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Postal Service Financial Problems and Stakeholder Proposals

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Summary

Even before the September 11 terrorist attacks and discovery of anthrax in the mail on October 5, the U.S. Postal Service (USPS) was in deep financial trouble. Although USPS froze 800 capital projects and instituted a second rate increase during the year to cut its losses for FY 2001 to \$1.7 billion, there is a growing consensus that USPS faces a longer-term set of problems that place the preservation of universal service at risk. Some mailers foresee an “economic death spiral” of price rises leading to reduced mail volume, and requiring yet further price increases to cover the huge operating costs of the vast postal network, with 800,000 workers.

While there is widespread agreement that USPS has long-term problems, there is no consensus on their underlying causes. Some say that the business model of USPS is becoming outmoded as electronic communication grows. The board of governors blames an outdated regulatory regime and the lack of authority for USPS to control its prices, its wages, or its facility locations. Mailers point to low productivity, questioning whether USPS and its workers have appropriate incentives.

Previous attempts to “modernize” the postal enterprise through legislation have foundered on profound differences of interest among such stakeholders as large mailers, employees, competitors, and oversight bodies. It is likely, however, that any bills that do emerge will draw to at least some extent on proposals that have been maturing for a number of years. Among these are

- Splitting USPS into competitive and noncompetitive (monopoly) entities, allowing more price and financing flexibility, as proposed in H.R. 22 during the last two Congresses.
- Relief from regulatory and statutory restrictions as proposed by the board of governors. USPS would have authority to set its own rates within a broad range, and wage disputes would no longer go to binding arbitration.
- Privatization, which is the trend for posts elsewhere in the world and which the former postmaster general thinks is inevitable in some form.
- An independent reform commission, on the grounds that the legislative process is immobilized by powerful stakeholders with irreconcilable interests.
- A redefinition of universal service, which now includes low-cost home delivery anywhere in the nation at a single low price, six days a week.
- Internal transformation, through USPS initiative, as recommended by GAO.

The anthrax attack has put yet another alternative on the table – a return to appropriations. USPS has asked for \$5 billion to cover costs and loss of revenue from the attacks, but no one believes this is a long-term solution. The response of Congress to these pressures and options will be covered in a future report.

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By the account of its own board of governors, as well as congressional oversight committees and postal stakeholders, the U.S. Postal Service (USPS) was in deep financial trouble even before the September 11 attacks and the discovery of anthrax in the mailstream on October 5. Despite two rate increases during the year, USPS suffered its second largest loss in history in fiscal year (FY)2001. In an effort to curb spending, the board of governors froze 800 construction projects and ordered a review of the effects of cutting deliveries to five from six days a week. The General Accounting Office (GAO), projecting that the statutory debt limit of \$15 billion could be reached by 2003 and noting that USPS has no debt reduction strategy, placed the Postal Service's long-term outlook on its High Risk List in an unusual mid-year action. Both of the USPS oversight committees – House Government Reform and Senate Governmental Affairs – held hearings early in the 107th Congress on the USPS's deteriorating financial outlook.¹ Witnesses raised the prospect of a spiral of rising prices leading to reduced mail volume, and requiring further price rises to cover the enormous fixed operating costs of the vast postal enterprise. USPS has increased borrowing and cut deeply into capital investment to save cash, but this too comes at the cost of productivity and efficiency improvements for the future.

This report is a description and analysis of the underlying financial predicament of USPS as it stood before the September 11, 2001 attacks and the anthrax scare. USPS has scheduled its third rate increase in two years for this summer, and has asked Congress for \$5 billion in appropriations to cover added expenses (estimated at \$3 billion to \$4 billion) and a sudden drop-off in revenues (projected at from \$2 billion to \$4 billion for FY2002) stemming from both attacks. This will do nothing, however, to solve USPS's structural deficit or its longer term problems that were building well before September 11. Some stakeholders believe that the terrorist attacks will provide the impetus that has long been lacking to focus public and congressional attention on structural reform. Others, however, argue that it would be a mistake to allow the current crisis to “precipitate ill-advised legislative changes, which would further enhance the Postal Service's monopolistic powers”²

¹ U.S. Congress, House Committee on Government Reform, *The Postal Service's Uncertain Financial Outlook*, 107th Cong., 1st sess., Part I, April 4, 2001; Part II, May 16, 2001 (Washington: GPO, 2001). Senate Committee on Governmental Affairs, *Financial Outlook of the United States Postal Service*, 107th Cong., 1st sess., May 15, 2001. (Unpublished hearing.) Hereafter referred to by date of hearing.

² Letter to President George W. Bush from several taxpayer organizations, including Citizens Against Government Waste, Citizens for a Sound Economy, National Taxpayers Union, Nov. 6, 2001.

Although there is little disagreement that the Postal Service faces a deteriorating and unsustainable financial situation, there is no similar agreement on the basic or underlying causes of its predicament or on the appropriate solutions to it. This report examines the suggested causes and solutions. It does so from the perspective of the Postal Service management, but also from the multiple perspectives of the many organized stakeholders in the postal enterprise. Congress has always paid attention to the views of such stakeholders as large mailers, competitors, employees, regulators, and the 137 million household and business delivery point addressees visited by USPS every day. Public administration scholars have also been drawn to the study of postal affairs by the unique USPS governing structure, by the curiosity of a government entity trying to act like a business, and by the fact that about a third of the civilian federal workforce is postal employees.

