

UNDERSTANDING POSTAL PRIVATIZATION:
CORPORATIONS, UNIONS AND "THE PUBLIC INTEREST"

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Introduction: Corporations, Unions and Privatization

In August of 1998, more than half a million workers, including teachers, port workers and bus drivers in Puerto Rico staged a two day general strike and militant street demonstrations to protest the proposed privatization of the nation's public phone company through a sale to the U.S.-based General Telephone and Electric (GTE). The island nation's residents labeled the sale "the ultimate privatization," and more than 70 percent opposed it. While the workers defied many observers' expectations by giving up two days of pay for "a dial tone and a monthly bill," the sale itself also defied popular stereotypes about privatization.

Puerto Rico's phone company was modern, not a colonial relic. It was profitable, bringing millions into government accounts. Puerto Ricans had nationalized and modernized phone service during the 1970s and were proud of the results. But Governor Rosello risked public wrath to sell it to a transnational corporation, and he succeeded.

Though U.S. workers are unlikely to strike over the fate of their post office, there are interesting parallels between the Puerto Rican phone case and the current efforts to privatize the United States Postal Service. Like Puerto Rico's phone company, the USPS is successful and modern and produces surpluses. The investment the public has made in research and development of postal technologies has revolutionized mail sorting. Yet corporate and government leaders are advocating contracting most postal operations out to private businesses. In both cases, the privatization will benefit industry, not citizens, and the corporations appear to have the power to push their agenda through legislative bodies.

Unions in both cases find themselves at the center of a huge public policy debate. They are called upon to explain the nature of privatization, which has been represented in

the past as a method of cutting government costs or as a program of right wing ideologues. But these old explanations do not work when the most lucrative government operations are the ones on the table and when mainstream liberal politicians are supporting the change.

Workers certainly see a threat to their wages and working conditions, though, as union organization in the public sector and leverage with political representatives have allowed them to achieve incomes and protections far better than the low-wage employees of private contractors.

Union members are challenged to do something more than defend their wages and conditions in these circumstances: they are challenged to define and defend a “public interest” in their industry and in the nation. Governments, according to 20th Century liberal ideologies, are supposed to defend the public interest by balancing a variety of social interests. Increasingly, though, corporations are defining society’s goals and are making crucial decisions over the public good. There appears to be no strong counterbalance to their influence.

Corporations exist for one reason: to make a profit for their stockholders. It would be unreasonable to expect them to balance social goals, and few would claim that corporate decision making represented a kind of democracy on which a whole society should be based. But when governments consult with and listen primarily to big business interests, can the outcome be balanced and democratic? Can it serve the economic interests of a varied public? How can the interests of workers be protected?

This study examines the question of whose interests are represented by proposals to privatize and restructure the United States Postal Service. It looks at the actions supporters of privatization or commercialization have taken to advance their interests in government and at case studies of private contracts and postal rate restructuring. Based on the conclusions of the previous sections, it suggests ways that postal labor unions might be effective in defending a publicly-run postal service.

Chapter One looks at the history of private business' interest in postal services and at the postal labor unions' development. It examines the relationship of postal privatization to the global interests of transnational capital and shows that privatization is not an attempt to solve an internal USPS crisis.

Chapter Two examines the continuity between the 1970 postal reorganization and current privatization efforts. It examines the corporate interests, rather than the interests of the postal residential customer, that have been pursued through the USPS' formal governance system -- the Board of Governors, and through its informal systems -- the special task forces.

Chapter Three studies recent privatizations of postal mail processing operations, through direct contracting and through rate changes which promote the growth of the private mail sorting industry. It shows the direct benefits to private contractors and the losses to the public sector and to workers that result from the influence of contractors and private industry on postal policy.

Chapter Four examines the response of the postal unions, especially of the American Postal Workers Union, to actual instances of contracting. It looks at union attempts to organize private sector workers into unions and proposes organizational and political strategies that can be advanced by postal unions to broaden the support for public postal services and to defend the incomes and work life quality of postal workers.

Postal privatization provides an important case study to help us understand the realities privatization. While the USPS case may not be relevant to every instance of government contracting or sale of resources, important lessons can be learned from looking at the practices of the country's tenth largest corporation, which happens to belong to its citizens.

The author worked for the USPS for 12 years and was a union steward and local officer of the American Postal Workers Union for nearly all of that time. The recommendations made in this paper are specifically aimed at APWU union activists, local

and national, who find themselves in the middle of this controversy, though they may also have relevance for union members in other areas of public service.

Chapter One:

What Is Driving Postal Privatization?

INTRODUCTION

The mail carries personal messages, political newspapers, books and magazines, advertising, bills, parcels and campaign literature. It has always had an important role in the U.S. economy, and its role has changed constantly over the last two centuries. Over one million Americans are employed in the publicly-owned or private sector mailing industry. As a public institution, the United States Postal Service (USPS) and its predecessor, the Post Office Department, have had to balance often-competing interests. Service has been provided through contracts with private firms and through direct government activity. The rates paid by mail users have reflected both actual costs and political considerations. The current debate over postal privatization is a result of contending political and economic forces in the United States and in the world.

The term "privatization" can refer to several different processes. In countries where factories or natural resource industries have been nationalized, privatization often means the sale of these entire industries to private investors. In the United States, however, "privatization" generally refers to government contracting with private companies for the provision of various services, from garbage collection to schools, rather than providing those services directly through public employees. In the case of the Postal Service, this is the most frequently-advocated form of privatization.

This chapter will look at the political forces and interests currently supporting privatization, or large scale contracting, of postal service. Is the push for privatization coming from an internal motivation? In other words, does the USPS have problems that must be resolved in this manner? Or is privatization more a matter of "pull" rather than "push" -- the changes driven by those who want access to the market?

This chapter will show that the "pull" factor explains the current assault on public ownership of the postal service by politicians, businesses and their advocacy groups and think tanks. The growing influence of transnational corporations (TNCs) and their expansion into the previously-public world postal and package markets provides an explanation for the political coalitions behind privatization.

Over the course of U.S. history, there has been an ongoing debate over what postal services would be provided, whether they would be provided publicly or privately, how workers would be paid or treated, and how benefits and costs would be assigned. Before considering the current debate, it will be useful to briefly review the history of postal service in the U.S. It will also be useful to look at the current status and performance of the USPS as a public institution. This chapter will look at the literature supporting and opposing privatization and will briefly survey international postal privatization efforts. It will show that postal privatization is not a practical response to demands to cut government costs, nor is it an ideological movement. Rather, it reflects the interests of large businesses to enter a huge, previously government monopoly.

U.S. POSTAL HISTORY: PUBLIC AND PRIVATE HERITAGES

Before considering the current initiatives to privatize U.S. postal services, it is useful to review the history of postal services in the United States. Debates in the past show that there have not been extremely clear lines between the public and private sector, and often the infrastructure created by the public has had a private benefit as well. There have long been disagreements over which portions of the service should be provided publicly and which should be contracted or open to competition.

The United States Postal Service (USPS) was created by the Postal Reorganization Act of 1970, which was finally passed through the Congress partially as settlement of the March, 1970 wildcat strike that virtually shut down the nation's postal service. The USPS replaced the old Post Office Department, whose operations were governed directly by

Congress and the President, with a government-owned corporation directed by a Presidentially-appointed Board of Governors.

Postal service has been a responsibility of government since the time before the United States was an independent nation, but there has always been a contentious relationship between the public and private business over the actual provision of services. When British colonial authorities barred journalist William Goddard from distributing his newspaper through the mails, he hired riders and began operating his own postal services that ran from Portsmouth, New Hampshire to Williamsburg, Virginia. The Continental Congress took over control of postal operations in 1775, electing Benjamin Franklin Postmaster General. Franklin had previously served the British crown as a postal official, but had been dismissed for his support of colonial patriots.¹

The early post roads were essential to the development of the country. City delivery to homes existed in only a few urban areas; for the most part, people went to local post offices to pick up their mail. Rates were high, for it was expensive to carry mail over long distances and to sparsely-settled areas. In many parts of the south, slaves were used as riders until a law of 1802 forbade use of any but "free whites" to carry mail. Postmaster Granger feared that "since the more intelligent were used. . . these might gain knowledge which would make them dangerous to the white people."²

By the mid-1840s, private companies had discovered that a profit could be made carrying mail to densely-populated urban areas. More than 40 companies operated in the Boston area alone by 1844, and private carriers handled more mail in New York City than the Post Office Department did. Parcels were not considered mail matter, and letters were often carried by individual riders, stagecoach drivers and railroad employees. The Post Office Department moved to lower and standardize rates in 1845, and a subsequent series

¹ Carl H. Scheele, A Short History Of The Mail Service, Smithsonian Institution Press, Washington, D.C., 1970.

² Wesley Everett Rich, The History of the United States Post Office to the Year 1824, Harvard University Press, Cambridge, 1924.

of court decisions confirmed a government monopoly over the carriage of letter mail, in a series of decisions known as "The Private Express Statutes."³

Before 1855, postage could be collected on the receiving end, but prepaid postage became mandatory after that date. City carriers, however, often collected 1 or 2 cents for each letter delivered because they often had to pay themselves from the receipts. In 1863, the dual system of compensation was abolished, all carriers became federal employees, and free carrier service was begun in 49 cities.⁴

At the turn of the 20th century, free delivery was available to only about 19 million of the 76 million people in the country. Rural people had to travel miles to post offices, which were often in country stores, to receive mail. With support from the newspaper publishers, the first rural free delivery experiment was launched in 1896. Rural carriers were paid \$300 per year and, as today, supplied their own transportation. The service became popular and, by many accounts, broke down the isolation of rural Americans. It also increased demand for products that could be ordered and shipped by mail. RFD was treasured by rural residents and spurred improvements in roads, bridges, and highways, since the Post Office would not offer service where roads were bad. It was even credited by Postmaster General George von L. Meyer with reducing the incidence of insanity in rural areas.⁵

A government-provided Parcel Post was a creature of the Progressive-era reform movement, some of whose leaders pushed for government ownership of railroads, telegraph and telephone lines. Private carriers, who handled parcels at the time, and country retail merchants fought long and hard against proposals in Congress to establish a public parcel post. Rural residents strongly favored a public parcel service, however. They were over half of the country's population and were ill-served by the oligopoly of three private express

³Scheele, *ibid*, p.72

⁴ Carl H. Scheele, Neither snow, nor rain . . . The Story of the United States Mails, Smithsonian Institution Press, Washington, D.C., 1970.

companies -- Wells Fargo, American Express, and Adams Express. The parcel companies had arrangements with the railroads allowing them to attach special cars to trains. During a Congressional debate over government parcel service in 1911, Wells Fargo declared a large dividend to stockholders, and the resulting public outrage at the high profits pushed the reform through. Parcel post service began in 1913, and the mail-order rural market expanded rapidly.⁶ Private parcel carriers remained in business but were unable to compete in the large home delivery market with a public service that took advantage of existing infrastructure. United Parcel Service, a private company which is currently the leading package carrier, began in the early 20th Century by making custom arrangements with department stores in urban markets and expanded from that base.

