

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 6 Financial Management

Part 7 External Influences on the Postal Environment

Part 8 Forecasts of Postal Volume and Postal System
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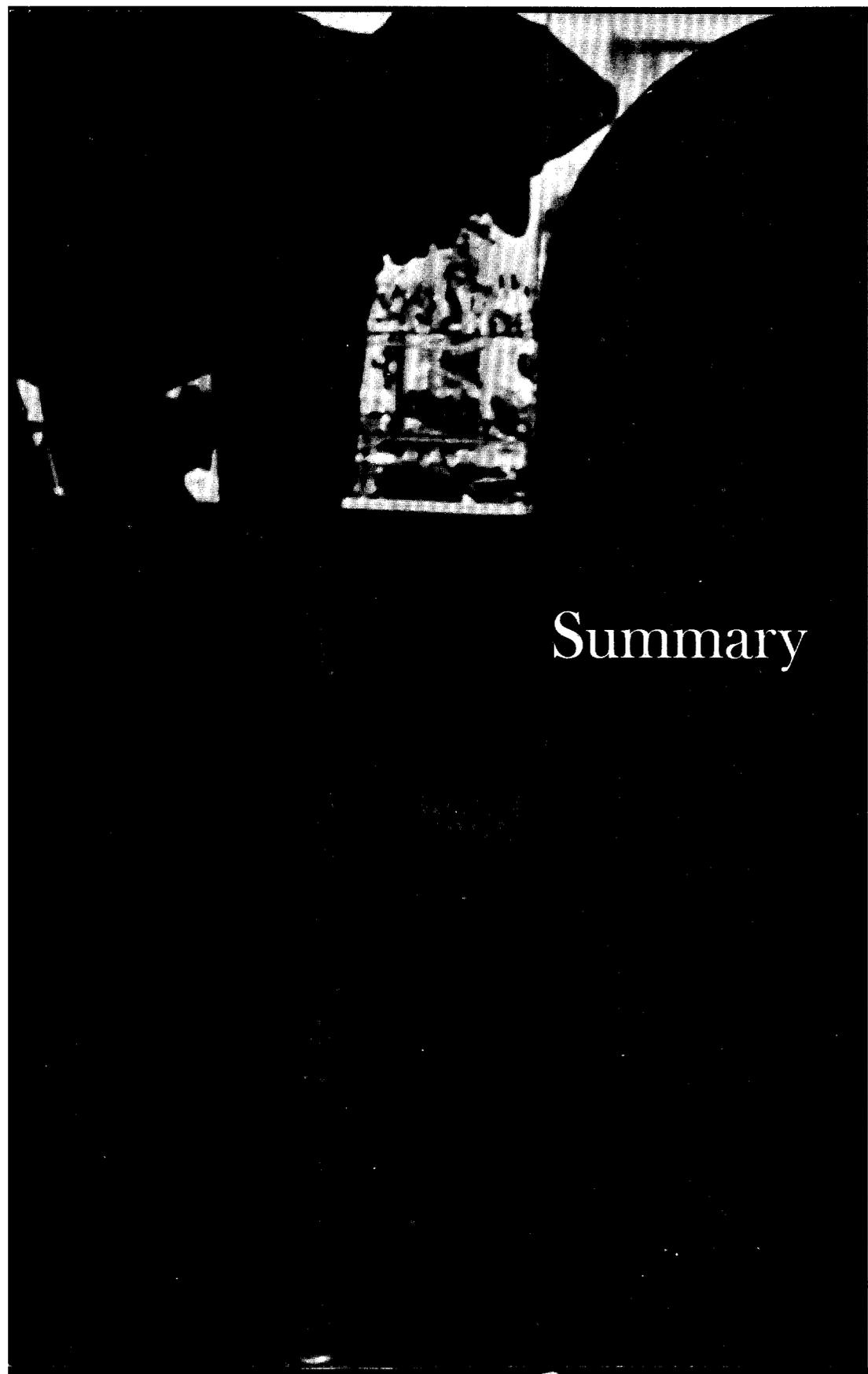
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A high-contrast, black and white photograph showing the silhouette of a person's head and shoulders in the foreground, looking out a window. The window reveals a bright, somewhat blurred cityscape or street scene. The overall mood is contemplative and dramatic.

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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*page 55***

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.

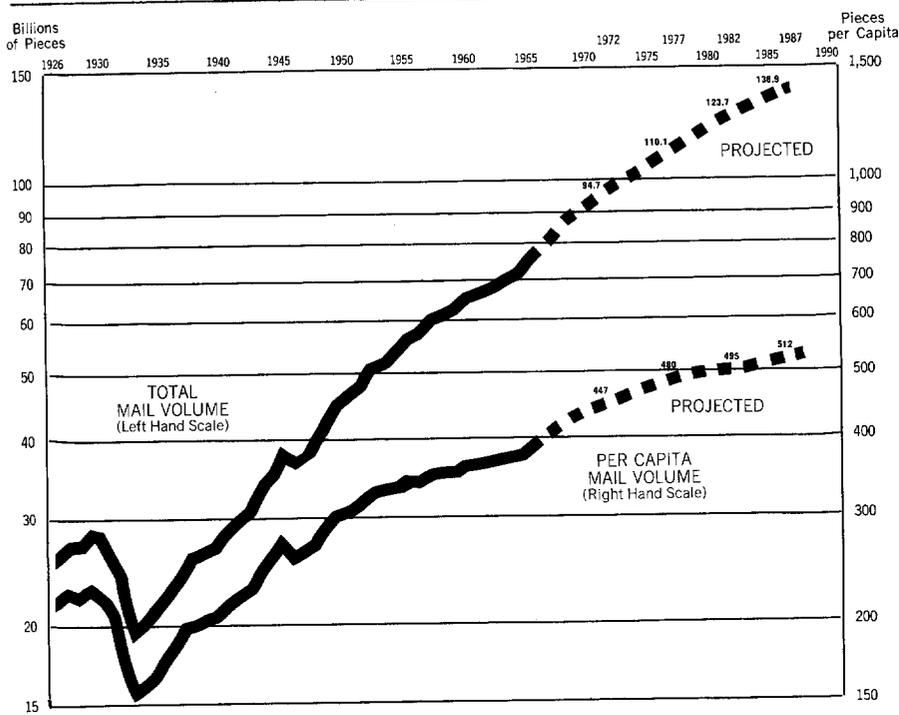
2. Dissatisfaction with Day-to-Day Mail Service

