriage of "letters and packets other than newspapers" but provided, at that time, a single exception for carriage of such mail by "special messengers." By 1810, two additional exceptions were added; the more important one is for letters sent to persons to whom is sent a "packet or bundle traveling on the same conveyance as a letter."[7]

In 1845, Congress acted to curb widespread violations of the mail monopoly and to restrict the growth of private express companies. In the first official use of the term, Congress made it unlawful to establish any "private express" for the conveyance of "letters, packets, or packages of letters, or other mailable matter," but exempted newspapers, magazines, pamphlets, and periodicals.[8] Within a decade, in response to complaints from merchants and businessmen, another Federal law was enacted permitting private carriage outside the mails if postage was prepaid and the letters were dated and sealed. (The Government postal system would get the revenue without providing the service.)

A more narrowly defined "letter mail" monopoly, which prevails today, was established by an 1862 law that limited the Federal mail monopoly to "letters" only by deleting reference in the PES to "other mailable matter." Since enactment of the 1862 law, the Federal mail monopoly has covered only "letter" mail, which is defined to include commercial (including advertising) as well as personal mail. Consequently, private mail companies are allowed to compete with the USPS in the delivery of other than first- and third-class letter mail.

---

[5] All but the last item are among the principles constituting the "Postal Policy" of the Postal Service listed in Section 101 of Title 39 of the United States Code (which embodies the 1970 Act). The last item is part of Section 3621—pertaining to setting rates and establishing classes of mail.

[6] Prepared by Bernevia M. McCalip, Analyst in Business and Government Relations.

[7] The other exemption is for letters sent to "owners of the mail-carrying conveyance and relating to it." Thus, a letter to Federal Express could be sent outside the mails.

[8] Act of Mar. 3, 1845, ch. 43, Sections 9–12, 5 Stat. 732 (1845) as amended.

Congress made competition from private companies more difficult in 1934, when it restricted the use of residential mail boxes to the depositing of stamped and canceled mail only. 48 Stat. 667 (1934). Subsequent enactments and recodifications have only slightly modified the 1934 wording.

A major change in the nature of U.S. mail service was permitted in 1978, when the USPS administratively exempted from the mail monopoly "extremely urgent letters" that met either a "time of delivery" test or a "price" test. A number of types of items were specifically excluded from this exemption, however.[9] This "urgent letter" exception permitted the overnight delivery of certain time-sensitive documents by private companies. With legal scope to engage in and promote this type of service, firms such as Federal Express, Airborne, Emery-Purolator, DHL, and United Parcel Service (UPS) greatly expanded the market. To remain in the rapid mail industry, the USPS established its Express Mail service.

The USPS granted another exception to its monopoly in 1986 by allowing private companies to compete for international mail delivery through a service called "Remail." Letter mail was allowed to be carried by a private company from the United States to a foreign country, where it is deposited in the foreign country's mail system, bypassing the USPS' international mail service. Primary users of the Remail system are banks, credit card companies, and other users of international finance systems.

Because of the changing nature of letter-type communications, facilitated by rapidly advancing telecommunications and electronic technologies, questions have been raised as to the effective scope of the USPS' mail monopoly. However, despite technologically-induced change and exemptions from the mail monopoly, coverage of first- and third-class mail under the Private Express Statutes (see Appendix 1) still affords the USPS considerable market power.

RATE-SETTING REGIMEN [10] [11]

Prior to the 1971 implementation of the Postal Reorganization Act, postal rates were set by Congress and the President through the normal legislative process, as variously affected by the pressures applied by stakeholders and interest groups.[12] In the private sector, utilities such as natural gas, electricity, telephone, and transportation services are largely subject to regulation by fulltime commissions. These commissions establish and modify rate structures based upon testimony, data, and other records presented and/

[9] Among the excluded are telegrams; legal documents; newspapers and periodicals; checks and other financial documents sent between financial institutions; books, catalogues, and telephone directories; matter sent from printer, stationer, or similar source; letters sent to a records storage center exclusively for storage, destruction, or retrieval; tags, labels, stickers, signs or posters; photographic material sent by a person to a processor and processed photographic material being returned; sound recordings, films, packets of identical printed letters containing messages the overwhelming bulk of which are to be disseminated to the public; and computer programs recorded on media suitable for direct input.

[10] Prepared by Bernevia M. McCalip, Analyst in Business and Government Relations.

[11] See Appendix 1 for more details on the statutory basis for Postal Service rate-setting.

[12] Before 1971, the Department of the Post Office was the only major Federal entity selling a service to the public for which the Congress retained rate-setting power. Entities such as the Tennessee Valley Authority and the power marketing administrations set their rates themselves.

or submitted to evidentiary proceedings in which it is required that the general public be formally represented.

The advocates of postal rate-setting reform, concluding that economic analysis provides a more appropriate framework for postal ratemaking than the legislative process, saw regulated private sector practice as the model to adopt. Wishing to set a similar procedure for postal rate-making, they urged that the procedures and economic principles observed in the operation and regulation of other business enterprises also be applied to postal services.[13]

The 1970 Act transferred the rate-making and mail classification process from Congress to the Postal Governors and the Postal Rate Commission (PRC). Authority to set postal rates is given (nominally) to the Governors of the Postal Service, who initiate rate or mail classification changes. The Act also created the Postal Rate Commission, however, and gave it a major role in determining rates as well.

The five-member Rate Commission is an entirely separate entity of the executive branch and similar to an independent agency regulating a public utility. It is designed to be an expert body charged with evaluating presentations of factual evidence and legal and policy views by the Postal Service, user groups, and the general public.[14]

The postal rate-making process begins with a request from the USPS to its Governors to authorize a formal request to the PRC for adjustments in its postal rates, fees, and/or mail classifications. If approved, the Governors forward the request to the PRC with supporting data and information, including the "attribution and assignment" of costs to specific services or classes of mail and the design of rates based on those cost data, and estimates of the effects the rate change might have on mail users.

Upon receipt of the USPS' rate package, the Commission notifies the public of its scheduled hearings through the *Federal Register*. After evaluating the stated views of all interested parties and its own analysis of the rate request, the PRC submits a "recommended" decision to the Governors. To try to counter the influence of user and other special groups, the law requires that an officer of the Commission formally represent the interests of the general public in Rate Commission hearings and deliberations.[15] The PRC has a maximum of 10 months to issue a recommended decision to the Governors. The law expressly requires the Commission's recommendations to be consistent with the policies set forth in the law and with a number of specified factors.

The specified factors include establishing a fair and equitable schedule; the "value" of mail service actually provided each class or type of mail service to both the sender and the recipient, including, but not limited to the collection, mode of transportation, and priority of delivery; the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable

---

[13] President's Commission on Postal Organization. Report of the Commission. *Towards Postal Excellence*. Washington, U.S. Govt. Print. Off., 1968. Annex., vol. 2, Chap. 1. pp. 2–3.

[14] Tierney, John T. *The U.S. Postal Service: Status and Prospects of a Public Enterprise*. Dover, MA, Auburn House Publishing Company, 1988. p. 144. PRC's staff consists mostly of lawyers, economists, and accountants, who apply technical costing and policy criteria to reach recommendations.

[15] 39 Stat. §3661(c).

to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type; and the (expected) effect of rate increases on the general public, business mail users, and private sector enterprises engaged in delivering mail matter other than letters.[16]

The Governors may approve, allow under protest and, possibly, judicial review, reject, or modify the PRC recommendation. If the PRC does not submit its recommendation to the Governors within 10 months, the Governors may place the requested rate changes in effect on a temporary basis, following a 10-day notice in the *Federal Register.*

Conflict has arisen between the Postal Service proper and the Rate Commission in the past over the perception that the Commission has involved itself in essentially management decisions. Indeed, one Postmaster General has advocated that the Commission be abolished because of such involvement. Any involvement by the PRC in USPS management decisionmaking per se arguably would constitute a hindrance to managerial freedom. By law, the Rate Commission's duties relate to "recommending" rate and classification change decisions on the basis of certain specified criteria (see Chapter III).[17]

LABOR LAW AND LABOR RELATIONS [18]

USPS operations also are affected by the particular combination of laws and court rulings governing the relationship between Postal Service labor and management. This section briefly describes that body of law.

Labor Law Coverage

Labor-management relations between the United States Postal Service and the labor unions representing its employees are subject to the provisions of the National Labor Relations Act (NLRA) to the extent not inconsistent with the Postal Reorganization Act. Thus, the law developed by the National Labor Relations Board (NLRB) and the courts under the NLRA must be consulted to ascertain the rights and responsibilities of the parties to a collective bargaining agreement to alter or amend its terms.

The 1970 Act provides that compensation, benefits, and other terms and conditions of employment in effect immediately prior to its effective date would continue to apply to employees of the Service, until changed in accordance with collective bargaining. Postal workers are employees of the U.S. Government.

Bargaining Impasses

While bargaining impasses in the private sector sometimes are not resolved until a strike or lockout occurs, those actions are prohibited in the Postal Service. The 1970 Act expressly establishes a

---

[16] 39 U.S.C. § 3622(b).

[17] For more on the involvement of the PRC in USPS management, see U.S. Library of Congress, Congressional Research Service. *Administering Public Functions at the Margin of Government: The Case of Federal Corporations.* Report No. 83-236 GOV, by Ronald C. Moe. Dec. 1, 1983. p. 263. See also Murray Comarow, *Rethinking the Postal Service*, presented at Mailcom Convention. Atlantic City. July 1995. p. 7.

[18] Prepared by Vince Treacy, Legislative Attorney, from a more complete treatment in Appendix 2 of labor law coverage of the Postal Service, including statutory citations.

procedure for binding interest arbitration of impasses over new contracts by a jointly-selected arbitration panel.[19] (All Federal employees and most State and local public employees are prohibited from striking.)

When the strike is banned for public employees, the conventional alternative is interest arbitration. *Interest* arbitration is, in effect, a quasi-legislative procedure to determine the terms of a new collective bargaining agreement. This type of arbitration allows arbitrators to fashion the agreement based, in part, upon the submissions of the parties.

Labor-management relations at the Postal Service have evolved to such that a large proportion of collective bargaining negotiations have ended in binding arbitration, with effects on USPS operations that are described in a subsequent chapter. The Postal Service and its unions are free to agree to use other forms of interest arbitration—such as final-offer arbitration—in lieu of the statutorily specified procedure, but have not done so.

III. POSTAL SERVICES AND PRICING[20]

The USPS' broad, multiple, and conflicting goals combined with its multiplicity of services, and involvement by the Postal Rate Commission pose difficult challenges to the Postal Service in the area of pricing.

USPS MAIL SERVICES

The U.S. Postal Service provides a variety of classes of mail service. These are grouped on the basis of the priority each is given and the kind of materials that can be sent. Among the regular classes, the higher (closest to first) the class, the higher the postal rate and the greater the priority of service.

First class may include any mailable matter (parcels may be sent first-class), but letters are predominant in first-class mail volume. For classification, the term "letter" refers to almost any paper(s) (sometimes other matter) sealed in an envelope. Thus, bank statements and credit card bills sealed in envelopes are letters.

Second-class mail is a category for newspapers and periodicals only; newspapers delivered within the same county pay a lower rate. Third-class is bulk mail sent by businesses and nonprofit organizations; the latter pay a reduced rate. Fourth-class mail covers parcels, catalogues, books and non-book library materials. Mail addressed to foreign destinations is in a separate "International Mail" category. Priority and Express Mail are premium services offered at higher rates.[21]

PRICING FRAMEWORK

The U.S. Postal Service is required to set its rates and fees—prices—in a framework that differs in several respects from that in which an unregulated private sector firm sets its prices.

---

[19] The arbitration panel consists of one member selected by the union, another by the Postal Service, and a third selected by these two members. If the first two members cannot agree, the selection of the third is made by the Director of the Federal Mediation and Conciliation Service.

[20] Prepared by Bernard A. Gelb, Specialist in Industry Economics.

[21] Priority mail technically is a sub-class of first-class mail.

Statutorily Mandated Pricing Criteria

The Postal Service is required to set rates in the context of objectives that stem from its public service mission (described in Chapter II). Postal policy says that rates shall be "fair and equitable" with respect to apportioning of costs, and that "the educational, cultural, scientific, and informational value to the recipient" is among the factors to be considered in rate setting.

Simultaneously, USPS pricing is governed by two main dictates stemming from its mandate to operate on a business-like basis: total revenue is required to approximately equal total costs, and each class of mail must bear its full share of total costs. A third governing factor is review and oversight by the Postal Rate Commission, which strongly imposes its interpretation of statutory rules in the rate-making process.

Postal rates must be set in accord with somewhat contradictory, and not fully explained, "factors" in addition to the (postal) policies. Technically, these factors are presented in the context of the Postal Commission's deliberations, but clearly must be taken into account by the USPS when it proposes a change in rates or mail classifications. They are summarized as follows:

- The establishment and maintenance of a fair and equitable schedule;
- The value of the mail service provided both sender and recipient, including the collection, transportation mode, and priority of delivery;
- The requirement that each class or type of mail service bear the direct and indirect postal costs attributable to it plus that portion of all other costs . . . reasonably assignable to that type of service;
- The effect of rate increases upon general public, business mail users, and private sector enterprises engaged in the delivery of mail other than letters;
- The available alternative means of sending and receiving mail at reasonable costs;
- The degree of preparation of mail for delivery into the system performed by the mailer and its effect upon Postal Service costs;
- Simplicity of structure of the entire rate schedule, and simple and identifiable relationships between the rates charged the various mail classes;
- The educational, cultural, scientific, and informational value to the recipient of the mail matter; and
- Other factors that may be deemed appropriate.

Thus, whereas private firms set prices based upon their costs and the demand for their services, leading to economic efficiency, the Postal Service is additionally required to take account of social externalities, equity, and considerations of political feasibility.

Statutorily Mandated Roles in Postal Markets

Additionally, USPS pricing is affected by its statutorily mandated roles in the individual markets it serves, which further complicate its pricing decisions. The 1970 Act's requirement that the Postal Service (1) operate "as a basic and fundamental service provided to the people by the Government . . . to bind the Nation together through the personal, educational, literary, and business correspondence of the people," and (2) "provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self sustaining" have come to be interpreted as a mandate that the USPS provide universal service for all classes of mail, and at a uniform price for first-class mail.

These several requirements and criteria imposed upon Postal Service pricing often conflict in application, making it impossible for the USPS to achieve all its mandated objectives.

In addition, as described in Chapter II and Appendix 1, postal law has evolved in a way that the Postal Service has a monopoly over non-urgent letter mail and over third-class mail. This monopoly is buttressed by the fact that the Postal Service has sole access to mail recipients' letterboxes. The consequences of this particular positioning in postal markets for pricing are discussed below.

A MULTIPRODUCT "FIRM"

Another factor complicating the setting of postal rates is the fact that the Postal Service provides several different types of mail service that are produced to a considerable extent through the use of common production facilities, personnel, and supplies. Common production inputs (capital, labor, and materials) mean common production costs that in standard business practice should be allocated and "charged" to the various products for the purpose of setting prices.

However, under most circumstances, it is difficult to determine the exact cost structure, largely because it is difficult to allocate common costs accurately. Moreover, cost allocation and price setting occur almost simultaneously, because changing the price of a particular product ordinarily changes the quantity demanded, and the absolute and relative cost amounts attributable to that product (and others).

In the context of competing in several sub-markets, the Postal Service is faced with trying to set prices competitively and still adhere to all the rate-setting factors spelled out in the law. Cost allocation in connection with price setting is made more difficult for the USPS by the Postal Rate Commission's heavy emphasis on the criterion that each class or type of mail service bear the direct and indirect postal costs attributable to it plus its reasonably assignable portion of other costs. The USPS believes that more weight should be given to value of service and demand considerations.[22]

The "other" costs at the center of this disagreement constitute a relatively large share of total costs. Consequently, differences in the way they are allocated can have large relative effects on the prices of individual types of service. In the early 1990s, the "other" costs accounted for about 35 percent of the Postal Service's total costs.[23]

One outcome of the PRC's emphasis on strict allocation of costs is the Rate Commission's refusal to approve a USPS proposal to give volume discounts, because the USPS could not show how such discounts would affect costs and, therefore, their allocation. This is

---

[22] For fuller discussion, see U.S. General Accounting Office. *U.S. Postal Service: Pricing Postal Services in a Competitive Environment*, GAO/GGD–92–49, March 1992. 104 p.

[23] U.S. General Accounting Office, *Pricing Postal Services*, p. 7.

not the same as giving a discount for mail preparation that actually reduces USPS costs.

Monopoly power of the Postal Service can be and has been used in pricing. Given that it does not cost the same to serve all customers, the "monopolistic profits" earned serving some first-class mail customers have long been used to subsidize the service to higher cost, first-class, mail customers. Inasmuch as the concept of the mail service as a unifying element generally is supported, cross-subsidization within first-class mail generally is not frowned upon.

The ability of the Postal Service to subsidize higher cost customers probably has diminished over time as new competitors and technologies have been able to either undersell the USPS or provide better service in some market niches (see Chapter IV). Probably, in many markets, USPS competitors have a lower proportion of common input costs than the USPS does, inasmuch as they can tailor their infrastructures to suit their market niches.

Cross-subsidization across classes of mail has been alleged and objected to strongly and frequently by groups of mailers in hearings before the PRC. However, another aspect of the Rate Commission's strictness with respect to costs has been its careful scrutiny of possible subsidization of one class of mail by another. Thus, while the Postal Service must have a large infrastructure of common production inputs to be able to provide universal service, with large associated costs, it is prohibited from diverting any monopoly profits that may be gained from first- and third-class mail service to other service classes in order to better meet competition.

MAIL SERVICE AS A PUBLIC GOOD

The essence of the conflicting nature of the Postal Service's mandates is that the body politic is asking the Postal Service to provide a public good and to operate on a self-sustaining business-like basis.

On the one hand, a value is placed on having a service that "bind(s) the Nation together through the personal, educational, literary, and business correspondence of the people." This being so, it is regarded as appropriate that everyone pay the same price, that rates be "fair and equitable." Thus, the USPS is required to provide universal service at a uniform price (in first-class mail).

To assure that such a universal service is provided and because it costs more to provide such a service to some users than to others, the Government postal system is given a monopoly (in first- and third-class mail). Because no competition is allowed (in first- and third-class mail), the monopoly enables the USPS to equalize rates among users, to cross-subsidize within these mail classes.

On the other hand, various "postal policies" are incorporated in the USPS' rules of operation and criteria for decisionmaking. Rules such as prohibiting the closing of small post offices because they lose money reduce the Postal Service's ability to operate like a business in many aspects of its operations. As will be described, this general framework in which the Postal Service must work affects the markets in which it competes and the behavior of its competitors.

The appeal and durability of the idea that mail service is a public good implies that the concept might well have to be accommodated in any modification, "restructuring," or complete "privatizing" of the Postal Service. And any change in the organizational embodiment of the public good concept can be expected also to affect postal markets and the behavior of competitors.

