

TOWARDS POSTAL EXCELLENCE

The
Report of
The President's
Commission on
Postal Organization

June 1968

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Commission

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THE PRESIDENT'S COMMISSION ON POSTAL
ORGANIZATION

1016 SIXTEENTH STREET, N.W., WASHINGTON, D.C. 20036

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I have the honor of transmitting the Report of the President's Commission on Postal Organization in compliance with Executive Order 11341 dated April 8, 1967.

You asked this Commission to "conduct the most searching and exhaustive review ever undertaken . . ." of the American postal service. We have complied with your mandate.

You asked us to "determine whether the postal system as presently organized is capable of meeting the demands of our growing economy and our expanding population." We have concluded that it is not.

Our basic finding is that the procedures for administering the ordinary executive departments of Government are inappropriate for the Post Office. We recommend, therefore, that Congress charter a Government-owned Corporation to operate the postal service. The corporate form would permit much more successful operation of what has become a major business activity than is possible under present circumstances. The benefits which would flow from the introduction of modern management practices include not only greatly improved mail service but the early elimination of the postal deficit and far better career opportunities and working conditions for the individual postal employee.

We have only praise for former Postmaster General Lawrence F. O'Brien and his staff. The Congress, the Executive Branch and the postal management and labor force have worked hard to provide good service. In view of the handicaps which the present structure imposes, they have done a remarkable job. It has become evident, however, that the postal service cannot keep pace with the demands of our society unless it is given a basic change in direction.

Our recommendations for a major reorganization of the Post Office Department are set forth in this Report. We urge their adoption.

Respectfully,



Frederick R. Kappel
Chairman

June 1968

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Part 5 Personnel Administration

Part 6 Financial Management

Part 7 External Influences on the Postal Environment

Part 8 Forecasts of Postal Volume and Postal System
Requirements

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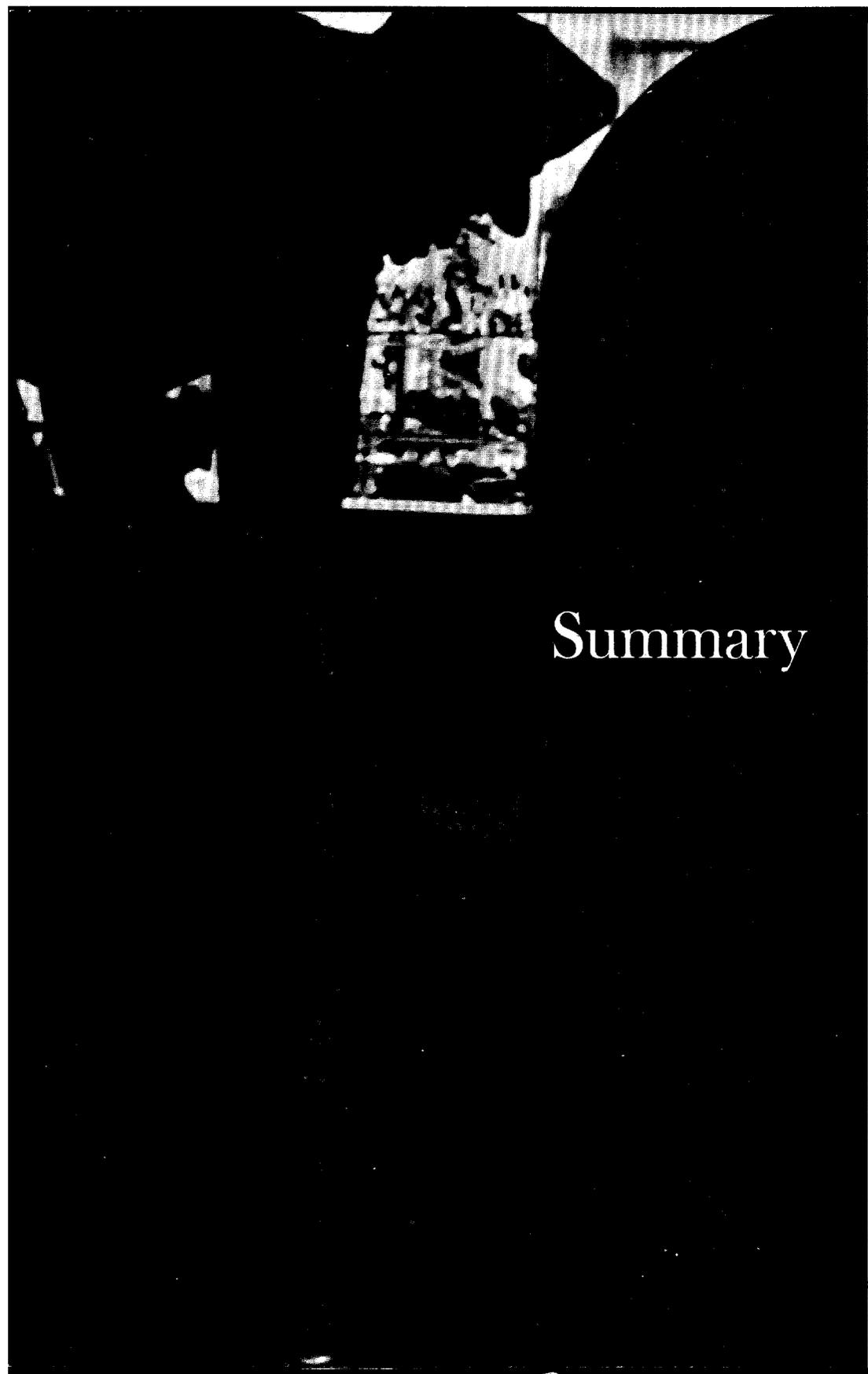
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A high-contrast, black and white photograph. The left side of the image is dominated by a large, dark silhouette of a person's head and shoulders, facing right. In the center, a rectangular window or opening reveals a bright, overexposed scene of a large crowd of people, possibly at a public event or protest. The right side of the image is a solid, bright white background. The word "Summary" is printed in a white, serif font, centered horizontally and positioned in the lower half of the dark silhouette area.

Summary

THE United States Post Office faces a crisis. Each year it slips further behind the rest of the economy in service, in efficiency and in meeting its responsibilities as an employer. Each year it operates at a huge financial loss. No one realizes the magnitude of this crisis more than the postal managers and employees who daily bear the staggering burden of moving the nation's mail. The remedy lies beyond their control.

Although the Post Office is one of the nation's largest businesses, it is not *run* as a business but as a Cabinet agency of the United States Government.

The Post Office has always been operated as if it were an ordinary Government agency: its funds are appropriated by Congress, its employees are part of Civil Service, its officials are subject to a host of laws and regulations governing financial administration, labor relations, procurement and purchase of transportation. Major managerial decisions are made through the legislative process: Congress sets postal rates and wages, governs Postmaster appointments and approves or rejects construction of individual post offices.

In what it *does*, however, the Post Office is a business: its customers purchase its services directly, its employees work in a service-industry environment, it is a major communications network, it is a means by which much of the nation's business is conducted.

Furthermore, it is a *big* business. In Fiscal Year 1967 the Post Office collected \$4.96 billion in revenues and spent over \$6.13 billion. (The \$1.17 billion deficit was made up by the Federal Treasury.) Its 716,000

employees, working in over 44,000 facilities in virtually every city and town in the land, processed almost 80 billion pieces of mail last year, three-fourths of which was originated by business. Within ten years total volume is expected to exceed 110 billion pieces.

This Commission has concluded that the challenges faced by this major business activity cannot be met through the present inappropriate and outmoded form of postal organization.

The postal system must be given a management system consistent with its mission if it is to meet its responsibilities as a supplier of a vital service, improve the working conditions and job opportunities of its employees and end a huge and completely unnecessary drain on the Federal budget. Piecemeal changes to the present system will not do the job: a basic change in direction is necessary.

Were the postal system being started today, it might well be operated by a privately-owned regulated corporation not unlike the companies which operate other communication and transportation services in this country. We have concluded, however, that a transfer of the postal system to the private sector is not feasible, largely for reasons of financing; the Post Office should therefore continue under Government ownership. The possibility remains of private ownership at some future time, if such a transfer were then considered to be feasible and in the public interest.

There is a way, however, within the compass of Government, to give the Post Office an organizational structure suited to its mission.

We recommend that a Postal Corporation owned entirely by the Federal Government be chartered by Congress to operate the postal service of the United States on a self-supporting basis.*

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Full management responsibility and authority would be vested in a Board of Directors who would be charged with providing the nation with a superb mail system, offering universal service at fair rates, paying fair wages to postal employees and giving full consideration to the public welfare. We propose a nine-man Board of Directors with six appointed by the President, with the advice and consent of the Senate, and three selected as full-time Officer-Directors by the Board itself. The Board should be given authority to establish levels of compensation competitive with private industry for top management officials, including the three Officer-Directors.

**Comment by Commissioner Meany:*

I agree with the goal of modernizing the postal system and improving working conditions and job opportunities for its employees. However, the status of the Post Office as a Cabinet Department has a positive value that should not be discarded lightly.

****Page numbers in italics refer to full discussions of each recommendation in Chapter 3.**

The Corporation would have the objective of supporting itself completely from its revenues: operating efficiencies and a sound rate structure would over time be expected to eliminate the postal deficit. The Corporation would be given direct access to its revenues and have authority to borrow in its own name to finance modern facilities for better postal service and lower operating costs.

We recommend that the Corporation take immediate steps to improve the quality and kinds of service offered, the means by which service is provided and the physical conditions under which postal employees work.

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The nation should not be asked to run the risk of a breakdown in its postal service. The Corporation management should not only upgrade the reliability of day-to-day mail delivery to both urban and rural areas, but should also turn its attention to the unfilled needs of the public for additional postal services, such as guaranteed fast delivery. Only a Post Office quick to identify and meet market needs can successfully serve a changing economy. Obsolete and inefficient postal facilities should be replaced. Existing technology must be fully applied and new technology brought to bear through vigorous research and development. Every effort should be made to provide postal employees with a work environment comparable to that found in the finest American enterprises.

We recommend that all appointments to, and promotions within, the postal system be made on a nonpolitical basis.

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Providing the nation with a superb mail service is not a partisan issue: postal purposes do not change with the national administration. The postal system deserves the best talent available and all employees deserve career opportunities based on ability and performance. The present patronage system cuts off the opportunities of many potential managers among career employees and inevitably has an adverse effect upon morale. Moreover, it is an unwarranted drain on the time and energy of members of Congress and officials of the Executive Branch.

We recommend that present postal employees be transferred, with their accrued Civil Service benefits, to a new career service within the Postal Corporation.

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A new personnel system tailored to the unique character of the Post Office is an essential step toward the flexibility needed in postal personnel administration. All present Departmental and field employees would be transferred from the Federal Civil Service to the new service with their accrued pension rights, leave, pay and seniority.

Although the postal work force is highly unionized, little real bargaining takes place between labor and management. The most important issues—even many work rules—are established by law. Conditions of employment for non-managerial employees would in the future be established by collective bargaining between postal labor and management. Salary and fringe benefits would be negotiated considering competing wage levels, the principle of comparability, where possible, or a similar standard of equity. The compensation structure of management, professional staffs and related personnel would be established by the Board of Directors.

We anticipate a widening of opportunity for all postal employees. Within the new career service they would be provided with far better training and educational opportunities to qualify them as fully as possible for increased responsibilities. Direct negotiations would provide a new and useful means of resolving local and national employment issues, a means through which cooperative efforts could yield rewards to both parties.

The parties would be free to establish binding arbitration procedures for the resolution of disputes which arise between them. If they choose not to, however, and if an impasse arises which is not settled by mediation, the dispute would be referred to the President of the United States who would be authorized by the enabling legislation to devise a suitable mechanism to cope with the impasse. The existing ban on strikes by Federal employees would apply to the Postal Corporation.

**We recommend that the Board of Directors,
after hearings by expert Rate Commissioners,
establish postal rates, subject to veto by
concurrent resolution of the Congress.**

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One of the most serious shortcomings of the present Post Office is its inability to set the prices for its services. Public confidence in the fairness of the rate structure is undermined by the acrimony which often accompanies legislative rate-making under present circumstances. The Post Office remains the only major public utility with rates set by a legislative body. Burdened with far more important responsibilities, Congress should not be asked to deal with the intricacies of postal rates. Rate-making and the development of new services are complex, interwoven responsibilities which need the detailed attention of experts in economics, accounting, marketing and engineering.

The Corporation's Board would set postal rates in the public interest based on actual cost of service, value to those served and changing market demands. Meaningful information on the cost behavior of

each postal activity audited by independent professional accountants would be provided by a modern cost accounting system replacing the outmoded Cost Ascertainment System in use since 1926.

Were we to recommend a privately-owned Post Office, regulation by an independent Federal commission would be a natural corollary. We see no advantages, however, and serious problems, in proposing regulation of a Government corporation by another Government body. We recommend, instead, that proposals for rate changes made by the Postal Corporation become effective after 60 days unless vetoed by concurrent resolution of Congress. Though freed from involvement in technical details, Congress would still exercise policy control over rates through this veto power.

Congress may decide to continue special low rates for certain items such as library materials, braille publications and mailings by charitable organizations. Our Report proposes a method of financing any such subsidies.

Since we see no reason why the general mail user should be subsidized by the taxpayer, we recommend that the postal service should become completely self-supporting as quickly as possible. It should not be necessary, however, to depend upon rate increases alone to close the cost-revenue gap. Indeed, the productivity improvement modern management can achieve in the Post Office should permit the elimination of most of the deficit through operating efficiencies.

The Nation's Reward

The United States postal system is in serious trouble today because of decades of low priorities assigned its modernization and management needs. Years of lagging productivity have created a gap between postal performance and that of other industries—a gap which represents at the same time a hazard and an opportunity.

We have already witnessed a postal collapse in a major American city. This Commission is convinced that a similar breakdown could occur again in any part of the country. The risk will continue as long as the Post Office is denied the authority and the resources to put its house in order.

On the other hand, a great opportunity exists to improve postal service, cost performance and the circumstances under which postal employees work.

The Commission and its contractors have examined postal operations carefully. It is our considered judgment, based on first-hand observation, that postal costs can be reduced by at least

20% if the normal investment and operating practices used in private industry are made available to postal management.

Several years after the Corporation is under way, therefore, it should be able to eliminate entirely the postal deficit, releasing over a billion dollars a year of tax money to other purposes. The long-run potential for improvement, furthermore, is so high that we are reluctant to estimate its size.

The cost savings we expect would not jeopardize the employment of any present postal employee. In recent years total postal employment has increased sharply with the rise in mail volume. The introduction of cost saving practices in the face of ever greater mail volumes should mean that employment will rise more slowly. Even if employment ultimately declines, the high rate of personnel turnover (23% per year) assures today's employee that steps toward improved financial performance do not threaten his job tenure.

We must point out that adoption of our recommendations will produce no overnight miracles. Heavy investment, financed both by appropriations and by borrowing in the market, will be required. It is unlikely, of course, in an era of rising costs that rate increases can be entirely avoided. What lies ahead, however, after the new Corporation's shakedown period is:

- *dependable postal service, at fair prices, fully responsive to the public's needs;*
- *a soundly financed and self-supporting postal system;*
- *better working conditions and greatly increased career opportunities for one of the nation's largest work forces.*

If the Post Office is given a single goal of providing the nation with a superb mail service, and given as well the management capacity and operating freedom to achieve that goal, the energies of workers and managers can be turned to the creation of a postal service appropriate to a vigorous economy, an innovative society and a purposeful nation.

The Commission's Report

The conclusions set forth in this Report are the result of a one-year study by the Commission, its staff and several professional organizations. In addition to visiting post offices and discussing postal problems at length with employees and officials, the Commission actively sought the views of all parties interested in postal affairs. We invited comments generally through a Notice of Inquiry in the *Federal Register* and specifically from over 100 national organizations. Representatives of various groups affected by the postal service also appeared before the Commission in informal hearings and many individuals prominent in national affairs shared their views with us personally or through correspondence. We interviewed over fifty Congressmen and hundreds of Government officials. A summary in detail of how the Commission went about its work is presented as an Appendix at the end of this Report.

* * * * *

Part I of this Report provides the facts and analysis upon which our recommendations are based. The first chapter, *The Post Office in Crisis*, indicates the deficiencies we found in the present state of mail service, postal employment and postal finances. In the second chapter, *The Roots of Failure*, we trace this crisis to a failure of the system by which the Post Office is managed, a system intimately related to its organizational form. In the third chapter, *A National Opportunity*, we present in greater detail the recommendations set forth in the Summary.

Part II of the Report is a series of special studies providing background information and, where appropriate, the Commission's findings on selected topics relating to the postal service.

The Annex to the Report, published separately, contains the reports of the Commission's consultants. The Commission has carefully studied each of these valuable reports and commends them to all interested citizens; the Commission's conclusions in Parts I and II, however, represent its independent judgment.

Part I
Analysis and
Recommendations



Chapter 1

The Post Office in Crisis

A. The Quality of Postal Service

1. *A Postal Catastrophe: Chicago*

In October 1966, the 13-story, 60-acre Chicago Post Office—the world's largest postal facility—stopped functioning. Breakdowns in management authority and in physical plant paralyzed service in one of the nation's biggest cities and delayed millions of cross-country letters and parcels normally routed through Chicago. The crisis lasted nearly three weeks.

The backlog of mail exceeded 10 million pieces. Railroad cars and trailer trucks clogged approaches to the post office. Millions of citizens were inconvenienced; hundreds of businesses suffered financial losses. With the help of a Departmental task force vested with special authority by the Postmaster General, service was gradually restored, first to letter mail and then to other classes.

The crisis resulted both from management problems:

- *a vacancy in the Postmaster's position for the preceding six months*
- *retirement of an unusually large number of experienced supervisors at the end of 1965 (due to an improvement in pension benefits at that time)*
- *low employee morale and a great many disciplinary actions*
- *a sick leave ratio double the national average*
- *the lowest postal productivity record in the nation,*

and from physical plant shortcomings:

- *inadequate dock space*
- *a heavily congested location*
- *a building designed for a much smaller mail volume*
- *poor building and machinery layout*
- *repeated conveyor belt and elevator failures*
- *half of the tractor fleet out of service due to breakdowns.*

The breakdown was no fluke. An earlier Chicago crisis occurred in December 1963, and hundreds of thousands of Christmas parcels were not delivered until well into the new year. In fact, post offices across the nation routinely operate dangerously close to their capacity; minor incidents can have catastrophic results. In another city last December, for example, a sack sorting conveyor broke down in mid-afternoon on a heavy mail day. Passageways quickly filled with mail sacks; trucks trying to unload more mail were backed up for blocks, preventing loaded trailers from departing. Storage cars missed train connections. Fortunately, the equipment was quickly repaired and the backlog worked down, preventing a repetition of Chicago on a small scale.

Similar incidents have occurred in many other cities. Despite valiant efforts, delays occur even in first-class mail; backlogged bulk mail is common. The facility and management problems of Chicago, in varying degrees, exist in post offices all over the country. In the Commission's judgment, particularly with mail volumes continuing to increase, the causes which produced Chicago may well produce the same results elsewhere.

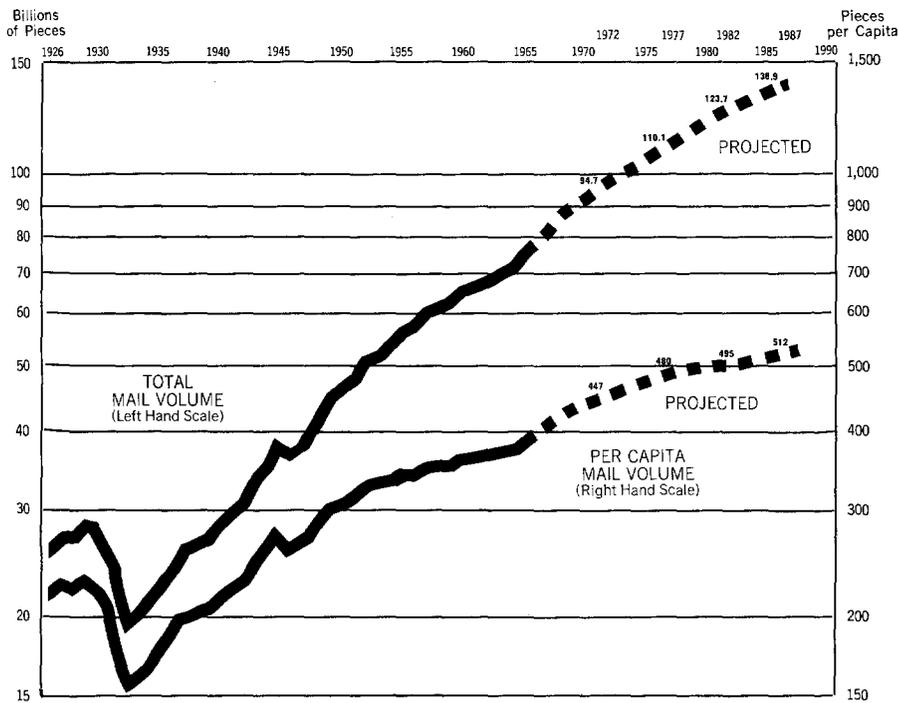
2. Dissatisfaction with Day-to-Day Mail Service

Massive breakdowns are dramatic, but so far they have been rare. We were concerned not only with what former Postmaster General Lawrence F. O'Brien has called the Post Office's "race with catastrophe" but also with the adequacy of day-to-day service. Remarkably little data has been collected on this vital topic. Further, the Post Office has not gathered reliable information on what is sent through the mail.

What is certain, however, is that each year more and more mail flows into the postal system—in 1967 over 78 billion pieces weighing over 6 million tons. Post Office estimates, based on recent trends, place the 1977 mail volume at 110 billion pieces. (Figure 1 shows the mail volume projected to 1987.) Even granted the uncertainties of economic forecasting, the Post Office can expect sizable growth.

In view of the difficulty the Post Office has in handling today's mail volume, the prospect of a 41% increase in the next decade gives no cause for optimism.

Figure 1. MAIL VOLUME (Ratio Scale)



Source: U.S. Post Office Department.

The Commission has found a pattern of public concern over the quality of mail service. Delayed letters, erroneous deliveries, damaged parcels and lost magazines are everyday experiences.

Seventy-five national associations representing most major groups interested in or dependent upon the mails submitted written views to this Commission on a variety of postal topics. Of these, 47 (63%) faulted mail service in one respect or another. Significantly, those with special experience with a particular class of mail (e.g., second-class mail users) criticized the service given their particular class while expressing satisfaction with, or not commenting on, service generally. Those groups representing a broad spectrum of mail users (e.g., associations of merchants) tended to be critical of the general level of service. Our survey of American households, too, found greater dissatisfaction with mail service among those householders who were heavy mail users. The lesson is clear: from a distance the mail service is not bad, but the more you use and depend on it, the less satisfactory it seems.

The complaint the Commission heard most often was that service is not dependable. All but a tiny fraction of the mail ultimately reaches its destination, but late mail is often no better than lost mail.

The Post Office has only recently begun making quality control measurements of service on a continuous and scientific basis—a vital and long overdue function in a large service organization. Preliminary tests show that some 71% of first-class letters are delivered the day after mailing. Paradoxically, cross-country mail often receives quicker delivery than local mail in metropolitan areas. Traffic delays, multiple handlings and obsolete and crowded facilities in many major cities often cause two or three day delays in crosstown mail.

3. *Unresponsiveness to Public Needs*

Public needs for mail service are by no means uniform. To many householders, good service means getting delivery early in the day. To many businessmen, it is next-day delivery of correspondence mail; to others, delay in ordinary correspondence is tolerable if a rapid and dependable special delivery service is available.

The Post Office has recently been attempting to establish standards for mail service. Such standards will permit management to examine the Post Office's "product line" more scientifically. A primary service problem, for example, may be the absence of any stratification within first-class mail. Much of this mail is less urgent than the rest, but the classification system fails to reflect this distinction, and post offices bulge nightly in an often unsuccessful attempt to meet the service standard of processing *all* first-class mail for next-day delivery.

On the other hand, individuals or businessmen requiring *assured* next-day delivery, say between Chicago and Los Angeles, or even within a metropolitan area, cannot buy it from the Post Office at any price. Special delivery service comes into play only after a letter arrives at the city of destination and is sometimes slower than regular service. A public need exists for an expedited service for the mailer willing to pay a premium for assured delivery.

The failure to offer such service can be traced in good measure to the dearth of systematic market information. No office within the Post Office has responsibility for such subjects; no service experimentation program exists. As a result, though the service ideal is deeply embedded in postal employees, they serve a market whose needs are but dimly perceived.

The correction of service deficiencies and the construction of safeguards against service "blackouts" should be made the first priority of postal management. The universal service orientation among postal workers encourages a belief that a high level performance can be attained if management is given the authority and incentive to respond to this urgent need.

B. The Circumstances of Postal Employment

Few things in our study have so disturbed us as learning of the severely limited career opportunities of postal employees and the

physical conditions and institutional environment in which they work. A member of the Commission expressed his reaction in these words:

Under the present Post Office system, the individual employee is not permitted to have the opportunities that are open to employees in virtually all other private or governmental American institutions.

He cannot earn promotions based on merit. He is immobile, almost a prisoner of his environment, and therefore cannot take advantage of his talents and energies except within his own tiny segment of the Department. Without political help, he cannot aspire even to leadership of his own post office. In many places the postal employee must live under working conditions that he, his union, his supervisor, or his top management cannot do anything about.

The present Post Office system fails to allow for the typical American and, in fact, the natural human desire to improve his abilities and his welfare.

In most American enterprises, the improvements in methods and in capital equipment are the ideas of employees. Our present Post Office system effectively blocks this great potential for improvement in postal operations. Not even the postmasters of major post offices can bring about improvements that are obvious and that would save large sums of money.

Regardless of any of the productivity improvement possibilities within the Post Office system, desirable as they may be, probably the most serious criticism is the failure of the Post Office system to offer the individual employee the kind of opportunities for personal involvement and improvement that characterizes almost every other phase of American life.

With 716,000 employees (see Figure 2) the Post Office is one of the principal employers in the nation. The salaries it pays are—in most places—competitive with those paid by private companies, at least for non-supervisory personnel, yet there is widespread disquiet among postal employees.

Time and again senior employees told us they would not recommend postal employment to someone beginning his working career. Many newer employees said they were staying only until a better opportunity arose or until they finished school.

1. Antiquated Personnel Practices

The most striking characteristic of postal personnel practices is a negative one. Procedures for hiring, discipline, promotion and grievances have remained relatively unchanged over the last few decades. Though vast changes mark all our institutions, both public and private, personnel and operating practices developed thirty years ago

Figure 2. U.S. POST OFFICE MANPOWER BY OCCUPATIONAL CATEGORY, 1968

CLERKS	308,078
CITY CARRIERS	195,386
RURAL CARRIERS	49,070
MAIL HANDLERS	47,565
SUPERVISORS	34,846
POSTMASTERS	31,976
MAINTENANCE EMPLOYEES	22,473
MOTOR VEHICLE EMPLOYEES	11,433
HEADQUARTERS AND OTHERS*	9,603
SPECIAL DELIVERY MESSENGERS	5,540
TOTAL	715,970

*Headquarters, Regions and Postal Data Centers, Inspection Service.

Source: Compiled from Post Office Department data (as of January 12, 1968).

dominate the performance of many postal officials and underlie the instructions in the *Postal Manual*.

It takes at least thirteen weeks to hire an employee, (Figure 3), and a recent Post Office survey showed that 67% of job applicants in 17 large metropolitan areas did not wait around to complete the process. Personnel directors in private industry regard prompt notification of applicants as an essential to sound recruitment.

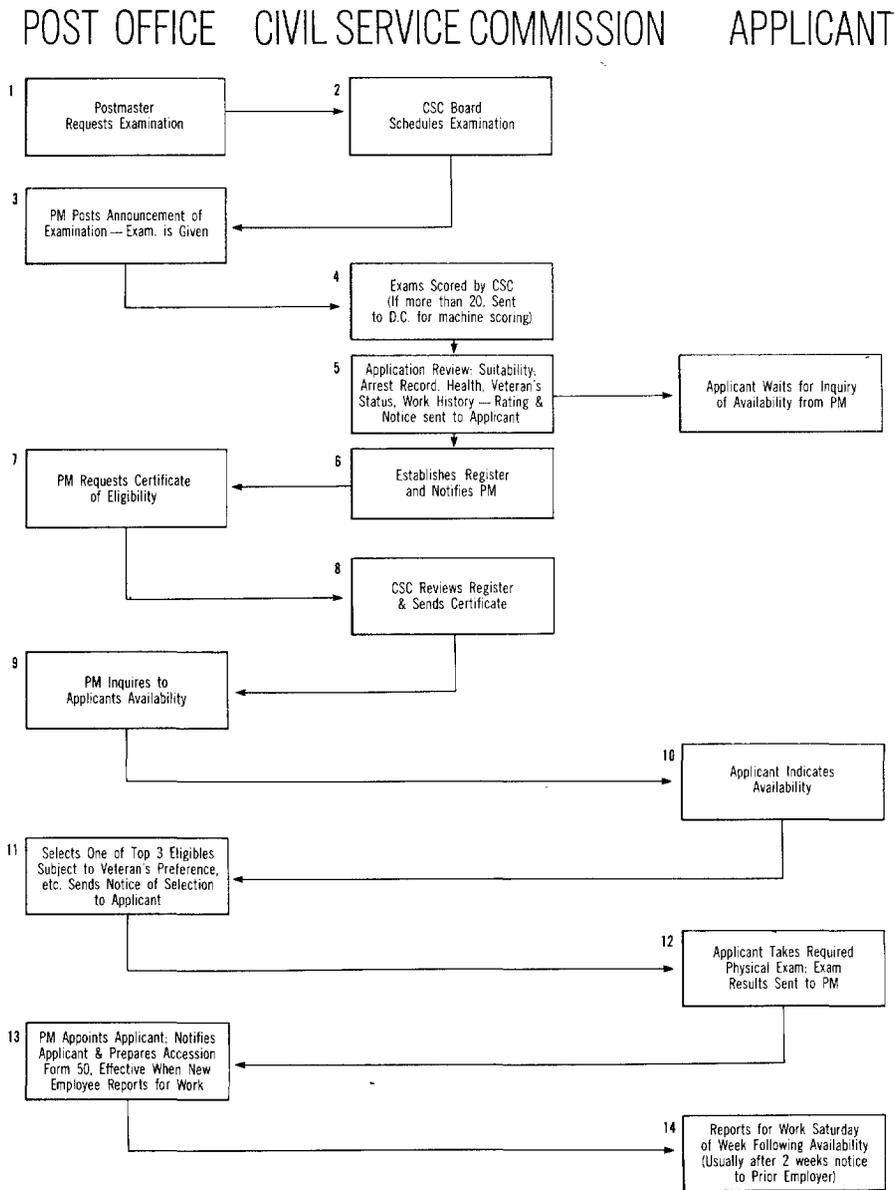
2. Poor Working Conditions

Dissatisfaction with physical working conditions has been a major source of postal employee complaints. Though some modern post offices are pleasant enough places to work, working conditions in many are appalling. Many active post offices were built in the 1930's or before, when mail volume was less than half of what it is today. Dirty facilities, crowded and noisy work areas, inadequate locker space and rest rooms and poor lighting, heating and cooling systems are common. Local management rarely has the power to correct these conditions if correction costs money; it has little incentive to correct these conditions and many defenses in the rule books for not so doing.

3. Limited Career Opportunities and Training

About 85% of all postal employees are in the five lowest grades, and over 80% finish their careers at the same grade level at which they start them. The small number of higher positions in the personnel structure, the patronage and residency requirements for postmaster appointments, the practice of not transferring supervisors from one office to another and the extraordinary emphasis on seniority not only hamper management but seriously limit postal career oppor-

Figure 3. **STEPS TO POSTAL EMPLOYMENT (CERTIFICATION, SELECTION & APPOINTMENT PROCEDURE)**



MINIMUM TIME LAPSE—13 WEEKS

Source: Prepared from U.S. Post Office Department data.

tunities despite a tradition of promotion from within to non-patronage jobs.

Serious shortcomings exist as well in training. In Fiscal Year 1967, the average postal employee spent less than one day a year in training, more than half of it on his own time. This is a remarkably low average, particularly for an activity whose growth and turnover required it to add over 180,000 employees last year. Low postal productivity is unquestionably related in some degree to the small amount of training Post Office employees are given. Known and deplored throughout the service, this shortcoming was confirmed in almost every post office we visited and by almost every employee organization. Diverting a relatively small fraction of the operating budget to this purpose would produce immediate economic benefits as well as obvious social rewards.

4. Inadequate System for Supervision

Moving 200 million pieces of mail a day requires constant surveillance and adaptation to avoid slowdowns and prevent logjams. The emphasis on seniority and promotion from within, the large number of workers reporting to each supervisor and the detailed statutory requirements the Department must observe all result in management "by the book." The book is the *Postal Manual*, which attempts to cover every conceivable postal contingency. An authoritarian style of supervision has become the rule.

Generally, all but the highest level of supervisors are isolated from management decisions. They are remote from issues of efficiency or planning. They lack the authority and tools to budget, control and evaluate performance in their units. They lack clear responsibility for their employees' career development, a particularly serious defect in an organization relying on advancement from within. That some postmasters and supervisors do well is a tribute to them as individuals, not to the system they are able to outwit.

5. Unproductive Labor-Management Relations

The Post Office Department is the most highly unionized Federal Government agency. Over 620,000 of its employees (87.5%) belong to one or more of the twelve employee organizations shown in Table 1.

The postal unions, among the oldest and strongest in the American labor movement, differ sharply from those in the private sector. They represent workers forbidden by law to strike, and they exercise their primary influence not at the bargaining table, but with Congress, which determines pay, hours, benefits, job descriptions and other matters of direct concern to postal employees. Congressional petition takes the place of normal collective bargaining.

In 1962, Executive Order 10988 marked the beginning of formal labor-management relations in the Federal Government as a whole.

Table 1. POSTAL EMPLOYEE ORGANIZATIONS

<i>Name of Organization</i>	<i>Date Founded</i>	<i>Estimated Membership</i> ¹	<i>Type of National Recognition Under Executive Order 10988</i>	<i>Number of Employees Represented Under National Agreement</i>
National Association of Letter Carriers*	1889	190,000	Exclusive	195,386
United Federation of Postal Clerks*	1890	143,000	Exclusive	308,078
National Rural Letter Carriers' Association	1903	40,000	Exclusive	30,753 ²
Nat'l Ass'n of P.O. Mail-Handlers, Watchmen, Messengers & Group Leaders*	1912	35,000	Exclusive	47,565
Nat'l Ass'n of P.O. & Gen'l Services Maintenance Employees*	1937	21,500	Exclusive	22,473
Nat'l Federation of P.O. Motor Vehicle Employees*	1924	8,000	Exclusive	11,433
Nat'l Ass'n of Special Delivery Messengers*	1937	2,500	Exclusive	5,540
National Postal Union	1958	70,000	Formal	—
Nat'l Alliance of Postal & Federal Employees	1913	32,000	Formal	—
Nat'l Ass'n of Postal Supervisors	1908	32,000	Formal	—
Nat'l League of Postmasters	1904	18,000	Formal ³	—
Nat'l Ass'n of Postmasters of the U.S.	1898	29,000	— ⁴	—

¹ Source of membership figures, Post Office Department.

² An additional 18,317 substitute rural carriers excluded from coverage under national agreement.

³ Overlapping membership with NAPUS.

⁴ Recently gave up its status as a "formally" recognized organization under Executive Order 10988.

*Affiliated with AFL-CIO.

It directed Federal agencies to recognize employee representatives for the purpose of negotiating agreements and consulting with them on personnel matters. Judging from the frequency and intensity of complaints by representatives of both postal unions and management, Executive Order 10988 has been less than a success in the postal service. In many interviews with the Commission, both labor and management have challenged the good faith of the other.

Many of the problems in this area stem from the exclusion from bargaining of most items bargainable between management and labor in the private sector. As described by Robert R. Nathan Associates, the Commission's contractor on personnel and labor relations:

With wages and fringe benefits determined by Congress, management is left with the unenviable task of bargaining only the complex human relationships and conflicts inherent in such subjects as the grievance procedure; promotions, reassignments, and posting of job vacancies; seniority; parking control; adverse action and appeal procedure; and advisory arbitration and optional mediation. Without the ability to negotiate basic money issues, and with the implied threat that the unions may carry their grievances to Congress, management has had little room to maneuver and has yielded bits of its authority (more than the Executive Order required) without buying union cooperation in improved management or productivity.

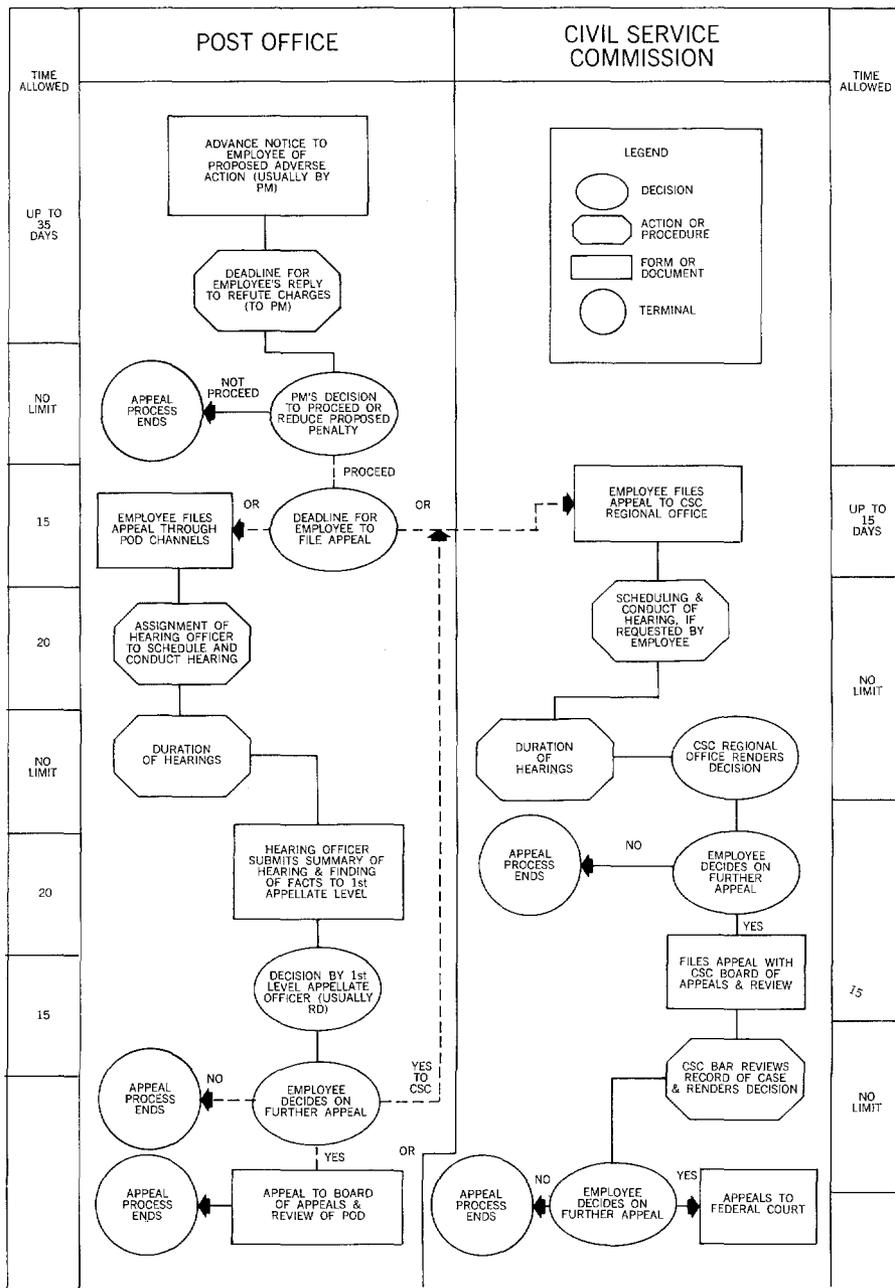
Other difficulties stem from a provision in the Executive Order forbidding binding third-party arbitration. Further, a representation of employees by different unions at different levels (local, regional and national) has caused confusion and weakens relationships between local union officers and management.