Background

The current structure of USPS was set by the Postal Reorganization Act (PRA) of 1970. Before passage of this Act, the Post Office was an executive branch department and Congress was heavily involved in such basic decisions as postage rates, annual wage increases, patronage appointment of local postmasters, and selection of commemorative stamp issues. Postage rates were set by law, and because raising them was politically difficult, the substantial annual postal deficit – often as much as 25% of costs – was covered by appropriated funds. Postal workers engaged in a disruptive and illegal strike in 1970, forcing Congress to address the state of the enterprise.

The PRA reconstituted the Post Office Department in 1971 as the U.S. Postal Service, an “independent establishment of the executive branch” with a mandate to operate as a business and cover its expenses through postal revenues. A part-time board of governors was established to oversee the Postal Service much like a corporate board. It has nine members nominated by the President and confirmed by the Senate for nine-year terms, no more than five of whom can be of the same political party. The board was empowered to hire and fire the postmaster general (PMG), who, with the deputy postmaster general, became board members for other purposes. Because USPS retained its monopoly over letter mail and exclusive access to mailboxes, an independent regulatory commission – the Postal Rate Commission – was constituted as a politically-appointed, full-time board with authority to review and approve postage rates proposed by USPS. Rate cases are to follow a prescribed 10-month process, with ample opportunities for USPS customers and competitors to weigh in with alternative analyses of both institutional and variable costs of service. Labor’s support was necessary for passage of the PRA. It was secured by promises of a substantial wage increase, and in compensation for not having the right to strike, binding arbitration by a neutral mediator in future wage and benefit impasses.

For nearly three decades, the PRA proved to be a viable framework. Postage rates in the 1990s were among the lowest in the industrialized world, about 60% of

prevailing European levels.³ Customer satisfaction and on-time delivery scores, collected by independent contractors, were both in the mid-90% range by 1999.⁴ Wages more than kept pace with inflation, and the workforce grew to well over 800,000, providing what former PMG Anthony Frank called a “gateway to the middle class” for hundreds of thousands of employees distributed fairly evenly with the population across every congressional district in America. Congress felt sufficiently confident of the fundamental soundness of the financial outlook of USPS that, in the Omnibus Budget Reconciliation Act of 1990, it made USPS responsible for all health benefits and COLAs for retirees, a decision that added \$14.9 billion to postal costs during the decade.⁵

Perhaps because of this record of success, USPS has not raised high-profile issues demanding congressional attention in recent years. Appropriations, confined to revenue forgone in providing free mail for the blind and overseas voters, were small and uncontroversial.⁶ The Senate handled postal affairs in the Governmental Affairs Subcommittee on International Security, Proliferation, and Federal Services. The House Post Office and Civil Service Committee, which once had three subcommittees devoted to postal affairs, was dissolved in the 104th Congress, and postal affairs were assigned to a subcommittee of the House Government Reform Committee. In the 107th Congress, the Postal Subcommittee was not reconstituted.

The Current Financial Predicament

As fiscal year (FY) 2001 began, there did not appear to be unusual cause for alarm about postal finances. USPS had shared in the benefits of steady economic growth, with low inflation, in the 1990s. Volume had continued to grow each year in nearly all mail classes. The \$199 million net loss of FY2000 seemed insignificant following five straight profitable years with a cumulative net income of \$5.5 billion.⁷ A loss of \$480 million was budgeted for FY2001. A rate case had been filed in January, 2000 for a 6.4% increase in rates, and a decision was due from the Postal Rate Commission (PRC) in November 2000.

Thus it came as an unexpected shock when in February 2001, USPS announced that it would suffer a net loss of between \$2 billion and \$3 billion in FY2001, and an even larger loss of from \$2.5 billion to \$3.5 billion in FY2002.⁸ Over the next several weeks, postal officials gave several reasons for the turnabout in the financial outlook. These factors were mentioned in particular:

³ U.S. Postal Service, *1996 Annual Report of the United States Postal Service*, p. 41.

⁴ U.S. Postal Service, *1999 Annual Report of the United States Postal Service*, p. 3.

⁵ U.S. Postal Service, *1999 Annual Report of the United States Postal Service*, p. 73.

⁶ CRS Report RS21025, *The Postal Revenue Forgone Appropriation: Overview and Current Issues*, by Nye Stevens.

⁷ U.S. Postal Service, *2000 Annual Report of the United States Postal Service*, pp. 66-67.

⁸ U.S. Postal Service, *2000 Comprehensive Statement on Postal Operations* (Washington, 2001), p. 41.

- **Economic slowdown.** Revenue growth slowed with the emergence of economic weakness as FY2001 began. Others in the delivery industry were also affected by the slumping economy. FedEx, for example, reported a 54% plunge in earnings during the quarter that ended May 31, 2001.⁹
- **Partial denial of rate increase.** The PRC rate case decision in November 2000, reaffirmed in February 2001, gave USPS a rate increase of only 4.6%, rejecting the board's appeal for a 6.4% increase. The cost of a first-class stamp rose to 34 from 33 cents, but rates for periodicals and certain other bulk mailings were not raised as much as USPS had requested. Even though the board exercised its right to impose the full increase after a third request in May, the net loss imposed by the delay was estimated by the board to be \$800 million.
- **Rising costs.** An unanticipated spike in the price of energy cost USPS \$150 million. USPS has 212,000 vehicles and an air transportation bill of \$1.7 billion.¹⁰

Not everyone found the explanations of postal officials convincing. The PRC acting chairman testified at the May 15 Senate hearing that the "Postal Service has not provided any systematic explanation of its multi-billion dollar loss projections." GAO faulted USPS for making "numerous revisions to its estimated net income for fiscal year 2001 with little or no public explanation, creating confusion and raising concerns about its ability to generate timely and reliable financial information."¹¹ The loss estimate changed again in early July, to a net loss of from \$1.5 billion to \$2 billion. The eventual loss for the year, as audited, was \$1.68 billion.¹² This was the seventh straight year of accelerating declines in net income.

