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UNION DEMANDS HURT POSTAL SERVICE REFORM

Executive Summary

Postal unions were created to represent their members, which is their right and obligation. Their positions, however, are not necessarily in the best interest of mail users, taxpayers, and the general economy.

The House, Senate, and Administration almost reached a deal on major Postal Service legislation prior to Congress's pre-election adjournment. (The House and Senate had previously passed somewhat different versions of H.R. 22, the "Postal Accountability and Enhancement Act".) Union opposition killed the deal, despite large concessions that would have met most union demands.

This paper steps back to look at three legislation-related issues on which one or more unions expressed strong views, and asks whether the unions' positions are consistent with reform.

The centerpiece of H.R. 22 is rate-cap regulation, which would give the Postal Service more flexibility to adjust postal rates, but cap increases at the inflation rate. For rate cap regulation to protect mail users and encourage financial discipline, the rate cap must be a firm cap. The unions, regrettably, prefer a soft cap with loopholes.

The Postal Service needs to contribute significantly less to fund retirees' pensions because Congress retroactively changed the law in 2003. (Retirees' benefits are unaltered.) The Administration wisely advocated using every cent of the savings, which are currently going into an escrow account, to reduce the Service's approximately $65 billion unfunded liability for retirees' health care costs. The unions, though, object; they hope some of the escrow money will flow to them.

When the Postal Service and a union cannot agree on a collective bargaining agreement, an arbitrator sets wages and some benefits. The Service believes this has contributed to a substantial postal pay premium and high labor costs. The Administration and mailers suggested changing the law to instruct arbitrators to consider as one factor the Service's financial health. Despite union opposition, this would be an excellent reform.

Acceding to union demands would be politically easy but the result could quickly become "reform" in name only. Genuine reform requires some changes that postal unions oppose.

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The House and Senate have passed bills with numerous similarities but some key differences that would change many of the rules under which the government-owned U.S. Postal Service operates. Both bills are called the "Postal Accountability and Enhancement Act" and numbered H.R. 22. (The Senate bill was earlier numbered S. 662.) Supporters claim H.R. 22 would result in a Postal Service that is better regulated, more responsive to customers, and financially stronger.

The Administration has also worked hard in this area, more so than any other Administration in a generation. In December 2002, it established a bipartisan commission to examine the Postal Service and received an insightful report seven months later with numerous pro-reform recommendations.[1] In December 2003, the Administration outlined five principles that it regards as essential to meaningful reform: transparency, flexibility, accountability, improved governance structure, and financial soundness.[2] During the legislative process, the Administration has regularly told Congress that H.R. 22 is promising but needs several modifications in order to conform to the five reform principles and receive Administration support.[3]

The House, Senate, and Administration have been discussing and trying to resolve their differences since an earlier version of the legislation was considered in 2004. Other interested parties, among them postal labor unions, have also participated in the discussions. There was a burst of activity in the week before Congress's pre-election adjournment, following an Administration offer to make large concessions from its previous position.[4] Commercial mailers and the Postal Service's competitors also offered significant concessions. Legislation nearly emerged, but the effort foundered in the House and Senate due to union objections.

Action on the Senate side came to a halt when the National Association of Letter Carriers (NALC) opposed a provision that would have established a three-day waiting period for benefits on workers' compensation claims.[5] The NALC objection caught other participants off-guard because the workers' compensation provision is a sensible reform and very modest.

With the election campaign in full swing and Congress in recess, the earliest that legislation might be enacted would be in a lame-duck session following the election. If action is not taken then, the issues might return next year in the 110th Congress.

There are four postal unions: the American Postal Workers Union, the National Association of Letter Carriers, the National Rural Letter Carriers' Association, and the National Postal Mail Handlers Union. Although NALC ultimately blocked action in the Senate, the American Postal Workers Union (APWU) had long been the union least supportive of the bills and most critical of proposals by the Administration and mailers.

As might be expected, union leaders aggressively press for what they believe would best serve their members. That, of course, is their right. For example, William Burrus, who is the president of the APWU summarized "the logic behind the APWU's general position on labor/management/mailer issues" by saying, "The American Postal Workers Union is responsible to its membership – period."[6] His comment is fair enough, and it is certainly forthrightly stated.

A corollary, however, is that postal unions' positions are not necessarily in the best interest of mail users, taxpayers, and the overall economy.

This paper will examine three important issues that one or more postal unions emphasized in the last several months. The union comments are interesting in their own right and also for the information they provide about what other parties were saying in the behind-the-scenes negotiations.

