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PRESIDENTIAL POSTAL COMMISSION RECOMMENDS COST-CONTROL REFORMS, NOT BUSINESS EXPANSION

Executive Summary

At the end of 2002, the President appointed a Commission to examine how to improve the Postal Service's finances and consider what role it should play in the future. The President's Postal Commission has produced a thoughtful report which explains that the Postal Service's financial problems are correctable — but only if costs are better controlled. "Far more emphasis," the Commission concludes, "must be placed on restoring fiscal stability not by ratcheting up rates or scaling back service, but by aggressively rooting out inefficiencies throughout the Postal Service."

Outdated statutory restrictions bear much of the responsibility for the Postal Service's excessive costs. To help rationalize the agency's outmoded network of facilities, the Commission proposes establishing a panel modeled on successful military base closing commissions. To help align postal compensation with that in the private sector, the Commission recommends that a regulatory body set a pay cap for new hires based on private-sector compensation. The Commission also suggests that the Postal Service increase its use of worksharing and contracting out arrangements. The Commission sees a smaller postal workforce in the future, and explains how this can be accomplished entirely through attrition, not layoffs.

The Postal Service has often claimed that it must expand if it is to strengthen its finances and better serve the country. Expansion was a central feature of the "Commercial Government Enterprise" model the Postal Service proposed in its 2002 "Transformation Plan". The Commission, however, finds that Postal Service expansion is not in the national interest and hurts the agency's bottom line. The Postal Service should stick to its core market.

However, because the Postal Service would remain a government-owned monopolist in the Commission's plan, more regulatory supervision should remain in some areas than the Commission suggests. For example, if the Postal Service wishes to change the relative prices of its products, it should continue to be required to obtain prior regulatory approval in order to ensure that the inter-product price shifts would not favor its competitive products at the expense of its monopoly-product customers. Similarly, if the Postal Service wants to grant a new worksharing discount, a rate case should be held first to verify that the proposed discount reflects a real cost saving.

The Presidential Commission has built a strong case that a new business model based on sound cost management can stabilize the Postal Service's bottom line and maintain or improve its level of service. On the other hand, if politics trumps good business practices and costs are not brought under control, the results will be a deteriorating bottom line and worsening service.

PRESIDENTIAL POSTAL COMMISSION RECOMMENDS COST-CONTROL REFORMS, NOT BUSINESS EXPANSION

The President's Commission on the United States Postal Service has provided a clear answer to an important question about the Postal Service and its delivery of mail in the United States: Can the agency be financially viable if it continues to provide mail service to virtually every address in the nation at uniform rates and on a six-day-a-week schedule? Applying accepted business practices and common sense, the Commission finds the answer is "yes" – if there is the political will to rein in costs. The Commission's analysis and recommendations are detailed in the 181 page report it issued at the end of July.[1]

The Commission has determined from a careful examination of the evidence that the Postal Service's financial troubles are primarily due to excessive costs. "Far more emphasis," it concludes, "must be placed on restoring fiscal stability not by ratcheting up rates or scaling back service, but by aggressively rooting out inefficiencies throughout the Postal Service."[2]

The Postal Service can do its part in this effort by more consistently following good business practices. Since taking office a little over two years ago, Postmaster General John Potter has demonstrated the power of even modest cost cutting. Improved cost management enabled the Postal Service to narrow its deficit from 2001 to 2002 and return to profitability in 2003 despite the recession and anthrax attacks. A major reason why the agency's costs remain too high is that the law imposes many expensive requirements on the agency that significantly and unnecessarily raise the cost of mail service. To make further progress, Congress will need to place fewer restrictions on the Postal Service's use of capital and labor so that the agency can concentrate on its primary task, the expeditious delivery of letter mail at reasonable rates.

The Commission's findings contain both good and bad news about the Postal Service's cost structure. The bad news is that if the cost problems are not addressed, "the Postal Service will have three choices: dramatically roll back service, seek a rate increase of unprecedented scale, or fall even further into debt, potentially requiring a significant taxpayer bailout." The good news is that "a strategy that aims instead to root out the substantial inefficiencies and other unnecessary costs apparent throughout the institution today ... [will] produce a far more efficient and capable 21st century Postal Service."[3]

Key ways to lower costs

The Presidential Commission offers many useful recommendations for better managing costs. A few of the most crucial will be discussed here.