The highest projections were cited in the May 8, 2001 decision by the board of governors to override the PRC's recommendation and impose the full 6.4% rate increase, effective July 1, 2001. Only once before in the 30-year history of the PRC had its recommendation been ignored. The action was deplored by a panel of large mailers at a House Government Reform Committee hearing on May 16, 2001. One witness who writes frequently on postal matters said that consternation among mailers because of the action was the worst he had seen in 18 years of experience.¹³ The overall sense of frustration was made worse by the concurrent USPS prediction that

⁹ Rick Brooks, "FedEx Posts 54% Drop in Profit, Plans Job Cuts," *Wall Street Journal*, June 29, 2001, p. B-4.

¹⁰ USPS, *2000 Comprehensive Statement on Postal Operations*, pp. 23-24.

¹¹ U.S. General Accounting Office, *U.S. Postal Service: Financial Outlook and Transformation Challenges*, GAO Testimony 01-733T, May 15, 2001, p. 10.

¹² U.S. Postal Service, *2001 Annual Report of the United States Postal Service*, p.2.

¹³ Testimony of Gene Del Polito, President, Association for Postal Commerce; see May 16, 2001 *Hearing*, p. 286.

there would be an even larger rate increase of 10% to 15% in FY2002.¹⁴ When the board of governors announced that the rate increase it would seek was “only” 8.7%, it termed the increase less than expected. Since the announcement came early in the morning of September 11, 2001, the prospect that a first class stamp would go to 37 cents from 34 cents went largely unnoticed.

Longer-Term Problems

Whether or not USPS is able to control losses in the short-term by deferring investments, there is a growing consensus that USPS faces a perilous longer-term prospect that, in the words of the board of governors, “puts the preservation of universal service at risk.”¹⁵ Even before the anthrax scare, GAO termed the status quo “unsustainable,” called for comprehensive postal reform, and placed USPS structural transformation efforts on its High Risk List. Some mailers groups refer to “an economic death spiral.”¹⁶ An unusual coalition of employee groups and mailing groups has formed to “address the financial crisis” facing USPS by effecting “real reforms” and resisting rate increases and service reductions, “which would result in lower volumes and ultimately lower revenues for the Postal Service.”¹⁷

The developing consensus on the need for reform, however, is not built on a similar agreement on the underlying causes of the long-term problems USPS faces. Postal stakeholders and analysts have very different, and perhaps irreconcilable, diagnoses of why USPS’s long-term prospects are so dim. Following are several basic underlying causes of the situation as perceived by various stakeholders.

- **Outmoded business model.** Former Postmaster General William Henderson, in his valedictory congressional appearances as PMG, said that USPS must face the fact that the overall environment in which postal services are needed and used in our economy has changed dramatically.¹⁸ If venture capital were sought today for a labor-intensive business that hired people to physically visit all 137 million addresses in the country every day, investors could probably not be found. The demands of universal service require adding 1.8 million delivery points each year (equivalent to a city the size of Chicago) just to maintain the network. Yet more and better alternatives to letter mail keep appearing – the telephone, e-mail, fax, and most lately electronic bills,

¹⁴ “Which Way Is Up for Postal Revenues?,” *DM News*, May 31, 2001.

¹⁵ Statement of S. David Fineman, vice chairman, USPS Board of Governors, before the House Committee on Government Reform. See April 4, 2001 *Hearing*, p. 137.

¹⁶ Ellen Nakashima, “Coalition Seeks Special Delivery: Postal Reform,” *The Washington Post*, March 2, 2001, p. A-23; see also Carolyn Lochhead, “Death Spiral on Main Street,” *The American Enterprise*, July/Aug. 2001, pp. 26-28.

¹⁷ “The Economy, the USPS, the Real Need for Reform,” *Postal Record*, June 2001, p. 7.

¹⁸ At the House Committee on Government Reform hearing on April 4, 2001, and the Senate Committee on Governmental Affairs hearing on May 15, 2001.

statements, and remittances. Looking at postal services around the world, fewer and fewer depend on monopoly letter delivery business for survival.

- **Outdated regulatory regime.** USPS and its board of governors, which for many years have had a testy relationship with the Postal Rate Commission, both believe that the regulatory model established by the PRA has become cumbersome and counterproductive, based on control rather than market-based principles. They chafe at a 10-month adversarial process to adjust rates, when competitors like FedEx and United Parcel Service (UPS) not only can change rates on short notice or seasonally, but also can offer special contract deals for hi-volume customers. “The statutory framework simply does not provide practical and adaptable solutions to today’s rapidly changing and truly global communications environment,” the board wrote to President Bush on March 2, 2001. “Without change to our regulatory framework, universal service will be difficult to maintain. We foresee rapidly rising rates and reduced service if legislative reform is not enacted promptly.”
- **Labor costs out of control.** USPS and the board also place a great deal of importance on their ultimate inability to control the costs of wages and benefits for the postal workforce. With bargaining unit wages and benefits averaging \$50,103, labor costs are 76% to 80% of total expenses, compared with only 56% at UPS and 42% at FedEx.¹⁹ The statutory arrangement when management and labor cannot agree on a package of wages, benefits, and work rules is that a final, binding decision is made by a neutral arbitrator, selected by both sides. Mailers believe the arbitrator tends to split the difference. The board complains that “critical issues of national policy have been left to a series of individual arbitrators having no accountability for the results.”²⁰ Another cost element is the time expended in handling about 146,000 pending or appealed grievances; negotiated work rules allow these to be pursued “on the clock” while all parties are drawing their salaries. GAO also notes that USPS must pay \$32 billion in retirement liabilities, \$15.8 billion interest expense on this liability, \$6.0 billion in worker compensation claims, and an obligation amounting to at least \$45 billion for retiree health benefits that is not carried on the books though it should be.²¹
- **Productivity growth lags.** USPS productivity – the relationship between outputs of delivering mail to a constantly expanding delivery network and the resources expended in producing these outputs – has increased only about 11% in the past 30 years, even though billions have been spent on automation and

¹⁹ *U.S. News and World Report*, April 9, 2001, p. 46.