POSTAL WORKERS AND THEIR UNIONS

In a large and rapidly-growing country, the workers for the expanding Post Office Department became a large constituency. Postal workers began to form labor unions in the 1870s, first joining local Knights of Labor Assemblies or forming city-based associations⁷. Congress had passed an eight hour law for federal employees in 1868 but excluded Post Office workers from the legislation, so postal employees worked through the Knights or other local, often secret, associations to agitate for the eight hour day. They had their first Congressional champion in Congressman Samuel "Sunset" Cox, a Democrat who had represented Ohio and New York during his long career. With Cox's help, the eight hour law was passed for letter carriers in 1888, and the National Association of Letter Carriers, the union that exists today, was formed in 1889.

⁵Remarks by Postmaster Benjamin Bailer, quoted in Kathleen Conkey, The Postal Precipice: Can the U.S. Postal Service Be Saved?, Center for the Study of Responsive Law, Washington, D.C. 1983.

⁶Conkey, *ibid.*, p. 29-30.

⁷see M. Brady Mikusko, Carriers in a Common Cause, National Association of Letter Carriers, Washington, D.C. 1986; John Walsh and Garth Mangum, Labor Struggle in the Post Office, Armonk, N.Y 1992, and Karl Baarslag, History of the National Federation of Post Office Clerks, National Federation of Post Office Clerks, 1945.

Clerks organized their first union, the United National Association of Post Office Clerks, largely regarded as a "company union," in 1894. Clerks participated in other labor movement campaigns on local levels, and in 1900, Chicago clerks requested that the American Federation of Labor charter a union. Soon, the National Federation of Post Office Clerks formed local organizations in many cities. The clerks hoped the legislative committees of the AFL could help them approach Congress for reform, since a Presidential "gag" order, instituted after a 1901 lobbying effort, made it illegal for them to lobby Congress in their own behalf.

Postal union members were often fired for their labor advocacy, and not until the passage of the Lloyd-LaFollette Act in 1912 could they even appeal to Congress to improve their pay or conditions. This modest reform was vigorously opposed by the National Association of Manufacturers. Postal workers pursued their interests primarily through lobbying and never struck or formed industrial unions during the more militant labor struggles of the 1930s. The Wagner Act did not allow government workers to bargain collectively, and President Roosevelt spoke against collective bargaining for government workers, saying "the very nature and purposes of government make it impossible to bind the employer in mutual discussions with employee organizations."⁸

Through the 1950s, postal workers lobbied, demonstrated, and even held prayer services as their wages fell behind inflation and below comparable private sector wages. President Kennedy signed an Executive Order in 1962 that recognized unions' right to bargain for federal workers, except they couldn't bargain wages, hours or benefits, and there was no enforcement mechanism if management would not negotiate. Arbitration was only advisory; strikes were illegal.⁹

But in 1970, postal workers had reached an economic breaking point. With many workers having to "moonlight" to get by, and with Congress voting themselves a pay raise

⁸cited in Murray B. Newbitt, Labor Relations in the Federal Government Service, Bureau of National Affairs, Washington, D.C. 1976, p. 10-11.

while stalling postal wage increases, letter carriers in New York City voted to strike on March 17, 1970. Their picket line was honored by other postal employees and the strike spread to many cities and throughout the country. Effectively, the postal service was shut down for the nation's centers of business and politics.

The strike, centered in New York City, was highly effective. Wall Street's check was truly "in the mail" in those times, and the pressure on the workers, and on business and trade, was extreme. President Nixon sent 25,000 National Guard and army troops, some rolling down the streets of New York in tanks, into post offices to attempt to sort and deliver the mail. They were unsuccessful in breaking the strike, but on March 25, postal union leaders signed a return to work agreement and the workers went back. The strike had won a 6 percent wage increase retroactive to December 1969, with an additional 8 percent upon the enactment of the proposed Postal Reorganization Act. The unions, which had opposed reorganization until that time, became its sponsors. The Act established collective bargaining for wages, hours, and working conditions for the first time, though it outlawed the union shop and strikes. Binding arbitration was instituted to resolve contracts and grievances. Within a few years, postal workers were some of the best paid federal employees.¹⁰

POSTAL REORGANIZATION

The Postal Reorganization Act of 1970 changed the governance of the national postal system. The Act stated that "The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States. . . the Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business

⁹Mikusko, *ibid.*, pp. 54-63.

¹⁰for accounts of the strike, see Carriers in a Common Cause, Labor Struggle in the Post Office, Jeremy Brecher, Strike!, South End Press, 1997, pp. 257-261, Root & Branch, Root & Branch: The Rise of the Workers Movements, pp. 28-39, and Seattle APWU News, Seattle, WA, March 1990, p. 1, 6&7.

correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities."

The legislation went on to say that "As an employer, the Postal Service shall achieve and maintain compensation for its officers and employees comparable to the rates and types of compensation paid in the private sector of the economy of the United States."¹¹ Strikes remained illegal, although otherwise most workers were covered by the provisions of the National Labor Relations Act.

The eleven-member Board of Governors was defined and granted the power to manage the service. The law stated, "Nine of the members, to be known as Governors, shall be appointed by the President, by and with the advice and consent of the Senate, not more than 5 of whom may be adherents of the same political party. . . The Governors shall be chosen to represent the public interest generally, and shall not be representatives of specific interests using the Postal Service."

Labor relations in the postal service have been contentious, according to union officers and political observers, but disputes have not taken the form of work stoppages, with minor exceptions. Conflict is manifested through stalled negotiations, huge backlogs of grievances, thousands of Unfair Labor Practice complaints, and the service's high rate of internecine violence.¹² A brief wildcat strike occurred in the 1970s but succeeded in shutting down only two bulk mail facilities, one in California, and one in New Jersey. Postal workers overwhelmingly sign up for union membership; postal unions have among the highest documented membership rates in any open shop environment; the American Postal Workers Union and the National Association of Letter Carriers, the two largest unions,

¹¹39 U.S.C. Section 101

¹² Vern Baxter, Labor and Politics in the U.S. Postal Service, Plenum Press, New York, 1994 and United States General Accounting Office, U.S. Postal Service: Labor-Management Problems Persist on the Workroom Floor, Washington, D.C. 1994.

claim that over 80% of eligible workers join the union, and 90 percent of career employees are covered by collective bargaining agreements.¹³

USPS AND CONTRACTING: CRISIS DRIVEN?

It would be incorrect to see the Postal Service's contracting and moves toward privatization as being driven by a financial or organizational crisis. In fact, USPS, has a good record of on-time delivery, residential customer satisfaction, and financial performance. Viewed over the long term, the USPS has had this successful record of service provision largely without government subsidy. Also, despite predictions of the "coming collapse of the post office," (Prentiss-Hall published a book by that title in 1975) due to competition from United Parcel Service or due to the increase in electronic messaging, the mail volume has grown steadily since the 1970s.

The Postal Service ranked, by 1996 sales, as the tenth largest US corporation on the Fortune 500 list, with \$56 billion in annual revenue and 38,000 facilities (see Table 1). Mail volume growth through the 1970s and 1980s continues in the electronic age, with 1.5% growth in 1994 and 1996, and 4.1% growth in 1997¹⁴ (see Table 2). The number of employees, despite management and labor predictions alike of downsizing due to automation, remains high. In 1970, 662,467 career (not temporary) employees worked for the Post Office; today, despite a revolution in mail sorting technology, the number of career employees is 765,174.¹⁵ Fortune magazine's December 1996 issue credited the USPS with improving its service more than any other company or agency in America. Audits by Price Waterhouse found on-time delivery in 1997 as 92%.¹⁶

¹³coverage figure from Annual Report of the Postmaster General, 1997, USPS, Washington, D.C.

¹⁴Annual Report of the Postmaster General, 1997, USPS, Washington, D.C. electronic edition available at <http://www.usps.gov>

¹⁵1970 figure from draft testimony by Bill Burrus, APWU Vice President, before the Privatization Committee, 1988., O'Donnell, Schwartz & Anderson, attys. 1997 figures from Annual Report of the Postmaster General, 1997

¹⁶"Can the U.S. Postal Service Market Itself to Success?" Los Angeles Times magazine, 12/22/96

Postal operations produced a \$1.3 billion surplus in 1997, and from 1995-1997 the USPS earned a net \$4.6 billion. This compares with a total \$9 billion in losses in the first 23 years after the reorganization.

Emerging electronic communications technologies threaten to reduce volumes in the future and eventually make some of the mail obsolete. An article in the December 22, 1996 Los Angeles Times predicted the loss of between 8 billion and 30 billion of the 180 billion pieces of mail delivered each year by the year 2000. The steady mail volume growth between 1995 and 1997 shows this has not yet begun to occur, but the Postal Service's own annual report predicts an eventual loss to electronic transmissions.

A study published by the Universal Postal Union (UPU, based in Bern, Switzerland) predicted that the share of physical mail (letters) in the global communication market will drop to 14.5 percent in the year 2005, down from 19.6 percent in 1995, while e-mail will convey 11.6% of all messages (up from 5.2% in 1995).¹⁷

The growth of internet-based product sales, though, has boosted the volume of parcels shipped. "This may sound like a paradox," said Jean-Remi Gratadour, head of new technologies at the Institute for Postal Research and Perspective (IREPP) in Paris, "but advances in information technology, far from undermining direct mail, are stimulating demand for a more efficient distribution system for paper mail and parcels." Catalogue and parcel volumes are rising, with more people ordering merchandise from their homes, via computer or printed catalogue and telephones, and physical distribution is still required. In the parcel area, USPS faces stiff competition from major providers such as United Parcel Service and Federal Express.

The Postal Service managers and the advocates of privatization have long complained about the "over 80%" of postal costs being attributable to wages and benefits of its workforce. While its labor costs are higher than its competitors', the 1997 Annual Report

¹⁷ Bruno Giussani, "Mail, the Old Kind, Still Has Its Followers," Eurobytes, The New York Times electronic edition, July 28, 1997

shows that figure has dropped to 77%. Prices of stamps initially rose faster than inflation during the first years of reorganization but have stayed basically even with consumer prices since the mid-1970s (see Table 3). The current 32 cent first-class stamp is a relative bargain compared with the rest of the industrial world; Japan charges the equivalent of 83 cents, Great Britain 42, and Germany 58.

The Postal Service has continued to invest in research and development, contrary to claims by E.S. Savas, author of Privatization: The Key to Better Government. Savas says that government operations do not do the kind of research and development that private industry does and that "the private sector tends to use more productive and more expensive capital equipment."¹⁸ The USPS has been aggressively investing in development of new technologies for two decades. In fiscal years 1994 and 1995, for example, the USPS invested \$102.4 million in R&D.¹⁹ The postal service began the development of Optical Character Reader (OCR) technology in the 1960s, though the OCR was not used extensively in mail processing until the 1980s. The USPS developed remote video encoding technologies and its plans call for over \$4 billion investment in OCRs, Bar Code Sorters, Delivery Bar Code Sorters, and facer/cancellers for the period from 1987-2005.²⁰ Total capital projects from fiscal 1998-2004 are projected at \$17 billion.²¹

Public perceptions of postal service are positive and have improved in the last decade; there is no large scale public dissatisfaction driving privatization or contracting of postal work. In a 1997-1998 survey, the Pew Research Center for The People & The Press found that 89 percent of respondents rated the Postal Service favorably, topping the scores for all government agencies. The next closest positive score was an 85 percent favorable rating for the National Park Service. The Postal Service's score had jumped 13 points since 1987. By contrast, the Internal Revenue Service scored a 38 percent approval rating, and the

¹⁸Wall Street Journal, 10/2/95, p. R27.