IV. THE POSTAL SERVICE, THE MARKET, AND THE INDUSTRY[24]

This chapter discusses how the Postal Service serves the postal market, how its performance is rated by customers, the competition it is encountering in the postal industry in particular and the communications industry in general, and how it all has been reflected in USPS financial results.

HOW DOES THE USPS SERVE THE MARKET?

Mail service in the United States began with a crude Federally-run system inherited from the colonies. Little more than a century ago (1886), the system delivered 3.7 billion pieces of mail. It delivered 177 billion pieces of mail to 123 million addresses in FY1994, and is competing in a far more complex market.

USPS Mail Services and the Market

Total USPS mail volume grew 67 percent from FY1980 to FY1994, compared with a 42-percent increase in real Gross Domestic Product over the same period. Because they constitute a large portion of total mail volume, first- and third-class mail contributed significantly to the overall rise. More than 80 percent of the first-class volume increase was in presorted mail.[25]

An indication of the importance of letter mail to the USPS is apparent in the revenues and volumes generated by the different classes of service. In FY1994, first-class mail accounted for 62 percent of total USPS revenue from mail services and 53 percent of total mail volume (see table 1). Most of first- and third-class mail, which comprise over 80 percent of the USPS' total business (in terms of revenue), is covered by the Federal mail monopoly.

The proportion of total mail volume generated by that going from household to household, although small for many years, has been decreasing further. Between 1977 and 1993, such mail dropped from 12.0 percent to 7.6 percent of the total. Moreover, only 2.1 percent represented correspondence (personal letters) in 1993; greeting cards accounted for 2.8 percent, and packages, invitations, and announcements accounted for 2.7 percent.[26]

---

[24] Prepared by Bernevia M. McCalip, Analyst in Business and Government Relations.

[25] Mailers who presort mail pay lower postage rates. Presorted mail can weigh no more than 11 ounces and must be in volumes of at least 500 pieces of addressed mail.

[26] *Testimony of George S. Tolley on Behalf of United States Postal Service*. USPS–T–2, Docket No. R94–1. p. 28; and U.S. Postal Service. *The Household Diary Study, Fiscal Year 1993*, Vol. I., March 1995. Table 4–10. Data on mail volume broken down by sender and recipient are not available for all years. Component percentages do not add exactly to 7.5 percent due to rounding.

TABLE 1. USPS Revenue and Volume by Mail Class, FY1980 and FY1994

Mail Service	FY94 Revenue (bil. of $)	FY94 Volume (bil. of pieces)	% of Revenue	
			FY80	FY94
First	29.40	94.38	62.0	61.6
Second	1.76	10.23	5.3	3.7
Third	10.51	69.40	14.7	22.0
Fourth	1.35	0.87	4.9	2.8
International	1.41	0.86	3.6	3.0
Priority	2.65	0.77	3.7	5.5
Express	0.67	0.06	1.1	1.4
Mailgram	*	+	#	#
Blind, handicapped	0.06	+	#	0.1
Overseas absentee ballots	*	+	#	#
Other	n.a	0.45	4.5	n.a.
Total	47.75	177.07	100.0	100.0

n.a.—Not applicable.
* Less than $0.005 billion.
+ Fewer than 0.005 billion.
# Less than 0.05 percent.
Source: U.S. Postal Service. ***Annual Report of the Postmaster General***, 1985 and 1994.

In contrast to personal mail, commercial mail has increased in importance. Third-class mail, which is mainly advertising, grew from 29 percent to 39 percent of total USPS mail volume between FY1980 and FY1994. This reflects the relative growth of direct mail as an advertising medium. In 1993, direct mail accounted for 20 percent of all advertising outlays, compared with 14 percent in 1980 (see table 2). Third-class mail increased its share of total USPS revenue from mail services from 14.7 percent in FY1980 to 22.0 percent in FY1994.

TABLE 2. Estimated Advertising Expenditures, by Medium, 1980 and 1993

Medium	Millions of Dollars		Percent of Total	
	1980	1993	1980	1993
Newspapers	14,794	32,026	27.6	23.2
Magazines	3,149	7,357	5.9	5.3
Television	11,469	30,584	21.4	22.1
Radio	3,702	9,457	6.9	6.8
Yellow pages	2,900	9,517	5.4	6.9
Direct mail	7,596	27,266	14.2	19.7
Farm, bus. pubs	1,804	3,503	3.4	2.5
Other	8,136	18,371	15.2	13.3
Total	53,550	138,080	100.0	100.0

Source: McCann-Erickson, Inc., compiled for Crain Communications, Inc. in ***Advertising Age***.

Transportation Infrastructure

The USPS' requirement to provide universal service—to a country with an area of 3.8 million square miles—has resulted in it acquiring a large fleet of owned or leased vehicles to haul mail between airports, private mailers' plants, and its own facilities. In addition, the Postal Service relies heavily on the transportation infrastructure of the private sector, through contracting with air, rail, water, and highway transportation companies for the great bulk of intercity carriage of mail.[27]

The USPS highway vehicle fleet had 201,841 owned vehicles and 5,470 leased vehicles at yearend FY1994. Expenses for postal-owned vehicles were $621 million for the year (the figure does not include employee compensation).[28]

Contracted highway transportation totaled $1.4 billion in FY1994. Nearly 14,000 highway contract routes were operated during that year. These routes (referred to as "Star Routes ") provide delivery service to mail receptacles on 41 percent of postal routes and transport mail between postal facilities.

Air transportation of domestic mail by commercial airlines accounted for nearly half of total contracted transportation expenditures in FY1994, costing the USPS $1.5 billion. To supplement contracted air transportation, the USPS operates the Eagle Hub in Indianapolis—a sorting and transfer facility for Priority and Express mail.

Rail transportation, involving 12 railroad companies carrying mainly third- and fourth-class mail, accounted for $0.2 billion in transportation expenses during FY1994. AMTRAK, which provides service for most of second-class mail, was paid $55 million in FY1994. Domestic water transportation cost the USPS $34 million. Primarily transporting mail to offshore U.S. territory destinations, U.S. flag carriers received $25 million. International ocean transportation accounted for $11 million, utilizing U.S. flag carriers "to the greatest extent possible" to service foreign destinations.

CRS estimates that the USPS spent approximately $4 billion in FY1994 for vehicle expenses (owned and leased) and contracted transportation of mail.[29] This accounts for about eight percent of total operating expenses in that year, and about 45 percent of operating expenses other than employee compensation. At Federal Express, transportation related expenses accounted for about 25 percent of total operating expenses in 1994 (fiscal year ending May 31). At the United Parcel Service, non-employee operating expenses accounted for 35–40 percent of all operating expenses in 1993.[30] If transportation expenses represent (only) 45 percent of UPS operating expenses other than employee compensation, as at the Postal Service, UPS transportation expenses account for 15–20 percent of total UPS operating costs (0.45 x 0.35–0.40 = 0.15–0.18).

These transportation expense figures suggest that the relative amount of equipment input into output at the Postal Service may be much less than that of its competitors. However, the Postal Service's much broader obligations may well make such cost share data not fully comparable, if not inappropriate.

---

[27] Section 5005 of Title 39 directs the USPS to procure highway transportation of the mail via competitive bidding with contracts let for periods of four years or less, or under special conditions, for six years.

[28] Except for the figures designated as estimates, the data on transportation infrastructure in this section were obtained from the U.S. Postal Service. *Comprehensive Statement on Postal Operations, FY1994*. Wash., DC. p. 13.

[29] This estimate is based upon summing the expense data given plus an estimate for leased vehicles, assuming that the cost per leased vehicle roughly approximates that for owned vehicles.

[30] Federal Express cost percentages are partially estimated by CRS, based upon data in Federal Express Corporation, *1994 Annual Report*. The United Parcel Service cost percentage is a CRS estimate based upon data in an excerpt from United Parcel Service, *1993 Report to Shareowners*.

The law's requirement that the USPS provide universal service in all types of mail service has led the Postal Service to try to provide a variety of services with essentially an all-purpose infrastructure. Such an infrastructure may not be the most efficient means of providing each particular type of service, however. This provides opportunities for competitors in individual markets who can more easily tailor their infrastructures to the market niche.

Quality of Mail Service

This year, the U.S. Postal Service will have delivered, in a reasonable time period at a reasonable price, the great preponderance of about 180 billion pieces of mail to about 125 million addresses, among 50 States and assorted territories, whether scattered far apart in rural areas or living in large apartment buildings in densely populated urban areas. Households and businesses about to move can file their new addresses with their local post offices, and be fairly confident that their mail will be forwarded; and the privacy of mail is well protected.

While, for the most part, the USPS gets the job done, and a high percentage of the general public is satisfied with the quality of service and the prices charged, there are deficiencies. The late 1980s saw a significant deterioration in the consistency of mail service in the United States. On the basis of a number of customer studies, the Postal Service responded in 1990 by relaxing somewhat its service standards, which originally had been established in the early 1970s. Service standards prescribe 1-, 2-, or 3-day delivery for regular first-class mail between the Nation's 3-digit Zip Code areas, depending upon the Zip Code pair. USPS's goal is to deliver at least 95 percent of the mail within the applicable standard.

According to the General Accounting Office (GAO), there was improvement under the new standards in consistency of meeting the prescribed delivery times, but the overall *speed* of delivery deteriorated a little.[31] As distinct from standards, speed of delivery is measured in terms of the percentage of mail delivered in the first and succeeding days regardless of the standards.

Since the early 1990s, service performance seems to have levelled off. The portion of regular first-class mail meeting overnight delivery commitment has stabilized at 82–83 percent; and corresponding portions respectively meeting 2-day and 3-day delivery commitments have stabilized at 73–75 percent and 75–79 percent.[32]

Some mail delivery failures have been more glaring. Some of the most serious complaints about the USPS are about the quality of mail delivery, especially to residential customers. Countless instances of exceedingly delayed deliveries and numerous cases of mail being purposely discarded or hidden stain the record of the Postal Service. While delivery of letter mail on the national level has improved according to the USPS, concerns remain in areas such as New York, Chicago, and the general Washington, D.C.,

---

[31] U.S. General Accounting Office. *Revised Delivery Standards: Postal Delivery Scores Improved but Service is Slower.* GAO/GGD–93–12. Wash., DC. November 1992. p. 33.

[32] Data are from U.S. Postal Service, *Comprehensive Statement on Postal Operations*, fiscal years 1992 and 1994, Wash., DC.

area.[33] These localities' mail systems have been plagued by problems and had the worst on-time mail delivery records in the Nation.

PUBLIC AND USER GROUP EVALUATIONS

Opinions of diverse groups that are served by or do business with the USPS may also be of interest in evaluating the performance of the current Federal postal system. Polls conducted to measure user satisfaction rates for mail services have been taken regularly by private pollsters, mail organizations, and the USPS. The results of a poll by Louis Harris and Associates in early 1995 suggest that the American public as a whole is more favorably disposed toward using the Postal Service than are business groups.[34]

The American Public

The 1995 Harris poll found, as various other polls in the past have found, that the American public overwhelmingly prefers the USPS over private companies for mail service. Seventy percent said they generally choose the Postal Service for rapid delivery of hard copy information. Seventy-eight percent believe that, despite its flaws, the Postal Service is the best way to provide mail delivery for everyone at a reasonable price. Most expect to continue sending mail through the USPS system in the future.

As a group, the public feels that competition would improve U.S. mail service. However, it fears that services from private companies would be worse than those from the USPS. They favor least proposals that would break up the USPS and turn over portions of its operation to private companies.

The Business Community

In contrast with the general public, only 23 percent of business organizations (as a whole) say that they choose the Postal Service for rapid delivery of hard copy information. They expect that, while they will increase their use of the USPS for delivery of hard copy information in the next year, they will increase even more the extent to which they will use private companies for that purpose. The business community indicated that it supported competition as the means to improve mail service—giving private companies the right to compete against the USPS.

Mailers Council

Based upon the Harris poll, members of the Mailers Council look upon the USPS less favorably than business executives in general. Seventy-one percent of responding Council members said that the Postal Service should be doing more to automate delivery; and 96 percent stated that the USPS should contract with private companies to perform more tasks like sorting and delivery. The Mailers Council is an organization that represents the largest USPS cus-

[33] Postmaster General Marvin Runyon reported that 87 percent of local first-class mail was delivered overnight in the second quarter of 1995—4 percentage points higher than in the corresponding period the year before. Remarks before the House Committee on Government Reform and Oversight, Subcommittee on the Postal Service. June 28, 1995. Wash., DC. p. 1.

[34] Louis Harris and Associates. *Delivering the Mail: Should Americans Have A Choice?* Study No. 954006. Wash. D.C., April 14-May 22, 1995.

tomers, accounting for nearly 75 percent of the mail delivered by the Postal Service.

CHANGES IN THE INDUSTRY AND THE MARKET

In the last two decades, the Postal Service has come under stress as a result of competition it is encountering in the postal industry in particular and the communications industry in general.

Incursions by Private Mail Companies

In the last 30 years, private companies have entered the parcel and express mail market, successfully competing with the Postal Service in surface and air delivery of both business and household mail. In general, competitors that have made the most inroads appear to have done so at least as much on the basis of their ability to transport mail quickly and reliably as on the basis of cost.

Major incursions occurred first in parcel mail. Between 1950 and 1970, the parcel post mail volume of the USPS declined 17 percent, from 1.1 billion pieces to 977 million pieces,[35] and decreased 10.9 percent further between 1970 and 1994. United Parcel Service is the dominant competitor in the estimated $8 billion-plus surface parcel delivery market. It serves both business and consumer markets, and claims to deliver to every U.S. address. The UPS delivered 2.8 billion parcels and documents in the United States in 1994. (The Postal Service delivered 177 billion pieces.)

Private express mail companies have entered the express mail market in force only since the early 1980s, and have come to dominate this segment of the mail industry. Five major private mail companies compete with the USPS for both parcel and express mail: Federal Express Corporation (FedEx), Airborne, Emery-Purolator, DHL Airways, Inc., and United Parcel Service (UPS). A comparison of prices and guaranteed delivery time is shown in table 3.

The growth of private express companies and their relative success in a field in which an "advantaged" USPS competes[36] has led some analysts to claim that the case for privatization is strengthened by this experience. The fast growth of companies such as Federal Express and DHL Corporation in a short period of time, they say, indicates that private business can provide mail service better and more cheaply than the Postal Service.[37]

In addition to competition from the parcel and express mail companies, small mail service centers known as Commercial Mail Receiving Agents have sprung up across the Nation, offering mail distribution and other mail related services to customers. In response, the USPS reportedly is planning to expand its retail distribution system by placing additional "postal stores" in shopping centers and other public places.

---

[35] U.S. Department of the Post Office, *Annual Report of the Postmaster General*, 1950 & 1970.

[36] It is presumed that the Postal Service is advantaged by its monopoly on first-class mail.

[37] Federal Express was founded 12 years ago; it now serves 99 percent of all U.S. addresses and 201 countries with a fleet 489 aircraft and 35,000 trucks. DHL Corporation specializes in the international transportation and delivery of time-sensitive business documents and small packages primarily for service industries. Founded in 1969, DHL now operates in over 200 countries; its annual revenues exceed $3 billion. These data appeared in statements by James I. Campbell, Jr., counsel to Federal Express Corp., and by Peter N. Hiebert, counsel to DHL Airways, Inc, before the House Committee on Government Reform and Oversight, Subcommittee on Postal Service, June 14, 1995.

TABLE 3. Next-Day Express Service Charges and Delivery Times

Company	Average Cost per 2-Pound Package	Guaranteed Arrival Time *
U.S. Postal Service	$13.95	13:00 PM
United Parcel Service	15.25	10:30 AM
Federal Express	24.24	10:30 AM
DHL Airways	24.25	12:00 Noon
Airborne Express	25.00	10.:30 AM

* Required drop-off time (on day prior to delivery) varies by company, and depends upon location of nearest office, airport, and destination of item.
Source: *Network World, 1993.*

However, because of its size, dominant position in the mail marketplace, the protections of the Private Express Statutes, and the letter-box restriction, the USPS remains a formidable competitor in the industry as a whole.

Effects of Technological Change

While changes in communications technology have occurred often in the past without seriously threatening the nature or structure of the U.S. mail service, more recent telecommunications and electronic innovations have made significant inroads into the markets formerly served almost exclusively by the USPS. In addition, facsimile (FAX) machines, computer modems, E-mail systems, electronic funds transferring technology, and telecommunications satellite systems have changed the nature of much person-to-person and business-to-business, and business-to-person mail. These communications media, seeming to escape the definition of a "letter," can be considered to have broadened the meaning of the word mail, and have affected USPS' mail flow.

Roger Sherman, Professor of Economics, University of Virginia, has stated that many of these technologies, interfacing with computers allow "effective management of information, a function that goes beyond the mere transmission of written messages." And he further contends . . .

> (T)he range of alternative communication means has greatly diminished USPS activities relative to what they might have been, especially those that lacked monopoly protection. And, it has eroded the power of the monopolized areas as well.[38]

It has been estimated that about half of today's mail, mainly first-class, *could* be shifted to an electronic form of communication.[39] Mr. Sherman claims that, if the developing fiber-optic household network becomes a commercial reality, it would be able to connect all households by electronic communications which, he says, essentially would make mail service as we know it unneeded.

The penetration of the new technologies into communications services has been substantial. There are a reported 9 million or more installed fax machines, and there is increasing use of computer-generated fax transmissions. According to one industry observer, e-mail is growing 25–30 percent per year, transfers of data between businesses using electronic data interchange are experiencing a 30 to 40 percent growth rate, and the extent of electronic

[38] Sherman, Roger. *Competition in Postal Service.* Boston, MA, Kluwer Academic Publishers, 1991. pp. 197, 199.
[39] *Ibid.*

fund transfer is shown by more than 35 million invoices having been paid electronically in 1993.[40] In addition, growing on-line computer services are providing households with home shopping, banking, electronic mail, and other interactive information services.

The 1992 annual volume of electronic alternatives to postal delivery is estimated by one study to have been $47.3 billion ($10.1 in messages and transactions, $24.7 billion in advertising, and $12.5 billion in publications). The Postal Service's share of the market for correspondence and transactions is estimated to have declined from 77 percent in 1988 to 54 percent in 1994.[41]

A recent GAO analysis found that diversion of communication from letter mail to electronic form could adversely impact future benefits of the USPS' automation strategy, by limiting growth in physical mail volume. Business-related correspondence and financial transactions are most adaptable to automation, but these mail items are also the most susceptible to diversion by mailers to electronic communications. GAO contends that this business mail accounted for about 44 percent of the USPS' total mail volume in 1993. The study cites a USPS estimate that business-to-business correspondence and transaction mail would drop from 30.4 billion pieces in 1988 to 20.5 billion in 1994. The GAO concludes that ". . . many postal experts believe that in coming years a major portion of the mail clearly will be at risk."[42]

However, the severity of these impacts on letter mail volume could be overstated. It clearly is possible that a substantial portion of electronically transmitted messages substitutes for telephone calls rather than "letters," or are entirely new services and not substitutes. Such entirely new services and the additional economic activity they generate could, themselves, generate additional mail in the traditional sense. USPS first-class mail volume (excluding priority mail and mailgrams) increased 10 percent between FY1989 and FY1994 despite the technological changes and incursions described above.