The aim of this paper is to provide a road map regarding which changes would be conducive to genuine reform and which would only be "reform" in name. If a bill is eventually enacted, it would be highly desirable that its provisions embody real reform.

Postal reform in perspective

In the 1990s, the growth of the Internet spurred fears that traditional mail service faced an imminent crisis. Marvin Runyon, who was the Postmaster General, called for a sweeping rewrite of the statutory rules under which the government-owned U.S. Postal Service operates.

Since then, the Postal Service has proven remarkably resilient. People like the Internet and other electronic means of corresponding and conducting transactions, but they also like traditional hard-copy mail. That has been welcome news for the Postal Service because it controls the traditional mail market due to its dual statutory monopolies on hard-copy letter delivery and mailbox access. Aided by the superb operational skills of current Postmaster General John Potter, the Service even weathered 9-11 and the mail-delivered anthrax attacks in relatively good shape.

Nevertheless, although electronic alternatives do not create an immediate crisis, they do pose a long-term challenge. The eventual extent of electronic diversion is unknown, but the issue should not be glossed over. Pro-efficiently reforms that reduce costs, improve service, or both would help the Postal Service better meet the challenge.

Well-crafted reforms are desirable regardless of whether there is an immediate crisis. Better cost-management tools that allow the Postal Service to hold down rate increases would benefit mail users at all times. Worthwhile reforms that help customers, protect taxpayers, and increase the Postal Service's value to the economy should not be foregone merely because it appears the agency can survive for the next several years without them. Some of the features to look for in true Postal-Service-reform legislation are providing the agency with better cost-control tools, improving transparency in areas such as cost accounting and service standards, and promoting financial discipline.

Not every proposal called "reform" by its supporters is true reform. Sometimes a proposal that would be ineffectual or harmful is given the reform label. Such false reforms should be rejected. For example, until a couple of years ago, the Postal Service often argued that because it had difficulties in its core market, it should receive Congress's blessing to venture widely in other markets. This proposed expansion of the government enterprise, which Congress fortunately never approved, would have left the original difficulties unaddressed, diverted the Service from its core mission, and caused problems elsewhere in the economy.[7]

Should a cap on postal rate increases be a real cap or an only-if-it's-convenient cap?

The centerpiece of both versions of H.R. 22 is what is known as rate-cap regulation: the Postal Service would be allowed to adjust rates with much less regulatory oversight – provided it does not raise rates faster than inflation in product categories where it is classified as the dominant provider. Backers of rate-cap regulation argue that relaxed price regulation would allow the Postal Service to respond more quickly on the revenue side to market forces while the cap would provide financial discipline on the cost side.

One can debate whether rate-cap regulation is the best approach to reform, but if that path is chosen, the cap should set a limit on the rate increases.[8] If the "cap" becomes a sieve because loopholes readily permit above-inflation rate increases, the financial discipline would be lost. Mail users would have much less protection against excessive rate increases than under current law, which is especially worrisome given the Postal Service's monopoly power.

The Administration and commercial mailers have long pressed for a firm rate cap similar to the one in the Senate version of H.R. 22, under which the average price increase in a market-dominant mail category could exceed the inflation rate only in "unexpected and extraordinary circumstances".[9] Postal unions adamantly object.

Mr. Burrus of the APWU charged that the Administration and commercial mailers "threaten" the reform effort by "demanding that postage-rate increases – with very few exceptions – be limited by increases in the Consumer Price Index (CPI)."[10] He declared "[T]he proposed rate caps would undermine our members' collective bargaining rights... [The caps] would impact the available revenues to adequately compensate employees for their services."[11]

Other unions and postmaster organizations similarly argued for a soft rate cap in a letter they sent to Capitol Hill on July 12.[12] They prefer the looser rate cap in the House version of H.R. 22.[13] Their letter claimed that while a rate cap based on the CPI is "a workable index and target for the USPS under normal conditions," the agency must have "sufficient flexibility ... to seek the revenues it needs ... when conditions warrant it."[14] NALC said elsewhere that the conditions justifying higher-than-inflation postal rate increases should include Postal Service "cost increases not fully captured by the CPI."[15] NALC warned that "an inflexible hard price cap ... would also damage letter carriers at the collective bargaining table."[16] The problem with this approach is that it would give the Postal Service considerable leeway to break the cap as an alternative to controlling its costs. That is not financial discipline.