¹⁹Annual Report of the Postmaster General, 1995, USPS, Washington, D.C. p. 30.

²⁰Annual Report of the Postmaster General, 1996, USPS, Washington, D.C. p. 51.

CIA a 51 percent approval rating.²² Independent surveys by Price Waterhouse have shown Customer Satisfaction Index scores in the high 80th percentile to mid 90th percentile (people rating their service as "good" or "very good") since 1990.

There is no financial crisis or public perception crisis driving efforts to privatize or contract out portions of the US mail. From time to time, the conservative think tanks have complained about rates, largely blaming wages, and periodic complaints about bulk mail service arise. When pressured, the Postal Service has responded to such complaints by reorganizing management, adding workers, or altering schedules.

The advocates of reform do not argue a "crisis;" rather, competitors and subcontractors argue "unfair competition." The advocates of privatization want a share of a lucrative, globalizing market and have the political influence to affect government policy on postal issues. In addition to the well-funded efforts of the leading conservative think tanks which will be described later, the service's major private sector competitors are important contributors to political campaigns. United Parcel Service doled out more than \$3.4 million to congressional candidates from 1993 to 1995, more than any other company in America, and Federal Express was third, behind AT&T.²³

SUPPORT FOR, AND OPPOSITION TO PRIVATIZATION

This section will examine the literature produced by supporters and opponents of privatization. Several political constituencies are involved in the debate currently taking place concerning the Postal Service, since many groups have an important interest in the mail that reaches every home and business six days per week. Businesses large and small, non-profit organizations and religious groups, local, state and federal government, and virtually every household use the mail to carry out some or, sometimes, most of their activities.

²¹Annual Report of the Postmaster General, 1997, USPS, Washington, D.C. electronic edition available at <http://www.usps.gov>

²²Stephen Trimble, "Popularity Poll: Agencies Rank Higher," Federal Times, 3/23/98 p. 3.

²³Los Angeles Times magazine, 12/22/96, *ibid*.

Organizations that represent publishers, non-profit mailers, labor unions, and advertising mailers all have almost-permanent lobbying presences on Capitol Hill to attempt to influence postal rates and policies.

The conservative think tanks, most notably The Heritage Foundation, the Cato Institute, and the American Enterprise Institute, have been the most prominent political voices advocating postal privatization. There has also been lobbying by United Parcel Service and Federal Express, the two largest non-governmental mail and parcel companies, to restrict expansion of USPS services and to relax regulations that favor government over private service. If privatization is backed by the middle class or blue collar social conservatives who have tended to vote Republican in the last two decades, they have not made it part of their political campaign priorities. In fact, the opposition to privatization among rural residents pushes in the opposite direction. The important political backing for concrete steps to privatization comes, rather, from the largest corporations in the mailing, publishing, and advertising industries and from contractors (or potential contractors) in the high-tech defense and information sectors, as shown by their political support of think-tank proposals and from their presence on "reform" task forces.

The most significant and best-organized constituency opposing postal privatization is the postal work force, represented by four labor unions which bargain for the over 700,000 hourly workers. The unions fear privatization would mean the loss of secure, living-wage jobs; there is an institutional interest, as well, because postal labor organizations' bargaining relationship and organizational forms have been constructed to conform to the structure of the Postal Service since its 1970 reorganization. The four labor unions that organize the majority of postal workers have no members outside the USPS; therefore, they see their survival as largely dependent on the maintenance of the public system.

PROMOTERS OF PRIVATIZATION

The arguments for privatization have been extremely ideological and, despite considerable municipal, state, and federal experience have seldom called attention to results of case studies or acknowledged the commercial interests of privatization supporters. The literature contains radical statements opposed to government "interference" in market affairs and advocates radical reductions in government and public infrastructure.²⁴

Opposition to unionized work forces is a central feature of privatization literature. For instance, Douglas Adie argues in his 1989 book, Monopoly Mail, "Postal labor unions . . . serve no productive function but enjoy support that is indirectly derived from government subsidies, favors and recognition, In return for this, the unions make implicit threats of violence during illegal postal strikes. . . ." ²⁵ . E.S. Savas, head of the Privatization Research Organization in New York, says "In the public sector, as we all know, it is virtually impossible to get rid of a malperforming employee."²⁶

Why is hostility to unions such a central feature of privatization literature? Most obviously, there is the issue of wages. Since unions tend to enable workers to negotiate higher wages in public or private operations, the wage premium does tend to increase costs or, in private operations, diminish profits.²⁷ Private postal and express operations are often able to establish and to hold wages at levels far below union-negotiated scales and often to hold benefits costs to near-zero (See Table 4). This issue will be explored further in Chapter 3 below. But unions also tend to do something else that is critical in the process of privatization: they have tended, historically, to initiate and defend public ownership in a variety of areas, from Social Security to schools, to unemployment insurance, to

²⁴see E.S. Savas, Privatization : The Key to Better Government Chatham House Pub., 1988 and Douglas K. Adie, Monopoly Mail: Privatizing the U.S. Postal Service, Transaction Publishers, New Brunswick, N.J., 1989.

²⁵Adie, *ibid.* p.1.

²⁶Wall Street Journal, 10/2/95, p. R27. Savas' statement refers to and reflect prejudice against various civil service employment security protections, from Equal Employment Opportunity laws, to Merit Systems Protection Board oversight for veterans, to union contracts with "just cause" provisions, all of which can require a rather lengthy process in firing workers.

²⁷See Richard B. Freeman and James L. Medoff, What Do Unions Do?, Basic Books, New York, 1984.

telecommunications and postal systems.²⁸ They are the primary opponents to postal and telecom deregulation and privatization and have been able to organize effectively on a national scale and within the European Economic Community. With their power constrained and their membership lowered, unions would be less of a political obstacle to the kinds of legislative change that are essential for privatization and for global deregulation that is necessary for the development of private telecom and express markets.

The debate over postal privatization is currently focused on a bill proposed to the 105th Congress: HR 22, The Postal Reform Act of 1997, submitted by Rep. John McHugh (R-NY). McHugh chairs the Subcommittee on the Postal Service of the House Committee on Government Reform and Oversight. HR22 is an appropriate focus for this discussion, because the changes proposed in the legislation closely reflect a growing consensus among private express shippers, bulk mail lobbying groups, and postal officials.

There are no serious legislative efforts, nor have there been during the last decade, to sell the entire postal system to a private company. There is no funded or organized political constituency for such an idea. Rural mail service, some daily household service, and retail counter service are expensive operations that do not bring in net revenue. Most of the proponents of extensive contracting would prefer to leave the expensive parts of the system in public hands, even publicly subsidized, and let private industry profit from the technologically improved, centralized, or concentrated operations that can generate profit. The far more extensive contracting advocated by privatizers would disrupt the economies of scale of the natural monopoly, and the public would have to socialize the high costs of rural delivery if people felt it was important to retain this service. The benefits of high-tech and higher-revenue operations would then be privatized to the contractors.

²⁸See Irving Bernstein, *A Caring Society*, Houghton Mifflin, Boston, 1985; American Social History Project, *Who Built America?*, Pantheon, New York, 1992; Kenneth M. Dolbeare, *The Evolution of the Public Sector in Washington State*, The Evergreen State College Graduate Program in Public Administration, 1988.

THE "THINK TANKS" AND US POSTAL PRIVATIZATION

There have been nearly two decades of political discussion about privatizing the postal service. The leading policy advocates for postal privatization have been The Heritage Foundation, the Cato Institute, and the American Enterprise Institute. Between them, Heritage, AEI, and Cato have produced most of the policy studies and press releases supporting postal privatization and have served to coalesce the interests and political proposals of large mailers and contractors alike. Opposition to privatization is voiced by the labor-supported Economic Policy Institute and by labor-connected policy organizations, such as the AFL-CIO's Human Resources Development Institute and its Public Employee Department. The "moderate" Progressive Policy Institute, the organization closest to President Clinton and the Democratic Leadership Caucus, states opposition to "privatization" but supports "reinventing government," "entrepreneurial government," and large scale contracting of government and postal services.

Heritage, AEI, and Cato have grown in influence, funding, and staff since the 1970s, when politically active conservatives, distrusting the research and policy work done at universities, argued that business would have to become more ideological and focus on influencing political action.²⁹ The American Enterprise Institute was formed in 1943 but lacked significant influence until the mid-1970s, when it began to mass mail op-ed pieces to local newspapers, circumventing the Washington "elite" press corps. Heritage was founded in 1973; Cato in 1977.

The foundations receive most of their money from large corporations. AEI drew 51% of its 1985 \$12 million budget from corporate donations. Significantly for postal contracting, as will be shown later, corporations with roots in the defense industry, but currently expanding their non-military contracts with government, are significant sponsors

²⁹See Thomas Byrne Edsall, *The New Politics of Inequality*, W. W. Norton, New York & London, 1984; Kevin Phillips, *The Politics of Rich and Poor*, Random House, New York, 1990. Sally Covington, "How Conservative Philanthropies and Think Tanks Transform US Policy,"

of AEI and Heritage. Reader's Digest Association, a major mailer and corporate member of numerous postal advisory committees, substantially funds Heritage, and Reader's Digest CEO James P. Schadt is on the Board of Trustees of AEI.³⁰ AEI's staff includes Robert Bork, Dinesh D'Souza, Irving Kristol, Gerald R. Ford and Jeane Kirkpatrick. Many of former President Ronald Reagan's cabinet members, appointees and advisors came from Heritage and AEI, and the Heritage Foundation's 1000- page book, "Mandate for Leadership," came to be known as "the bible of the Reagan Revolution."³¹

AEI published a study of the Private Express Statutes as early as 1974, arguing that there was no economic justification for the public monopolies and that entrepreneurial innovation was being stifled.³² The institute also published a study of postal wages in 1977.³³ Heritage's 1981 Mandate for Leadership advocated a general approach to introducing competition into markets under postal monopoly. The principles laid out in this early work still continue to guide the conservative agenda for postal privatization.³⁴ The book's chapter on the Postal Service was authored by James I. Campbell, Jr., who is identified as former counsel to DHL Corporation. DHL is a globally operating express, courier, and trucking company that has challenged public postal monopolies in many

Covert Action Quarterly, Winter, 1998 and Gregg Easterbrook, "Ideas Move Nations," The Atlantic Monthly, January, 1986.

³⁰Easterbrook, *ibid.*, and J. Gregory Sidak and Daniel F. Spulber, Protecting Competition from the Postal Monopoly, AEI Press, Washington D.C., 1996.

³¹Roxanne Roberts, "The Heritage Foundation's Solid Footing," Washington Post Thursday, December 11, 1997; Page C01

³²John Haldi and Joseph F. Johnston, Jr, Postal Monopoly: An assessment of the Private Express Statutes, American Enterprise Institute for Public Policy and Research, Washington, D.C. 1974.

³³"Privatization: Toward More Effective Government," Report of the President's Commission on Privatization, March 1988, p. 127.

³⁴Charles L. Heatherly, , ed., Mandate for Leadership: Policy Management in a Conservative Administration, Chapter 25, "United States Postal Service & Postal Rate Commission," The Heritage Foundation, Washington, D.C. 1981.

countries.³⁵ Campbell later testified at the House of Representatives, Subcommittee on the Postal Service hearings in 1995 as counsel to Federal Express Corporation.³⁶

First, Campbell argued that postal wages and benefits were too expensive and laid the blame on the collective bargaining system begun after the 1970 postal strike and passage of the 1970 Postal Reorganization Act. The author quotes AEI's Douglas Adie in his claim that postal workers "earn in excess of 40% higher wages than the average American." Second, the author complained that because of these excessive wages, postal prices had risen far beyond inflation and that there was no built-in incentive for the Postal Service to control costs.³⁷ Campbell also claimed the postal monopoly over the carriage of letters was being expanded and the Postal Service was venturing into areas where it "didn't belong," like electronic communications.