²⁰ Letter from Robert F. Rider, Chairman, USPS Board of Governors, to the Chairman, House Committee on Government Reform, May 15, 2001, p. 3. USPS has sponsored research which purported to demonstrate that there is a postal wage premium of 29.5% compared to the private sector, and that new employees receive, on average, a 45.4% wage increase over their old jobs when entering the postal work force.

²¹ *U.S. Postal Service: Deteriorating Financial Outlook Increases Need for Transformation*, GAO Report 02-355, Feb. 28, 2002, p. 20.

information technology. According to GAO, postal productivity declined 3.3% from FY 1993 to FY 1999, though it increased 2.2% in FY 2000 and 0.7% in FY 2001.²² To the organized mailing community, the fact that costly automation programs are apparently not resulting in significant productivity increases may be the most critical of all of USPS's management problems.²³

- **Perverse incentives.** While the PRA directed USPS to operate in a businesslike manner, USPS lacks some key features of a competitive enterprise. Its aim is to break even rather than make a profit. It does not have the option of abandoning unprofitable lines of business or locations. The PRA anticipates that costs will rise and provides a way to raise rates when they outstrip revenues. As a report from the Progressive Policy Institute said of the USPS's "flawed incentive structure," "(It is simply easier to raise rates than to do the hard work of cutting costs, including standing firm against unreasonable union demands."²⁴ The PRC cannot order cost-cutting measures; it can only apportion costs among various classes of mail. In the words of Gene Del Polito, president of the Association for Postal Commerce, "the incentives that underlie today's Postal Service are the opposite of what is required of an enterprise that must function in a competitive environment."²⁵ Similarly, work rules discourage cooperation between management and labor to improve productivity.²⁶ For example, the reward for a letter carrier who finishes his or her route early is to be assigned to finish another route. Except for rural carriers, overtime is negotiated daily, leading to endemic conflicts with supervisors. There is an incentive pay system for managers, but it measures factors unrelated to the marketplace and guarantees rewards in advance of demonstrated bottom-line performance, according to a member of the PRC.²⁷

²² U.S. General Accounting Office, *Major Management Challenges and Program Risks: U.S. Postal Service*, GAO Report 01-262 (Washington, Jan. 2001), pp. 23-24.

²³ Statements of John T. Estes, Main Street Coalition for Postal Fairness, and Jerry Cerasale, Mailers Council, before the House Committee on Government Reform, May 16, 2001. See May 16, 2001 *Hearing*, pp. 222-241, 252-262. The Mailers Council sponsors a quarterly "Report Card on Postal Productivity," which is available on-line at [http://www.mailers.org/News_Releases/news_releases.html].

²⁴ Shane Ham and Robert D. Atkinson, *Opening the Mail: A Postal System for the New Economy*, Progressive Policy Institute, Washington, Nov., 2001, p. 9.

²⁵ Statement before the House Committee on Government Reform, May 16, 2001. See May 16, 2001 *Hearing*, p. 274.

²⁶ For a detailed analysis, see U. S. General Accounting Office, *U.S. Postal Service: Labor-Management Problems Persist on the Workroom Floor*, GAO Report GGD-94-201B (Washington, Sept. 1994).

²⁷ Statement of Ruth Goldway, Senate Committee on Governmental Affairs hearing, May 15, 2001. The USPS Inspector General has also called the incentive pay system inappropriate for an agency with a breakeven profit goal. See USPS IG Report number LH-AR-02-001, Dec. 5, 2001.

- **Too many/too old facilities.** Post offices are often centers of community activity, and efforts by USPS to move, consolidate, or close them to adapt to altered commercial, residential, and transportation patterns are invariably controversial. The PRA prohibited closing small post offices solely for operating at a deficit, and requires USPS to go through an elaborate community consultation process, with appeals to the PRC, before closing a post office. Moreover, under congressional pressure in 1998, USPS adopted a moratorium on initiating any consolidations or closures.²⁸ USPS maintains that about half of its facilities do not generate enough revenues to cover their costs, and has been focusing particular attention in recent hearings on the burden its rigid real estate profile imposes on the bottom line.
- **Inadequate information.** GAO, the PRC, and the USPS inspector general (IG) have each expressed frustration at the paucity of information USPS makes available that would allow those outside the service to analyze its financial condition and evaluate ways to improve it. Unusually for a government entity, USPS can withhold information “of a commercial nature” from disclosure under provisions of the Freedom of Information Act.²⁹ GAO has questioned whether USPS has “reliable performance and cost information to effectively manage postal operations, identify inefficiencies, and track progress toward realizing anticipated cost savings.”³⁰ Much of the acrimony between the PRC and USPS has been over the quality and adequacy of data made available to PRC. The IG testified before the House Government Reform Committee on April 4, 2001, that USPS lacked information to justify major investments: “The Postal Service is a \$65 billion business and must require that timely and accurate information be provided to senior managers for making informed business decisions.”