One of the Postal Service's problems is that, as times have changed, it has moved too slowly to realign its network of processing plants, distribution centers, and post offices for current needs. The Commission reports, "Few, if any, believe that if the Postal Service were established today, such a sprawling logistics network would be necessary to deliver the nation's mail."[4] The organization's network structure has grown out of date largely "due to the inertia that results from restrictive statutory requirements as well as political resistance to closing or consolidating postal facilities."[5] To overcome these obstacles, the Commission recommends establishing an independent, bipartisan Postal Network Optimization Commission modeled on commissions Congress has used successfully to close unneeded military bases.[6] The Commission explains, "[M]embers of Congress, while generally supportive of postal modernization, worry about the impact on employment and facilities in their districts."[7] An independent, bipartisan realignment commission can help overcome those concerns because it would provide an objective forum, give interested parties an opportunity to explain their positions, and shift the emphasis from local issues, viewed in isolation, to national interests. The independent panel would propose a package of closings and consolidations that, if accepted by the President, would take effect unless both houses of Congress vote to reject the package in its entirety.

Eleven former military-base-closing commissioners, from both political parties, have written to Congress in support of this proposal and the billions of dollars annually it could save.[8]

But won't service necessarily deteriorate if some post offices are closed as part of the network rationalization? Finding that many Americans actually dislike visiting post offices because of long lines and limited hours, the Commission reasons that service can actually be ***improved*** for many people by offering them more postal services "in convenient locations *throughout* their community—from grocery stores, to pharmacies, to cash machines, and even into homes and businesses via a more robust and user friendly Postal Service website." [Emphasis in original.][9] To protect service in places where alternatives would not be adequate, the Commission emphasizes, "'[L]ow-activity' post offices that continue to be necessary for the fulfillment of the Postal Service's universal service obligation should ***not*** be closed, even if they operate at a substantial economic loss." [Emphasis in original.][10]

Another reason why the Postal Service's costs are high is because of the wages and benefits it pays. Although the Postal Reorganization Act of 1970 directs that postal pay should be comparable to that in the private sector, there is much evidence that for many positions, although not all, postal pay is substantially higher.[11] The Commission found that postal workers currently enjoy compensation packages that combine "the best of both the public- and private-sector worlds"[12]: a rich benefits package, exceptional job security (no-layoff protection for 89% of career postal union employees)[13], and sufficiently high wages "that new hires, on average, receive a 28.4% pay increase when they join the Postal Service."[14] When wages and benefits are combined, "average annual ***total*** compensation ... for postal clerks and for city letter carriers is nearly $60,000."[15] [Emphasis in original.] The Commission observes that postal employees and applicants certainly behave as though a large postal compensation premium exists. In "July 2001, the Postal Service had a backlog of some 400,000 job applicants and virtually no turnover."[16]

To narrow the postal pay premium, the Commission recommends that an independent Postal Regulatory Board (which would replace the Postal Rate Commission and have broader regulatory responsibilities) be directed to determine periodically whether a postal pay premium exists and, if it does, to set pay caps based on compensation in the private sector. The caps would serve as ceilings in future bargaining negotiations.[17] Also, the President's Commission recommends bringing within the collective bargaining process many fringe benefits that statutory law now requires the Postal Service to provide. (Some people would agree with the Commission that corrective action should be taken if there is a large postal pay premium, but they would prefer not to have the regulator set a pay cap. Fortunately, a number of alternative control mechanisms are possible, such as relating pay increases to quit and retention rates or instructing arbitrators explicitly to consider pay comparability in their decisions.[18]) The Commission suggests applying the reforms only prospectively, to avoid disruptions for retirees and current employees. In other words, the benefit changes would not affect current retirees or existing pay agreements, and the pay caps would apply mainly to new hires. (The Commission envisions applying the pay cap to existing workers gradually, likely by slowing the rate at which they receive pay increases in the future.)