Union officials complain that management's national negotiating team often lacks familiarity with the differing situations in local post offices. Thus, it fails to anticipate the effect on local operations of the agreement it is negotiating. At the local level, unions resent management's labeling an issue as a non-negotiable management prerogative without giving specific reasons, as required by the national agreement. Union representatives at all levels complain that management officials frequently violate agreements and that no action is ever taken against them. They further allege that management easily ignores contract provisions by simply calling a situation an "emergency" and frequently disregards time limits for making decisions in grievance cases.

Management complains that grievance procedures, illustrated in Figure 4, take excessive time and that petty grievances unnecessarily divert management effort and reduce the grievant's productivity. Further, a dismissed employee challenging his removal can remain on the job and on the payroll for months while the decision is pending at higher levels. In such cases, the employee, expecting dismissal, may disrupt the discipline of the local office. Local management also complains that the Headquarters bargaining team has given up too much of management's prerogatives without obtaining real union cooperation.

Without taking a position on the merits of these complaints and recognizing that some grievances are to be found in any organiza-

Figure 4. THE COMPLEXITY OF THE ADVERSE ACTION AND APPEAL PROCEDURE



Source: Prepared from Post Office Department and Civil Service Commission data.

tion, it is nevertheless clear that the relationship between labor and management in the Post Office is generally unproductive.

C. Postal Finances

The postal financial picture is bleak. Because revenues from postal users do not cover postal costs, the Post Office is financed jointly by the mail user and the taxpayer, the taxpayer covering what the mail user does not (Figure 5). The deficit is a growing and unnecessary drain of tax funds, postal costs are far higher than they should be, and postal rates are irrational and often inequitable.

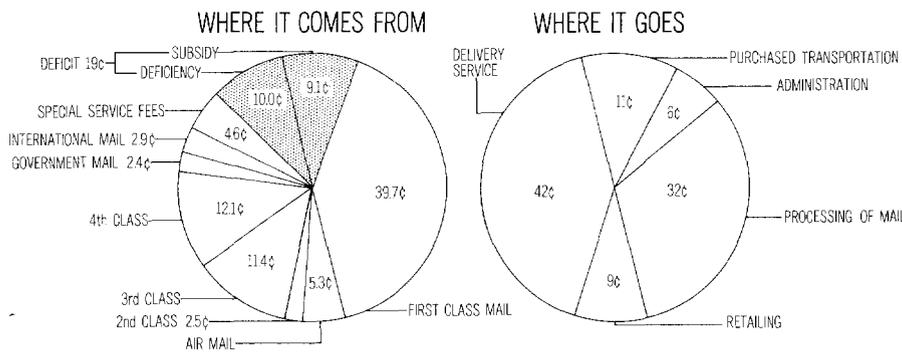
1. The Growing and Unnecessary Deficit

During all but 17 years since 1838, when deficit financing became a way of life for the Post Office, postal expenditures have exceeded postal revenues. Through the life of the Post Office the cumulative postal deficit has been 15% of total postal costs. In Fiscal Year 1967 it was \$1.17 billion, or 19.1% of the total postal budget. High as they are, these figures still understate the postal deficit in economic terms, since they do not include such costs as the interest on invested capital or funding of the large and currently unfunded employee pension account.

Some argue that practically all Government agencies operate at a deficit and that the postal deficit is no more a cause for alarm than the Department of Defense "deficit" or the Department of Justice "deficit." In our view, such reasoning misconceives the nature of the postal establishment. All Government services must be paid for one way or another; most can be paid for only through taxes. Unlike national defense or public health, however, postal services can be and always have been sold to users.

Frequently, the argument next heard is that the postal system must

Figure 5. THE POSTAL DOLLAR

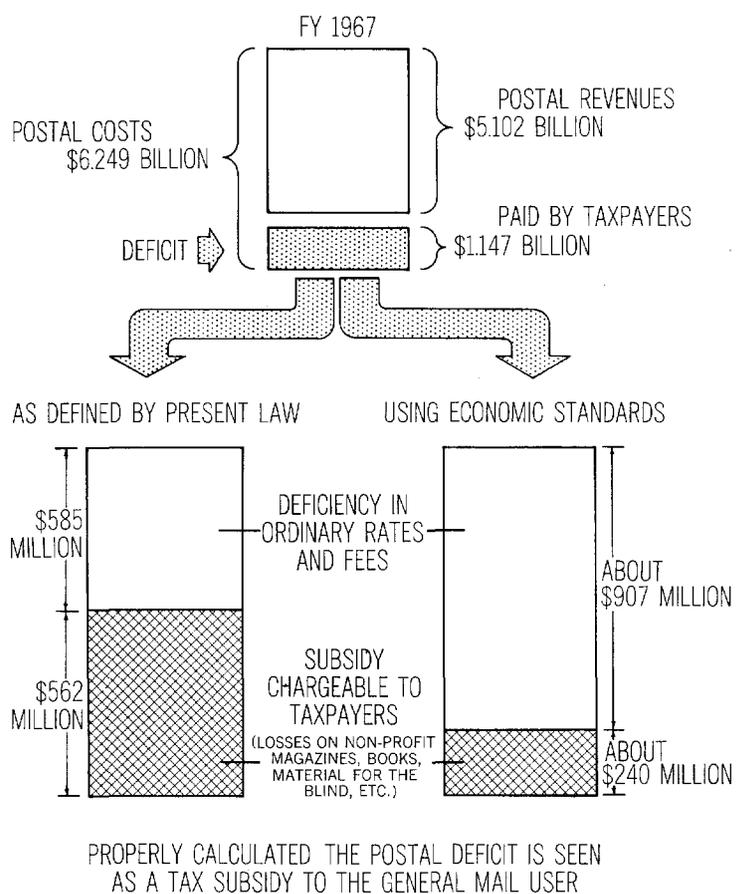


Source: Compiled from Post Office Department Survey of Postal Rates, 1967 and Program and Financial Plan.

have tax support because it performs many "public services." Indeed, about half of the deficit is by law called a "public service allowance." (See Figure 6.) Our examination of the public service allowance contained in Part II of this Report and in the report of our rates contractor, Foster Associates, Inc., however, reveals that a relatively small portion of it actually supports "public services" to specific types of users such as nonprofit organizations or the blind. In fact, as shown in the second column in Figure 6, 79% of the deficit is a subsidy to the postal service as a whole. Only 21% of the deficit—some 3.8% of total postal costs—represents a subsidy to such users as nonprofit institutions, mailers of educational materials and others specifically identified in the Postal Policy Act.

Nonetheless, the postal deficit remains one of our most enduring

Figure 6. COMPOSITION OF THE POSTAL DEFICIT (FY 1967)



Source: Prepared from Cost Ascertainment Report (accrual basis).

fiscal traditions. If present cost trends continue, even with normal rate increases the cumulative deficit over the next decade will approach \$15 billion.

2. *The High Cost of Postal Service*

What has struck the Commission, in addition to the size of the deficit, is the fact that this huge diversion of tax funds appears totally unnecessary. In our judgment, at least 20% of postal costs—well over a billion dollars a year at present volumes—would be saved if the Post Office management were freed to plan and finance postal operations and capital investment strictly in accord with postal needs.* In fact, the 20% represents our judgment of the savings we can presently foresee. There is no telling what greater savings could be made over the long pull by businesslike management in the Post Office.

a. Opportunities for Savings—Postal Productivity. The Post Office's inefficiency is starkly apparent to anyone who walks across a work-room floor. In most offices men and women lift, haul and push mail sacks and boxes with little more mechanical assistance than the hand-cart available centuries ago. In this electronic era, the basic sorting device remains the pigeonhole case into which letters are placed, by hand, one by one. The basic parcel post container is the canvas sack, filled, lifted and "dumped" by human labor.

The visible evidence of inefficiency is confirmed by the Post Office's productivity record. As Figure 7 indicates, postal productivity has improved only slightly in the last ten years and has lagged well behind productivity gains for the national work force. The average increase of 0.23% per year from 1956 to 1966 is far lower than the figures for other industries shown below:

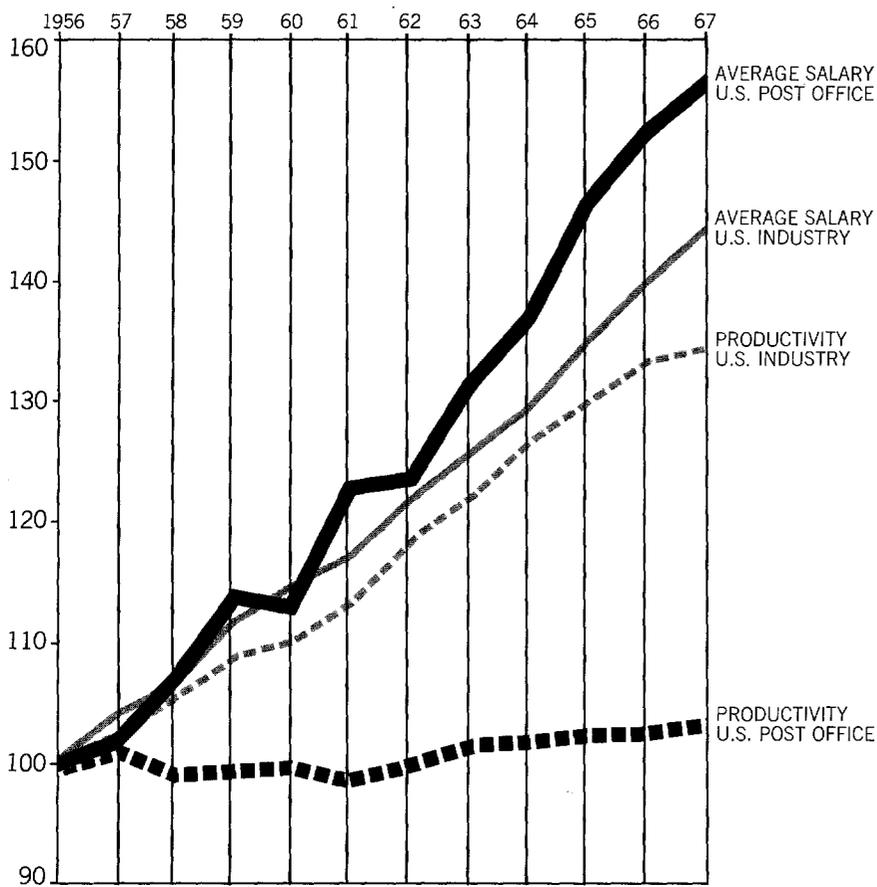
Output Per Man-Hour (Percentage Change Per Year, 1956-1966)	%
Communications	6.2
Transportation	4.0
Mining	3.7
Manufacturing	3.2
Wholesale and retail trade	3.4
Finance, insurance, and real estate	2.7
Services ¹	1.9
Post Office	0.23

¹ Includes forestry, fisheries, medical services, private education, personal services.

Sources: Compiled from data obtained from the Economic Report of the President, 1968, Robert R. Nathan Associates, Inc., and the Bureau of Labor Statistics.

*The areas in which we believe significant savings lie are discussed in "Potential for Cost Savings in the Postal Service" in Part II of this Report, pp. 154-63.

Figure 7. **PRODUCTIVITY AND SALARY TRENDS**
 (Post Office and U.S. Industry, 1956-1967)



Sources: Post Office salary, Post Office Department Annual Report, various years; Post Office productivity (weighted), Robert R. Nathan Associates; U.S. Industry data, Economic Report of the President, February 1968.

Postal salaries, on the other hand, have not only kept pace with, but have risen somewhat more than, those in the rest of the economy (Figure 7). The inexorable result of rapidly rising labor costs and slowly rising productivity is a sharp increase in labor costs per unit of output. In a private industry in which personnel costs are 80.3% of total budget, any such increase would be directly reflected in higher prices. In the unique situation of the Post Office, they are reflected, as well, in a higher deficit.

Lagging productivity results in large measure from the Post Office's failure, for many reasons, to make the capital investment essential for cost reduction. Net fixed assets average \$1,145 per postal employee,

suggesting a serious lack of capital equipment when compared to the leading companies in selected industries:

Power Utilities	\$151,710
Telephone and Telegraph	35,630
Transportation	25,053
Manufacturing	7,170
Merchandising	2,836

Source: *Moody's Manuals*, 1967; *Fortune Magazine*, June 15, 1967 (companies ranked by sales).

b. Potential Improvements from Technology. The Commission studied carefully the entire range of postal technology to determine whether developments now in the research stage might radically alter the way in which the mails are handled. We have found little likelihood that there will be such a change within the foreseeable future. Nevertheless, there are many ways in which available technology can be more widely applied to postal operations. To estimate where mechanization can be applied it is necessary to examine briefly the characteristics of various postal activities.

With its \$6 billion budget the Post Office operates the largest retail chain in the country, offering window service at over 44,000 locations; it runs a nationwide network of mail processing "factories" and buys more transportation than anyone else except the U. S. military establishment; it provides daily delivery to virtually every household and business in the land.

As illustrated in Figure 8, the lion's share of postal costs, manpower and volume is in the large city post offices. Here the opportunities for savings are greatest, and here the inefficiencies are most apparent.

Similarly, certain kinds of postal functions have a higher potential for cost reduction than others. The retailing and delivery activities may be considered the "institutional" functions of the postal system. Their costs depend less on mail volume than on the size and characteristics of the area served. Increasing urban sprawl requires more collection and delivery routes and more retail outlets to bring postal services to the public. The potential for savings in this area lies not so much in technological advances as in more efficient use of this institutional capacity—through, for example, the provision of additional mail-related services.

On the other hand, the volume of mail, particularly in the larger offices, determines processing and transportation costs: as volume rises, more people, more vehicles and more purchased transportation are required to handle it. In the Post Office's "factory" operations are the greatest prospects for economies through the application of technology and modern management methods.

For many operations, the Post Office could employ methods and mechanization already in use in other industries. The Commission's

Figure 8. **IMPORTANCE OF LARGE METROPOLITAN POST OFFICES**

75 LARGEST POST OFFICES	32,557 REMAINING POST OFFICES
50% EMPLOYEES	50% EMPLOYEES
56% OF MAIL VOLUME	44% OF MAIL VOLUME
47% REVENUE	53% REVENUE

Source: Prepared from Post Office Department data.

contractor, Arthur D. Little, Inc., estimates that the productivity of some facilities can be increased by as much as 50% through systems engineering techniques already in common use in the private sector. For example, the Post Office relies almost totally upon human labor for bulk materials handling and distribution—the transfer of mail between work stations, and the loading and unloading of vehicles. The use of materials handling devices and containerization—now widely used in private industry—could improve productivity in this area substantially, with concomitant improvements in work safety and comfort.

The Post Office has not only failed to take advantage of the technology of other industries, it has not fully exploited the mail processing equipment already in use in some of its own facilities. The multi-position letter sorting machine, for example, requires ten fewer employees to sort the same amount of mail and pays for itself in two years or less in the normal installation. Yet, only 39 post offices use this equipment. The same limited utilization is found for other types of postal machinery—parcel sorters, sack sorters, cullers—with the result that more and more manpower is needed to handle growing mail volume.

The mechanization gap comes from a chronic shortage of funds for capital investment. Despite recognition by most Congressmen of the urgency of postal problems, the accumulated need for facilities and equipment exceeds \$5 billion according to Post Office estimates. The Commission's observations tend to confirm the need for a sum of this general magnitude.

A promising development in letter sorting is the optical scanner which permits machine reading of typed or printed addresses and ZIP Codes. Now at the end of the experimental stage, the combina-

tion optical scanner and letter sorter saves almost three times as much processing manpower as the multi-position letter sorter. Optimum use of this machine will require a certain minimum standardization of envelopes and in the style and format of the addresses printed on them. The major question again, however, is whether Congress and the Executive Branch can invest substantially in this equipment at a time of increasing demands on the Federal budget.

c. Managing for Savings. One reason for the lack of postal efficiency is that the Post Office is simply not set up to be managed efficiently, either in its individual parts or as a nationwide system. Management has little pertinent financial information on the costs of postal activities. The members of the Commission found it hard to believe that a postmaster sees no information on the total costs of his operations. Instead, regional headquarters issues a man-hour allocation to be used as needed to get the job done. If the allocation runs out, the postmaster merely justifies a further allowance of man-hours. Since he is not responsible for total costs, he has no incentive to "spend-to-save" by purchasing or requesting labor-saving devices.

Nor does higher management have adequate information on the cost of running any of the nation's 33,000 post offices; witness the following exchange in February 1967 between a member of the House Appropriations Committee and an experienced and well-informed postal official:

Mr. Conte: . . . *what was the operating cost to run the Chicago Post Office in 1966?*

Postal Official: *I regret we don't have the total cost. We could have the number of hours worked in Chicago for you.*

Mr. Conte: *You mean to tell me you can't call the regional office and ask them how much they spent for the Chicago Post Office in 1966?*

Postal Official: *That is correct.*

Mr. Conte: *That is amazing.*

Other postal information systems are as sketchy as those by which local costs are determined. The Work Measurement System, for example, is a measurement of labor productivity in mail pieces per man-hour, widely used by postal management. Price Waterhouse & Co., our financial management contractor, found it inadequate because the basic mail volume data was inaccurate.

The postal Planning, Programming and Budgeting System, which relates postal functions to their specific costs, appears to have substantial potential for planning purposes as well as for management control, but is in its early stages of development. The Post Office has no local or national system to measure actual performance against planned and potential performance so that postmasters and higher

management can identify areas of inefficiency and concentrate on improving them.

The fragmentary information available today reveals wide variations between those post offices in which management somehow manages, despite the odds against it, and those in which it does not. A recent analysis made for the Post Office Department showed that if every one of the 75 largest post offices could operate as well as the ten most efficient, their mail processing productivity could improve by 33%.

Even if no service problems existed and if the Post Office were a model employer, a management system which tolerated such inefficiencies would cry for change.

d. Realizing Potential Savings. The first essential for raising Post Office productivity is a management information network which reports promptly and accurately the real costs of operating the postal system. Next, managers and workers alike must be motivated toward cost-conscious operation. Normal lines of management control are an essential part of such motivation.

With a new management system in the Post Office, some savings could be realized almost immediately, although they may well be offset by the costs incurred in adjusting the organization to decentralized management. The principal financial improvements, however, can only come after investment in equipment and facilities begins to raise postal productivity. A sound capital investment program cannot be completed overnight. New facilities must be designed and constructed, and several years will pass before the savings we have projected can be realized.

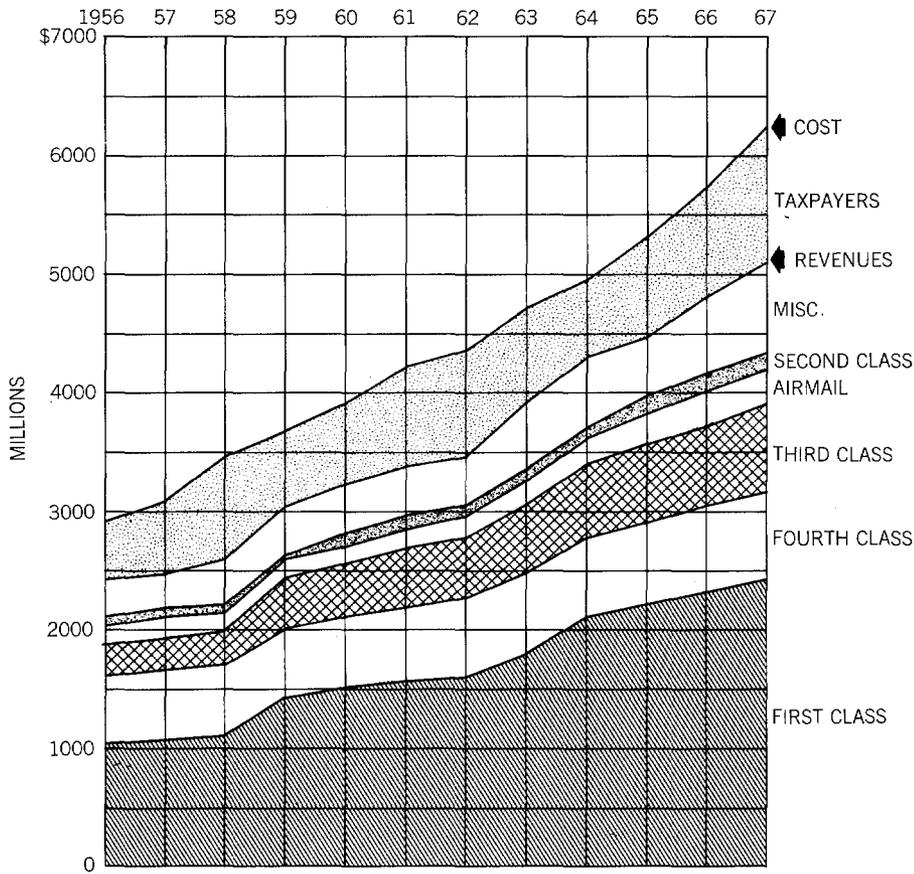
New equipment and facilities cannot themselves do the job. The almost-level productivity trend shown in Figure 7 covers a period during which over \$421 million was invested in postal modernization. The catalyst is a well-informed, well-motivated management, with the authority to make and implement decisions.

3. The Irrational Postal Rate System

The system of user rates and fees (which pay 81% of postal costs) is disturbing in its irrationality. In common with utilities generally, the Post Office has a rate structure separated into classes to reflect differences in service levels and handling costs for different kinds of mail. Lower third-class mail rates, for example, take into account the mandatory pre-sort and ZIP Code requirements for that class, its lower handling priority and its relative lack of privacy. The extent to which each class of user and the taxpayer supports the Post Office is shown in Figure 9 on the following page.

Whether every class pays its "proper" rate is a long-standing controversy which cannot be resolved in the absence of functional cost

Figure 9. WHO PAYS?



*E.g. Government, International, Controlled Circulation and Special Services.
 Source: Prepared from Post Office Department Cost Ascertainment Report data.

data which the current cost system does not generate. The Post Office uses a Cost Ascertainment System, authorized by a 43-year-old statute, for determining the revenues, volume and cost of each class of mail. For determining costs it uses the "fully-allocated" method through which every postal expense is charged to some class of mail or special service. A large segment of postal costs, however, does not result from handling a particular class of mail but is the cost of maintaining the postal system itself. The allocation of such institutional costs to specific postal products, despite painstaking attempts to achieve fairness, is not only arbitrary but uninformative.

The Commission therefore questions the validity of this System for determining whether a given class pays its way; nevertheless, it provides the only data available at present.

Under Cost Ascertainment only first-class and airmail cover their "fully-allocated" costs. Second-class mail (magazines and newspapers) has the lowest cost coverage, projected to be 26% in Fiscal Year 1968; third-class (advertising) the next lowest, projected to be 76%. Some items within these classes undoubtedly do not pay their way, while others do. Under the broad averages used in Cost Ascertainment one cannot tell which are which.

In rigidly apportioning all postal costs—including the large pool of institutional costs not determined by mail volume—to each class of mail, the Cost Ascertainment System consciously ignores such "intangible" factors as priority of service, value of the service to the user and privacy accorded. It leaves to the Congress the task of reflecting these factors in the rate-setting process. Consequently, the prices Congress sets to reflect the lower service some classes of mail receive have come to be known, disparagingly, as "below-cost" rates.

Pricing practices of many corporations (including utilities) have moved away from reliance on such rigid accounting allocations and now take service and market considerations as well as cost into account. Postal management, too, needs a modern cost accounting system, one that shows, by each postal function, how costs vary with each class of service, how much each class contributes to peakload and the size of the remaining pool of institutional costs.

While data on postal costs are unreliable, information on the market for postal services is nonexistent. Only when reliable cost and market information is available will it be possible to tell which class is and is not "paying its own way."

* * * * *

The shortcomings described in this chapter have been evident for years to those familiar with the postal service. In the next chapter, we trace the problems we have enumerated to a primary cause—an outmoded and inappropriate management process—and demonstrate that the present organization of the Post Office prevents it from being managed properly.



Chapter 2

The Roots of Failure

The Post Office's principal failure is one of management. In a private company the shortcomings we have found in service, working conditions, efficiency and pricing policy would demonstrate that a new management team was needed. But in the Post Office, the failure is one of method, rather than of men. The Commission has been impressed by the caliber of managers of the postal service but has concluded they cannot correct the faults of the system by themselves. The organization of the Post Office as an ordinary Cabinet department guarantees that *the nominal managers of the postal service do not have the authority to run the postal service*. The important management decisions of the Post Office are beyond their control and therefore cannot be made on the basis of business judgment. The awareness of this handicap has proved to be an inhibiting factor, severely limiting the initiative of otherwise capable managers.

A. The Phenomenon of "No Control"

*"How do I manage this operation? My friend,
I don't manage it, I administer it."*

—Postmaster in a large midwestern city.

The comment could have been made by any postmaster, by any regional director, or indeed, by the Postmaster General himself. The postal system is not managed, in the accepted sense of the word. Rather, it is operated according to rules established somewhere else.

A hodgepodge of postal laws two hundred years in the making constrains managerial judgment and initiative. Nor is statutory intervention limited to matters of policy. Laws specify what material the Postmaster General may dispose of as waste paper ("unneeded files"), when patrons shall pay for postal lock boxes ("quarterly"), how to mail a key ("with a legible post office address attached securely thereto") and how a file clerk should maintain his files ("in an up-to-date condition"). The following exchange in 1967 between the Chairman of the House Postal Appropriations Subcommittee and the former Postmaster General sums up the situation:

Mr. Steed: *General . . . would this be a fair summary: that at the present time, as the manager of the Post Office Department, you have no control over your workload, you have no control over the rates of revenue, you have no control over the pay rates of the employees that you employ, you have very little control over the conditions of the service of these employees, you have virtually no control, by the nature of it, of your physical facilities, and you have only a limited control, at best, over the transportation facilities that you are compelled to use—all of which adds up to a staggering amount of "no control" in terms of the duties you have to perform. . . .*

Mr. O'Brien: *Mr. Chairman, I would have to generally agree with your premise . . . that is a staggering list of "no control." I don't know [whether] it has ever been put that succinctly to me. If it had been at an appropriate time, perhaps I wouldn't be sitting here.*

A diffusion of management authority at the top distinguishes the Post Office from other enterprises. In appearance, many people are responsible for running the Post Office; in fact, no one is.

Such fragmentation of authority comes not from a conscious determination that this is the best way to run the Post Office. Most Government administration is properly subject to a series of controls which in the aggregate foster caution rather than innovation. The controls have been meticulously devised over the years to assure that public policy is formulated and implemented within a carefully constructed system of checks and balances. The Commission does not call into question these procedures themselves, but rather their application to a Government-owned activity which is today far more a business than an instrument of public policy.

The continued application of these restrictions precludes responsible business management in the Post Office. The absence of responsible management having normal operating authority is, we believe, the primary cause of the deficiencies noted in Chapter 1.

Three basic characteristics of the Post Office prevent it from hav-

ing, in its present organizational form, a sound management system:

1. *Because it is financed in part from the Federal Treasury, the Post Office is enmeshed in the Federal budgetary process, and thus cannot be managed as its business character demands.*
2. *Because of statutory constraints, the nominal managers of the system cannot make the adaptations required by a fast-moving economy.*
3. *Because of the system for selecting postal managers, normal line relationships between them and top management are impossible.*

1. *The Effects of Treasury Financing*

The Commission has found that the traditional practice of allowing the Post Office to run a deficit and to make up its losses from the Federal Treasury is far more than an issue of taxing policy. The presence of the tax crutch has meant that the Post Office must stand in line with far more urgent national needs in order to obtain capital; it has meant that all postal funds, including revenues from the users, must pass through the appropriations process. It has meant that postal management has been unable to respond directly to the service needs of the public.

a. Financing Capital Needs. We noted earlier the severe lack of postal capital equipment and the excess costs and service deficiencies which this lack has brought. The Post Office does not make its own facilities decisions. Because postal funds are appropriated and because special restrictions apply to Federal construction, the approval of a major facility for the Post Office is a tedious process typically requiring eight to ten years between initial approval and occupancy.

Postal facilities may be constructed either by the General Services Administration or the Post Office. In either case, the process of obtaining legislative authority and funds is similar. The Public Works Committees of both the House and Senate formally receive and must approve the prospectus on the facility. After this legislative approval, funds are ordinarily obtained in two separate appropriations acts--the first to purchase the site and design the building; the second to construct the facility.

Both capital and operating funds are obtained simultaneously through the appropriations process, and when total obligations must be reduced in the interest of economy, it is often the capital funds which are cut since capital needs always seem more defensible than operating needs. The capital needs of the Post Office, furthermore, usually rank low on the scale of national priorities.

In presenting the 1969 Post Office appropriations bill, for example, the House Appropriations Committee spokesman said:

Our committee, realizing the importance of these [capital] appropriations to modernizing the Post Office, has nevertheless, recommended cutting

The Committee recommended a 43% cut in the postal public buildings appropriation and an 11% cut in plant and equipment.

Nor does the appropriation necessarily mean that work may proceed. Government-wide freezes for economy reasons often delay construction of needed facilities.

It is not surprising that the Post Office attempts to avoid these problems. Since leasing of a postal facility does not have the immediate impact on the Federal budget that construction does, the Post Office depends more and more on leasing. Of 67 major facilities built since 1955, or now under construction, 60 are leased.

The decision whether to lease or buy is a complex one in both the public and private sectors. Each case must turn on its own facts; there is no universal rule. But given the long-term requirement for most postal buildings, it would seem that the Post Office in most instances should be able to obtain capital more cheaply by going directly to the market itself rather than working through a broker under a lease arrangement.

Unfortunately, the Post Office must now base its lease-or-buy decisions not on relevant economic data but on expediency. Leasing is often the only way to obtain a badly needed facility. Analyzing comparative construction and capital costs and the risks of obsolescence becomes irrelevant. And yet even the leasing program has not been adequate to cover the Post Office's plant requirements.

The lack of postal capital equipment has already taken its toll, as noted in Chapter 1. It has brought higher operating costs and many of the service deficiencies and failures we have noted.

A separate capital account, with long-term funding, is clearly desirable for the postal service in view of its serious operational need for new postal facilities and the high economic payoff they offer.

b. Financing Postal Operations. When tax funds are intermingled with postal receipts a host of regulations governing appropriated funds come into play which seriously limit managerial judgment. Understandably, Congress does not encourage risk-taking in the administration of the taxpayer's money.

Successful business management, however, requires taking reasonable business risks. Particularly when investing in new products, in research or in new equipment and facilities, the managers of an enterprise, after examining available data, must rely on their experience and judgment and then act, knowing they will be held accountable for overall results. The potential cost savings and service improvements we outlined in Chapter 1 can be achieved only by a management willing and able to take reasonable risks.

The fear of mistakes has led to a rigid and complicated spending procedure which responds only slowly even to the most obvious needs. A postmaster may be responsible for the work of thousands of employees and yet have no discretionary funds to use for equipment or

structural changes to increase the ease and efficiency of his employees' work.

Furthermore, the practice of making up losses from the Federal Treasury removes much of the incentive for efficient operation. There is no need to control costs if a supplemental appropriation may be expected as a matter of course. Indeed, the fundamental orientation of the postal financial information system is the justification of budget requests rather than the control of operating costs. As a result, there is an astonishing lack of data on the cost of various postal activities, on the relative performance of post offices and on the productivity of workers.

The postal appropriations process (Figure 10) begins one and a half years before the money will be spent as compared to four to six months in industry. Operating estimates within needed limits of accuracy are almost impossible this far in advance. Nor are realistic estimates encouraged, since cuts are likely at every step.

Congress usually grants the prior year's expenditures plus an increment for anticipated increased mail volume. The process thus assumes the accuracy of the previous operations budget and also that unit costs will remain steady. Neither assumption is necessarily valid.

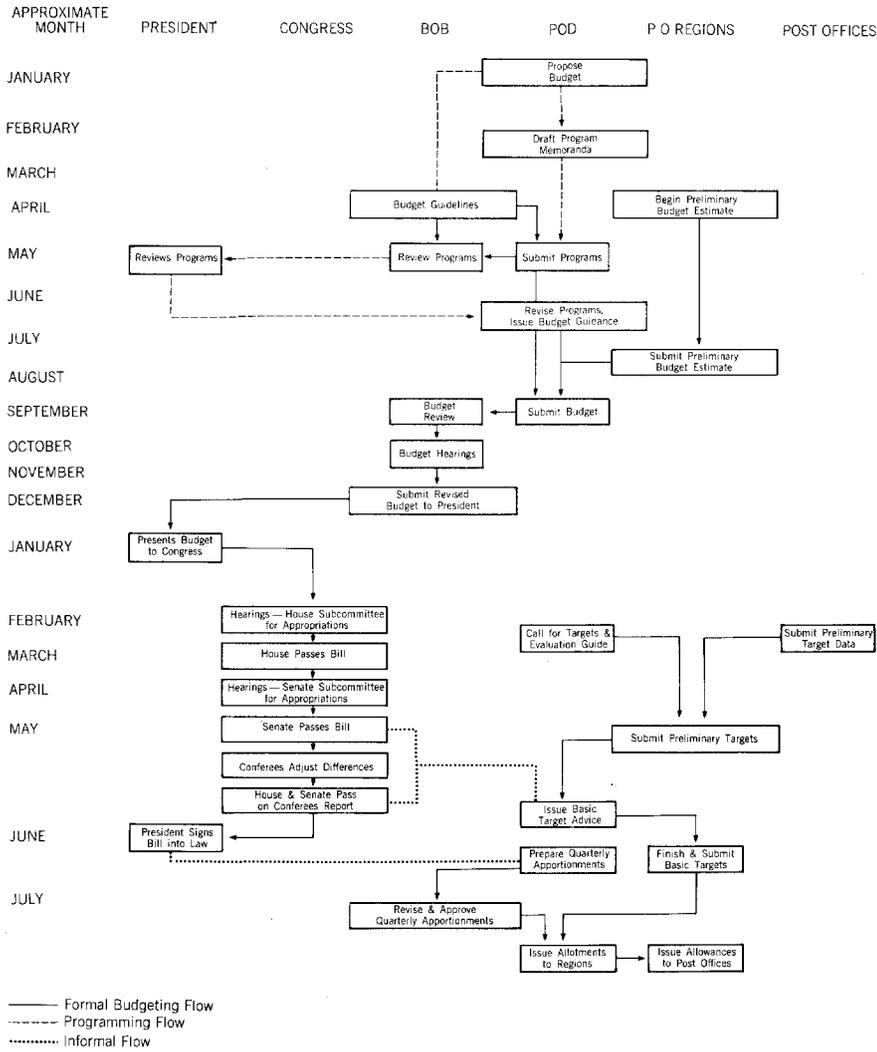
Governmental accounting systems are designed to prevent over-obligation of budgeted dollars, and to charge the appropriation (operations, administration and the like) credited with the funds. The postal accounting system fulfills these purposes, backed up as it is by Inspection Service and General Accounting Office audit programs. Unfortunately, it tells little about what operations cost in a form suitable for management control.

c. Lack of Customer Orientation. Treasury financing also reduces the degree to which the Post Office can be customer-oriented. There is little need to be concerned with customer desires if all costs are paid regardless of customer satisfaction. Although postal officials are aware that service to the public is the only reason for the Department's existence, they have traditionally looked to Congress for guidance on what the public wants. Since Congress sets the prices, defines the services and provides funding to cover losses, the Post Office has had little incentive to develop the degree of customer sensitivity which characterizes a successful private business dependent upon sales revenues. Failure to gather market information and unresponsiveness of the service to the needs of the American public, as described in Chapter 1, are the results.

2. The Effects of Management by Legislature

As we noted in the first section of this chapter, the legislative process makes most managerial decisions for the Post Office—it sets rates and wages, approves postal facilities and decides many other

Figure 10. POST OFFICE BUDGETING AND APPROPRIATIONS CYCLE



Source: Arthur D. Little, Inc.

postal matters. When key business decisions are made in this way, they do not necessarily bring about what is best for the postal system and its customers. This process, however conscientiously and well it is followed, is simply not a substitute for sound decision-making in a business context.

a. Rate-Setting. The Post Office is today the only public service of national importance for which the legislature has not delegated the rate-making function. The present rate structure is mute evidence that this function should be delegated.

Apart from the fact that the rates as a whole do not cover costs, the rate structure bristles with anomalies and inequities:

- In 1879 the Post Office charged in-county publications the then-significant sum of one or two cents for local delivery to discourage use of the mails in place of a newsboy. This rate has remained unchanged to this day with the result that the penalty rate of 1879 now permits the mailing of a five-pound Sunday newspaper in the city of publication for a penny.
- The educational rates established for books in 1938 have today become the principal channel for the distribution of phonograph records, some of which may be characterized as educational only by the broadest of construction.
- The third-class rate sub-category set up for the mailing of small books in quantity is as well the repository for such items as seeds, cuttings, bulbs, roots and plants.

Authority for pricing is a necessary attribute of a management to be held responsible for performance. Pricing, of course, is not a unilateral process; market realities, or, in their absence, regulatory agencies, place limits on a firm's freedom to determine its prices. But we find no precedent for a situation in which management has so little influence over the price charged and the service offered.

Full-time commissions, bolstered by technical staffs, regulate rates for all major utilities (gas, electric, telephone and transportation) after reviewing accounting, economic and engineering evidence. Rates must be based upon the record and due process safeguards must be observed. The legislative process, on the other hand, is inappropriate for highly technical rate issues with narrow public policy implications.

b. Postal Labor Relations. Since postal wages, like postal rates, are set by Congress, postal labor organizations are oriented toward lobbying, not toward collective bargaining. The size of the postal work force, its dispersion across the nation and long experience have made the postal labor organizations persuasive spokesmen. Since it does not negotiate wages, postal management enjoys little influence with employee organizations.

A recurring management frustration has been legislative determination of matters normally resolved in bargaining. Each year, for example, dozens of bills bearing on postal work practices are introduced. No fewer than 68 bills were introduced in a recent Congress to curtail the Work Measurement System.

Public Law 89-301, originally a Post Office-sponsored measure

providing postal employees with an 8-hour day and a 5-day week, was amended at the behest of the employee unions to specify a Monday-through-Friday regular work week (assigned by seniority) and special split-shift limitations. This has had sudden and serious cost and scheduling implications for the Post Office. We have not studied this legislation and take no position on its merits. We cite it simply as an example of the effect of legislative actions on postal management.

For another example, postal motor vehicle employees secured passage of a law in 1960 which provides that mail moving to and from airports located within 35 miles of a city must be carried by postal employees. In many places contract (star route) carriers could carry such mail on their normal runs to and from the town in which the airport is located, at far less cost than extra government drivers.

Congress raises postal employees' salaries across-the-board periodically, along with those of other civil servants, in a process totally independent of productivity, work rules or most other matters normally discussed during wage negotiations.

The system might be defensible, at least from the point of view of labor, if it produced decent working conditions and a satisfied work force. The tragedy is not only the frustration of management but the failure of the system to satisfy anyone. The Commission is convinced that both employment conditions and morale can be greatly improved as part of a total overhaul of the postal system.