The report recommended that then-President Reagan "keep his distance" from the Postal Service and not attempt to "re-politicize" it or regulate it, but use competition to achieve change. The three strategies preferred by the foundation were 1) construing the postal monopoly very narrowly, so that other carriers could compete, 2) appointing members to the Postal Rate Commission and Board of Governors who share the conservative agenda, and 3) restrict the Postal Service from expanding the scope of its operations.

The Heritage report warns of the reaction of Americans who support and depend upon universal service and uniform rates, though the authors fail to see "why a uniform first-class mail rate is in the national interest." The report also cautions that rural political constituents, fervent in their attachment to universal service, should not be provoked by

³⁵Dr. W. Geoffrey Hamilton, "Growing Competition from the Private Express Companies and the Threat to Postal Service -- A Profile of DHL," *PTTI Studies*, Geneva, Switzerland, 1988.

³⁶Hearings before the Subcommittee on the Postal Service of the Committee on Government Reform and Oversight, House of Representatives, 104th Congress, First Session. US GPO, Washington, D.C. 1997, p. III and p. 547.

³⁷Many factors contributing to postal prices' above-inflation growth. Campbell takes as his starting point the 1970 wages and prices. Before 1971, the Postal Service paid below private sector wages, was badly in need of facilities and equipment modernization, and received subsidies from the federal budget.

policies that damage rural service. The report recommends that rural service be directly subsidized through general federal funds rather than provided for through the functional cross-subsidization of postal operations.

The Cato Institute published The Last Dinosaur: The U.S. Postal Service, by James Bovard, in 1985. Bovard repeats the Heritage/AEI theme that "postage rates are skyrocketing because postal wages have long been out of control" and argued that "The ideal solution is to open the floodgates to private competition."³⁸

By 1988, the Bush administration had created the "President's Commission on Privatization," which held hearings on privatizing the postal service and recommended repeal of the private express statutes through a phased-in method and exploration of the possibilities for private ownership of the USPS. The Commission advocated immediate removal of the private express restrictions on third class, urgent, and rural mail (making no immediate suggestion as to how rural mail would be provided for) and called for immediate repeal of the existing prohibition of private companies' use of letter mail boxes. Further, it recommended that the USPS "more actively pursue contracting out opportunities in all its functions, and should focus special attention on retail, delivery and sorting functions."³⁹ The language and recommendations in the report echoed the think tank proposals. The Commission, however, admitted that "opinion polls show the public at large is fairly satisfied" and that the public seemed to fear that any proposed changes would likely be for the worse. They argued that major mailers' dissatisfaction with rates was more important because "while the consuming public may be relatively satisfied with postal services, it is important to keep in mind that more than 92 percent of all mail either originates from or is destined for business and only 17.5 percent of mail originates from households. The consuming public is a minor customer of the USPS, and postage is usually a minor

After 1970, in addition to wages, mechanization, modernization, and a mission to break even contributed to cost growth.

³⁸James Bovard, The Last Dinosaur: The U.S. Postal Service, Policy Analysis No. 47, Cato Institute, Washington, D.C. 1985.

component of a given household's budget. However, for business mailers, postage can be a fairly high proportion of the budget, and high-quality service can be critical."⁴⁰

The proposed 1988 reforms, however, were not well developed or seriously pushed and failed to materialize. In fact, throughout the 1980s, no legislation to repeal the Private Express Statutes made it out of Congressional committees. The only time such legislation made it to the floor was in 1975-76, and it was overwhelmingly defeated in 82 to 6 Senate, 319 to 68 House votes. In 1989, Douglas K. Adie of the Cato Institute called for a deregulation and privatization of the USPS that would take methods from the 1980s AT&T breakup, creating seven separate regionally-based corporations supervised by a "postal investment corporation."⁴¹ Adie characterized the Postal Service as "a welfare system within which first class, urban, and some business mailers subsidize other classes of mail, rural mailers and homeowners (sic)."⁴² His "breakup" proposal received no independent corporate nor much legislative support. Instead, privatization efforts were shifted toward contracting and creating opportunities for national-level competition.

A more concrete think tank/administration strategy began to emerge in 1989-90. The third volume of Heritage's Mandate for Leadership repeated general recommendations from the previous volume but warned that "a White House suggestion to repeal the Private Express Statutes, however, is sure to mobilize opposition and doom all other achievable attempts at postal reform." Instead, Heritage recommended that the Bush administration appoint "reform-minded" officials, appoint a presidential commission to review performance, strengthen the administration by the Board of Governors by giving it an independent full-time staff, establish a two tier wage scale and work rule changes, experiment with use of private carriers in rural areas, loosen restrictions on urgent and

³⁹"Privatization: Toward More Effective Government," Report of the President's Commission on Privatization, March 1988, pp. 116-122.

⁴⁰ibid., p. 113. In adding the percentages, keep in mind that most of the household-originating mail (bills, etc.) is destined for business so is also included in the 92 percent figure.

⁴¹Douglas K. Adie, Monopoly Mail: Privatizing the U.S. Postal Service, Transaction Publishers, New Brunswick, N.J., 1989.

⁴²ibid., p. 96

advertising mail, expand contracting out, create an independent monitoring system, keep the Postal Service on the federal budget, and prohibit USPS from developing new markets and new products.⁴³ The Bush administration and the postal administration were able to implement the two-tier wage, the independent monitoring system (by Price Waterhouse) and the expansion of contracting out work.

DEMOCRATIC PARTY AND ADMINISTRATION

The Democratic Party and the Clinton administration formally oppose privatization of the USPS yet support large scale contracting of its functions. In an address to the 1996 convention of the American Postal Workers Union, First Lady Hillary Clinton promised that "the President will not allow the Postal Service to be privatized," but the Clinton administration has followed the path laid out by Republican administrations and has not put forth an alternative vision for the Postal Service.⁴⁴ Before the 1992 election, Clinton's think tank, The Progressive Policy Institute, called for the new administration to "inject further competition into the delivery of federal services, such as those provided by the General Service Administration, the Postal Service, Amtrak, the military, and the Coast Guard." The PPI urged the Postal service to "use competition to improve" the agency. "Some postal functions -- management of post offices, sorting facilities, even local mail delivery -- could be contracted out on a competitive basis," they said.⁴⁵ Both the President and Vice President adopted the term "reinventing government," taking ideas and political arguments from David Osborne and Ted Gaebler's 1992 book of that title. While Osborne and Gaebler did not

⁴³Charles L. Heatherly and Burton Yale Pines, eds., Mandate for Leadership III: Policy Strategies for the 1990s, The Heritage Foundation, Washington, D.C., 1989, pp. 379-397.

⁴⁴Hilary Clinton, remarks to the 1996 National Convention, American Postal Workers Union, Los Angeles, CA, August 23, 1996. Quoted from 13th Biennial Convention Proceedings, American Postal Workers Union, Washington, D.C. 1998, p. 194.

⁴⁵Progressive Policy Institute, Mandate for Change, Berkley Books, New York, 1993.

focus on the Postal Service in their recommendations, they criticized its monopoly and high labor costs and implied solutions similar to Heritage's and Cato's.⁴⁶

LABOR AND LIBERAL OPPOSITION

The labor and liberal arguments against privatization have shied away from ideological statements about the obligations of government and have tended to concentrate on issues of costs, impact on workers, and service quality. The studies and papers sponsored by prominent labor and labor-supported groups have examined and challenged assertions that privatization saves public money and results in better service quality. The studies have not, however, looked at privatization and government contracting as an industry strategy and have not examined large-scale contracting over time. They have tended to look at many different cases of contracting on a local, state and federal level and have identified the push for privatization and contracting out as coming from government, not from private industry. These assumptions can be misleading; they tend to focus all opposition energy on answering conservative arguments and proving that privatization produces higher costs. The result is that unions do not pay much attention to the political and economic strategies and material interests of corporations that go after contracts.

An example of union literature that identifies privatization as a cost-cutting or ideological strategy is the AFL-CIO Public Employee Department publication, The Human Costs of Contracting Out: A Survival Guide for Public Employees and its predecessor, America: Not For Sale. In the Preface, Public Employee Department President Al Bilik and Secretary-Treasurer John Leyden stated that unions all over the country heard "the same sad story of a budget crunch or a right-wing politician which resulted in the contracting out to lower paid employees and poorer services." They explained that "contracting out

⁴⁶David Osborne and Ted Gaebler, Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector. Addison-Wesley Publishing, Reading, Massachusetts, 1992, pp. 82, 85.

provides government officials with a quick way to make the budget balance--even if down the road it ends up costing more."⁴⁷

The Public Employee Department literature includes case studies of contracting and its negative impact on wages and service levels. It counterposes labor/management cooperation in the public sector to contracting as a way to improve service and achieve costs savings.

Literature by postal labor unions generally presents a vision of a fragmented, small-business postal market under privatization, in which many different companies compete to deliver mail to homes. The American Postal Workers Union publishes no comprehensive studies on privatization. The National Association of Letter Carriers, in their 1988 pamphlet, The Case Against Privatization, argues for the efficiency of the regulated monopoly under public ownership but does not identify any specific parties who support or would profit from privatization. The argument in the pamphlet is directed against privatization through employee ownership of the USPS.⁴⁸ The American Postal Workers Union, recently faced with the contracting of large portions of its traditional work to Emery Airlines, has shifted its rhetoric to oppose "big corporations" but has not addressed the governance methods and policies of the USPS which favor those corporations.⁴⁹

The Economic Policy Institute, a labor-supported liberal think tank, has issued several pamphlets on privatization. Their studies have tended to assume that cost-cutting and right wing ideologies are the primary motivations for the push to privatize. The Institute published Princeton Professor Paul Starr's paper, "The Limits of Privatization" in 1988. Starr identifies privatization with "right wing simplifications" and argues for a "pragmatic public policy" that "must recognize where private alternatives might work better, and, by the

⁴⁷Krista Schneider, The Human Costs of Contracting Out: A Survival Guide for Public Employees, Public Employee Department, AFL-CIO, Washington, D.C. 1993, p. 3.

⁴⁸National Association of Letter Carriers, The Case Against Privatization, Washington, D.C. 1988.

⁴⁹American Postal Workers Union, leaflet for May 27, 1998 rallies against HR 22, APWU, Washington, D.C. 1998.

same token, where new forms of public provision may ameliorate endemic shortcomings of the market." Starr is ambivalent about privatization and, without citing specific studies or data, suggests that "the rationale for the postal system as a public enterprise may be an anachronism 25 or 35 years from now. . ."He suggests that "we might well consider selling some of its (USPS) assets, such as downtown distribution centers."⁵⁰

Subsequent publications by the Economic Policy Institute have similarly identified privatization with (unsuccessful) cost cutting and right wing ideologies. The most recent study from EPI, The Privatization of Public Service: Lessons from Case Studies, by Columbia University Professor Elliott Sclar, examines three case studies of municipal and state contracting and concludes that "privatization is not a successful method for ensuring that citizens get the services they require from government in a cost-effective manner." The paper identifies "privatization" with conservative politics and suggests that it is a new label for an old idea, contracting to private companies, "in the service of an ascendant political ideology."⁵¹ Sclar also reflects this perspective in an article in the Summer, 1994 issue of Dissent, when he says "that the right's concern is ideological rather than pragmatic is revealed by the penchant among conservative privatization advocates to oppose careful cost analyses."⁵² Starr sees privatization as driven by ideologues, not by corporations.