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.

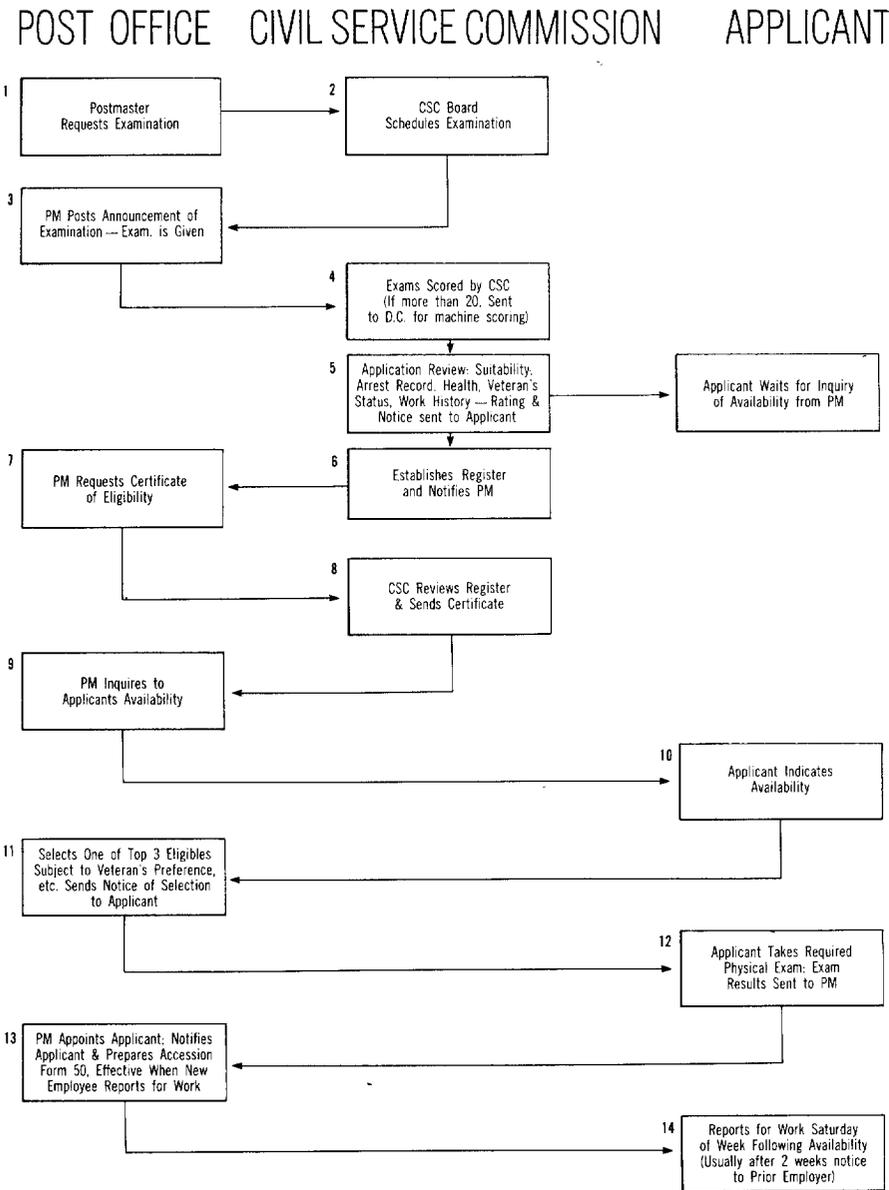
2. Poor Working Conditions

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 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.