FINANCIAL PERFORMANCE

Incursions by private companies and technological change notwithstanding, the Postal Service has done much better financially than its predecessor, the Post Office Department. Mandated by the 1970 Act to break even, the USPS has been in the black two of the last six completed fiscal years, and three of the last nine. The Post Office Department ran deficits the last 25 years of its existence (some of which equalled 20–25 percent of costs) that were made up for by appropriations.

In FY1995, based upon results of the first 10½ months, the Postal Service is projecting a net profit of $1.8 billion. Operating revenue is projected to exceed that of FY1994 by 10 percent, helped by a postal rate increase fairly early in the year and by a continuing

[40] Lenard, Thomas M. *Competition and the Need for A Redesigned Postal Service.* Paper prepared for Cato Institute conference "Postal Service in the 21st Century: Time to Privatize?" Wash., DC. June 14, 1995. p. 13.

[41] *Ibid.*, p. 13–14.

[42] GAO. *Automation Is Taking Longer and Producing Less Than Expected.* GAO/GGD-95-89BR. Briefing Report to Congressional Committees. Wash., D.C. Feb. 1995. p. 51.

modest increase in mail volume. Operating expenses are projected to rise 5 percent in FY1995.

Reasonable financial performance is reflected in the Postal Service's holding the constant-dollar price of sending a letter by first-class mail to only a 7-percent increase between May 1971 and January 1995 (see table 4).[43] In the process, the Service has maintained the price of a first-class letter mail stamp near or below that in most other industrial countries. In late 1994 or early 1995, the comparable rates were in Australia 35¢, Canada 30¢, France 53¢, Germany 66¢, Japan 80¢, The Netherlands 47¢, New Zealand 29¢, Sweden 50¢, and the United Kingdom 43¢, respectively, based upon data compiled by Price Waterhouse LLP and the Postal Service.[44]

TABLE 4. First-Class Postage Rates in Current and Constant Dollars

Effective Date of Rate Increase	Postal Rates: Current Dollars	Postal Rates: Jan. 1995 Dollars	Percentage Change: Current-$ Rates	Percentage Change: Constant-$ Rates
May 1971	8¢	29.8¢		
March 1974	10	31.4	25.0	5.4
December 1975	13	35.2	30.0	12.1
May 1978	15	35.0	15.4	–0.6
March 1981	18	30.6	20.0	–12.6
November 1981	20	32.1	11.1	4.9
February 1985	22	31.2	10.0	–2.8
April 1988	25	32.1	13.6	2.9
February 1991	29	32.3	16.0	0.6
January 1995	32	32.0	10.3	–0.9
Overall increase May 1971–Jan. 1995	....	....	300.0	7.0

Sources: Computed by CRS from data from the Bureau of Labor Statistics, U.S. Department of Labor and the U.S. Postal Service.

Postal Service revenues are derived primarily from fees for mail and special services—revenues from operations. The remainder of USPS revenues comes from small amounts of appropriations intended to make up for revenue foregone from free services performed by the Postal Service for specific designated groups.[45] In FY1994, postage fees for mail and special services totalled $49.252 billion; the appropriations totalled $101 million.

In contrast with the years of the Post Office Department, the Postal Service no longer receives a subsidy from the Treasury. One of the three types of annual appropriations that the 1970 Act *authorizes* the USPS to receive is to reimburse it for providing regular postal service nationwide, even in those communities where post offices are not self-sustaining. However, for budgetary reasons, Congress stopped making these "public service" appropriations a number of years ago; and the USPS has preferred not to request them for the past 13 years, although it still provides such service. The

[43] As shown in table 4, the percent change has been calculated based upon the price of a stamp for sending a letter by first-class mail converted to January 1995 dollars. The comparison is between the rate that became effective in January 1995 with that becoming effective May 1971.

[44] Price Waterhouse LLP. *A Strategic Review of Progressive Postal Administrations—Competition, Commercialization, and Deregulation*. prepared for the United States Postal Service, February 1995. p. 3; and U.S. Postal Service. *Comprehensive Statement on Postal Operations*. Fiscal Year 1994. Wash., DC, p.1.

[45] The appropriations are for free mail service provided to the blind and handicapped, and for free mail for overseas absentee ballots.

statutorily set amount of "public service" appropriation for FY1994 would have been $460 million, equal to 9.5 percent of Postal Service operating expenses.

The two other types of appropriations are called transitional and revenue foregone. The transitional appropriation pays for unfunded liabilities of the former Post Office Department to relieve current mail users of these older debts. Only debts for workers' compensation payments for injuries that occurred under the former Post Office Department remain. While the Postal Service is authorized to request such funding, the Department of Labor administers the funds. The USPS requested and received $38.6 million for this purpose for FY1994. The revenue foregone appropriations are to reimburse the USPS for free mail service provided to blind and handicapped persons, and for free mailing of overseas absentee ballots. The USPS received a total of $62.4 million in appropriations for these purposes for FY1994.

As a result of a number of years of deficits, partly due to one-time assessments and extraordinary items, the Postal Service has accumulated a net capital deficiency, which is reflected in its debt. Three large one-time charges since 1990, mainly retroactive assessments for employee benefits, have raised the amount from $1.278 billion to $5.962 billion as of September 30, 1994. The anticipated net income in FY1995 would reduce this by about 30 percent.

To finance postal buildings and capital improvements, the USPS is authorized to borrow money from the Federal Financing Bank of the Treasury and to issue public bonds. A limit of $10 billion was set initially, but was raised to $12.5 billion in FY1991 and to $15 billion in FY1992. All USPS issues are subject to "first refusal" by the U.S. Treasury under mutually agreed terms.

The 1970 Act requires the Postal Service to prepare and be responsible for its own operating budget, and to achieve financial self-sufficiency. As it stands now, USPS income and expenditures are "off-budget," that is, not included in calculating Federal budget deficit totals. However, the status of the postal system's budget with respect to that of the Government as a whole has varied over time. Appendix 3 describes USPS budget procedures and some of the history of the budget status.

V. USPS ORGANIZATIONAL CHARACTERISTICS[46]

This chapter explores some organizational characteristics that may underlie some of the Postal Service's difficulties in providing good mail service, holding down costs of operations, and responding promptly to, or even anticipating, changes in the postal and communications markets. The chapter is organized by those three broad concepts.

MAIL SERVICE

Several aspects of the work and employment environment at the Postal Service probably contribute to the mail service shortcomings noted in Chapter IV. One aspect is the persistence of labor-management difficulties across a number of areas that almost certainly

[46] Prepared by Bernard A. Gelb, Specialist in Industry Economics.

affect employee and management morale and, consequently, the effectiveness of the workforce.

While more than three-fourths of postal employees told a recent survey that they liked their pay and benefits, many employees at mail processing plants and post offices reported to the General Accounting Office (GAO) that the work atmosphere was one of intimidation and tension. There are frequent conflicts, which often have to go through formal disciplinary, grievance, and arbitration processes to achieve "resolution." [47]

GAO found that an autocratic management style, adversarial employee and union attitudes, and inadequate performance management systems that do not differentiate good workers from poor ones or reward good performance were among the causes of the problems.[48] Moreover, poor performance often was tolerated because of difficulty in removing those individuals.[49]

The GAO found that long-standing problems on the "floors" of postal facilities have not been adequately dealt with "because labor and management leadership at the national and local levels have been unable to work together" to solve employee problems. Relationships between postal management and three of four unions at the national level have been highly adversarial at times, and dependent upon third party "intervention" to resolve disagreements.[50] Such intervention usually is in the form of arbitration.

It is also possible that there may be shortcomings in the quality and/or performance of management, which may be partly caused by the manner of appointment and partly by limitations on salary. The Board of Governors, which has a major role in directing the Postal Service, is politically appointed with no requirement that managerial skill or knowledge of business operations be considered. The Postal Reorganization Act lists no criteria for appointment other than that no more than five appointed Governors be of the same political party and that they shall be chosen to represent the public interest generally. Compensation of appointed Governors was set by the 1970 Act at $10,000 per year, plus $300 per day for expenses, and has not been changed since then.

Postal Service *managers'* compensation also is restricted. Top managers' salaries are limited by a cap related to pay in the executive branch of the Federal Government.[51] This would tend to disadvantage the Postal Service to the extent that it competes with private sector firms that can attract managerial talent without a pay limit.

USPS difficulties in properly phasing in automation procedures and in finding the appropriate management structure for decision-making and oversight for such implementation [52] may be an indication of managerial shortcomings. It is likely that such difficulties were at least partly responsible for an apparent failure by USPS

---

[47] U.S. General Accounting Office. *U.S. Postal Service: Labor-Management Problems Persist on the Workroom Floor.* GAO/GGD–94–201A. Washington, DC. Vol. I, p. 4.

[48] GAO, *Labor-Management Problems Persist*, Vol. I, p. 5.

[49] GAO, *Labor-Management Problems Persist*, Vol. II, p. 64

[50] GAO, *Labor-Management Problems Persist*, Vol. I, p. 4.

[51] No person at the Postal Service, including the Postmaster General, can be paid more than the salary of a person in Executive Level 1, which is $148,400.

[52] See, for example, U.S. General Accounting Office. *Postal Service: Automation Is Taking Longer and Producing Less Than Expected.* Wash., DC. Feb. 1995. 56 p.

to get large productivity gains from its substantial investment in automation equipment (see section on costs below).

Management also has been faulted for dividing responsibility between mail processing and mail delivery at field offices throughout the system in 1992, leading to service shortfalls.[53] Separate lines of reporting authority left no single individual at the operating level with the responsibility and authority to coordinate and integrate the mail processing and delivery functions.[54]

Overall, however, labor productivity in the Postal Service rose at nearly the same rate between 1970 and 1993 as productivity in the nonfarm business sector of the economy, 1.2 percent per year on average versus 1.3 percent.[55]

COSTS

A major factor putting upward pressure on USPS costs is that USPS employees are relatively highly paid. Whereas average annual wages per employee in all industries in the private sector were $26,494 in 1994,[56] the average annual base salary of a career bargaining unit employee was $33,592 in FY1994.[57] Some argue that postal workers' compensation is up to $10,000 per year higher than what state and local government employees doing comparable work receive.[58] Some research suggests that part of the difference between average compensation of Postal Service employees and of private sector employees may be due to USPS' paying nonwhites and women wages closer to those it pays comparably skilled white men than appears to be the case in the private sector.[59]

Partly as a result of its pay levels, the cost structure of USPS operations is very labor intensive. Employee pay and benefits have accounted for over 80 percent of total USPS operating expenses in the last three fiscal years. The corresponding percentages for its private company competitors are much lower. For example, at both the Federal Express Corporation and the United Parcel Service, employee pay and benefits have averaged about 50 percent and 60 percent, respectively, of operating expenses in recent years.[60]

Postal employee *fringe* benefits also contribute to USPS employee compensation costs. As discussed in Chapter VIII, postal workers

[53] See U.S. General Accounting Office. *Postal Service: Mail Delivery in the Washington Metropolitan Area.* GAO/GGD–95–94. Wash., DC. p. 8; and Murray Comarow, *Rethinking the Postal Service*, p. 3. The GAO findings are illustrative of the entire postal system.

[54] GAO. *Mail Delivery Service in the Washington Metropolitan Area.* p. 8.

[55] U.S. Department of Labor, Bureau of Labor Statistics (BLS). *Productivity Measures for Selected Industries and Government Services.* Bulletin 2461. Wash., DC, May 1995. p. 122; and Office of the President, *Economic Report of the President.* Wash., DC. Feb. 1995. p. 328.

[56] U.S. Department of Labor, Bureau of Labor Statistics. Average Annual Pay by State and Industry, 1993. press release, September 19, 1995. Wash., DC. Table 4.

[57] With benefits, overtime, and premiums, the average salary and benefits per total work year was $44,342 for the career bargaining unit employee. Postal Service pay data are from U.S. Postal Service. *Comprehensive Statement on Postal Operations, Fiscal Year 1994.* p. 41.

[58] See, for example, Murray Comarow. "Rethinking the Postal Service." p. 8.

[59] Martin Asher and Joel Popkin found that average wages are higher in the Postal Service than in many private sector industries because the Postal Service pays nonwhites and women wages similar to those it pays comparable white men. They did not state that the Postal Service's practice accounts for all of the difference in the overall averages, or what smaller percentage. See The Effect of Gender and Race Differentials on Public-Private Wage Comparisons: A Study of Postal Workers. *Industrial and Labor Relations Review*, Oct. 1984, pp. 16–25. Most of the literature on race and/or gender discrimination and earnings finds at least some effect on earnings. For a discussion of evidence of race and gender pay discrimination, see Bruce E. Kaufman. *The Economics of Labor Markets.* Chicago, The Dryden Press. 1991. pp. 411–459.

[60] Data are from the annual reports of the companies for 1994 and 1993, respectively. Federal Express' fiscal years end May 31st.

are covered under the same retirement and health insurance systems as other Federal employees. Although comparisons are difficult to make definitively, those benefits may not be significantly higher than those received by private sector workers. A CRS analysis of private and Federal sector retirement plan benefits showed mixed results. An analysis by the Hay/Huggins Company found that Federal health insurance benefits may be nearly comparable to those received in the private sector.[61]

Differences between the types of service provided by Federal Express and UPS and those provided, on average, by the Postal Service may explain at least part of the difference in "labor-intensiveness." For example, it would seem that the equipment (capital) input in the way that Fed Express and UPS deliver "parcels" per dollar of unit delivered is considerably greater than that in USPS operations. This appears to be borne out by data on physical assets per employee: Federal Express had $39,000 in property and equipment per employee in 1994, compared with $20,300 for the Postal Service.

This lower ratio of capital inputs (adjusted for quality) probably also tends to raise Postal Service costs, and may indicate that the USPS has not achieved the most productive mix of labor and capital inputs. The Postal Service probably was disadvantaged at its start with respect to capital inputs because it inherited little in physical assets from its predecessor.[62] In the late 1960s, the Post Office Department had only $1,145 in net fixed assets per employee. In comparison, in the private sector, merchandising firms averaged $2,836 per employee, manufacturing firms averaged $7,170, and transportation companies averaged $25,053.[63]

Since its establishment, the Postal Service has invested in equipment at a greater rate than before. Its $20,300 in plant and equipment per employee in FY1994 was about 70 percent of the 1994 average for wholesale and retail trade combined, and 25–30 percent of the average investment for manufacturing.[64] Yet, as we have seen, its relative investment in fixed assets is well below that of a competitor such as Federal Express.

Costs probably tend to be higher also as a result of much greater constraints on Postal Service flexibility in managing its workforce, compared with USPS competitors. The Postal Service must comply with Government-sector rules covering employees, which often entail time-consuming procedures that may not be cost-effective to pursue in individual cases.

---

[61] U.S. Library of Congress. Congressional Research Service. *Federal Civil Service Retirement: Comparing the Generosity of Federal and Private-Sector Retirement Systems*. Report No. 95–687 EPW, by Income Maintenance Section, Education and Public Welfare Div. June 5, 1995. 17 p. The report found that the multitude of private sector retirement plans makes conclusive comparisons difficult, and its analysis showed mixed results. The Hay/Huggins data, reported in the CRS report, show that Federal worker health insurance is less valuable than private sector plans for four different salary levels.

[62] Much of the real property now owned by the Postal Service is part of the assets of the former Department of the Post Office. The 1970 Act transferred all assets of the former Post Office Department to the USPS.

[63] President's Commission on Postal Reorganization, *Towards Postal Excellence*, Govt. Print. Off., Wash., DC, 1968, pp. 25–26.

[64] Investment in plant and equipment in trade and in manufacturing (with which the USPS figure is compared) are net stocks of fixed capital estimated by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce. The 1994 data are preliminary.

A factor affecting workforce management *and* employee compensation in the Postal Service is the provision in the 1970 Act establishing binding interest arbitration to resolve impasses over new contracts. A large proportion of Postal Service collective bargaining negotiations have ended in arbitration. Reportedly, labor-management relations at the Postal Service are poor, and compulsory arbitration often has a chilling effect on negotiations. Because arbitrators sometimes split the difference between the offers of the parties, unions and management may be motivated to avoid good-faith bargaining, maintain extreme positions, and hope to get a good arbitration award.[65]

To the extent this occurs, it likely benefits the unions, and the employees they represent, more than the Postal Service, tending to raise USPS costs. Because contract agreements must be ratified by union membership, and union officials are subject to membership elections, union negotiators are arguably better motivated to obtain the best award. Management negotiators, under less direct threat to their jobs, might tend to be more restrained in their positions.

USPS efforts to make its operations more cost-effective are limited by the 1970 Act with respect to closing post offices that do not pay for themselves. As noted previously, one of the postal policy principles in the 1970 Act states in part "No small post office shall be closed solely for operating at a deficit."[66]

RESPONSE TO MARKET DEVELOPMENTS

The Postal Service's ability to respond to, or anticipate, developments in postal and communications markets appears to be particularly impaired when it comes to modifying rates and services.

The procedure for changing rates and mail classifications is cumbersome and time-consuming (as described in Chapter II) and often controversial (as hinted at in Chapter III). There are several formal steps; and the Postal Rate Commission has up to 10 months to render a recommended decision. The process inhibits flexibility in establishing rates that could price the services of the Postal Service most attractively, and in introducing new services.

For example, mail currently is mainly grouped into classes based largely on the type of mail being sent rather than on the level and speed of service provided. The approval process has delayed a mail classification restructuring that the Postal Service claims will result in a rate structure that gives the proper weight to the effects on Postal Service costs of mail preparation. "Automation-friendly" actions such as barcoding, pre-sorting, and palletizing by large volume customers reduce USPS costs and, says the Postal Service, justify lower postal rates for those customers.

Implementation of rate or classification changes also is delayed by the rules applying to Board of Governors' approval procedures. It takes only a majority vote of Governors to approve a PRC recommended decision or allow a Rate Commission recommendation to go into effect under protest. However, if the Board wishes to

---

[65] See, for example, Sauer, Robert L., and Keith E. Voelker. *Labor Relations: Structure and Process*. New York, Macmillan Publishing Co., 1993. p. 247; and Lowenberg, J. Joseph, and Michael H. Moskow. *Collective Bargaining in Government, Readings and Cases*. Englewood Cliffs, NJ, Prentice-Hall, Inc. 1972. p. 315.

[66] 39 U.S.C. § 101(b).

modify a recommendation, in effect, it must first reject it, and then resubmit it. After getting PRC's second recommendation, Governors can modify with a unanimous vote. By law, Governors can modify recommendations for revenue reasons only.

In the last several major rate cases, Governors have allowed a PRC recommendation to go into effect (in order to obtain at least some additional revenues), resubmitted to PRC, then modified (by unanimous vote) the second PRC recommendation.[67] A Board of Governors' decision to approve, allow under protest, or modify a recommended decision by the PRC may be appealed to any U.S. court of appeals by an aggrieved party who appeared in the proceedings before the PRC.