Reform Proposals

Although both committees of jurisdiction have held hearings on the Postal Service’s financial problems and long-term prospects, the 107th Congress is the first for some time in which comprehensive reform legislation has not been introduced. Several efforts to develop a legislative response are underway, however. A bipartisan and bicameral Postal Caucus has been formed among Members to address postal reform issues. In opening statements at the House Government Reform Committee hearing on April 4, 2001, the chairman and the ranking minority member asked postal stakeholders to work together and make recommendations for a bipartisan legislative proposal that can be enacted. To emphasize the point of bipartisanship, the two jointly designated Representative Danny Davis (D-IL) as point person for postal

²⁸ See “The Sacred Post Offices of Podunk,” *Wall Street Journal*, June 7, 2001, p. B-1.

²⁹ 39 U.S.C. 410 (c)

³⁰ GAO Testimony 01-598T, April 4, 2001 p. 5. For a more detailed critique of USPS performance information, see GAO Report 01-262, *Major Management Challenges and Program Risks: U.S. Postal Service*, pp. 19-20.

reform.³¹ In opening the May 15 Senate Governmental Affairs hearing, its chairman expressed “recognition that Congress must revisit the 30-year old statutory framework” and that “nothing should be off the table, including the future of the postal monopoly itself.” A coalition of mailing groups and postal employee groups was also formed, on April 11, with the objective of developing a consensus on reform parameters.³² Newspapers (which both compete with direct mail for advertising dollars and depend on USPS for delivery) as varied as *The Wall Street Journal* (May 16), *The Washington Post* (May 29), and *The Washington Times* (March 17 and May 14), and numerous columnists, have weighed in with editorial opinions.

Previous attempts to “modernize” the Post Office through legislation have foundered on profound differences of interest among stakeholders. Nevertheless, bills that do emerge will no doubt draw to at least some extent on proposals that have been made before or that have been maturing for a number of years. Several are discussed below.

Modernization Through Restructuring: H.R. 22

In both the 105th and 106th Congresses, Representative John McHugh introduced comprehensive postal reform legislation that was given the number H.R. 22 in both Congresses. Representative McHugh was also chairman of the Subcommittee on the Postal Service of the House Committee on Government Reform, and held extensive hearings on the legislation over a 4-year period. The theory behind the bill was that USPS needed freedom to engage more competitively in growing markets, but on a leveled playing field, while having an enhanced degree of supervised flexibility in its monopoly markets. As approved by the Subcommittee on the Postal Service on April 29, 1999, the bill would have:

- divided postal operations between competitive and noncompetitive products. Competitive mail would include products that could easily be sent through a private corporation, such as Federal Express. Noncompetitive mail is traditional letter mail and addressed advertising mail for which USPS is the only practical or legal alternative;
- set a cap on the price of noncompetitive mail every five years, essentially allowing rates to rise at a rate lower than inflation, while allowing competitive mail to be priced according to market conditions;
- established a private corporation owned by USPS that could offer new, non-postal competitive products but would not have such advantages as tax exemption and strike protection;

³¹ Cary Baer, “Congress, Bush Face Tricky Decisions,” *DM News*, June 29, 2001, p.1.

³² It includes the National Association of Letter Carriers, the National Rural Letter Carriers Association, the National Association of Postmasters of the United States, and the National Postal Mailhandlers Union, as well as the Direct Marketing Association, Magazine Publishers of America, Association for Postal Commerce, Alliance of Nonprofit Mailers, and the Parcel Shippers Association.

- authorized USPS to conduct large-scale tests of experimental new products;
- allowed USPS to offer volume discounts to large customers such as government agencies and catalogue sales companies; and
- required USPS to provide services for the blind and visually impaired, and for voter registration and balloting materials without federal appropriated funds for revenues forgone.³³

The bill avoided controversial issues such as binding pay arbitration and closing post offices that lose money. But with belated and tepid support from USPS and its board, and opposition from such influential stakeholders as UPS and the American Postal Workers Union, the bill was not voted on by the Government Reform Committee.

Representative McHugh did not reintroduce H.R. 22 in the 107th Congress. Instead, he put a revised and updated version of his bill out for public review, comment, and possible revision by postal stakeholders.³⁴ During the summer and fall of 2001, mailers, unions, and USPS itself have been busily analyzing, reworking, and negotiating various sections among themselves. Since the anthrax attacks, Rep. McHugh has cautioned against a postal bailout without reform. “(W)e in Congress have a fiduciary responsibility to the taxpayer to not blindly send money to a sinking ship without also shoring up that ship.”³⁵

Postal Service Enhancement Act

Representative Henry Waxman, ranking minority member of the House Government Reform Committee, introduced H.R. 2535 in the 106th Congress. The bill would have provided some rate making flexibilities for competitive products, negotiated rate agreements, and phased-in rates. But according to USPS, the increased authority would be “nominal” and would leave unchanged PRC authority over the pricing of noncompetitive (monopoly) products such as letter mail and addressed advertising mail.³⁶ The bill also would establish a national commission to review and report on the present practices and organizational structure of USPS, with an emphasis on promoting efficiency in mail collection, processing, and delivery. The bill was not considered by the committee.

Relief From Regulatory and Statutory Restrictions

The USPS board of governors wrote the chairs of its oversight committees on May 15, 2001, that the reforms most needed are greater empowerment of USPS in

³³ For a more comprehensive review of the bill, see CRS Report 98-838E, *Postal Service: How H.R. 22 Would Change Current Law*, by Bernard Gelb, Bernevia McCalip, and Edward Rappaport.