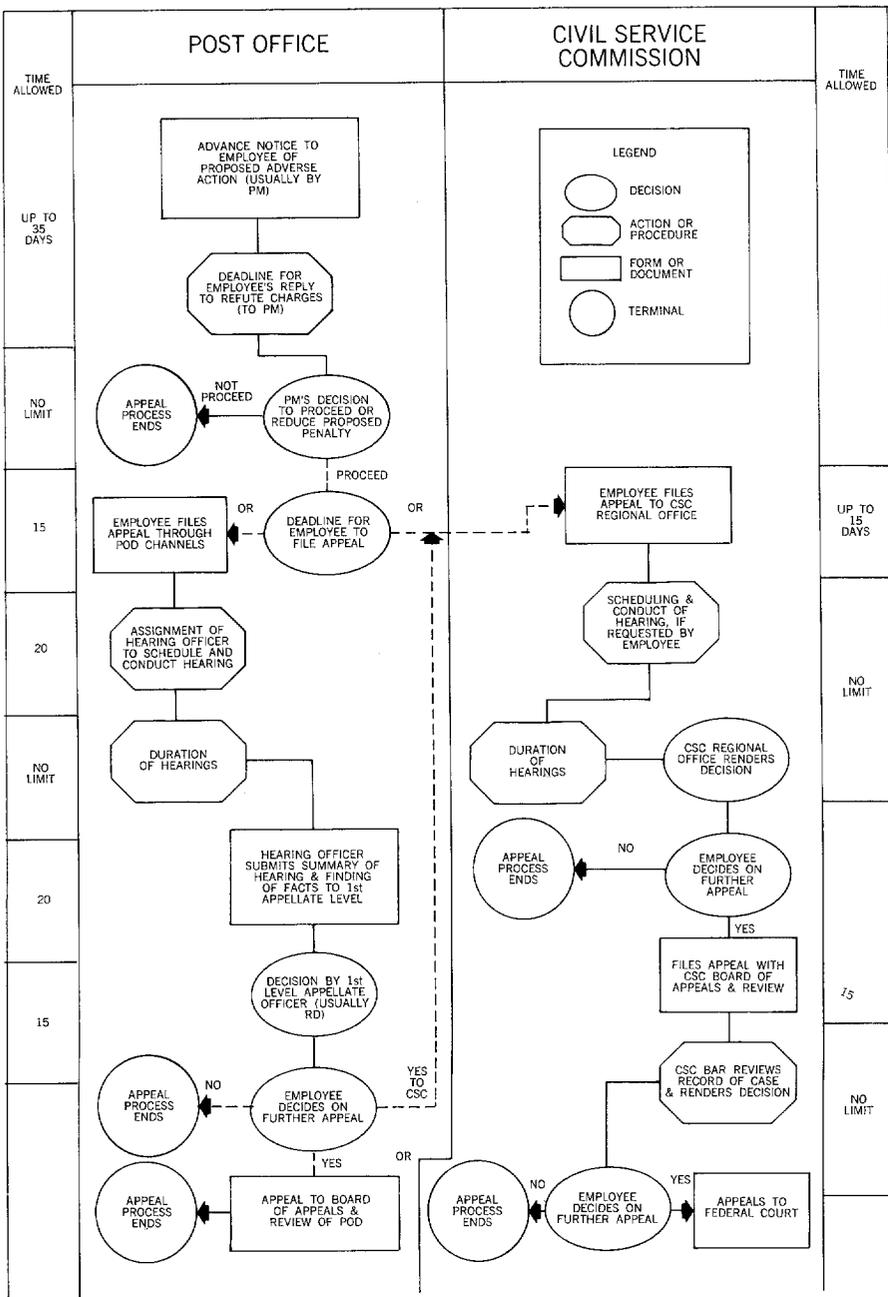
Other difficulties stem from a provision in the Executive Order forbidding binding third-party arbitration. Further, a representation of employees by different unions at different levels (local, regional and national) has caused confusion and weakens relationships between local union officers and management.

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.

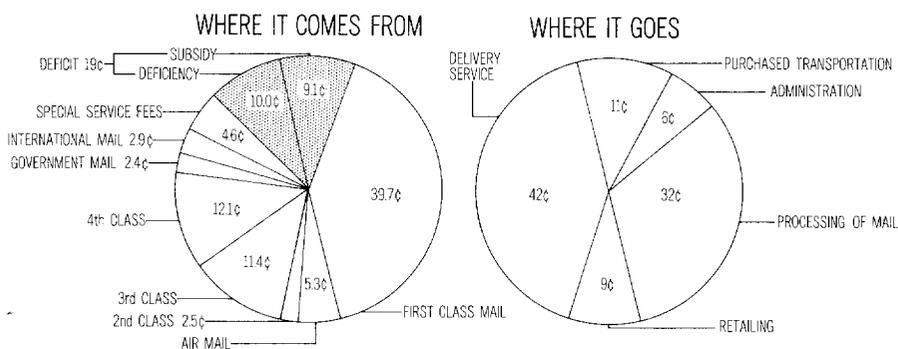
1. The Growing and Unnecessary Deficit

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

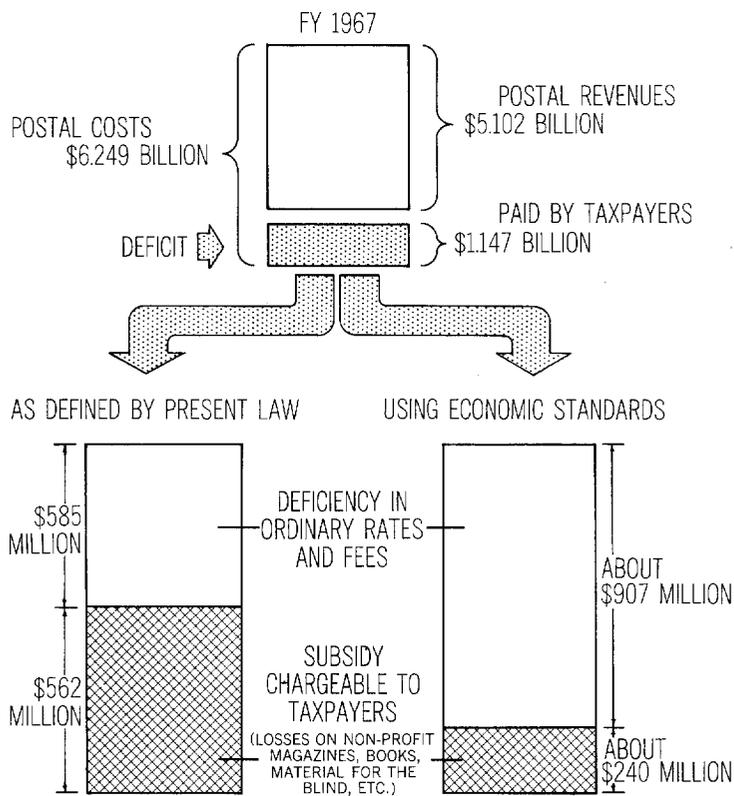


Source: Compiled from Post Office Department Survey of Postal Rates, 1967 and Program and Financial Plan.