3. The Effect of Political Appointments

The political process openly determines the selection of postal officials at three levels: top management, postmasters and rural carriers.

a. Top Management. The Postmaster General, though subject to the approval of the Senate, is the personal choice of the President. For various reasons the median tenure of Postmasters General has been short: in this century it has been only 31 months. The lack of continuity of leadership has without question been one of postal management's most serious handicaps.

The Postmaster General's senior assistants are the Deputy Postmaster General, the six Assistant Postmasters General who head the major bureaus, the General Counsel and the Chief Inspector. All but the last, who is named by the Postmaster General, are nominated by the President and confirmed by the Senate. Technical expertise often plays a major role in selections at this level, but extraneous factors are frequently involved as well.

b. Postmasters. Before 1938, postmasters served under appointments renewable at the Postmaster General's option. Since a new administration brought with it a new Postmaster General, the resignations of opposition party postmasters were expected and tendered. The 1938 law provided that, upon Senate confirmation, postmasters re-

ceived Civil Service status and thus put an end to massive periodic postmaster turnover. The Act also required the Civil Service Commission to develop registers of qualified applicants for postmaster vacancies.

To be qualified, postmasters must reside within their office's own delivery area prior to appointment, a requirement which limits the number of available candidates and prevents transfer of successful postmasters into vacancies occurring in larger cities.

Apart from the requirements of the Act, an "Advisor" system controls the appointment process. The Post Office Department maintains an up-to-date listing of Advisors—usually the local Congressman if he belongs to the political party in power nationally, otherwise a majority party Senator, Governor, state or county party chairman.

When the local organization learns of an imminent vacancy—often before the Post Office Department itself—it begins to select a replacement. Meanwhile, an acting postmaster, also selected by the Advisor, may be installed, though the usual qualification requirements are waived because of the temporary nature of the assignment. Once the Advisor selects a candidate for permanent appointment, the Civil Service Commission reviews his record in what amounts to a character check if he is already a postal employee or, if he is an outsider, conducts a competitive examination and establishes a register of the top three candidates. The examination may be repeated until the Advisor's choice falls within the top three so he can be selected. During this period, the Advisor simply withholds advice, while technical reasons are given to justify holding new examinations.

The Advisor may well recommend a career employee. One-third of the postmasters appointed since 1960 have in fact been career employees. Yet such promotions do not necessarily go to the best qualified supervisor. Not uncommonly, clerks or carriers are elevated to a postmastership over the heads of better qualified supervisory employees.

Delays result while the Advisor waits for a favored candidate to qualify, while an announcement is held until an opportune moment, or, at times, while a newly hired "substitute" waits the 90 days necessary to become eligible for a non-competitive appointment. The National Civil Service League, when headed by former Postmaster General J. Edward Day, characterized the procedure as "remarkable in its cynicism and even more remarkable in its transparency."

It should be noted that many members of Congress, and others privileged to act as Advisors, do not exercise their prerogatives in the process described above. Instead, they ask the Post Office to select the best man for the job and accord him their routine approval.

Furthermore, despite the selection process, quite a few who emerge from it become successful postmasters. The Commission was im-

pressed with the qualifications and dedication of many of the men in charge of the offices visited.

The traditional appointment procedure does, however, have several undesirable management consequences:

- *Postmasters who prove themselves successful in small offices cannot be promoted to larger offices where their talents may be needed.*
- *It has left in some cities figurehead postmasters who lack the respect of their employees and in others postmasters who subordinate the postal service to other interests. Higher postal management has only one drastic remedy—removal for cause proceedings—to solve this problem.*
- *The many delays in the postmaster selection process disrupt postal operations. (The six-month postmaster vacancy in Chicago during 1966 is considered by some to have been a contributing factor to the disastrous breakdown of that year.)*
- *Postmaster patronage suggests to many that partisan politics plays a part in the operation of a post office. Warranted or not, the suspicion undermines public confidence and employee morale.*

c. *Rural Letter Carriers.* Some 30,000 rural letter carriers are appointed by a similar patronage process from applicants meeting Civil Service qualifications. As with postmasters, an applicant must meet a residence requirement; once appointed, however, he may exchange his rural route with another carrier anywhere in the country without either of them meeting new residency requirements. This practice, strongly defended by most rural carriers, exposes the weakness of the argument that residency requirements insure that carriers will be acceptable to the patrons they serve.

The rural carrier has many attributes of an independent contractor, since he provides and maintains his own vehicle and arranges for substitute service when indisposed. Rural carriers seem exceptionally well motivated and their patrons generally well served. We attribute this, however, not to their manner of selection but to their level of compensation—well above the median income of the communities they serve—and other appealing aspects of their employment. Typically dozens, and sometimes hundreds, of applicants seek each rural carrier vacancy. The applicants frequently include postmasters, for whom such appointment constitutes a financial advantage. The selection procedure for rural carriers is obviously outmoded. Both efficiency and equity argue for the elimination of the patronage and residency requirements.

* * * * *

We view these patterns as a misapplication of the governmental process. The mission of the Post Office is simpler and narrower than that of most other Federal activities. It is by far more important as

an economic activity than as an instrument of public policy. For this reason, and even laying aside management considerations, we cannot help raise the question as citizens whether the Congressional and Executive energy devoted to the details of postal affairs represents the most productive use of the talents of our national political leadership.

B. The Effect of "No Control" on Internal Management

The diffusion of postal management authority is mirrored in management fragmentation within the Post Office itself. Each of the seven bureaus of the Washington headquarters has substantial autonomy. The 33,000 post offices, though having little authority, tend also to be autonomous.

Thus, although the Post Office is a nationwide system, it is not managed as one. It is operated rather as an aggregation of semi-autonomous post offices held together by a common source of funds.

1. Headquarters Planning

The 25-step process involved in formulating a major facility project within the Post Office (Figure 11) illustrates the results of internal fragmentation of management. The process involves months of negotiation and compromise with interests within and outside the postal service.

Since information systems do not disclose whether efficiency or service suffers from an outmoded facility, projects cannot be ranked in order of their operational need. Instead, the collective judgment of many individuals, representing several headquarters bureaus, determines whether the facility is "needed."

Economic analysis occurs relatively late in the proceeding, frequently after top management has determined the project's priority. There is a lack of internal technical expertise for analyzing various alternatives. Further, the number of bureaus involved in most decisions itself impedes management, while dependence upon decision-making by committee wastes top executive talent and contributes to delay or inaction.

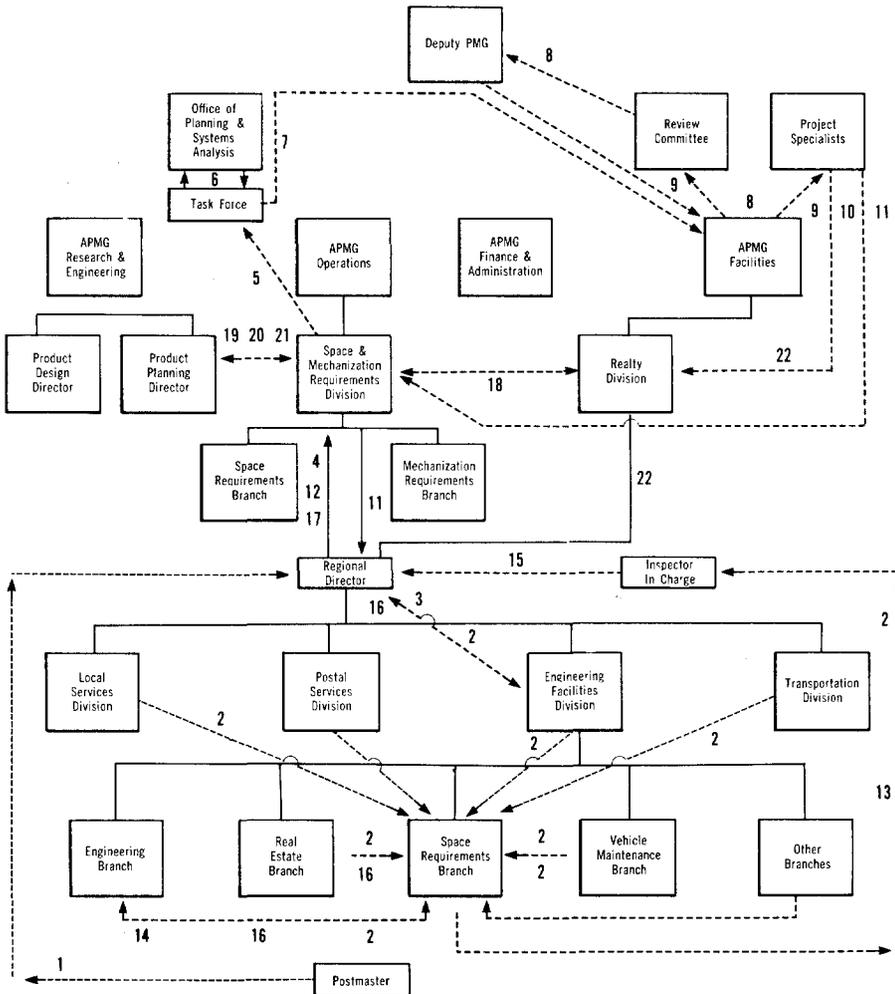
2. Relations with the Field

Lack of field involvement in communication and planning often means that new programs are needed well before headquarters recognizes the requirement. For the most part, postmasters have no say whatsoever about the selection of equipment with which they have to work. No effective means exist for notifying postmasters of available equipment that might be useful to them. Nor is there a professional engineering staff anywhere in the postal field service which can learn local needs and initiate action to procure appropriate equipment. Responsibility for equipment deployment rests with the Bureau of Operations in Washington. Clearly, their limited staff cannot keep

track of operational needs and exploit cost saving potentials for mechanization in the many major post offices.

When a post office receives equipment there is often inadequate follow-up to ensure prompt and correct installation and proper operation and maintenance training. The Commission visited one major

Figure 11. MOVEMENT OF A MAJOR FACILITY DECISION THROUGH THE ORGANIZATION



— Organizational Lines

- - - Movement of the decision

Numbers 1 through 22 represent steps in the decision process.

Source: Arthur D. Little, Inc. Details in Volume 3 of Annex, pp. 3.23-3.34.

post office to which five new automatic machines had been delivered nine months previously. Only one machine had been installed, and it was not working properly. The other four were still in packing crates. Perhaps more significantly, local officials were too busy with the routine work of keeping the mail moving to take time to untangle the problem.

There is little possibility of effective communication between the postmaster and his regional director. Each of the 15 regional directors, who is nominally responsible for all offices within his region, has an average of 2,200 postmasters reporting to him. He can hardly devote much attention to any one post office. His delegated authority is limited; his professional staff, small. Similarly, lack of time, inadequate staffing and sometimes inadequate authority prevent the professionals in headquarters from giving technical guidance on a continuing and meaningful basis.

The substitute for real communication is the *Postal Manual*, *Regional Instructions* and assorted directives. No matter how detailed "the book," it can never instruct on all possible contingencies, and unfortunately a book is a one-way communication channel.

The post offices themselves, even Manhattan with more than 40,000 employees and Chicago with nearly 30,000, lack the technical staff which would be found in any sizable industrial operation. Individual postmasters have narrow authority, and they depend wholly on the regions and headquarters for special resources or permission to deviate from standard instructions. Yet the virtual impossibility of quick action by the regions or headquarters, except in an emergency, makes each post office, as we have said, something of an island unto itself.

Our studies showed that field officials are often reluctant to initiate action on matters not specifically delegated to them by the *Postal Manual*, or in areas of responsibility which they sense Washington has reserved to itself.

The system just described, which frustrates many able postal managers and employees, seems based on the assumption that, given the proper rules and a big enough appropriation, the mails will get through. But organizations do not just run themselves; the right things do not just happen, even when required by statute. A successful organization's management must be flexible to respond quickly to changing customer and employee needs. The individual manager, customarily responsible for the results of the operations he directs, must be allowed discretion to shift his resources in response to changing circumstances.

The consequences of the rigid postal management structure are as predictable as they are apparent. Individual managers have neither the opportunity nor the incentive to correct the problems they see about them. Initiative is inhibited, and obvious improvements in layout, schemes, working conditions and mail flow are not made.

Fragmented planning, an inadequate mechanism for introducing equipment into the field, an unrealistic span of control for regional directors, the lack of professional staff in major post offices—all of these are striking deficiencies to anyone familiar with modern industrial methods. They can be explained only as an adaptation to the peculiar circumstances created by the organizational form of the Post Office: short-term management, Treasury financing, “no control” for nominal managers. What need, for example, to develop an efficient capacity for large-scale introduction of new equipment when there are inadequate funds for procuring such equipment and inadequate staffs to design it? Why have a reasonable span of control when there is little authority to delegate in the first place?

C. The Post Office and Our National Life

We have traced the major defects in the Post Office to its archaic and inappropriate management structure. Before considering structural changes to remedy what appears to be a basic failing, we examine the historical justification for the structure and inquire whether reasons still exist for preserving it.

1. Historical Origins

In early times and in all nations, the posts were made a sovereign function because they were a sovereign necessity. Government without communication is impossible, and until the invention of the telephone and telegraph, the mails were the only means of communication. When the Founding Fathers established the Post Office as a part of the new Federal Government, they were doing both what had to be done and what had always been done.

The Post Office played a vital role in the new nation. The mail network helped hold a wilderness together. Stagecoach trails, improved by the Government as post roads, quickly became arteries of commerce. New means of transportation—canals, railroads and in due course airlines—were assisted in their early years by mail contracts. As pioneers pushed westward the posts followed, linking frontier towns to the centers of commerce and government.

To citizens scattered great distances from the capital in Washington, moreover, the post office in every community was the most visible symbol of national unity. As the most abundant source of Federal patronage, it helped create a national party system. Again, both the ideal of free expression and the democratic requirement of an informed citizenry were given added meaning by special rates for newspapers and magazines. A tradition of absolute sanctity for the contents of the mail is a valued, if rarely noticed, trust: the confidence with which the citizen deposits even the most personal letter in his corner mailbox speaks volumes not merely about the mails but about his form of government.

Over time, however, the Post Office has lost much of its unique-

ness. Today the nation is linked together by many communications and transportation networks. Furthermore, private transportation carriers have largely outgrown their early need for mail subsidy, and regulating and assisting the transportation industry is now the responsibility of other state and Federal agencies. Our national party organizations today often find the residue of patronage in the Post Office a source of internal friction and embarrassment, not of strength. The Federal Government no longer needs the local post office to make its presence known.

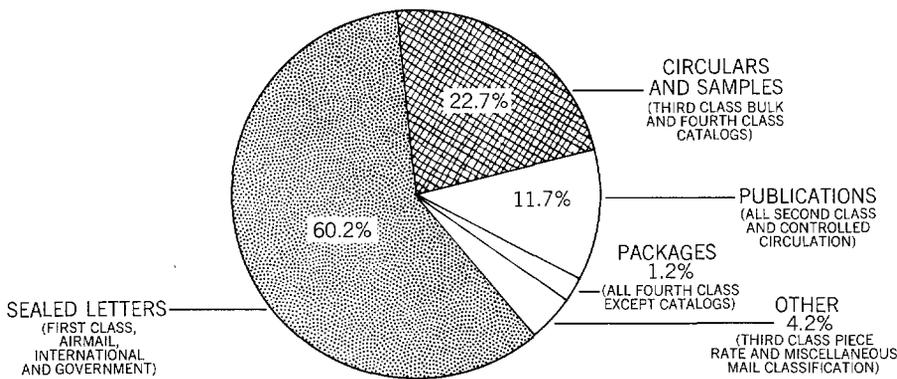
Despite a century of change, the Post Office retains many of its early patterns. Because a young nation's communication needs once demanded subsidized mail, the Post Office is still assumed to need an enormous deficit. Because postal patronage was once a source of party power, the Post Office is still burdened with an anachronistic postmaster selection system. Because he presides over what was once a major policy arm of Government, the Postmaster General is still a member of the President's Cabinet.

2. The Mails Today

Changes in our society have been reflected in changes in public usage of the mails. Correspondence between individuals, which undoubtedly dominated the early posts, today represents only 7% of mail volume, 14% if greeting cards are included. The mails today have become a principal channel for the conduct of the nation's business, particularly the exchange of bills, orders, account statements and checks. Because it pinpoints a specific audience so accurately, direct mail advertising has become one of the nation's principal advertising media. Approximately 70% of all magazines are delivered by mail.

There are four major kinds of mail, shown in Figure 12; these

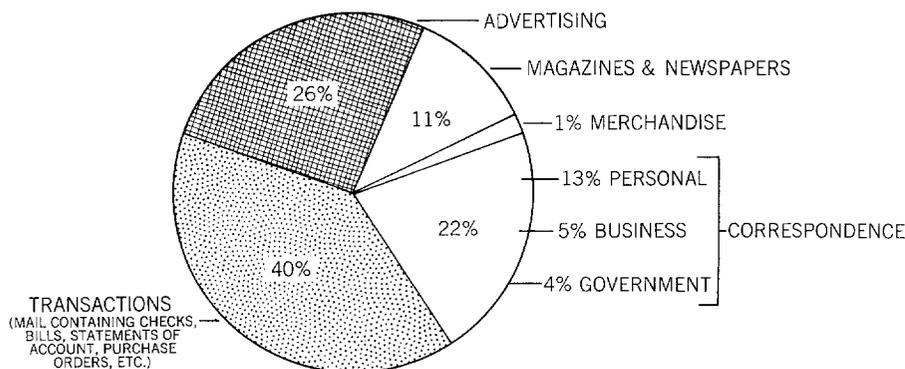
Figure 12. **WHAT IS THE MAIL?**



Source: Compiled from Post Office Department data.

roughly correspond to the familiar classes of mail defined by statute. The uses to which the mails are put, however, are of more interest than either their physical characteristics or their legal classification. A special study conducted by the Commission developed the information on mail uses shown in Figure 13.

Figure 13. WHAT'S IN THE MAIL?



Source: Compiled from Arthur D. Little, Inc.; details in Special Study on Services.

Forty percent of the mail involves "transactions," i.e., contains a check, money order, bill or statement of account, purchase order or question about an order. Over 26% of all mail is advertising, most of it bulk-rate third-class, but some sent first-class, including almost two billion pieces a year of "piggy-back" advertising enclosed in the monthly bills of stores, gasoline companies and utilities. As Figure 14 shows, businesses (including nonprofit institutions) originate 74% of the mail; households, 20%; and all levels of government, 6%.

Mail today is thus used primarily for commercial purposes. Mail service is principally a utility service not unlike the electronic communication system and the transportation system. The Post Office has a monopoly on communication by personal, written messages, and it provides the principal means for the shipment of small parcels; it is a major advertising medium.

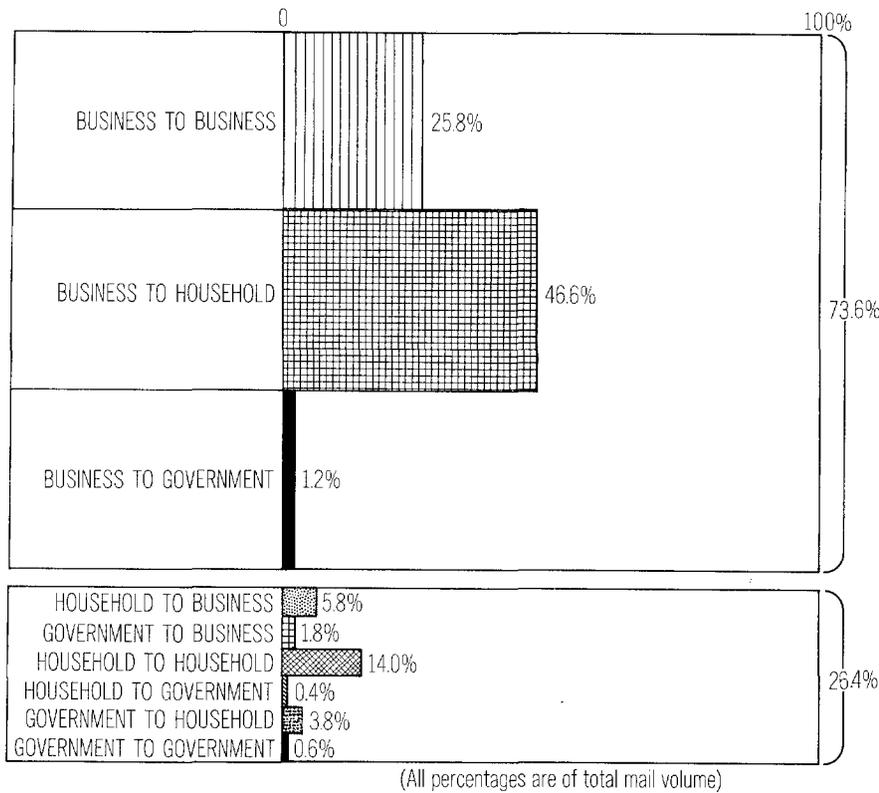
The Commission concludes, therefore, that today the Post Office is a business. Like all economic functions it should be supported by revenues from its users. The market should decide what resources are to be allocated to the postal service.

3. The Post Office as a Public Service

This essentially economic appraisal of the postal service is sometimes challenged by those who argue that Congress declared the postal service to be a "public service" in the Postal Policy Act of 1958. The Commission agrees that the Post Office is a "public service" in the

sense that, like a utility, it serves the public at large without discrimination. The Postal Policy Act also states that the Post Office is not a business "conducted for profit."

Figure 14. **MOST MAIL IS SENT BY BUSINESS**



Source: Compiled from Arthur D. Little, Inc.; details in Special Study on Services, Part II.

The public service nature of the Post Office is also found in the Postal Policy Act's definition of the public service allowance or statutory subsidy. Much confusion has arisen by failing to distinguish clearly between a subsidy

- to the postal service as a whole, and
- to specified individuals or groups using the postal service.

Congressional appropriations to meet the collective deficit of all mail classes (except those specifically designated for lower rates) are in fact subsidies to the postal service as a whole. In the light of the business nature of the mails and the impact of the postal deficit on management, such subsidies should be eliminated. Indeed, this form of subsidization finds no justification in the Postal Policy Act.

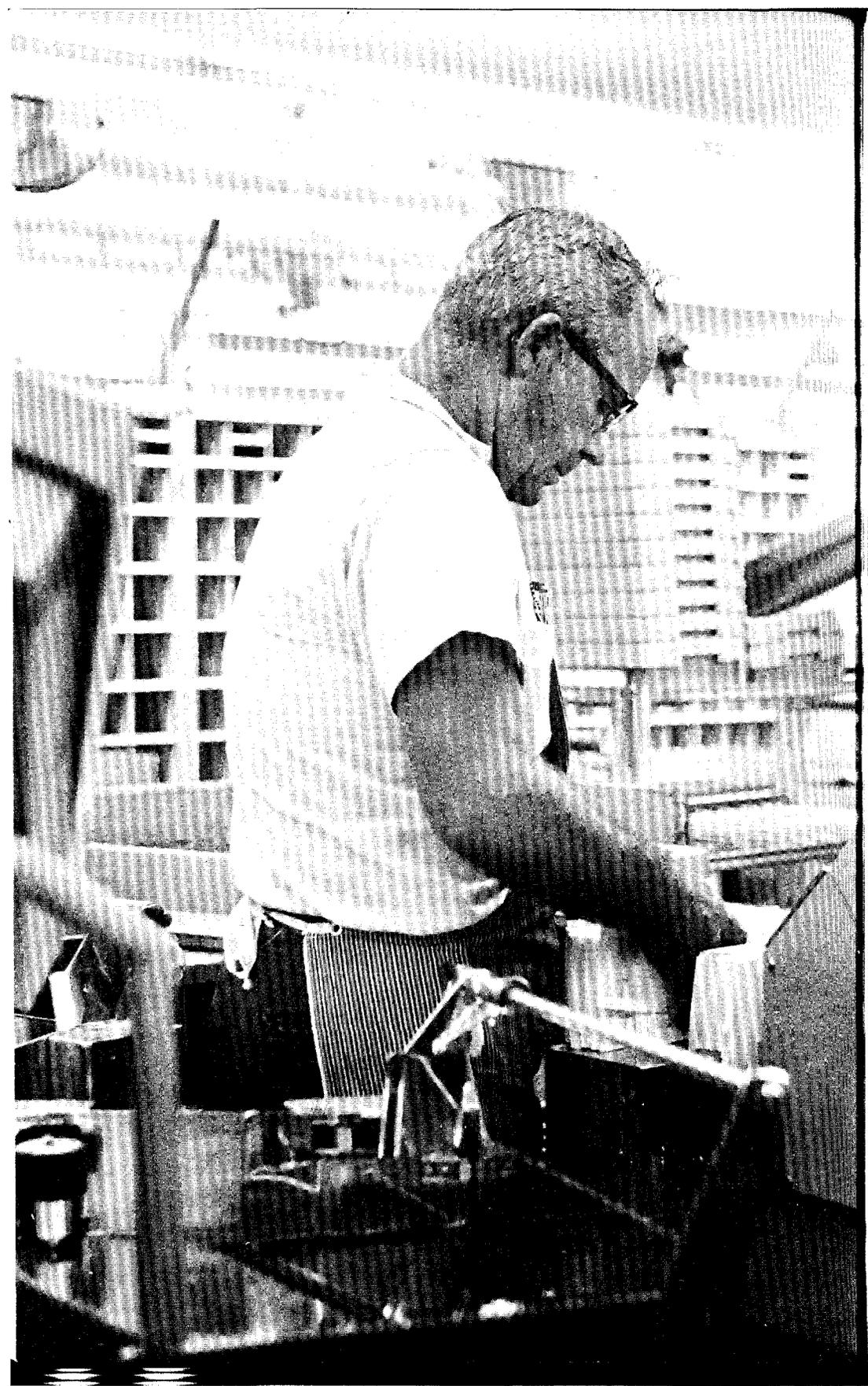
Rural "subsidies," although set by the Postal Policy Act, really subsidize the entire postal service. Rural areas are just as much part of the postal system as cities, and the cost of serving them—even when they appear "unprofitable"—is a proper expense of the service as a whole. The Commission rejects the notion that every post office must take in sufficient revenue to pay its own costs or be terminated. Further, to look only at the revenues from rural operations is to ignore the value to both the urban and rural user of offering nationwide service. Rural costs are proper business expenses to be included in their entirety in the postal rate base and should not be considered, in any sense, a subsidy.

The second category of subsidies—subsidies to specific users of the service—is illustrated by special rates for charitable organizations and educational material. These are the real "public service" subsidies. At present, the method used to calculate them tends to overstate their amount and understate the extent to which the Treasury is supporting the postal system as a whole. As Figure 6 illustrates, when properly calculated these subsidies represent about 3.8% of total postal costs. Thus, the amount of the true public service subsidy is quite small, confirming once again the business character of the postal system.

* * * * *

The Post Office is a Cabinet agency because it was once an important policy arm of Government. Its officials are subject to the many checks and balances appropriate to formulating public policy, but completely inappropriate, we have found, for managing a major economic activity. The Post Office nevertheless has become such an activity and as such it plays an important role in our economy. It should be organized to permit it to meet its responsibilities successfully.

The next chapter sets forth the Commission's recommendations for such an organization.



Chapter 3

A National Opportunity

The Post Office today is failing—failing the users by not providing the quality of service they deserve; failing the public by costing far more than it should; and failing its employees by stifling their potential.

We have traced these failures to a central cause—outdated and inappropriate management processes. The remedy demands a fundamental change in the anachronistic relationship between the Post Office and the rest of the Government. Piecemeal corrections such as changing the method of selecting postmasters, granting authority to borrow funds for capital needs and other long overdue steps could be taken. But each alone, or all together, cannot produce the break with the past we have concluded is essential.

When it became apparent that a basic structural change would be necessary, the Commission undertook a comprehensive examination of all alternative organizational forms, including the possibility of a postal service operated under private enterprise.

If the postal system had begun after the country had reached an advanced stage of technological, social and economic development, it would in all likelihood have emerged as a private industry suitably regulated to ensure satisfactory service levels and fair prices. Most members of this Commission would favor an investor-owned postal system.

We recognize, however, that formidable barriers stand in the way of a transfer of the existing postal system to private ownership. The

Post Office has had two hundred years as a Government operation. Time has nurtured the attitude that the postal service must be a Government responsibility.

Private operation, furthermore, presumes a buyer as well as a seller. It is clear that an organization with the Post Office's earnings record would not attract investors. Our contractors estimated the current appraised value of postal fixed assets at approximately \$1.7 billion. That figure, together with the \$5 billion modernization requirement estimated by the Post Office, would make for formidable bond and stock issues. It is highly improbable that issues of the size necessary to complete financing within a reasonable period could be undertaken in these times.

Even these large sums exclude the \$12 billion in pension liabilities, now unfunded, owed by the Government to present and past postal employees. This debt would complicate financing pensions if postal employees were to be removed from Government employment.

There is, however, an instrument by which much of the management flexibility of private enterprise can be achieved with continued Government ownership. On many occasions during the last fifty years, when faced with a business-type task of large proportions demanding a certain degree of independence from general administrative restrictions, Congress has created a Government corporation.

Perhaps the best known was created in 1933 to develop the natural resources of the Tennessee Valley. Despite the early controversy over TVA's role in our society, most observers agree that it is a prime example of a well-managed Government corporation.

President Truman commented on the uses of the Government corporation in his 1948 budget message:

Experience indicates that the corporate form of organization is peculiarly adapted to the administration of governmental programs which are predominantly of a commercial character—those which are revenue producing, are at least potentially self-sustaining, and involve a large number of business-type transactions with the public.

In their business operations such programs require greater flexibility than the customary type of appropriation budget ordinarily permits. As a rule the usefulness of a corporation lies in its ability to deal with the public in the manner employed by private business for similar work.

The description exactly fits the postal service. We have concluded that a Government corporation can be a vehicle permitting highly effective management for the Post Office. The purposes of the organization should be spelled out in the Congressional charter and its day-to-day operations conducted by a professional management held responsible for results.

1. We recommend that a Postal Corporation owned entirely by the Federal Government be chartered by Congress to operate the postal service of the United States on a self-supporting basis.*

To establish the Postal Corporation, Congress would enact a Charter giving the new organization powers similar to those of other Government corporations. It should have the legal status of a body corporate that can sue or be sued, enter into contracts, borrow money and acquire and dispose of property in its own name. The Corporation should also have the authority to determine the character and necessity of its expenditures, and the freedom to use postal revenues and borrow funds from the public.

Full management responsibility and authority would be vested in a Board of Directors charged with providing the nation with a superb mail system, offering universal service at reasonable rates, paying fair wages to postal employees and giving full consideration to the public welfare. The Board would establish a basic internal organization for the Corporation, approve major proposals and provide policy guidance.

The essential element for the success of the Postal Corporation is a Board of Directors with full authority for postal management. There are many different ways in which such a Board could be structured. No standard format exists for either Government corporations or private companies.

We urge a Board which combines the advantages of wide experience and detachment which outside (i.e., part-time) Directors could contribute, with the high order of managerial responsibility gained when top corporate officers themselves hold seats on the Board. We propose, therefore, a Board of nine Directors, six of whom would be appointed by the President of the United States and confirmed by the Senate. The President would make his initial Board appointments for terms of one to six years, and each year thereafter name a Director to a six-year term. They would serve on a part-time basis.

The six appointed Directors would select a Chief Executive Officer for the Corporation who would be a Director and Chairman of the Board. The Board would then select two more Corporate Officers to assume key responsibilities determined by the Board and to serve as Directors so long as they serve in their corporate capacity. The Chief Executive Officer would serve at the pleasure of the six appointed Directors; the two other Officer-Directors at the pleasure of the six plus the Chairman (Figure 15).

We recognize that the Board we propose represents a departure from normal government practices, especially in the method of selecting its Chairman. It appears to us, nevertheless, to be the best arrangement for beginning the new Postal Corporation, although other approaches might also be practical. Whatever the structure

*See comment of Commissioner Meany, p. 2.

government-wide policies would apply to the Postal Corporation such as Equal Employment Opportunity, the Hatch Act and the conflict of interest laws.

The Corporation should be self-supporting because:

- *Subjecting a business activity to deficit financing stifles management initiative and practically guarantees inefficient operation.*
- *The deficit—for the most part a subsidy to the mail system as a whole—is no more justified than partial Treasury support for any other public utility.*

2. We recommend that the Corporation take immediate steps to improve the quality and kinds of service offered, the means by which service is provided and the physical conditions under which postal employees work.

Correction of the service deficiencies and other shortcomings chronicled in Chapter 1 is the first priority of the Corporation's management. It is not enough to avoid the risk of a breakdown in postal service; reorganization must be accompanied by a vigorous effort to raise the postal service to a level of excellence.

The opportunity to do so has been created by years of missed opportunities. The principal resource for doing so is the existence of a well-motivated work force, and the missing link is a framework for management which permits modern operating practices to be brought to bear.

The officials of the Post Office have been severely handicapped in maintaining service levels by the penny-pinching which inevitably results from rising costs and a limited budget. We believe that only an organization which is financially healthy can meet the nation's service needs. A fundamental management objective, therefore, will be to place the Post Office on a sound financial footing through operating efficiencies and increased revenues. Normal growth in mail volume will increase revenues, of course, as will the strategic marketing of profitable postal services.

If the Post Office continues without change, periodic rate increases affecting all classes are inevitable. Although rate increases in an era of rising costs cannot be entirely avoided, the need for them in a well-managed postal service can be largely offset by operating efficiencies.

The challenges facing the postal service will require the exercise of a high order of corporate leadership and the cooperation of the individual postal employee. Fortunately, the same steps which meet postal goals improve the well-being of the postal worker. Modern facilities are needed not merely to reduce costs and improve service, but to provide the postal employee with a working environment similar to those found in modern industrial organizations. Mechanization intended to reduce unit costs will also enhance the status and potential of the postal employee.

3. We recommend that all appointments to, and promotions within, the postal system be made on a nonpolitical basis.

Appointments and promotions should be based on an individual's qualifications and performance and not on extraneous factors. The present system for appointing postmasters not only forecloses career opportunities for many potential managers but prevents the successful postmaster from being promoted to a position of higher responsibility. It also results in an abnormal relationship in which top management has difficulty in exercising normal authority over the postmaster. Finally, it is an unwarranted and, we found, often unwanted drain on the time and energy of members of Congress and officials of the Executive Branch.

For eighty years there has been a steady movement led by the postal employee organizations to remove the Post Office from patronage. Postmaster and rural carrier appointments, however, survive. Providing the nation with a superb mail service is not a partisan issue: postal purposes do not change with the national administration. It is time to move to a completely professional postal personnel system. (Congress may well now be ready to make such a move. In the current session alone, at least 48 bills were introduced to end political appointment of postmasters or rural carriers.)

The Commission urges that the Corporation Charter remove residency requirements for postmasters and other personnel and contain a strong provision against any political test or qualification in appointment or promotion, with removal from office specified as the penalty for any Board member, officer or employee found to violate this provision.

4. We recommend that present postal employees be transferred, with their accrued Civil Service benefits, to a new career service within the Postal Corporation.

A new merit personnel system independent of the Federal Civil Service and tailored to the unique character of the Post Office is an essential first step toward the flexibility needed in postal personnel administration. All present Departmental and field employees would be transferred to the new service with their accrued pension rights, leave, pay and seniority.

The Civil Service System would retain responsibility for that portion of employee pensions earned prior to establishment of the Corporation. The Corporation would thereafter pay the Government portion of the pension plan. A Charter provision would provide that no employee pension would be jeopardized in any way through conversion to the Postal Corporation. Conditions of employment for non-managerial employees would be established by collective bargaining between postal labor and management. Compensation of management, professionals and related personnel would be set by the Board.

The Corporation should protect present pay levels; it should negotiate the future pay of postal employees taking into account competing wage levels, the principle of comparability, where possible, or a similar standard of equity.

We anticipate greatly increased opportunities for all postal employees. Within the new career service they should be provided with training and educational opportunities to qualify them as fully as possible for increased responsibilities.

The limited negotiating opportunities under Executive Order 10988 must be replaced with full collective bargaining over pay, related benefits and other matters now negotiated in the private sector. Direct negotiations will permit the development of programs to improve mail service quality and the financial performance of the Post Office. We are confident that management and unions working to achieve their common aim of better public service and improved working conditions will be able to resolve most issues.

One immediate candidate for reform, for example, is the present employee grievance procedure, a particularly awkward mechanism by modern standards. Contracts between the postal unions and management might well provide for binding third-party arbitration of agreed-upon types of grievances arising under the contract. In the private sector such agreements are common; they typically authorize an arbitrator to interpret and apply the contract, while withholding from him authority to modify the contract itself in any way. Such agreements usually provide for the arbitration of disciplinary cases, including discharges.

We rest our hope for lasting improvement upon the assumption of a successful relationship between postal management and labor. We must consider, however, the possibility that a bargaining impasse may arise.

In the private sector the right to strike upon failure of bargaining is a normal element of our national labor policy—at least until the day when labor and management freely evolve a method of settling disputes less costly to themselves and to society. Had we found it possible to recommend a privately-owned postal corporation, the right to strike would be a natural corollary. The exercise of that right, of course, given the severe impact a postal strike would have on the millions who depend upon the mails, might well be limited by the same sort of measures taken by Government during national emergency disputes in the past.

Different considerations, however, govern the resolution of labor disputes in public employment. Public agencies cannot discontinue public service. Further, the relative security of public employment sets public employees somewhat apart from workers in the private sector.

Labor-management relations at all levels of Government are in a state of transition as the techniques of collective bargaining attempt to mesh with, or supplant, the traditions of the public employer. In particular, the resolution of impasses is in a state of flux though virtually all legislation and judicial opinions in the United States today prohibit strikes in the public sector. Pending the development of a better device for the amicable adjustment of disputes in public employment, we recommend that the existing prohibition against strikes by Federal employees, which includes those in Government corporations, continue for postal workers. We believe that this problem must be resolved in the context of Government-employee relations as a whole and not of the Post Office alone. We note that a Presidential Review Committee is now examining the entire question of labor-management relations in the Executive Branch.

Procedures for Resolving Disputes

To settle representation questions in the Postal Corporation and to act on complaints of unfair labor practices, we recommend that the parties use the National Labor Relations Board. To resolve major contract questions or pay disputes, we recommend use of the Federal Mediation and Conciliation Service (FMCS). If mediation efforts fail, the parties could ask the FMCS to make recommendations. When and if requested by both parties, FMCS would assign an arbitrator or a panel of arbitrators to make final decisions on matters concerning which the parties voluntarily agree to accept a binding ruling. Labor and management would share arbitration expenses. The parties, of course, could agree to some other approach to binding arbitration.

In the event of an impasse over a contract question or pay dispute which the parties are unwilling to submit to binding arbitration or to resolve by some other agreed-upon means, the issue would be referred to the President of the United States. The President would be free to establish whatever *ad hoc* methods he chooses to resolve the matter. The uncertainties for both parties built into the final stages of this procedure make for more meaningful bargaining and are, in our view, a source of strength.

In summary, the Commission sees a way to permit postal labor and management freely to build a new relationship based on cooperation and trust. We believe that the plan we have set out is sound. It provides for an orderly progression of bargaining with no economic harm either to postal workers or the public interest. We would nevertheless urge both the Administration and Congress to give postal management and the employee unions freedom to create any other structure which provides collective bargaining between them without the disruption of a strike. Experience shows that the details of a dis-

putes-resolving mechanism are not nearly so important as its acceptability to the parties.

5. We recommend that the Board of Directors, after hearings by expert Rate Commissioners, establish postal rates, subject to veto by concurrent resolution of the Congress.