The unions insist that a binding cap is too risky for employees, because non-labor costs might rise faster than the inflation rate. That argument, however, glosses over the relative size of the Postal Service's various costs and ignores the impact of technology and productivity gains. The Postal Service's cost structure is not dominated by exogenous non-labor costs; it is dominated by labor costs. At nearly 80% of the Service's total costs, labor costs are the elephant in the room.[17] They are four times as large as all the Service's other costs *combined*. Given these relative magnitudes, the main threat to the Postal Service's ability to cope with a strong rate cap does not come from exogenous non-labor costs but from labor costs. Furthermore, as long as the Postal Service improves its productivity over time, wage and benefit increases *exceeding* the inflation rate can coexist with a firm inflation-based rate cap. Specifically, wages and benefits could rise at up to the combined growth rates of inflation and labor productivity without bursting the rate cap.[18] Are the unions hoping to push up wages and benefits at a faster clip?

The escrow account, military credits, and unfunded health care benefits

As part of their retirement income, postal workers who stay with the agency long enough receive a defined-benefit pension. Defined-benefit pensions are rapidly becoming less common in the private sector.

The contributions that employers need to make to fund defined-benefit pensions are extremely sensitive to interest rates and other conditions. Higher interest rates increase investment returns, which lowers what employers need to contribute, while lower interest rates decrease investment returns and force employers to contribute more.[19]

Postal workers hired since 1984 are generally covered by the Federal Employees' Retirement System (FERS), which uses some market data in calculating how much the Service needs to pay and charges the Service on an accrual basis. Postal workers hired before 1984 are generally covered by the older Civil Service Retirement System (CSRS), which relied less on market data and did not fully pre-fund the Service's pension liabilities.

Several years ago it was realized that the law told the Postal Service to make contributions for CSRS pensions based on a hypothetical interest rate that had seemed reasonable in 1970 but had proven to be much lower than actual market interest rates. In 2003, Congress decided to change the rules retroactively and recalculate CSRS contributions based on more realistic assumptions similar to those used in the newer FERS system.[20] The revaluation lowered the Service's required contributions for CSRS pensions. (The legislation did not change pension payments to postal retirees.)

As a federal agency, the Postal Service gives employees credits for prior military time, which raises their pensions. CSRS generally charges the extra pension payments resulting from these military credits to the U.S. Treasury, while FERS generally charges them to the federal agency. In line with the other, larger move to a FERS-style calculation of contributions, Congress decided as part of the legislation to shift responsibility for certain military credits of CSRS retirees from the Treasury to the Postal Service. This change increased Postal Service pension obligations.

The net effect of these two changes was to lower the Postal Service's required pension contributions for CSRS retirees by several billion dollars a year and an estimated $78 billion cumulatively.[21] Congress ordered that the agency's annual pension savings due to the legislation be used through 2005 to reduce the agency's debt and hold down postal rates and, beginning in 2006, be placed in an escrow account until Congress specifies how the money should be used.

All parties agree that the escrow account should be ended. But what should be done with the money? The Administration has drawn attention to the Postal Service's massive unfunded liability for retirees' health care costs – about $65 billion.[22] Such a huge unfunded obligation is a threat to future mail users, taxpayers, and the Service's financial self-sufficiency. If not dealt with now, the unfunded promises will raise rates for future postal customers, with customers within the postal monopoly most vulnerable, and perhaps necessitate a taxpayer bailout. The Administration proposed that every cent freed from the escrow fund be used to pay down the Service's unfunded retiree-health care liability. The Administration also liked this approach because, due to technical budget scoring rules, it would avoid increasing the federal budget deficit in the near term.

In contrast, H.R. 22 would only apply some of the pension savings to reduce the unfunded liability and let the Service use the rest for other purposes. (The bill's House and Senate versions differ on what share of the money could be used for other purposes.) Further, H.R. 22 would make the U.S. Treasury (which ultimately means taxpayers) pick up the tab for the military credits it had decided in the 2003 legislation that the Postal Service should pay.[23] Through the summer, the Administration had threatened a Presidential veto unless all the escrow money was used to reduce the unfunded health care liability and the military credit responsibility stayed with the Postal Service per the 2003 legislation. In late September, the Administration gave ground on this issue, not because it thought it was wrong but in the hope of providing sufficient momentum for Congress to approve final legislation.