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)



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

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 workroom floor. In most offices men and women lift, haul and push mail sacks and boxes with little more mechanical assistance than the handcart 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:

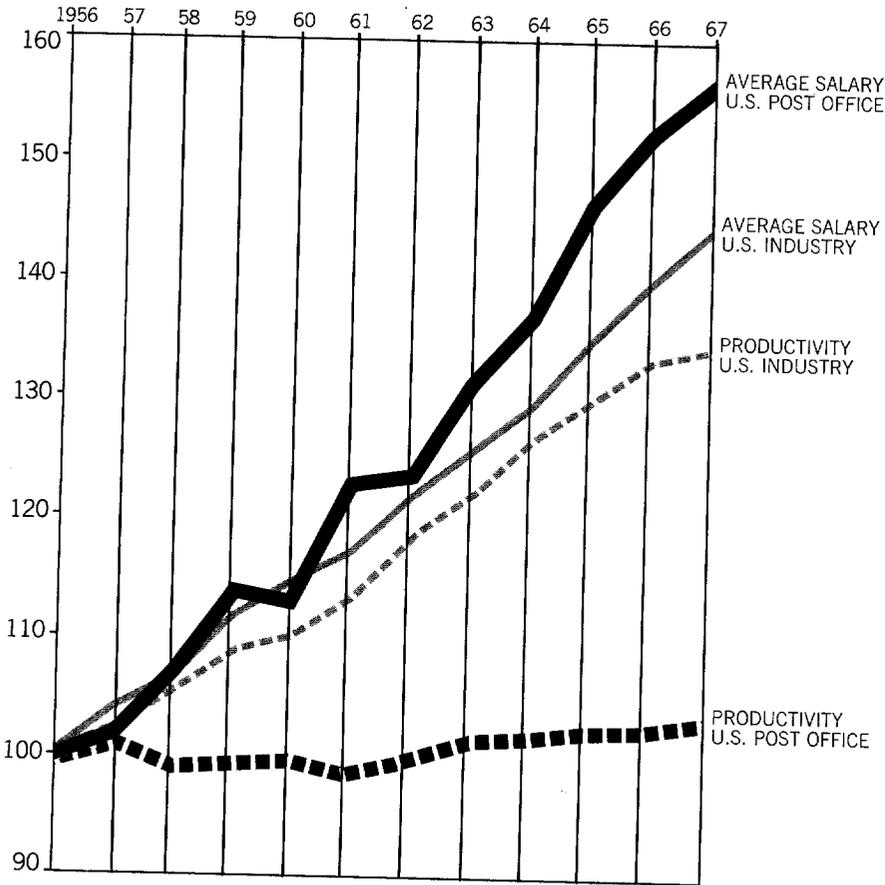
Output Per Man-Hour (Percentage Change Per Year, 1956-1966)	%
Communications	6.2
Transportation	4.0
Mining	3.7
Manufacturing	3.2
Wholesale and retail trade	3.4
Finance, insurance, and real estate	2.7
Services ¹	1.9
Post Office	0.23

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.

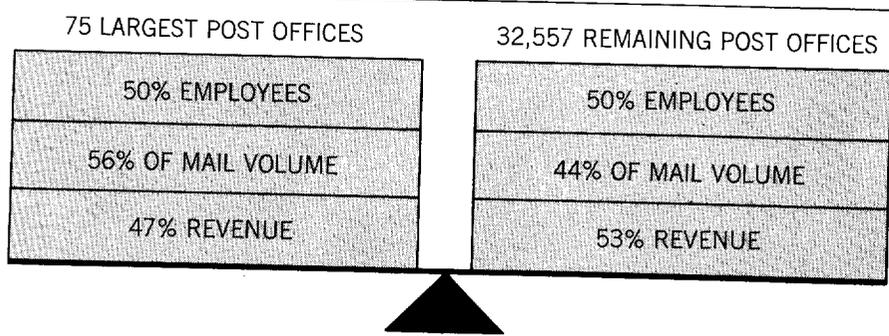
As illustrated in Figure 8, the lion's share of postal costs, manpower and volume is in the large city post offices. Here the opportunities for savings are greatest, and here the inefficiencies are most apparent.

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**



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.