The Corporation management would develop rate proposals and forward them to a panel of technically-qualified Postal Rate Commissioners responsible only to the Board of Directors. These Commissioners would be independent of operating management and, unlike other Postal Corporation employees, appointed by the Board of Directors from a special Civil Service register. Under fair and appropriate procedures the Rate Commissioners would review expert accounting, engineering and economic evidence and would render an initial decision on the merits of the proposed change.

After adopting or modifying the Rate Commissioners' decision in the light of the record, the Board of Directors would issue a formal rate change notice to take effect within sixty days unless disapproved during that interval by concurrent resolution of Congress, a procedure somewhat similar to that used under the Executive Reorganization Acts. As described in detail in Part II (pp. 149-53), the Congress would accept or reject the rate proposal in its entirety. The procedure would protect the public against abuse of rate-setting authority while freeing Congress of involvement in technical rate details.

Were we to recommend a privately-owned Post Office, rate regulation by an independent Federal commission would be a necessary and appropriate corollary. Regulation of a Government-owned Postal Corporation by such an agency would be anomalous: one Government body would be regulating another. We believe that the Panel of Rate Commissioners can provide the independence and expertise necessary to ensure a fair hearing to the users of the postal service while minimizing delay, interference with management prerogatives and the dangers of layering of Federal bureaucracy which a separate independent agency might bring. We believe that the Congressional veto procedure is an entirely appropriate mechanism for a final review independent of the Corporation itself.

The postal service as a whole—not necessarily class by class—should be self-sustaining. Particularly since use of the mails is overwhelmingly commercial in nature, we strongly feel that the users can and should pay the full cost of the postal system.

Congress would establish broad policy criteria for setting postal rates under which rates for a given class of mail would cover the costs demonstrably related to that class of service. Revenues from each class must cover the full additional costs of providing the service, including the cost of being prepared to handle future increases in

volume. Remaining institutional costs would not be apportioned to the several classes of mail by rigid accounting formulas. Rather, for pricing purposes management would apportion these costs to the various classes on the basis of its judgment of such market factors as differences in the nature of the various services provided and differing demand characteristics.

This management judgment would be guided by the following policy: Subject to the requirement that the Post Office would be a break-even operation, each non-monopoly class should contribute as much toward the coverage of institutional costs as is reasonably practicable, taking into account market conditions, rate relationships with other services, the desirability of encouraging types of mail which permit efficient use of postal facilities and other relevant factors.*

To the extent that such classes contribute to meeting institutional costs, revenue requirements for monopoly classes would be minimized. This policy does not necessarily imply higher rates for all non-monopoly mail, though selective increases may be found advisable.

In order to implement such a policy the Post Office needs a more sophisticated cost accounting system than Cost Ascertainment. Indeed, it needs such a system not only for pricing but also for basic management purposes. This system should accumulate postal costs by post office and by function; it should show how costs vary with increases in volume and what costs are essentially fixed or institutional. It should produce sound business financial data which would stand up under rigorous independent audit.

Setting subsidized rates presents unique problems. Congress has traditionally granted special postal rates for nonprofit and educational mailings and for other purposes. It is open to question whether the postal service should be used to extend Federal subsidies for such purposes; Congress might well select some more efficient and visible way of assisting these groups. If Congress wishes to continue some or all of these subsidies, however, we recommend the following method of funding:

As noted in Chapter 2, the subsidy to these organizations (as distinguished from the large subsidy to the postal service as a whole) amounts to approximately 3.8% of total postal costs. Funding these grants through general tax revenues rather than the revenues of the Post Office might appear logical, but such a procedure would mean retention of the appropriation link with the Congress. We propose, therefore, that such costs be added to the other expenses of the Corporation and spread among postal customers in the same manner as other institutional costs. To protect the interests of the mailing public, a specific limit on such subsidies, such as three percent of revenue requirements, should be adopted.

*More detailed standards for setting postal rates are discussed in the Part II Special Study, "Postal Rates," Sections B and C, pp. 127-36.

Parcel post rates also present unique problems for the Corporation since not only mailers' interests, but those of competitive parcel services are involved. Parcel post prices should, therefore, be based not only on the standards described above, but should reflect an imputed charge for taxes and cost of capital.

Furthermore, the Corporation should consider the feasibility of contracting out portions of its parcel post activity to private carriers if better service or lower costs would result. The nation's small-parcel market may well be better served than it is at present if joint private-public arrangements are developed combining the advantages of the Post Office's ubiquity with the excess processing capacity and transportation available to private carriers.

The Need for Action

The problems the Post Office will face in the next decade constitute a management challenge as great as any in our economy. The challenge simply cannot be met through the present management structure. **We have proposed an organizational structure, backed by a new policy outlook, to introduce modern management into one of our largest, most important, but surely most underdeveloped public utilities.**

The sense of the Commission was well expressed by one of its members:

What the Post Office needs is management leadership. It needs a management free to manage with all that entails: authorities matched with responsibilities; a sound cost accounting and an information system so that they know where they have been and where they are going.

Such a management would make clear that opportunities within the postal service are limited only by an individual's talent and energy. Such a management would also mold a single working organization out of the thousands of elements that go into making up the postal system today, so that everyone would know he is building a cathedral and not just laying bricks.

The path to a superb postal service responsive to public needs will not be an easy or straight one. A long transition lies ahead, involving hard bargaining, patience, readjustments and new attitudes. Our recommendations will produce no miracles overnight. Indeed, despite certain improvements a new management can promptly introduce, the large investment required will mean that overall financial performance cannot improve immediately. The comfortable course would, as always, be inaction. The Post Office might continue to jog along in its rickety fashion for years before it collapsed, and

we could ignore both the obvious costs to our economy and the hidden costs to society and to men's careers.

On the other hand, after the obvious inefficiencies are corrected, the long-run potential for improvements is so great that we are reluctant to estimate their size. **We are confident that the postal deficit can be ended within several years after the Corporation is under way through productivity improvements and a sound rate structure.** The increasing demand for mail and mail-related services, furthermore, assures that the Post Office need not resort to reductions in force to achieve savings.

In other spheres—scientific, economic and social—we see all about us advances considered impossible a decade ago. The Post Office, too, can advance. This should be done not merely in the interest of efficiency, though inefficiency is rampant; nor alone in the interest of service, though service demands improvement; nor solely in the interest of employee welfare, though serious wrongs need righting. Rather, we urge prompt and positive action on our recommendations because of the opportunities they provide:

- *The opportunity to allow the postal worker to realize his full potential and to help create a superb postal system meeting the nation's needs.*
- *The opportunity to stimulate our nation's economy through greatly improved mail service.*
- *The opportunity to release well over a billion dollars a year of our Federal budget for the urgent social purposes of our time.*

The decision to seize these opportunities rests with our elected officials and the citizens they represent.



Part II
Special Studies

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Synopsis of Part II Studies

Part II includes eleven special studies relevant to the conclusions reached by the Commission in Part I. The major findings of each study are presented below:

1. Organizing and Financing the New Corporation

The Corporation would be directed by a nine-member board, six part-time members to be appointed by the President and confirmed by the Senate and three full-time Officer-Directors to be chosen by the Board. The salaries of management personnel should be competitive with those of comparable positions in private industry. The Charter of the Corporation should provide powers analogous to those of private corporations.

The Corporation should be permitted to use its revenues directly and to borrow in the private capital market. Ultimately, revenues should be sufficient to cover operating costs, debt service and a small reserve for unanticipated costs.

2. Postal Services

The Post Office must develop a full-time marketing and sales capacity to respond better to the service needs of the public and to offer the variety of services which will permit most effective use of its capacity.

Among the principal findings of a market analysis conducted for the Commission by Arthur D. Little, Inc., are these: the mail is used primarily as a commercial medium; transactions and advertising together constitute two-thirds of all mail volume; many mailers are relatively indifferent to 24-hour delivery for the major part of their mail.

3. Postal Manpower

Many serious shortcomings must be overcome if postal employees are to make their maximum contribution to postal effectiveness. Among the faults of the present system are involvement of patronage in many appointments and promotions; legislative restrictions on management decisions; a cumbersome recruitment process; poor work environment and erratic work scheduling; lack of training and career opportunity; lack of opportunity and incentive for superior performance; and unproductive labor-management relationships.

4. Postal Rates

The present postal rate structure needs reform. If the Post Office is to operate most effectively, rates for its various services must be set according to economic rather than political standards. The Post Office should recover its total costs; each service should recover at least the full additional costs of that service over the long run. Pricing above this minimum should reflect value of service and market demand. Institutional costs should be spread as widely as possible.

The postal monopoly should be continued, subject to minor adjustment. The Private Express Statutes, however, should be updated.

The greatest part of the postal deficit is really a subsidy to the general mail user and should be borne by him rather than the taxpayer. If Congress decides, upon re-examination, to continue the relatively small portion of the deficit which is a true public service subsidy, it should be funded from general postal revenues.

5. Postal Rate-Making

The present rate-making process is irrational and unfair. To ensure rate-making according to economic standards, Congress should delegate rate-making authority to the Corporation, specifying the broad policy standards for rate-making.

A senior corporate officer designated by the Board would have the responsibility for initiating rate proposals. Hearings would be held before a Panel of expert Rate Commissioners who would be free of *ex parte* influence and responsible only to the Board. The Board could adopt or modify the decision of the Rate Commissioners, and the Congress could veto the Board's decision within 60 days by concurrent resolution.

6. Potential for Cost Savings in the Postal Service

If postal managers were given the authority and the financial means to put modern management and technology to work for the Post Office, the introduction of improved methods and mechanization could effect a net savings of 20% in total postal costs—over \$1 billion at current volumes of business. With this savings, deficit financing should become unnecessary within several years after the Corporation gets under way.

7. Overnight Delivery of First-Class Mail

The Post Office goal to provide overnight delivery for all first-class mail sharply raises postal costs. Moreover, such delivery is not necessarily wanted or required for much first-class mail. The Post Office, therefore, should study the feasibility of providing two services: assured same-day or next-day service for mail which the user regards as urgent, and normal dependable delivery for the remainder.

8. Transportation

The Post Office is the largest non-military purchaser of transportation services. The techniques by which the nation's mails are moved have changed dramatically in recent years, and the Post Office has successfully shifted from its traditional dependence on the railroads to a highly flexible mail transportation system using various modes of transportation on a well-integrated basis.

Several long-standing restrictions on procurement of highway and air transportation assume greater significance as these services increase in importance to the Post Office. These restrictions should be removed in the interest of permitting postal management full access to the transportation options available in the private sector.

9. The Corporation and Criminal Law Enforcement

The Inspection Service of the Post Office is presently responsible for the enforcement of postal laws which protect the sanctity of the mails and prevent other activities deemed by Congress to be socially undesirable. In addition, almost half its effort is devoted to special management functions, such as annual financial audit and inspection of facilities and management studies. Under the proposed Corporation, the Inspection Service should continue its law enforcement functions, but its special management functions should be reassigned by the Board.

10. The Post Office as a Corporate Citizen

The Post Office as a Government corporation, following the practice of many private corporations, should continue to engage in socially valuable activities such as active recruitment among the disadvantaged and the design of aesthetically pleasing facilities.

11. Foreign Postal Experience

An examination of foreign Post Offices reveals that most possess a higher degree of economic or business orientation than does the United States Post Office. Twelve of the fourteen foreign Post Offices surveyed in this study, for example, receive no appropriations from general tax revenues to cover any part of their expenditures.

Study 1

Organizing and Financing The New Corporation

Contents

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- B. Corporate Salaries, 79*
- C. The Corporation Charter, 80*
- D. Raising Capital Funds, 81*
- E. Operations Funding, 82*
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In Part I we briefly set forth the proposed Corporation's organization and financial structure. In this study we detail the proposed Board structure, outline Charter requirements and discuss the new Corporation's financial and planning mechanisms.

A. Board of Directors

There is no standard way to structure a Government corporation. Although boards of Government corporations vary in size, they are usually small, generally from three to seven members (see Table 1-1, on following page). Some boards serve full time, others have both full- and part-time members. On some boards membership must be divided between the two political parties; on others there is no regard to political affiliation. The President appoints most major boards subject to Senate confirmation; however, when a corporation is part of a Cabinet Department, the Secretary often makes the appointment.

We propose a nine-member Board, six to be appointed by the President with Senate confirmation for staggered six-year terms. The six appointed Directors, who would serve part-time, would select a full-time Chief Executive Officer who would also serve as a Director and Chairman of the Board of the Corporation. The Chairman and the other six Directors would then select a chief operating officer and a second corporate officer, who would also serve as Directors. We believe that their titles and the nature of their duties should be left to the Chief Executive Officer and the Board. This Board structure reflects our preference for a policy-making, non-operating Board and our view that a Board made up entirely of full-time members could become too involved in daily operations.

The Chief Executive Officer would serve at the pleasure of the six appointed members of the Board; the two other Officer-Directors at the pleasure of the six plus the Chief Executive Officer. The Board should consider a mandatory retirement age for all Directors and corporate employees.

The Board we have described represents something of a departure from prior Government corporation practice, particularly in the manner of selecting the Chairman. We believe it is a soundly based proposal but recognize that other structures are possible. It is essential, however, that the Board of Directors, whatever its design,

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be given full authority to manage the postal system and set top management salaries at competitive levels.

Table 1-1. **BOARDS OF DIRECTORS OF GOVERNMENT CORPORATIONS**

<i>Corporation</i>	<i>Number of Directors</i>	<i>Directors Appointed by</i>	<i>Specified Term</i>
Banks for Cooperatives	7	Governor of Farm Credit Administration, Farm Organizations.	3 Years
Commodity Credit Corporation	7	President (1 Ex Officio)	None
Export-Import Bank	5	President	None
Federal Crop Insurance Corporation	5	Sec'y of Agriculture (1 Ex Officio)	None
Federal Deposit Insurance Corp.	3	President (1 Ex Officio)	None
Federal Intermediate Credit Banks	7	Governor of Farm Credit Administration, Farm Organizations	3 Years
Federal National Mortgage Ass'n	5	Secretary of HUD (1 Ex Officio)	None
Federal Prison Industries, Inc.	6	President	None
Federal Savings & Loan Insurance Corp.	3	President	3 Years
Panama Canal Co.	9-13	Secretary of Army	None
St. Lawrence Seaway Development Corp.	1*	President	None
Tennessee Valley Authority	3	President	9 Years
United States Housing Authority	1**	President	None

*Known as "Administrator."

**Secretary of HUD is the single "Administrator."

CORPORATE STRUCTURE

Subject to the Corporation's Charter, the Board should establish general postal policies and purposes, develop the basic organizational structure for the enterprise, approve items of major importance and appraise progress and results. The Board also has the overriding responsibility of picking the right men to run the Corporation. While the Corporation's structure is vitally important, the Corporation's managers will be the key to its success.

We envisage that the Board will establish such permanent committees (compensation, financial, rates and the like) as they find useful and timely. The Charter should, of course, permit broad delegation of the Board's authorities, but we do not believe that the Charter should require delegation of any particular authority to a committee of the Board or to a corporate officer.

The six outside Directors can provide fresh and objective insights to managerial deliberations. Above all, these Directors should be civic-minded citizens experienced in business, labor relations and public affairs, and sensitive to public desires concerning postal matters. We strongly oppose appointment of outside Directors identified with various interest groups—such as large mailers or postal labor. This practice would create conflicts of interest and the danger of management by log-rolling, with resultant loss of public confidence. Charter language should prohibit, to the maximum extent possible, appointment of Directors closely associated with postal interest groups. While we are aware of contrary examples, we also believe that Board appointments should be on a strictly non-political basis.

B. Corporate Salaries

Only the intrinsic appeal of public service can explain the Post Office's ability to attract so many highly qualified managers at present salaries. The new Corporation should not inherit this pay structure. The part-time Directors should receive by law a fee in line with that received by an outside director of a comparable private corporation, such as \$5,000 annually plus a fee of \$300 and expenses for each meeting attended. The six outside Board members would then set salaries for the three full-time Directors in line, to the extent possible, with positions of similar responsibility in private industry. Likewise, the whole Board should set salaries for other Corporation officials by the same standard.

Today's Cabinet salaries should not serve to limit those of the Corporation's management if it is to acquire and keep managerial talent needed to turn the Post Office around to a financially self-sufficient enterprise. Some postal managers would thus receive higher salaries than other Government officials. The answer to this problem may well be to provide deserved increases to other top public servants—a topic with which this Report does not deal.

C. The Corporation Charter

Congress should in the enabling Act charter the Corporation with the following powers:

- legal status of a body corporate that can sue and be sued, enter into contracts, and employ officers, agents and employees;
- the right to acquire and dispose of property in its own name and thus be exempt from the multifarious statutes concerning public buildings, public works and property owned by the United States;
- the authority to adopt new regulations governing postal rates, personnel, transportation services and other postal matters to replace today's detailed codifications, and to adopt necessary by-laws for its internal management;
- the power to adopt a business-type budget—essentially a plan of operations—rather than today's appropriation budget which is designed for and subject to detailed Congressional scrutiny;
- the authority to determine the character and necessity of its own expenditures without being subject to the regulatory and prohibitory statutes applicable to expenditures of the ordinary Government agency, including the disallowance power of the General Accounting Office;
- the right to follow the normal commercial practice of keeping accounts designed to reflect all costs properly attributable to the operation;
- the freedom to use its own revenues and to secure funds from public borrowings through the issue of such instruments as bonds, debentures and notes, and to obtain other types of secured and unsecured financing;
- the right to take such actions as may be necessary or appropriate to carry out its specifically granted powers.

Some chapters of the United States Code, Title 39, should be included in the Charter. The statutes protecting the postal monopoly on all first-class and some third-class mail (with the minor modifications set forth in the Postal Rates section, pp. 128–129 below), penalty and franked mail provisions and exclusion of objectionable matter from the mail fall within this category. We also propose that the remaining provisions of Title 39 detailing fiscal, personnel, rate and transportation policies become regulations of the Corporation until the Board promulgates new regulations in their place. For example, existing rates would remain in effect until the Corporation sets new ones.

In the enabling legislation Congress should exempt the new Corporation from some laws and regulations of Government-wide applicability. To illustrate, Congress should allow the Corporation

CORPORATE STRUCTURE

authority to establish a merit personnel system independent of the Federal Civil Service adapted to the unique requirements of postal employment. Current and retired employees would retain all accrued pension, leave and other earned benefits; suitable job security arrangements would be made. The Civil Service System would remain liable for accrued employee leave and the Government's portion of employee pensions earned prior to the establishment of the Corporation.

On the other hand, the Corporation would properly be subject to certain other statutes, the Government Corporation Control Act being a case in point. Applicable generally to Government corporations, it would enable the Bureau of the Budget and the Congress to make a broad annual review of the postal budget. Other appropriate Government-wide policies such as Equal Employment Opportunity, the Hatch Act and the conflict of interest laws would likewise be applicable to the new Corporation.

D. Raising Capital Funds

Like other major utilities, the Post Office should compete for capital in the open market. To permit access to the capital market, we recommend a wide range of borrowing authorities. The capital market would regulate the propriety and amounts of the borrowings. The Corporation should be authorized to float, in increments as required, up to \$2 billion in general obligations—revenue bonds or debentures. Over time, this limitation might be extended to meet increased equipment and building needs. In addition, the Corporation should have authority to borrow funds as required, secured by fixed corporate assets.

As with other Government corporations, the Treasury would advise the Postal Corporation on the timing of its financings. In addition, to insure that Corporation borrowings do not interfere with monetary policy, the Treasury would have authority to delay issuance of general Postal Corporation obligations for up to six months during which limited Treasury financing would be made available to the Corporation.

Charter authority entitling bondholders to first claim on postal revenues may be needed to permit the Corporation to raise capital funds in the open market. Without such a provision, or a Treasury guarantee, it may not be possible to attract private capital before the Corporation becomes self-supporting.

It has been the experience of other Government corporations that underwriters require certification of corporate accounts by private independent auditors. Even though such private firms are used by the Corporation, the General Accounting Office could perform the

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business-type audit called for in the Government Corporation Control Act.

Private parties constructing facilities for lease to the Post Office frequently obtain local mortgage financing at favorable rates. In many instances the Postal Corporation could obtain capital more cheaply by dealing directly in local money markets rather than through a broker under a lease arrangement. Similarly, there appears to be potential for secured equipment financing through chattel mortgages and other normal commercial practices.

E. Operations Funding

Postal operations can never be properly managed so long as the Post Office is tied to appropriations financing and its attendant control system. To achieve the cost savings and service advances which sound management can bring, the Commission has recommended that the Corporation subsist entirely on its revenues. Only when the Postal Corporation regards its revenues as its basic financial resource can it manage the system in the customers' best interests.

The Corporation should earn sufficient funds to cover its operating costs, pay interest on its borrowing and the employer's share of pension funding (currently estimated at about \$350 million), and meet increasing service requirements. Rates should be set at a level permitting the Corporation leeway to meet unanticipated increases in volume and other contingencies.

We recommend that the Corporation fix its rates to earn its projected costs, including interest and depreciation, plus about three to five percent to cover unanticipated costs. Once it has built a reserve, the overage could be passed back to the user through rate reductions or service improvements. While building a reserve, the Corporation should have substantial authority to borrow from the Treasury on a short-term basis at the Treasury's current interest rates.

F. Financing During the Transition

The Corporation can be granted immediate access to its revenues. Since cost savings cannot be achieved overnight, however, there must be a transition period of several years in which appropriated funds in decreasing amounts make up the difference between corporate revenues and expenditures. This appropriation could be simply for the overall postal deficit, or it could fund one or more specific categories of postal expenses such as transportation. During this transition period we rely upon the forbearance of the Congress to avoid placing narrow limits on the discretion of postal management.

CORPORATE STRUCTURE

Until the Corporation becomes self-sustaining, the Commission believes that payments in lieu of taxes and a return to the Treasury on the Government's investment would be inappropriate. Although the assumption of this responsibility will not be immediate, neither the Congress nor the Corporation should lose sight of the possibility. In the future Congress could also request the Corporation to begin repayments of the Government's investment. For the immediate future, however, the first order of business is financial independence.

G. Expending Funds Wisely—the Planning Process

If the Post Office has access to its own revenues, major improvements through planning become possible. The Corporation would have full authority to identify needs for service and system changes and to plan for timely changes in an orderly fashion—freed from year-to-year, hand-to-mouth appropriations and the time-consuming political judgments they entail.

Study 2

Postal Services

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The Post Office Department currently handles approximately 80 billion pieces of mail per year, or 396 pieces for every man, woman and child in the United States. The volume grows by more than two billion pieces per year.

By any standard, mail service is one of the nation's biggest businesses. Yet, to our great surprise, the Post Office has compiled little systematic information on who uses the mail and for what purposes. Such information is essential in order to tailor services and rates to the needs of the various users. Since modern research techniques can provide this kind of statistical information without violating the privacy of the mails, we asked Arthur D. Little, Inc., (ADL) to undertake a study of the market for postal services as an essential part of the Commission's work.

A detailed analysis of seven days of mail usage in nearly 1,600 households selected to represent a cross-section of American homes, and an inquiry into the mail usage and needs of over 100 businesses and other organizations were the main components of the study.

A. Need for a Full-Time Marketing Function in the Postal Service

Postal service is a public utility not unlike electric power and telephone service. In attempting to increase sales, public utilities, like other businesses, constantly improve their products and reassess their customers' needs.

Industrial corporations and utilities have developed tools, techniques and professional expertise to monitor changes in their customers' requirements and to respond to them effectively. **The Commission recommends that the Postal Corporation acquire similar tools and that it be sufficiently flexible in structuring its rates and services to permit rapid accommodation to changing public needs.**

We recommend that the Postal Corporation establish market research and related "sales" functions, along with improved capabilities to determine costs, plan service objectives and monitor service quality. Cost analysis and budget and accounting functions should look inward at the organization while the marketing and sales functions look outward at the needs of the public. Information from these

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functions should form the factual basis upon which management can make judgments with respect to rates and services.

The material below highlights some of the findings of the ADL market study. The complete text of their report, including a full description of their research method, appears in Volume 2 of the Annex to the Commission's Report. These findings should be interpreted in the light of the limited duration of the study. While not definitive, the findings provide initial insights into the needs and characteristics of the mailing public and suggest avenues for continuing research. Their study should be considered to some extent a demonstration project to show the applicability of market research to the postal service.

B. Findings of the Market Study

1. The Effect of Changes in Rates

Previous analyses of the impact of postal rate changes on mail volume have generally revealed little price sensitivity in the demand for service within the standard mail classifications. More refined judgments can be made, however, if we analyze the nature and purposes of the materials within the classes and the economic characteristics of the senders and the receivers.

ADL identified seven kinds of mail (transactions enclosing money, other transactions, advertising, merchandise, publications, correspondence which might be replaced by telephone calls, correspondence which cannot be replaced by telephone calls) and three categories of senders and recipients (businesses and other organizations, private households and government). They then hypothesized ten patterns of relationship between demand for service and price changes. By fitting the appropriate demand pattern to sender, recipient and mail type, an estimate may be made of the impact of specific rate changes on mail volume. The impact of several simple percentage rate changes applied uniformly to all classes of mail is analyzed in their report. More complex analyses of selective rate changes can also be made using categories of mail such as they developed and applying estimates of demand changes to the known present volume of mail in the various categories.

Three types of information are needed for these analyses:

- *actual volume of mail of various types presently carried in the postal system;*
- *economic characteristics and costs of producing the material relative to postal costs and costs of alternative means of transmission or transportation; and*
- *economic characteristics of the sender, his access to alternative means of communication or transportation and his expressed needs for postal services.*

2. *The Mail as a Channel of Commerce*

As shown in Figure 13 of Part I (page 48) the contents of the mail may be placed into five categories:

	Percent
Transactions	40
Advertising	26
Magazines and Newspapers	11
Merchandise (parcels)	1
Correspondence	22

a. Transactions in the Mail. The postal service is a primary medium of conducting business. Currently, about 40% of all mail consists of "transactions": letters asking for money, checks and other financial instruments, or statements of account involving money or requests for goods or services. (Some transactions, such as gifts of money, occur between households and are included in the 40%.)

The list below describes the flow of "transactions" in the mail:

	Percent of All Transaction Mail	Percent of All Mail
From <i>business</i>	to business	43
	to households	37
	to government	1
From <i>households</i>	to business	13
	to households	1
	to government	*
From <i>government</i>	to business	1
	to households	4
	to government	*
	100	40

*Less than 0.5%.

Note: This table and those which follow are drawn from the Commission's Study of the Market for Postal Services by Arthur D. Little, Inc.

It is of interest to consider those transactions (9% of all mail; 23% of all transactions) which actually involve the transmission of money or other financial instruments since at some future time alternative ways of transferring funds may be devised. The number of transactions

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containing money in some form or another is shown in the following table:

	Percent of all Monetary Transfers	Percent of all Transactions	Percent of all Mail
From <i>business</i> to business	29	7	3
to households	8	2	1
to government	4	1	*
From <i>households</i> to business	43	10	4
to households	6	1	*
to government	1	*	*
From <i>government</i> to business	*	*	*
to households	9	2	1
to government	*	*	*
	100	23	9

*Less than 0.5%.

Note that half of all letters containing financial instruments are sent from private households.

b. Advertising in the Mail. Over a quarter (at least 26%) of all the mail consists solely of advertising, which we define for purposes of this study to include material giving information about something to be bought, joined, attended or contributed to, or free samples or coupons. In addition, another 2% of all mail contains advertising material as well as a transaction. (Magazines and newspapers, which account for 11% of all mail, also contain a substantial amount of advertising which is not included in the 26%.) Obviously, the senders of this mail are organizations of one kind or another, principally businesses, but also including associations, churches, fund raisers and the like. Some advertising mail (21% of advertising mail; 5% of all mail) is sent from one organization to another. The composition of advertising mail sent from one business to another and from businesses to individuals is shown in the following table:

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	Percent of All Advertising Mail	Percent of All Mail
<i>Sent by business to business</i>	21	5
Direct mail advertising	20	5
Catalogs	*	*
Price lists	*	*
Samples	*	*
<i>Sent by business to households**</i>	79	21
A free coupon	10	3
A free sample	2	1
Contained information about:		
Something to buy	54	14
Something to join	6	2
Something to attend	7	2
Something to contribute to	10	3
	100	26

*Less than 0.5%.

**Since these items are not mutually exclusive, the sum of the detail figures below exceeds the totals for this category.

Advertising mail to private households has been the subject of some complaint. Of all mail containing advertising alone, only a small amount (6%) is sent in answer to a specific request. Nearly one-half of the unrequested mail (47%) was described by the recipients as mail he or she "would just as soon . . . had not been sent."

c. Parcels. Though parcels constitute about 55% of mail volume by cube, 41% by weight and a significant percentage (15%) of mail revenue, they constitute only a small percentage (1%) of the number of mail pieces. The most frequent users are business organizations:

	Percent of All Parcels**	Percent of All Mail
Business to business	20	*
Business to households	70	1
Households to households	10	*
	100	1

*Less than 0.5%.

**These numbers are rough approximations based on a small sample.

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Parcels are not subject to the postal monopoly, and most businesses send parcels by commercial carriers or through their own facilities. Private individuals usually use parcel post for those parcels which qualify under legislatively established size and weight limits for acceptance by the Post Office.

d. Magazines and Newspapers. Magazines and newspapers comprise about 11% of all mail. Business or other organizations send all magazines; private households receive most (88%) and other business organizations almost all the rest.

e. General Correspondence. Some 22% of the mail consists of general correspondence made up as follows:

	Percent of All General Correspondence	Percent of All Mail
<i>Business to:</i>		
Business	9	2
Households	4	1
Government	4	1
<i>Households to:</i>		
Business	3	1
Households	60	13
Government	1	**
<i>Government to:</i>		
Business	6	1
Households	10	2
Government	3	1
	100	22

*Corresponds to terms used in Figure 13, p. 48.

**Less than 0.5%.

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An analysis of general correspondence mail suggests that telephone calls could have substituted for slightly over one-third of the mailings. Our consultant arrived at this judgment by examining the characteristics and purposes of this mail:

	General Correspondence (billion pieces)	
	Telephone Substitutable	Non-telephone Substitutable
Intra-company data	—	.4
Intra-company bulk supplies and promotions	—	.1
Intra-company general	.4	—
Intra-company to salesman's home	.1	.1
Notices of stockholder meetings and proxies	—	.1
Company reports	—	.2
"Legal" business mail	—	.2
Miscellaneous business correspondence	.7	—
Business-to-government correspondence	.2	.5
Household mail to request information on products	.6	—
Personal correspondence*	3.5	7.5
Household-to-government correspondence	.1	.1
General government mail	.7	2.7
	6.3	11.9

*I.e., household-to-household mail less transactions and parcels.

3. Who Sends How Much to Whom?

We learn much about the mail by grouping all senders and recipients into three categories: (1) businesses (and other organizations); (2) households; and (3) government; and determining the amount of mail exchanged between pairs of these categories.

Nearly three-quarters (74%) of all mail originates with businesses (and other organizations), 20% originates with households, and 6%

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comes from government. Households receive 64% of all mail, businesses receive 33% and government receives a little more than 2%. The complete table of flows from businesses, households and government in terms of percentages of all mail and billions of pieces per year is shown below:

From: \ To:	Businesses and Other Organizations	Households	Government	Total
Business and other Organizations	25.8% 21.6	5.8% 4.9	1.8% 1.5	33.4% 28.0
Households	46.6% 39.1	14.0% 11.7	3.8% 3.2	64.4% 54.0
Government	1.2% 1.0	0.4% 0.3	0.6% 0.5	2.2% 1.8
Total	73.6% 61.7	20.2% 16.9	6.2% 5.2	100.0% 83.8

(All percentages are of total mail volume; figures are billions of pieces per year.)
100% = 83.8 billion pieces, slightly larger than Post Office Department estimate of about 82 billion for Fiscal Year 1968.

We cannot break these figures down by mail class, but we expect that present usage approximately parallels that shown in the 1967 Cost Ascertainment Report:

	Percent of Mail Pieces
First-Class and Airmail	56.3
Second-Class and Controlled Circulation	11.6
Third-Class	26.8
Fourth-Class (Parcel Post)	1.4
Other	3.9
	100.0

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a. *Mail from Businesses to Households.* Nearly one-half (47%) of all mail is sent from businesses and other organizations to households. Mail consisting solely of advertising comprises the largest single component of business-to-household mail, more than one-third. Sixteen percent of all transactions contain advertising inserts. Most postcards and parcels sent to households by businesses also contain advertising material. If, in addition, magazines and newspapers are considered, then about two-thirds of all business-to-household mail contains advertising.

A few categories of large senders, principally charge and credit card organizations, banks and savings and loan associations, local utility companies and insurance companies, generate a considerable part of all business-to-household mail. These senders, who collectively account for about one-quarter of all business-to-household mail primarily use first-class mail and account for the majority of such mail in this category.

The following table gives some indication of the proximity of business senders to household recipients:

Kind of mail	Percent Local*	Percent Same State	Percent Out-of-State
<i>Letters:</i>			
From a bank or Savings & Loan Association	50	78	22
From a store or about a charge account or credit card	42	70	30
From an insurance company	19	56	44
From electric, gas or telephone company	37	88	12
From a nonbusiness association	44	70	30
Other	25	46	54
<i>Postcards: **</i>			
Bills	54	80	20
Other	46	75	25
<i>Parcels</i>			
	8	32	68
Total	33	60	40

*Local mail is not necessarily in-state, e.g., St. Louis, Missouri, and East St. Louis, Illinois.

**The allocation of postcards by location of sender is based on a very small sample—27% of the total number of postcards in the study.

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b. Mail from Households to Households. Mail from households (or individuals) to households (or individuals) amounts to approximately 11.7 billion pieces per year or 14.0% of all mail. Ninety-four percent of this mail consists of letters, as distinct from postcards or parcels. More than one-half of the letters actually are greeting cards, most of which are sent during the Christmas season. The composition of this mail is shown below:

Kind of Mail	Number of Pieces (in billions)	Percent of Household-to-Household Mail	Percent of All Mail
<i>Letters:</i>	11.0	94	13
Greeting cards	6.0	51	7
Other	5.0	43	6
<i>Postcards</i>	.5	4	1
<i>Parcels</i>	.2	1.7	*
Total	11.7	100.0	14

*Less than 0.5%.

4. Urgency of the Mail

To obtain some idea of the importance of mail delivery speed to individuals, we asked people whether they would be willing to go to the post office, pay an extra penny or pay an extra dime to ensure 24-hour delivery of items which they were actually placing in the mail. The respondents expressed a willingness to pay an extra penny for only 19% of the pieces, and an extra dime for only 5%. For 38% of the pieces, respondents were willing to go to the post office to mail the letter. For 58% of the pieces, respondents would do none of these things in order to ensure 24-hour delivery. The table below, relates the type of item being mailed to the action the individual would take to ensure 24-hour service:

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Item:	Type of action:	Mail at the Post Office	Pay an Extra Penny	Pay an Extra Dime	Do None of These Things
All letters and postcards to business (45%)	containing money (31%)	35	14	4	61
	not containing money (14%)	36	14	3	60
		35	15	5	62
All letters and postcards to individuals (52%)	containing money (7%)	40	24	6	53
	not containing money (45%)	34	21	5	57
		41	24	6	53
All letters and postcards to government (3%)	containing money (1%)	36	16	8	58
	not containing money (2%)	40	15	11	53
		32	17	7	63
Total letters and postcards (100%)	containing money (40%)	38	19	5	58
	not containing money (60%)	36	15	4	59
		39	22	6	55

Notes: Figures in parentheses beside each item show percentage of all household-generated letters and postcards represented by item.

Figures in table show percentage of total items for which respondent said he was willing to take the action shown.

Money is defined to include checks, money orders, drafts, etc.

5. Concentration of the Mail

Households receive 64% of all mail. Some 2% of all households receive 16% of this mail; 9% receive 37% of this mail; and 28% receive 75% of it.

A strong correlation exists between income and the amount of mail received:

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Household Income	Cumulative Percent of Households	Cumulative Percent of Mail Received
Over \$20, 000	3	8
Over \$15, 000	8	16
Over \$10, 000	23	39
Over \$ 7, 500	46	60
Over \$ 5, 000	73	82

Wealthier households receive all classes of mail in greater quantity:

Household Income	Cumulative Percent of Households	Cumulative Percent of Mail Received			
		1st-Class	2nd-Class	3rd-Class	4th-Class
Over \$20, 000	3	8	8	9	7
Over \$15, 000	8	17	15	15	16
Over \$10, 000	23	39	38	40	40
Over \$ 7, 500	46	60	60	59	63
Over \$ 5, 000	73	82	82	82	83

On an average weekday, 25% of all households receive no mail whatsoever; 17% receive only one piece and 16% receive only two. Only 5% receive a parcel on a typical weekday.

6. Opinions About the Mail Service

Thirty-five percent of householders, without prompting, offered suggestions for improving the Post Office. Of these, 22% feel that service and efficiency generally can be improved. The subject of the largest single complaint is what respondents often called "junk mail", which 15% would eliminate or charge higher rates. Delivery earlier in the day (10%), lower first-class rates (6%), more courtesy from postal employees (4%) and more care with packages (3%) ranked next among the respondents' concerns. The respondents offered a large number of specific suggestions, such as allowing the mailman to sell stamps, having stamp machines give change, having the Post Office wrap packages for a charge and having parking spaces around post offices.

The majority of postal patrons (84%) feel that postal service is now about the same as a year ago; 7% believe it has improved; 9%

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feel it has deteriorated. This, of course, by no means implies satisfaction with postal service, now or last year, and opinions differ among urban, suburban and rural residents:

	Percent of Metropolitan Residents	Percent of Suburban Residents	Percent of Rural Residents
Think postal service is:			
The same as	82	87	84
Better than	8	8	5
Worse than (a year ago)	10	5	11
	100	100	100

There are also differences among people who receive different amounts of mail:

Pieces per week:	Percent of Light Mail Receivers 0-7	Percent of Moderate Mail Receivers 8-15	Percent of Heavy Mail Receivers over 15
Think postal service is:			
The same as	87	82	81
Better than	9	8	6
Worse than (a year ago)	4	10	13
	100	100	100

To put it another way, the more mail a patron receives the more likely he is to be among those who feel that service has become worse.

7. Other Findings

The market study developed considerably more information than that summarized above on mail usage, probable effects of postage rate and service changes and on public knowledge of and attitudes toward postal service. These findings are set forth in the ADL report on the Market for Postal Services in Volume 2 of the Annex to this Report.

Study 3

Postal Manpower

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A. Summary

The Post Office Department administers a continuous processing operation on a 24-hour, 7-day-week, year-round basis involving almost 716,000 employees.