Not surprisingly, postal unions strongly favor the language in H.R. 22 and want it to stay as it is. Mr. Burrus of the APWU explained the benefit to postal workers:

> Postal management will gain access to billions of dollars through the release of the Civil Service Retirement System (CSRS) escrow account that was established in 2003, and from the return of responsibility for the military retirement obligations of postal employees to the Treasury. These changes would weaken management's attempts to cry 'broke' during contract negotiations.[24]

Similarly, NALC warned that continuing to charge the Postal Service for the extra pension costs due to its granting of military credits is "another way to starve USPS of resources to pay for better wages and benefits."[25] William Young, NALC's President, said his union would have "no choice but to actively oppose passage" unless it got its way on pension issues, a weak rate cap, and other matters.[26]

Who is right? As discussed more fully in earlier IRET studies, one of the Administration's arguments is compelling.[27] While the Postal Service is in unexpectedly good shape regarding retiree pensions, its retiree health care funding is in terrible shape. It would be financially responsible and put the Service on a much more stable long-run footing if every penny saved due to lower pension liabilities (i.e., the escrow account money) is devoted to paying down the Service's unfunded retiree health care liabilities. The unions' thoughts about how to spend the money lend credence to another Administration concern, which is that handing some of the money to the Service without strings while gigantic unfunded liabilities are outstanding would erode financial discipline, thereby undercutting an important reform goal.[28]

With respect to military credits, the issue is complicated and murky. Both sides make cogent arguments.[29] Without attempting to resolve the issue here, a point can be made on behalf of financial responsibility and discipline. If the Postal Service is relieved of any of the military credit liability, it should be required to use the resulting savings to pay down its unfunded liabilities before being allowed to employ the funds in any other way. Such language is not in H.R. 22 and is contrary to what the postal unions advocate.

Modify binding arbitration

Because postal workers are federal-government employees and the Postal Service is a government enterprise with a statutory monopoly in its vital core market, postal employees are not allowed to strike. However, they are permitted to engage in collective bargaining. When the Service and one of its unions cannot reach a collective bargaining agreement, the wage, benefit, and work-rule issues in question are taken out of the Postal Service's hands and go to binding arbitration. The Postal Service contends that the present arbitration mechanism, which limits its ability to stand up to what it sometimes regards as overly expensive labor demands, is one reason why the agency has so much trouble controlling its labor costs.

Wages and benefits per postal-employee workyear averaged $65,636 in 2005.[30] Although the law says that postal employees should receive wages and benefits comparable to what they could earn in the private sector,[31] the majority of economic studies examining the issue have concluded that a postal pay premium of 20% - 25% exists if just wages are counted and about 35% if the Service's very generous benefits are also included.[32, 33] This is an average, of course, and does not apply to all postal workers.[34] Above-market wages and benefits help explain why such a large portion of the Postal Service's total costs are labor related. The postal pay premium implies billions of dollars annually in above-market labor costs, which are passed on to mail users in higher postage rates (several cents on every letter).

During the summer, Mr. Burrus of the APWU reported, with strong disapproval, that the Administration and mailers wanted to add a provision to H.R. 22 that would modify the binding arbitration process. The provision would instruct arbitrators to consider, as one of the factors they use in reaching their decisions, the financial impact on the Postal Service.[35] The NALC also opposed the proposal, which it blamed on the White House, and claimed it would result in "tilting the interest arbitration process in favor of postal management..."[36]

In fact, the provision would not prevent arbitrators from awarding pay and benefit increases they believe are justified. However, it might cause arbitrators to think harder before ordering large increases that would strain the mail service financially. The main effect would not be to cut wages and benefits, but only to moderate their rates of increase. That would be a very mild and gradual adjustment compared to what many workers at private-sector businesses with high labor costs are experiencing, namely, actual cutbacks in compensation (mainly in benefits) and sometimes layoffs.[37]

The proposed addition to the arbitration process would be a highly desirable reform, and would be especially valuable in the context of rate-cap regulation. It would make rate-cap regulation more workable because it would reduce the odds that arbitrators would order excessive wage and benefit increases that would either push the Postal Service deeply into the red or force the rate cap to be broken. Labor costs are such a large fraction of the Service's total expenses that an out-of-line arbitration award can rock the agency financially.

In 2005, the Postal Service announced its opposition to the House and Senate bills – much to the surprise and consternation of members of Congress who had been working on the legislation for many years with, they thought, the Postal Service's support.[38] One of the Service's objections is the possible clash between a rate cap that is indexed to inflation and wages and some benefits that are often set by arbitrators.[39] Although the Postal Service might still oppose H.R. 22 for different reasons, its wariness regarding a strong rate cap should be greatly eased if the House and Senate agreed to modify the arbitration process.