The Commission believes the Postal Service can achieve even greater cost savings by increasing its use of worksharing and contracting out arrangements. Unlike the above proposals, the Postal Service can do much in this area on its own initiative. The idea behind outsourcing is that if a private firm can perform a function at less cost than the Postal Service, both sides win if the Postal Service pays the private business to do the work and the parties split the savings. (With worksharing arrangements, payments to mailers for helping with mail processing take the form of reduced postage rates.) Because the underlying policy goal is prompt, reliable, and reasonably priced mail service, not maximizing the amount of work done within the Postal Service, the Commission reasons that outsourcing should be used for tasks "that can be performed better and at lower cost by the private sector."[19]

Outsourcing has already significantly reduced the Postal Service's capital and labor requirements, which has produced major cost savings. "According to one estimate," notes the Commission, "the Postal Service would have to employ an additional 187,000 people to perform the tasks being handled by its worksharing partners."[20] The Commission rightly praises the U.S. Postal Service as a global pioneer in this area, as a result of which "mail processing in the U.S. has been opened up to the private sector in a way not imagined in foreign posts."[21]

The Commission recommends that the Postal Service build on this record and pursue many more workingsharing and contracting out opportunities. For example, the Commission urges the agency to contract out "several ‘big-ticket’ functions that go beyond the institution’s core competency ... [such as] real-estate management, vehicle maintenance, [and] management of information technology systems..."[22]

Again the Commission would protect current employees. Because almost half of current employees will become eligible for retirement in the next eight years, it will be possible to reduce the number of Postal Service employees through attrition as more work is outsourced, entirely avoiding layoffs.

Although not mentioned by the Commission, it should be noted that if the Commission’s suggestions for streamlining the Postal Service’s network of facilities, bolstering postal productivity in other ways, and slimming the pay premium are implemented, the Postal Service’s cost disadvantage relative to the private sector will also narrow. Fewer new outsourcing initiatives would then be warranted by cost savings than is now the case based on the Postal Service’s current cost and productivity structure. A reformed Postal Service might actually find in some instances that it makes dollars-and-cents sense to bring back in-house some activities that are currently outsourced.[23]

Higher productivity also sought

A number of the Commission’s suggestions seek to boost productivity, in order both to save money and to improve the quality of service. Higher productivity would be one of the benefits from implementing the Commission’s recommendation for rationalizing the Postal Service’s out-of-date network of facilities. Another Commission suggestion for making facilities more productive is standardizing plant layout. Many companies in the private sector have discovered that designing a good layout and using it as a standard can yield large productivity gains. Currently the layout of Postal facilities is not standardized, and output varies widely from facility to facility.

Many pro-productivity ideas center on postal workers and range from improving the tone of discourse between labor and management (the current acrimonious tone hurts morale and productivity), to fixing a broken grievance process, to offering performance-based incentives to workers throughout the organization. As a successful example of the latter, the Commission mentions an agreement between the Postal Service and the union representing rural letter carriers. On "evaluated" routes, "rural carriers are compensated for completing a set route, no matter how quickly and efficiently they get the job done."[24] If the "evaluated time" is eight hours and they finish in five, they still receive full pay. This incentive reduces the Postal Service’s overtime costs, rewards workers for being productive, and speeds deliveries to customers.

Disciplined cost management makes good sense at any time

No one knows today how much of a threat e-mail, on-line bill payment, and other electronic alternatives will pose in the future for traditional mail service. The possibility that the diversion will be large lends urgency to efforts to bring the Postal Service’s costs under better control, and it is clear from reading the Presidential Commission’s report that this concern was on the members’ minds. However, the Commission makes the valid point that better cost management is in the public interest even if demand for hard-copy mail turns out to be as resilient in the future as it has in the past. "Even if the Postal Service were not in financial jeopardy... [those] billions of dollars in unnecessary costs ... should be eliminated rather than passed on to ratepayers."[25]

The folly of expansion

Over the years top executives at the Postal Service have sometimes taken the position that the organization can "grow" its way out of its financial problems by expanding in markets outside its postal monopoly. For instance, in introducing the Postal Service's "Transformation Plan" in April 2002, Postmaster General John Potter alluded to expansion when he called for a business model that "will allow us to leverage our vast retail and delivery assets to develop new revenue streams."[26] Similarly, the "Transformation Plan"[27] dismissed cost cutting as needed, but insufficient. It portrayed expansion as a vital longer-term financial strategy, with the Postal Service becoming a "Commercial Government Enterprise" that branches out widely in the economy in competitive markets that are already served by private-sector businesses. Likewise, in a statement to the President's Commission earlier this year, Deputy Postmaster General John Nolan claimed, "The ability to expand current products and services and to be allowed to branch out into related endeavors would ... help sustain the investment [in the Postal Service]." He further declared, "The restriction that the Postal Service not be allowed to compete in areas where the private sector either already offers products and services, or could offer them, should not exist."[28]