It ranks among the largest employers in the United States. Despite the fact that the Post Office moves an amount of mail almost as large as the rest of the postal systems in the world, its work force:

- *operates under an anachronistic combination of Civil Service and political appointments;*
- *is hired through an enervating series of entrance steps whose duration militates against the appointment of high quality applicants;*
- *receives virtually no training to do its job, much less to qualify for and succeed in career advancement;*
- *must accommodate itself to erratic work schedules;*
- *suffers often disgraceful work environments;*
- *has a promotion system which stifles employee motivation and incentive;*
- *enjoys little reward for above-average performance;*
- *remains provincial in character with no mechanism for matching workers and the opportunities existing in thousands of operating units;*
- *operates under highly regulated and routine procedures providing little motivation for operations improvement and job satisfaction.*

B. Description of the Work Force

The Post Office Department employs about 640,000 workers in the Postal Field Service, covering the following seven broad occupational categories:

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	Number of Employees
Clerks	308, 078
City Carriers	195, 386
Rural Carriers	49, 070
Mailhandlers	47, 565
Maintenance Employees	22, 473
Motor Vehicle Employees	11, 433
Special Delivery Messengers	5, 540
Total	639, 545
Support and management personnel include:	
Postmasters	31, 976
Supervisors	34, 846
Regional and Data Center Employees	4, 380
Headquarters	2, 174
Inspection Service	1, 699
Other Service Functions	1, 350
Total	76, 425

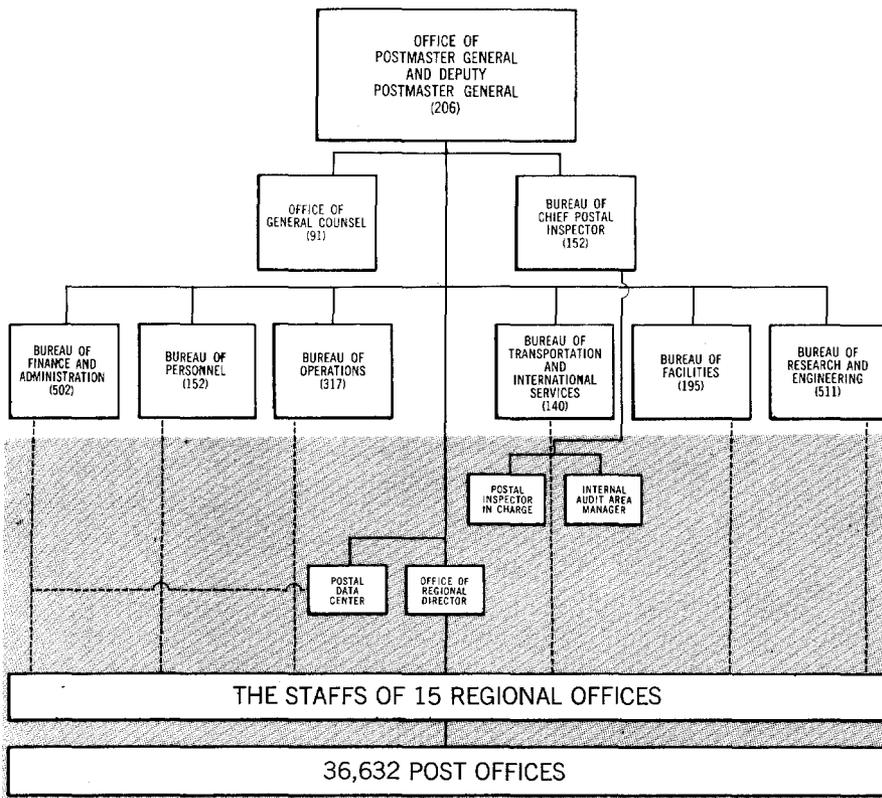
The Washington headquarters of the Post Office consists of seven bureaus, each with a great degree of autonomy. Figure 3-1 gives the organizational chart of the bureaus and their Fiscal Year 1968 personnel complements.

The field organization of the Post Office is divided into 15 regions, each headed by a regional director reporting to the Postmaster General through the Director of Regional Administration.

Nearly 33,000 post offices report to the 15 regional directors, an average of 2,200 postmasters to each director. The Postal Inspection Service, reporting to the Chief Postal Inspector, and the six Postal Data Centers, reporting directly to Washington, are not in this line of command. There are 552 Sectional Centers—post offices serving as consolidation points for distribution and receipt of mail to and from post offices within the surrounding areas. Sectional Centers are operational units without line authority over associated post offices.

Payroll costs and benefits for the 716,000 employees represent 80.3% of the total budget for Fiscal Year 1967 and reflect a service industry dependent on people for production. (Personnel costs increased from 73% of the total in Fiscal Year 1950.)

Figure 3-1. POST OFFICE DEPARTMENT ORGANIZATION



- ADMINISTRATIVE DIRECTION
- TECHNICAL GUIDANCE
- FIELD ORGANIZATIONS

*FY 1968 approximate budget complements (excluding about 200 temporary positions)
 Source: Prepared from the Postal Manual and the Budget of the United States, FY 1968.

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Employment is concentrated in major metropolitan areas. As of July 1967, only 15% (4,868) of the nation's post offices employed 88% (almost 630,000) of the total work force. The ten largest post offices employ more than 22% of all postal workers:

	Number of Employees
New York, N.Y. (Manhattan)	41, 406
Chicago, Ill.	28, 229
Boston, Mass.	14, 195
Los Angeles, Calif.	13, 588
Philadelphia, Pa.	12, 014
Washington, D.C.	11, 349
San Francisco, Calif.	10, 228
Detroit, Mich.	9, 865
Cleveland, Ohio	9, 242
Brooklyn, N.Y.	8, 638

By contrast, 7,588 fourth-class post offices have only one employee each—the postmaster.

1. *Types of Appointment*

The three principal postal employment classifications are:

	Percentage of Work Force
a. Career annual-rate regulars* (permanent, full-time employees)	71
b. (1) Career hourly-rate regulars (permanent, part-time employees with fixed schedules of work, usually not to exceed 20 hours a week) (2) Career substitutes (no fixed schedule of employment, but used to augment the regular work force during peak or other heavy periods)	15
c. Temporary employees (usually hired as summer vacation replacements or to meet seasonal demands, especially at Christmas)	14

*Includes postmasters, supervisors and rural carriers, as well as most clerks, carriers and mailhandlers.

The Post Office maintains a variety of special employment programs for returning veterans, the physically handicapped and the mentally retarded and provides part-time employment to college students in need of financial assistance to continue their education.

2. *Description of Duties*

In large post offices *clerks* operate sorting machines or sort mail by hand under conditions resembling factory work. The distribution clerks require "scheme" knowledge (memorizing a large number of destination and distribution points). Others serve as window clerks and perform a variety of clerical duties. A small group of clerks sort mail in the postal transportation service, once a key function of postal distribution but now phasing out rapidly with the transition from rail to air transportation. Clerks account for 43% of total employees.

City letter carriers sort mail for their own delivery routes and, because of the nature of their work which is performed individually and outdoors, receive less supervision than the clerks—an attractive factor to many employees. City letter carriers comprise 27% of the total work force.

Rural carriers have delivery duties similar to city carriers and also provide "retail" postal services (i.e., sell stamps, receive parcels and the like) to their patrons. Rural carriers receive compensation based on route length, patrons served and mail volume. Their work-day ends when they complete their deliveries and dispose of a few clerical duties. Rural carriers and postmasters are the only postal employees formally appointed through the political process with an imposed residency requirement.

Mailhandlers load, unload and move bulk mail; they perform sorting duties not requiring scheme knowledge and also operate certain mail processing machines.

Maintenance employees' duties range from elevator operator and janitor to repairing automotive, air conditioning and mail processing equipment.

Motor vehicle employees operate trucks picking up and transporting mail on regularly scheduled routes.

Special delivery messengers deliver, usually by vehicle, all classes of special delivery mail.

To a great extent, post office jobs are as exacting as they are repetitious, at least for clerks required to have scheme knowledge and for skilled maintenance employees. Most mailhandlers and clerks rarely see the completion of their work in the endless flood of mail. For those employees, few opportunities exist to gain recognition or job satisfaction. Their positions are described and standardized in minute detail. They have little room for creativity or

inventiveness. The nature of the work creates added frustration as it affords little opportunity to acquire new skills marketable elsewhere. Few employers in industry or elsewhere in Government need the skills developed by the postal work force. Thus, many clerks, carriers and mailhandlers find themselves locked in to postal employment with few chances for a better job outside.

3. Composition of the Work Force

Minority groups supply nearly 22% of all postal employees, according to a November 1967 survey. Negroes—18.9% of total employees—comprise most of this group, mainly in metropolitan areas. From 1965 to 1967 the number of Negro employees jumped 43%—from 92,275 to 132,353. In the same two years, the number of Spanish-surname Americans increased by 185%, from 5,188 to 14,785, representing slightly under 3% of the total work force. They comprised less than 1% in 1965. Orientals and American-Indians made similar increases (67% and 211% respectively), although their absolute numbers are small. Government-wide recruitment efforts, plus a particularly determined Post Office campaign, account for these increases.

The growing number of women postal workers marks another trend. Female employees numbering 123,692 today comprise 17.4% of the total work force, as compared to 58,942 (about 11%) in 1959. Most of them (73%) work as clerks; another 11% are postmasters, mainly in fourth-class post offices; a few are letter carriers.

C. Personnel Management

1. Recruitment and Selection

Job security attracts many postal workers although it is less a factor in prosperous times. The prestige factor of government employment also attracts some workers, primarily in smaller communities.

A subtle but major shift in the work force has been taking place in many of the larger post offices. During the Depression many college graduates, although over-qualified for the duties they were asked to perform, took postal jobs for lack of other opportunities. Gradually improving economic conditions have siphoned off many such people to better positions, and few have entered the postal service since 1945.

Within closely defined limits, each postmaster has responsibility for personnel management at the local level. Civil service regulations govern recruitment, selection and appointment, while postal regulations control training and personnel utilization. The size of the employee complement is beyond the postmaster's control and is determined at the regional level within ceilings established by the Department, the Bureau of the Budget and Congress.

Only a few high-income areas present recruitment problems for clerks and city carriers. It is difficult to fill the more skilled jobs, however, given the unattractiveness of postal employment in the present tight labor market for those positions. The examination, certification, selection and appointment process frequently requires thirteen or more weeks. This classic example of red tape bears illustration.

First, a postmaster requests the Civil Service Commission to schedule and conduct an examination to establish a register of eligible applicants. These steps take from two to three weeks. Scoring the examination takes an additional week or more, followed by a review of the individual applications to determine suitability and qualifications. An arrest, health and prior work record check usually entails another two weeks.

A reply delay from one reference of a single applicant can hold back preparation of the entire register. Applicants are allowed up to ten days to reply to follow-up inquiries by the Civil Service Commission. The postmaster then requests the register from the Civil Service Commission. This step usually takes another three days. Then applicants on the register are notified and asked to indicate their availability for employment. For each job vacancy, the postmaster must choose for interview one of those available from the top three names on the register. Following the interview and a physical examination, the applicant is offered a position. These final steps generally take another three weeks.

Depending upon the area and craft involved, from 41% to 90% of acceptable job applicants are not hired, according to a recent Post Office Department Internal Audit Report. In the seventeen large metropolitan areas studied, 67% of the applicants refused employment, mainly due to the length of the procedure and the unattractiveness of the job offered—usually a substitute position. Thus, the personnel office spends a considerable portion of its time processing paperwork for applicants who are *never* hired. Many qualified job seekers obtain positions elsewhere before being reached for interview.

Postmasters, personnel officers, union officials and employees have complained repeatedly that clerk, carrier and mailhandler examinations do not relate to job requirements. Moreover, some have suggested that the examinations are culturally oriented in such a way as to discriminate inadvertently against minority groups who are fully able to perform the work. With a continuously open examination, new applicants with higher scores go on the register ahead of those already on with lower scores. The system takes no account of an applicant's length of time on the register, even though individual motivation may often better predict job success than raw examination score.

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2. Placement

Usually the new employee enters the postal service as a career substitute. During his tenure as a substitute, the employee must be available for call, but has no assurance of any fixed amount of employment. If called in to work, he is guaranteed at least two hours of employment that day. It may be many years, particularly in smaller post offices, before the substitute succeeds to a regular or full-time position. During this period, the substitute lives on hope, works irregular hours and goes without steady employment until he receives a regular appointment. Upon advancing to a regular position, the postal employee is guaranteed a 40-hour work-week. A clerk or mail-handler usually works the night shift until his seniority permits change to the day tour. Under the bidding system, preference for vacant positions is given to the senior bidder so that seniority determines the employee's basic work-week. While most prefer a regular daytime schedule with weekends off, some employees choose night work with its 10% pay differential or Sunday work with a 25% differential.

3. Career Outlook and Promotion System

A single startling statistic summarizes postal career prospects: eight out of every ten postal workers enter and retire from the service at the same grade level. About 85% of all postal workers are in the lowest five levels with top annual pay of \$7,708* after 21 years of service. Thus, while the postal pay schedule offers "opportunities" in 21 grade levels, the facts of postal life do not motivate the realist to sort mail more quickly, deliver it more rapidly, or to expedite its movement.

Employee frustration is further compounded by the patronage requirement for appointment to many Post Office positions. For example, during the past eight years, 9,722 postmaster jobs were filled. Nearly two-thirds of the appointees were not career-service employees; those who were careerists were selected under the same patronage system.

These bleak promotional circumstances do not produce wholesale departure of career employees, however. Many postal workers who take and pass competitive examinations for supervisory jobs turn down promotions because the financial gain is so slight or because a privileged work schedule would be lost. An inflexible seniority system places an individual at the bottom of the totem pole with regard to work scheduling and assignments upon accepting a new job classification, regardless of the length of his postal service. Thus, in many cases, a potential supervisor retains hard-won daytime duty or a desired work-week schedule in preference to a small pay increase tied to less desirable hours and added responsibilities.

*\$8,094 after July 1, 1968.

A postal employee must serve a minimum of four or five years before becoming eligible for the supervisory examination. (This rule in practice prevents college graduates from moving directly into middle management positions in the Post Office.) Accumulated seniority ($\frac{1}{2}$ point for each year of service up to 27 years) is added to the score of those who pass the examination. Under Departmental rules, only the top 15% of those passing the examination can be considered for promotion.

The selecting officer may choose anyone within the top 15% without regard to score. Although Promotion Advisory Boards in many large installations are designed to ensure impartiality, many employees believe that considerations other than score or merit all too frequently influence selection.

No comparable examination procedure exists for higher-level supervisory or management positions. Regional employees rarely receive promotions to positions in post offices, and headquarters employees almost never receive regional or post office positions. Not only are promotional opportunities restricted by this practice, but the informal exchange of information between headquarters and the field needed for both effective operation and long-range planning is curtailed. A traditional rule of appointment from within a given installation has made promotion to other post offices impossible.

Recently, however, an experiment began which departs from this tradition. In the Seattle postal region, first-line or higher supervisors may compete for vacant positions anywhere in the region. But even under the experimental program, the patronage system combines with the residency requirement to bar a capable supervisor from competing for a postmastership in another city.

Placement on the basis of specific skills is virtually nonexistent. Regardless of an employee's skills, he must work within his craft category, with little opportunity to use other talents for the first several years of service. (Major craft categories are carrier, distribution clerk, mailhandler, maintenance man and garageman.) Employees seldom change crafts due to the resultant loss of seniority.

In addition, postal regulations give job priority, first, to employees who already hold the same job classification, and then, to those at the same pay level in the same branch or occupation. If there are still no qualified applicants, the postmaster may fill the vacancy from another branch of the service in the same post office. If no one within the installation meets the requirements, the postmaster may then solicit candidates from other post offices in the area and, when unsuccessful, may recruit from another Government agency and finally from the outside.

The same constraints apply to all levels of supervisory, technical and managerial staffing. Except for professional positions, such as

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physician or engineer, the postmaster must select from within unless he can establish that no candidate meets minimum qualification standards.

4. Working Conditions

a. *Scheduling.* As administered, the postal system's round-the-clock processing operation has detrimental effects on employee recruitment and retention.

Generally speaking, the 24-hour work day divides into three tours:

Tour 1—from 12:00 midnight to 8:00 A.M. (devoted primarily to processing incoming mail);

Tour 2—from 8:00 A.M. to 4:00 P.M. (devoted primarily to processing ABCD* and low priority mail);

Tour 3—from 4:00 P.M. to 12:00 midnight (devoted primarily to processing outgoing mail).

Tour 3 is the busiest, with the greatest volume fluctuation and overlapping work assignments. Tour 2 generally is the least pressed, but employs the more experienced workers who, by virtue of their seniority, have elected daytime work. No fixed standards specify employees to be assigned to each tour, as manpower needs vary with the amount of mail processed.

The introduction of the sectional center concept, a shift from wide use of railroads to other transportation modes and other operational changes have meant more night work and irregular work-week scheduling. This naturally produced increased employee objections to these unpopular practices. Partly in response to these complaints, Congress enacted Public Law 89-301 in 1965. The provisions having the greatest impact are:

- a basic work-week of five full 8-hour days;
- the assignment of senior employees to a basic work-week—Monday through Friday (except for those who express another preference);
- the limitation of the hours of service in a day of any employee to a period of not more than 12 consecutive hours;
- the payment of overtime to substitutes for work in excess of forty hours in a week;
- the mandatory payment of premium time to regular employees for work performed on a holiday;
- payment of a 25% differential to regular employees for scheduled work performed on Sundays.

*Accelerated Business Collection & Delivery Program, designed especially for business mailers in 271 major cities. Mail deposited by 11:00 A.M. in ABCD collection boxes (addressed for delivery within the central commercial district) is delivered by 3:00 P.M.

Although some were forced to surrender "moonlight" jobs, career regulars have few complaints about the new work scheduling system. Substitute and temporary employees, however, are still subject to fluctuating and uncertain working schedules. The turnover rate in these two categories considerably exceeds that of regular employees—32% for career substitutes, 90% for temporaries and less than 9% for career regulars. Many substitutes and temporaries who have separated from the Post Office give "objectionable schedules"—both basic work-week and night shift—as one of the main reasons for leaving.

b. Physical Environment. Dissatisfaction with postal work environment has triggered many complaints to the Commission. With so many antiquated postal installations it is easy to understand the reasons. Those most frequently voiced by employees in personal interviews have included unsatisfactory heating, lack of air conditioning, lack of sanitary conditions in eating areas, lack of screens for insect control, insufficient locker room facilities and unsanitary and inadequate rest rooms. Employees have also complained frequently of crowded working areas, excessive noise and heat from the mail processing machinery, poor lighting and insufficient janitorial service.

Inadequate parking near most large installations forces employees to walk long distances, often through unsafe areas. Reports of assaults on postal employees—both on and off the job—are increasing. The problem has magnified with the increase in female employees. Similarly, because of the prohibition against discrimination in employment on the grounds of sex, women employed as clerks and mail-handlers are often assigned night shift duty at facilities located near poorly lighted areas such as railroad yards.

5. Incentives

Incentives of compensation and promotion at the lower levels are practically nonexistent in the Post Office. Aside from shift and holiday differentials and step increases rewarding longevity, few wage distinctions within an employee craft differentiate more difficult assignments or higher degrees of skill. In some respects, the pay system produces negative incentives.

The emphasis on longevity produces the following situation: It takes only three years of in-grade increases for a postal worker entering at PFS-5 to reach the entry wage of the next higher grade. By the time he has served 21 years as a PFS-5, his pay in that grade level is above the entry wage of a job four levels higher. Thus, monetary incentives for promotions are small. By the time a postal worker becomes eligible for promotion, he has reached the fifth or sixth step in his level and earns substantially more than the beginning salary in

the new level. Although regulations provide that he enter the new level at an advanced step, assuring him of a salary increase, the increment is often small. As a result, employees sometimes decline promotion—a situation which affects especially promotions to first-level supervisory positions.

In certain instances, subordinates earn more money than postmasters, creating morale and discipline problems. A bill has been introduced in the 90th Congress to correct this situation.

(Compensation, including such concepts as "prevailing wages," pay comparability and uniform pay vs. area differentials are discussed in detail in the report of Robert R. Nathan Associates, Inc., in Volume 1 of the Annex to the Commission's Report.)

6. *Training*

The employee training program constitutes one of the greatest deficiencies in postal management. Millions have been spent on training programs at all levels, but poor administration, a general lack of expertise within the Department and a decentralized approach to training have created overall inadequacy. Local training officers blame the post office management for inadequate training staff or insufficient training time; the postmaster blames the Department; the Department blames Congress for not providing funds. To some extent each is right.

In Fiscal Year 1966, about 3.6 million on-the-job hours were devoted to training, representing about \$14.7 million in payroll costs. During Fiscal Year 1967, on-the-job training hours cost \$20 million. Until Fiscal Year 1968, when \$8.7 million was appropriated, no funds were specifically appropriated for training.

The Commission's contractor on personnel administration estimates that the average training in Fiscal Year 1967 was only 7.68 *hours per year* for all employees, including management officials and supervisors, and more than half of this was on the employee's own time. Included in this figure is scheme training for distribution clerks who are required to memorize complex schemes mainly on their own time. Though the clerks must qualify and requalify to hold their positions, they are not compensated for time spent in mastering the schemes or paid according to the extent and complexity of their scheme knowledge. Failure to learn schemes or, conversely, the requirement to learn schemes seldom used because of ZIP Coding has contributed to postal turnover.

7. *Conclusions and Findings*

a. *Recruitment and Selection.* Recruitment, selection, appointment and orientation must be streamlined. If the Department is to compete effectively in the labor market, entrance examinations must be more job-related and the time lag between application and hiring

reduced to a week or two, a period common in private industry. Special attention must be given to supervisory, professional and technical jobs if the Post Office is to attract and retain more competent managers. Lack of engineering and scientific personnel is most acute. A management talent shortage will become even more critical over the next decade as employees who entered the postal service during the Depression begin to retire. This requires flexibility to recruit and promote personnel from outside as well as from within the postal system. We particularly emphasize the need for relaxation of the present rigid practice of promotion and assignment from within a given postal installation.

To attract good people, the Post Office needs an attractive salary schedule—one that compares as favorably as possible with private industry. No less important, however, is giving the professional employee the means and authority to meet the many managerial challenges of the Post Office.

b. Working Conditions. 1. Scheduling. Workload forecasting must be improved to help streamline manpower scheduling. Over-reliance on the substitute system has been a key factor in the high rate of turnover. Where possible, initial assignment of new employees to constant weekend work should be reduced and hiring of temporary employees should be limited strictly to seasonal and cyclical mail volume fluctuation. The initial appointment of most new employees to substitute status should be abandoned.

2. Physical Environment. There are no precise standards of "decent" working conditions in an industrial plant. Yet beyond doubt, by any reasonable standards, many of the older post offices have shockingly poor conditions. The postal service is disgracefully behind major private employers in its attention to the physical environment of its work force. There is an important and direct relationship between physical working conditions and employee motivation. The Post Office runs the risk of deterioration in its relations with its employees and attendant loss of efficiency if corrective action is long delayed.

c. Incentives. There must be increased promotional opportunities and other incentives to motivate increased productivity and efficiency by rewarding performance, skill and continuity of service. Performance and skill standards, coupled with an incentive pay system, would improve morale and stimulate a career orientation in the work force. Seniority should be but one criterion: there should be increased recognition of superior skill, ability and education in promotion to supervisory, technical and other skilled positions.

Increased promotional opportunities would result if Sectional Center postmasters were given line and staff responsibilities over asso-

ciated post offices. Utilizing Sectional Centers as a management and administrative level presents an opportunity to reduce the unreasonably large number of officials now reporting directly to each regional director, and places operating authority with an official close to operating problems.

d. Training. Highest priority must be assigned to overhauling training procedures. Training plays a vital role in the efficient and productive use of personnel and represents the prime means of introducing changes in operation and management. Modern training materials must be developed. Postal management needs a larger and more professional training staff and on-the-clock employee training. Of particular importance to employee morale and operational effectiveness is a much broader training program for supervisors in such areas as human relations, labor-management relations and work scheduling. Finally, management must participate in the design and application of scheme training by providing organized on-the-clock training and by limiting the number of schemes required to those actually needed for operation.

The Commission notes with approval the establishment in January 1968 of the Postal Service Institute and is encouraged by recognition of the need for more emphasis on this important area of management responsibility.

In its recent study of postal employee motivation, the Post Office Department Advisory Board* identified the following major factors adversely affecting morale: poor supervision, poor physical working conditions, unnecessary scheme study, irregular work scheduling and lack of advancement opportunities for lower-level employees and supervisors.

The Commission concludes that the answer to these problems is a flexible management, incentives to improved performance and delegated authority and responsibility. Not only greatly increased employee satisfaction, but higher productivity would thereby be gained.

D. Labor-Management Relations in the Post Office Department

1. Background

The labor-management relations program of the Post Office Department is one of the largest in the nation. Postal employees belong to eleven rank and file labor unions, and an estimated 64,000 additional employees are members of three management associations.

*Created by statute, the Board has seven public members who consider methods and policies for improving postal service and make recommendations to the Postmaster General who acts as Chairman.

LABOR

Nine labor unions represent almost 600,000 employees covered by agreements collectively bargained with postal management.

For collective bargaining, units are set up on a craft basis at local, regional and national levels. Seven unions representing a majority of workers in different crafts currently hold exclusive bargaining rights with the Post Office Department at the national level.

Unions Holding National Exclusive Recognition	Number of postal employees represented
United Federation of Postal Clerks (AFL-CIO)	308, 078
The National Association of Letter Carriers (AFL-CIO)	195, 386
National Association of Post Office Mailhandlers, Watchmen, Messengers and Group Leaders (AFL-CIO)	47, 565
National Rural Letter Carriers' Association	30, 753*
National Association of Post Office and General Services Maintenance Employees (AFL-CIO)	22, 473
National Federation of Post Office Motor Vehicle Employees (AFL-CIO)	11, 433
National Association of Special Delivery Messengers (AFL-CIO)	5, 540

*Some 18,317 substitute rural carriers are excluded from coverage under the national agreement.

With some exceptions, the organizations also hold exclusive bargaining rights at local and regional levels.

Two industrial-type unions, each representing more than one craft—the National Postal Union and the National Alliance of Postal and Federal Employees—enjoy exclusive bargaining rights at the local level in some post offices. Two other unions to which some postal employees belong—the American Federation of Government Employees (AFL-CIO) and the International Association of Machinists (AFL-CIO)—do not significantly influence postal labor-management relations.

The National Association of Postal Supervisors and two postmasters' organizations—The National League of Postmasters and the National Association of Postmasters of the United States—represent managerial personnel. They do not negotiate agreements, but have been extended formal recognition by the Post Office Department at the national level. Though the National Association of Postmasters of the United States recently relinquished its status as a formally

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recognized labor organization, it continues to make its views known to Department officials as an association of management field representatives.

Voluntary dues check-off covers about 434,000 union members with annual deductions of \$12 million a year. An estimated \$3.2 million additional dues are submitted directly to the unions by members not participating in the check-off system.

Since postal (and other Federal) employee organizations are not required to report their membership, figures shown below are Post Office Department estimates. In many cases, retired employees continue their membership in order to retain certain union benefits, such as insurance. In some cases, supervisors and postmasters also retain their membership in employee organizations either for sentimental reasons or to qualify for special benefits.

2. History and Role of Postal Unions

Letter carriers formed social and mutual benefit associations as early as 1863 when city delivery service was instituted. At that time, a postal employee's wages and conditions of employment were completely controlled by politics. After the Pendleton (Civil Service) Act of 1883, formal employee organizations were instituted. This Act reduced political influence in making postal appointments and accelerated the desire of workers to organize.

National Association of Letter Carriers

The oldest and largest postal union is the National Association of Letter Carriers (AFL-CIO), formed in 1889. Among its early grievances were lack of Civil Service protection except in the largest cities, pay and overtime problems (including lack of paid vacations), unhealthful working conditions and arbitrary management behavior. Despite the establishment in 1868 of an 8-hour day for "laborers, workmen, and mechanics" in the Federal service, and the 8-hour law in 1888, providing for overtime pay for work by carriers beyond that time, the Post Office refused to pay overtime unless a letter carrier worked more than 56 hours in a week. In 1893, a law suit filed by the carriers compelled the Department to observe the law's overtime provisions.

Today the NALC has approximately 190,000 members, 98% of the eligible carriers.

United Federation of Postal Clerks

The National Association of Post Office Clerks, formed in 1890, evolved—after several splits and mergers—into the present United Federation of Postal Clerks (AFL-CIO), the largest organization in that craft, with a membership estimated at 143,000. Basic to the organizational difficulties of postal clerks is a dissimilarity in job

duties. In addition, since promotions to supervisory jobs were made primarily from the ranks of clerks, some union members became identified with management.

National Postal Union

A rival organization, the National Postal Union, broke from the United Federation of Postal Clerks in 1958 and has since broadened itself into an industrial union, although its membership still consists primarily of clerks. The National Postal Union has some 70,000 members, concentrated mainly in northeastern cities. An attempt to merge the National Postal Union and the United Federation of Postal Clerks was narrowly defeated in 1966.

National Rural Letter Carriers' Association

Despite its relatively small membership (approximately 40,000), the National Rural Letter Carriers' Association, formed in 1903, exerts substantial influence. To this day, rural carriers are appointed by local political sponsorship. The rural carrier's influence among those he serves far exceeds that of his city counterpart. The rural carrier provides full mail service, holds his route for a far longer period of time and frequently constitutes the only Federal employee his patrons see regularly.

National Association of Post Office Mailhandlers, Watchmen, Messengers and Group Leaders (AFL-CIO)

The National Association of Post Office Mailhandlers, Watchmen, Messengers and Group Leaders (AFL-CIO) was founded in 1912 and became affiliated with the AFL in 1920. Its present membership is estimated at 35,000. In April 1968, the union merged with the Laborers' International Union of North American (AFL-CIO).

National Association of Post Office and General Services Maintenance Employees (AFL-CIO)

The National Association of Post Office and General Services Maintenance Employees (AFL-CIO) was organized in 1937 as the National Association of Post Office Mechanics. It merged in 1948 with the National Association of Post Office Custodial Employees under a new name—the National Association of Post Office Maintenance Employees. In 1950, after the President transferred certain post office buildings and the employees operating them to the General Services Administration, the union changed its constitution to include certain of that agency's maintenance employees. Membership is estimated at 21,500.

National Alliance of Postal and Federal Employees

The National Alliance of Postal and Federal Employees was formed in 1913 by a group of railway mail clerks whose jobs were endangered

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by a "Caucasian only" clause in the constitution of the now defunct Railway Mail Association. In 1925, the Alliance voted to open its membership to all postal employees, thereby becoming the first postal employee union organized along industrial lines. Present membership of approximately 32,000 also includes Federal employees outside the postal service—mainly in the General Services Administration and Veterans Administration. Though still a predominantly Negro organization, the Alliance has no membership bars.

National Federation of Post Office Motor Vehicle Employees (AFL-CIO)

The National Federation of Post Office Motor Vehicle Employees dates back to 1924 under the name of National Association of Post Office Chauffeurs and Mechanics Union. Its present membership exceeds 8,000 employees.

National Association of Special Delivery Messengers (AFL-CIO)

Special delivery messengers, originally represented by the National Association of Letter Carriers, formed a separate association in 1937. Today the National Association of Special Delivery Messengers (AFL-CIO), with an estimated 2,500 members, represents some 5,000 employees. Though the smallest postal union, it has exclusive recognition.

National Association of Postal Supervisors

The National Association of Postal Supervisors, founded in 1908, promotes "through appropriate and effective action, the welfare of postal field supervisors" and cooperates "with the Post Office Department in a continuing effort to improve the service, to raise the standard of efficiency and to widen the field of opportunity for supervisory employees who make the Post Office their life work." At present, the Association has approximately 32,000 members.

National League of Postmasters

The National League of Postmasters, founded in 1904, originally represented only third- and fourth-class postmasters. Today its estimated membership of 18,000 includes postmasters of all classes.

National Association of Postmasters of the United States

The National Association of Postmasters of the United States traces its beginnings to 1898. Though the Association's statement of purpose looked to the betterment of all postmasters, it was primarily an association of first- and second-class postmasters. Its present estimated membership of 29,000 includes all classes of postmasters and contains some overlapping membership with the National League of Postmasters.

3. Executive Order 10988

Executive Order 10988 of January 17, 1962 sets forth policies for agencies of the Executive Branch in all dealings with Federal employee organizations. The objective is to promote greater employee-management cooperation on grounds that employee participation in the formulation and implementation of personnel policies contributes to the effective conduct of public business.

The Executive Order provides that agencies shall (1) recognize employee organizations; (2) consult with employee organizations; and (3) negotiate agreements with employee organizations covering personnel policies, practices and working conditions.

An agency must grant exclusive recognition to an employee organization selected by a majority of unit employees, provided that at least 10% of these employees belong to the union. Exclusive recognition entitles an organization to negotiate agreements covering all employees in the unit and to be represented at discussions between management and employees concerning grievances, personnel policies and practices.

The Executive Order provides that negotiated agreements shall not extend to discretionary and policy areas such as the agency's mission, budget, organization, personnel assignments or the technology of performing its work. Further, the provisions of any existing or future laws and regulations, including policies set forth in the Federal Personnel Manual and agency regulations, govern the matters negotiated.

4. Collective Bargaining in the Post Office Department

The Post Office negotiates agreements with employee organizations at the national and local levels. The national agreement is jointly arrived at with the seven exclusively recognized employee organizations. Negotiations are conducted at local post offices to implement the national agreement and to cover areas within the local postmaster's authority. Currently, there are about 24,000 units with local recognition. About 6,100 of these have negotiated local contracts, while another 7,000 signed statements that they would be governed by the national agreement and handle any local problem by consultation. The remaining 11,000 consult on local problems, having chosen not to negotiate written contracts.

The current national agreement between the Post Office Department and the seven exclusively recognized employee organizations covers the period March 9, 1968 through March 8, 1970.

In a number of areas the present labor-management relations system presents difficulties to both the postal unions and the management.

Unions complain that postal officials on the national negotiating team either lack operational responsibility or are unfamiliar with local

problems. As a result, these officials allegedly cannot anticipate the effect of their agreements on local operations.

An article covering advisory arbitration and optional mediation in the national agreement has also presented operating difficulties for the union. Until recently, management decisions as to the meaning of the agreement could be arbitrated—but only with the consent of the Department.* In the event of an impasse in negotiations, a mediator tries to bring the parties to agreement. If the mediator's effort is unsuccessful, he may make recommendations on unresolved issues. These recommendations, however, are private and confidential to the Postmaster General, though half the cost of the mediator's services is paid by the union.

Management defends this procedure on the grounds that public recommendations would constitute advisory arbitration not authorized by the Executive Order. Any item not resolved by the time set for the national agreement to take effect is carried over to the next negotiations.

The regional office reviews local contracts to insure they do not vary from the national agreement or conflict with law or postal regulations. If a conflict is found, the regional office seeks to resolve the issue with the union's regional representative. If they cannot agree, the matter is referred to the Department which, before invalidating a local contract, reviews it with the union's national representative.

When different unions hold exclusive bargaining rights for the same craft at different levels (i.e., local, regional, national), other problems arise. Eleven cases of "triple representation" are on record. The number in which two different unions are involved is considerably greater. Local unions represented at a higher level by a rival union charge that the representative of an exclusive regional or national bargaining agency does not afford them the same conscientious service that he gives to his own locals.

Recurrent questions arise as to the negotiation of items raised by labor organizations. The Executive Order contains a strong management-rights clause that, strictly interpreted, leaves but a relatively narrow area for bargaining. The national agreement further restricts the scope of local bargaining. Union representatives complain that local management officials often claim that an issue is a management prerogative and not negotiable, though the national agreement provides that specific reasons why an item is considered non-negotiable must be given. Issues as to negotiability are forwarded to the De-

*The current agreement authorizes either the unions or management to require advisory arbitration as to the interpretation and application of the contract.

partment for determination by top management officials and the heads of the exclusive bargaining agencies.

The Department has compiled a list of 110 major or recurring items held to be non-negotiable during the 1966 local negotiations, chiefly because of alleged infringement on management's rights. Some of these items—wash-up time, trial periods on newly-bid assignments, information on disciplinary actions and the union's right to appear before new employees—are normally bargainable in private industry.

Employee organizations frequently complain that some officials often violate provisions of the national agreement without any action being taken against them. Unions also allege that provisions are easily ignored by calling a situation an "emergency." Also, the time limit in grievance cases for the decision of the installation head is frequently ignored, according to union officers.

Local management often complains that "the Post Office has turned postal management over to the unions," and cites frequently the appeals procedure in the administration of discipline. An employee challenging a removal action can stay on the active payroll until his appeal is decided at the regional level. This process frequently takes up to 90 days, during which the employee—if he expects to be dismissed—may disrupt the discipline of the local office. Management officials believe that it is far better to have suspension or discharge take effect immediately, with back pay for those reinstated.

Postmasters and supervisors frequently complain that too many frivolous grievances are filed. They allege that the time-consuming grievance procedures result in excessive productivity loss of the grievant and his union representative and diversion of management time.

Management is also concerned about the creation of new jobs above the entry level. Recently, the Bureau of Personnel proposed a new class of letter carriers with somewhat expanded responsibilities, classified one level above the standard letter carrier class. The National Association of Letter Carriers successfully extracted from the Department an agreement that this position would be established only where the local carrier unions did not object. As a result, only half of the 17,000 authorized positions have been filled, reflecting a strong union egalitarianism with its roots in the seniority concept and the desire to minimize distinctive treatment among employees.

In a similar vein, in the Seattle region the supervisors' union postponed for a time inauguration of the experimental program of regionwide transfer described earlier. The union's opposition largely reflected concern over the morale of by-passed employees in the receiving offices and its fear that political patronage, rather than merit principles, would govern selection of employees for promotion.

5. *Conclusions and Findings*

Despite six years of experience under Executive Order 10988 and some positive results, relations between postal unions and management have been less than a success judging from frequent complaints by both groups. Labor and management have seriously questioned the good faith of the other in numerous interviews conducted by the Commission. It is understandable that differences are bound to exist between the management and employees of any organization, particularly one as large as the Post Office Department. However, the frequency and intensity of the complaints presented to this Commission indicate a serious gulf between the parties.

* * * * *

In Part 1 of the Commission's Report, a new relationship between postal labor and management in a Postal Corporation is described in detail. The Commission's recommendation is based upon collective bargaining between labor and management on wages and other issues. Impasses which the parties themselves are unable to settle after mediation would be referred to the President of the United States for whatever action he might deem appropriate.

Study 4

Postal Rates

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This study examines the present postal rate structure and the economic principles which would underlie postal rates in a modern well-run postal "utility." The background for much of this discussion will be found in the report of the Commission's contractor on postal rates and rate-making, Foster Associates, Inc.

A. The Existing Postal Rate Structure

The tables on the following pages describe the eight major categories of mail by content, sub-class and type of handling and give Fiscal Year 1967 statistics, the latest available, for each. A more detailed description of the classes of mail will be found in the report of our rates contractor and the *Description of the Postal Service* by Arthur D. Little, Inc., our general contractor.

The structure has serious anomalies. For example, Figure 4-1, on page 126, illustrates typical bulk rates for 10 copies of a four-ounce monthly publication (a light magazine or one-section newspaper). The publication could fall into any one of three classes (second-class, controlled circulation or third-class) depending on the mix of advertising and editorial matter, the pages it contained and whether or not it had a paid subscription list. The 10 copies would be delivered for a price ranging from 3.25¢ to 55¢.*

Despite its complexity, however, much of the postal rate structure does not reflect differences in cost to the Post Office or in the type of service rendered. The complexity results principally from legislative judgments of public benefit—the social contribution of the mailer or of the matter mailed.

The distinction between a subscription and nonsubscription publication, for example, produces large rate differentials. *Aviation Week* is a second-class trade publication; *Space-Aeronautics*, a controlled circulation publication with similar editorial content and advertising, reaches much the same audience. But the rates for these two

*In each instance, to obtain the bulk rates indicated, a permit is required; there are requirements for presorting, ZIP Coding, bundling and sacking the material, and it must be delivered to the post office by the mailer. The rate for mailing individual copies without a permit would be between 7¢ and 24¢, regardless of domestic destination, depending upon the class of mail used.