The studies by liberal and labor groups have been successful in showing that costs are seldom reduced over the long term and that the source of profit, or any reduced costs, come from the lower wages paid by contractors. They successfully argue that a community does not benefit by lowering the income of its working citizens. The conservative foundations and politicians do promote the idea that private business is always more

⁵⁰Paul Starr, The Limits of Privatization, Economic Policy Institute, Washington, D.C. n.d. p. 15.

⁵¹Elliot Sclar, The Privatization of Public Service: Lessons from Case Studies, Economic Policy Institute, Washington, D.C., 1997, p. 4, 27.

⁵²Elliot Sclar, "Public-Service Privatization: Ideology or Economics?" Dissent, Summer, 1994, 329-336.

efficient than public service, and it is important to show that the public generally does not save money by contracting services to private companies.

A MORE SATISFYING EXPLANATION: TRANSNATIONAL CORPORATE INTERESTS

These studies, however, beg, but do not answer, the question: If lower costs and community benefits do not result from contracting out, why do politicians persist in contracting? The only satisfying answer is that the political power of the contracting corporations outweighs the political power of unions and other groups that benefit from publicly-provided service.

More satisfying explanations for increased government contracting and political pressure for privatization are provided by economists Edward S. Herman and Laurie Clements. In a 1991 article, Clements explains that "privatization on the global scale is linked to the global restructuring of capital and the world division of labor." He shows that privatization is part of the redefinition of the role of the state and says that "international capital mobility has supported privatization initiatives, and, conversely, privatization facilitates such capital mobility." Clements' paper does not focus on a particular case study, but recent privatization of postal services bear out his view, as will be shown below. Edward Herman agrees that "the privatization wave over the past twenty years is rooted in increased corporate power." He also ties privatization to international capital restructuring and identifies the "resurgent business and financial community" as the most important forces behind international privatization.

All of the literature that opposes privatization characterizes it as a threat to democracy as accountability for government services and functions is lost. This literature also places unions at the center of a broader public coalition to defend public services and make them serve effectively. Clements calls on unions to appeal to private sector workers and the public in general and work to improve public services.

It is important to address the legitimate concerns of citizens and officials in controlling the costs of government, and union and liberal literature generally explains that contractors seldom live up to their promises of cheaper service, and, if they are successful, the "savings" ultimately come out of workers' pockets. It is also important to show the roots of these policies in conservative ideology and in the financial backing corporations provide for the foundations that promote this ideology. Unions are at a disadvantage in answering these arguments because they do not have the funds and access to mass market media, but they also stop short of providing a convincing explanation for the push for privatization. They also pose no strong political alternative, because they, for the most part, support the Democratic Party politicians who often initiate contracting. If unions respond by organizing workers in contracted operations, they can slow down the process and protect some of the interests of their members, but they cannot provide answers for the general public. If, however, they are willing to examine and critique the collusion between public officials and corporate contractors, they are challenged to put forward a clear alternative and form another, as yet nonexistent, political coalition.

GLOBALIZATION, PRIVATIZATION, AND INFRASTRUCTURE

The process of postal privatization, and the debate about it, are not restricted to the United States. The globalization of trade and finance have an important relationship to both domestic and international privatization. In almost every country, postal and telecommunications operations are being restructured or "reformed." As markets increasingly cross national boundaries, transnational corporations in the shipping, express, and communications industries provide infrastructure and service and profit from this trade. The US Postal Service's \$56 billion revenue comes from handling 41% of the world's mail volume,⁵³but this volume figure does not include the international mailing and package

⁵³Annual Report of the Postmaster General, 1997, USPS, Washington, D.C. electronic edition available at <http://www.usps.gov>

delivery business done by private transnationals. Clearly, the world market in postal services is lucrative and potentially profitable, especially if a corporation can provide services or equipment in many different countries.

Privatization is an essential part of the transformation of global markets and international economic restructuring.⁵⁴ The modification of the role of the state in economies opens up opportunities for private organizations to expand their rates of profit, and transnational corporations (TNCs) are most able to take advantage of, and push for, deregulation, contracting and sales of government operations. Their role in postal privatization is key.

Deregulation and privatization are important to globally-operating corporations because they permit new entry, eliminate subsidies, and provide large businesses and corporate service users with substantial cost savings from a variety of sources, including lower labor costs. As Rutgers Industrial Relations Professor Jeff Keefe explains, "This provides large corporations with an international competitive advantage due two factors: lower supply costs and the most advanced network structures, which become the world standard, allowing them to move globally within a familiar infrastructure. In transportation industries, deregulation has caused a fairly spectacular wave of bankruptcies and failures, which was then followed by national and now international consolidations -- national and international oligopolies replaced local or regional monopolies."⁵⁵

A special section on privatization in the October 2, 1995 Wall Street Journal was entitled, "Sale of the Century," and made clear the business interests in international privatization. Full and half-page ads from many of the worlds high-tech, telecommunications, transportation, and manufacturing firms dominated the pages. An article tracing the political heritage of privatization cited the first "milestone" as Gen.

⁵⁴See Kim Moody, Workers in a Lean World, Verso, New York & London, 1997; Joyce Kolko, Restructuring the World Economy, Pantheon, New York, 1988; Dennis Gayle and Jonathan Goodrich, eds., Privatization and Deregulation in Global Perspective, Quorum, Westport, CT 1990; Steven Hecker and Margaret Hallock, eds., Labor in a Global Economy, University of Oregon, 1991.

Augusto Pinochet's coup in Chile and subsequent privatization of public enterprises and cooperatives.⁵⁶

The value of services surpassed that of goods in international trade in the 1980s, and business services, of which postal services are a part, led the way. Global trade is centered in transnational corporations, which accounted for two thirds of the value of all exports by 1993, according to the U.N.⁵⁷ The technological innovations in telecommunications and information are changing the way mail is processed, and many of the transnational communications corporations are important contractors with the U.S. Postal Service and other national systems. Firms like Siemens, IBM, NCR, Lockheed, and Hewlett Packard are characteristic. TNCs also operate mass mail advertising and mail order businesses, like Time-Warner and Bertelsmann (BMC). Deregulation and privatization have been key to the establishment of global corporate business networks across many formerly public jurisdictions, and most of the TNCs have been political advocates of postal and telecom deregulation and privatization.⁵⁸ Advocates of privatization imply that modernization is dependent on privatization, but Puerto Rico's technical and financial success with its national phone company and Sweden's establishment of universal public internet access are only two examples of innovative public services which belie these claims.

Private shippers Federal Express and United Parcel Service have challenged the U.S. Postal Service's control of international mailing rates and policies. The USPS represents the United States in the Universal Postal Union (UPU), an international organization that sets postal policies and funds transfers between countries. A bill introduced into Congress in June of 1998 would replace the USPS with the U.S. Trade Representative in the UPU. The obvious intent is to open up competition for all

⁵⁵ Jeffrey Keefe, electronic mail letter to author, 11/2/98

⁵⁶World Business, "Sale of the Century," *Wall Street Journal*, 10/2/95, pp. R1-R34.

⁵⁷United Nations Conference on Trade and Development, 1995, quoted in Kim Moody, *Workers in a Lean World*, Verso, New York 1997, p. 48.

⁵⁸Cees. J. Hamelink, "Globalism and National Sovereignty," in Kaarle Nordenstreng and Herbert Schiller, *Beyond National Sovereignty: International Communication in the 1990s*, Ablex Publishing, Norwood, NJ, 1995, p. 382-384.

international shipping, not just for parcels and expedited materials. The Postal Service opposed the bill, citing a threat not from private U.S. shippers, but from Britain's Royal Mail and Dutch Mail, who have privatized a portion of their postal services. The privatized segment is seeking to win for-profit shipping business in other countries.⁵⁹

GLOBAL SHIPPERS CHALLENGE PUBLIC SERVICES

National postal monopolies are being challenged worldwide by transnationals in the package shipping and mailing industry, including TNT, the Australian trucking, express, and remailing company, DHL, the express courier, Federal Express, and United Parcel Service. European studies report a tremendous growth in the parcel and express industries and companion congestion and pollution problems in cities. According to a study by the Post, Telephone, and Telegraph International, deregulation and relaxation of postal monopolies have been the single most decisive factor accounting for the prominence of these firms.⁶⁰

United Parcel Service has aggressively pursued a privatization agenda, charging the German *Deutsch Post* with "unfair competition" in the European Union. In France, UPS is suing the postal service for its joint venture with another package delivery company.⁶¹ When British postal workers struck in 1996, the government temporarily suspended the postal monopoly, but, according to London's *Times*, "the big four international courier companies – TNT, DHL, United Parcel Service and Federal Express – have said it is not worthwhile attempting a rival service for only one month." TNT, however, has pushed the government for a "duopoly," under which it could deliver "slow" mail.⁶² In New Zealand,

⁵⁹Stephen Trimble, "Bill Would End Overseas Policy Control," *Federal Times*, 7/6/98 p. 8.

⁶⁰Dr. W. Geoffrey Hamilton, "Growing Competition from the Private Express Companies and the Threat to Postal Service -- A Profile of DHL" and Francis Smith, "Amazing Growth in a Changing Business -- A Profile of TNT," *PTTI Studies*, Geneva Switzerland, 1988.

⁶¹*Wall Street Journal*, 3/26/96,

⁶²*The Times*, 8/11/96, electronic, "Strikes may stamp out the Royal Mail."

TNT offered to deliver Christmas cards anywhere in the world for 77 cents, and UPS partner Mailboxes Etc. also offers international services.⁶³

The World Bank is aiding the process of private corporations' investments in formerly-public services. World Bank officer Kumar Ranganathan announced that the bank was prepared to invest in postal "reform" at the Universal Postal Union's 1996 conference in Berne, Switzerland. He said that all posts had to recognize that they were in the communications business and indicated that the WB would facilitate private investment in deregulated postal services.⁶⁴

U.S. OFFICIALS STUDY "SUCCESSFUL" PRIVATIZATIONS

Substantial deregulation of postal services has taken place in several industrialized countries. In January of 1996, the House Subcommittee on the Postal Service and the Senate Subcommittee on Post Office and Civil Service held hearings entitled, "United States Postal Service Reform: The International Experience." Representatives of national postal services in Sweden, Australia, New Zealand and Canada described their deregulation policies, and the Government Accounting Office and Price Waterhouse reported on international privatization and reform.⁶⁵ Congressman John McHugh reported that "many deregulation and privatization proponents cite the examples of foreign posts as blueprints for privatization of our postal system."

Each postal administration that testified operated a system that was still government-owned. While all except Sweden showed reduced labor costs and successful price controls, most had decreased rural service and allowed substantial private entrance into the parcel and express markets.

⁶³Press Release: New Zealand Government, Tuesday, 22 April 1997.

⁶⁴John Dowson, Edward Horgan, Jr., and T. Wood Parker, "Future Post," from Postal Performance, by Coopers & Lybrand, reprinted in MAIL: The Journal of Communication Distribution, October 1997, p. 64-69.