The workers' compensation provision

Although smaller in magnitude than the issues discussed above, a few words should be said about the item that NALC found so objectionable. The provision would bring workers' compensation at the Postal Service more into line with what is common in the private sector by establishing a short waiting period before injuries would qualify for coverage. Like a deductible on automobile insurance, a short waiting period for this type of insurance significantly reduces paperwork costs, avoids a category of claims that are hard to monitor effectively for fraud and abuse, and concentrates coverage on larger injuries for which insurance protection is more important.

The bipartisan Presidential Commission concluded that the Postal Service's workers' compensation program is seriously flawed and recommended several reforms, including this one.[40] The Commission noted that the Service had accumulated a $6.5 billion unfunded liability for workers' compensation benefits (since risen to $7.5 billion).[41] Senators Susan Collins (R-ME) and Thomas Carper (D-DE) recognized the desirability of reform in this area and included two modest changes in the Senate version of H.R. 22. It does not auger well for reform that this very reasonable and small reform proposal elicited such a ferocious union response, especially because the Senators had agreed to drop the other workers' compensation reform in an effort to win union support.

Union demands are so important because labor costs are so large

Why emphasize unions and their demands? They are by no means the only group that want a say on Postal Service matters. For example, commercial mailers have expressed a preference for some legislative provisions over others, and, when the Postal Service operates in competitive markets, the private-sector businesses against which the Service competes also have concerns.[42] The answer is that labor-related costs are the Postal Service's dominant expense. As mentioned earlier, labor-related costs are four times larger than all the agency's other expenses *combined*. Hence, labor costs have a huge impact on whether the Postal Service is financially viable and can efficiently and economically perform its government-assigned mission. In addition, postal unions have tremendous political clout and are not bashful about using it.

Conflicts between short run and long run union objectives

If one looks only at the short run, militancy can be an attractive strategy: get as much as you can while you can. That may be good for older workers with considerable seniority and not many years left to work. In the long run, however, it is costly for many younger union members and potential members because it means fewer jobs for them.

When employers are burdened by unusually high wages and benefits and restrictive work rules, they have an incentive to buy more inputs from outside suppliers and to substitute capital for high-priced labor. They also tend to grow more slowly than other firms and sometimes have difficulty staying in business. As a result of these responses, their workforces become smaller than otherwise over time. One of the most visible examples is found in the automobile industry, where the number of unionized workers has declined dramatically and continues to plummet. In a recent paper, Charles Guy, former Director, Office of Economics, Strategic Planning, U.S. Postal Service, urges postal workers to be mindful of the Detroit lesson before it is too late.[43]

At the Postal Service, for instance, the APWU rails against worksharing (discounts mailers receive discounts if they help with certain preliminary mail processing). Ironically, however, the union's confrontational style on pay and workplace issues is one of worksharing's best friends. It increases the appeal of having mailers' workers do more and the Service's workers do less.

With regard to legislation, the more successful the unions are today in blocking labor-cost reforms, the more postal jobs will be lost in the future to increased worksharing and outsourcing. Further, if problems are allowed to build, people may become more willing to consider ideas that currently do not have much political support, such as privatization.

Special interests and the public interest often coincide – within limits

Because this paper has discussed several cases in which union objectives clash with the public interest, it should be made clear that union objectives and the public interest are in harmony up to a point. Consider this in the context of postal workers' pay packages.

Postal customers will always want to see lower postal wages and mailing charges. Postal workers will always want to see higher postal wages and mailing charges. In fact, the economy is best served if postal compensation is neither too low nor too high, or, as Goldilocks would say, "Just right." Only by valuing postal workers' efforts properly can the economy arrive at an efficient allocation of resources.

What is "Just right?" Postal workers should receive a pay package that is competitive with what they could earn in the private sector, which is to say, a market wage. Pay comparability would allow mail services to be priced efficiently relative to other goods and services. Proper pricing would encourage customers to use the right amount of mail services, while allowing the Postal Service to attract and retain the workers it needs to deliver that level of services. Too low a compensation package would lead to an excessive demand for postal services and less demand for other goods and services in the economy, while causing workers to avoid Postal Service jobs, making the demand hard to meet. Too high a compensation package leads to underutilization of postal services and too much consumption of alternative goods and services.