The President's Commission examined expansion as a business strategy, but firmly rejects it, both on pragmatic grounds and for broader public policy reasons. Pragmatically, the Commission finds that the Postal Service has frequently lost money on ventures outside its core market. In the case of electronic commerce, "dubious forays ... have produced largely disappointing results ... [and] have drained time and resources that could have been spent improving traditional postal services."[29] Given the organization's track record, it is delusional to imagine that a major expansion will help financially; the more likely result of expansion will be more red ink. In addition, the Commission is concerned about the Postal Service using "the backing of the U.S. government and a national postal monopoly"[30] to offer products and services outside its core mission in competitive markets already served by private-sector businesses.

The Co-Chair of the Commission, James A. Johnson, reiterated in Congressional testimony that when the Postal Service operates beyond its core mission, it jeopardizes — not strengthens — the performance of its core mission:

> "So many organizations that have failed in the last 20 years in America ... have failed because they have not kept the focus on their core mission. They've gotten involved in things that were not things they knew how to do... [O]ne of the core recommendations here is stick to your knitting. Do what you're supposed to be doing. Don't be looking for other ways of expanding into businesses where you don't have the expertise, where you don't have a clear preparation and a clear background."[31]

Later in his testimony he also expressed concern about letting a government entity encroach on activities that private sector businesses are already performing. "I see no reason [for the Postal Service] to be taking [over] things where there are adequate ... providers [in the private sector] and replacing them with public sector activities."[32]

While the Commission agrees that the Postal Service needs a new business model, it defines that model in terms of better cost management, not expansion. The Commission recommends that the Postal Service only offer new products if they are within its core mission and would further consumer convenience or enjoyment. It suggests, as one example, personalized postage stamps.[33]

Not all recommendations are on target

The Commission generally suggests that the Postal Service follow best business practices. That is sometimes inappropriate because the Postal Service is not owned by profit-seeking investors; it is owned by the government. Without trying to be exhaustive, some of the panel's more debatable recommendations are discussed below.

- While the Commission is correct that most board members of private-sector companies are nominated by other board members, its suggestion that the majority of the Postal Service's board be self-selected has problems. If shareholders of a private-sector company do not like how the board is acting, they can quickly and visibly register their disapproval by selling the company's shares or by voting in favor of a hostile takeover. Those safeguards are lacking at a government-owned enterprise. To provide a check on the largely self-perpetuating board it proposes, the Commission would require the Secretary of the Treasury to approve the board's nominees and give him expanded power to remove board members. But that arrangement has its own problem: a politically minded administration could use the power quickly to stack the board. Given these problems, it may be better for board members to continue to be Presidential appointees, with appointments made on a staggered basis and each appointee having a relatively long term.

• The Commission is also correct that well crafted bonuses, based on performance, are an excellent motivational tool. However, one since-discontinued management bonus plan was heavily criticized because its terms were not initially known to the public and a fudge factor was later added when the Postal Service slid from net income to loss.[34] It cannot be overemphasized that bonus plans need to be transparent, that is, publicly disclosed when initiated (posting them on USPS's web site would be helpful) and not changed midstream.

• Currently, the Postal Service must normally obtain approval from the Postal Rate Commission before changing rates. The Commission recommends the Postal Service have much more leeway, and be able to change rates on its own, provided that rate increases within the monopoly do not exceed price caps. It recommends that such changes be subject to after-the-fact protests. While that leeway would allow the Postal Service to alter prices more rapidly as market conditions change and reduce the cost of defending price changes in hearings, it would also, unfortunately, be an invitation to predatory pricing. When an enterprise is a government-owned monopoly, it can hold down prices in markets where it faces competition, lose money there, and cross-subsidize the losses by raising prices within the monopoly. (At private-sector companies, such behavior is held in check because there are profit-seeking shareholders, and deliberately operating at a loss in some markets hurts profits. This is one of the reasons why economists David Sappington and J. Gregory Sidak warn that the danger of anti-competitive behavior is likely to be greater at government-owned enterprises than private-sector businesses.[35]) Elsewhere in its report the Commission clearly recognizes that cross-subsidization is a very real danger.[36] Because of this conflict between goals, the Commission's pricing-flexibility recommendation threatens to do harm. (While there is a genuine conflict here, it is not totally unresolvable. One path for responding to the call for more pricing flexibility while maintaining some protection against cross-subsidization would be to allow the Postal Service to change all prices uniformly within preset limits without prior regulatory approval, but to require regulatory approval before it can increase the prices of some of its products more than others. Also, time delays in rate cases could be significantly reduced if there were more cost transparency and fixed protocols for measuring costs.)