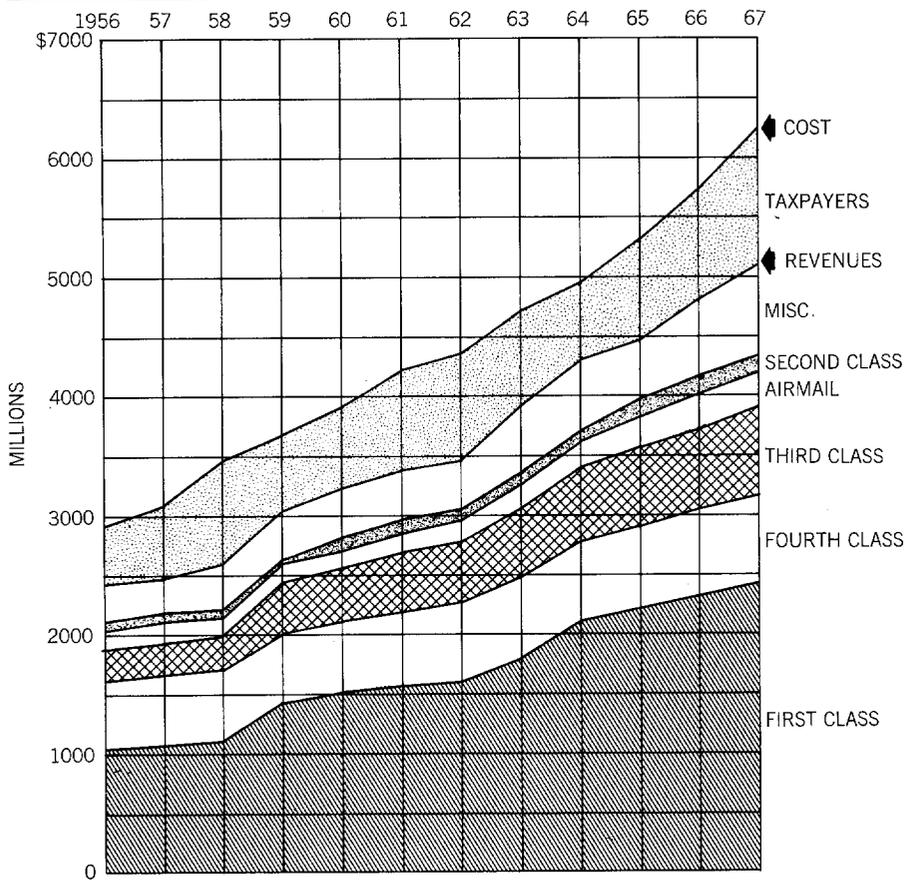
New equipment and facilities cannot themselves do the job. The almost-level productivity trend shown in Figure 7 covers a period during which over \$421 million was invested in postal modernization. The catalyst is a well-informed, well-motivated management, with the authority to make and implement decisions.

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.

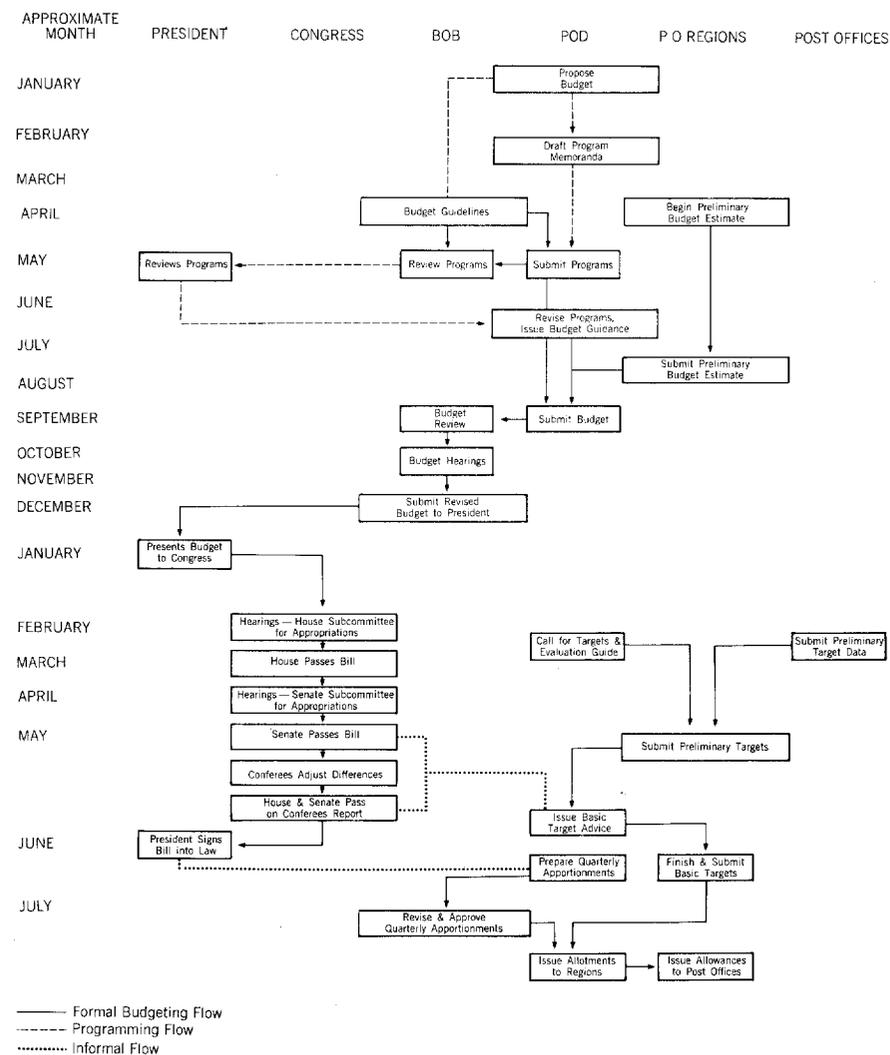
Governmental accounting systems are designed to prevent over-obligation of budgeted dollars, and to charge the appropriation (operations, administration and the like) credited with the funds. The postal accounting system fulfills these purposes, backed up as it is by Inspection Service and General Accounting 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.