Table 4-1. PRINCIPAL MAIL CATEGORIES

<i>Class</i>	<i>Contents & Subclasses</i>	<i>Principal Legal Requirements</i>	<i>Handling</i>
<i>I. First</i>	<ol style="list-style-type: none"> 1. Regular letters 2. Private post cards & POD postal cards 3. Business reply mail 4. Parcels sealed against inspection weighing 13 oz. or less 	<ol style="list-style-type: none"> 1. All matters wholly or partly in writing or typewritten <i>must</i> be sent 1st-class. 2. Privacy insured in subclass 1 & 4. 3. Any mailable matter which does not exceed 70 lbs. <i>may</i> be sent 1st-class. 	<p>Outgoing—priority with Ia. & V over all other mail; to make first dispatch.</p> <p>Transport—fastest surface or space available air over 200 miles.</p> <p>Incoming—priority to meet next carrier delivery.</p>
<i>Ia. Domestic Air</i>	<ol style="list-style-type: none"> 1. Letters 2. Postal & post cards 3. Air parcels and all priority parcels weighing more than 13 oz. 	(Same as I)	<p>Outgoing—same as I.</p> <p>Transport—fastest available.</p> <p>Incoming—same as I.</p>
<i>II. Second</i>	<ol style="list-style-type: none"> 1. In-county publications 2. Out-of-county publications <ol style="list-style-type: none"> a. Zone rate regular (ordinary commercial publications) b. Classroom publications c. Nonprofit publications d. Science of agriculture 	<ol style="list-style-type: none"> 1. Be issued regularly at least 4 times a year. 2. Be issued from a known office of publication. 3. Be issued for dissemination of public information. 4. Be issued to a legitimate list of subscribers (if publication contains advertising). 	<p>Outgoing—within 24 hrs. of receipt except newspapers same as I (“Red Tag”).</p> <p>Transport—fastest surface.</p> <p>Incoming—no later than 2d day after receipt except “Red Tag” same as I and those with fixed delivery date to meet date whenever possible.</p>
<i>Iia. Controlled Circulation</i>	Trade magazines and certain “shoppers”	<ol style="list-style-type: none"> 1. At least 24 pp. 2. At least 25% non-advertising. 3. Circulated free. 4. Be issued regularly at least 4 times a year. 	(Same as II, but no “Red Tag.”)
<i>III. Third</i>	<ol style="list-style-type: none"> 1. Bulk rate circulars 2. Bulk rate books 3. Nonprofit bulk 4. Miscellaneous advertising and small pieces 	Printed matter and merchandise not required to be mailed as 1st- and not entered as 2d-class, weighing less than 16 oz.	<p>Outgoing—not later than 24 hrs. after receipt.</p> <p>Transport—earliest possible surface dispatch.</p> <p>Incoming—2d day after receipt.</p>

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<i>Class</i>	<i>Contents & Subclasses</i>	<i>Principal Legal Requirements</i>	<i>Handling</i>
<i>IV. Fourth</i>	1. Parcel post 2. Catalogs 3. Books & records	All mailable matter (including live day-old chicks and small, harmless cold-blooded animals except snakes) not in any class (limited in size and weight).	Outgoing—same day whenever possible. Transport—earliest possible surface dispatch. Incoming—same day whenever possible.
<i>V. Gov't</i>	1. Penalty (mailed by agency of U.S. Gov't) 2. Franked	Penalty or frank privileges are available only to those agencies, officers and individuals specifically named by statute.	(Generally same as I.)
<i>VI. Int'l</i>	Principally same as I and Ia. Although some matter in other classes is sent international.	The PMG sets the rates pursuant to international agreements.	(Generally same as I.)

Source: Prepared from Postal Manual data.

Table 4-2. STATISTICAL SUMMARY—PRINCIPAL MAIL CATEGORIES

	<i>Volume Pieces Billions</i>	<i>Percent</i>	<i>Weight Pounds Billions</i>	<i>Percent</i>	<i>Revenue Dollars Millions</i>	<i>Percent</i>	<i>Fully Allocated Cost Millions</i>	<i>Percent</i>
<i>First-Class</i>	42.00	53.6	1.40	10.7	2,442	49.0	2,407	39.4
<i>Domestic Airmail</i>	2.11	2.7	0.23	1.8	329	6.6	270	4.4
<i>Second-Class</i>	8.71	11.1	3.33	25.4	129	2.6	551	9.0
<i>Controlled Circulation</i>	0.41	0.5	0.17	1.3	22	0.5	39	0.6
<i>Third-Class</i>	20.99	26.8	1.95	14.9	704	14.1	1,116	18.3
<i>Fourth-Class</i>	1.07	1.4	5.31	40.5	742	14.9	933	15.3
<i>Government Mail</i>	2.43	3.1	0.48	3.7	146	2.9	141	2.3
<i>International</i>	0.64	0.8	0.21	1.6	178	3.6	186	3.0
<i>Special Services & Miscellaneous</i>	0.01	—	0.03	—	293	5.7	357	5.8
Total	78.36	100.0	13.11	100.0	4,986¹	100.0	6,108²	100.0

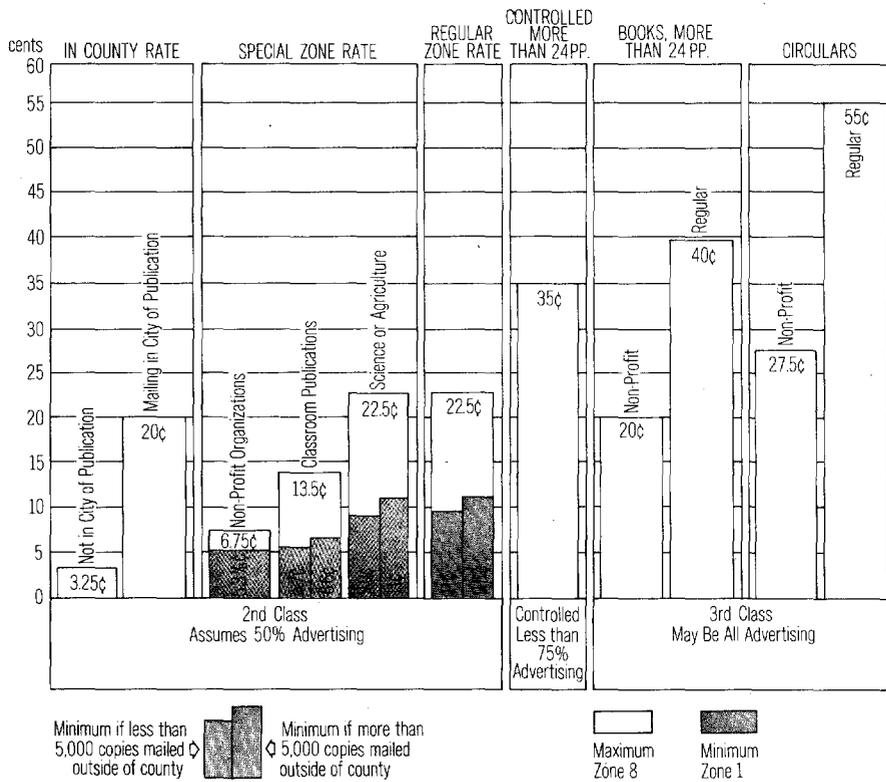
¹ Adding \$116 million non-postal revenues gives total income of \$5,102 million.

² Includes \$108 million "public service direct costs," i.e., rural allowance. Adding \$141 million non-postal costs gives total cost of \$6,249 million.

Source: Post Office Department, FY 1967 Cost Ascertainment Report.

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Figure 4-1. BULK RATES FOR 10 COPIES OF A PUBLICATION WEIGHING 4 OUNCES



Source: Prepared from Postal Manual data.

magazines differ markedly because the publisher of one charges a modest price for it while the publisher of the other mails it without charge to any executive in the aircraft industry who requests it.

A further distinction is made between publications of profit-making and nonprofit-making organizations. The *Journal of the American Medical Association* enjoys special second-class rates, but *The American Journal of Medicine* does not. Profit-making publications for classroom use and those devoted to agriculture enjoy separate special second-class rates lower than regular second-class rates but higher than nonprofit rates. Nonprofit organizations enjoy special third-class bulk rates, but no similar concessions are made in the controlled circulation category.

Many of these legislative distinctions have historical roots. Despite changing population patterns, the county is still a basic unit for second-class classification, representing the judgment by many Congresses that small rural publications should be encouraged. In-county

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rates are much lower than those for mailing outside of counties. An exception, however, is the one- or two-cent special rate for delivery by city carrier in the city of publication, established in 1886 to discourage use of the mails in place of newsboys. But the city carrier rate does not increase with weight above two ounces, so it penalizes the small publication which wishes to mail its material in the city of publication, and constitutes a windfall for a heavy Sunday newspaper.

As one might expect, the rate structure reflects the three essential parameters of postal cost: distance, weight and number of pieces. But there is no uniformity in the way in which they are applied:

- *The widely differing size of counties is not taken into account.*
- *Rates for the advertising portion of second-class matter vary sharply according to the distance mailed, but the portion of the rate calculated for editorial matter does not vary with distance at all.*
- *Controlled circulation and third-class rates are also uniform nationwide and are based only on weight, with a minimum per-piece charge. (Taking legitimate advantage of this anomaly, a major mailer of local advertising for California supermarkets mails his third-class material from Hartford, Connecticut.)*
- *Two hundred or more copies of certain materials may qualify for bulk rates. A church or fraternal organization sending 150 fund-appeal circulars must mail at piece rates at a cost of \$9.00, but can send 200 such circulars for \$2.80 at bulk rates.*
- *Under the 1967 rate bill the large third-class mailer pays proportionally more than the small mailer despite a lower average postal handling cost for large mailings.*
- *Some commercial first-class mailings are presorted, bundled and ZIP Coded, and almost all are metered, thus bypassing the cancelling function; yet there is no discount for bulk first-class matter to encourage these cost saving practices.*

These anomalies and others in the postal rate structure often reflect the effect of special considerations won by one interest group or another. Clearly the postal rate structure needs reform.

B. Economic Standards and Postal Rates

1. *The Propriety Of Economic Standards*

Lack of objective economic rate standards is a principal shortcoming of the present postal system. The "public service" emphasis in the 1958 Postal Policy Act does not preclude, however, the use of economic standards in the establishment of postal rates. The Post Office indeed is a "public service," as the Act says, in the sense that, like a utility, it must by law serve the public without discrimination.

Also, the Post Office, in the words of the Act, "is not a business enterprise conducted for profit." Yet like all economic activities, the Post Office consumes scarce resources, and it should employ pricing which helps ensure the efficient allocation of those resources.

(The Postal Policy Act also refers to the "public service allowance"—those items of postal cost which are not to be included in determining the postal rate base. Because these subsidy items involve unique problems, they are treated in the final section of this study.)

The postal service is now principally a commercial medium. Only 14% of all mail is household-to-household communication, and half of that consists of greeting cards. The post is no longer the only way to send interpersonal messages, nor the only method of transmitting news and opinions.

Because the public welfare attaches to the postal service to the same degree as it does to other major utilities or communications media, we find that the Post Office is essentially a public utility. It operates as a limited monopoly; it must charge a uniform price for a given class of service and must serve all customers who are willing to pay that price. It must, therefore, maintain a capacity for serving all anticipated users. We conclude, therefore, that the principles which apply to public utility pricing are also applicable to pricing postal services.

2. *The Postal Monopoly*

Before examining the public utility pricing standards applicable to the Post Office, we first consider the postal monopoly, which gives the Post Office one of its principal public utility characteristics. The United States Post Office has a monopoly, dating from the Articles of Confederation, on much of first-class and certain portions of third-class mail. Historically, governments monopolized postal service to control the channels of communication and to derive revenues. The censorship element was never strong in the United States, but in our early years the revenue element was. Though the origins of the postal monopoly are different from those of other utilities, the economic justification today is the same.

Two of the reasons why utilities have been chartered as monopolies are directly applicable to the Post Office monopoly:

"*Natural Monopoly.*" There would be obvious inconvenience and waste in having two telephone companies serving the same territory since customers would either need two instruments or be limited in the number of other patrons they could reach. Similarly, it would be inconvenient and wasteful to have two gas companies tearing up the same city streets. Like other major utilities, the Post Office has an element of "natural" monopoly: the waste of having several companies duplicating daily deliveries to almost every house is apparent.

Protection of Revenue. A second reason for the utility monopoly is that many utilities are more vulnerable to competition in some portions of their activities than in others. The postal service is particularly vulnerable to "cream-skimming" in the high-volume, high-value segments of its market, e.g., delivery within or between downtown business districts of major cities. It would probably be uneconomic for the Post Office to meet competition by offering a reduced rate for such service because of the additional costs of administering a rate scheme split along geographic lines. The competitor would then be able to serve the low-cost segment of the market, leaving the Post Office to handle the high-cost services. Under such competition the Post Office would lose lucrative portions of its business, increasing its average unit cost and requiring higher prices to all users.

The Commission concludes, therefore (as did our rates and market contractors), that the postal monopoly provided by the Private Express Statutes should be preserved, although not necessarily in its present form. The current statutes establish a Government monopoly on "letters and packets." Around this phrase has developed a body of regulations which, however correctly they may reflect the law, do not seem to be adapted to the reality of modern communications.

A number of organizations, too, have service requirements between separate facilities of their own organization which cannot be met by the Post Office. Currently these organizations must pay the Post Office a penalty fee equivalent to the postage on such mail if they choose to have it transported by private carriers. We recommend a slight relaxation of the postal monopoly to permit organizations to make their own arrangements for intra-company mail when they can demonstrate to the Postal Rate Commissioners that the Post Office does not provide them with adequate service.

3. *Standards for Postal Rates*

All public utility rates must be set to be just and reasonable. Under monopoly conditions the market cannot be relied on to set optimal prices. We have identified three economic standards for determining just and reasonable postal rates: the budgetary standard; the long-run variable cost standard; and the value of service standard.

a. The Budgetary Standard. The principal purpose of a rate structure is to provide the revenues necessary to sustain the enterprise. Privately-owned utilities are entitled to recover all of their legitimate economic costs, such as operating expenses, depreciation, interest on debt, profit for equity capital, a reserve for contingencies and an allowance for research and development, where appropriate. This overall revenue requirement may be termed the "budgetary standard."

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The Postal Policy Act sets a budgetary standard for the Post Office by specifying that postal revenues as a whole should equal costs as a whole, exclusive of "public service costs." The budgetary standard sets a floor, however, as well as a ceiling. Since the requirement of the Act that revenues cover costs (except for public service costs) has not, in fact, been followed, the postal service has had to be subsidized by the taxpayer.

It is essential that postal revenues be brought into line with postal costs. Although this process may well be spread over several years to minimize the impact on mail users, only a self-supporting postal service can keep up with user needs and can keep costs at the lowest possible level.

b. Standards For Pricing Different Services. Apart from the requirement that total costs must be covered, the method by which postal costs are assigned to each class of mail must be equitable and based on sound economic principles. The two components of class-of-mail costs are the actual cost of providing the specific service and the share of institutional postal costs which each class is asked to bear. They are discussed separately below:

1. *Long-Run Variable Costs.* Like most other utilities, the Post Office offers a number of services, e.g., movement of letters, parcels and bulk mail. A utility is not allowed to discriminate unduly among its users in the pricing of its services: one class of users may not be charged with costs demonstrably related to another class.

We believe that the same prohibition of undue discrimination should apply to postal pricing. It would be patently unfair, for example, if the cost of a parcel sorter were charged to the users of letter mail. Similarly, if the mailers of bulk mail are required to presort their mail in such a way that it bypasses primary distribution, it is unfair to charge them with primary distribution costs.

When many services share a common plant, however, allocation of costs among them becomes more difficult. In the Post Office the problem is typified by the allocation of delivery costs: which class should bear the costs of a city carrier who delivers letters, circulars, magazines and sometimes even parcels? One alternative—embodied in the current Cost Ascertainment System—is to allocate such costs by a formula combining the number of pieces of each class of mail, the weight of such pieces and the number of stops required for each class of mail.

It is no small task to make such full-cost allocations fairly. Under the present allocation of carrier costs, for example, pieces of first-class and third-class mail are charged the same costs despite the fact that first-class mail must be delivered the day the carrier receives it (even if he must work overtime to do it) while third-class mail need not be delivered until the second day.

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Further, as we noted in Part I, much of the cost of city delivery is an institutional cost.* It does not vary greatly with fluctuations in volume, but rather on the basis of such factors as growth and density of population. Since no particular class of mail causes such costs, there is no reason from an accounting viewpoint why any particular class should be charged with them. (They must be borne somewhere, of course, if the Post Office is to meet the budgetary standard.)

On the other hand, to avoid undue discrimination every class of service should, as a minimum, pay for all of those costs which it alone causes. Thus parcel post should pay for the parcel sorters, and each other class of mail should pay for those *added* costs of processing and delivery which it causes the Post Office to incur. It makes no difference whether these costs are capital costs or operating costs, nor should the inquiry be confined to what costs the class has generated historically, but should extend to include what costs it will cause in the foreseeable future. In economic terms, each class should bear, as a minimum, the long-run variable costs ascribable to it—the full added costs demonstrably related to that class.

2. Value of Service. If the utility is to cover all its costs from its revenues, however, some classes must pay rates high enough to cover the large pool of institutional costs which we estimate represent between 40% and 50% of total postal costs. Allocation of this pool to classes by an accounting formula is inherently arbitrary; we must look to market considerations for the economic rationale for this element of utility pricing.

Services and the demands for them differ. The demand for some services may be so strong (i.e., inelastic) that they could bear a large part of postal institutional costs in addition to the costs they themselves cause. On the other hand, the demand for other services may be so weak (elastic) that they can bear little more than their long-run variable costs. These services cannot bear a heavy load of institutional costs, but pricing them somewhat above their long-run variable costs permits the institutional costs to be spread over a wider base. This practice benefits both the low-value user who receives service he could not otherwise afford and the high-value user who otherwise would have to bear a greater share of the institutional cost.

Thus, the requirement that long-run variable costs must be covered places a floor under the price for a given class of mail, but market reaction or value of service provides the ceiling. There is little point in pricing a service at more than its value to the user. So long as rates are set above the long-run variable cost, the upper limit should

*Institutional costs should not be confused with capital costs. Certain capital costs may be directly attributable to a specific mail class, e.g., a parcel sorter, but institutional costs, even when they are labor expenses, are those attributable to the Post Office *as a system*.

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be established in such a way as to maximize the use of the service and thus spread institutional costs over the greatest number of users. This policy will reduce average costs for all mail, particularly if sound management practices and improved technology yield steadily lower unit handling costs.

c. Summary. Three economic standards for pricing postal services thus emerge: (1) "Budgetary": the enterprise as a whole should recover its costs. (2) "Variable Cost": no service should be priced below the full added cost of that service. (3) "Value of Service": pricing should reflect the differing demands for different services, spreading fixed costs as widely as possible.*

C. Application of Standards to the Post Office

1. The Cost Ascertainment System

Postal pricing relies heavily on the Cost Ascertainment System, used since 1926 to determine the revenues and costs attributable to each class of mail and special service. It is the basis of the "Survey of Postal Rates" which the Postal Policy Act requires the Postmaster General to submit to Congress every two years. The accounting firm of Ernst and Ernst studied the Cost Ascertainment System for the Commission and reported that "the present . . . System is not an appropriate basis for rate making." The firm cited four basic weaknesses:

First, present time reporting methods by employees are unreliable. Apparent inconsistencies exist in employee time reporting and variations in productivity; these inconsistencies tend to distort the costing results.

Second, the fully allocated cost principle underlying the present system and the failure to develop costs specifically by work activity or function as well as by class of mail or service preclude the use of the data for marginal cost analysis or control of operations.

Third, the system fails to develop cost data except in broad averages. It is unduly complex for the results obtained. Despite the complexity of sampling and allocation methods used, the system cannot give appropriate recognition to cost differences existing between types of mail within a class. For example, it does not recognize variability of costs resulting from the performance of sorting and other processes by some mailers but not others. Further, this weakness is particularly significant with respect to the differential in rate

*While these principles are not recognized in every utility rate case, they have long been familiar to utility commissions, accountants and economists. *The Explanation of Rail Cost Finding Procedures and Principles Relating to the Use of Costs*, for example, issued by the ICC's Bureau of Accounts in 1954 (Statement No. 4-54) and again in 1963 (Statement No. 7-63) elaborates upon similar principles in the context of railroad rates.

paid to employees assigned to night shift hours. The total cost of each class of workers is allocated to the several classes of mail, both priority and non-priority, at an average rate.

Finally, reliance on unsupported judgment for determining certain significant allocation bases, for example, the judgment used in connection with carrier street time, results in invalid costing. A second instance of the use of judgment arises in the allocation of costs to sub-classes of second- and fourth-class mail

2. Determining And Assigning Variable Costs

Apart from the inadequacies of the System, however, its basic policy limitation remains: We do not believe that *any* fully-allocated system is appropriate for rate-making. Full-cost allocation blurs the critical distinction between variable and fixed costs and makes it impossible to determine whether a particular class pays its true costs. For rate-making purposes we recommend use of a functional cost accounting system. The Planning, Programming, Budgeting System (PPBS) now under development in the Post Office may be a start in the right direction. Each postal function, such as mail acceptance, processing and delivery must be analyzed to determine the variability of its costs over the long run. The five-year planning horizon used in PPBS appears long enough for purposes of rate-making.

Once the variable costs of each function are determined, they should be assigned to the classes of mail in proportion to the responsibility of each for such costs. Assignment of many variable costs is, of course, a highly technical process. The particular costs related to the daily peak, for example, should be charged proportionately to those classes which cause the peak. (A procedure for identifying such special capacity costs is given in the Foster Associates report.)

3. Assigning Fixed Costs

Assigning the variable costs is only half the job. The Post Office must develop data and make judgments concerning the value of and the demand for the various classes of mail service in order to assign to each an appropriate share of the institutional costs. The greatest proportion would be assigned to services with the highest value.

Value of service data is almost totally lacking. The value of service can never, of course, be determined with mathematical precision, but there does not now exist even a framework on which to build. Determining and assigning variable costs is a technical job for the accountant, economist and engineer; fixed cost assignment, on the other hand, can only be guided by market and economic studies, and the range for management judgment is wide.

"Value of service" embodies two concepts: what the customer gets and what he will pay.

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There are wide differences in the types of postal service available. Some classes receive priority handling, others do not; some get guaranteed privacy of treatment, others do not. Some mail enters the system via collection boxes; other mail must be ZIP Coded, presorted, bundled and brought to the Post Office. The difference in service will, of course, be reflected in the long-run variable costs assigned to these classes. It should be reflected as well in the share of institutional costs each class is asked to bear: a greater proportion of institutional costs should be recovered from those customers who get more service from the Post Office.

What the customer will pay for postal services (i.e., the "elasticity" of demand) has been a fertile source of controversy. Judging by past rate increases, demand for first- and third-class mail seems relatively "inelastic"—that is, the demand appears sufficiently strong so that the average customer does not significantly cut back his use of the service with higher prices, and an increase in price produces an increase in revenue. The amount of past rate increases is small in absolute terms, however, and the effect of other, unknown factors on mail volume is so great that we cannot draw a firm inference from historical data.

Despite the fact that an increase in postal prices for most classes has produced increases in postal revenue and even assuming that this condition will continue, the strength of the demand still varies between the classes. The Post Office will lose fewer customers by raising some rates than by raising other rates. Because of this difference in strength of demand, if unit costs are holding steady or going down, sound management would assign more of the institutional costs to the service with the stronger demand. In this way the Post Office can best implement the policy of spreading fixed costs over the widest possible base and thus reduce average costs for all users.

Fourth-class mail presents different problems. Its demand is more elastic than that of first- and third-class mail—that is, demand is sufficiently weak that many customers cut back their use when prices go up. A recent series of rate increases has, in fact, produced but small increases in revenue. Parcel post volume, in particular, has declined in recent years as a result of competition from other small parcel carriers, restrictive size and weight limitations and rate increases.

Parcel post presents still other unique problems since the Post Office is but one of several organizations active in the small-parcel market. Fortunately, parcel post is frequently sorted and delivered separately from other classes of mail so its long-run variable costs can be more readily identified. While the present statutory requirement that parcel post cover its costs (a phrase which has been inter-

puted to mean fully-allocated costs) within four percent may well be unduly restrictive, the Commission does favor some special provisions on parcel post pricing to ensure that the Post Office does not take unfair advantage of its governmental position. Such restrictions should require an imputation to parcel post prices of capital costs similar to those incurred in the private sector and also of some form of equivalent tax burden.

4. Implication Of Standards For Present Rates

While the Commission cannot predict the exact impact of these standards for each rate class, some rates today do not cover their long-run variable costs. Clearly, the one-and-a-half pound glossy magazine which can be mailed anywhere in the large metropolis in which it is published for two cents is not paying its way. Further, the broad averages of the Cost Ascertainment System blur vital distinctions, so that some types of mail in a class may well be paying their long-run variable costs while other types in the same class are not.

If the Post Office gears itself to meet the budgetary standard and break even, will a large across-the-board rate increase be necessary? Although in an era of rising costs rate increases cannot be entirely avoided, the Commission believes that over time, under sound management, the overall effect on rates will not be substantial. Further, rate reform cannot and should not occur abruptly. However invalid the present rate structure may be, many rely upon it. Rate reform and financial independence must be introduced on a phased basis over a period of years.

5. An Alternative Postal Classification System

The classification structure detailed in Table 4-3 illustrates an alternative based on major cost and service considerations. (Of course, all differences in cost and service cannot be reflected in the rate structure since this would add an intolerable burden of administrative cost.) The Table is not an attempt to show what services the Post Office should be offering, but to portray more clearly than the present structure that the Post Office basically is moving three types of material—messages, merchandise and bulk; and offering two types of service—regular and priority. The Commission does not necessarily endorse each classification in this proposal, but reclassification along some such lines appears a highly desirable first step until postal market analysis can begin to develop information on true postal service needs.

D. Subsidies and the "Public Service Allowance"

1. Present Postal Subsidies

The term "subsidized mail" is often used to refer to any class of mail which pays less than its fully-allocated costs. We have shown,

Table 4-3. THE NATURAL CLASSIFICATIONS OF THE MAIL

	<i>Regular Service</i>	<i>Priority Service</i>
A. General Message Mail		
1. Letters (private)	1st-class	Airmail Special Delivery
2. Postal & post cards	1st-class	Airmail
3. Other non-private messages	3d-class piece	*
B. Merchandise & Miscellaneous Mail		
1. Small pieces	3d-class keys, etc. 2d-class transient	Air parcel 1st-class
2. Parcel Post	Parcel Post	Air parcel Heavy 1st-class
C. Bulk Mail		
1. Bulk message mail	3d-class circulars	*
2. Books, etc.	3d-class books 4th-class books 4th-class catalogs	*
3. Publishers' Periodical	2d-class Controlled circulation	2d-class air "Red Tag"
4. Bulk small pieces	3d-class samples, seeds, etc.	*
D. Preference Mail	Those classes for which Congress has determined there will be a subsidy.	

*No present counterpart.

however, that any differential pricing system will of necessity have some services priced below, and some above, their fully-allocated costs. Differential pricing is not a way to hide subsidies to such classes. Indeed, we believe it to be the only way to achieve the widest possible distribution of fixed costs, thus reducing costs and rates for all mail users.

To the extent, however, that total revenues fall short of total costs, the taxpayers subsidize the postal service as a whole—not necessarily by classes. Much of this subsidy is unintentional; if the Postal Policy Act were followed, only that portion attributable to "public service costs" would be paid by the taxpayers.

The Commission has strongly urged in Part I of this report that the mail user pay the cost of the postal system. We turn now to the question of the "public service costs," that portion of the deficit

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which the law says is properly paid by the taxpayer. We have concluded that certain costs which are clearly part of the postal rate base are mistakenly included in these "public service costs" and that the manner of measuring certain other "public service" elements tends greatly to overstate their magnitude. In short, most of the postal deficit, in our view, should properly be paid for by the mail user. Furthermore, the remaining amount is so small in proportion to total postal costs that there are good reasons for including this amount in the rate base as well, so the Postal Corporation need not draw funds from the Treasury at all.

In FY 1967 the "public service costs," calculated in accordance with the Postal Policy Act, as amended, were \$562 million. They fall into three categories:

	In millions
1. Rural allowance (10% of the cost of 3rd-class post offices; 20% of the cost of 4th-class post offices; 10% of the cost of star routes; 20% of the cost of rural routes)	\$108
2. Unreimbursed non-postal services to other Government agencies	26
3. Free and reduced rate mail (calculated, per Cost Ascertainment, as the difference between the revenue received and the fully-allocated cost)	
a. Reduced 2nd- and 3rd-class rates for nonprofit organizations	211
b. Educational material including classroom publications, book rate, library rate and matter for the blind	90
c. Special services (C.O.D., special delivery, registered mail, etc.)	62
d. In-county mailings of 2nd-class publications	65
Total	\$562

These subsidies fall into three categories: (1) The "rural allowance" is a taxpayer contribution to the institutional cost of rural service. (2) Unreimbursed non-postal services are some relatively small but widespread services rendered to other Government agencies (e.g., providing space for Civil Service examinations). (3) The largest part of the public service allowance covers the losses on certain types of mail (e.g., second- and third-class mail sent by non-

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profit organizations, books and records, classroom publications, certain materials for the blind) plus "special services," (e.g., special delivery, C.O.D., registered mail, money orders).

2. *Redefining Postal Subsidies*

The Commission strongly opposes any general tax subsidy to the postal service as a whole. In our examination of the public service categories we have found items which in fact do constitute subsidies to the postal service, and others which are, as Congress seems to have intended, subsidies to other activities *through* the postal service.

a. The Rural Allowance. The rural allowance falls in the first category. It is a "subsidy" to the postal service generally, founded on the mistaken notion that rural post offices "lose money" because they do not take in enough revenues to cover their costs. But the value of the rural system cannot be measured only by the revenues it takes in. Part of the value of service to a sender of mail buying postage anyplace in the country is the Post Office's ability to reach practically everyone.

Economies in rural operations are undoubtedly possible, but the Commission does not subscribe to the view that the rural part of the postal system is a "losing proposition" which must be subsidized. The cost of the rural system is an element of doing business nationwide; it should be averaged into other postal costs and supported by postal revenues, not by taxes.

b. Non-postal Services. The allowance for non-postal services does not fall into either category. The principle is established that the Post Office should be reimbursed for non-postal services performed for other Government agencies. And indeed it is so reimbursed for most such services. Because of the importance of freeing the Post Office from the appropriations process, the Commission recommends that other agencies reimburse the Post Office for the identifiable costs of all non-postal services, leaving defense of the needed appropriations to the agencies receiving the service.

c. Special Services (Item 3c on table). The public service allowance includes the "loss" on special services. The excess of fully-allocated costs over revenues for these services frequently results from Cost Ascertainment procedures which allocate to a given service institutional costs unrelated—in many cases—to that service. The distortions resulting from this process are illustrated in the fact that the postal savings system, discontinued by Congress in 1966, has been the only consistently "profitable" special service by the standards of Cost Ascertainment. Postal savings activities took such little time of postal employees and appeared so rarely in the Ascertainment

POSTAL RATES

samples that postal savings was not charged with the large share of institutional costs borne by the other special services.

Recognizing the value to the public of these services and realizing that breakeven pricing would drive their prices out of the reach of users, Congress directed that all losses incurred in this category should be treated as "public service losses." Such a stratagem is unnecessary, of course, if postal management is allowed to price these services on the basis of their real costs plus some contribution to overhead determined by their market economics. There are no "losses" on these services if they cover the costs the Post Office actually incurs in providing them. The users of these services are no different from the users of ordinary postal services; they are not traditional objects of public support like educational institutions or the blind. We recommend the removal of special services from the "public service" category.

* * * * *

If the FY 1967 public service allowance is adjusted on the basis of these exclusions, it becomes:

	In millions
Public service allowance	\$562
Excludable elements:	
Rural allowance	\$108
Unreimbursed non-postal services to other Government agencies	\$26
Special Services	\$62
Total excludable elements	\$196
Remaining subsidy	\$366

d. Class-of-mail Subsidies. The remaining \$366 million is considered the "loss" on nonprofit, educational and in-county mailings. We have concluded, however, that even this figure is inflated, and to the extent that it is, the "public service allowance" is subsidizing the postal service as a whole and not the specific classes. This is true both in the case of special services and of class-of-mail subsidies.

Like the special service subsidy, the class-of-mail losses are calculated on the basis of the difference between the revenue received from the specific sub-class and its fully-allocated cost, the so-called

STUDY 4

“full-loss” method. We have shown, however, that not every service need cover its fully-allocated costs. Since most of the subsidized classes have presort requirements and receive deferred service, they would be entitled to a “normal” rate below the fully-allocated cost. The subsidized rate is lower than the “normal” rate, but the true economic subsidy is the difference between them, between what subsidized mailers and non-subsidized mailers pay for the same service. It is not the difference between what the subsidized mailer pays and fully-allocated costs.

The “public service cost” thus should be measured by the difference in price between the subsidized rate and the comparable or “normal” rate that would be charged for that service to a non-subsidized user. Economists call this method of measurement the “revenue foregone” principle, and for the Post Office it is a much more correct measure of subsidy than the present “full-loss” basis.

We cannot determine with precision the FY 1967 subsidy on a revenue foregone basis because not every subsidy service has an exact non-subsidized counterpart. It appears, however, that rate concessions amounting to about \$240 million were granted. (See Figure 4-2.) The true subsidy is thus about 3.8% of total postal costs—a fact that has influenced our recommendations as to how it should be financed.

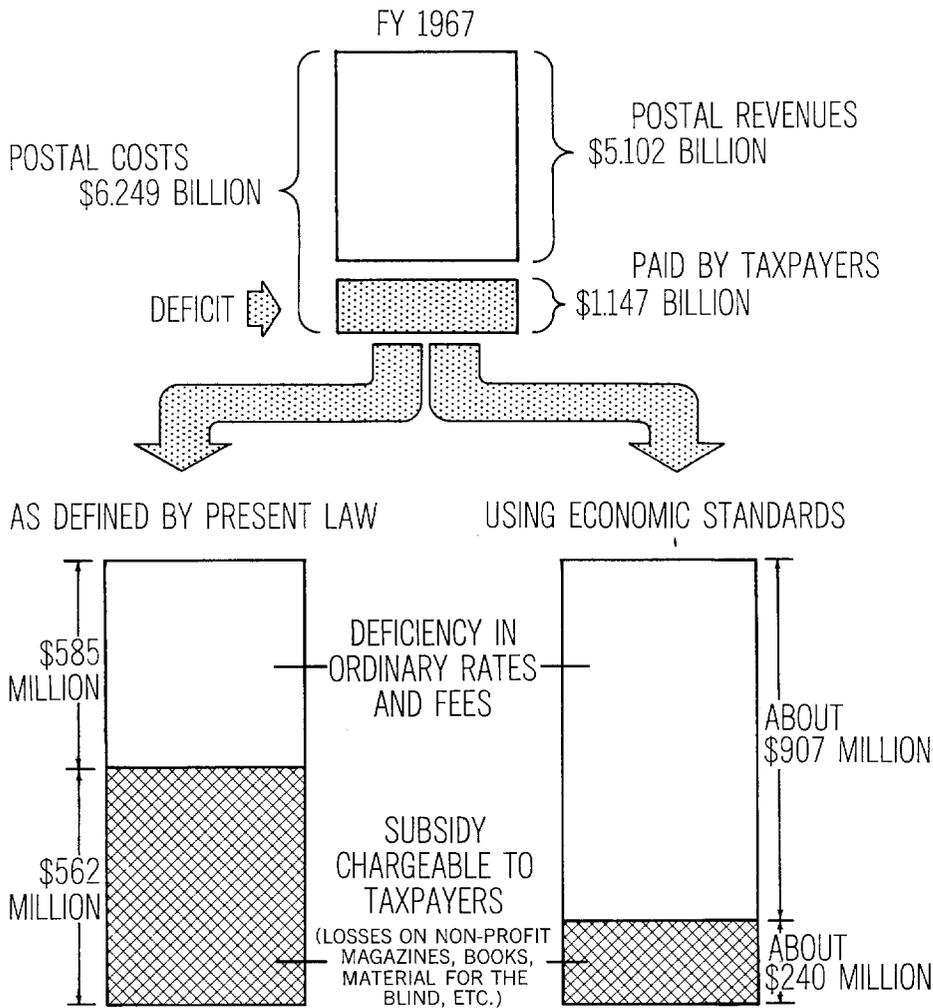
3. Recommendations For Postal Subsidies

Whether the public interest dictates a subsidy for certain postal users is for Congress to decide. We doubt, however, that all existing subsidies would stand close scrutiny if their underlying rationale were examined. Given vast Federal assistance to educational and non-profit institutions, directly or through tax exemptions, the use of the Post Office for further and relatively minor subsidies to these same organizations may, in many cases, no longer be appropriate.

In many instances, too, it might be less costly to the Government, and more visible to the public, if subsidies were provided directly to the subsidized organizations. The Commission recognizes that valid political considerations may preclude such a method of funding, but recommends that Congress re-examine each postal subsidy to determine if the public interest warrants its retention.

A particular difficulty with the current method of providing subsidies through the postal system is that subsidized rates tend to remain unchanged for long periods of time while other rates are periodically adjusted to reflect higher postal costs. What began as a modest subsidy may over time grow to disproportionate size creating a severe imbalance in the rate structure. In recent years, for example, there has been a precipitous volume growth in the non-

Figure 4-2. COMPOSITION OF THE POSTAL DEFICIT (FY 1967)



PROPERLY CALCULATED, THE POSTAL DEFICIT IS SEEN AS A TAX SUBSIDY TO THE GENERAL MAIL USER

Source: Prepared from Cost Ascertainment Report (accrual basis).

profit classes, as a result of the failure of their rates to respond to the economic forces which cause increases in standard rates.

If Congress decides to continue subsidies to certain organizations, it should not delegate to the Postal Corporation policy-making powers concerning subsidized rates, but it should delegate technical rate-setting authority. **The Commission recommends that the total size of the subsidy be fixed by Congress, that the policy on which users should be subsidized be determined by Congress and that specific subsidy rates be set by the Post Office pursuant to Congressional guidelines.** This procedure would accord with the way many other Government subsidies are administered.

Theoretically, any subsidy voted by Congress should be paid for by Congress from tax funds. The practice, however, presents serious difficulties for the postal service. We have shown (in Part I, Chapter 2) that the intermingling of tax funds and postal receipts leads to constraints on management with resulting detriment to service and higher postal costs. Because so many postal activities have common costs, it is impossible to isolate the costs of subsidized services from those of ordinary mail services. If subsidies were funded by appropriation, therefore, it would be extremely difficult to avoid detailed Congressional and Executive involvement with all postal management matters. This would be inconsistent with a soundly managed postal system.

For this reason, **the Commission recommends that postal subsidies be paid by the general mail user and limited to a fixed percentage (e.g., three percent) of the postal revenue requirements.** The percentage limitation would be established in the charter. Subsidized rates would be adjusted from time to time so that the total subsidies would not exceed the Congressionally-fixed ceiling.

We believe this method of funding subsidies would be appropriate for these reasons:

- The revenue foregone in current, authorized subsidies is relatively small when compared with total postal costs.
- The postal service is so widely used that a small increase in postal revenues would be distributed among the using public in a manner roughly approximating a general tax.
- Other businesses, including utilities, recognize their obligation to society and make charitable contributions and undertake other socially beneficial steps. For the Post Office to do the same would fit with its role as a good corporate citizen.
- Almost all foreign Post Offices in our special study cover subsidies to particular classes of mail from overall revenue.

Study 5

Postal Rate-Making

Contents

- A. *The Current Rate-Making Process*, 145
- B. *Is There A Better Way?* 146
- C. *Rate-Making for a 20th Century Post Office*, 147
 - 1. Policy-making, 147
 - 2. Initiation and Rate Design, 148
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The preceding special study analyzes the principles pursuant to which postal rates should be set. This study explores the procedures by which they are currently set and details how they might be set under the recommended Postal Corporation.