VI. CONCEPTUALIZATION OF ALTERNATIVE STRUCTURES[68]

This chapter presents some of the major types of alternative institutional and organizational arrangements that might be considered for structuring the Federal postal service. It distinguishes and describes them under two broad groups: (a) privatization concepts and options, and (b) management restructuring options. Appendix 4 puts the various options into a broader perspective, by reviewing the underlying issues when considering the restructuring of a Government entity.

PRIVATIZATION CONCEPTS AND OPTIONS

Privatization has gained prominence recently, both in the United States and abroad, as a possible means of cutting Government spending, eliminating operational inefficiencies, improving performance in providing goods and services, and/or reducing the role of government in the society. A number of observers cite the Postal Service as a prime candidate for privatization, because they view the USPS essentially as a failing enterprise engaged in the production and sale of services that would be performed better and at lower cost by one or more private firms.

The concept of privatization, however, is subject to different interpretations and covers a wide range and variety of possible governmental actions that would privatize an operation, activity, or service. Proposals affecting even a single organization, such as the Postal Service, vary in terms of how extensive the privatization would be, how it would be accomplished, and what new organizational arrangement and institutional setting would result. Concerns over at least some privatization plans and actions have arisen in part because of these different understandings and questions about privatization's underlying assumptions as well as its impact and implications.[69]

---

[67] This discussion of the Board of Governor approval procedure is based in part upon a telephone conversation with Dan Foucheaux, staff attorney for the Postal Service's Board of Governors.

[68] Prepared by Frederick M. Kaiser, Specialist in American National Government.

[69] For background and further citations on privatization and its different meanings, strengths, and limitations, see, among other studies: U.S. Library of Congress, Congressional Research Service, *Privatization: Meanings, Rationale, and Limits*, Report No. 95–522 GOV, by Ronald C. Moe, Apr. 20, 1995; National Academy of Public Administration, *Privatization: The Management Challenge*, Wash., DC, NAPA, 1989; "Privatization: Limits and Applications," Symposium in *Public Administration Review*, vol. 47, Nov./Dec., 1987, pp. 453–485; *Prospects for Privatization*, entire issue of the *Proceedings of the American Academy of Political Science*, v. 36, no. 3, 1987;

Continued

Narrowly defined, privatization refers only to the transfer or movement of government functions and responsibilities per se to the private sector. Broadly understood, its meaning is more encompassing; it may extend to the use of the private sector to perform some public sector activities, operations, and services as well as to carry out government missions and responsibilities.

Privatization Options

Four broad methods or types of privatization appear to have the most relevance as alternative structures for a postal system.

Divestment

The clearest type of privatization is government divestment, sometimes referred to as divestiture, that is, the sale or transfer of a government agency, corporation, service, or asset to private ownership. Because such a transfer from the public to the private sector would be complete, the legal status of the organization or asset would be altered. For instance, different contractual obligations and financial liability requirements would exist for a private firm which was performing a service than for the government entity it replaced.

A divestment might be limited to the sale of only a small amount or a limited range of assets, as with the sale of Federal property. Or, by comparison, it might extend to the transfer of an entire government agency or corporation and its replacement with a new private corporation, as some have proposed for the Postal Service. Some proponents of privatization see the numerous and widespread buildings owned by the USPS as possibilities for divestment.

The structural characteristics and legal authority of a true private corporation would necessarily differ from those of a government organization; in this regard, it might be necessary for any replacement corporation to be endowed by statute with special powers to conduct the transferred operations and services properly and with adequate authority to carry out its mandate and purposes.

Along a similar path would be the establishment of a mixed-ownership corporation. Such mixed-ownership corporations could have various mixes or types of ownership arrangements, operating structures, organizational characteristics, and degrees of accountability to Congress and the President. This approach might be the preferred solution or a first step on the road to full privatization of the postal system, possibly through a private corporation model.

Deregulation

Another variant of privatization is the partial or complete removal of obstacles to free competition with an existing government agency or organization. This kind of option, which could be called deregulation, already has been partially adopted for the Nation's mail service by virtue of the exemption from the Postal Service's

---

U.S. Congress, House, Committee on Government Reform and Oversight, Subcommittee on Government Management, Information, and Technology, *Federal Role in Privatization*, Hearings, Mar. 14, 1995, 104th Cong., 1st Session (not yet printed); U.S. Congress, Joint Economic Committee, *Privatization of the Federal Government*, Hearings, 98th Cong., 2d Session, Washington, GPO, 1984; U.S. President's Commission on Privatization, *Privatization: Toward More Effective Government*, Washington, GPO, 1988; and U.S. National Performance Review, *Privatization Resource Guide and Status Report* (Draft), Washington, NPR, 1995.

monopoly on first-class mail that has been given to time-sensitive mail matter.

Contracting

The most frequent and probably the oldest form of privatization is contracting-out, that is, the government's practice of entering into contracts with private firms, businesses, organizations, and individuals to perform a particular government task or provide a specific good or service. As an illustration, the Federal postal service has held contracting authority since its earliest days. The Post Office Act of 1792 authorized "the Postmaster General to enter into contracts, for a term not exceeding eight years, for extending the line of posts, and to authorize the person or persons, so contracting, to receive. . . . all the postage which shall arise on letters, newspapers and packets, conveyed by such post . . .." (1 Stat. 233 (1792))

Contracting-out arrangements are now commonplace throughout the Federal Government, with approximately $108 billion spent per year for service contracts.[70] In the civilian sector, for the most part, such contracts are governed by a directive from the Office of Management and Budget: OMB Circular A–76, whose revision is currently under consideration. Its objective "has been to achieve efficiencies by encouraging competition between the Federal workforce and the private sector for providing commercial services needed by government agencies."[71]

Franchising

Through this method, already used by the Postal Service to some extent, a government awards a private operator the right to sell a certain product or provide a specific service to the public. Usually, a fee is paid to the government for this right. Franchising, which can be modest or broad-scale and extensive, may occur through two principal methods: concessions or lease arrangements.

A government may also encourage franchising by its own (former) employees, by giving them an opportunity to set up a commercial enterprise to perform the service which they performed as government personnel. Along these lines, a Franchise Fund Pilot Program was authorized by the Government Management and Reform Act of 1994, to give Federal managers improved tools and incentives to operate more efficiently. Under the auspices of the Chief Financial Officers' Council, a Franchise Fund Working Group has been set up to lay the groundwork to implement the program.[72]

Displacement and "Marketization"

Under this method, a government relinquishes its control (or monopoly) over a good or service, by default, withdrawal, or deregulation. Displacement may be limited to a narrow range of goods or services, sometimes referred to as "load shedding" when it is a planned decision to withdraw from providing a limited service (e.g.,

---

[70] U.S. General Accounting Office. *Government Contractors: An Overview of the Federal Contracting-Out Program*, T–GGD–95–13, Wash., DC, GAO, 1995, p. 1.

[71] For an overview of the process and its possible revision, see GAO, *Government Contractors*. p. 1 and passim; and Kevin Powers, "Given Outsourcing, Privatizing Trend, OMB Plans to Overhaul Circular A–76," *Government Computer News*, July 17, 1995, p. 90.

[72] See NPR, *Privatization Resource Guide*, pp. 5–7.

a recent National Park Service plan to close a marina because of the expense of needed renovations). Or, the displacement may be extensive (even complete), encompassing a wide range of interrelated services.

This method allows the private sector to participate (and compete) in providing the same or a similar service, if there is a perceived demand for it and if the private sector has the capabilities and thinks it can do so profitably. Parcel delivery and express mail service, where commercial firms vie with the U.S. Postal Service, illustrate this phenomenon. Displacement by deregulation, its proponents argue, would result in improved efficiency, by exposing the Service to market forces and discipline. The transformation may also foster the birth and growth of private enterprises which would fill the void created by the government's departure. Displacement ultimately could result in loss of a good or service that cannot be produced privately at a profit.

Approaches Leading to Privatization

Other methods or approaches can lead to, and have led to, at least partial privatization. Among other things, they may be able to demonstrate whether a market exists, better define or narrow the government service, and indicate the costs that a private replacement would have to absorb.

The imposition of user charges is an illustration. User fees are the prices that the government charges for providing certain goods or services, such as postage for first-class mail service, admission to a national park, or merchandise processing fees on goods entering the United States. Even though such charges are not usually considered as privatization per se, they can be means to such ends, by rationing or regulating the good or service, by demonstrating the extent of the market for the product or service, and by enhancing revenues which could foster other forms of privatization, such as contracting out or franchising. User charges can suggest the good's or service's profitability, or lack of it, and thus its potential for further privatization efforts.

MANAGEMENT RESTRUCTURING OPTIONS

A number and variety of non privatizing options to restructure the U.S. Postal Service focus on agency management and involvement by non-USPS bodies. Several objectives underlie these alternatives: improve internal management controls and capacity building, reduce interference with internal managerial decisions by outside organizations, and reduce statutory limitations on managerial discretion. Thus, these options pertain almost entirely to aspects of the management of the organization, rather than to its legal form and overall design, although that also may be affected.

The options range from comparatively limited changes in authority to extensive transformations in organizational characteristics. The following reflect a variety of possibilities, which are distinctive and, in some cases, incompatible with one another or with the structures discussed above.

Centralize All Management Powers in Chief Executive Officer

The objective would be to clarify responsibility for agency management decisions, productivity, and efficiency. This would necessarily reduce and limit the role and powers of the politically appointed USPS Board of Governors, who now share executive responsibilities with the Postmaster General (PMG).

Abolish the Postal Rate Commission or Reduce Its Powers

The objective would be to reduce the extent to which the Postal Rate Commission can intrude on the management decisions of the USPS.

Give the PMG or Board of Governors Greater Authority and Flexibility over Workforce and Workplace Matters

This could be defended as a means of clarifying responsibility for improving efficiency in USPS operations.

Allow PMG and Board of Governors Greater Flexibility in Providing "Effective and Regular Postal Services" to All Communities

The greater flexibility provided by this option might include ending the prohibition against closing a small post office solely for operating at a deficit.

Place the USPS under the Government Corporation Control Act

This could allow, but not necessarily result in, the corporation being more accountable to Congress, while still permitting flexibility and autonomy needed for its commercial activities.

Place USPS under Chief Financial Officers Act of 1990 and Assure Its Compliance with the Government Management Reform Act of 1994

In tandem, these statutes (P.L. 101–576 and P.L. 103–356, respectively) are designed to strengthen an agency's financial management system, controls, and operations.

Insist on USPS Compliance with the Goals and Objectives of the Government Performance and Results Act of 1993

This law (P.L. 103–62) is designed to strengthen results-oriented approaches and measurements among Federal agencies.[73]

COMBINED APPROACHES

It is possible to combine some of the management restructurings with certain privatization options. For instance, the Postmaster General and Board might be given enhanced flexibility to achieve cost savings and, at the same time, authority to franchise certain postal services or operations or to expand contracting-out. Such cost savings adjustments, moreover, could be aligned with new guidance on cutting back or displacing certain services, thereby allowing the private sector to take them over. And centralizing man-

---

[73] For overviews, see U.S. General Accounting Office, *Managing for Results: Status of the Government Performance and Results Act* (Statement of Johnny C. Finch, Assistant Comptroller General), Report T–GGD–95–193, Washington, GAO, 1995; and U.S. Library of Congress, Congressional Research Service, *Government Performance and Results Act, P.L. 103–62: Interim Status Report: Revised*, CRS Report No. 95–713 SPR, by Genevieve J. Knezo, June 15, 1995.

agement powers in the Postmaster General could be combined with (again) new franchising and contracting-out mandates.

VII. OTHER COUNTRIES' EFFORTS TO IMPROVE THEIR POSTAL SYSTEMS[74]

The United States is not alone among nations in having a postal service that has come under stress. New technologies, strong competitors in communications and in parcel delivery, and changed public attitudes toward the role of a postal system as an appropriate governmental function have led to the postal systems of a number of countries being candidates for and actual "participants" in change of some kind. This has included corporatization, deregulation, privatization, or a combination of these. The nature and consequences of other nations' efforts to improve their postal systems might provide guidance to postal system policymakers in the United States.

This chapter describes in general terms the changes made by a number of other industrial countries in a variety of aspects of their postal systems, particularly those changes and aspects that are relevant to postal service issues in the United States. Because of differences in the governmental structures and legal contexts among countries, it is difficult to describe the changes in more detail than given below. The discussion, therefore, is followed by a tabulation of brief synopses of selected characteristics of the postal systems of nine other industrialized countries, from which readers can get an idea of the specific ways that the individual countries structured their systems (see table 5).

Nearly all of the material in this chapter is based upon a study of the postal administrations of 10 countries prepared for the USPS by Price Waterhouse LLP.[75] The administrations examined by Price Waterhouse (PW) are those of Argentina, Australia, Canada, Denmark, France, Germany, The Netherlands, New Zealand, Sweden, and the United Kingdom. These were selected because, according to PW, they are among the most progressive.

ORGANIZATION AND OPERATIONS

Most countries examined by Price Waterhouse have made major changes in the last several years in the legal form of organization of their postal systems and in the operating criteria established by the overseeing governmental agency. With respect to legal form of organization, there has been a general move toward converting the equivalent of U.S. cabinet "Departments" to government or independent corporations. By and large, the new entities have been given greater managerial freedom over their operations than their predecessor entities.

It may be noteworthy that a monopoly on letter mail has been retained by the postal administrations in all but two of the countries studied by PW; in some countries, the monopoly is a little broader than just on letter mail. None of the postal administra-

---

[74] Prepared by Bernard A. Gelb, Specialist in Industry Economics.

[75] Price Waterhouse LLP. *A Strategic Review of Progressive Postal Administrations—Competition, Commercialization, and Deregulation*. prepared for the United States Postal Service, February 1995. Some data were obtained from Industry Commission. *Mail, Courier, and Parcel Services*. Report No. 28. Australian Government Publishing Service, Canberra. 30 October 1992.

tions, on the other hand, currently have *exclusive* access to mailboxes.

Among the postal authorities looked at by PW, most now are permitted to conduct most nonpricing aspects of running a business like a private firm, including entering into joint ventures and acquiring subsidiaries in closely and not so closely related activities. There is greater latitude in rate setting than before, but there still are some limitations (except for Argentina). For the most part, rate increases for monopoly services must be approved by a governmental body and/or are subject to a cap that is related to changes in an overall price index. There is greater freedom in the pricing of nonmonopoly services.

Another important change is that most postal administrations studied by Price Waterhouse now can access capital markets as commercial enterprises, and without requesting government permission. In most cases, however, borrowing and investments are part of the planning package required by the supervising (in some cases, owning) ministry.

With greater managerial freedom have come greater financial demands. Most of the newly constituted postal authorities are mandated to make a profit; the rest are mandated to at least break even.

OBLIGATIONS AND CONSTRAINTS

All ten postal administrations studied by Price Waterhouse have an explicit social obligation to the citizens and the government—some through statutes, some through contract between the postal authority and the government. Like the letter mail monopoly, some kind of universal service requirement has been retained in all 10 countries. Several specify delivery 6 days per week; and there are protections against severe deterioration of delivery and retail service to rural areas. Moreover, even though not required in some cases, all 10 postal administrations maintain a uniform rate for letter mail.

Terms of employment constitute another aspect of the framework in which both newly restructured and unmodified postal administrations must operate. The workforces of all postal administrations studied by PW are heavily unionized with collective bargaining rights; some or all employees have the right to strike if agreement cannot be reached on terms of contracts. And postal workers in most of these countries have job security. Whether wages per se are or are not above market levels, job security constitutes an employee benefit that, although difficult to quantify, often is considered as an addition to quantifiable monetary compensation.

The unanimous requirement for universal service apparently reflects a broad international view. For example, a European Community report that explores and recommends the changes that need to be made to the Community's postal sector (in order to achieve a single market in postal services) states the following as a basic principle:

> "It is a basic social requirement that all the citizens, businesses, and organizations of the Community should have access to means of communication, of which postal

services form a part. All citizens, businesses, and organizations of the Community therefore have an acquired right to a universal postal service at affordable tariffs.[76]

EXTENT OF PRIVATIZATION

Corporatization has not led to privatization in most PW-studied cases; and, in a few, there has been little political move toward it. However, The Netherlands has partly privatized ownership (30 percent); Argentina plans to in the very near future; and full privatization in Germany is possible in 1997.

In addition, franchising, which could be considered partial privatization, is fairly common. All but one of the 10 PW countries have some franchising of retail outlets; and, in a few, the majority of retail outlets are franchised.

ADAPTATION TO TECHNOLOGICAL CHANGE

Although telecommunication and electronic messaging have been competitors of traditional mail service for a number of years, only a few of the postal administrations examined by PW had ventured specifically into such types of services as of the time of the study.[77] This is partly because of previous and even current limitations on postal authorities' managerial freedom.

Those postal administrations that have diversified into the newer means of sending messages have done so through direct involvement and through wholly-owned or joint venture subsidiaries. Sweden Post appears to be most "advanced" in this regard, offering hybrid and fully electronic services, fax services, and electronic stock market data. (Hybrid electronic mail service usually takes the form of receiving electronic messages at the post office near the intended recipient, and converting them into hard copy.)

TABLE 5. Tabulated Synopses of Selected Characteristics of Selected Countries' Postal Systems, 1994

Characteristic	Argentina	Australia	Canada
Postal operations, country size.	Volume, 0.43 billion pieces; gross revenue, $0.42 billion; 5,500 outlets; 20,000 employees; area, 1.07 million square mi.; population, 33.9 million.	Vol., 4.3 bil.; gross rev., $2.0 bil.; 4,000 outlets; 31,100 employees; 3,300 contractors; 7.5 mil. delivery points; 2.97 mil sq mi; 18.1 mil. pop.	Vol., 11 bil.; gross rev., $2.8 bil.; 19,000 retail outlets; 54,000 employees; 12 mil. addresses; 38.5 mil, sq mi; 28.1 mil. population
Recent major change(s).	1979, open licensing; 1993, change to government corporation; plans to privatize in 1995.	1989, from government commission to government corporation.	1981, from Department to Crown Corporation
Extent of monopoly ..	None in delivery services; mailboxes open[1].	Letters, up to 8.8 oz; mailboxes open.[1].	Letter mail; mailboxes open, except apartment bldg lobbies.[1]
Pricing and price structure.	Sets own prices in totally competitive environment.	Sets own prices constrained by price cap, but government can "disapprove" basic rate.	Rates published for public comment, no review by govt. body; letter rate increase can't exceed change in CPI; some negotiation w/lge vol. mailers

[76] Commission of the European Communities, *Green Paper on the Development of the Single Market for Postal Services*, Office for Official Publications of the European Communities, Luxembourg, 1991, p. 186.

[77] This distinguishes postal administrations' authority to engage in telecommunications and electronic messaging from authority to engage in other business ventures in general.