Conclusion

On several issues, postal unions, to varying degrees, have taken positions that are at odds with an efficient, economical, and financially disciplined

Postal Service. This paper has discussed three of those issues: whether to have a postal rate cap that really is a cap, how to use savings from the recent recalculation of the Postal Service's pension liabilities, and whether to modify binding arbitration.

The positions that postal unions have taken, in combination with their political power, largely explain why the last major Postal Service reform legislation was enacted in 1970.

The path of least political resistance would be to accede to most or all union demands, and enact a bill that would be "reform" mainly in name. However, mail users, taxpayers, and the overall U.S. economy would be much better served by a bill that delivers real Postal Service reform.

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This is another of 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 civilian workforce — and its efforts over the years to expand.

Endnotes

1. For the bipartisan committee's report, see 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. See U.S. Department of the Treasury, Office of Public Affairs, "Bush Administration Announces Principles For Postal Reform," JS-1044, December 8, 2003, accessed at http://www.treas.gov/press/releases/js1044.htm.

3. An earlier IRET study examined the changes the Administration sought and concluded that most of them would be definite improvements. See Michael Schuyler, "Administration Seeks To Uphold Five Principles Of Postal Service Reform," *IRET Congressional Advisory*, No. 193, August 31, 2005, available at ftp://ftp.iret.org/pub/ADVS-193.PDF. The Administration put its concerns in writing in 2004 and 2005. See Executive Office of The President, Office of Management and Budget, "Statement Of Administration Policy; H.R. 22 - Postal Accountability and Enhancement Act," July 26, 2005, accessed on the Internet at http://www.whitehouse.gov/omb/legislative/sap/109-1/hr22sap-h.pdf; and an Administration document titled "Postal Reform," given to members of Congress working on Postal Service legislation, posted by Postcom on Nov. 18, 2004, originally accessed on the Internet at http://www.postcom.org/public/reform/WH.PDF.

4. See National Association of Postal Supervisors, "Postal Reform Compromise Falters, As Congress Heads Home," *National Association of Postal Supervisors Legislative Update*, September 30, 2006, accessed at http://www.postcom.org/public/2006/NAPS%20Legislative%20Update%20-%20Sept_%2030,%202006.htm; and Association for Postal Commerce (PostCom), "Here Is Some Of What's New In The Postal World," entry regarding legislative efforts, dated September 30, 2006, accessed at http://www.postcom.org.

5. See National Association of Postal Supervisors, *Legislative Update, op. cit.* The provision to which NALC objected is H.R. 22 (Senate version), sec. 901.

6. William Burrus, President, American Postal Workers Union, "The Union's Role in Management, Mailer Issues," *Burrus Update*, No. 11-06, Aug. 28, 2006, accessed at http://apwu.org/news/burrus/2006/update11-2006-082806.htm.

7. A number of IRET papers have discussed this issue. See, for example, Michael Schuyler, "Empire Building At The Postal Service," *IRET Policy Bulletin*, No. 87, May 19, 2003, available at ftp://ftp.iret.org/pub/BLTN-87.PDF. Postmaster General Potter deserves credit for trying, with notable success, to fix problems in the Service's core market rather than gazing wistfully at other markets. James Miller, the Chairman of the Service's Board of Governors, also deserves credit. Mr. Miller served with distinction in senior positions in the Reagan Administration, where he demonstrated practicality and a commitment to market principles.

8. Some earlier IRET studies had concluded that the largest gains to mail users and taxpayers would come from giving the Postal Service better tools to control its costs, rather than allowing easier rate increases as in H.R. 22. (For a discussion of why the current rate-setting process does not cause the problems the Postal Service often claims, see Michael Schuyler, "Is The Postal Rate-Setting Process Broken?" *IRET Congressional Advisory*, No. 182, December 8, 2004, available at ftp://ftp.iret.org/pub/ADVS-182.PDF.) Nevertheless, H.R. 22 does have some pro-reform features and would be much improved if it incorporated most of the changes the Administration recommended. (See Schuyler, "Administration Seeks To Uphold Five Principles Of Postal Service Reform," *op. cit.*)

9. H.R. 22 (Senate version), sec. 201.

10. William Burrus, President, APWU, "Anti-Labor Provisions Threaten Postal 'Reform'," *Burrus Update*, No. 09-06, July 19, 2006, accessed at http://www.apwu.org/news/burrus/2006/update09-2006-071906.htm.