⁶⁵104-2 Joint Hearing: "'United States Postal Service Reform: The International Experience." US GPO, Washington, D.C. 1996.

Only Argentina has totally privatized its mail service, and the experience has led to scandals and public anger. Mass protests have occurred over the government's entire privatization program. "The huge profits from privatization are not reaching the average person," said Arturo Valenzuela, director of the Center for Latin American Studies at Georgetown University, yet, according to the Washington Post, "foreign investors, especially those from the United States and Europe, remain bullish on the Argentine economy and continue to invest at a rapid pace. "The rich are getting richer, and we've become the forgotten people again," said a teacher from the country's rural provinces who was helping lead a hunger strike against privatization at the steps of the Congress.⁶⁶

Previously, Argentina had a "duopoly," in which a courier service run by private postal magnate, Alfredo Yabran, had a substantial share of the market. Yabran was accused of corruption in seeking to monopolize the planned privatization of Argentina's post office. He had close ties to then-President Carlos Menem and was accused by the economy minister of bribery, coercion and money laundering.⁶⁷ President Menem signed a decree to privatize the post office in March, 1997, and an Argentine consortium -- Banco Galicia and Grupo Macri-controlled companies Itron and Sideco -- won a 30-year concession to run Argentina's state postal service, with the technical backing of the British Post Office.⁶⁸ The group offered to pay the state approximately \$102 million annually for the next 20 years to run the Correo Argentino, over 40% more than the amount offered by bidders including units of Citicorp and ING Bank of the Netherlands. Francisco Macri, principal of Grupo Macri, has as partners the Western Union unit of First Data Co., General Electric Co., and Microsoft Corp.⁶⁹

Two European postal services, publicly owned, were involved in the Argentine bidding. The deregulation and corporatization of the Dutch, British and German postal

⁶⁶ Washington Post Foreign Service Sunday, June 22, 1997; Page A20

⁶⁷"Argentine politics simmer with dispute between president and ex-minister," Miami Herald, Sunday, June 22, 1997, "Heraldlink" electronic edition.

⁶⁸"Post Office finally in private hands," October 1997 Newsletter, Consulate of Argentina, Toronto, Canada.

services have allowed them to operate as private companies and bid to run other nations' postal operations in partnership with other corporations.

While privatization proponents admire the abolition of the public monopoly on mail delivery in Sweden, Sweden Post remains publicly owned and has been successful in expanding the types of services it offers. The strength of labor unions in Sweden has determined the outcomes substantially, and privatization advocates hesitate to call attention to the differences between Sweden's reform and those of other administrations. The Swedish postal service lost its letter monopoly in 1993, but the government system was more economically viable than any of its competitors for letter mail and has made a profit in every year since the deregulation. Sweden Post has also provided electronic mail and promoted its use.

Swedish unions represent about 90 percent of the labor force, and private companies had to compete on factors other than the ability to pay low wages. The influence of the unions and socialist or social-democratic political parties in the government have ensured that the postal reform contained provisions that benefited residential customers, such as subsidized stamp prices for households. While 30 companies competed with Sweden Post as of 1996, they operated only within local markets. City Mail, the best-known private operator, twice filed for bankruptcy and eventually went out of business.⁷⁰ Sweden's extremely high unionization rate and extensive wage and social benefit protections meant that private companies could not make profits by drastically cutting wages as they could in other countries. With an innovative public system and effective worker protection, private companies have difficulties making profits despite deregulation.⁷¹

MASS PROTESTS OF PRIVATIZATION

⁶⁹"Argentina's Macri Takes on Post Office," *The Wall Street Journal*, 9/8/97

⁷⁰Testimony of Ulf Dahlsten, President and CEO, Posten AB, Sweden., Joint Hearing, *ibid.*, p. 15.

⁷¹Canadian Union of Postal Workers Education Services, "Sweden Post" fact sheet, Toronto, ON, Canada, 1998.

Deregulation of telecommunications and privatization of national telephone companies have caused mass strikes and protests as international telecommunications corporations have acquired government-owned phone services. In July of 1998, almost 500,000 workers in Puerto Rico struck in an effort to stop Governor Pedro Rossello's sale of the Puerto Rico Telephone Co. to GTE Corp. of Stamford, Connecticut, for \$1.75 billion. The strike began with the phone company workers and rapidly spread throughout the public sector, involving private sector workers on July 7 and 8. The administration of Gov. Rossello has launched an aggressive campaign to sell government hotels, hospitals and other assets.⁷² Colombian telephone workers also struck in June, 1998, against the privatization of the national phone company.⁷³

A complex restructuring of postal services is taking place internationally, initiated by international businesses in the transportation and package delivery industries. These companies, like UPS, TNT, and Federal Express, want access to global markets, and publicly-owned postal services are obstacles and competitors. Unions have taken the leadership in opposing privatization, and mass protests and strikes have often resulted when national governments have attempted to sell or contract a major portion of their postal or phone systems.

REFORM LEGISLATION -- ITS CORPORATE HERITAGE

The central role of transnational corporations in promoting privatization is illustrated by the career of Marvin Runyon and by the support for Rep. John McHugh's (R-N.Y.) postal reform legislation, HR 22. The Heritage Foundation and other advocates of privatization requested the appointment of "reform-minded" officials; certainly their goal was met when Postmaster General Marvin Runyon began his term in July of 1992. Consumer advocate Ralph Nader reacted to the appointment of Runyon by claiming that

⁷²"Puerto Rican Labor Protest Disrupts Travel," New York Times, July 8, 1998, available <http://www.nytimes.com>

private contractors and consultants would like Runyon and that he had "a mind for privatization."

Runyon was expected to support both contracting of postal work and a crackdown on postal wages and union power. He came to the USPS after leaving his post as chairman of the Tennessee Valley Authority (TVA). Runyon froze power rates for corporate TVA customers, while laying off over 11,000 workers and contracting construction to private firms.⁷⁴ Before coming to TVA, Runyon was the president of the Nissan automobile assembly plant in Smyrna, Tennessee and handed an historic defeat to the United Automobile Workers Union when they attempted to organize the plant in 1987.⁷⁵

Runyon and other postal officials have worked closely with Congress to restructure postal services for the benefit of contractors and large mailers. Rep. John McHugh, Chairman of the House Subcommittee on the Postal Service, has introduced and held hearings on a reform bill that unites the ideas of the think tanks, the TNCs, and top postal management. The bill contains provisions that have been advocated by Runyon, UPS, and the mailing industry over the past ten years.

Runyon began agitating for reform of the Postal Reorganization Act in 1995. He stated that postal employees were paid 30 percent more than private industry employees in comparable jobs, and objected to binding arbitration when contract negotiations failed to produce an agreement.⁷⁶ "The problems start with collective bargaining," he told the National Press Club. Runyon complained that the Postal Service was "dragging a ball and chain" and said, "We've got a '70s law that isn't cutting it in the '90s . . . We need to fix it and fix it now."⁷⁷ At the same time, he said the USPS had to have the ability to change prices more quickly than the public appeals before the Postal Rate Commission allowed.

⁷³Colombian Labor Monitor, Urbana, IL, June 18, 1998.

⁷⁴Barron's, June 30, 1991, p. 14.

⁷⁵John Junkerman, "Nissan, Tennessee: It ain't what it's cracked up to be," The Progressive, June 1987.

⁷⁶Federal Times, 3/27/95, p. 16.

⁷⁷Wall Street Journal, 2/1/95, p. A16.

The most recent version of the Postal Reform Act would cap postal rate increases to increases in the Consumer Price Index. The postal unions consider this a "wage cap," and the 1997 USPS Strategic Plan indirectly supports this claim, as it contains a chart showing that "costs per work hour drives costs and prices."⁷⁸ The proposed legislation creates a postal employee-management commission that would alter the current collective bargaining procedures, an idea long supported by Runyon and the think tanks. The price cap, and more freedom for postal management to change rates, is supported by the Advertising Mail Marketing Association (AMMA), but opposed by the non-profit mailers.⁷⁹ The Reform Act, while regulating increases, does not regulate the discounts that can be offered to large quantity mailers.

McHugh's bill separates the "competitive products" -- express, Priority Mail, and parcels -- from the "monopoly" product -- letter mail, and restricts the USPS from borrowing federal funds for any of these operations. It drops the competitive price restriction to \$2, meaning private companies could enter any market in which the Postal Service charged more than \$2 for service.

United Parcel Service supports these changes. In a December 12, 1997 letter to McHugh, UPS vice president Kenneth Churchill said, "I would like to commend you on your revision of the Postal Reform Act of 1997. On behalf of United Parcel Service, I would like to offer our assistance and cooperation as you embark on this arduous process of refining the legislation."⁸⁰

Another privatization proposal, by Rep. Phil Crane (R-IL), has failed to garner corporate support. Crane's introduced a bill into the 104th Congress to privatize the USPS through sale of shares to employees. Murray Comarow, an attorney who represents advertising mailers and former chair of President Johnson's Committee on Postal

⁷⁸The American Postal Worker, January, 1998, American Postal Workers Union, Washington, D.C. p. 14; United States Postal Service Five Year Strategic Plan, USPS, Washington, D.C. 1997, p. 48.

⁷⁹"Truly Reforming The Postal Service," by Murray Comarow, MAIL: The Journal of Communication Distribution, March 1997, p. 36.

Organization, called the bill, HR 210, a "case study in the clash between ideology and reality," referring to the bill's lack of relationship to the needs of any significant constituency. He explained, "the postal system is too important to the nation's economy to be a laboratory experiment in employee stock ownership."⁸¹ Price Waterhouse's response to McHugh's questions about employee stock ownership plans said, "We are not aware of any postal administration that operates with this kind of model."⁸² Private contractors and powerful privatization advocates favor McHugh's approach as opposed to Crane's. They have a vital economic interest in securing as much of the \$56 billion in postal business as possible and have no interest in promoting employee ownership by 800,000 workers.

CONCLUSIONS

While government and public institutions are supposed to balance a wide variety of interests in society, in recent years, government administrators and Congressional representatives have pushed postal policy strongly toward the interests of large advertisers, equipment manufacturers, private shipping companies and contractors. Advocates of postal privatization have little to say to postal workers, non-profit mailers or small business, but they aggressively push the interests of TNCs in communications, transportation, and mailing technology. Privatization, or large-scale contracting of the U.S. Postal Service is driven by the business priorities and political power of transnational corporations in the advertising, mailing, information technology, and electronics industries. In order to understand the political and economic processes at work, it is important to address the financial interests behind privatization. While public arguments are formed by highly ideological conservative think tanks, the backers of the rhetoric have a strong financial

⁸⁰Federal Times, December 29, 1997, p. 6.

⁸¹Murray Comarow, Statement and Responses to questions, Hearings Before The Subcommittee on the Postal Service, 104th Congress, First Session on H.R. 210 To Provide for the Privatization of the United States Postal Service, November, 15, 1995, p.144, 154, 155.

⁸²104-2 Joint Hearing: ""United States Postal Service Reform: The International Experience." US GPO, Washington, D.C. 1996., p. 247.

interest in gaining access to markets that were formally public. Arguments for privatization often center on reducing costs, but there is little evidence to support long term costs savings and much evidence contradicting this claim, as we will see below. Similarly, it is difficult to maintain that a financial or service crisis motivates postal privatization in the U.S. as the USPS has been successful by these measures.