³⁴ The bill is available at [http://www.house.gov/mchugh/hot_postalcrisis.html]

³⁵ ([http://www.house.gov/mchugh/pr2001/103001_PostalHearing.html])

³⁶ Letter from Postmaster General Henderson to Rep. John M. McHugh, June 2, 2000.

its relationships with the PRC, and with its unions. It urged that USPS be given authority to set its own rates within a broad, indexed range, reflecting costs and market trends; PRC would have no authority at all over services not covered by the universal service mandate. The board also wanted a fundamental change in the collective bargaining arrangements under which 13 of the last 20 labor agreements with the largest unions have gone to binding arbitration. In their place, the board would adopt a model along the lines of the Railway Labor Act. A mediator appointed by the National Mediation Board would explore the differences between the parties with explicit instructions to take into account the interests of postal customers, to draw comparisons to employees doing the same kind of work in the private sector, and to consider the value of such benefits as paid insurance, vacations, holidays, pensions, and stability of employment. Cooling off periods and intervention by the President or Congress or both would stand in the way of a strike or a lockout if agreement were not reached.

Preservation

In discussing postal reform at the May 16, 2001 House Government Reform hearing and in communications with members, the postal employee unions set as their first priorities the preservation of universal service (specifically including Saturday delivery) and binding arbitration in collective bargaining. Beyond that, they generally support increasing USPS's ability to alter rates and to raise the current borrowing limit from the Treasury. The American Postal Workers Union (APWU) believes that worksharing (e.g., barcoding, presorting, and dropshipping) discounts on large mailers' postage bills are overly generous and, if eliminated, the current revenue crisis would be solved.³⁷ While APWU opposed H.R. 22, the National Association of Letter Carriers supported it.³⁸

Privatization

From time to time, proposals have been made to do away with the Private Express Statutes (18 U.S.C. 1725) which give USPS its monopoly on letter mail and use of mailboxes. The expected competition from private sector delivery services would, in the view of proponents, amount to privatization of postal delivery services if not of USPS itself.

One of the most influential privatization proposals dates from 1988, with publication of the report of the President's Commission on Privatization. The report devoted a chapter to privatization of the Postal Service, recommending immediate lifting of the Private Express Statutes for third-class mail, and eventually for all classes. The commission recognized that USPS itself would need a phase out period, and recommended employee ownership for priority consideration.

³⁷ Statement of Moe Biller, president, APWU, before the House Committee on Government Reform, at May 16, 2001 *Hearing*, pp. 327-329.

³⁸ Andrew D. Beadle, "Postal Bill Matches Unions, Delivery Firms in Lobbying Battle," *CQ.com On Congress*, May 21, 1999.

Although Congress has never voted on privatization of the Postal Service, the issue remains active on the agendas of a number of conservative organizations. The Cato Institute, the Heritage Foundation, and Citizens Against Government Waste are among the organizations favoring postal privatization.³⁹

Representative Philip Crane has introduced legislation to privatize USPS in the last several Congresses. In the 106th Congress, his bill was H.R. 2589. It would have converted USPS to a totally private corporation, owned by its employees, leaving many of the implementation details, such as the role of the PRC, to the President and a Postal Privatization Commission. H.R. 2589 was referred to the Committee on Government Reform and no further action was taken. The bill has not been re-introduced in the 107th Congress.

Support for postal privatization is not confined solely to the conservative end of the political spectrum. Ruth Goldway, a self-described “liberal Democrat” and a Clinton appointee to the Postal Rate Commission, has proposed privatizing USPS through an initial public stock offering that might bring as much as \$100 billion to the Treasury. Its assets include “real estate in the best parts of every city, a universal delivery network, and a solid brand name.” Privatization, she believes, is “the best way to save the institution from oblivion” as financial correspondence increasingly moves on-line.⁴⁰ Former PMG Henderson, in his final interviews and public appearances, said that privatization has been adopted by much of the rest of the world and is inevitable here, as well. Shortly after leaving office, he explicitly endorsed privatizing USPS through an employee stock option plan.⁴¹

Opponents of privatization question whether it is compatible with universal service. Would a private sector company be as attentive to the needs of small villages in Alaska as USPS is? In addition, the prospects for privatization have been complicated by the anthrax incidents, which have placed renewed emphasis on governmental responsibilities of USPS, such as public health and law enforcement.

Stronger Oversight

Those who think that USPS problems stem from poor management, inadequate information, and perverse incentives tend to propose reforms that would empower third parties to scrutinize policy and operations more closely than the board of governors does today. The board is part-time and has a staff of only four.

The Washington Post is one of several major newspapers that oppose giving USPS more flexibility to raise rates and pursue new lines of business, as proposed in H.R. 22. “What’s needed,” the *Post* editorialized on May 29, 2001, “is exactly the opposite: Tighter oversight by watchdogs, including the power to subpoena the postal

³⁹ See, for example, the volume on the issue edited by Edward L. Hudgins, *Mail @ the Millennium: Will the Postal Service Go Private?* (Cato Institute, Washington, 2000).

⁴⁰ “The Postal Service: One Hot Property,” *The Washington Post*, Jan. 19, 2000, p. A-23.