• The Commission proposes that the Postal Service be able to grant worksharing discounts on its own, subject only to after-the-fact protests. That is not advisable because before-the-fact rate-setting cases protect both postal workers and postal consumers by making sure that worksharing discounts are not sweetheart deals or money-losing ploys to pump up volume, but instead reflect genuine cost savings, with the savings divided between mailers and the Postal Service. (At private-sector companies, it is profit-seeking shareholders who guard against money-losing deals.) Although rate-setting cases are time consuming, they have not prevented worksharing arrangements from flourishing.

• In an effort to provide institutional flexibility as times change, the President's Commission would allow the Postal Regulatory Board to make decisions about the fundamental character of postal service. The Postal Regulatory Board would have the power in the future to redefine the limits of the postal monopoly and the basic characteristics of universal service. Although institutional flexibility is a worthy goal, fundamental policy issues like these at a public institution should really be decided by Congress, not shifted to a regulatory agency. (A possible legal problem with the Commission's proposal is that if Congress does not guide the regulator with explicit criteria to be used in reaching decisions and set clear limits on what the regulator can and cannot do, the courts might strike down the arrangement as an unlawful delegation of authority.)

• The Commission may be defining the Postal Service's core mission too broadly when it includes package delivery in that mission. In contrast to the distribution of letters and periodicals, which the Post Office/Postal Service has viewed as core activities since the days of Benjamin Franklin, the organization did not accept packages, with minor exceptions, for most of its history. After the Postal Office entered the package delivery market, it displaced some of the private-sector businesses that had been serving that market, but it has never had a monopoly there, and it has always faced direct competition. Today, private-sector businesses deliver most packages, the Postal Service has only a minority share of the market, and competition among private-sector delivery companies is intensifying. Financially, parcel services account for just a small part of Postal Service revenues and an even smaller share of contributions to overhead. In practice, parcel delivery is a peripheral market for the Postal Service. If the government agency remains in that market, it should only be as a last-resort provider and only if it covers its full costs there.

• The Commission's report contains a chapter on "Intelligent Mail" that seems either unrelated to or at odds with the rest of the report. One "Intelligent Mail" proposal would require identifying oneself to the Postal Service when mailing a letter. The Postal Service would also record the recipient's identity and time of mailing. Privacy advocates object that this information would give the government a powerful new tool for monitoring people's private affairs. It would also set back efforts to control costs because collecting the identity information would be expensive. Moreover, enforcing the identification requirement would conflict with efforts to provide people with more community-based alternatives to the post office. Another concern is who would pay for the investment in "Intelligent Mail": the financially troubled Postal Service or the U.S. Treasury, which already has a yearly deficit of several hundred billion dollars? And when postal rates go up to pay for "Intelligent Mail", will postal consumers find it worth the extra cost? In addition, the Commission's proposals in the "Intelligent Mail" chapter would tend to undercut its earlier recommendation that the Postal Service avoid forays into potentially money-losing ventures such as electronic mail.

Privatization not endorsed

Many free-market advocates are disappointed that the Commission decided against recommending privatization. The Commission gives three reasons for its decision. It found in a survey that most Americans are not calling for privatization. Also, while the Commission admits that "the end result of privatization could be a dynamic and efficient private postal sector,"[37] it worries about uncertainties and disruptions during the transition. It is also concerned about whether universal service would be maintained under privatization.[38]

Although not mentioned in the report, the practical minded Commission members may also have been influenced by the fact that the Postal Service is doing much better in terms of performance and finances than some other government enterprises, such as Amtrak. If few people would rate the level of postal service as stellar, most judge it to be acceptable. And while the Postal Service has lost money in most years, it has not, on average, missed its break-even target by very much.[39] Accordingly, notwithstanding the substantial long-term efficiency gains from privatization, the Commission judged that it is not needed to meet the limited objectives set out for the Postal Service. The agency can perform satisfactorily (delivering reasonable service while hitting its financial break-even target), if the panel's cost-management recommendations are enacted.[40] Ironically, the case for privatization will become much stronger if the Commission's cost-control ideas are spurned, with the result that the Postal Service's finances will become far worse in the future than they are now and its government-owned status more difficult to defend.