A. The Current Rate-making Process

With few exceptions, changes in postal rates or in mail classifications require legislation. The Postal Policy Act of 1958 requires the Postmaster General to submit to Congress at least every two years a survey of expenses incurred and revenues received by each class of mail and each special service. The Post Office's statutory responsibility in rate matters is finished once this survey is submitted.

The Executive Branch is not required to remedy a postal deficiency. Nevertheless, all recent major rate bills have been submitted to the Congress by the Executive Branch and reflect each Administration's concern with the impact of a postal deficiency on the Federal budget. Thus, the impetus for rate changes often comes from the Bureau of the Budget, which has primary responsibility for the Federal budget. Unlike normal utilities (whether publicly- or privately-owned), the Post Office's revenue requirements, its financial position, or the rationality of its rate structure, as such, receive relatively little attention.

Prior to submitting a rate proposal, the Post Office Department frequently attempts informally to gain the support, or neutralize the opposition, of major mailers and Congressmen. Once the bill is submitted, hearings are held by the Subcommittee on Postal Rates of the House Post Office and Civil Service Committee. These are followed by full Committee consideration and then referral to the House for voting. The same process, beginning with the Senate Post Office and Civil Service Committee, occurs in the Senate. Any differences between the House and Senate bills are referred to a conference committee and back to both the Senate and the House for passage before transmission to the President.

The bill may be delayed or killed at any step. The 1968 rate bill, which passed in one session of Congress, was remarkable for its speed. The three other major rate bills passed since World War II encountered considerably more delay:

Recommended	Passed
February 1949	October 1951
January 1953 (renewed 1956-57)	May 1958
May 1960 (renewed 1961)	October 1962

Testimony on rate bills is frequently colored by self-interest; the objective is to "make a record," to get views into print, rather than to resolve issues. After appearances by Post Office witnesses, the Committees hear testimony from mail users—who, of course, also make their views known to the Congress through informal channels. Advertisers are well represented; so are publishers. Nonprofit organizations also send representatives. Only the average citizen is not formally represented, though most Congressmen feel a particular responsibility to protect his interest.

In the hearings, the Cost Ascertainment Report becomes a debater's tool—to be cited when it supports a speaker's position, to be decried when it does not. The use and misuse of Cost Ascertainment figures confuse the public debate on an already complicated topic.

The parties present their views to the press; the press comments editorially. Each side accuses the other of lobbying, and the epithet "junk mail" is frequently heard. The press is in a peculiar position, for it too is a party in interest as far as second-class and, to a certain extent, third-class rates are concerned.

The market and cost analysis needed for sound rate-making cannot come to the fore in such an atmosphere. Nor are the cognizant committees, beset with other responsibilities, staffed to perform full studies of rate proposals. Neither the House nor Senate committee has a single staff member devoting full time to postal rate matters.

Our Congressional interviews indicate a growing distaste for participation in postal rate-making. Among the major mailers, too, we found disenchantment with legislative rate-setting.

The Commission finds that:

- *Despite an Act declaring that postal revenues should equal postal costs (less public service allowance), the requirement is widely ignored.*
- *Postal rate changes are not made in light of the financial health of the postal service.*
- *The resulting rate structure is always complex, frequently anomalous and only incidentally geared to the postal user's needs.*

B. Is There a Better Way?

Legislative rate-making with its inherent lack of flexibility is a hundred years behind the times. Even in the nineteenth century,

RATE-MAKING

the utilities' cost and market situations changed too rapidly to permit adequate legislative rate-setting. Further, organized pressure groups, vital elements in our system when matters of public policy are involved, can overpower the arguments in favor of an economically rational rate structure. Certain basics common to the rate-making process in almost all other utilities can show the way to sound Post Office rate-making.

In delegating rate-making authority for other utilities the legislature sets broad policy guidelines. The utility, its customers and the regulatory body, if any, work out specific details. The legislature retains the right to disapprove or replace these if it deems that the public interest so requires.

Primary responsibility for initiating rate changes rests with management, although rate change proposals can come from users or from a regulatory body. Since rate-making is an on-going process, it must be a full-time responsibility of a member of top management.

Because of most utilities' quasi-monopoly situation, there are always checks on utilities' price-setting powers. For privately-owned utilities, an independent governmental regulatory agency normally approves rates. Some Government- or cooperatively-owned public utilities are also regulated by independent governmental agencies; others have internal rate-making procedures subject either to legislative review (the city council for many municipally-owned gas and electric companies) or to executive review (for example, the President in the case of the Saint Lawrence Seaway Development Corporation). An exception is the Tennessee Valley Authority which, in lieu of a formal hearing process or outside review, conducts negotiations with its relatively small number of customers prior to rate changes.

Whatever the forum, an opportunity usually exists for affected parties to be heard. Normally, formal hearings entail considerable expert testimony. The decision-maker then attempts to resolve the major factual issues and to apply the policies laid down by the legislature and the courts.

Finally, there is usually provision for appeal: to the courts on specific matters such as statutory interpretation, procedure, substantial evidence, or to the legislature on a formal or informal basis.

C. Rate-making for a 20th Century Post Office

1. Policy-making

If the Post Office is to benefit from the last hundred years of utility experience, the Commission believes that the Congress must

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delegate rate-making authority while retaining ultimate responsibility for postal rate policy by providing policy guidelines in the Postal Corporation's Charter. Ensuring fairness to postal users, maintaining service standards, continuing subsidies believed to be in the public interest are all clearly the prerogative and responsibility of Congress.

At the same time, the Corporation management should be free to design a rate structure which promotes the best service at the lowest possible cost. Lest the postal management be hamstrung in this area, the Commission recommends that in chartering the new Postal Corporation, Congress not attempt the impossible task of devising a formula which would automatically determine rates for each class, but instead set a series of guidelines of the following sort:

In order to facilitate the continued development of a nationwide network of postal services, and to facilitate communication of intelligence, dissemination of information and advancement of education, culture and commerce by means of the mails, the Corporation shall:

a. Develop and promote adequate and efficient postal services at reasonable and equitable rates and fees.

b. Make rates and fees from the postal services as a whole sufficient to provide revenues to meet the costs anticipated in each fiscal year, including the annual carrying charges for capital invested in postal facilities and equipment required to provide adequate and efficient postal services, and to enable the Post Office under honest, efficient and economical management to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States.

c. Except to the extent required by Section d, below, set up appropriate classes of postal service and fix rates and fees for each class of postal service so that the costs demonstrably related to the service in question will not be borne by other classes of users of postal services or by the mails generally.

d. Adjust the rates and fees payable by specific classes of users when Congress has determined that the specific classes or service require subsidy or support from public funds.

e. In making changes in the current postal rate structure in accordance with the policies outlined above, the Post Office shall consider, among other factors, the financial impact upon existing users of the mail.

2. Initiation and Rate Design

Whatever the form of hearing and review, the Corporation should have responsibility for initiating rate changes as well as for rate de-

sign. Within the Corporation ratemaking belongs neither to financial management nor to the operations or sales functions, though all of these must influence rate design and initiation. **The Commission recommends, therefore, that the Corporation have a senior Corporate Officer with responsibility for rate design and initiation and not subject to the supervision of financial management, sales or operations.** This officer, perhaps called the Rate Manager, should have an adequate staff of rate experts, statisticians, economists, engineers, accountants and market analysts; the three last serve as links with the operations, financial management and sales functions.

Rate reform should not be attempted all at once. Rates should be subject to continuous reevaluation and refinement, with new services offered whenever costs and market conditions so dictate. With such an ongoing, gradual process, radical across-the-board rate changes like those of 1962 and 1967 should no longer be necessary.

3. Hearing, Decision and Review

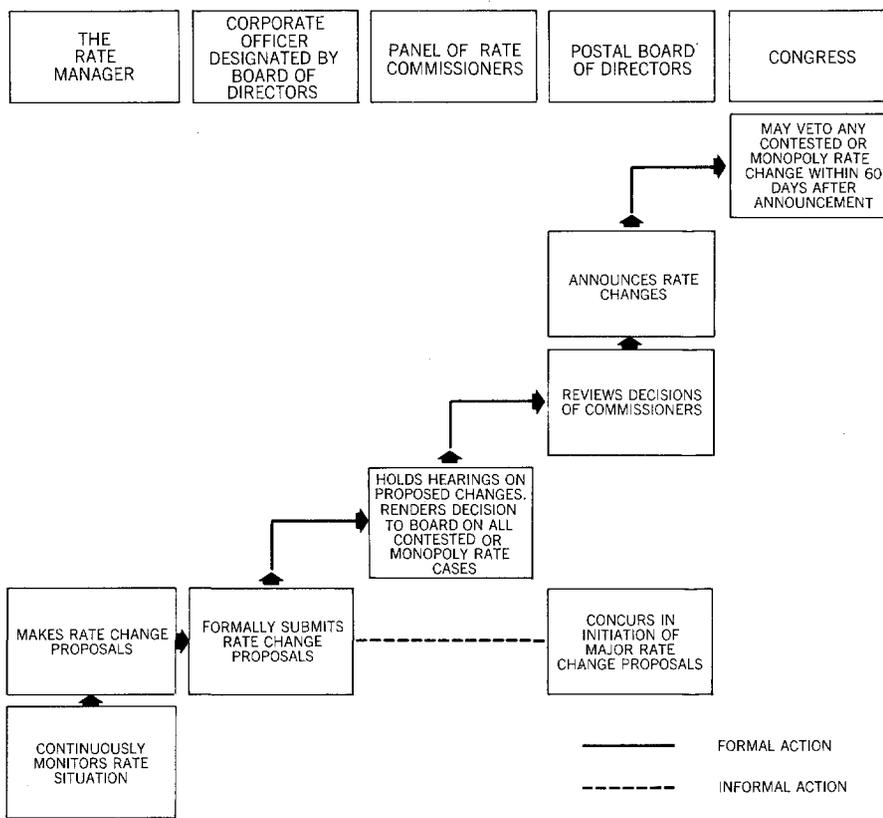
In examining the alternative methods for hearing, decision-making and review, we were particularly impressed by three special Post Office characteristics. Since the Corporation will be Government-owned, there is less potential for consumer-investor conflict than in privately-owned utilities. Accordingly, we rejected an independent postal regulatory agency as anomalous: one Government agency regulating another. We believe our proposal minimizes the danger of interference with management prerogatives and the layering of Federal bureaucracy which a separate independent agency might bring. Second, the interests involved in postal rates are much more numerous and varied than those involved in TVA rates. A fair, impartial hearing process should be available to all. For this reason we rejected the pattern of rate-setting by the Corporation's Board with only informal negotiations with users. Third, the long history of Congressional involvement in postal rates suggests that many look to Congress to ensure ultimate reasonableness in rates. For this reason we rejected substantive judicial review of corporate actions on rates.

Our recommendation accommodates these three major Post Office characteristics. Because of its governmental nature, we recommend that the Board of Directors have basic responsibility for approving rate changes. **To ensure full and fair hearings, we recommend a Panel of technically qualified Rate Commissioners appointed by the Board of Directors.** These Commissioners would, however, be independent of the Board. They would conduct hearings and render tentative decisions on proposed rate changes and user complaints. Consistent with the Congressional oversight tradition, we recommend that Congress have the power to veto proposals for rate changes proposed by the Board within sixty days after proposal.

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The Charter should give the Board of Directors and its Panel of Commissioners broad authority to work out procedures. What follows indicates the Commission's view as to how such procedures might work. (Figure 5-1.)

Figure 5-1. RATE-SETTING IN THE POSTAL CORPORATION



The Rate Manager and his staff, subject to their corporate superiors, would develop rate change proposals. In the event of a major change, such as an increase in the letter-mail rate, or a new classifying scheme, the corporate officers would consult with the Board of Directors. On minor changes or refinements, the Board might delegate to corporate officers authority to proceed independently with rate initiation.

An officer designated by the Board would forward the proposed rate or classification change to the Panel. This officer could be the Rate Manager or one of his corporate superiors, depending on the significance of the change. Simultaneously, public announcement would appear in the *Federal Register*.

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Initially, until workload experience dictates a change, the Panel of Rate Commissioners would have three members serving full-time, each experienced both with utility rates and as hearing or judicial officers. The Board of Directors would appoint the Commissioners, who would report not to a corporate officer but directly to the Board as a whole. The Board would draw Commissioners from a special Civil Service Commission register similar to the register of qualified hearing examiners used by regulatory agencies. The Administrative Procedure Act's *ex parte* requirements would apply to the Rate Commissioners.

To insure independence and impartiality, Commissioners would be appointed for staggered terms—longer than the term of any member of the Board of Directors. In keeping with their substantial responsibility and to attract competent, experienced people, Rate Commissioners would be paid at Level V of the Executive Pay Act. One Commissioner designated by the Board would serve as Chief Commissioner with responsibility for assigning the Commissioners' workload and for managing the Panel's Staff. This staff would be small—20 professionals at most—to aid in technical fields, such as accounting, economics and engineering. The Staff would be responsible only to the Panel.

Unlike a regulatory agency, the Panel would not initiate investigations or conduct regular audits. Their principal job would be to hear user challenges to rate change proposals by the Corporation and rate and service complaint cases.* The Panel would render tentative decisions on such questions as whether, under the proposed rates, all costs "demonstrably related" to a particular class of mail would actually be borne by that class. In keeping with its quasi-judicial function, the Panel would render decisions only in contested cases or in cases involving a rate covered by the statutory monopoly. In monopoly cases, because of the effect on the unorganized general public, the Commissioners would ensure that the Corporation has clearly demon-

*In Administrative Procedure Act terms the contemplated proceeding is a "rule-making proceeding," but one which is required to be made on the record after an opportunity for hearing. (See 5 U.S.C. 553(d); 556-57.) A formal record could be dispensed with only in those cases involving a class not covered by the postal monopoly and then only if the parties consented. Further, the hearings would have to be conducted by Commissioners; no substitutions of other postal officials would be permitted. The Act's requirement of insulation of adjudicatory officers would insulate the Rate Commissioners from those who were proposing the rates. (See 5 U.S.C. 554(d).) The postal Rate Commissioners would be required to draft tentative decisions in all those cases involving the monopoly classes and in contested cases except where the parties agreed otherwise. The tentative decision would become part of the record and would form the basis of all further review.

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strated a need for change. The Board could, however, request the Panel's views on an uncontested change involving a non-monopoly rate.

When the Commissioners received a rate proposal, the Chief Commissioner would assign hearing responsibility either to himself or to another Commissioner. (In case of major changes, the Commissioners might choose to handle the proposal *en banc*.) The Panel would have authority to prescribe the format and supporting material necessary for rate proposals.

Users and other interested parties could present objections. In the case of a contested proposal or one involving a statutory monopoly rate, the Commissioner assigned, or the Panel, should hold public hearings using the full array of procedural devices to ensure fairness and impartiality without undue delay. They could, for example, order discovery; conduct pre-hearing conferences; with the consent of the parties in non-monopoly cases, conduct the proceedings entirely off-the-record; join issues and parties; and limit testimony.

A hearing would include presentation of expert accounting, engineering and economic evidence, all pointed toward determining whether the proposed rates would comply with the policies outlined in the Charter. Following hearings, the Commissioners would write a decision in accordance with whatever self-imposed rules they deemed necessary to ensure internal consistency. Once rendered, a decision would be the decision of the entire Panel and would be part of the formal record. This requirement ensures that all contested and monopoly cases benefit from the Commissioners' independent written judgment.

The record would be referred to the Board of Directors, which could adopt the corporate officers' proposal, modify it in accordance with the Rate Commissioners' decision, or compromise the two in the light of the hearing record. If the change did not involve a monopoly service and the parties did not contest the Board's decision, the rate approved by the Board would go into effect. Otherwise, the rate would go into effect after sixty days, during which period Congress could veto the rate change proposal by concurrent resolution.

We envisage that Congress would follow a procedure similar to that under the Reorganization Act. The matter would be referred to a committee in each House. Following deliberations, which might include hearings, the committees would recommend to their respective bodies whether veto action should be taken. The Congress could reject the proposal in its entirety; otherwise it would go into effect.

In a user complaint case, the user would lodge a formal complaint with the Rate Commissioners who would then decide whether a sufficiently strong case existed to warrant holding hearings. If the

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Commissioners, after hearings, ruled that the current rates or services did not violate the statute, the case would end. If the Commissioners ruled in favor of the user, they could order the appropriate corporate officer to propose a change to remedy the user's complaint, and the case would then proceed as if the rate or classification change had initially been proposed by the Corporation.

There remains a role for the courts. Granted that postal rate changes will be subject to Congressional veto, the courts' role would be smaller than in the normal rate-making process. But the courts can and should serve the valuable function of ensuring procedural fairness: judicial review would always be available to ensure that the Post Office conducts its rate hearings in accordance with the procedural requirements set forth in the enabling legislation and that procedural rulings in such hearings conform to constitutional due process standards.

Study 6

Potential for Cost Savings in the Postal Service

Contents

- A. *Cost Trends to Date*, 156
- B. *The Economics of Postal Activities*, 158
 - 1. Retailing-Delivery, 159
 - 2. Processing, 160
 - 3. Purchased Transportation, 162
 - 4. Administration, 162
- C. *Summary*, 162

At today's mail volume at least 20% of total postal costs could be saved each year if the Post Office performed at an efficiency level comparable to that of a well-run business.

In the study of the Post Office our contractors found repeated examples of inefficiency tracing to obsolete work methods, lack of proper information and the lack of mechanical aids for employees. On visits to post offices the members of the Commission noted the same difficulties.

Bringing the Post Office to the performance level comparable to that found in industry will require the cooperation of workers and management and a shakedown period during which net performance will improve only slightly, if at all. But the true long-run benefits are incalculable.

What follows is not a detailed cost reduction program for the postal service but an analysis of the cost behavior of major postal activities, the Commission's estimate of the cost savings which normal business practices would permit in each and a summation showing an overall saving of at least 20% in costs. Much of this estimate, which is based upon the Commission's best judgment, represents a return on investment in new facilities and equipment. The full savings, therefore, can not be realized for several years.

Most Commission members, however, are confident that far more than a 20% saving can be achieved ultimately with the cohesiveness and purpose that sound leadership, a modern methods system and improved human relations can provide.

Apart from productivity improvements, the Postal Corporation can reduce the cost-revenue gap by changes in rates and services. Rate adjustments themselves can lead to lower postal costs. A substantial savings potential exists, for example, through incentive rates for standardized or presorted mail and for mail otherwise prepared to reduce handling costs. With regard to services, after information is developed on the needs of the postal market, a shift from existing patterns may be indicated. At present, for example, all first-class mail, whether urgent or not, receives the same priority—an attempt at next-day delivery. This results in a daily workload peak with higher processing costs. Our special study on overnight mail delivery argues that service improvement, cost savings and improved employment

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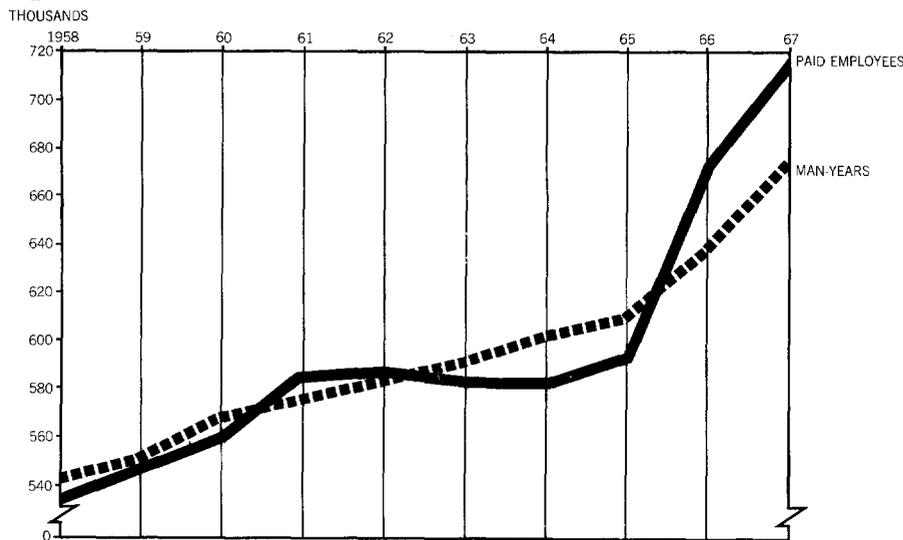
circumstances will result from offering both expedited and normal first-class service. Potential for savings also exists in offering new services at favorable revenue-cost ratios after market analysis reveals the unfilled needs of the postal customer.

A. Cost Trends to Date

Because of steadily rising labor costs and scant improvement in postal productivity, the cost of postal service has been rising at an exceptional rate.

The steady growth in mail volume and number of households and businesses served has led to the increased postal employment shown in Figure 6-1.

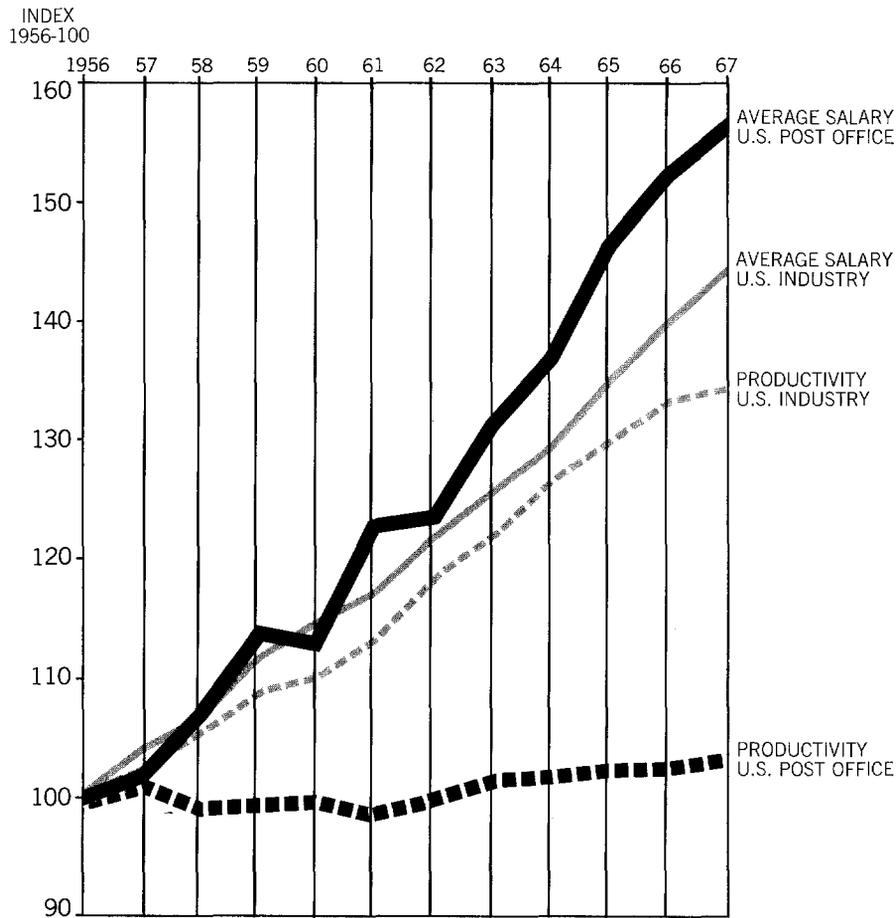
Figure 6-1. **PAID EMPLOYEES AND MAN-YEARS**
(Fiscal Years 1958-1967)



Source: Post Office Department.

Since the Post Office is so labor-intensive (personnel costs are 80.3% of the total budget) manpower considerations dominate postal economics. As Figure 6-2 illustrates, the average postal salary has risen 56% since 1956, a somewhat faster rate than the average for private, non-agricultural employees (44.2%). Postal productivity, however (weighted to reflect changes in the mix of mail), increased approximately 2.5% during the same period while in the private sector productivity was rising 34%. Since productivity trends are determined chiefly by capital investment policies rather than personnel practices, the depressed state of postal productivity re-

Figure 6-2. **PRODUCTIVITY AND SALARY TRENDS**
(Post Office and U.S. Industry, 1956-1967)



Post Office average salary.

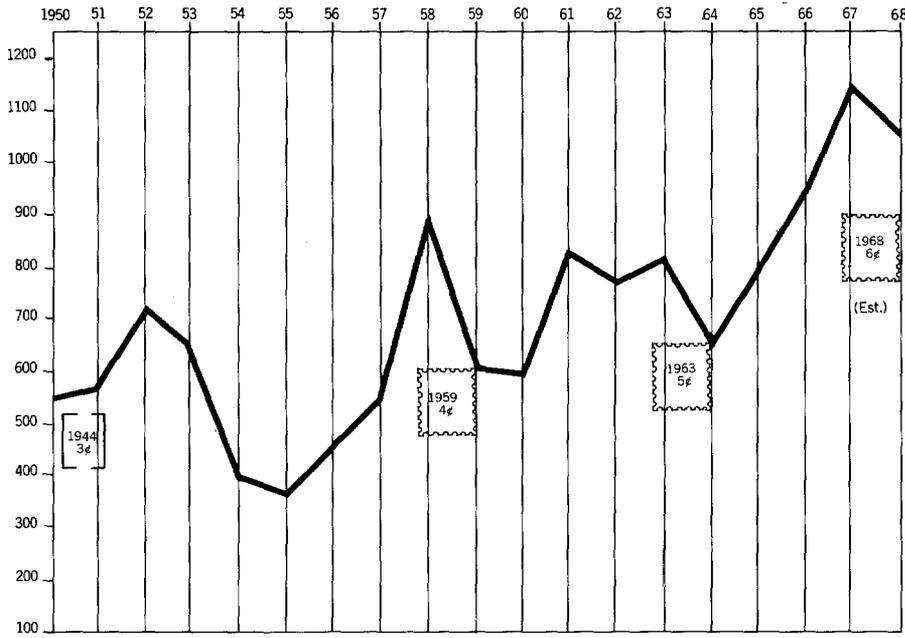
Sources: Post Office salary, Post Office Department Annual Report, various years.

Post Office productivity (weighted) Robert R. Nathan Associates.

U.S. Industry data, Economic Report of the President, February 1968.

flects not the performance of individual workers but the primitive state of postal technology. The divergence between productivity and labor costs leads, of course, to higher unit costs and higher prices. In the postal service higher unit costs have brought not only higher postal rates but a growing deficit as well. (Figure 6-3).

Figure 6-3. FIRST-CLASS MAIL RATES & POSTAL DEFICITS
(Fiscal Years 1950-1968)



Source: Prepared from Post Office Department data.

B. The Economics of Postal Activities

Postal activities may be grouped into five categories:

Principal Postal Activities	Percent of Total Postal Costs
1. Retailing (including collection from boxes)	9
2. Delivery	42
3. Processing	32
4. Transportation	11
5. Administration	6
	100

Source: Compiled from Fiscal Year 1968 Post Office Department Budget.

The potential for cost reduction in each category is a function of its economic characteristics, which are examined in detail below.

1. Retailing-Delivery

Retailing and delivery costs are determined chiefly by the number of households and businesses served and by the level of service provided—the number of window service hours offered, for example, or the number of deliveries per week. The retailing-delivery network, once set up, has the capacity to handle a range of mail volumes. When a carrier route is established, for instance, its “cost” to the Department remains essentially the same since day-to-day variations in volume are reflected in the leeway given a carrier for weather, traffic conditions and the like. Auxiliary help adds new capacity for handling seasonal or monthly mail surges.

Postal retailing and delivery activities have many of the characteristics of service industries:

- direct public contact
- public accessibility is important in locating facilities
- a large number of small transactions
- cost is determined by “readiness-to-serve” rather than by actual workload.

People, not machines, carry out most service activities. In the private sector businesses like banks, retail stores and supermarkets have found it difficult to reduce public contact costs through automation and tend to show lower productivity increases than manufacturing companies having few face-to-face transactions with the public.

Retailing-Delivery—Specific Savings. In the retailing area better methods, such as providing a complete line of postal services at each window, would result in lower lobby costs as well as increased customer satisfaction. Better vending machine location could in many offices reduce the number of small transactions for which clerks are needed. Because of the element of public contact involved, it is unlikely that mechanization will yield major cost savings. Even so, self-service post offices located in shopping centers may well reduce the number of new facilities needed in the nation’s growing suburbs. We estimate that some 15% in the unit costs of the retailing activity can be saved as mail volume grows and steps such as these are taken.

The delivery category covers those activities involved in moving mail from the processing center to the addressee. (It also includes the costs of second-, third-, and fourth-class offices, each of which has only a few employees and which for all practical purposes may be considered delivery stations.)

Because street delivery is necessarily labor-intensive, mechanization cannot substantially reduce costs. Before leaving his office, how-

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ever, a letter carrier spends an hour or more sorting mail into delivery sequence by hand. To some extent this activity is susceptible to mechanization along with much of the bookkeeping carriers perform and the address changes they write manually. We estimate a savings of 15% in the delivery activity, partly through mechanization and partly through better methods.

2. Processing

Unlike retail and delivery, the costs of the processing functions (cancelling, distribution of letters into cases, etc.) are determined directly by mail volume, i.e., they are the variable costs of the postal system. In many respects, processing and internal transportation resemble production industries or the "back room" activities of banks or department stores such as processing checks or warehousing goods:

- Since little public contact is involved, facilities can be placed where recruitment potential, transportation facilities and real estate considerations dictate.
- Within limits, transactions can be batched for efficiency in processing.
- There is no barrier to mechanization deriving from a need for person-to-person contact.
- The function is not *necessarily* labor-intensive, i.e., the customer does not care whether his letter is processed by hand or by machine.

The principal factor differentiating mail and industrial processing is that the *public*, by its daily or seasonal mailing patterns, determines when the Post Office will be busy. Unlike a manufacturer, the Post Office has no inventory to separate the production process from public demand. For this reason, the Post Office, like utilities generally, must have processing capacity adequate to handle mail surges without undue delay.

The manner of obtaining this capacity has important implications for the efficiency of the system. Because mail handling techniques are relatively simple, it is deceptively easy to increase an office's capacity by adding more people, more sorting cases and more dock space. Over time, however, the cost penalty becomes prohibitive for adding on instead of redesigning and mechanizing the office for its new workload. Productivity in large offices is ordinarily much lower than in medium-size or small offices, reflecting to some degree poor design and overcrowding.

The greatest potential for savings exists in the larger post offices. To date, mechanization has been applied in limited and piecemeal fashion. Many rudimentary mechanical systems installed 30 years ago

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are so badly overloaded that they constitute bottlenecks rather than aids to mail handling. Offices designed for fewer than a million letters per day now handle twice that amount, at much higher unit costs than if they had been designed for their present workload.

Unlike the Post Office, production industries generally have substantially reduced their unit costs through mechanization, process control, worker training, scientific plant layout and improved production techniques. Our technology contractor's report estimates that if the Post Office used such techniques in conjunction with an overall systems approach, the productivity of some major postal facilities could be increased by as much as 50%.

Mail Processing—Specific Savings. Better methods, mechanization and facility improvements offer the greatest opportunities for cost reduction in this activity. Advance information on volume will permit better scheduling of workers and more efficient mail dispatch.

In terms of the number of workers, the interiors of many post offices resemble the work areas of manufacturing companies 30 years ago. The same companies today have fewer people involved in direct processing and have greatly increased their scale of operations, upgrading both the skills and the pay levels of their workers. The Post Office could be similarly revolutionized. The potential for improved clerk and mail handler productivity is immense in the many offices whose mail volume justifies replacing the "peek-and-poke" method of hand sorting with modern processing equipment. In the largest offices optical scanners should substantially reduce both the cost and the delay involved in processing letter mail.

Post Office studies of the use of mechanized equipment for culling, stacking and cancelling show a cost of \$1.20 per thousand letters compared with the cost of a manual system of \$3.50 per thousand letters.

Similar studies of letter distribution equipment show a cost of \$2.00 per thousand letters for the optical scanning devices still in the experimental stage and \$3.42 per thousand letters in the letter-sorting machines now in operation. The cost for hand sorting is \$4.20 per thousand. Thus, the cost is reduced by \$0.78 per thousand letters in the existing mechanized system and conceivably by \$2.20 per thousand letters when optical scanners are available.

It appears that wide opportunities exist for a one- or two-position letter sorter suitable for use in smaller post offices.

Fourth-class mail is charged with 15% of the total cost of Post Office operations and makes up 41% of mail weight and 55% of its bulk. Parcel post savings can come from the use of mechanized parcel sorting, standardized containers for packages and bulk ship-

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ment in large containers. The use of bulk handling methods now found in other industries should effect a major reduction in the cost of transferring sacked mail around post offices and on and off transportation vehicles.

In mail processing, we have estimated a 15% cost reduction from improved methods and a 25% saving from mechanization, assuming wide use of the optical scanner and of materials handling equipment.

3. Purchased Transportation

The Post Office purchases transportation for the movement of mail between cities from private carriers. If postal management could negotiate rates as an ordinary buyer—and could use any mode of transportation, such as highway common carriers—savings would result. The greatest potential, however, lies in technological advances by the carriers themselves and economies of scale from better scheduling and dispatch. Aside from lower unit rates, use of computers to forecast and monitor mail movements should result in better utilization of transportation and lower transport costs. We estimate a 30% unit cost reduction in this activity over the next five years.

4. Administration

The costs of administering the postal system at Department, regional, sectional center and local levels are institutional costs, largely independent of mail volume fluctuations. Savings can be effected if automatic data processing is applied to the areas of planning and control, scientific and systems engineering, transportation, forecasting and operations. Our technology contractor estimates that in the next five to ten years almost a one hundred percent return per year can be realized from investment in automatic data processing equipment and techniques in such areas as planning, control and systems engineering.

The principal benefits of more effective administration, of course, come as lower operating costs, rather than in lower administrative expenses. Nonetheless, a saving of 10% in administrative cost itself should be achievable, largely through electronic data processing.

C. Summary

The total effect of the savings described in each of the foregoing categories is shown in Table 6-1. The net 20% improvement by no means constitutes the maximum achievable, but illustrates the first-round results we project from giving management the tools and latitude it needs.

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Table 6-1. COST REDUCTION POTENTIAL

<i>Function</i>	<i>Percent of total Expense</i>	<i>Unit Cost Percentage Reduction</i>		
		<i>From Improved Methods</i>	<i>From Mechanization</i>	<i>Total</i>
Retail	(9)	10	5	(1.35)
Delivery	(42)	5	10	(6.3)
Processing	(32)	15	25	(12.8)
Transportation	(11)	10	20	(3.3)
Administration	(6)	5	5	(.6)
Total	(100)	(9.2)	(15.15)	(24.35)

	<i>Percent</i>
Estimated gross saving	24.35
Approximate investment costs	4.35
Estimated net saving	20.00

Note: Figures in parentheses are percent of total postal expense.

Study 7

Overnight Delivery of First-Class Mail

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- C. *Provision of Two Types of First-Class Service*, 167

The most heavily emphasized service goal of the Post Office is overnight delivery of first-class mail. From one perspective, it is certainly a laudable goal. We believe that people who want overnight delivery should receive it, and indeed we have suggested that the Post Office's failure to provide dependable overnight delivery is a serious shortcoming.

At present, however, next-day delivery is a costly objective, for the Post Office attempts to meet it not only for mail which the sender wants delivered the next day, but for all first-class mail. The attempt leads to inflated costs for labor, facilities and transportation. Since our findings indicate that individuals are indifferent to overnight service for much of their mail and that the largest part of business mail is not urgent, the Post Office incurs additional costs for something users do not necessarily want. Furthermore, overnight delivery is often not achieved for that portion of mail for which it is actually desired. Because of difficulties in processing *all* first-class mail so quickly, only about 71% is delivered the next day, whether urgent or not.

There is a solution to this quandary, but first we examine two assertions essential to our analysis:

- that overnight delivery for all first-class mail is a costly goal; and
- that the largest portion of first-class mail is not urgent and does not require it.

A. The Cost of Overnight Delivery

The goal of overnight delivery leads directly to a major postal problem: the "daily peak." Instead of working an even flow of mail throughout the day, most mail must be processed during a relatively short period.

The largest peak occurs in the evening. The natural inclination of most businesses is to deposit first-class mail late in the afternoon, near or after the close of the workday. Determined Post Office efforts to persuade users to "mail early" have been productive but have not succeeded in eliminating the peak. With the goal of overnight delivery, this flood of mail collected in the late afternoon must be sorted in a few evening hours to make night dispatches to non-local

destinations. Another smaller peak occurs during the early hours of the morning when mail arriving from other cities is sorted for delivery that day. Thus, over half the mail is processed in about eight hours of the evening and early morning.

This daily peak adds several special costs to the handling of mail.

- It does not permit an efficient utilization of manpower. All shifts include periods of hectic activity and periods when there is little to do. Productivity cannot be kept on an even basis because supervisors cannot adjust the work force level with sufficient precision to meet fluctuations in the volume of mail. Since no way exists to predict accurately short-term changes in the volume of mail, the safest course for a supervisor is to overestimate manpower requirements in order to be sure to get the mail out. Finally, the law imposes limitations on split shifts by career employees.
- Plant and equipment needs would be reduced if the Post Office did not require the capacity to handle the largest volume of mail during a relatively short period of the day.
- The daily peak leads to excess wage costs since three out of four postal employees who process the mail engage in night work on a regular basis and receive a 10% differential for any hours between 6:00 P.M. and 6:00 A.M. The goal of overnight delivery also leads to Sunday and holiday work at premium wages.
- The daily peak leads to the under-use of the most experienced employees and supervisors. Day work is preferred by most employees and seniority governs shift assignments. Thus, the most experienced personnel often work during the shift when the least mail is processed under the least demanding circumstances. Conversely, the unpopularity of the night work demanded by the peak is an important reason for the high turnover rate among new employees—a serious and expensive problem. Almost half the employees processing the mail must work the 4:00 P.M. to 12:00 midnight shift. Another quarter must work the 12:00 midnight to 8:00 A.M. shift. While some employees find night work acceptable, most do not and would prefer a more normal schedule.

B. The Urgency of First-Class Mail

For how much first-class mail do the senders actually need overnight delivery? The inference can be drawn from the limited market study made for the Commission by Arthur D. Little, Inc., that a large proportion of first-class mail sent by individuals falls into a non-urgent category.

Households send about a third of first-class mail (business, other organizations and government account for the balance). When asked about the importance of next-day delivery for items they were

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mailing, individuals (mainly housewives) indicated that 58% of the mail they sent was not urgent. They would not, they said, pay one cent extra or go to the post office to mail it in order to ensure next-day delivery.

Businesses send almost all the remainder of first-class mail, mostly advertising and financial transactions of some sort—bills, checks, statements of account. This kind of mail is not necessarily urgent. If a business wants a bill or advertisement received by a certain date, it can generally send it two days ahead instead of one. We conclude that the largest proportion of first-class business mail, like the mail of individuals, is not urgent.

Unexpected delay in the delivery of the large number of checks in the mail postpones the use of the money by the receivers. Senders should be able to allow for expected transit times when they mail checks. Problems often stem not from failure to get overnight service but rather from senders' inability to count on a scheduled, dependable interval between mailing and delivery.

C. Provision of Two Types of First-Class Service

Because the goal of overnight delivery is costly and overnight service undependable and because a large proportion of first-class mail is not urgent, postal management should study the advantages to the public of offering a stratified first-class service. Same-day or next-day delivery should be available for those who want it. The rest of first-class mail should receive *dependable* normal service. If users choose normal delivery for a large proportion of their mail, production can be carried out at an even rate and a higher proportion of the work force employed on the day shift.

The exact way to offer the two services must await a study by the Post Office of market potential and of the costs of postal operations on a function-by-function basis in order to determine service requirements and cost effects.