11. William Burrus, President, APWU, "Victory Elusive in Postal 'Reform'," *Burrus Update*, No. 08-06, June 28, 2006, accessed at http://www.apwu.org/news/burrus/2006/update08-2006-062706.htm.

12. National Association of Letter Carriers, National Rural Letter Carriers' Association, National Postal Mail Handlers Union, National League of Postmasters, National Association of Postal Supervisors, and National Association of Postmasters of the United States, Letter to Rep. Tom Davis, Chairman, House Committee on Government Reform, July 12, 2006, accessed at http://www.naps.org/Legislative_News/Exigency-Ltr-to-Davis_07-12-06.pdf#search=%22%22pressure%20from%20certain%20mailing%22%22.

13. H.R. 22 (House version), sec. 201.

14. *Ibid.*

15. National Association of Letter Carriers, "White House, Mailers Sabotage Postal Reform," *Postal Record*, August 2006, p. 3, accessed at http://nalc.org/news/precord/ArticlesPDF/08-06-postalreform.pdf.

16. National Association of Letter Carriers, "Postal Reform In Jeopardy!" *NALC Bulletin*, July 14, 2006, accessed at http://www.nalc.org/news/bulletin/PDF2005/bull06-12.pdf#search=%22%22NALC%20Blood%20Drive%22%20jeopardy!%22.

17. The Service reported that labor's share was 79.1% in 2005. See U.S. Postal Service, *Annual Report, 2005*, p. 23, accessed at http://www.usps.com/history/anrpt05/usps_ar05.pdf.

18. For example, if inflation is 3% and productivity growth is 1%, the Postal Service could afford to increase wages and benefits by 4% and still live within an inflation-based product price cap of 3%. To be sure, non-labor costs could place a strain on a rate cap if they persistently increased faster than the inflation rate. However, they are relatively much less important at the Postal Service than labor costs because they only amount to about 20% of the agency's total costs.

19. As a simplified example that ignores taxes, uncertainty, and multi-year pensions, suppose an employer promises to pay an employee $1,000 at the end of 25 years. If the employer wants to pre-fund the obligation by putting aside a certain fixed amount at the start of each of the 25 years, how much would the employer need to contribute yearly? The answer hinges on the interest rate. If the interest rate is 5%, for example, each of the employer's yearly contributions would need to be $19.95. However, if the interest rate is 12%, for example, the employer's needed yearly contributions would drop by two-thirds, to $6.70.

20. Postal Civil Service Retirement System Funding Reform Act of 2003 (P.L. 108-18).

21. For the estimate of the cumulative saving, see Timothy S. Bitsberger, Assistant Secretary for Financial Markets, U.S. Department of the Treasury, "On Reform of the United States Postal Service," Testimony before the Committee

on Homeland Security and Governmental Affairs, United States Senate, April 14, 2005, accessed at http://hsgac.senate.gov/_files/Treasury041405TBpostalreform.pdf.

22. In 2005, the government estimated the Service's unfunded post-retirement health care liability had grown to $64 billion in present value terms. (See Bitsberger, "On Reform of the United States Postal Service," *op. cit.*)

23. H.R. 22 (House version), sec. 901-905, and H.R. 22 (Senate version), sec. 801-805.

24. Burrus, "Victory Elusive in Postal 'Reform'," *op. cit*.

25. NALC, "White House, Mailers Sabotage Postal Reform," *op. cit.*

26. See William H. Young, "Bush Administration's Demands Could Destroy Postal Reform," *NALC E-Activist Network*, undated but accessed on September 27, 2006, at http://www.unionvoice.org/nalc/notice-description.tcl?newsletter_id=1575891.

27. See Schuyler, "Administration Seeks To Uphold Five Principles Of Postal Service Reform," *op. cit.*; and Michael Schuyler, "Would Proposed Postal Service Legislation Help Bring Down Costs?" *IRET Congressional Advisory*, No. 175, June 8, 2004, available at ftp://ftp.iret.org/pub/ADVS-175.PDF.

28. By itself, the argument about the federal budget deficit would not be persuasive. The Postal Service is supposed to be self-supporting, but it is not intended to be a government revenue raiser. The budget test for Postal Service legislation, therefore, should be whether it is consistent with a self-financing Postal Service, not how it would affect the federal budget deficit. Based on the financial self-sufficiency test, the escrow money should be used to reduce the agency's unfunded obligations. However, if in the future all obligations are fully funded, the Service should then be allowed to use the escrow money for other purposes, regardless of how it would affect the federal budget deficit.

