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An Alternative To Politics In the Mails

by Professor Stanley Siegel

Adapted from an address before the Economics Society of Michigan on March 29, 1969.

In 1967, the American public contributed nearly \$6 *per capita* to the deficit of the United States Post Office, a total of almost \$1.2 billion. In 1968, after massive rate increases, the deficit will still approach \$600 million. Despite the rising cost of service, its quality has declined. For example, as many of us are painfully aware, where once the American household received mail deliveries twice daily, the single delivery of today doesn't assure even overnight transmission of nearly one-third of first-class mail. This combination of increasing cost and declining service bears striking contrast to the improved efficiency of both private enterprise and other government operations. What is wrong with the postal system? The answer, at least for the government overseers of the postal system, is uncomfortable: the mechanisms of government control are totally unsuited to the running of a business enterprise.

The Post Office is affected with the public interest, but it is a business nonetheless: it provides physical communication services for stated fees. Although many of these services are subject to a statutory monopoly, some may be provided by private competitors, such as United Parcel Service and the Oklahoma-based Independent Postal System of America.

At the founding of the Nation, the Post Office was the nation's communication lifeline. It was the presence of the federal government in every outpost of the country—the vital link between the government and the people. For these reasons, the mails had been a government department in other nations; indeed, in the early days of the nation no other organization—private or public corporation, administrative agency, or public authority—had matured sufficiently to take on so massive and important a job.

Times have changed. Great private corporations have emerged and grown to extend services and produce products of every conceivable nature, and administrative and regulatory agencies have been created to police their activities in the public interest. Public corporations have been created anew or spun off from the government to conduct activities of mixed business and governmental character. Throughout this period of business and administrative transformation, the United States Post Office has

slumbered like an enchanted princess in the outdated mold of its eighteenth-century creation.

But for historical accident, the Post Office might have been a private corporation subject to government regulation, such as American Telephone and Telegraph Co.; or a public corporation accountable directly to the government, such as the Tennessee Valley Authority, the British Post Office, or Canadian National Railways. Would a change in form today help to solve its massive problems?

What Is Wrong With the Post Office?

Twenty years ago, the Hoover Commission recommended that the Post Office be taken out of politics. For nearly a generation, Congress has known that nearly all the ills of the Post Office are traceable to political intervention in postal operations. In April, 1967, following a speech by Postmaster General Lawrence F. O'Brien advocating reorganization of the Post Office Department,



Prof. Stanley Siegel

President Johnson appointed a Commission to examine the Department's problems and make recommendations for their solution. *Towards Postal Excellence*, the report of the President's Commission on Postal Organization, concluded that a public postal corporation could most effectively address these problems.

Personnel: With 716,000 employees, the Post Office Department is one of the nation's largest employers. Unfortunately, five out of six employees are in one of the five lowest pay grades. Although the uniform nationwide pay scale makes postal jobs attractive in outlying areas where living costs are low, it is difficult—often impossible—to attract capable recruits in sufficient numbers for major urban centers, where living costs are high and postal needs greatest. Moreover, working conditions in most post offices are extremely unpleasant: antiquated buildings have poor heating systems, inadequate locker,

dining, and sanitary facilities, and generally dismal decor. Poor training programs make advancement unlikely; indeed, four out of five postal employees retire in the same grade as they entered the Department. It has been claimed that political considerations enter into promotions, even at the lowest levels.

Political considerations affect appointments of top officials in all government departments, but the Post Office is unique in that the top 25,000 management positions—postmaster positions at principal post offices—are political appointees, selected by the President with Senate confirmation. Although the formal procedure calls for selection from eligibles certified by the Civil Service Commission, the process is in fact more cynical. An “advisor,” usually the local Congressman of the political party in power, transmits the choice of local party leaders to the Postmaster General. If the chosen man does not qualify on the examination, he is often named acting Postmaster, and new examinations scheduled until he *does* qualify. To date—despite the introduction in the last few years of nearly one hundred bills designed to remedy the situation—attempts to eliminate political appointment of Postmasters have been futile. Postmaster General Blount has announced the elimination of the “advisor” system in his appointments of new postmasters, and President Nixon has announced support of proposed legislation to eliminate Senate confirmation, but the fate of these moves must again await the action of Congress. Until then, the managers of the Department will continue to

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be chosen by a process carefully designed to avoid consideration of their merits. From 1960 to 1967, two-thirds of the postmaster appointees were chosen from outside the postal system.