⁴¹ William J. Henderson, “End of the Route: I Ran the Postal Service; it Should Be Privatized,” *The Washington Post*, Sept. 2, 2001, p. B-1.

service for data, and a tighter focus on the traditional task on hand.” UPS’s view is similar: greater accountability to regulators and improved information on how costs are allocated among different products to prevent cross-subsidization. GAO’s recommendations also lean heavily on expanded information and oversight as the key to averting a crisis in USPS.⁴² The PRC has proposed that it be given the function of performing an annual performance review of postal operations and reporting its findings to Congress. Enhanced access to information would also be necessary.⁴³ Mailers, who tend to believe their interests are better protected by the PRC than by the board, also propose giving the PRC audit authority.⁴⁴

Independent Reform Commission

A number of postal observers believe that political power is so thoroughly dispersed among stakeholders that only an independent blue-ribbon commission, rather than the legislative process, can devise a contemporary solution to today’s postal crisis. The Association for Postal Commerce, for example, cites the “bruising” experience of attempting to gain support for H.R. 22, as its reason for calling on the President to create a commission to study and make recommendations on the future organization and function of the Postal Service.⁴⁵ Murray Comarow, who headed a panel of the National Academy of Public Administration on the characteristics of successful commissions, agrees that the legislative process cannot achieve genuine reform. He cautions against a commission made up of stakeholders, however, because it is likely to mirror the established interests that have fought to a draw on Capitol Hill. The suggested model for a successful commission is the 1967 Commission on Postal Organization, which led to enactment of the PRA. That commission, chaired by Frederick R. Kappel, the CEO of AT&T, had as members six other corporate CEOs (e.g., from General Electric and Bank of America), the dean of the Harvard Business School, the president of the AFL/CIO, and two prominent Democrats; none had close ties to postal stakeholders or a vested interest in the outcome.⁴⁶ (Mr. Comarow was executive director of the Kappel Commission.)

Representative Steven LaTourette circulated a “Dear Colleague” letter on February 7, 2002 inviting support for a presidential commission “to address the mission and operations” of USPS, noting that “a form of gridlock” had emerged from good-faith efforts to develop a legislative consensus on postal reform.

⁴² GAO Testimony 01-598T, April 4, 2001, p. 2. See also “GAO Outlines Strategy to Revive Postal Service,” *Federal Times*, April 9, 2001.

⁴³ Statement of George A. Omas, vice chairman, Postal Rate Commission, before the Senate Committee on Governmental Affairs, May 15, 2001, pp. 15-18.

⁴⁴ Statement of John T. Estes, Main Street Coalition for Postal Fairness, before the House Committee on Government Reform, May 16, 2001 *Hearing*, p. 262.

⁴⁵ Statement of Gene Del Polito, president, Association for Postal Commerce, before the House Committee on Government Reform, May 16, 2001 *Hearing*, p. 276.

⁴⁶ Murray D. Comarow, “The Demise of the Postal Service?”, presented at the Joint Conference of the National Academy of Public Administration’s Panel on Executive Organization and Management and the Johns Hopkins Center for the Study of American Government, June 25, 2001.

Redefine Universal Service

Most reform proposals are predicated on the preservation of universal service, generally defined as six-day per week delivery of letters everywhere in the nation at uniform, affordable prices and ready access to post offices in every community. But the comptroller general, at the May 15 Senate hearing, raised the question whether this definition should be revisited.⁴⁷ A study by the Progressive Policy Institute, the public policy affiliate of the Democratic Leadership Council, concluded that allowing changes in service, including closing unneeded post offices and “reducing deliveries on high-cost rural routes from six days each week to five or four days” was a necessary reform.⁴⁸

Other countries have begun to redefine universal service. Canada eliminated Saturday delivery first for urban areas and then for rural areas in 1982, cut mail delivery to remote northern areas to as infrequently as once a week, and lowered its on-time delivery standards by a full day in all categories.⁴⁹ A British Member of Parliament for the Labour Party has written that the mailman is as anachronistic as the milkman.

It is time for politicians, on all sides, to confront the public with the brutal truth that a universal mail delivery at a standard price has had its day, and that it is no business of government or its agencies to be involved in such an activity. In every other system of distribution, most notably food, the public has largely chosen, through the dynamics of the market, to dispense with doorstep delivery....⁵⁰

The USPS board of governors opened the door to such a redefinition by ordering a study of delivery only five days a week. On July 9, 2001, it publicly abandoned the idea, which had generated considerable criticism in Congress. Congressional opposition has also greeted any initiative to close the thousands of small post offices that fail to generate revenues sufficient to offset their cost, on the grounds that these facilities provide essential community services. Some have compared the situation to military base closings, and suggested that only a package of closures with an up-or-down vote would have a chance of congressional approval.

Appropriations

Although USPS has taken pride in the independence that follows from its self-supporting status, there have been occasional proposals to augment postal revenues through appropriations on the grounds that public interest goals are being imposed

⁴⁷ GAO Testimony 01-733T, May 15, 2001, pp. 23-24 and subsequent discussion.

⁴⁸ Progressive Policy Institute, *Opening the Mail: A Postal System for the New Economy*, Washington, Nov., 2001, p. 20.

⁴⁹ U.S. General Accounting Office, *Postal Reform in Canada*, GAO Report GGD-97-45BR, March 5, 1997, pp. 34-37.

⁵⁰ Michael Brown, “Postman Pat’s Days Are Past – Let Him Retire Gracefully,” *The Independent* (London), Feb. 1, 2002, p.3.

unrelated to the mail delivery mission. One proposal is that USPS be subsidized for the cost of paying skilled labor wage rates for semi-skilled work as a means of opening a gateway to the middle class.⁵¹ In an August 31, 2001 letter to the director of OMB, the PMG proposed that USPS be given an appropriation of \$957 million to accelerate payment on a debt stemming from the Revenue Forgone Act of 1993, which established a 40-year schedule for payment to USPS for costs of delivering free or reduced rate mail in earlier years.⁵² (The debt is currently being paid off at the rate of \$29 million per year.) OMB did not include the proposal in its FY2003 budget request, but USPS included an updated version of it in its own budget submission. Yet another suggestion is that Congress reimburse USPS for the cost of criminal investigations. It is estimated that the Postal Inspection Service spends considerably more than \$100 million per year investigating crimes such as fraud and child pornography, which have nothing to do with the USPS mission.⁵³