TABLE 5. Tabulated Synopses of Selected Characteristics of Selected Countries' Postal Systems, 1994—Continued

Characteristic	Argentina	Australia	Canada
Service requirements and standards.	Uniform letter mail service at uniform price.	Service at uniform price, accessible to all on reasonably equitable basis.	Universal service at uniform price; same size cities must have comparable service
Competing entities	270 licensed private postal operators, four largest concentrate on service providing proof of delivery.	Catalogue and annual report deliverers; courier & express services.	Electronic mail, flyer deliverers
Privatization	100% selloff scheduled for late '95.	2,000 "Licensed Post Offices" (contractors).	Can own private cos.; 75% of retail outlets operated by private business
Tax status	Subject to taxation, but historically has had losses.	Subject to all taxation	Subject to federal income tax
Other businesses .	[2]	Air express j.v.; direct marketing consultation j.v.	Courier; electronic messages into hard copy
Access to capital .	[2]	Cannot go directly to private markets.	Access to private markets

See last page of table for notes.

TABLE 5. Tabulated Synopses of Selected Characteristics of Selected Countries' Postal Systems, 1994

Characteristic	France	Germany	The Netherlands
Postal operations, country size.	Vol., 23 billion pieces; gross revenue (mail), $10.5 bil; 300,000 employees; area, 211 thous. sq mi; 33.9 mil. pop.	Vol., 18.9 bil.; 20,000 retail outlets; 360,000 employees; area, 138 thous. sq mi; 81.1 million population.	Vol., 6.2 bil.; gross rev., $3.2 bil.; 56,000 employees; area, 14 thous. sq mi; 15.4 million population
Recent major change(s).	1991, became govt.-owned corp.; separated from telecommunications.	1995, changed government "agency" to a govt.-owned corporation.	1989, to govt-owned corporation; 1994, 30% selloff
Extent of monopoly ..	Letters ("private correspondences ") & parcels less than 1 kilogram; open boxes.[1].	Letters and postcards; boxes open.[1].	Letter mail up to ½ kilogram; boxes open.[1]
Pricing and price structure.	Rates for monopoly services approved by Ministry of Industry, pegged to retail price index thru 1997.	Rates must be approved	Latitude up to increases in national wage index; no cross-subsidizing
Service requirements and standards.	Basic mail delivery service with no discrimination between users at uniform price, 6 days/week.	Universal service, 6 days/wk, equal access for urban and rural customers.	Universal svc., uniform rates; no discrim. betw. users; 6 days/week; next day del. for domestic mail
Competing entities ...	International & domestic expedited delivery services, entities servicing "nonpersonalized" items.	Bulk mailers, international "remailers".	Companies handling mail over ½ kilogram, parcel carriers, courier services
Privatization	No franchising or contracting ..	Full privatization possible in 1997.	Official post offices are 50/50 j.v. with a private financial institution; others (small) are franchised
Tax status	Subject to income tax and local taxes.	Subject to profit tax (in 1996), not VAT.	Subject to income tax, not VAT
Other	businesses	Joint ventures in expedited delivery.	Joint ventures with couriers, parcel deliverers, international mailers
Access to capital	Access to private markets	Access to private markets, with approval.	Access to private markets

See last page of table for notes.

TABLE 5. Tabulated Synopses of Selected Characteristics of Selected Countries' Postal Systems, 1994

Characteristic	New Zealand	Sweden	United Kingdom
Postal operations, country size.	Volume, 724 mil. pieces; gross rev., $0.4 bil.; 889 retail outlets; 8,700 employees; 104,000 sq mi; 3.4 million population.	Volume, 4.2 billion; gross rev., $3.2 bil.; 1,900 post offices; 350 private retailers; 50,200 employees; 166,000 sq mi; 8.8 million population.	Volume, 17 billion; gross revenue, $7.7 bil.; 19,000 retail outlets; 183,000 employees; 95,000 sq mi; 58.1 million population
Recent major change(s).	1987, from Trading Department to state owned enterprise.	1994, from public corporation to state-owned corporation.	1969, from government department to statutory corporation
Extent of monopoly ..	Letters below 1.1 oz, exceptions include unaddressed direct mail; boxes open.[1].	None	Letter mail, addressed direct mail; boxes open.[1]
Pricing and price structure.	Latitude for all services, except rates for standard letters, which are capped by CPI change less 1%.	Free to set all prices, except letter rates are capped by formula related to CPI.	Government approval needed for price increases, financial planning, major capital outlays
Service requirements and standards.	Universal service, uniform price; 6 days/week to 95% of households.	Universal svc. at uniform price. Competitors will have same obligation if competition advances sufficiently.	Uniform rates, nationwide collection & delivery 6 days/week for letters; universal parcel service
Competing entities ...	International couriers, domestic express cos., contract deliverers, circular distributors.	Haulage companies; other letter delivery companies; direct mail deliverers.	International courier mail; domestic parcel deliverers; domestic couriers; international remail
Privatization	3/4 of retail outlets franchised (and privately owned); no intention of privatizing.	350 private retailers	All but 800 retail outlets franchised
Tax status	Pays dividends to government .	Subject to income tax and VAT	Subject to all taxes except VAT
Other businesses	Joint venture in inventory, warehousing, delivery; shares in digital network; electronic messaging svcs.	Leading provider of hybrid and fully electronic services, faxes.	None
Access to capital	Free access to private markets	Free access to private markets, no govt. guarantee of loan repayment.	Strictly limited

Notes: The synopses may not necessarily be complete. Except for the data on country area and population, the synopses are almost entirely based upon information appearing in the Price Waterhouse report cited below. The material included in that report differed somewhat by country in coverage, treatment, and terminology. Population figures are estimates for July 1, 1994.

j.v.—joint venture or joint ventures

[1] To save space, the term "mailboxes open" is used here to indicate that the state postal system does not have exclusive right to deliver to recipients' mailboxes.

[2] Lack of an entry in the table for a characteristic indicates that no information was provided in the Price Waterhouse report, rather than a designation of "none" or "not applicable."

Sources: Industry Commission. Mail, Courier, and Parcel Services. Report No. 28. Australian Government Publishing Service, Canberra. 30 October 1992; Price Waterhouse LLP, A Strategic Review of Postal Administrations: Competition, Commercialization, and Deregulation (prepared for the U.S. Postal Service), February 1995; U.S. Central Intelligence Agency, The World Factbook 1994, 1995; U.S. General Accounting Office, internal memorandum of October 27, 1994, reporting on visit to Canada Post Corporation.

VIII. TRANSITIONAL WORKFORCE ISSUES

This chapter discusses some issues that policymakers would have to deal with in a hypothetical transition between the current Postal Service and a reshaped USPS. The issues involve USPS workforce terms and conditions of employment—such as workplace rights and rules, and retirement and health benefits that may be difficult to change.

LABOR RELATIONS [78]

The labor relations picture would change if postal services were fully privatized. If the Postal Service, in whole or in part, were transferred to the private sector, the successor entities would continue to be subject to the full terms of the National Labor Relations

[78] Prepared by Vince Treacy, Legislative Attorney.

Act. Assuming that the intent would be to treat the private postal service exactly like its private sector competitors, then its employees would enjoy the same right to strike granted to employees of the competitors. If a major strike affected most or all of the industry, the Federal Government presumably would be able to invoke the Taft-Hartley emergency dispute provision, including the 80-day cooling off period injunction.

There would be many other labor and employment law changes if the Postal Service were fully privatized and placed on the same footing as other private sector enterprises. Other than pension and health benefit matters (which are discussed below), the major changes would include the following:

- Management would have the right to lock out employees, hire temporary or permanent replacements, or institute unilateral changes;
- Successor postal organizations would be bound to recognize existing unions if a majority of the employees hired by the successor were former employees of the Postal Service;
- Managers would no longer be protected from removal, and could no longer appeal adverse actions to Merit Systems Protection Board (MSPB);
- Bargaining unit employees would no longer be able to appeal discharges and other adverse actions to the MSPB, but would be able to challenge such ations in the grievance procedure under the collective bargaining agreement;
- Union security would be permitted in all states without a right-to-work law. Employees would be required to contribute financial support to the union to defray reasonable expenses related to collective bargaining representation, but would not have to obtain formal membership;
- Veterans preference would no longer apply to hirings and reductions in force, unless included as a term in collective bargaining agreements; and . . .
- State worker compensation statutes, rather than Federal Employee Compensation Act would apply to workplace injuries and illnesses.

RETIREMENT AND HEALTH BENEFITS [79]

Any change in the operating or legal structure of the U.S. Postal Service would have to consider its impact on employee benefits, particularly retirement benefits and health insurance. Postal workers currently are covered under the same pension and health insurance plans as Federal civilian workers.

Retirement Plan Current Coverage

USPS workers currently participate in the Federal retirement system—either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS).[80] Congress designed the newer of the two, FERS, to build on Social Security and to resemble plans of medium- and large-size private employers. It combines Social Security with a pension and a voluntary savings

---

[79] Prepared by Raymond Schmitt, Specialist in Social Legislation.

[80] Postal Service employees contribute the same percentages of their pay to CSRS and FERS as other Federal workers.

plan similar to a private sector 401(k) plan. In such a plan, income tax is deferred on the portion of income that employees contribute to their retirement (up to certain limit), with employers often matching part or all of employee contributions.[81] Congress designed FERS in 1986 after Social Security coverage was mandated for Federal workers hired after 1983.

The older system, CSRS, covers only workers hired before 1984, and thus, is slowly phasing out. Created in 1920, 15 years before enactment of Social Security, CSRS was designed to be a total retirement system. Social Security is not part of it.

Workers under FERS or CSRS may voluntarily retire with *unreduced* benefits at (1) age 55 if they have at least 30 years of service, (2) age 60 with at least 20 years of service, or (3) age 62 with at least 5 years of service. FERS-covered employees may retire voluntarily with *reduced* benefits at age 55 with 10–29 years of service, or at age 60 or 61 with 10 through 19 years of service.

Issues When Restructuring

There are essentially three options for dealing with retirement benefits under a restructured postal service.

- All workers would continue to be covered under the existing Federal retirement system.
- New workers would be covered under a new retirement plan.
- All workers—current and new—would be covered under a new retirement plan.

Depending on various alternatives for restructuring the postal service, different issues would arise with regard to retirement benefits and how they would be financed. Decisions would be made according to the management preferences of the new structure(s).

One consideration is that any pension system should be compatible with the workforce management goals of the restructured postal system. If a goal of a new postal system would be to attract and retain a highly skilled and experienced work force, a *defined benefit* plan, which tends to reward long-service employees and encourage retirement at first eligibility, might better meet that need than a *defined contribution* plan, which provides better pension portability but does not subsidize early retirement.

In this regard, FERS, by providing a rather generous thrift savings plan on top of Social Security and less generous annuity benefits, is more portable than CSRS. Since it is unlikely that Congress would exempt postal employees from Social Security coverage, any new retirement system adopted for postal employees would necessarily have to build on Social Security.

Since Social Security benefits are designed to favor lower paid workers, Federal tax law permits other pension benefits to favor higher paid workers, provided the combined pension and Social Security benefits are "nondiscriminatory." This is known as Social Security "integration." An integrated plan either offsets part of Social Security benefits from the defined benefit pension, or provides a higher pension accrual for salary above the plan's "integration level."

---

[81] It is Section 401(k) of the Internal Revenue Code that authorizes private sector companies to set up such a plan.

A design issue would be whether to continue a system like FERS, with its greater portability and a nonintegrated defined benefit pension, or provide greater weight to a defined benefit plan (integrated or nonintegrated). In this regard, FERS is an "add on" plan that maintains the redistributional "tilt" in the Social Security benefit formula. Private pension plans covering salaried employees usually are integrated with Social Security, but plans covering hourly wage workers are usually not.

If all postal workers continued to be covered (in a newly structured postal system) under the existing Federal retirement system—either CSRS or FERS—there would not appear to be any major obstacles in providing continued pension coverage. However, if current workers remain in the existing system and new workers are covered under a new system, a policy issue that would need to be addressed is "equal pay for equal work." Since pensions are considered deferred compensation, employees working side by side at the same salary would be compensated differently if they received different pension amounts. However, precedent exists for covering new workers under a different retirement system. As noted above, Federal civilian employees hired after 1983 are covered by FERS, and employees covered by CSRS were given an option to join FERS during an open season. A similar option could be given current postal employees under any new retirement system.

There would be complicated conceptual and financial issues if all workers were covered under a new retirement system. Questions would arise as to how vested benefits and service credits under the old system would be treated and financed. The USPS contributes more to financing postal workers retirement benefits than do other Federal agencies. Specifically, the USPS pays for the "dynamic cost" of Federal retirement benefits. This includes advance funding of pension benefits attributable to both salary increases and retiree cost-of-living adjustments (COLAs) through amortization payments.

Health Insurance

Postal workers are now covered by the Federal Employees Health Benefits Program (FEHBP). FEHBP offers enrollees a choice among many plans with varying levels of benefits and premiums. Employees are allowed to enroll in FEHBP or change from one plan to another during designated "open seasons."

There are three basic types of health benefit arrangements from which enrollers can chose: (1) a fee-for-service (FFS) arrangement, (2) a health maintenance organization (HMO), or (3) a preferred provider organization (PPO). Most FEHBP plans cover a range of benefits, including hospital, surgical, physician, mental health, prescription drug, emergency care, and provide limits on participant out-of-pocket costs for co-payments and deductibles ("catastrophic" benefits). Several FEHBP plans offer more than one benefit package; a high option and a "standard" (low) option. In 1995, 345 plans are participating nationwide in FEHBP, of which 14 are "fee-for-service" plans.[82] In practice, a prospective enrollee's choice is limited to between 10 to 30 options.

---

[82] This includes the Mail Handlers plan, the National Association of Letter Carriers plan, and the Postmasters plan. All three are open to all Federal employees.

The Federal Government and nonpostal FEHBP enrollees jointly pay for the cost, or premiums, of health insurance according to a statutory formula.[83] The USPS premium contribution is set through collective bargaining and, at roughly 86% of the plan's premium, is higher than the maximum of 75% paid by the Government for other Federal workers.[84]

Whether postal workers continue to be covered by FEHBP or a new health benefit plan, it would not raise the same transitional issues as would be the case for retirement benefits. Premiums for health insurance benefits are determined on a year-to-year basis. But, like pensions, the design of a health insurance plan would have to be compatible with the workforce management and human relations goals of the postal entity.

Under full privatization, participation in FEHBP would cease, as would participation in both FERS and CSRS. Employee benefit plans then would be governed by the Employee Retirement Income Security Act (ERISA), which is applicable to private sector firms. Collective bargaining agreements would specify benefits for bargaining unit personnel. Employer policies and regulations would determine health benefits for nonbargaining unit employees.

IX. SELECTION OF ALTERNATIVE STRUCTURES[85]

This chapter discusses the selection of and depicts four types of structures as hypothetical alternatives to the existing U.S. mail system. The specific alternatives are placed in the contexts of the present requirement to "bind the Nation together," the generic options presented in Chapter VI, and actions by other countries. The mix of structures regarding how many are privatizations does not indicate any preference by CRS, and the inclusion of a particular actual proposal (formal or informal) does not constitute endorsement by CRS. For ease of reference, selective key attributes of the alternatives are condensed in tabular format (table 6) at the end of this chapter.

PRINCIPLES AND KEY CHARACTERISTICS

In selecting the hypothetical alternatives, the following principles were applied. It was thought advisable to (a) include actual proposals, as well as custom designed options, (b) have variety in terms of departure from the present system, and (c) largely ignore the fine points of the legal form of the structure. Study of the evolution of the postal system and analysis of the strengths and weaknesses strongly suggest that key aspects of the *operating framework* of the system probably are much more important factors than the legal

---

[83] The Government's share is a fixed dollar amount equal to 60% of the average of the high option premiums (known as the "maximum contribution ") for what are commonly known as the *Big Six* plans. For any given plan, the Government pays the lessor of the maximum contribution or 75% of the plan's premium.

[84] The USPS has a separate maximum formula percentage and corresponding maximum percentage figure. These numbers are determined by contract negotiations with the respective postal unions. Prior to 1994, the USPS paid 75% of the average, or 93.75% of a plan's rate, the same rates as paid for regular Federal workers. The USPS negotiated different contribution formulas beginning in 1994. Employees are covered under two different contracts referred to as "Postal A" rates and "Postal B" rates. Postal A has the contribution drop 1% per year until 71% is reached. Postal B employees had different contributions during 1994 and 1995. They have the same formula as Postal A rates starting in 1996 (i.e., 71% of the average or 88.75% of the plan).

[85] Prepared by Bernard A. Gelb, Specialist in Industry Economics.

form of the organization in determining how well the structure performs.[86]

The following key characteristics of the alternative structures will be specified: Extent of privatization or attachment to the Government; extent of obligation to provide a public good; presence or lack of monopoly; scope of service; whether the sole provider of postal services or not; rate-setting regimen; access to private capital markets; management structure and standards of accountability; conditions of employment; ownership; and, where appropriate, compensation to the U.S. Government.

It is important to note that the "designs" of all but one of these alternative structures effectively assume that the transitional workforce issues described in the previous section would be resolved in a manner that does not significantly interfere with the effectiveness of the structures.

The hypothetical alternatives are presented below in order of extent of departure from the present system. For convenience, the structures have been named as follows: A "Flexified" USPS With Monopoly; A "Super-Flexified" USPS Without Monopoly; H.R. 210; and Disaggregated and Privatized.[87]

A "FLEXIFIED" USPS WITH MONOPOLY

This alternative basically would retain the present structure, ease certain hindrances to managerial freedom, and upgrade the quality of management. It is an *adaptation* of a number of recommendations made in various venues by Murray Comarow.[88] It does not represent a codification of what Mr. Comarow might advocate if requested to make a comprehensive formal proposal.

In this structure, the USPS would continue to provide the public good of binding the Nation together, and would be the sole provider of first- and third-class mail service. Thus, it would retain its present monopoly and continue to compete in the markets for other types of mail and mail service. However, there would be some "privatizing"[89] by means of greater use of contracting or franchising to replace money-losing post offices and/or contracting out of particular functions. The latter corresponds to two of the previously described generic privatizing options. This structure would con-

---

[86] Inasmuch as Congress historically has custom-designed its Government corporations and other entities providing services to the public or particular sectors of the economy, it probably would do so in the future. Thus, two of the structures presented are custom-designed to demonstrate possible options, and they are not modeled after an existing Government corporation or other structure. As of this writing, the U.S. Postal Service itself has not submitted to Congress or to the public a formal proposal for changes or for an alternative structure.

[87] The third and fourth hypothetical alternatives are, respectively, near-complete and complete privatizations. For a sampling of other privatization proposals, some only partially spelled out, see: Cato Institute, *The Cato Handbook for Congress, 104th Congress*, Wash., DC, Cato Institute, 1995, pp. 203–211; Hodge, Scott A., ed., *Rolling Back Government: A Budget Plan to Rebuild America*, Wash., DC, Heritage Foundation, 1995, pp. 39 and 144–145; Mailers Council, *Delivering the Mail: Should America Have a Choice* (A Summit and Debate on Privatizing the Postal Service), Wash., DC, May 24–25, 1995; Poole, Robert W., Jr. "A Federal Privatization Agenda," testimony before the Senate Budget Committee, March 7, 1995, p. 5; President's Commission on Privatization, *Privatization*, pp. 101–129; and U.S. Congress, House, Committee on Government Reform and Oversight, Subcom. on the Postal Service, Hearings on the U.S. Postal Service, held May 23, 1995, 104th Congress, 1st Session (not yet printed).