Conclusion

The President's Commission has performed a genuine public service by shining a spotlight on the Postal Service's costs and statutory limitations on the agency's ability to control those costs. The panel also merits praise for explaining why the Postal Service needs to concentrate on its core market rather than trying to expand in other markets.

The Commission's upbeat message that the Postal Service's finances can be stabilized is realistic — but only if Congress gives the Postal Service cost management tools it now lacks. Because vigorous cost management is not always politically appealing, the Commission is correct to point out "the inevitable political pressures surrounding an agency with such a strong local presence and large employee base"[41] and warn that a successful outcome may depend on the "willingness of all parties—from customers to Congress, postal workers to private-sector partners—to support a fundamental overhaul of a vital American institution."[42] One danger is that the Commission's recommendations may be ignored. A more subtle danger is that political pressures may lead to enactment of some of the panel's less desirable suggestions, such as letting the Postal Service change the relative prices of its various products with less regulatory oversight to guard against cross-subsidization, while spurning the cost controls that are essential for effective reform.

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This is another in a continuing series of IRET papers examining the U.S. Postal Service. IRET began its work in this area in the mid 1990s. Norman Ture, the organization's founder, believed that growth and prosperity are advanced by restricting government to a limited set of core functions. From this perspective he was concerned about the activities of government owned and sponsored businesses. The Postal Service stands out among government businesses because of its size — it employs nearly one third of the federal government workforce — and its persistent efforts to expand, which continue to the present.

Endnotes

1. President's Commission on the United States Postal Service, *Embracing The Future; Making The Tough Choices To Preserve Universal Mail Service*, July 31, 2003, accessed on the Internet at http://www.treas.gov/offices/domestic-finance/usps/pdf/report.pdf.
2. *President's Postal Commission*, p. viii.
3. *President's Postal Commission*, p. v.
4. *President's Postal Commission*, p. 10.
5. *President's Postal Commission*, p. 78.
6. For an overview of the proposed panel's operation, see *President's Postal Commission*, p. 80.
7. *President's Postal Commission*, p. 93.
8. See Lexington Institute, "Eleven Former BRAC Commissioners Endorse Plan To Close Unneeded Postal Facilities," Press Release, October 1, 2003, accessed on the Internet at http://www.lexingtoninstitute.org/postal/pr031001.htm.

9. *President’s Postal Commission*, p. xviii. The Commission also says, "This new approach offers a win-win proposition to the Postal Service and its customers—far more convenient, often 24x7, access to basic postal services at significantly less cost to ratepayers... Special trips [to the post office] and afternoon lines all could become a thing of the past." (*President’s Postal Commission*, p. 83.)

10. *President’s Postal Commission*, p. xiv.

11. For a fuller discussion of evidence regarding a postal pay premium, see Michael Schuyler, "The Postal Wage Premium: No Wonder The Postal Service Loses Money," *IRET Congressional Advisory*, No. 131, July 24, 2002, available on the Internet at ftp://ftp.iret.org/pub/ADVS-131.PDF.

12. *President’s Postal Commission*, p. 117.

13. *President’s Postal Commission*, p. 121. This level of job security is "not available to other Federal employees" and is "rare in the private sector." (*Ibid.*)

14. *President’s Postal Commission*, p. 118.

15. *President’s Postal Commission*, p. 109.

16. *President’s Postal Commission*, p. 109.

17. If the Postal Service were a normal business, of course, the best procedure would be for the government to stand back and let the market determine wages and benefits. However, that is not a viable alternative here because the Postal Service is a government entity that, by law, monopolizes an important market.

18. For a look at various techniques that might be used to narrow the postal pay premium, see Michael Schuyler, "How To Bring Postal Compensation Into Line With The Private Sector," *IRET Congressional Advisory*, No. 132, August 28, 2002, available on the Internet at ftp://ftp.iret.org/pub/ADVS-132.PDF.