Transformation from Within

In placing the worsening USPS financial prospect on its High Risk List, GAO recommended that USPS develop a transformation plan to address the many financial, operational, and “human capital” changes that would be needed to avert a crisis. USPS agreed with that recommendation and has promised to deliver such a plan to Congress in early April, 2002. Reaction by mailers groups and GAO to an outline published by USPS in October, 2001 has been one of disappointment.⁵⁴ Nevertheless, GAO has released a new report placing even more emphasis on the need for USPS to use the transformation plan to take “proactive leadership” in pressing for comprehensive reform legislation, in addition to taking stronger actions within its current authority.⁵⁵ GAO’s latest report says that the financial situation is even more dire than when it first identified USPS transformation as a High Risk Area, and for the first time explicitly says that “action by Congress on comprehensive reform legislation will be critical to sustaining USPS’s financial viability.”⁵⁶

Aftermath of the Anthrax Attacks

Before the anthrax attacks, Congress brushed aside suggestions that appropriations should play any part in the USPS adaptation to its new financial challenges. The discovery of anthrax in the mailstream on October 5, 2001, brought new and wholly unanticipated pressures on USPS to step up its law enforcement

⁵¹ Statement of Gene Del Polito, president, Association for Postal Commerce, before the House Committee on Government Reform, May 16, 2001 *Hearing*, pp. 278-279.

⁵² For more information, see CRS Report RS21025, *The Postal Revenue Forgone Appropriation: Overview and Current Issues*, by Nye Stevens.

⁵³ Cary H. Baer, “Which Way Is Up for Postal Revenues?,” *DM News*, May 31, 2001, p .3.

⁵⁴ Matthew Weinstock, “Stand and Deliver,” *Government Executive*, February 1, 2002, pp. 35-38.

⁵⁵ U.S. General Accounting Office, *U.S. Postal Service: Deteriorating Financial Outlook Increases Need for Transformation*, GAO Report 02-355, February 28, 2002.

⁵⁶ *Ibid.*, p.5.

activities, and to invest in costly new technology and mail handling procedures to sanitize the mail. Neither law enforcement nor public health responsibilities fit within the framework of the PRA, or the mission it assigned to USPS to preserve universal delivery, cover its costs through revenues, act like a business, and break even over time.

Whatever reluctance USPS had to accept appropriations disappeared within a month of the appearance of anthrax in the mailstream. USPS received \$175 million from the White House Emergency Response Fund on October 24, 2001. Another \$500 million was allocated to USPS by the FY2002 Emergency Supplemental Act, Division B of P.L. 107-117, the Department of Defense Appropriations Act, 2002. The conference report explaining this appropriation noted that “the Postal Service has not received a direct appropriation for operations for nearly two decades.... In providing these emergency funds, the conferees do not intend to set a precedent for operational subsidies ... [and] continue to support current law requirements that the Postal Service operate on a self-sustaining basis.” Obligation of the \$500 million was to be withheld until USPS submitted to its oversight and appropriations committees an emergency preparedness plan to combat the threat of biological and chemical substances in the mail.

USPS issued its plan on March 6, 2002.⁵⁷ It identifies a need for additional appropriations for mail security of \$1.78 billion in the next two years, and from \$1 billion to \$2.4 billion in the two years after that. The PMG had earlier told the Senate Appropriations Subcommittee on Treasury and General Government, however, that USPS also needs assistance in making up for \$2 billion in lost revenues.⁵⁸ USPS revenues were \$1.5 billion less than planned during the first 24 weeks of FY2002. Members of the Subcommittee said that appropriations were much more likely to cover the cost of sanitization equipment than to cover revenue losses. Asked what he would do if appropriations were insufficient, the PMG said that only increased rates, borrowing above the current \$15 billion limit, and service reductions were alternatives, and all of them threatened USPS’s long-term future.

⁵⁷ Available online at [<http://www.usps.com/news/2002/epp/welcome.htm>], visited Mar 22, 2002. For more information on USPS emergency planning, see CRS Report RL31280, *The U.S. Postal Service response to the Threat of Bioterrorism Through the Mail*, by Frank Gottron.

⁵⁸ The PMG’s Nov. 8, 2001 hearing statement can be found on-line at [http://www.usps.com/news/2001/press/pr01_1108pmg.htm], visited Mar. 22, 2002.

Conclusion

Even before the anthrax scare, congressional hearings revealed a broadly based consensus that USPS faces an “unsustainable” long-term prospect (as GAO characterized USPS’s future), even if there is no agreement on its underlying causes or on appropriate remedies. While postal stakeholders have been busily at work trying to develop a consensus reform package, only the prospect of reaching the \$15 billion borrowing limit offered any promise of mobilizing congressional attention to the long-term financial state of the enterprise.

The anthrax crisis revised all of those calculations. USPS faces \$3 billion to \$4 billion in added costs, and its ability to pay those costs has been seriously constrained by a sudden drop in revenues as mailers and postal customers began to question the safety of the mail. Immediate decisions loom on USPS’s request for a short-term bailout of \$5 billion or more. However that issue is resolved, Congress will still face the question whether the statutory framework established 30 years ago, contemplating a self-supporting USPS whose rates and labor costs are in large part in control of others, is still viable. Most stakeholders think it is not, but differences among them on remedies are deep and persistent.

Calls for a presidential commission to resolve these differences are based on a perception that Congress cannot do so because it is immobilized by conflicting pressures from postal stakeholders. If this is not to be so, then Congress will be forced to confront a number of issues that have been off the table for decades, including a return to operational appropriations, allowing USPS to compete in new markets against the private sector, a redefinition of universal service, allowing USPS to close some of its unneeded facilities, and finding a way to reduce costs of the huge and politically influential postal workforce.