Finance: Aside from its staggering size, the most significant aspect of the postal deficit is that *it is not the responsibility of the Post Office Department*. The Post Office does not set its rates; *Congress* sets them. Nominally they are set in accord with the mandates of the Postal Policy Act, but in actuality they are the product of undisclosed political considerations. Ideally, rates should be set at or about the break-even point for all services except those for which a policy of subsidy has specifically been adopted. But the Department's figures show a small profit on first-class mail and enormous deficits on second-, third- and fourth-class. Although the validity of these statistics has been called into doubt, there is every indication that the most sophisticated cost-accumulation system would have little effect on the financial picture of

the Department under the present rate-making structure.

Nor does the Department have much more control over its expenditures than its income. The budgetary process begins some fifteen months before actual expenditures; Congress appropriates funds for annual use in six categories, of which some 80 per cent is spent in the category of operations. The detailed appropriation process is directed toward assuring appropriate approval and legality of expenditures, rather than efficiency of financial operations. Financial statements show appropriation headings, not useful financial results. And in periods of fiscal austerity, Congress cuts appropriations without knowledge or regard for postal operations.

The appropriation process has had a devastating effect on postal modernization. Despite the existence of proven time- and labor-saving mail-handling devices, many major postal centers have done without them. The optical-scanning letter-sorting machine, now in experimental operation in Detroit, will produce enormous savings when perfected and spread throughout the system. But Congress has not appropriated sufficient funds to introduce even earlier-generation mechanized equipment in major postal centers. American Telephone and Telegraph Co. devotes more than one-third of its annual revenues to capital expenditures, but Congress appropriates a paltry 2 per cent of postal revenues to capital improvement. When AT&T introduced nationwide direct-distance dialing, the Post Office was still sorting mail into the 49-compartment cases created by Ben Franklin.

Operational Autonomy: Just as in the areas of personnel and finance, the Post Office Department is subject to pervasive outside control over all other aspects of its operations. Construction, transportation, contracting, internal management, are all the subject of some 800 pages of statutes and regulations governing the Department. Congressional hearings in 1968 reported the case of a lost lock box key that was ultimately resolved only by the office of the Postmaster General.

So detailed is the process for authorizing new postal construction that a five-year period elapses between decision to construct new postal facilities and actual construction. When new buildings are constructed, as postal logistics experts will testify, they should be placed near trunk roads and airports, since mail moves by air, and highway access is critical. Nevertheless, major new facilities, such as those in Baltimore, Maryland, and Jersey City, New Jersey, are located in downtown areas. City traffic, of course, makes movement of mail from such centers difficult and slow, but the Department has no say in their placement. The Jersey City facility, indeed, is now under investigation for purported Mafia influence in construction and subcontracting.

Similar constraints apply in so major an area as choice of the modes of mail transportation. The Department has difficulty, for example, in using freight forwarders and truck common carriers, even where these services are cheaper than rail transportation. Congressman Steed, in hearings on postal operations, summarized the extent of control over operations by the Postmaster General:

. . . 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.

The pervasive problems of the Post Office Department are subject to solution only through large-scale disengagement by the government. This is hardly news. This course was recommended, by one means or another, by the Hoover Commission, the President’s Commission on Postal Organizations, and—in a comparable situation—by the British Select Committee on Nationalized Industries reporting on the British Post Office.

What Are The Alternatives?

One solution to governmental problems, particularly when they involve business operations, is to spin them off to private industry. Two private-industry alternatives are open to the postal service: either sell the entire system to a business corporation, or simply allow free private competition through repeal of the statutory postal monopoly. Either presents great problems. No single investor or group of investors would snap up the opportunity to buy an unprofitable and archaic enterprise for a present value of some \$1.7 billion, requiring another \$5 billion in immediate modernization. And simply opening postal operations to competition leaves unanswered the question of what to do with existing facilities and employees. Nor does it face the fact that much of the required postal service, after the cream has been skimmed in profitable local delivery, would still have to be provided—perhaps with even greater deficits—by the existing system. Neither alternative faces the enormous political difficulties of attempting so radical a change in ownership and control.