The debate over public and private interest has a long history, and unions have been at the center of the discussion, if only because they represent workers who are profoundly affected by political decisions. Privatization of mailing and communications are global processes, and unions are finding that they face the same corporations in the mailing industry across oceans and continents. Government officials have not been hostile to private challengers but have worked with them to bring public policy in line with private priorities. In the next section, we will look at the "public interest" in the USPS and how it has been defined, governed, and represented.

Chapter Two

Corporations and The Public Interest Since 1970

INTRODUCTION

The nation's postal services are vital to many communities and constituencies and serve many interests. Unfortunately, the term "public interest" does not have a precise definition in U.S. politics, and just what the "public interest" is and how it can be represented has long been a subject of debate in American society.⁸³ There could be many "public interests" in the mail communications system run by the government. Americans have generally valued and supported uniform services to all communities, because of the importance of the mail to civic, personal, and business communication. It has been considered important for the service to be affordable to virtually all customers, to be relatively speedy, and to be free from political restrictions.

Beyond these areas of general agreement, there has been controversy over the mail system, who should run it, what services it should provide, and how its rates should be set. Advertising and mass market consumer industries use the mail for publicity. They want low rates and speedy service, as do newspaper and magazine publishers, whether profit or non-profit. When discounts are given to one group, other groups resent the perception that they are bearing an undue burden in the rates. Businesses who contract with the post office want to preserve or expand their financial relationships. Competitors want to expand their market share in opposition to the public market. Recently, environmentalists want to reduce the consumption of wood and paper products and reduce solid waste. Workers and communities want the postal system to produce living-wage jobs. Most citizens value subsidized non-profit mailing rates, free mailing for the blind and free mailings from elected Congressional representatives.

Since the Postal Service was created in 1970, though, the interests of non-profit organizations, residential customers, workers, environmentalists and others have been subordinated to those of large corporations who have a great financial stake in using the mail or in contracting with the Postal Service. The public company set up in 1970 has been designed to operate in private interests. Corporate priorities have dominated the decisions of postal management, while consumer groups, unions, and politicians have been quiet or relatively ineffective in advocating other interests. This chapter traces the history of postal reorganization and the increasing and ultimate dominance of private business in the governance of a public corporation. It examines the official and unofficial method through which these businesses set postal policies.

When Congress reorganized the Post Office in 1970, the legislation stated that the USPS "shall be operated as a basic and fundamental service provided to the people by the Government . . ." ⁸⁴ The "exercise of the power of the Postal Service shall be directed by a Board of Governors . . . chosen to represent the public interest generally." ⁸⁵

The "public" interest has, in this case, been construed to be commercial interest -- the interests of the USPS largest mailing customers and contractors. Only corporate interests have a "seat at the table" in governing the Postal Service; residential customers, non-profits, community organizations, small business and environmentalists have only an appeal through their elected representatives to Congress who provide some oversight through committees.

In order to understand how business interests came to dominate a public institution philosophically and functionally, it is vitally important to look at the origins of the postal corporation and the intentions of those that initiated it. Business interests have been placed at the center, and the postal service's other constituents (or "stakeholders" in the current

⁸³See Robert Britt Horwitz, *The Irony of Regulatory Reform*, Oxford University Press, New York, 1989, Chapter 2 for a discussion of the evolution of the meaning of the term "public interest" in the politics of regulation.

⁸⁴39 USC Sec. 101(a)

⁸⁵39 USC Sec. 202(a)

lingo) -- residential customers, rural communities, small publishers, non-profit mailers and postal workers have been represented only indirectly through organized political pressure on Congress, through contesting rate proposals, or through collective bargaining in the case of the service's workers.

The current push by the Postal Service to contract out operations, shift mail sorting and delivery to the private sector, and set rates to subsidize the largest mailers is a predictable and logical consequence of the 1970 reorganization. Events since that time have developed within that basic framework. The official governance system, the Board of Governors, and the "unofficial," the special task force, have assured that the benefits of the system will be privatized and the costs socialized. A look at the forces behind the 1970 reorganization makes this clear.

CIRCUMSTANCES LEADING TO THE 1970 REFORM

From many points of view, the Post Office was in crisis during the 1960s. Mail volume almost tripled from 1940 to 1967, and Congress failed to fund adequate mechanization or research and development to handle the volume.⁸⁶ Worker morale was low; turnover reached an annual 26 percent by 1967, and the Post Office had difficulty hiring enough workers. Wages were so low that in some states, postal workers qualified for "War on Poverty" programs like food stamps and Medicaid.⁸⁷

With the Vietnam War underway and with inflation increasing, President Lyndon B. Johnson's administration and Congress gave only 2-3% annual raises to the already low-paid workforce. Morale dove, and spending cuts led to curtailment of overtime. The growing mail volume couldn't be handled by the system, and backlogs of mail accumulated around the country.

⁸⁶Tierney, Postal Reorganization: pp. 7-8.

⁸⁷Mikusko, *ibid*, pp. 66-67.

The most famous logjam was the October, 1966 crisis in Chicago. Over 10 million pieces of mail were backed up in that office alone. Johnson's former legislative aide, Lawrence O'Brien, had been appointed Postmaster General the previous year; he was a former Chairman of the Democratic National Committee and had years of experience working with Congress and key private sector interests.⁸⁸

O'Brien, in attempting to solve the postal crisis, could have initiated a broad public debate and could have consulted the unions, but instead he relied on elite business and political allies developed over his years of high-level political work. He created a highly confidential task force called the Quadriad Group, four men he brought with him to the Post Office Department, to develop a reform plan that would provide postal management with greater autonomy.⁸⁹ The task force came out with a recommendation that a government corporation be chartered. O'Brien announced the proposal at a meeting of the Magazine Publishers Association in April of 1967, and President Johnson soon appointed the President's Commission on Postal Organization to study the plan.

The Commission was chaired by retired AT&T Chairman Frederick R. Kappel. When the administration appointed Kappel to chair the reform study, they probably had already made a decision about the nature of the outcome. Kappel had worked for his entire life in the Bell System. As the CEO of AT&T there was only one model that he was familiar with in shaping a public corporation -- it was the AT&T model, and at that time the company was viewed as the world class telephone company delivering service at a low cost with a superb productivity growth record of more than 6% annually.

The commission's other members were "a roll call of American business elite," according to John Tierney, author of the 1981 study, Postal Reorganization. They included George P. Baker, Dean of the Harvard Business School; David E. Bell, vice president of the Ford Foundation; Fred. J. Borch, president of the General Electric Company; David

⁸⁸Baxter, *ibid.*, p. 80.

⁸⁹Tierney, Postal Reorganization, p. 11.

Ginsburg, partner in Ginsburg and Feldman; J. Irwin Miller, chairman of Cummins Engine Company, W. Beverly Murphy, president of the Campbell Soup Company, and Ralph A. Peterson, president of the Bank of America. George Meany, president of the AFL-CIO was also included, probably for strategic reasons, as the postal unions expressed their opposition to the proposal immediately after Postmaster O'Brien raised the idea, and the unions were known for their legislative influence.⁹⁰ According to one study of the commission, Meany did not participate in the commission's meetings except for one phone conversation. He later endorsed legislation that paralleled the commission's recommendations.⁹¹

The commission assembled a professional consultant staff from two of the nation's leading management consultant firms, Arthur D. Little, Inc. and Price Waterhouse. The commission had \$1 million and one year to report to the President. The report, issued in June 1968 was entitled "Toward Postal Excellence."

The report noted the lack of investment in mechanization as a cause of poor productivity. The commission recommended that a corporation be chartered which could borrow money and retain its own funds. The report advised rule by a board of governors, collective bargaining and binding mediation (retaining strike prohibition) for non-managerial employees, and that rates be set by a five person expert rate commission, subject to veto by Congress.⁹² The Postal Rate Commission was designed as the postal counterpart to the Federal Communications Commission.

The idea of a government owned corporation was not new nor limited to the Post Office. During the New Deal, the federal government established several companies that were designed to fulfill a specific social or economic function. The Tennessee Valley Authority, the Export/Import Bank and the Federal Deposit Insurance Corporation were all examples of government run corporations. In theory, they were supposed to grant

⁹⁰Tierney, *ibid.* p. 12.

⁹¹Baxter, *ibid.* p. 82.

managerial flexibility, serve a social/economic/public good, and break even financially.

President Harry Truman explained in 1948:

Experience indicates that the corporate form of organization is peculiarly adapted to the administration of government programs which are predominantly of a commercial character -- those which are revenue producing, are at least potentially self-sustaining, and involve a large number of business-type transactions with the public. In their business operations, such programs require greater flexibility than the customary type of appropriation budget ordinarily permits.⁹³

The Kappel commission did not foresee the reform as a final step, nor did it see the public corporation as a final product. Commission members suggested that "the possibility remains of private ownership at some future time, if such a transfer were then considered to be feasible and in the public interest."⁹⁴

Kappel may have intended a regulated private monopoly similar to AT&T, providing some public control through national regulation but also producing profits for investors. In testifying before a congressional committee he later explained:

"If I could, I'd make it a private enterprise and I would create a private corporation to run the postal service and the country would be better off financially. But I can't get from here to there."⁹⁵

The corporate plan gained the support of both the Democratic and Republican parties, but it was opposed by the postal labor unions from the beginning. The unions had relied upon lobbying Congress for raises from their beginnings, since they had no collective bargaining for wages. While the postal unions were unable to affect change directly through collective bargaining, they had substantial political muscle, since they could mobilize thousands of members spread throughout every congressional district. The officers of the postal unions had no private-sector collective bargaining experience, and, in addition to a

⁹²President's Commission on Postal Organization, Toward Postal Excellence, 1968, pp. 2-5.

⁹³House Document 19, 80th Congress, pp. M57-M62, quoted in John T. Tierney, Postal Reorganization: Managing the Public's Business, Auburn House Publishing, 1981, pp. 7-8.

⁹⁴*ibid.*, p. 2.

⁹⁵U.S. Congress, House of Representatives, Post Office Reorganization, Hearings before the Committee on Post Office and Civil Service, July/August 1969, quoted in Kathleen Conkey, The Postal Precipice: Can the U.S. Postal Service Be Saved?, Center for the Study of Responsive Law, 1983. p. 45.

general suspicion of the forces behind reorganization, they feared the loss of their traditional political leverage.

O'Brien left the Post Office department in April 1968, and other postal officials continued his push for "reform," recognizing it would be difficult to get the legislation passed. Lobbyists were lent to the Congressional Liaison Office of the Post Office Department by Sears, General Electric, Procter and Gamble, J.C. Penney, the Chamber of Commerce and the Magazine Publishers Association.⁹⁶ Even this lobbying might was not enough, however, to get the proposal through, and postal officials, constrained from the kind of "massive selling job" needed, suggested that the U.S. Chamber of Commerce and other corporate lobbyists could establish a separate organization. With the help of Lawrence O'Brien, who was no longer in federal office, the Citizens Committee for Postal Reform (CCPR) was established.⁹⁷

The CCPR became the tenth largest lobby by 1970, and it was backed by large corporate customers of the post office: McGraw-Hill, Sears, Roebuck, the Bank of America, Montgomery Ward, General Foods, Pitney-Bowes, Time, Inc. and Standard Oil, Scott Paper, Pan American Airways, General Electric, Goodyear Tire, Ford, Conde Nast publishers, Cowles Communications, and others. The CCPR launched a speakers bureau, radio and television ads, and a national op-ed and print advertising campaign.⁹⁸

Skeptical Washington Post columnist Nicholas von Hoffman commented,

"Most reforms that set out to make things nonpolitical are actually engaged in transferring the political power from elected politicians to the nonelective, silent and secret politicians with much smaller constituencies, often referred to as lobbyists, bagmen, etc. In that light, let's see who put up the money to lobby and propagandize this reform through the Congress."⁹⁹

After listing the major backers of the CCPR, von Hoffman went on to say,

⁹⁶Postal internal memorandum quoted in Tierney, p. 17

⁹⁷Tierney, p. 18.