[88] Murray Comarow, Adjunct Professor at American University, was Executive Director of the President's Commission on Postal Organization (1967–68) and Senior Assistant Postmaster General for Customer Services.

[89] Since USPS already does some contracting, this actually would represent an *increase* in the extent to which USPS has privatized.

tinue the current practice of providing universal service at a uniform rate, and of having exclusive access to letterboxes.

The Postal Rate Commission would be replaced by temporary panels of administrative law judges, detailed from other agencies, who would tend to be less tied to mail service affairs. Rate and classification change approval by the Board of Governors would no longer require a unanimous vote. In the sense that these changes are aimed at reducing intrusion, it would be a variant of another management restructuring option.

In a matter affecting managerial power *and* conditions of employment, this alternative structure would replace the current form of arbitration with final offer arbitration to introduce uncertainty. The right to strike would continue to be prohibited. Regarding management alone, the selection criteria for Governors would be made more demanding with respect to business experience, another management restructuring option.

The corporation would continue to be mandated to break even. Borrowings for capital investment would continue to be made from the Treasury.

A "SUPER-FLEXIFIED" USPS WITHOUT MONOPOLY

This structure is a variant of the first one. It also would retain the present structure, but would eliminate an additional perceived hindrance to managerial freedom, and eliminate USPS' monopoly on first- and third-class mail.

In this alternative, the USPS would remain but, after a phase-in period of five years, would have to compete with entities in the private sector in *all* types of mail service. The phasing in would be in the form of first losing the third-class mail monopoly and exclusive access to letter boxes, and then the first-class monopoly. But, the USPS still would be required to provide universal service at a uniform price (for first-class mail). As in the first alternative, there would be some "privatizing" of Postal Service operations by means of more contracting or franchising to replace money-losing post offices.

The Postal Rate Commission would be eliminated, and not replaced. Rates, classifications, and new service offerings would be entirely in USPS management's hands. This would not be unique in the Federal Government; the Tennessee Valley Authority and the several power administrations set their own (intra-state) electricity rates.[90] In the sense that this change is aimed at reducing intrusion, it also would be a variant of a management restructuring option.

This alternative structure would replace binding arbitration with final offer arbitration, and retain denial of the right to strike. Management would have to comply with the goals and objectives of the Government Performance and Results Act of 1993, to strengthen results-oriented approaches and measurements.

The corporation would continue to be mandated to break even. Borrowings for capital investment would continue to be made from the Treasury.

---

[90] The point here is that there is a precedent for the setting of prices by a Government entity without oversight.

H.R. 210

Introduced in the 104th Congress and in several previous Congresses by Representative Philip Crane, this alternative would turn over ownership of the Postal Service to its employees in the form of a private corporation that would continue to provide postal services.

This would be an entirely private company, incorporated under the laws of a State, initially with the right, title, and interest of all Postal Service property owned by the United States before the transfer. Payment for the transferred assets would be prohibited. The company would be incorporated by up to nine individuals "who are especially qualified to establish and operate an effective mail system" chosen by the employees of the Postal Service.[91] During the first year, any securities issued by the corporation would be issued only to Postal Service employees. Securities may be sold to the general public after a year.

The new structure would be required to meet the same criteria of service to rural areas and small towns that the USPS must meet, including the prohibition against closing small post offices solely for operating at a deficit. And this entity would to have meet the (vague) criterion of "fair and equitable" in structuring its rates. This analysis assumes, based upon past practice, that these two "postal policies" would be interpreted to mean that universal service and a uniform price would be required for first-class mail. If so, this entity, as the first two hypothetical alternatives, would provide the public good of binding the Nation together.

The company would have the protection of the Private Express Statutes for the first five years of its existence. It is presumed here that, after five years, this entity would face competition from existing private companies and new entrants for what is now first- and third-class mail service. (The proposed legislation says nothing about competition.) And, absent mention in the bill, it is assumed here that letterbox exclusivity would be ended. The means by which rates of postage during the first five years would be established, including possible continuation of the Postal Rate Commission, are to be proposed by the President after consultation with the PRC.

Absent mention by the bill, it is presumed here that the corporation would have the same access to private capital markets as any other private company.

Employees of the corporation would receive retirement and health benefits comparable to those that would have been provided those individuals as USPS employees. Having become private sector employees, however, they would have the right to strike, and would no longer be covered by the arbitration provision now applying to the USPS. The proposal does not specify the precise form of retirement benefits, or the formal structure of security (or stock) ownership upon transfer of assets.

---

[91] H.R. 210, Sec. 2.(a)(2).

DISAGGREGATED AND PRIVATIZED

This privatizing alternative essentially is Douglas K. Adie's detailed adaptation of a multi-step Peter Ferrara proposal.[92] The USPS eventually would lose all monopoly power, be broken up into several divisions, and sold one division at a time to the general public. The adaptation does not specify the length of time for the individual steps or for the process as a whole.

In this alternative, USPS's monopoly on third-class mail would be repealed first, followed by the ending of exclusive access to letterboxes. Any Government subsidies to employee pension and retirement benefits and for non-profit organizations' lower postage rates would be abolished next. The USPS' right to use Federal institutions to borrow, and the Treasury's guarantee of USPS debt would go next in successive steps. Then, the PRC's jurisdiction over rates for second-, third-, and fourth-class mail would be revoked. This would be followed by allowing private firms to deliver first-class mail—first within and into rural areas, next between business firms, and then the remainder.

At this point, the Postal Service would be broken up into five regional divisions, a parcel post company, and a support services firm. These several components would be sold through stock offerings to the public, with employees possibly getting a discount.[93] The proposal does not indicate who or what would get the proceeds of the stock sale, and it does not cover the formal structure of security (or stock) ownership upon transfer of assets. Employees of the privatized, units would, by existing law, gain the right to strike.

Universal service would no longer be required.[94] Thus, there would be no obligation for any entity providing mail service to provide the public good now required of the USPS.

THE CONTEXT OF OTHER COUNTRIES' EFFORTS

Although there was no conscious effort to do so, the four hypothetical alternative structures appear to fall approximately in the range of what other industrialized countries, as sampled by Price Waterhouse (see Chapter VII), have done to try to improve their postal services. There has been a general move toward converting the equivalent of U.S. cabinet "Departments" to government or independent corporations. The (effective) corporatization of Federal mail service by the U.S. Government, however, preceded comparable moves in all but one of those countries by 8 to 25 years.

By and large, the new entities in the other countries have been given greater managerial freedom over their operations than their predecessor entities—mainly in the nonpricing aspects of running a business, including entering into joint ventures and acquiring subsidiaries in related activities. In contrast, only the last two of

---

[92] Ferrara's proposal appears in Ending the Postal Monopoly, in *Free the Mail*, Peter Ferrara, Editor. Cato Institute. Wash., DC. 1990. Adie's adaptation appears in Eliminate the Postal Monopoly, paper delivered at Cato Institute conference, "Postal Service in the 21st Century: Time to Privatize?" Wash., DC, June 14, 1995. Douglas K. Adie is a professor of economics at Ohio University; Peter Ferrara works at the National Center for Policy Analysis.

[93] It is not clear to this author whether the proposal expects that the support services unit would be sold, and, if so, what value it would have as a separate entity after all other divisions are sold as separate entities.

[94] Adie's proposal does not explicitly say the universal service requirement would be abolished, but does say that the industry would be completely deregulated.

the hypothetical alternatives clearly would not prohibit such managerial independence. All the PW countries have given their postal authorities greater latitude in rate setting than before. Such increased latitude is clear in the first two of the four alternative structures, and can be inferred in the last two.

All 10 countries studied by Price Waterhouse retained an explicit social obligation to the citizens, formalized by mandating universal service. In view of this, it is not surprising that all but two of the countries retained the monopoly on letter mail for their postal administrations. Only one of the hypothesized alternatives would do so.

SYNOPSES OF ALTERNATIVES' KEY ATTRIBUTES

For ease of reference in analyzing the hypothetical alternative structures in the next chapter, this section presents selected key attributes of the alternatives condensed in tabular form.

TABLE 6. Synopses of Selected Key Attributes of the Hypothetical Alternative Structures

Attribute	Hypothetical Alternative Structure			
	Flexified USPS	Super-flexified USPS	H.R. 210	Disaggregated/Privatized
Universal service, uniform price.	Universal service and uniform price retained.	Universal service, uniform price retained for 1st-class mail only.	Universal svc., uniform price retained for 1st-class mail only.	Universal service and uniform price ended
Monopoly; letter-box exclusivity.	Monopoly on 1st- & 3rd-class mail retained; letterbox exclusivity retained.	Monopoly on 3rd-class, then 1st-class mail phased out in 5 years; letterbox exclusivity phased out with 3rd-class mail monopoly.	Monopoly on 1st- and 3rd-class mail eliminated after 5 years; letterbox exclusivity ended after 5 years.	Monopoly on 3rd-class mail, letter-box exclusivity ended first, then 1st-class mail (periods unspecified).
"Privatization" ..	Government remains owner; greater use of contracting and franchising.	Government remains owner; greater use of contracting and franchising.	Ownership turned over to employees; public may buy shares after 1 year.	USPS disaggregated into 5 regional divisions & a parcel post co., then sold to public and employees.
Rate setting	PRC replaced by ALJs; only majority BoG vote needed to modify rate recommendations.	PRC eliminated; rate/classification changes become strictly managerial.	Possible role for PRC in first 5 years; rate-setting regimen after 5 years not specified.	PRC jurisdiction over rates eliminated in steps, by mail class (periods unspecified).
Labor relations ..	Right to strike still prohibited; present interest arbitration procedure replaced by final offer (interest) arbitration.	Right to strike still prohibited; present interest arbitration procedure replaced by final offer (interest) arbitration.	Right to strike permitted; other aspects of labor relations determined by collective bargaining.	Right to strike permitted; other aspects of labor relations determined by collective bargaining.

ALJs—Administrative law judges; BoG—Board of Governors; PRC—Postal Rate Commission.
Source: Text of this chapter.

X. ANALYSIS OF ALTERNATIVE STRUCTURES [95]

This chapter analyzes how well each of the hypothetical alternative structures outlined in the previous chapter would do the job of providing postal service to the Nation, implicitly including how they would address the weaknesses of the system described earlier and explicitly including effects on postal markets. The aspects of

[95] Prepared by Bernard A. Gelb, Specialist in Industry Economics.

the structures examined include service coverage, rates, ability to adjust to technological change, and effect upon the sense of community.

Unless indicated otherwise, statements of effects of implementing a particular alternative structure are comparisons with conditions under the present mail system, rather than with conditions under other alternatives.

A "FLEXIFIED" USPS WITH MONOPOLY

Implementation of this alternative probably would have a small effect on postal markets and on services to postal customers. For the most part, first-class mail service probably would be affected very little, with the USPS, by definition, maintaining its first-class monopoly and continuing to provide universal delivery for nearly all customers at a uniform rate.

With greater managerial freedom to make operating changes built into this structure, and continuing cost pressures, it seems likely that there could be some erosion in concept and practice of the notion of universal service. For example, there probably would be further USPS efforts to put concepts such as cluster boxes in place. In addition, the USPS would be enabled to replace small post offices with "alternative services" that may, or may not, provide the same level of service. Some customers therefore might suffer a deterioration in service from what they otherwise would have. To the extent this would occur, the public good component of USPS service would diminish, and there might be a small loss in sense of community.

Other postal markets and competitors in those markets probably would see a somewhat more competitive Postal Service. Replacement of the PRC with administrative law judges and simplification of the Board of Governor rate approval process should facilitate rate and classification changes. This probably would enhance the ability of the Postal Service to respond to changes in the mail/parcel delivery market in particular and the communications market in general by modifying its price structure and introducing new services. New services could include entry into electronic communication.

But the extent to which the USPS would be able to regain lost customers, or slow future losses, would be limited by the continuing effect on infrastructure costs imposed by having to provide universal service in all markets. In addition, present and potential competitors would further tailor their infrastructures to suit newly modified market niches.

The postulated change from binding arbitration to final offer arbitration probably would help to increase USPS productivity and slow increases in the Postal Service's operating costs. However, the labor-management difficulties noted earlier, which tend to raise costs, reflect deep-seated problems that probably would not be resolved quickly. Because of these factors and those described in the following paragraph, the dependability and promptness of mail delivery probably would improve only modestly.

Also, noting the difficulties of USPS management in implementing automation, greater managerial freedom may well not fully translate into greater ability to reap productivity gains from investment in automation. Some of the effects of these problems might be avoided if additional contracting is cost effective. Thus, prospects of the modifications to USPS lowering real (constant-dollar) postage rates are clouded.

Essentially a non-profit organization, this structure would pay no income taxes.

A "SUPER-FLEXIFIED" USPS WITHOUT MONOPOLY

This alternative, which phases the Postal Service into fully deregulated postal markets almost across the board, probably would have a considerably different mix of effects on postal markets and on services to postal customers than the first alternative. Because the Postal Service's competitors would not be required to provide universal service, implementation of this alternative would put the USPS at a greater competitive disadvantage. Private sector competitors might well leave to the USPS marginal delivery areas for letter mail that would have close to borderline profitability or be unprofitable. The USPS would be at a competitive disadvantage in general because, being required to serve high-cost customer groups, its average cost per unit across its entire operations would necessarily be higher than those of its competitors.

In other than letter mail, there is the possibility under this alternative that a single private sector firm would be the only one providing non-first-class service to a delivery area, and also the only one with an infrastructure of equipment and area familiarity. Should its employees strike, it could be very difficult for another firm to fill the gap, and customers would lose service at least temporarily. This would be contrary to the expectations of some that the allowance of competition in postal markets would result in an ample number of participants in all markets.

In addition, whatever the nature of the ultimate set of mail deliverers may be, a system of cooperative mail forwarding would have to be established among entities that are competitors. Private express companies do not now have such a system. To the extent that service loss occurs, or is perceived to be possible, the public good component of mail service and the sense of community would diminish.

Loss of its third-class mail monopoly and exclusive access to letter boxes shortly after implementation of this alternative probably would cause some market loss to the Postal Service in the short run, but should help USPS's third-class and other mail service in the long run through the benefits of price discovery[96] combined with greatly increased flexibility in price setting and introduction of new services. Customers, almost entirely businesses, should benefit from the start.

Concern by some about open access to letter boxes—that it would increase risk of theft—seems reasonable, but it is somewhat speculative; non-exclusive access does not appear to be a major problem in the number of countries that do not have exclusivity.

Here, too, greater managerial freedom built into this structure, including rate and classification changes, probably would enhance

[96] In a fully competitive market, competitors gain information on prices and costs from the interaction in the "bidding" process.

the ability of the Postal Service to respond to changes in the mail/parcel delivery market in particular and the communications market in general by modifying its price structure and introducing new services. Management would have the incentive "stick" of being subject to the Government Performance and Results Act of 1990.

Overall, the modest gains in USPS productivity, managerial freedom, and the incentive of competition should improve promptness and dependability of USPS mail delivery. (Presumably, USPS competitors would have service of at least equal quality.) Possible uncertainty about forwarding, however, introduces some doubt about dependability.

On the other hand, greater managerial freedom to make operating changes and continuing cost pressures, could well result in some slight erosion in concept and practice of universal service. The USPS probably would expand the use of cluster boxes more than it would in the absence of restructuring; and a minority of customers therefore would suffer what a deterioration in service.

The effects of the postulated change from binding arbitration to final offer arbitration and moderate easing of labor-management difficulties would come into play in this alternative as in the first. Similarly, greater managerial freedom would have to be accompanied by greater management quality or effectiveness to do a better job of translating investment in automation into productivity gains. Thus, prospects for reductions in real (constant-dollar) postage rates resulting from these changes would seem to be only a little better for this alternative than for A "Flexified" USPS Without a Monopoly.

This structure, as with "A Flexified USPS With Monopoly," essentially would be a non-profit organization, and pay no income taxes.

H.R. 210

This privatizing alternative phases the current Postal Service into only partly deregulated postal markets. Because, as in the case of "A Super-flexified USPS," the new entity's competitors would not be required to provide universal letter mail service, this structure might well be at a greater competitive disadvantage overall than the USPS is now. Private-sector competitors might well leave to the transformed company marginal delivery areas that would have borderline profitability or be unprofitable. And, as in the case of "A Super-Flexified USPS," the USPS would be at a competitive disadvantage in general. Being required to serve high-cost customer groups, the USPS's average cost per unit across its entire operations would necessarily be higher than those of its competitors.

The market dynamics resulting from this structure's loss of its third-class mail monopoly and exclusive access to letter boxes resemble those under "A Super-Flexified" situation. There probably would be some market loss in the short run, but this entity's third-class and other mail service should be helped in the long run through the benefits of price discovery combined with greatly increased flexibility in price setting and introduction of new services. Customers, almost entirely businesses, should benefit shortly after the monopoly is lifted.

And, as with the previously discussed structure, there is the possibility that a single private sector firm would be the only one providing other-than-letter-mail service to a delivery area, and with an infrastructure of equipment and area familiarity. Here also, a system of mail forwarding would have to be established among entities that are competitors, and to the extent that service loss occurs, or is perceived to be possible, the public good component of mail service and the sense of community would diminish.

Managerial freedom after five years to set rates and change classifications probably would enhance somewhat the ability of this structure to respond to changes in the mail market in particular and the communications market in general by modifying its price structure and introducing new services. As with the other alternatives, this might include entry into electronic communication.

However, because managerial freedom would be constrained by the "fair and equitable" rate structure requirement and by minimal ability to close money-losing post offices, this structure's competitive flexibility would be limited somewhat. The extent to which the company would be able to regain lost customers, or slow future losses, would be limited by infrastructure costs imposed by having to provide universal service in first-class mail. Because this entity's competitive flexibility would be limited somewhat, present and potential competitors would be less pressured to further tailor their infrastructures to suit newly modified market niches than under the second hypothetical structure.

Greater managerial freedom would have to be accompanied by greater management quality or effectiveness to do a better job of translating investment in automation into productivity gains. Thus, prospects for reductions in real (constant-dollar) postage rates resulting from these changes are only a little better for this alternative than what would be the case if the Postal Service were left unchanged.

Converting the Postal Service into an employee-owned, or partly employee-owned enterprise should raise the incentives for postal workers to increase productivity, and thereby reduce the labor-intensiveness of USPS's cost structure.[97] It would seem that employees' degree of incentive probably would increase with their relative stake in the company.[98] While speculative, it is reasonable that cessation of coverage by binding arbitration could also increase productivity and reduce costs.

Access to private markets would mean that the structure would be able to tap equity capital as well as being able to float debt, gaining the advantages that such flexibility affords. As a (hopefully) profit-making corporation, this structure would be subject to income taxation.