The public corporation is a tenable alternative, both politically and operationally. Among the many forms in which government has conducted its activities, the public corporation has a long and respected history. Indeed, in the United States it dates back to the Bank of North America, chartered by the Continental Congress in 1781. The combination of business autonomy and political responsibility that characterizes this form has led to its use for many state and federal purposes, for example, electric power production, ports, bridges, airports, and financing institutions. The Tennessee Valley Authority is closely analogous to the Post Office in its commercial power production; and the U.K., Canada, and other nations have used public corporations to run numerous industries including, in some cases, the mails. Creation of a public postal corporation would require a departure from traditional government operation of the Post Office,

but that change would be precisely what is needed to revitalize the system. The public corporation idea is not startlingly original, not unique, and not untried.

Possessed of substantial autonomy in finance, personnel, and operations, the Tennessee Valley Authority has been highly successful by any measure. It has repaid much of the government’s initial investment and, while returning income to the government on its remaining investment, now conducts its commercial operations at a break-even point. Its record of labor relations is exceptional. Instrumental in achieving these successes are the powers granted to TVA: exemption from the civil service system, authority to sell bonds for capital financing, rate-making power, general managerial autonomy, and scrupulous elimination—by statute—of political interference in operational decisions. While the British nationalized industries have not achieved quite so admirable a record, the successful industries have similarly been characterized by a substantial degree of autonomy, considerably greater than that of a government department.

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Essential Features of a Postal Corporation

The Board of Directors: Whatever form a reorganized Post Office takes, an essential feature will be greatly increased autonomy both in matters of major policy and in day-to-day operations. The essentially business operations of the Post Office should be insulated from Congressional and Executive interference except on matters of overriding national policy. Virtually essential to this insulation is a board of directors, but such a board must be constituted differently from the board of private corporations. Most major private corporations today have “mixed” boards of directors, composed in part of outside, part-time directors and in part of inside, full-time officer-directors. The advantages claimed for this system are two: outsiders provide perspective, vision, and objectivity, while insiders supply detailed knowledge and immediate responsibility for results. Ever since Berle and Means’ landmark study of 1932, it has been understood that corporate management—the board of directors—tends to perpetuate itself or its designees through use of the proxy system. Thus, the board in most of those corporations is “controlled” by the full-time insider-officers.

The board of a public postal corporation should be named by the President of the United States, consistently with prior practice. The board structure proposed by the President’s Commission on Postal Organization is, like its commercial counterparts, mixed: six part-time Presidential appointees, and three full-time officer-directors named by the six. Such a board gives great power to generally uninformed outsiders who—unlike the outsid-



ers in *private* corporations—are not effectively subordinate to the officer-directors. Moreover, early experience with TVA's combined policy-operations board of directors was disastrous; the board of a public corporation should be concerned with policy only. A Presidentially appointed *full-time* policy board such as TVA's has four major virtues:

- A degree of executive supervision through naming of the board.
- Necessary insulation of executives from politics, through board appointment.
- An informed full-time board of directors, and executives responsible to the board.
- Separation of policy (the board) and operations (the executives).

Personnel: No postal reorganization will be effective without total elimination of political influence in appointment of postal employees and executives. Postmaster General Blount has taken the first steps in this direction, and legislation proposed by President Nixon will, if enacted, go a long way toward meeting the problem. However, nothing short of exemption from the civil service laws will fully solve the Post Office's personnel problems.

Exemption from civil service would not be unprecedented. Nor would it herald political intervention or labor strife. TVA, which has enjoyed such an exemption from the outset, has had excellent labor relations and virtually total political insulation in its personnel process. For executives of a postal corporation, civil service exemption would have two virtues: greater flexibility in assigning responsibilities and determining pay grades, and potentially higher salaries. There is rigidity in the civil service system, much of which might be avoided through a personnel system tailored specifically to the Post Office. Moreover, the disparity between compensation of executives in major American corporations and compensation of postal officials is great. The Post Office, unlike the Justice Department or the Department of Interior, is a business; it requires long-tenured business executives for its direction. The recommendations of the Kappel Commission on Executive Pay will go a distance towards eliminating the compensation gap, but it will still prove difficult to attract a top corporate executive for a salary probably less than one-fourth of what he is worth in industry.