29. For a sketch of some of the arguments, see Schuyler, "Would Proposed Postal Service Legislation Help Bring Down Costs?" *op. cit.*, pp. 5-6.

30. Richard G. Loutsch, Acting Manager of Financial Forecasting, U.S. Postal Service, "Direct Testimony of Richard G. Loutsch on Behalf of United States Postal Service (USPS-T-6)," Before the Postal Rate Commission, Docket No. R2006–1, May 3, 2005, accessed at http://www.prc.gov/docs/48/48671/Loutsch_USPS-T-6_FINAL.pdf.

31. Postal Reorganization Act of 1970, P.L. 91-375, sec. 101(c) and 1001(a), Aug. 12, 1970.

32. An earlier IRET paper provided an overview of these pay-comparability studies and discussed the finding by most of them that a substantial postal pay premium exists. See Michael Schuyler, "The Postal Wage Premium: No Wonder The Postal Service Loses Money," *IRET Congressional Advisory*, No. 131, July 24, 2002, available at ftp://ftp.iret.org/pub/ADVS-131.PDF.

33. Using data compiled by the U.S. Bureau of Economic Analysis, Chris Edwards of the Cato Institute discovered that wages and benefits throughout the federal government are high. (See Chris Edwards, "Federal Pay Outpaces Private-Sector Pay," *Tax & Budget Bulletin*, No. 35, Cato Institute, May 2006, accessed at http://www.cato.org/pubs/tbb/tbb-0605-35.pdf.) Is the federal government paying lavish and wasteful compensation to its non-postal employees at the expense of hardworking taxpayers, or are non-postal federal workers' high wages and benefits justified by their skill levels? In-depth studies of the non-postal federal sector, like those that examined postal compensation and took careful account of postal workers' human capital, could help answer those questions.

34. For example, postal employees in high cost-of-living regions, with in-demand technical skills, or with valuable executive skills often could earn more in the private sector, which leads to hiring and retention problems for the Service in those areas.

35. Burrus, "Anti-Labor Provisions Threaten Postal 'Reform'," *op. cit.*

36. NALC, "Postal Reform In Jeopardy!" *op. cit.*

37. Many reforms have been suggested over the years for narrowing the postal pay premium. An earlier paper in the IRET series examined some of them. See Michael Schuyler, "How To Bring Postal Compensation Into Line With The Private Sector," *IRET Congressional Advisory*, No. 132, August 28, 2002, available at ftp://ftp.iret.org/pub/ADVS-132.PDF.

38. See U.S. Postal Service, Board of Governors, Letter to Representative Tom Davis, September 13, 2005, accessed at http://www.postcom.org/public/reform/BoG%20Letter%20091305.pdf. The Service reiterated its opposition in early 2006. See U.S. Postal Service, Board of Governors, Letter to Senator Susan M. Collins, January 24, 2006, accessed at http://www.apwu.org/postalreform/boglettertosencollins012406.pdf.

39. The Service's main objection is that while the House and Senate bills would loosen rate regulation, which the Service wants, they would broaden the regulator's responsibilities in non-rate areas. For a fuller discussion and evaluation of the Postal Service's position, see Michael Schuyler, "Disappointing News (In A Hand-Delivered Letter) From The Postal Service," *IRET Congressional Advisory*, No. 194, October 20, 2005, available at ftp://ftp.iret.org/pub/ADVS-194.PDF.

40. President's Postal Commission, *Embracing The Future; Making The Tough Choices To Preserve Universal Mail Service*, *op. cit.*, pp. 133-134. Because the Postal Service is part of the federal government, postal workers receive workers' compensation under the Federal Employees' Compensation Act (FECA).

41. *Ibid.*, and Postal Service, *Annual Report, 2005*, p. 26.

42. Realistically, of course, not every member within a group has exactly the same agenda. For instance, letter carrier unions are not too upset with worksharing. Due to the Service's tight monopoly on last-mile delivery, carriers deliver mail whether it has been workshared or not. Further, because worksharing leads to higher mail volume, it may mean more job openings for mail carriers. In contrast, the APWU, whose membership is involved in earlier production stages, is highly critical of worksharing.

43. Charles Guy, "Postal Service Could Learn A Lot From GM," Lexington Institute, *Issue Brief*, September 25, 2006, accessed at http://lexingtoninstitute.org/992.shtml.