DISAGGREGATED AND PRIVATIZED

This alternative has the conceptual quality of providing for a gradual phasing from the current system to a completely deregulated and privatized industry. However, the complexity of how the ultimate structure would come into being makes this alternative

---

[97] Productivity gains would be expected to result from better allocation of financial resources into productive inputs (capital, labor, and materials) as well as from intensified employee efforts.

[98] The relationship, however, would not necessarily be one to one.

very difficult to analyze in terms of process. Also, because of its numerous steps, it would seem to require many discrete increments of adjustment for the current and potential providers of mail service, and it may well be confusing to postal customers.

This alternative proceeds to a fully deregulated and privatized industry with private firms and the several divisions (of the USPS) that *had been* providing universal service—once and possibly still at a uniform price.[99] It is uncertain, however, that the public good of universal service at a uniform price would continue to be provided by the industry as a whole. And, although competitive, service and rates would not necessarily be uniform among competitors. The discipline of competition, however, probably would improve speed of service.

Depending upon the length of the phase-in period, and the abilities of the newly disaggregated regional USPS divisions to tailor their infrastructures and operations to their particular regional markets, other present and potential mail service companies might find themselves facing proficient competitors. This probably would pressure such "other" players in the industry to further tailor their infrastructures to suit market niches that had changed as a result of entry by the ex-USPS entities. Also, the discipline of competition and removal from at least some of the institutional constraints of the current Postal Service probably would tend to lower the costs of the successors to the Postal Service, enabling them to compete more effectively.

As in the cases of "Super-flexified" and H.R. 210, there is the possibility that a single firm would be the only one providing service to a delivery area, and possessing an infrastructure of area equipment and familiarity. With the risk of and some actual losses of service as a result of a strike, there presumably would be some decrease in the sense of community. Such a decrease could also result from problems in forwarding.

This alternative also would create concern by some about open access to letter boxes—that it would increase risk of theft. But, while such concern seems reasonable, it is somewhat speculative; non-exclusive access does not appear to be a major problem in the surveyed countries that do not have exclusivity.

To the extent that stock is sold to ex-Postal Service employees, their incentive to increase productivity should rise. As with the H.R. 210 alternative the incentive would result in improvements in the allocation of productive inputs, and not merely reduce the labor-intensiveness of the cost structure of the USPS successors. It would seem that employees' degree of incentive would increase with their relative stake in the companies.

Managerial freedom to set rates and change classifications probably would enhance the ability of these structure to respond to changes in the mail market in particular and the communications market in general by modifying their price structures and introducing new services. As with the other alternatives, this might include entry into electronic communication.

---

[99] It is not clear from the proposal that they would still be charging a uniform price in the period just prior to public sale.

As (hopefully) profit-making corporations, this set of competitors would be subject to income taxation.

XI. COULD A MODIFIED POSTAL SERVICE DO BETTER?[100]

Marked departures from a government mail system are already in place elsewhere[101] and have been proposed for the United States. However, would modest changes in the Postal Service (as opposed to its replacement by a different system) result in sufficient improvement in performance to satisfy most users and public policymakers? This chapter basically addresses this issue through two specific questions: Would a modified Postal Service do better than the current one? And could a modified Postal Service compete in a deregulated market?[102] Modifications would be roughly of the degree of those in the first two hypothetical alternatives discussed in the previous two chapters.

WHAT MIX OF "FIXES?"

From the information and analyses in the preceding chapters, it appears that a modified U.S. Postal Service *could* do better than the current one. Shortcomings in operational performance have been linked to weaknesses in organizational design, statutory constraints, managerial performance, and labor-management relations that can be addressed to a greater or lesser extent. Analysis suggests that modifications such as increased flexibility in rate setting, different terms and conditions of employment, and lessened constraints on managerial action could improve delivery promptness and dependability, constrain costs better, and improve adaptability to technological change.

A major issue is, of course, "How far to go?" For some, another issue is "How important is the provision of the public good spelled out in the 1970 Act?"

The set of modifications embodied in a structure such as "A Flexified USPS With Monopoly" is one possible assortment of changes aimed at helping the USPS provide better mail service at a reasonable price. The analysis in the previous chapter suggests that such a structure would yield a modest improvement in service quality and cost containment. Real postage rates are not likely to change. The Postal Service probably would be able to prevent or at least slow its loss of market share in the various postal markets; and services provided to postal markets by all competitors probably would be enriched slightly. And, because this alternative retains the requirement of universal service, there probably would be virtually no deterioration in sense of community.

The set of more extensive modifications embodied in A "Superflexified USPS Without Monopoly" is an assortment of changes aimed at helping the Postal Service improve mail service through the market discipline imposed by immersion in competitive markets. The analysis of this structure suggests that service quality

---

[100] Prepared by Bernard A. Gelb, Specialist in Industry Economics, Economics Division.

[101] Note the changes that have occurred in the mail systems of Argentina, The Netherlands, and Sweden.

[102] The Subcommittee on Postal Service of the House Committee on Government Reform and Oversight, which requested this study, specified that CRS address these particular questions.

and cost containment probably would be improved more than in the case above.

However, it appears that, under this alternative, there would be greater uncertainties with respect to evenness of service and prices across delivery areas and in linkages between delivery entities. There also is a question of commercial viability. As noted earlier, private sector competitors, which would not be required to provide universal letter mail service, might well leave to the transformed company marginal delivery areas that would have borderline profitability or be unprofitable. Inability to cover costs could lead to taxpayer subsidization if the combination of improved service quality and continued provision of a public good is deemed worthwhile.

As already noted, the choice between such "bundles" of attributes is a judgement call for the Nation, including business and organizational user groups and the general public.

COULD A MODIFIED USPS COMPETE IN A DEREGULATED MARKET?

To some extent, in addressing the question "Could a modified U.S. Postal Service compete in a deregulated market?" analytical limitations come into play similar to those involved in the chapter that analyzes how well each of the hypothetical alternative structures would do the job of providing mail service to the Nation. That is, it involves trying to predict how an organization would respond to some particular changes without the benefit of sufficient evidence that would strongly suggest the likely outcome.

The above caveat notwithstanding, some tentative comments can be made in response to the question posed.

(1) Given the organizational characteristics described and analyzed in Chapter V, it would appear that the kind and mix of modifications of the current USPS would have to be roughly as substantial as those embodied in A "Super-Flexified" USPS Without Monopoly. Thus, by definition, the market would be deregulated and the monopoly would be given up; USPS management would have to be able to change rates and kinds of service and introduce innovations without getting approval from another body; and the current type of arbitration probably would be changed in exchange for the right to strike.

(2) Given long-standing ways of operating, determined to some extent by statutory and institutional constraints, a carefully designed phasing in probably would be required. For example, while the Postal Service was "reorganized" in 1971 to help it operate in a more businesslike manner, the Private Express Statutes have protected substantial portions of USPS' mail service from competition and precluded true price discovery for those operations.

(3) While the above modifications could be considered to be "necessary," they would not necessarily be sufficient to enable the modified Postal Service to compete in a deregulated market.

APPENDIX 1: CONSTITUTIONAL AND STATUTORY BASIS OF FEDERALLY OPERATED MAIL SERVICE[103]

CONSTITUTIONAL BASIS

Article I, section 8, clause 7 of the U.S. Constitution states that, "The Congress shall have power . . . to establish post office and post roads." The Framers of the Constitution adopted a provision that differed substantially from article IX, paragraph 4 of the Articles of Confederation, which granted Congress "the sole and exclusive right and power . . . of establishing and regulating post offices from one state to another, throughout all the United States and exacting such postage on the papers passing through the same as may be requisite to defray the expenses of the said office."

Omitting the phrase "sole and exclusive" from the constitutional provision has raised a question about whether the Framers intended to continue the monopoly that the Articles of Confederation had given the Continental Congress. A commentator has observed that:

> It is conceivable that the authors of the Constitution intentionally drafted a clause that was vague to allow the Congress the option at some later date of withdrawing from management or of relaxing the monopoly. The authors of the Constitution undoubtedly foresaw that the first Congress would assume management of the Post Office and would create a monopoly, but the words of the clause granting Congress postal power make reference to neither management nor monopoly. The founders understood, of course, that, like the commerce power, Congress' postal power is essential to give the federal government authority to restrain actions of individual states that might impede or interfere with intercourse national in scope. The authority to designate routes and to establish offices is necessary to this objective. The power to provide service and to monopolize is not.[104]

Some passages in court opinions recognize that Congress may divest control over the posts. "The United States may give up the Post Office when it sees fit, ..." *Lamont* v. *Postmaster General,* 381, 305 (1965) and *Blount* v. *Rizzi,* 400 U.S. 410, 416 (1971), quoting from Justice Oliver Wendell Holmes in *United States ex rel. Milwaukee Publishing Co.* v. *Burleson,* 255 U.S. 407, 437 (1937) (dissenting opinion). In *United States* v. *Hochsperger,* 26 Fed. Cas. 803 (No. 15,541)(E.D. Pa. 1860), a Federal district judge observed that, "Monopoly of the government is an optional, not an essential part of the postal system."

---

[103] Prepared by Thomas J. Nicola, Legislative Attorney.

[104] Priest, George L., The History of the Postal Monopoly in the United States, *The Journal of Law and Economics,* Vol. 18 (1975), pp. 50–51 (footnotes omitted).

STATUTORY BASIS

From the beginning of the Republic until 1970, Congress enacted statutes to manage the posts and set postal rates. For example, the Act of September 22, 1789, 1 Stat. 70, stated that, "The regulations of the Post Office shall be the same as they last were under the resolutions and ordinances of the late [Continental] Congress," A 1792 statute provided for the actual establishment of post offices and post roads, 1 Stat. 232–239 (1792); and the Act of May 8, 1794, established the Post Office as a permanent part of the government. 1 Stat. 354.

Much of the legislation between 1794 and 1970 pertained to the extent to which the Federal system was to have a monopoly in mail service, and is covered below in the section on the Private Express Statutes. A related piece of legislation is covered below in the section on letterbox access.

The Postal Reorganization Act of 1970 (P.L. 91–375, 84 Stat. 719) established the United States Postal Service as an independent establishment of the executive branch of the United States government, and authorized it to provide postal services. 39 U.S.C. § 101, 201. The Act provides that the Postal Service is to be directed by a Board of Governors. The Board consists of nine Governors, not more than five of whom may be from the same political party, appointed for nine year terms by the President with the advice and consent of the Senate. The Governors appoint and have the power to remove the Postmaster General and the Deputy Postmaster General, the tenth and eleventh members of the Board. 39 U.S.C. § 202.

Authority to set postal rates was given to the Governors of the Postal Service, 39 U.S.C. § 3621, but the Act also created the Postal Rate Commission, which, as described below, also has a major role in determining rates. The 1970 Act defines the Rate Commission to be an independent establishment of the executive branch. 39 U.S.C. § 3601. The Commission is composed of five commissioners, not more than three of whom may be from the same political party, appointed for six year terms by the President with the advice and consent of the Senate. 39 U.S.C. §§ 3601–3602. The specified responsibilities of the Postal Rate Commission pertain only to postal rates and classes of mail.

The Act authorizes the Postal Service to request from the Postal Rate Commission a recommended decision on changes in a rate or rates of postage or in a fee or fees for postal services that the Postal Service has determined would be in the public interest. The Commission is to make its recommended decision in accordance with the postal policies of section 101 of title 39 of the United States Code and with a number of specified factors in section 3611(b) that relate to the nature and quality of mail service, the bearing of costs, and the implications for mail users and the economy as a whole.

The Act also authorizes the Postal Service from time to time to request that the Commission submit a recommended decision on changes in the mail classification schedule to the Governors. And it authorizes the Commission on its own initiative to submit a recommended decision on changes in the classification schedule to the Governors. 39 U.S.C. § 3623.

The Commission is required promptly to consider a request for a change in rates of postage, fees for postal services, and changes in the mail classification schedule, but not before holding a hearing on the record and, with some exceptions, to recommend a decision on changes to the Postal Service no later than ten months after receiving a request. 39 U.S.C. § 3625.

Upon receiving a recommended decision from the Postal Rate Commission, the Governors may approve it and order the decision placed in effect, or may, under protest, allow a recommended decision of the Commission to take effect and seek judicial review under section 3628 of title 39, or return the recommended decision to the Commission for reconsideration and a further recommended decision, which shall be acted upon in the same manner as an initial recommended decision and subject to judicial review. 39 U.S.C. § 3625.

MANDATED SERVICES, INCLUDING UNIVERSAL SERVICE

The Postal Reorganization Act mandates that the Postal Service provide prompt, reliable, and efficient services to patrons in all areas and render postal services to all communities. Section 101 of the Act directs the Postal Service to provide a "maximum degree of effective and regular postal services" to rural areas, communities, and small towns where post offices are not self-sustaining. And no small post office shall be closed solely for operating at a deficit.[105] The specific intent of Congress is to ensure effective postal services to residents of both urban and rural communities. 39 U.S.C. § 101. This section of the Act has come to constitute the Postal Service's mandate to provide universal service.

General duties of the Postal Service include planning, developing, promoting, and providing adequate postal services at fair and reasonable rates and fees; receiving, transmitting, and delivering throughout the United States, its territories and possessions, and throughout the world, written and printed matter, parcels, and like materials and providing other services incidental thereto as the Postal Service finds appropriate to its functions and in the public interest. 39 U.S.C. § 403(a). "The Postal Service shall serve as nearly as practicable the entire population of the United States." *Id.*

The Postal Service is responsible for maintaining an efficient system of collecting, sorting, and delivering mail nationwide, providing types of mail service to meet the needs of different categories of

[105] Specific procedures and criteria are prescribed for closing a post office. Prior to making a determination as to the necessity for closing or consolidating any post office, the Postal Service must provide adequate notice of its intention at least 60 days prior to the proposed date of closing or consolidation to allow persons served an opportunity to present their views. 39 U.S.C. § 404(b). The Postal Service is required to consider such factors as the effect of closing or consolidation on the community served and employees; whether the closing or consolidation is consistent with the policy that the Postal Service provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining; and economic savings to the Postal Service. The Postal Service shall take no action to close or consolidate a post office until 60 days after its written determination is made available to persons served. Within 30 days after receiving such a determination, any person served may appeal a closure or consolidation decision to the Postal Rate Commission. Within 120 days after receiving such an appeal, the Commission is empowered to set aside the determination of the Postal Service under certain circumstances, to affirm it, or to return the entire matter to the Postal Service for further consideration. *Id.*

mail and mail users, and for establishing and maintaining postal facilities in such locations that postal patrons throughout the Nation will, consistent with reasonable economies of postal operations, have ready access to essential postal services. 39 U.S.C. § 403(b).

In providing services and establishing classifications, rates, and fees, the Postal Service shall not, except as specifically authorized, make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any user. 39 U.S.C. § 403(c). Moreover, P.L. 103–329, 108 Stat. 2392 (1994), mandates continuing six day delivery and rural mail services.

Specific powers of the Postal Service include determining the need for post offices and postal and training facilities and equipment; providing and selling postage stamps and other stamped paper, cards, and envelopes; and investigating postal offenses and civil matters relating to the Postal Service. 39 U.S.C. § 404.

PRIVATE EXPRESS STATUTES

To protect revenues of the Postal Service and its predecessor, the Post Office Department, from competition from private express services, and thereby ensure universal service, Congress has enacted statutes relating to private carriage of mail, sometimes called the private express statutes. The Act of March 3, 1845, §§ 9–12, 5 Stat. 732, provides the basis of the modern private express statutes.[106]

The private express statutes currently appear in sections 601–606 of title 39 and sections 1693–1699 of title 18 of the United States Code, the criminal code, and apply to letters and not parcels. The Supreme Court in *Ex Parte Jackson*, 96 Stat. 727 (1877), held that the power of Congress to restrict carriage extended only to "mail matter" as understood when the Constitution was adopted, *i.e.*, to letters, newspapers, and pamphlets, and did not apply to merchandise. *Williams* v. *Wells Fargo and Co.*, Inc., 177 F. 352 (8th Cir. 1910), held that the postal monopoly did not prohibit conveying parcels.

A letter may be carried out of the mails (carried and delivered without Postal Service involvement) when (1) it is enclosed in an envelope; (2) the amount of postage which would have been charged on the letter if it had been sent by mail is paid by stamps, or postage, or postage meter stamps, on the envelope; (3) the letter is properly addressed; (4) the envelope is so sealed that the letter cannot be taken from it without defacing the envelope; (5) any stamps on the envelope are canceled in ink by the sender; and (6) the date of the letter and of its transmission or receipt by the carrier is endorsed on the envelope in ink. 39 U.S.C. § 601(a). The Postal Service may suspend the operation of any part of this section upon any mail route where the public interest requires the suspension. 39 U.S.C. § 601(b).[107] Other private express provisions

[106] For a Board of Governors report outlining reasons to retain the private express statutes, see U.S. Postal Service, Statutes Restricting Private Carriage of Mail and Their Administration, reprinted at H. Comm. on Post Office and Civil Service, 93d Cong., 1st Sess., Comm. Print 93–5 (1973). See also, Johnston, Joseph F., Jr., The United States Postal Monopoly, *The Business Lawyer*, Vol. 23 (1968), p. 379; and Priest. The History of the Postal Monopoly. p. 33.

[107] Parts 310 and 320 of title 39 of the Code of Federal Regulations relate to enforcement and suspension of the private express statutes, respectively.

of title 39 relate to foreign letters carried out of the mails, seizing and detaining letters, searching vessels for letters, and disposition of seized mail. 39 U.S.C. §§ 602–606, respectively.

The Supreme Court has denied standing to a union of postal workers that challenged suspending the private express statutes to permit private couriers to engage in international remailing,[108] saying that the claimed adverse effect on employment opportunities was not within the zone of interests encompassed by the statutes. Congress enacted the private express statutes, the Court said, to protect postal revenues and citizens at large, not to preserve postal employment.[109] With respect to what constitutes a letter, *United States Postal Service* v. *Brennan*, 574 F.2d 712 (2d Cir. 1978), upheld the constitutionality of delegating to the Postal Service power to define "letter" by regulation in enforcing the private express statutes, and *Associated Third Class Mail Users* v. *United States Postal Service*, 600 F.2d 824 (1979), *cert. denied*, 444 U.S. 837 (1979), upheld the constitutionality of the Postal Service's determination that public advertisements addressed to particular persons were included in the definition of "letter" and subject to the private express statutes.[110]

The criminal provisions in title 18 of the United States Code make several activities punishable by fine, imprisonment, or both. Sections 1693, 1694, and 1695 of title 18 prohibit carriage of mail generally, carriage of matter out of mail over post routes, and carriage of matter out of mail on vessels, respectively.

Section 1696 prohibits establishing any private express for the conveyance of letters or packets or causing or providing for the conveyance of private express over any post route or places between which mail is regularly carried. A letter or packet that has been properly stamped is exempt, as is mail that is conveyed or transmitted by private hands without compensation or by special messenger employed for the particular occasion.[111]

Section 1697 of title 18 prohibits transporting persons acting as a private express for conveying letters and packets and makes such transportation punishable by a fine. Section 1698 subjects to a fine under title 18 anyone having control of any vessel passing between ports or places in the United States for failure to deliver to the postmaster or at the post office, within three hours after arriving, if in the daytime, or if at night, within two hours after the next sunrise, all letters and packages not relating to cargo of the vessel.