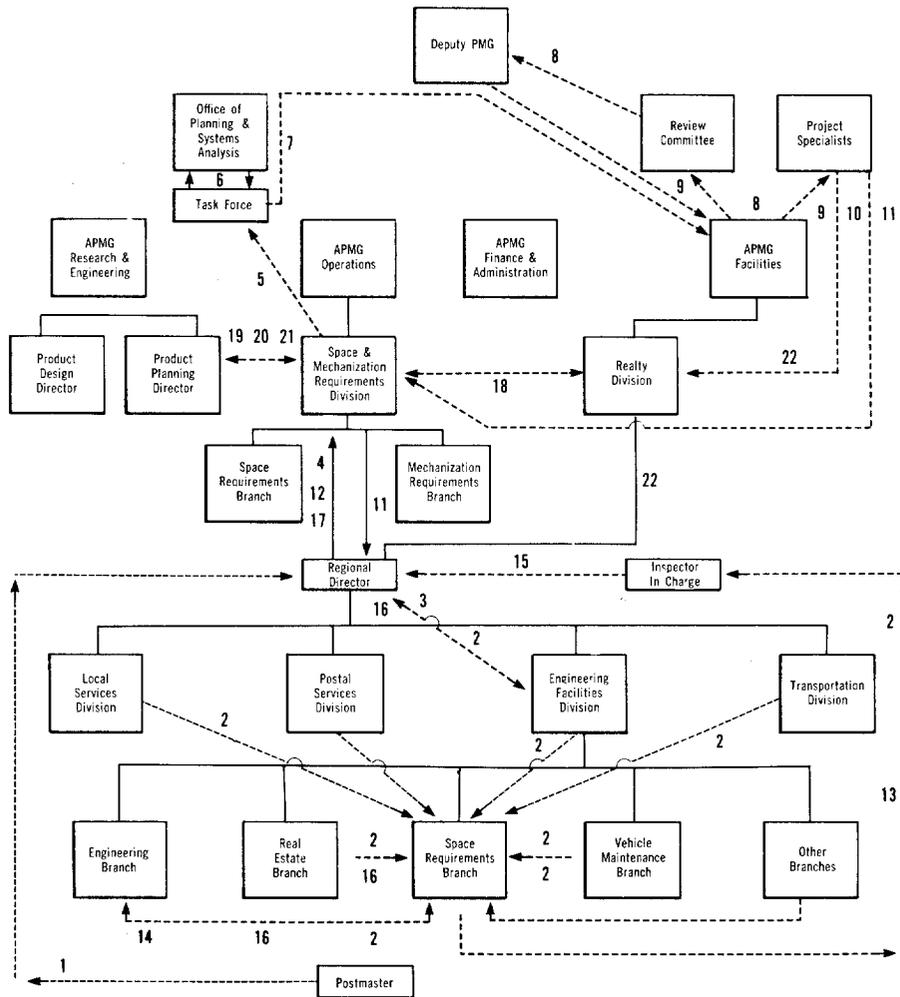
2. Relations with the Field

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.

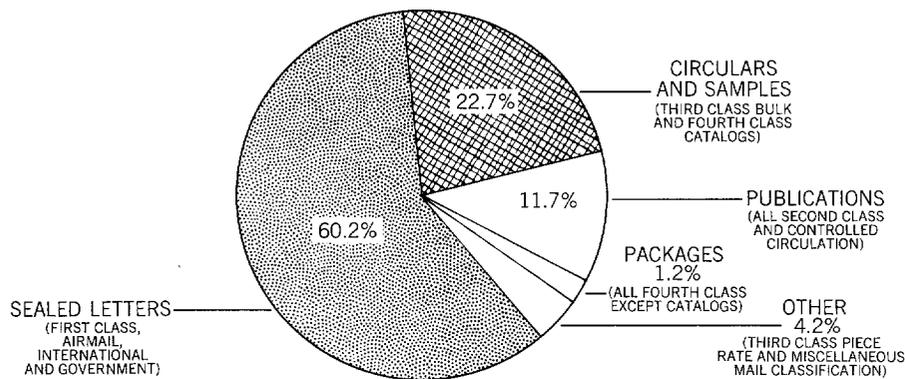
Despite a century of change, the Post Office retains many of its early patterns. Because a young nation's communication needs once demanded subsidized mail, the Post Office is still assumed to need an enormous deficit. Because postal patronage was once a source of party power, the Post Office is still 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

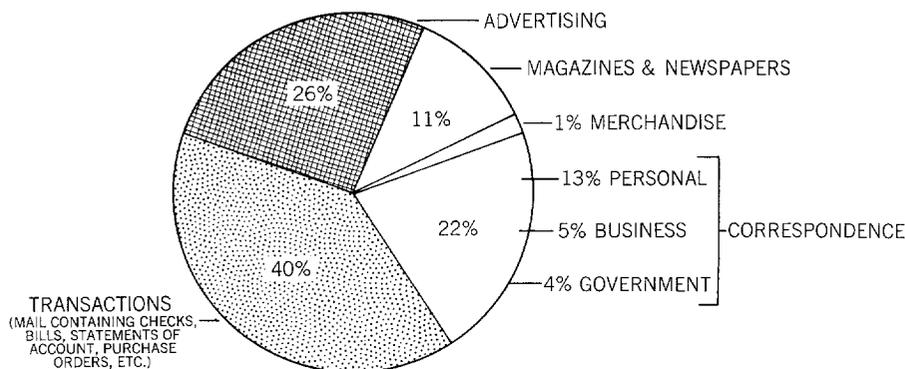
Figure 12. **WHAT IS THE MAIL?**



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.