The advantages of civil service exemption for laborers and other non-executives are also twofold. For the first place, exemption would provide increased flexibility in

hiring, assignment, evaluation, and discipline—in short, a personnel system tailored to postal needs. Secondly, exemption would mean that at long last labor-management problems could be tackled by genuine collective bargaining—as opposed to legislative lobbying. Any argument that elimination of civil service will open the floodgates to political influence can be dismissed readily. Aside from the fact that the Department is presently inundated with political appointments, reference may be made to TVA—also civil service exempt—where political influence is unheard of. Fears of loss of pension and seniority rights may similarly be answered, by statutory preservation of these rights.

Interestingly, the most powerful objections to such a proposal—and indeed to postal reform generally—is likely to come from organized labor. For the existing system of statutory pay scales provides organized labor with a powerful weapon—the lobby. Elimination of this weapon will necessarily encounter opposition unless replaced with another—the strike. TVA has a strike-ban, as do other government corporations. However, AT&T and other industries of equal magnitude and importance to the Post Office have no such prohibition. Tradition and precedent aside, the arguments against Post Office strikes seem no more convincing than those against telephone and airline strikes. If labor opposition can be overcome only by granting a right to strike, the Administration should pay that price for reorganization. In the long run, I submit, such a price would be low.

Finance: It is in the area of finance (rate structure, capital expenditures, borrowing, budgets, and auditing) that freedom of action tends to be most important—and controversial. Occasional fears are expressed that given free rein, a postal corporation would set prohibitive rates for unattractive services, eliminate essential but unprofitable operations, and gather huge profits. Of course, no such corporation would be unregulated. The President's Commission on Postal Organization, for example, suggested regulation of rates and conditions of services by an internal board of rate commissioners. Another possibility would be to create a separate government agency to regulate rates and conditions of service, or to vest such authority in an expanded Federal Communications Commission.

Whatever form rate regulation takes, two characteristics of the ratemaking scheme will be essential: 1) the initiative for setting rates and conditions of service must be in the postal corporation; and 2) the corporation should be required to break even and to set rates on an economic basis. Subsidies, if determined to be necessary, should be separately funded by Congress. Break-even operation—including possibly a return on the government's invested capital—is desirable to avoid the enormous indirect subsidy paid by the taxpayer to the users of 80 per cent of the mail service, American business. Post Office Department statistics indicate that to achieve break-even operation, rates on first-class mail should be kept relatively constant, but third-class rates increased about one-third and second-class rates *nearly tripled*. Break-even operation *is* possible. All available data

indicates that the demand curves for all classes of mail are remarkably inelastic, and that only a few marginal users of third-class mail would be seriously affected by rate increases.

The advantage of granting the Post Office initiative in setting its rates and services is that the corporation must come forward with economic and operational justifications for its proposals. More importantly, changes from these proposals must be publicly explained by the body that would make such changes, whether regulatory agency

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or Congress. Today, by contrast, the lobbying process for favorable rates is largely covert, and Congress sets rates at the deficit level while the Post Office Department takes the blame.

The Department's inability to make necessary capital expenditures rests with the appropriation process. Congress will not appropriate the necessary funds, and it is literally impossible to pay for improvements—now estimated to require \$5 billion—out of rate increases. The postal corporation should be given authority to raise capital funds through the sale of bonds. TVA has used its bond-issuing authority to advantage. Indeed, despite their lack of a U.S. Treasury guaranty, it has secured a "Triple-A" rating for its bonds. Such authority for a postal corporation, perhaps augmented by a Treasury guaranty during the early years, would be of inestimable value in bringing postal operations into the twentieth century.

Finally, the budget and appropriation process should be adjusted to meet the business needs of the Post Office. Full business-type budgets and financial statements, as well as commercial audits, should be introduced, and the corporation permitted to expend its receipts outside of the limitations of the appropriation process.

Will Postal Reform Be Effective?

Creation of a postal corporation, by itself, will not initiate a golden age for the Post Office. In fact, unless certain critical elements of autonomy are secured, no improvement can be expected. The virtue of the corporation approach, as opposed to piecemeal reform, is that it can be used to secure all the necessary reforms at once, and to untie for all time the Congressional apron-strings. The President's Commission on Postal Organization predicts savings of some 20 per cent in a five- to ten-year period if its proposals are enacted. If such savings do materialize they will of course be welcomed. It may be safely said, however, that a reorganization which does no more than cut back the rising postal deficit while maintaining reasonable rates and service will be hailed as a success. The task is not yet to transform the Post Office into a model of American enterprise, but simply to stave off rigor mortis.