19. *President’s Postal Commission*, p. 103.

20. *President’s Postal Commission*, p. 85. The estimate cited is that of Robert Cohen, Director, Office of Rates, Analysis and Planning, Postal Rate Commission, "Testimony Before President’s Commission on the United States Postal Service," Feb. 20, 2003, pp. 21-22.

21. *President’s Postal Commission*, p. 85.

22. *President’s Postal Commission*, p. 87

23. A corollary is that the less successful postal unions are at blocking compensation and productivity reforms, the more successful they will probably be at maintaining their membership ranks at the Postal Service.

24. *President’s Postal Commission*, p. 131.

25. *President’s Postal Commission*, p. viii.

26. John E. Potter, "Remarks of Postmaster General John E. Potter," National Press Club, Washington, DC, April 5, 2002, accessed on the Internet at http://www.usps.com/strategicdirection/_txt/pmgnpcfinal.txt.

27. United States Postal Service, *United States Postal Service Transformation Plan*, April 2002, accessed on the Internet at http://www.usps.com/strategicdirection/transform.htm.

28. John Nolan, "Postal Service Competition with the Private Sector (Deputy Postmaster General John Nolan)," provided in response to a request from Commissioner Joseph Wright, President’s Commission on the United States Postal Service, April 2, 2003, accessed on the Internet at http://www.treas.gov/offices/domestic-finance/usps/docs/response_to_wright.doc.

29. *President’s Postal Commission*, p. 27.

30. *President’s Postal Commission*, p. 27.

31. James A. Johnson, Testimony before U.S. Senate Committee on Governmental Affairs, Hearing on "U.S. Postal Service: What Can Be Done to Ensure Its Future Viability?" September 17, 2003, Washington Transcript Service, Landover, Maryland, accessed on the Internet at http://library.bigchalk.com/cgi-bin/WebObjects/WOPrimo.woa/13/wa/getDoc?listid=524728382&product=BCLib&refpage=NLBSResultPage&usageLogString=ResultType%3DNLBS%3B&query=johnson%20AND%20Collins%20AND%20Postal%20AND%20hearing&docid=80415608&reflabel=Results&idx=1&wosid=mF6JGKDO3JeP2TUHh3d1IpZgjjS.

32. *Ibid.*

33. Personalized stamps are already available in Canada. For $24.95 (Canadian), Canada Post will put a personal photo that you send them on 25 Canadian postage stamps. (See http://www.canadapost.ca/personal/collecting/default-e.asp?stamp=postage.)

34. See Rick Merritt, "Stamping Out Productivity," *Washington Times*, January 9, 2002, p. A17; and Charles Guy and Michael Paranzino, "Postal Management To Receive Bonuses Despite The Inspector General Finding That The Formula Is Inappropriate," Lexington Institute, *Issue Brief*, December 14, 2001, accessed on the Internet at http://www.lexingtoninstitute.org/postal/mgtbonuses.htm.

35. David E. M. Sappington and J. Gregory Sidak, "Competition Law for State-Owned Enterprises," AEI Online, Papers and Studies, December 3, 2002, accessed on the Internet at http://www.aei.org/docLib/20021215_pssida0212.pdf.

36. For example, see the discussion at *President's Postal Commission*, p. 67.

37. *President's Postal Commission*, p. 18.

38. This last concern is unfounded. Any address can be serviced at an appropriate price by the private sector. If uniform national rates and delivery to every address (the current definition of universal service) are desired for political reasons, they can be maintained under privatization either through explicit Congressional appropriations or by making them a licensing requirement for mail providers.

39. If one looks at reported revenues and expenses, the cumulative deficit has only been 0.3% of revenues over the period 1980-2002. If Congressional public service and revenue foregone appropriations are excluded from revenues, the cumulative deficit was 1.4% of revenues over the same period. (Calculations are based on data in Postal Service, *Annual Reports*, various issues.) However, the deficit number is several percentage points higher if various worker liabilities, especially retiree health care benefits, that have been accrued but not yet paid are counted in expenses.

40. As explained in the previous sector, however, some management tools and flexibilities that are very useful in the private sector are not appropriate if the Postal Service remains a government-owned institution.

41. *President's Postal Commission*, p. 3.

42. *President's Postal Commission*, p. 159.