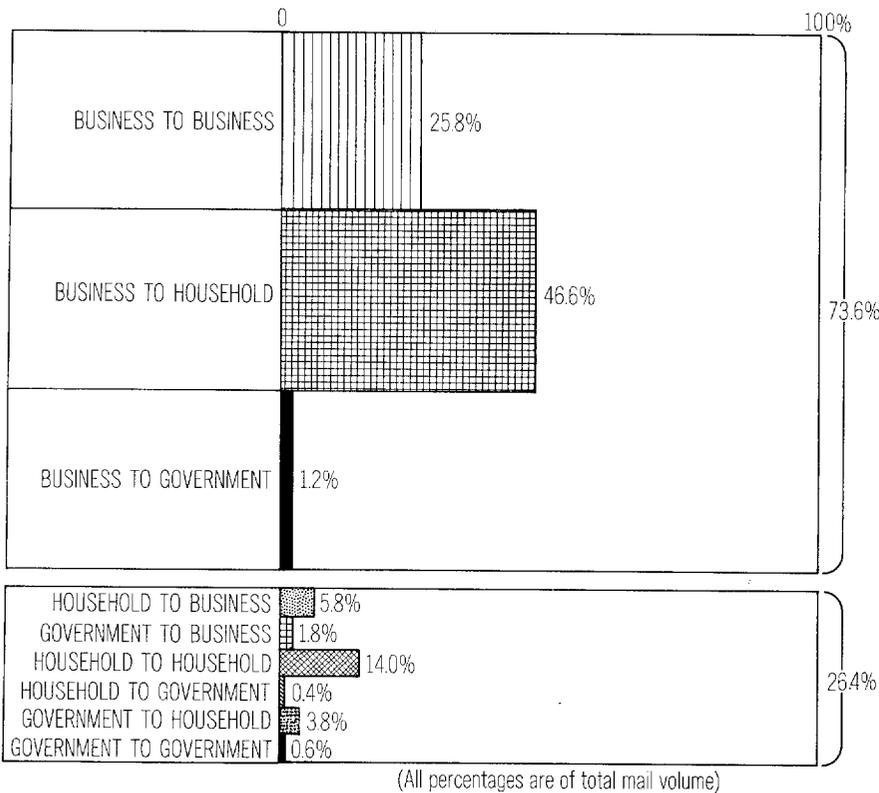
The Commission concludes, therefore, that today the Post Office is a business. Like all economic functions it should be supported by revenues from its users. The market should decide what resources are to be allocated to the postal service.

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.

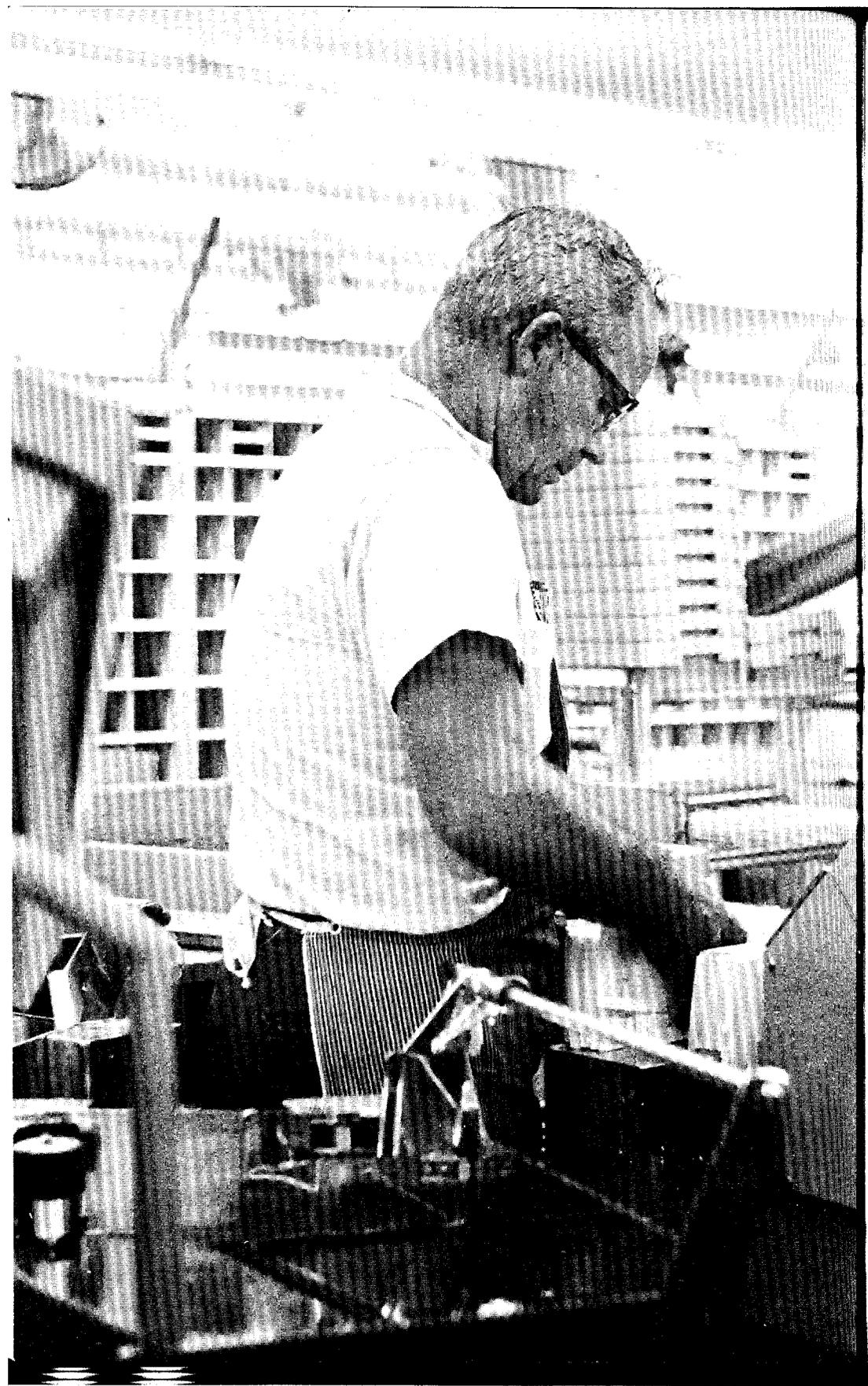
Rural "subsidies," although set by the Postal Policy Act, really subsidize the entire postal service. Rural areas are just as much part of the postal system as cities, and the cost of serving them—even when they appear "unprofitable"—is a proper expense of the service as a whole. The Commission rejects 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.