Section 1699 states that no vessel arriving within a port or collection district of the United States may make entry or break bulk until all letters on board are delivered to the nearest post office,

[108] International remailing is the practice of sending mail through the postal service of a given country to an entity located in that country, which then sends it outside the postal service to another country.

[109] *Air Courier Conference* v. American Postal Workers Union, 498 U.S. 517 (1991).

[110] For conflicting views on the Postal Service's authority to enforce and suspend the private express statutes, see Donnici, Peter J, Larry L. Hillblom, L. Patrick Lupo, and Mary Beth Collins, The Recent Expansion of the Postal Monopoly to Include Transmission of Commercial Information: Can It Be Justified?, *University of San Francisco Law Review*, Vol 11 (1977), p. 243, and Craig, Roger P., and William T. Alvis. The Postal Monopoly: Two Hundred Years of Covering Commercial as Well as Personal Messages, *University of San Francisco Law Review*, Vol. 12 (1977), p. 57.

[111] See Validity, Construction, and Application of 18 U.S.C. § 1696, Making It a Criminal Offense to Establish Any Private Express for Conveyance of Letters or Packets, *American Law Reports Federal* (A.L.R. Fed.), Vol 43 (1979), p. 664.

except where waybilled to other ports in the United States at which the vessel is scheduled to call and the Postal Service does not determine that unreasonable delay in the mails will occur; in that case, the master or other person having control of the vessel must sign a sworn declaration to that effect. The master or other person having control who breaks bulk before arranging for such delivery or onward carried is subject to a fine under title 18.

LETTERBOX ACCESS

Another statute is very relevant to postal operations although it is part of neither the Postal Reorganization Act nor the private express statutes. Section 1725 of title 18 of the United States Code effectively limits access to mail boxes to only the Postal Service and to the owner of the box (the recipient of the mail). Specifically, it prohibits and subjects to a fine anyone who knowingly and willfully deposits any mailable matter such as statements of accounts, circulars, sale bills, or other like matter, on which no postage has been paid, in any letter box established, approved, or accepted by the Postal Service for the receipt or delivery of mail matter on any mail route with intent to avoid lawful postage thereon.

The Supreme Court has upheld this provision on the ground that it does not abridge the First Amendment rights of a nonprofit civic association that places notices and messages in letter boxes of private homes without paying postage fees.[112]

APPENDIX 2: LABOR LAW COVERAGE[113]

LABOR RELATIONS

Labor-management relations between the United States Postal Service and the labor unions representing its employees are subject to the provisions of the National Labor Relations Act (NLRA), 29 U.S.C. §§ 151–69, to the extent not inconsistent with the Postal Reorganization Act, 39 U.S.C. § 1209(a). Thus, the law developed by the National Labor Relations Board (NLRB) and the courts under the NLRA must be consulted to determine the rights and responsibilities of the parties to a collective bargaining agreement to alter or amend its terms. Postal Service employees, however, are employees of the United States and are forbidden by law from striking. 5 U.S.C. § 7311.

Under the NLRA, employers and unions are required to bargain in good faith with respect to wages, hours, and other terms and conditions of employment. 29 U.S.C. § 158(d). The Supreme Court has distinguished between *mandatory, permissive, and illegal* subjects of bargaining. Employers and unions are required by law to bargain over mandatory subjects of bargaining, such as wages, hours, and other terms and conditions of employment, to the point of impasse. An employer may not alter a condition of employment that is a mandatory subject of bargaining before it has bargained to impasse with the union. By contrast, it is an unfair labor practice for either party to insist on a permissive subject of bargaining to the point of impasse.

---

[112] *U.S. Postal Service* v. *Council of Greenburgh Civic Associations*, 453 U.S. 114 (1981).
[113] Prepared by Vince Treacy, Legislative Attorney.

Under the Postal Reorganization Act, the National Labor Relations Board is responsible for establishing appropriate units for bargaining, for receiving petitions to select a union as the exclusive representative in a unit, for conducting all representation elections, and for resolving unfair labor practice charges. 39 U.S.C. §§ 1202–1209.

The Postal Reorganization Act provided that compensation, benefits, and other terms and conditions of employment in effect immediately prior to its effective date would continue to apply to officers and employees of the Service, until changed in accordance with collective bargaining. The Act provided:

> No variation, addition, or substitution with respect to fringe benefits shall result in a program of fringe benefits which on the whole is less favorable to the officers and employees than fringe benefits in effect on the effective date of this section [July 1, 1971], and as to officers and employees for whom there is a collective-bargaining representative, no such variation, addition, or substitution shall be made except by agreement between the collective-bargaining representative and the Postal Service. 39 U.S.C. § 1005(f).

BARGAINING IMPASSES

While bargaining impasses in the private sector sometimes are not resolved until a strike or lockout occurs, those actions are prohibited in the Postal Service, and impasses must be resolved by statutorily mandated arbitration. (All Federal employees and most State and local public employees are prohibited from striking.)[114]

When the strike is banned for public employees, the conventional alternative is interest arbitration. *Interest* arbitration is, in effect, a quasi-legislative procedure to determine the terms and provisions of a new collective bargaining agreement. This type of arbitration allows arbitrators to fashion the terms of the agreement, based in part upon the submissions by the parties. It is distinguished from *grievance* arbitration, which is a quasi-judicial procedure to resolve disputes over the meaning and application of an existing labor contract.

The Postal Reorganization Act establishes a procedure for binding interest arbitration of disputes over new contracts by a jointly-selected arbitration panel. The arbitration panel consists of one member selected by the union, one by the Postal Service, and one selected by the two members so named. If the first two members cannot agree, the selection of the third is made by the Director of the Federal Mediation and Conciliation Service. 39 U.S.C. §§ 1201–1209.

Under section 1207(a) of Title 39, if there is a collective bargaining agreement in effect, then a party may not terminate or modify

[114] If an impasse is reached in the private sector, the employees may engage in a strike, that is, a concerted stoppage of work, concerted slowdown, or other concerted interruption of operations by employees. 29 U.S.C. § 142(2). The employer may respond to the strike with a lockout, with unilateral changes in employment terms, or with the use of temporary or permanent replacements. In general, the policy of the Act is to encourage the settlement of the dispute through the free play of peaceful economic forces, with the relative economic strength of the parties determining the outcome.

the agreement unless it serves written notice of the proposal on the other party at least 90 days prior to the expiration date of the agreement, or at least 90 days prior to the time it is proposed to make the termination or modification effective. The party serving the notice must then notify the Federal Mediation and Conciliation Service (FMCS) of the existence of a dispute within 45 days after serving notice, if no agreement has been reached by that time. 39 U.S.C. § 1207(a).

If the parties fail to reach agreement by the expiration date, or fail to adopt a procedure for a binding resolution of the dispute by that date, then the Director of the FMCS is required to appoint a factfinding panel to report on the dispute. 39 U.S.C. § 1207(b). If no agreement has been reached within 90 days after the expiration or termination of the agreement, or within 90 days after the agreement becomes subject to the proposed modification, then an arbitration board is to be established to resolve the issues through binding interest arbitration. The arbitration board must render its decision within 45 days after its appointment. 39 U.S.C. § 1207(c).

Section 1207 does not contain an express provision requiring the parties to maintain the *status quo ante* between the time when the contract has expired and when the dispute is finally resolved by the arbitration panel. Under the NLRA, when an impasse is reached in bargaining after the expiration of the collective bargaining agreement, then the employer is allowed to make unilateral changes in wages and terms and conditions of employment, but those changes may not be substantially different or greater than any of the offers proposed by the employer during the negotiations. For example, an employer may not give wage increases in excess of those previously offered at the bargaining table, even if there is a continuing impasse at the time the increases are granted. Moreover, an overall bargaining impasse does not justify unilateral changes concerning subjects over which the parties had not bargained. 1 *Developing Labor Law* 636 (Morris, 2d ed., 1983).

LABOR RELATIONS DYNAMICS

Labor-management relations in the Postal Service have been governed by the NLRA for 25 years, and can be fairly characterized as a mature labor management relationship. However, while there has been no repeat of the (illegal) national postal strike of 1970, it appears that labor-management relations have not been smooth.[115]

Postal Service bargaining is subject to many constraints. Federal law requires membership elections of national union officers every three years. 29 U.S.C. § 481(a). Union officials who make concessions that are unacceptable to the members can be, and have been, defeated for reelection. Under union constitutions, an agreement negotiated by union leaders must be ratified by the membership. On occasion, members have rejected agreements as inadequate, indicating that the leadership had lost touch with the rank and file. When a negotiated contract is rejected, the dispute usually is submitted to an interest arbitrator, who imposes a revised contract. The arbitrator's award is not normally subject to ratification by the

[115] See, for example, GAO. *Labor-Management Problems Persist.* Volumes I and II.

membership. Management negotiators are themselves constrained by their Board of Governors, by Congress, and, ultimately, by postal customers in general.

Postal Service contract negotiations often have been difficult, making (interest) arbitration necessary in those cases. It is argued by some that final offer arbitration would foster a greater sense of urgency to compromise. Under final-offer selection, the arbitrator must choose between each party's final offers. Usually, one proposal must be selected in its entirety, without any further modification by the arbitrator. The purpose of final-offer arbitration is to compel each party to eliminate excessive demands and to moderate its proposal to make it attractive to the arbitrator, without conceding too much. Final-offer arbitration may also permit the arbitrator to select proposals from either party, item by item.

Postal unions and management already have full authority to agree to final offer selection under existing law. Voluntary use of final-offer procedures could be effective in future negotiations. If final-offer arbitration were made mandatory and exclusive, however, a major effect would be the elimination of the other forms of interest arbitration that, some argue, have proven effective since 1970. It is not necessarily likely, therefore, that a change in the impasse process will alter present advantages and difficulties with mandatory interest arbitration in the Postal Service. Moreover, final-offer selection has not gained universal acceptance in public sector collective bargaining because of its many limitations.

The question whether postal employees should be allowed to strike has been raised by both postal unions and management. It has been argued that both unions and management would benefit from a greater "sense of urgency" in negotiations to prompt good faith bargaining and a negotiated agreement. Given the experience in the railroad industry, a national postal strike probably would wind up in Congress for settlement.[116] However, there seems to be little, if any, sentiment for granting the right to strike to postal employees, since even a regional or limited postal strike could rapidly imperil national health and safety.

As a result, it would appear that the problems or difficulties in the postal collective bargaining process must be worked out by consensus of postal employees, postal labor unions, and postal management.

APPENDIX 3: FEDERAL BUDGET STATUS[117]

The 1970 Postal Reorganization Act requires the Postal Service to be responsible for its own operating budget and to achieve financial self-sufficiency. Section 2009 of the 1970 Act requires the USPS to structure "a business-type budget, or plan of operations, with some allowances given to the need for flexibility . . . ." This section of the law further requires that presentation of the annual budget include estimates of its financial condition and operation for the current and ensuing fiscal years, as well as the actual conditions and results of operation for the last completed fiscal year. The

[116] Under the Railway Labor Act, rail employees may legally strike. However, in the few instances in which this right was exercised, Congress has intervened to impose a settlement.

[117] Prepared by Bernevia M. McCalip, Analyst in Business and Government Relations.

budget, which is submitted to review by the Office of Management and Budget, also is to include amount of income received from Federal appropriations. When the President's budget is submitted to Congress, the USPS' budget is included in that budget with the President's recommendations but without revisions.

The history of the status of the postal system's budget with respect to that of the U.S. Government as a whole is varied. Prior to re-organization, the Post Office Department was an agency in the executive branch treated as any Federal Department in the national budget. In 1970, the pre-USPS postal system's operating budget was shown apart from the Federal unified budget. However, at that time, Federal appropriations authorized by the 1970 Act were included as part of the unified budget totals. The Office of Management and Budget (OMB) placed the USPS back "on budget" for FY1986. Subsequently, in the same fiscal year, the Gramm-Rudman-Hollings Act, passed in December 1985, put all previously "off-budget" accounts back "on budget," and mandated that they be included in calculating Federal deficit totals.

In April 1989, as part of a deficit-reduction agreement, USPS' income and expenditures were placed off-budget again. At the same time, the USPS was made liable for increases in the unfunded liabilities of the Civil Service Retirement and Disability fund attributable to cost-of-living adjustments made in benefits payable to postal service employees who were separated on or after October 1, 1986. The Omnibus Budget Reconciliation Act of 1990 (for fiscal year 1991) called for further payments to be made by the Postal Service to the U.S. Treasury for increases in costs due to past cost-of-living adjustments, and also new payments for adjustments in retirees' and survivors' health benefit costs. The total amount paid to the U.S. Treasury was estimated at $4.68 billion which, under the law, was allowed to be made over a five-year period (FY1991 to FY1995).[118]

Other provisions of Budget Reconciliation legislation have obligated the Postal Service even further for various reasons. These include a liability for unfunded costs attributable primarily to employees who elected to switch pension systems and for interest on the retroactive assessments due under a previous Budget Reconciliation Act (1990).

The Postal Service Fund was established by the Postal Reorganization Act to serve essentially as USPS' bank account, to allow the USPS to carry out its purposes, functions, and powers. As a sub-account in the U.S. Treasury, this revolving fund is available to the USPS without fiscal year limitation. All USPS revenues are deposited in this fund, which, because the Postal Service is "off budget," is exempt from any general budget limitations imposed by statute on expenditures and net lending (budget outlays) of the United States Government.

[118] U.S. Library of Congress. Congressional Research Service. *The U.S. Postal Service: Adjustment Cost for Retirement COLAs and Health Benefits Under the 1990 Budget Act*, Report No. 91–191 E, by Bernevia McCalip. Feb. 21, 1991. 6 p.

APPENDIX 4: RESTRUCTURING A GOVERNMENT ENTITY—UNDERLYING ISSUES[119]

Alternative structures for a postal service system potentially range from modest internal reorganizations of the existing Postal Service to transformations in the powers of its Board of Governors and Postmaster General, and from changes in external controls and requirements over the Service to far-reaching privatization initiatives. To varying degrees, the different alternatives are dependent upon and/or have implications for several broad underlying issues: the perceived need for organizational change, the goals and objectives underlying a possible restructuring, political control over and accountability of the resulting system, and the role of the Federal Government in the society.

PERCEIVED NEED FOR CHANGE

The causes of whatever is perceived as ailing an agency may exist at three different levels. Each of these has implications for the type, extent, and degree of proposed corrective actions:

- *Low level*, in which the underlying problems are seen as ad hoc, isolated, temporary, and relatively small scale (e.g., incompetent management in selected field offices or inadequate training programs for certain types of employees). Correspondingly, only minor adjustments likely would be needed to correct such problems.
- *Middle level*, in which the problems are seen as defects in the organization and structure of an agency and deficiencies in the formal controls surrounding its operations (e.g., absence of centralized authority, responsibility, and accountability for running the agency). Problems at this level could be alleviated, if not eliminated, through major (but not necessarily comprehensive) changes.
- *High level or systemic*, in which significant problems are perceived as existing throughout an agency, at virtually every level of operation, and over a long period of time. It may also be that an agency's missions are beyond its capabilities, either because the agency was poorly designed in the first place or has lacked the necessary resources to accomplish its missions. At this level, comprehensive change—in organization, powers, authority, and possibly even functions, mandates, and missions—would likely be sought to correct the situation. The proposed corrective action might be a wholesale transformation of the agency, including its organization, type of operations, and internal culture; or it might even extend to removing the agency's responsibility for certain major services or products.

Arising from such perceptions about an agency's problems and prescriptions for improvements are questions about evaluation, assessment, and measurement. For example, can the extent of the problems be reliably and accurately measured? Are there agreed upon standards and guidelines to assess an agency's operational efficiency and performance effectiveness? Can these be fairly compared to those of other similar agencies or certain private sector firms?

---

[119] Prepared by Frederick M. Kaiser, Specialist in American National Government.

Promoters of privatization, for example, argue that market competition and the profit motive provide strong incentives for private-sector firms to operate as efficiently as possible, thus keeping costs to a minimum. Government agencies, as corollary argument, do not have these incentives to take a business-like approach in conducting their operations.

Opponents of this view counter that the effects of private sector competition on firms may be exaggerated and that waste and other inefficiencies occur there also but are not as widely publicized or investigated as in the public sector. Questioners of privatization add that, in any event, comparisons between private firms and public agencies are often unfair, because government may carry out missions and mandates that are inherently unprofitable and/or beyond the scope and capability of businesses. The private sector, they say, would not undertake some of these activities, at least not without a direct or indirect public subsidy.

GOALS AND OBJECTIVES

Two broad goals often are associated with restructuring efforts: (a) increased economy and efficiency in operations and (b) improved effectiveness in performing missions, functions, and duties. These distinct objectives are not always compatible with one another. For instance, an agency's effectiveness—its ability to accomplish its missions—could be enhanced through additional resources, even though these might increase total production only slightly, at least by comparison to the existing resources. In this situation, an increase in effectiveness overall could result in a decrease in efficiency. Consequently, different goals have different implications for restructuring initiatives.

Other goals and objectives also are affected by various restructurings. Privatization, for instance, has an impact not only on the Government's budget and costs. By reducing or halting the Government's direct involvement in providing a good or service, privatization decisions may also affect whether ancillary goals of the public sector are achieved, such as those associated with Federal employee hiring practices, benefits, and working conditions.

CONTROLS OVER AND ACCOUNTABILITY OF THE SYSTEM

Different organizational structures and institutional locations affect the degree of immediate political control over a system and the accountability of its operations to elected officials and the public. A government corporation that is self-financing and outside the immediate supervision of the President (and the Office of Management and Budget), for instance, has fewer formal external controls over its activities and operations than a Cabinet department. Private sector firms under government contract tend to be even further removed than government organizations from such executive controls as well as from congressional oversight, supervision, and leverage. For instance, a completely private corporation—unlike most Federal departments, agencies, and government corporations—would not be subject to the Inspector General Act (5 U.S.C. Appendix) with its audit, investigation, and inspection requirements or its reporting obligations to Congress.

ROLE AND RESPONSIBILITIES OF THE FEDERAL GOVERNMENT

Some restructuring efforts also have an impact upon and implications for the role and responsibilities of the Federal Government. This is evident in far-reaching privatization approaches, such as divestment, where the Government sells certain assets to private ownership, or in "load shedding," where the Government simply stops performing a function or providing a service, whether a private sector replacement exists or not.

The Government's immediate objectives in such cases may be to: reduce costs and save money, cut out inefficient operations, stop ineffective or counterproductive practices, increase efficiency and effectiveness in providing the good or service through the private sector, or reorder its priorities so that the Government's scarce resources can be allocated for other purposes. In these situations, the Government either cuts back or ends its immediate responsibility for providing a certain good or service and, in effect, reduces or relinquishes its role in setting policies that affect the society in this matter.

O