Of course, a relatively higher rate or added effort on the part of the sender (such as taking urgent mail to a post office for deposit) would be required for expedited service. But the elimination of the extensive costs of the daily peak would also be reflected in the rate structure. In any event, senders would be paying for a service they would elect to buy, not for a service it is assumed they want.

Study 8

Transportation

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The Post Office Department is one of the nation's major users of transportation. It operates its own 60,000 vehicle fleet for delivery and in-city mail movement in addition to purchasing, in 1967, \$635 million worth of transportation from private carriers, as shown below:

Mail Transportation Cost—1967, In Millions

<i>Domestic Transportation</i>	
Rail	\$308
Highway	156
Air	114
Water	5
	\$583
 <i>Foreign Transportation</i>	
Water	\$11
Terminal & Transit	12
Air	29
	\$52
Total	\$635

Source: Post Office Department data.

A. The Decline in Rail Transportation

For many years the postal transportation network was built around the nation's railroad system. Over 10,000 passenger trains available before World War II offered a wide choice of schedules to postal dispatchers and met most inter-city transportation requirements. The main Post Office in many American cities stands adjacent to the railroad station—a monument to the close relationship which once existed between the postal service and the railroads. The Railway Post Office in which postal clerks sorted mail as the passenger trains sped between cities, was for decades the mainstay of the mail distribution system.

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The declining role of the railroads in moving the mails is shown strikingly in Table 8-1.

Table 8-1. RAILWAY POST OFFICE DATA
(Selected Years, 1910-1967)

<i>Years</i>	<i>Miles of Passenger Lines</i>	<i>Number of RPO Cars</i>	<i>Number of RPO Clerks</i>	<i>Post Office Clerks (Regular)</i>	<i>Total Clerks</i>	<i>Percent of RPO Clerks of Total</i>
1910	n.a.	5,087	16,795	33,047	49,842	34
1920	224,324	n.a.	20,407	47,598	68,005	30
1930	225,457	n.a.	21,185	72,015	93,200	23
1940	170,175	3,794	20,133	77,444	97,577	21
1950	147,511	2,589	27,126	141,092	168,218	16
1960	97,191	n.a.	n.a.	n.a.	171,914	n.a.
1967	69,108	1,476	6,715	220,223	230,181	3

N.a. = not available.

Source: Post Office Department, Bureau of Transportation

The gradual disappearance of passenger trains created gaps in the mail transportation network which the Post Office has filled by increased use of air and highway carriers and by reorganizing its distribution network.

B. The Sectional Center System

During the 1950's postal managers began to design a new national mail distribution system based upon more than 500 sub-state areas within which all offices would receive and dispatch mail through a centrally located major city. These "sectional centers" were established to reflect economic and demographic patterns and thus the flow of mail. The entry point for the area, designated the Sectional Center Facility, was, whenever possible, a city served by major air routes and interstate highways. The sectional center system now gives the Post Office a transportation network with 552 transfer points to replace the old system based upon railroad lines strung out across the nation.

In 1962 the Post Office announced the ZIP Code by which the sender of a letter indicates, with a five digit code, the addressee's location within the sectional center system. The first three digits of the ZIP Code indicate the sectional center in which an address is located, the last two show the specific town. (For cities large enough to warrant their own three-digit prefix the last two numbers design-

nate a specific delivery station.) Today all postal dispatches—pouches of letters or sacks of bulk mail—are routed by ZIP Code to their destinations. Furthermore, publishers and others who mail at second- and third-class bulk rates are required to address and presort their mail by ZIP Code.

C. Restrictions on Transportation Procurement

[T]he Bureau of Transportation is limited in its choice of carrier by Government regulation, which fixes rates for air movements, prohibits the use of freight forwarders, and prohibits . . . shipments via [highway] common carriers. [The postal] service does not have the same latitude to negotiate for the best terms (lowest cost, fastest delivery) that a similar industrial shipper does. Mail volumes between points in the system vary, and fixed capacity rate structures do not permit the minimization of costs nor even promote maximizing service.

Report of Arthur D. Little, Inc.,
to the Commission, page 4-67, Annex, Volume 3.

Unlike ordinary shippers and other Government agencies, the Post Office is prevented by law from purchasing transportation on a common carrier basis from the thousands of trucking firms which move freight over the nation's highways. An 1848 statute—the so-called Star Route Law—specifies that the Post Office must enter into four-year contracts on an advertised bid basis for highway transportation of mail.

The lack of flexibility of this requirement became acutely apparent only after the eclipse of railroad passenger service. The Star Route Law imposes upon the Department's purchase of highway transportation rigidities not too different in effect from those which hamper the construction of postal facilities. The statute preempts a normal business decision, the choice of transportation mode on the basis of economy and service. Given the essential role which highway transportation plays in linking the sectional centers, and in movements within the sectional center, **postal managers should have the authority to select whatever means of transportation is best suited to the needs of the postal service.**

This does not imply that we disapprove of the practice of awarding highway mail transportation contracts through competitive bidding. In many instances this will be the most sensible and economical arrangement. Postal managers, however, should have the opportunity to exercise their judgment in the matter.

Restrictions apply as well to the purchase of air transportation, but with less severe effect. A 1938 statutory requirement (incorporated

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in the Federal Aviation Act) provides that the Civil Aeronautics Board (CAB) certify those air carriers which may transport mail. For the most part scheduled airlines provide adequate service between major cities, but their schedules are, understandably, adjusted to passenger needs and the Post Office sometimes finds that flights are not available to meet its schedule requirements.

In response to Post Office requests, the CAB has in recent years granted mail certificates to carriers providing "air taxis" for specific routes not served by scheduled carriers. At present some 85 air taxi routes, serving 240 cities and towns, are filling gaps in the postal air network. Air taxi certificates are continually subject to challenge, however, and the complexity and formality of the approval procedure has limited air taxi availability to the Post Office.

Pursuant to another provision of the Federal Aviation Act, the CAB sets the rates for airmail transportation (in contrast to the normal procedure in which the carrier files a tariff which comes into effect unless suspended by the CAB). The CAB rate-making mechanism frustrates normal negotiations between the Post Office and the carrier in the case of scheduled routes. When the Post Office desires service variations (for example, special ground services or container movements) the Board must determine the appropriate charges through procedures which are inevitably cumbersome and slow, given the many other demands made on the time and attention of the Board.

Postal managers should be given, in the opinion of the Commission, a high degree of flexibility in the procurement of air as well as highway transportation. While special provisions of law may occasionally be required because of the unique characteristics of mail transportation, the Post Office, as a rule, should be free to obtain transportation on the same basis as any other major shipper. **To this end, the Congress should relieve from special involvement in postal transportation matters those agencies whose intervention, however well administered, constitutes a reduction in postal management authority.**

D. Transportation Management

The Post Office has been more successful in managing its transportation responsibilities than in managing the nation's post offices. The restrictions we have described, while limiting authority in two key areas, are by no means as crippling as the lack of management control over postal operations described elsewhere in this Report.

Working closely with mailers and transportation services the Post Office has developed an extensive plant loading program by which Star Route trucks and railroad cars are made available at the plants of publishers or other major mailers, loaded by the mailer and moved

by the carrier directly to a sectional center. In recent years growing use has been made of piggyback containers for office-to-office shipment of mail without enroute sack transfer. Recent tests of container shipments of magazines to foreign countries have been highly successful in terms of lower costs, less damage, quicker delivery and the elimination of pilferage.

The major transportation development in recent years, however, is the airlift of first-class mail. Declining rail service has forced the Department to develop, in several large areas of the country, integrated air-highway networks to link sectional centers and major cities. Once established, these networks have the capacity to carry most first-class mail and to provide next-day delivery to the destination office. Facility problems still create bottlenecks in some locations, but the transportation system developed around sectional centers in recent years appears capable of moving most first-class mail to its destination overnight.

Several years ago the Post Office obtained from the CAB an airlift rate permitting first-class mail to be flown on a space-available basis at about 60% of the ton-mile rate established for airmail. Today much first-class mail which can be advanced by air movement is flown, and the Department estimates that within two years virtually all such mail will travel by air. At that time, postal officials say, Congress will be asked to eliminate the separate airmail classification.

E. Parcel Post

Postal officials and private shippers alike have suggested the possibility of joint arrangements for handling small parcels. Private carriers have excess sorting and transportation capacity in many places but cannot hope to offer as wide a "retail" service as the Post Office. The Commission urges that consideration be given to arrangements which permit the Post Office, when it is good business to do so, to contract out certain portions of a service that is—in many respects—a freight operation.

F. Conclusion

Postal officials have worked successfully with private carriers and mailers in creating a well-balanced network for moving the mails. Transportation planning, particularly for the annual Christmas mail peak, ranks among the soundest the Commission has observed. With the removal of a few residual restrictions on the managers of the transportation system, the transportation needs of the postal service would be met even more cheaply and effectively.

Study 9

The Corporation and Criminal Law Enforcement

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A. Postal Criminal Laws

Today's postal laws relative to criminal matters fall into three basic categories:

One group protects untrammelled movement of the mails and the integrity of postal property and revenues. Thus, statutes proscribe forgery of stamps or money orders; obstruction, delay and destruction of the mails; mail robbery; the burglary of post offices; and a host of similar offenses. These laws must remain in effect no matter who runs the Post Office.

A second category serves broader social purposes. By prohibiting the use of the mails for specified purposes, Congress seeks to police fraudulent schemes and sale of obscene matter. The postal power provides Congress with authority for intrastate regulation in these two areas. The postal power also offers a vital tool in the regulation of practices deemed by the Congress to be socially offensive such as the mailing of unregistered securities or libelous material on envelopes. Nothing in our proposal would inhibit using the postal power to enforce such policies as Congress sees fit.

Third, Congress also employs postal laws as a method of crime prevention. Prohibitions exist against the mailing of concealable firearms, explosives, poisons and material advocating treason or insurrection. Naturally, such laws would remain under the new structure.

B. Postal Law Enforcement

The Department enforces today's postal laws through its Inspection Service, some 1100 carefully picked and trained men. Its contributions to law enforcement have drawn praise from the courts and other law enforcement officials. Actually, inspectors devote little more than half of their investigative time to depredations on the mails, mail fraud, obscenity and other postal crimes. The remainder goes into management functions such as inspection of facilities, management studies, personnel investigations and the like. A semi-autonomous audit agency within the Service currently performs internal Post Office Department financial audits.

We see no constitutional or legal problems in transferring the Inspection Service from the Department to the Corporation. In words of the Supreme Court, the Postal Corporation would be "an

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agency selected by the Government" to fulfill one of its responsibilities, and thus could have the same enforcement powers as the present Department. Nor do policy reasons impede transferring the Service to the Corporation. An outside enforcement agency would lack needed postal expertise and would have to divide its attention between postal matters and other crimes.

This is not to say that the Corporation should necessarily consider the present Inspection Service immune from change. Experience indicates the desirability of separating security from management and audit activities. Accordingly, we would envision that the Inspection Service in the new Corporation would devote most of its efforts to postal law enforcement; its management-type investigations would be assigned elsewhere within the new organization as the Board might determine. The Corporation would establish an audit agency to perform the routine post office and internal audits now performed by the Inspection Service.

Other revisions should be considered. The Service should not, for example, restrict Inspector appointments to persons already on the Post Office rolls but should recruit on the outside, especially at college campuses, as do other law enforcement agencies.

Further, the Service tries to comply with a long-outmoded 1917 Executive Order requiring equal division of appointments between the two major political parties and among the states on the basis of population. As far as we know, this requirement is unique in the Federal Government. It gives the erroneous impression of political appointment and motivation within the Service and **should be rescinded forthwith**. Finally, the Service should study security systems and techniques of private corporations and other government entities to keep abreast of new ideas.

None of these suggestions detract from our conclusion that the Inspection Service is a first-class law enforcement agency with an essential role to play in the proposed Corporation.

Study 10

The Post Office as a Corporate Citizen

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A. Employment

The Post Office has an excellent record of good community citizenship. It has been in the forefront of Federal programs to provide job opportunities to returning veterans, minority groups and the handicapped. Recently, it has begun new programs to "meet the disadvantaged half-way" by actively recruiting among them and by cooperating with other Federal agencies to provide on-the-job training.

On visits to post offices, Commission representatives were impressed with the favorable reaction of local managers to most of the employees so recruited. During 1966, for example, 503 "disadvantaged" applicants were appointed as temporary substitute clerks in the San Francisco Post Office. As of August 1967, only 80 of them had to be released because of unsatisfactory performance. Except for those who resigned for personal reasons the postmaster recommended that the remainder be retained on a permanent basis.

The Commission agrees with postal managers, however, that it is inappropriate for the postal service to "make work" by hiring employees it does not need or by extending its services unnecessarily. Postal employees would be demoralized by such a policy and needed efforts to increase efficiency would be severely undercut if the postal system itself were committed to clearly unproductive activities. In order to meet normal service needs, however, the Post Office hires many new workers each year—over 150,000 in 1967. Without compromising its basic mission the Post Office has been in a unique position to use its recruitment needs to pursue socially useful gains. These policies can be continued under corporate status. Many private companies have, of course, found similar efforts to be in their own long run interests.

As a Government corporation, the postal service should be able to participate in local programs of community betterment to a much greater extent than at present.

B. Architecture

Although postal architecture, particularly in smaller cities, frequently reflects community preferences, far more can be done in

this area and in the use of more imaginative designs when postal management has more discretion in facility construction. Furthermore, the decentralization of management that could result from corporate operation would permit a greater voice in facility design by local officials.

As productivity improvements release funds for other purposes, postmasters will be able to take steps toward improved community relations, such as landscaping, better lobby designs, and parking areas precluded by today's lack of both funds and authority.

C. Support of Service Organizations

The Post Office in the past has supported the work of such organizations as the American Red Cross and the United Givers Fund in much the same way as other Government agencies. It has organized fund-raising drives and authorized the deduction of contributions from individual payrolls. In addition, utilizing the display capacity of its fleet of vehicles, the Post Office has been able to give wide publicity to service organization campaigns.

The new Postal Corporation, as a responsible citizen of the community, should work even more closely with such organizations—local as well as national. It could engage in some of the support activities carried out by many private corporations today, for example, supplying executives to manage and coordinate fund-raising drives.

D. Philately

To millions of Americans and people throughout the world, the most important by-product of the Post Office is the postage stamp. Collecting stamps may be the most widespread hobby known to mankind. We envision that the Corporation would continue to issue commemoratives, first-day covers and perform the broad range of philatelic services now offered by today's Post Office.

E. Provision of Services to Other Governmental Agencies

Because of its ubiquity, other Government agencies frequently employ the Post Office to make their services available. For most of these services (e.g., sale of Savings Bonds, alien address reporting and the provision of building services to other agencies utilizing post office space) the Post Office has been reimbursed, especially where outlays of postal funds are required. Such reimbursements should properly continue.

A number of services do not require the expenditure of postal funds: for example, the temporary provision of rooms for official hearings, the storage of flags for use at the funerals of veterans and

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cooperation in disaster preparedness activities. The Post Office has provided these in the past as a service to the general community and despite a change in organizational form should continue to do so as a good corporate citizen.

Study 11

Foreign Postal Experience

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Part I of this Report addresses the question whether the organizational form of the Post Office should be changed to reflect a greater degree of economic or business orientation. In examining the responses of other countries to the question, it is plain that a much higher degree of economic or business orientation exists among foreign Post Offices than in the United States. The study on which this conclusion is based encompasses 14 foreign Post Offices. Included are most of the democracies of Western Europe (Belgium, Denmark, France, Great Britain, Ireland, the Netherlands, Norway, Sweden, Switzerland and West Germany), Australia, Canada, New Zealand and Japan.

A. Authoritative Opinion

A first indication of business orientation is found in statements of individuals competent in international postal affairs. At its 1967 meeting, the Universal Postal Union (the international association of Post Offices) included as a topic of discussion, "The Post as an Economic Undertaking." The introductory paragraph in the paper presented by Belgium gives the prevailing foreign attitude:

There is no question that the operations performed by the Post are industrial and commercial in character. . . . [I]ts essential task is, in fact, to sell its services; in this respect it undoubtedly resembles a business concern in the private sector. It is hardly surprising, therefore, that Postal Administrations throughout the world are tending more and more to regard the Post as an undertaking which should be managed on the same principles as those adopted by private companies (profitability, greatest possible economy of management, freedom of action, flexibility, etc.).

B. Organizational Form

In Great Britain, Sweden, Switzerland and West Germany, the tendency to regard the Post Office as a business undertaking has already been reflected in organizational form. To mention a few important distinctions in form, all have their own funds or accounts separate from general governmental funds. The British must set rates high enough to cover all of the ordinary costs of business, including

interest, dividends and taxes. A board of directors manages the Swedish Post Office which is called a "public service corporation." The Swiss Post Office is considered a public "enterprise" and is run according to commercial principles. The West German Post Office has a separate budget reviewed by an administrative council rather than its parliament.

In several other foreign countries, steps are being taken toward an organizational form more suitable to a business undertaking. Canadian and Norwegian expert commissions have made recommendations to that effect, and the Australian, Dutch and Norwegian parliaments are this year considering implementing legislation. Even those countries whose Post Offices already reflect an economic orientation are moving further in that direction. In Great Britain, the Government intends in the near future to convert the Post Office to a full-fledged Government corporation, and a West German expert commission has recently made a similar recommendation. The Swiss, too, are considering a move toward an even greater measure of independence.

C. Management

All 14 foreign Post Offices reflect a greater degree of business orientation in their top management structure than is the case in the United States. All but one have a single permanent professional who serves as general manager or chief operating officer. Except in Sweden with its governing Board, the permanent manager reports to a political minister (member of the Cabinet or Government), but only for general policy guidance. Ministers tend not to interfere in the affairs of general management.

D. Financial Independence

Of the 14 foreign Post Offices in our study 12 receive no appropriations from general tax revenues to cover any part of expenditure.* Costs are covered in a business fashion by charges to users rather than by public funds. When expenditures higher than anticipated result in deficits, these are generally covered by reserves or borrowing. Sometimes deficiencies in postal operations are made up by profits from other services offered by the postal agency, for example, telecommunications or banking.

In addition to being independent of tax revenues, all 12 cover one or more business-type costs not met by the United States Post Office. In general, interest is paid on borrowings and a return is made on invested capital. The British Post Office, for example, presently pays into the treasury a rate of interest on borrowings between six and

*The twelve are Australia, Denmark, France, Great Britain, Ireland, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland and West Germany. The exceptions are Belgium and Canada.

seven percent and is required to average an eight percent return on net assets.

At least two of the foreign Post Offices even make payments over and above interest and return on capital. The West German Post Office is required to turn over what amounts to a tax on gross receipts—6 $\frac{2}{3}$ % of revenues minus international and transportation payments. The British Post Office must also make payments in lieu of taxes. At the national level, it is subject to the corporation tax and various license, manufacturing, custom, excise and stamp duties. At the local level, payments in lieu of property taxes amounted to some 8.3 million pounds in Fiscal Year 1967, a little over one percent of all postal and telecommunications expenditures. The British Post Office has escaped paying the corporation tax, but under the same regulations applying to private industry—it has had low profits in conjunction with large tax write-offs for capital investment.

E. Rate-Setting

With the exception of Canada, rate-setting in the 14 countries is primarily an administrative procedure, not a political struggle. Generally, rates are set according to economic criteria, to cover costs, and do not reflect the political strengths of various organized groups. In five countries, parliament as a whole does not even consider rates. They are set with only Cabinet approval in France, Ireland, the Netherlands and New Zealand. In West Germany, the approval of the Cabinet and an administrative council is required.

In countries where parliamentary approval is needed, the rate increase review process tends to be perfunctory. Members of parliament regard the Post Office as something that should pay its own way and would not disregard a Cabinet recommendation over such a minor matter. They would only be stirred into adverse action if a rate increase had important political implications, such as raising the rate for newspapers (which almost universally carry a rate below what is considered to be cost). In Britain and Australia where the approval of parliament is needed, major mail users who responded to a questionnaire said that they do not even bother to contact individual members of parliament about rate increases.

The usual practice in parliamentary systems is for mail users to present their views administratively to top postal officials through such a vehicle as a formal mail users' council. The reply of a major user in Britain is instructive with regard to the process of rate-setting in most foreign countries:

. . . broadly speaking, our mail services are expected to pay their own way. (This will be even more true when the Post Office becomes a public corporation in 1969.) Therefore postal rates are constantly

under review. Equally, we are in constant touch with the Director of Postal Services. We have formal meetings every three months or so and naturally when any increase in postal rates is in the wind this is a matter for discussion between us at one of these meetings.

All major mail users responding to our questionnaire reported some administrative channels for presentation of their views. Such contacts allow reasonable accommodation of interests in contrast to the flexing of political muscle.

F. Subsidized Rates

The five indications given above all support the general conclusion that a much higher degree of business orientation is found in foreign Post Offices than in the United States. The fact that subsidies to certain classes of mail in the form of below-cost rates are found in all of the foreign Post Offices (with the possible exception of New Zealand) might not seem entirely consistent with that conclusion. The way the subsidies are covered, however, is significant.

In all countries with subsidized rates, preferences are granted to newspapers and, in most, to periodicals. This reflects both the desire on the part of statesmen for an informed citizenry and the importance of the printed page in politics. Despite the predilection of politicians to subsidize the mailing of newspapers and periodicals, 12 of the 14 foreign Post Offices are not reimbursed from general tax revenues. Subsidies are covered by profits from other services and classes of mail. This practice thus forestalls the involvement of essentially business operations with inappropriate fiscal controls.

Acknowledgements

Our study has been bolstered by many Americans interested in a better postal service. We are particularly grateful to the members of Congress who gave us the benefit of their many years of experience with the postal system, to the officials of every postal union and to the organizations and individuals in the private sector who graciously shared with us their thoughts and knowledge of the Post Office.

Although we worked independently of the Post Office Department, we cannot fail to acknowledge the vast amount of technical and factual information readily provided by Departmental officials at all levels. We owe them a great debt for the cooperation they accorded this Commission.

Similar thanks are due to officials of the Bureau of the Budget, the General Accounting Office, the Department of Justice, the Civil Service Commission, the Tennessee Valley Authority and numerous other Government departments and corporations which unstintingly supplied advice and information upon request.

Our four contractors, Arthur D. Little, Inc., Foster Associates, Inc., Price Waterhouse & Co., and Robert R. Nathan Associates, Inc. deserve special recognition, as do Ernst & Ernst and Market Facts, Inc., who worked as subcontractors.

The generous spirit with which these firms approached their tasks revealed a greater concern for rendering a public service than for simply executing a contract objective. Another firm, McKinsey and Co., Inc., did not compete for a Commission contract because it was performing specific services for the Post Office Department, but has, with former Postmaster General O'Brien's approval, freely made its studies available.

Appendix— The Work of the Commission

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A. The Establishment of the Commission

On April 8, 1967, President Johnson issued Executive Order 11341 establishing the President's Commission on Postal Organization. He charged the Commission to determine the feasibility and desirability of transferring the postal service to a Government corporation or some other form of organization. (See Exhibit 1 for text of the Executive Order.)

The President selected Frederick R. Kappel, Chairman of the Board of Directors (retired) of the American Telephone and Telegraph Company, to serve as Chairman of the ten-member Commission. He also appointed:

George P. Baker, *Dean, Harvard University Graduate School of Business Administration;*

David E. Bell, *Vice President, The Ford Foundation;*

Fred J. Borch, *President, General Electric Company;*

David Ginsburg, *Partner, Ginsburg and Feldman;*

Ralph Lazarus, *Chairman, Board of Directors, Federated Department Stores;*

George Meany, *President, AFL-CIO;*

J. Irwin Miller, *Chairman, Board of Directors, Cummins Engine Company;*

W. Beverly Murphy, *President, Campbell Soup Company;* and

Rudolph A. Peterson, *President, Bank of America.*

On June 5, President Johnson appointed Murray Comarow, Executive Director of the Federal Power Commission, to serve as Executive Director of this Commission.

Because of the one-year time limitation set forth in the Executive Order, the Commission decided to assemble a small professional staff and to use some of the nation's top consulting firms to develop needed information. The staff would make special studies and draft the Report as directed by the Commission, as well as plan and coordinate the studies of the consulting firms. Each Commission member appointed a personal assistant from his own organization to participate in research and in field visits and to bring his special expertise to the Commission's deliberations. See Exhibit 2 for a list of staff members and Assistants.

B. Structuring the Commission's Work

The Commission began its work by interviewing former Postmaster General Lawrence F. O'Brien and other top postal officials to learn their management problems at first hand. Mr. O'Brien, who had proposed on April 3, 1967, that a Government corporation be created to operate the postal service, made available information which greatly facilitated our work. The Commission enjoyed the fullest cooperation of his staff and other postal officials throughout its study.

Although the Commission studied five major areas of postal operations (personnel management, financial management, rates and rate-making, the nature and mix of postal services, and postal technology), it gave greatest attention to the general problem of organizing and managing the postal establishment.

The staff considered three alternative designs for the Commission's study:

First—use of one large general consulting firm to study every facet of the postal system. This approach would have assured a single internally consistent and manageable report on all aspects of postal operations. It would have limited the Commission to one outside view on the many complex postal problems, however.

Second—division of the research into three to five major functional studies, each to be performed by a consulting firm with special expertise in the areas assigned to it, with the staff integrating the reports into a coherent whole.

Third—a combination approach, involving a general contract study of all aspects of postal operations and management and five special contracts with firms having expertise in the key areas previously mentioned. The general and special contractors would approach their study from different points of view and with different tasks laid upon each. The special contractors would work for the Commission directly and not be subordinate to the general contractor in any way.

The Commission adopted the third approach. It saw substantial advantage in having the overview and internally consistent set of conclusions of the general contractor coupled with the depth of knowledge and experience of the special contractors in their study areas. The interplay of different points of view and even a measure of constructive competition between the contractors would, we anticipated, stimulate creativity, improve the work product and help assure full and objective analysis of major issues.

On July 27, 1967, after interviewing a number of top management consulting firms who responded to our request for proposals, the Commission selected Arthur D. Little, Inc., as its general contractor and in the following months let personnel, finance and rates contracts

to Robert R. Nathan Associates, Inc., Price Waterhouse & Co. and Foster Associates, Inc., respectively. Ernst & Ernst served as a sub-contractor to Foster Associates, Inc.

Because of a reduction in our appropriation request, a major technological study was replaced by a small additional effort by Arthur D. Little, Inc., building upon their work already done in that area. Similar considerations contributed to award of the market study to the same contractor.

Staff members and Assistants served on monitoring teams assigned to each contractor. These teams planned the scope of the study, advised the contractors of new developments meriting coverage, provided information to the contractors, ensured attention to all important matters, prevented duplication of effort and evaluated contractor accomplishments.

In addition to the contractors' studies, staff members examined postal practices of other nations through analysis of published materials and through a questionnaire sent to large foreign postal systems. The staff also studied American and foreign government corporations and received the views of leading officials of these organizations.

C. The Commission's Fact Finding

The Commission actively sought the views of all parties interested in postal affairs. Commissioners, Assistants, staff members and contractors visited dozens of post offices throughout the fifteen postal regions and talked with headquarters officials, regional directors and many postmasters. We visited with postal employees, individually and in groups, and with their local union representatives.

In addition to postal people, Commissioners, staff members and contractors discussed postal problems with over fifty Congressmen, including leaders of both parties, Chairmen and ranking members of Standing Committees, and members of the Committees most involved with postal affairs. We interviewed leaders of all postal unions both at their headquarters and in informal Commission hearings. At these hearings mail user associations, publishers' groups and the private parcel services also presented their views.

A large number of individuals prominent in American society shared their views with us, either personally or in writing. These include former Postmasters General, former Directors of the Bureau of the Budget, Chairmen of Government corporations, heads of other agencies and leading members of the academic and business worlds. We visited large mail users and companies with operations similar to the Post Office.

On August 26, 1967, the Commission published a "Notice of Inquiry" in the *Federal Register* inviting submissions from all inter-

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ested parties. (See Exhibit 3 for the text of the Notice). We also mailed the Notice directly to 147 labor organizations, businesses, charitable groups and similar associations. The market study inquired into the postal needs of a representative sample of American households and of a large number of business users.

We acknowledge our debt of gratitude to all these groups and individuals. They contributed not only to the factual base underlying our deliberations but to our understanding as well.

D. Deliberation

Each of the consulting firms made regular progress reports at Commission meetings and discussed all significant issues with Commissioners throughout the course of the studies.

Arthur D. Little, Inc., was responsible for analyzing the impact of organizational forms upon the postal system and for evaluating the advantages and disadvantages of each alternative. Teams of its staff members presented the case for each of several organizational alternatives in "adversary proceedings" under "cross examination" by top firm management and outside consultants, with Commission staff members and Assistants participating in the review. Afterwards ADL presented the merits of the various alternatives orally and in writing to the Commissioners.

The Commission, Assistants and staff examined the findings of the general contractor and those of the special contractors at the monthly Commission meetings and on visits to contractors. Staff research papers for the Commission set forth a range of alternatives on the key issues under study for Commission decision. After debating these questions at length the Commission provided the staff detailed guidance for the drafting of this Report.

Exhibit 1.

COMMISSION ON POSTAL ORGANIZATION

EXECUTIVE ORDER 11341, APRIL 8, 1967

By virtue of the authority vested in me as President of the United States it is ordered as follows:

SECTION 1. *Establishment of the Commission.* (a) There is hereby established the President's Commission on Postal Organization (hereafter referred to as the "Commission").

(b) The Commission shall be composed of not more than ten members appointed by the President from among persons who are not full-time officers or employees of the Federal Government. The members, one of whom shall be designated by the President as Chairman, shall serve at the pleasure of the President.

SEC. 2. *Functions of the Commission.* (a) The Commission shall study the organization and structure of the postal service of the United States, and shall determine and report upon the feasibility and desirability of a transfer of the postal service from the Post Office Department to a Government corporation, or such other form of organization as the Commission may consider desirable. In carrying out this responsibility, the Commission shall consider, among such other factors as it deems relevant, the need for:

(1) improving the organization, management and efficiency of the postal service to meet the growing burdens placed on the service and to be fully responsive to the public interest;

(2) maintaining fair and reasonable postal rates, and a proper balance among the interests of different classes of users;

(3) maintaining a fair and reasonable structure of compensation for postal officers and employees, together with other personnel policies and practices designed to increase their productivity;

(4) providing adequate, timely and economical financing for the costs of operations, plant and equipment and research and development;

(5) modernizing the facilities, equipment and mail handling technique of the postal service;

(6) attaining such other characteristics and capabilities as the Commission may determine to be necessary for a superior postal service.

(b) If the Commission concludes that the transfer of the postal service to a Government corporation or other form of organization would not be feasible or desirable, it shall so report, stating its reasons and making recommendations for the improvement of the organization, methods and operations of the Post Office Department. If it

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concludes that such a transfer would be both feasible and desirable, it shall so report, stating its reasons, and shall make specific recommendations with respect to:

- (1) the nature, powers and functions of the corporation or other form of organization and its relationship to the President, the Congress and the public;
- (2) the composition and method of appointment of its top management;
- (3) the policies to be followed in the employment and retention of personnel;
- (4) methods of setting postal rates;
- (5) methods of determining the compensation and other benefits of officers and employees;
- (6) policies to be followed in dealing with representatives of employees;
- (7) procurement of transportation for the mails;
- (8) financing; and
- (9) such other matters as are, in the judgment of the Commission, pertinent to the efficient functioning of the postal service.

SEC. 3. *Cooperation by Executive Departments and Agencies.* The Commission is authorized to request and accept from any executive department or agency any information and assistance deemed necessary to carry out its functions under this order. Each department or agency is authorized, to the extent permitted by law and within the limits of available funds, to furnish information and assistance to the Commission.

SEC. 4. *Compensation and Personnel.* (a) Members of the Commission shall receive such compensation as may hereafter be specified when engaged in the performance of duties pursuant to this order, and shall be allowed travel expenses and per diem in lieu of subsistence as authorized by law (5 U.S.C. 5703) for persons intermittently employed.

(b) The Commission shall have an Executive Director who shall be designated by the President and shall receive such compensation as may hereafter be specified. The functions and duties of the Executive Director shall be prescribed by the Commission. The Commission is authorized to appoint and fix the compensation of such other personnel as may be necessary to enable it to carry out its functions and is authorized to obtain services in accordance with the provisions of 5 U.S.C. 3109.

SEC. 5. *Reports to the President and Termination.* The Commission shall present its final report and recommendations not later than one year from the date of this order. The Commission shall terminate

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upon presentation of such report and recommendations, or upon such other date as the President may determine.

LYNDON B. JOHNSON.

The White House
April 8, 1967

Exhibit 2

PRESIDENT'S COMMISSION ON POSTAL ORGANIZATION

NOTICE OF INQUIRY

(*Federal Register*, Vol. 32, No. 166—Saturday, August 26, 1967)

The President's Commission on Postal Organization, established by Executive Order No. 11341, dated April 8, 1967 (32 F.R. 5765), is charged with the responsibility "to determine and report upon the feasibility and desirability of a transfer of the postal service from the Post Office Department to a Government corporation or such other form of organization as the Commission might consider desirable." In considering this objective, the Commission is to examine all factors which it deems relevant to postal organization, including but not limited to, management and efficiency of the postal service, postal rates, compensation of employees and personnel policy, and postal facilities and technology.

In order to be sure that the Commission considers all relevant matters, it is inviting interested parties to submit to it, in writing, their views on the critical issues confronting the Commission. The questions set forth below represent some of the issues which the Commission believes might be relevant to its work and are to be considered as guidelines for such a written statement of views. Interested parties are entirely free, however, to present their own list of issues and their views on how these issues should be resolved. The value of any submission to the Commission would be enhanced, of course, by detailed documentation of the party's answers.

To be assured consideration, written responses must be received at the Commission's offices, 1016 16th Street NW., Washington, D.C. 20036, not later than 5 p.m. on October 16, 1967. It would help the Commission if those addressing themselves to issues concerning rates, services, and classes of mail provided an estimate of their annual volume of mail and roughly the percentage of that volume represented by first, second, third, and fourth class mail. Those responding for an association should answer, if possible, on behalf of its membership.

By order of the Commission Chairman.

MURRAY COMAROW,
Executive Director.

ISSUE LIST

I. RATES, SERVICES AND CLASSES

A. Is there general satisfaction with the quality of mail service? What are the weakest aspects of the service? What are the strongest? Are there any particular classes of mail service that especially need

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improvement? If there are, which classes of service particularly need improvement and what should be improved?

B. Postal costs might be cut by standardization of mail and mailing procedures. How willing are mail users to accept standardization of: Letter sizes? Parcel sizes and weights? Presorting and sacking of mail? Zip codes on all pieces of mail? Deposit of mail at the post office to accommodate workloads on different days of the week and at different times of the day?

C. What changes, if any, should be made in the current scheduling and methods of mail delivery?

D. Should there be a service objective of 1-day delivery of first-class mail within metropolitan areas? Between any two points? Should there be an extra charge for this service? Is there a need for a priority class of mail that would replace airmail and call for delivery by the quickest possible transport?

E. The Postal Policy Act of 1958 (39 U.S.C. 2301 et seq.) provides that first-class mail constitutes a preferred service and that the postage for first-class mail should be sufficient to cover its allocated cost and an additional amount representing the value of its preferential service. Should this policy be modified in some way? If so, how? The Postal Policy Act (39 U.S.C. 2302(a)) identifies certain types of services as "public services." Though the mechanics vary by type of service, the result of "public service" treatment under the Act is a total or partial support of such services from public funds. Should this policy be modified in some way? If so, how? Should the "public service" treatment for the following be modified in some way: Second-class mail? Mailings of nonprofit organizations? Mailings of educational matter? Mail service for the blind? If so, how? Should the "public service" treatment for each of the following special services be modified in some way: C.O.D.? Insured mail? Special delivery? Money orders? If so, how? Should the "public service" treatment of the following be modified in some way: Third-class post offices? Fourth-class post offices? Rural routes? Star routes? If so, how?

F. Is the present level and interrelationship of postal rates the best from the point of view of the overall national interest? If not, how should it be modified?

G. Should second-class rates be determined by: Distance sent? Delivery outside of county of publication? Proportion of advertising in the publication? Controlled circulation publications (nonsubscription) have a special postal rate higher than second-class and lower than third-class. Should this policy be modified in any way? Should there be a special rate for newspapers and certain magazines in exchange for preferred ("red tag") service? If so, what kind of rate?

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B. If the Commission were to recommend that the Post Office should be transferred to some form of organization outside of the Cabinet, what procedures should be established to ensure that the organization be sensitive to the interest of the general public in such matters as quality of service and rates? Consider the possibility of a broadly representative advisory council, a board of directors with public membership, a public regulatory body, etc.

C. How much should the postal service rely on private enterprise, as distinguished from its own resources, for transportation and other services? Should the postal service continue to lease buildings and space from private parties?

D. What should the postal policy be with respect to the rural carriers? The Star routes? Third-class post offices? Fourth-class post offices? Does the Post Office continue to serve a valuable function in rural areas apart from the delivery of mail? Should it?

E. Should the Post Office monopoly on letter mail be continued? If the Post Office lost its monopoly on first-class mail, would the public generally continue to use the mails for its first-class mailings? What types of private express service would become available and at what cost? What would the effect be on postal revenue? Would such competition stimulate better service by the Post Office?

F. Should the Post Office continue to rely on the same mix of transportation modes which it currently uses? If not, on what types of transportation should it rely more heavily, and why? Should the employees of the transportation systems perform more or less of the mail handling functions than they do now? What technological innovations in the transportation field are likely to affect the postal system and how? How can the Post Office take advantage of modern advances in transportation technology?

G. The Commission is required to determine and report on the feasibility and desirability of transfer of the postal service from its present form to a Government corporation or another form of organization. Possible forms of organization run the gamut from the present Cabinet department to restructured Cabinet department to a non-cabinet Government department, to a Government corporation, to a mixed public-private corporation, to a regulated private corporation, to the use of a series of licensed operators. Should the Post Office be transferred from its present form of organization? If so, to what form? The Commission would appreciate a detailed discussion of this issue.

[F.R. Doc. 67-10075; Filed, Aug. 25, 1967; 8:48 a.m.]

APPENDIX

Exhibit 3

STAFF

Murray Comarow, Executive Director, on loan from the Federal Power Commission.

William J. Sullivan, Assistant Director, previously Deputy Director of the Office of Planning and Systems Analysis of the Post Office Department.

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Robert M. Alexander, Program Manager, previously in private law practice.

Paul R. Andrews, Controller, previously Assistant to the Chief Postal Inspector.

Charles Donahue, Jr., Assistant General Counsel, on loan to the Commission from the Office of the Secretary of the Air Force.

Benson J. Simon, Program Manager, on loan from the General Government Management Division of the Bureau of the Budget.

Richard J. Willey, Program Manager, Assistant Professor of Political Science at Vassar College, on leave of absence.

John B. Wilson, Program Manager, President and Treasurer of the Wilson Laboratory Building, Durham, North Carolina.

* * * * *

Matthew S. Perlman, General Counsel (June 28–October 15, 1967), now Assistant General Counsel of the Department of Transportation.

Walter J. Humann, Program Manager (June–August 1967), former White House Fellow assigned to the Postmaster General, now with LTV, Inc., Dallas, Texas.

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Without the patient and devoted assistance of our support staff, this study could not have been completed. Our sincere thanks to:

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Mr. Joseph A. Fisher, Administrative Assistant;

Miss Yvonne A. Des Marteau, Management Intern;

our full-time secretaries:

Mrs. Terryll F. Crowl,

Miss Mattie B. Hite,

Miss Marjorie A. James,

Mrs. Donna Y. Page;

and the secretaries who worked with us during various periods of the study:

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