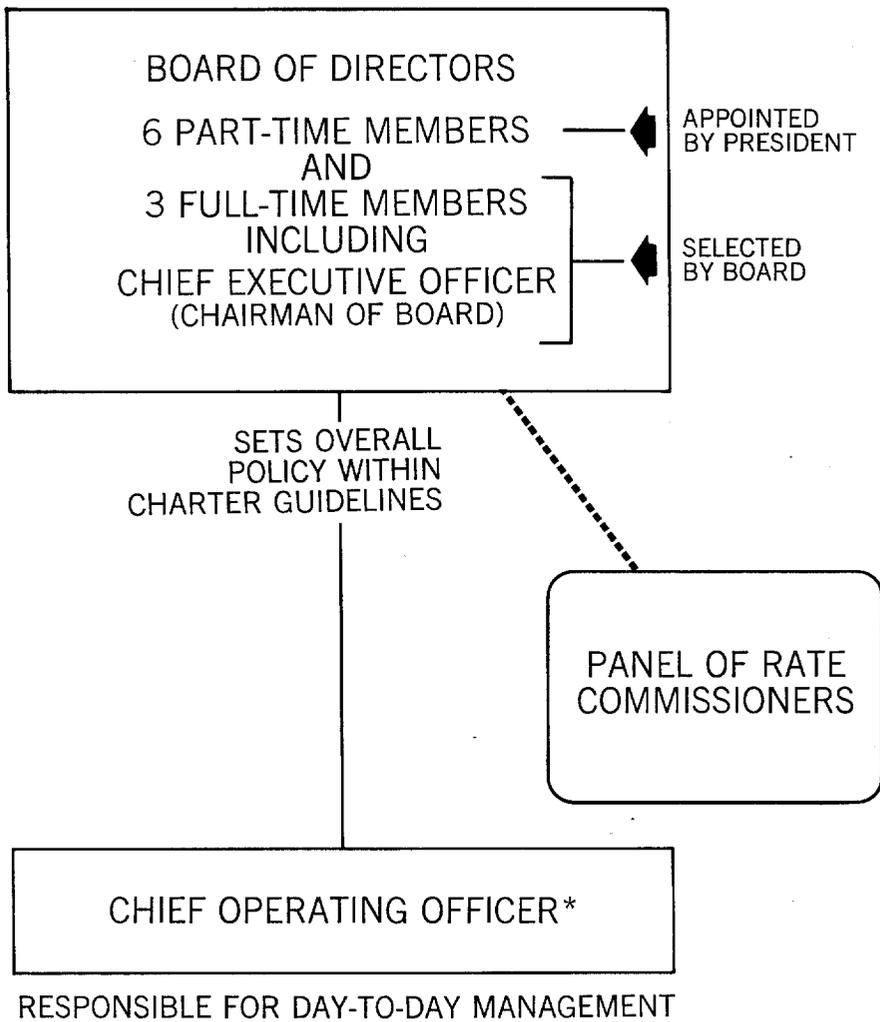
We urge a Board which combines the advantages of wide experience and detachment which outside (i.e., part-time) Directors could contribute, with the high order of managerial responsibility gained when top corporate officers themselves hold seats on the Board. We propose, therefore, a Board of nine Directors, 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.

Figure 15. STRUCTURE OF THE POSTAL CORPORATION



* SHOULD BE ONE OF FULL-TIME DIRECTORS, OTHER THAN CHAIRMAN

of the Board, the important requirement is that it be given the authority to run the postal system, including the authority to select the Officer-Directors and other top management officials and to set their compensation at levels competitive with private industry.

We propose a restructuring of the current relationship between the Post Office and Congress and the Executive Branch to enable those branches to exercise proper policy functions. Under the Government Corporation Control Act, applicable generally to Government corporations, the Bureau of the Budget and the Congress would make a broad annual review of the postal budget. Likewise, appropriate

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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