⁹⁸Tierney, p. 18 and Washington Post, 6/15/70, A22.

⁹⁹"Postal 'Reform,'" by Nicholas von Hoffman, Washington Post 6/15/70, p. A22.

"Right-thinking readers will understand that the aforementioned citizens made this contribution out of unselfish zeal for reform. Cynics will remark that many of these citizens are publications and other institutions that use the mail at favored rates, that others sell the publications large amounts of paper, that others are contractors who might build the reformed and modernized post office buildings, that others might sell this new system automated equipment or mail trucks, or tires for the trucks."

Postal unions lobbied against the corporate reform and supported an alternate piece of legislation. National Association of Letter Carriers President James A. Rademacher testified before a congressional committee in 1969:

"The postal service is far too essential to the social, economic, industrial, mercantile, and political life of the American people ever to permit it to be removed from the ultimate control of the people. We cannot turn it over to a band of corporate strangers."¹⁰⁰

Rademacher also expressed concern at the involvement of AT&T in the reform and speculated that the company could acquire a functional monopoly on written and phone communications.

A similar position was put forward by Ashby Smith, President of the National Alliance of Postal and Federal Employees, a union made up primarily of black postal employees of all postal crafts, during later hearings:

"What we have opposed, what we still oppose is a disposition to divest the postal service of its service aspect and to treat it as a commercial operation. What we have rejected and what we still reject is the totally unproved assumption that men trained in big business, where the emphasis is on profit-making, can operate this billion-dollar enterprise in the interest of the general public if only they are left free from interference by meddling, self-seeking Congressmen, who, after all, were sent to Washington to protect the public interest, and are removable if they fail to do so."¹⁰¹

In early 1970, NALC President Rademacher compromised with the Nixon administration and agreed to the creation of an independent "postal authority" in exchange for a 5.4% raise. When a House committee approved a bill reflecting the Nixon-

¹⁰⁰House Post Office Reorganization hearings, 1969, quoted in Conkey, The Postal Precipice, p. 55.

Rademacher compromise, letter carriers in New York City met and demanded a strike vote. Picket lines went up in Manhattan on March 18.

The strike spread through post offices all over the country, while the national unions and the President negotiated and the Citizens Committee for Postal Reform went on the offensive, stating in advertisements that the strike "need never have happened." Nixon sent troops to move the mail in New York, but the strikers stood firm until a tentative settlement was announced that included a 14% raise. In the bargaining over the settlement, the administration granted an immediate 6% raise with an additional 8% tied to the passage of postal reorganization legislation through Congress. With unions now actively lobbying for their raises, now tied to reform, the Postal Reorganization Act was finally passed on August 12, 1970.¹⁰² The Act compromised several proposed bills but contained the principle features of the President's Commission report; namely, the formation of a corporation with rule by a board of governors, collective bargaining and binding mediation, and the establishment of a rate commission.

Congress took a much less active role in postal affairs after the reorganization was complete. With a corporate management authorized to negotiate labor agreements, borrow money, construct facilities and manage work, Congressional representatives tended to be involved only when legislation or budget matters were at hand.

THE BOARD OF GOVERNORS

The members appointed to the first Board of Governors began a tradition of business domination. Many represented corporations that were deeply involved in advocating the proposed reform, and a tradition of business domination of all subsequent boards began. The first board members were Frederick Kappel, Chairman and former

¹⁰¹Statement of Ashby G. Smith, President, National Alliance of Postal and Federal Employees, before the House Committee on Post Office and Civil Service on HR 17070, 1970. Postal union collections, Taimiment Library, New York University.

AT&T executive, E.T. Klassan, former president of American Can Co.; Theodore Braun, chairman of Braun and Co.; Andrew Holt, former president of the University of Tennessee; George Johnson, president, Johnson Products Co.; Crocker Nevin, former president, Marine Midland Bank; Charles Coddington, Jr., co-owner, Coddington Cattle Research; Patrick Haggerty, chairman, Texas Instruments; and M.A. Wright, chairman of Humble Oil and Refinery Co. (now Exxon).¹⁰³

Vern Baxter, author of Labor and Politics in the U.S. Postal Service, says, "between 1971 and 1992, 44 people served on the Board of Governors; 29 (two-thirds) were businesspeople, four were recruited from the professions, four were political appointees, and seven others were career postal employees. There has never been a homemaker or blue collar worker represented on the Board."¹⁰⁴ (See Table 5)

Past Postmaster General Marvin Runyon, formerly an executive with Ford Motor Co., testified in Congressional oversight hearings that the postal Board of Governors "works very well. It works like a board of directors in any company. . . like any private organization would work."¹⁰⁵

Unions eventually dubbed postal reorganization a "success," largely due to its provisions for collective bargaining and their successes in improving wages and working conditions during the 1970s. William Quinn, President of the National Postal Mail Handlers Union, in his 1995 testimony before the House Subcommittee on the Postal Service, said, "There was nothing wrong with the Postal Reorganization Act, and Congress should leave the act alone."¹⁰⁶ The National Association of Letter Carriers and the American Postal Workers Union, the two largest postal unions, published officially-endorsed histories in 1986 and 1992 respectively, and the books contained no criticism of any

¹⁰²M. Brady Mikusko, Carriers in a Common Cause, National Association of Letter Carriers, Washington, D.C. 1986, pp. 73-77; Conkey, Postal Precipice, pp. 56-59.

¹⁰³Conkey, *ibid.*, pp. 62-63.

¹⁰⁴Baxter, *ibid.*, p. 97.

¹⁰⁵"Hearings before the Subcommittee on the Postal Service," 104th Congress, February 23; March 2 and 8, May 23; and June 7, 14, and 28, 1995, US GPO, Washington, D.C. 1997, p. 47.

¹⁰⁶*ibid.*, p. 390.

fundamental aspect of the act nor criticism of the Board concept.¹⁰⁷ The unions have never contested the appointment of individual Board members or challenged the governance system as a whole. They have been fairly successful in bargaining for wages, and postal pay rose quickly through the first decade, from an average of \$7,594 annually in 1970 to \$21,146 in 1981 (See Table 4).¹⁰⁸

The Board's makeup, as well as the legitimacy of running a public service almost exclusively with corporate directors, has seldom been challenged from any corner, with two notable exceptions. Ralph Nader's Center for the Study of Responsive law campaigned for residential consumer representatives to the Board in the early 1980s, and retired National Association of Letter Carriers official Tony Huerta has campaigned for a worker governor, both without serious support from the unions or consumer groups.¹⁰⁹ Clearly, most postal workers, consumer advocates, and non-profit mailers have not been part of a political discussion challenging the "right" of big business to represent the "public interest," so they have not attempted to intervene in board appointments.

The Board meets once a month and has a minimal staff, so the day-to-day decision making power remains in the hands of the board-appointed Postmaster General and upper management staff.

RELATIONSHIP TO BROADER POLITICAL CHANGE

The kinds of corporate political alliances forged during the postal reform became a model for a more general effort to overturn regulation, limit the power of unions, and restructure taxation during the 1970s. In discussing the origins and rise of the conservative

¹⁰⁷see Mikusko, Carriers in a Common Cause, and John Walsh and Garth Mangum, Labor Struggle in the Post Office: From Selective Lobbying to Collective Bargaining, M.E Sharpe, Inc., Armonk, N.Y. 1992.

¹⁰⁸Conkey, *ibid.*, p. 65.

¹⁰⁹Ralph Nader's Residential Postal Action, "Reverse the Slide: Save the Postal Service: It's the American Way," newsletter, Washington, D.C. 1988 and Federal Times 7/26/93 p. 18.

think tanks and of more direct business lobbies like the Business Roundtable, Thomas Byrne Edsall explained in his 1984 book, The New Politics of Inequality:

During the 1970s, the political wing of the nation's corporate sector staged one of the most remarkable campaigns in the pursuit of political power in recent history. By the late 1970s and the early 1980s, business, and Washington's corporate lobbying community in particular, had gained a level of influence and leverage approaching that of the boom days of the 1920s.¹¹⁰

Edsall explains that the Business Roundtable, which became, in effect, "the political arm of big business," was formed by two business organizations whose main purpose was to restrict the influence and bargaining power of unions. Bryce Harlow of Proctor & Gamble, a key figure in postal reform, urged the merger of the anti-labor groups with the March Group, an informal corporate lobbying organization. Several of the key principals named by Edsall were also central figures in the creation of the postal corporation.

"SPECIFIC INTERESTS?"

The Board of Governors members, according to the Postal Reorganization Act, "shall not be representatives of specific interests using the Postal Service," but this provision ignores the fact that corporate dominance places general business interests at the center of postal policy. There has only been one serious equipment procurement scandal; in 1986 Board Vice-Chairman Peter Voss plead guilty to taking at least \$30,000 in kickbacks to push the interests of an automated mail sorting manufacturer in contracts that could have been worth \$8 billion. Voss attributed his legal difficulties to having applied his "training as a businessman" to his board activities. "I'm used to being involved in intricate business deals . . . I did not think of the total ethics of the situation."¹¹¹ He was fined \$11,000 and sentenced to four years in prison.

¹¹⁰Thomas Byrne Edsall, The New Politics of Inequality, W. W. Norton, New York & London, 1984, Op. 107.

¹¹¹America: Not For Sale, Public Employee Department, AFL-CIO, Washington, D.C. 1989, p. 108.

The Sears Roebuck corporation has had a long term involvement in postal politics and committees, and the Postal Service established trial full service, Sears-staffed postal counters in Sears Roebuck stores in 1989. A series of protests and boycotts by the American Postal Workers Union followed, and the project was ended. Norma Pace, a USPS Board member who was elected Chairman in 1991 was also a director of Sears and owned stock in the company. Consumer advocate Ralph Nader called on her to resign, charging a conflict of interest. Pace denied a conflict of interest, offering the explanation that postage was a small factor in Sears' costs. She said that corporate directors were the kind of people interested and qualified to run the Postal Service and that many compete for contracts and use the mail. "I don't know who you would have [as a governor]," she said. "Everybody works for a company."¹¹²

THE SPECIAL TASK FORCE

If general business interests thoroughly dominate the USPS, "specific interests using the Postal Service" are also well-represented in postal governance. Their entrance to policy making is through special task forces created by postmasters. Postal management is free to consult with its "customers" and invites bulk mailers, publishers, suppliers and advertising firms to meet to recommend policies and rates. These industry insider groups play a larger role in the formation of policy regarding the USPS than any elected official does. No similar meetings are held with residential customers, representatives of rural communities or small-circulation newspapers and journals. While members of Congress hold hearings on legislation related to the Postal Service and on broader issues, the hearings also tend to be dominated by business interests. Residential customers and consumer groups are not organized to facilitate their participation.

¹¹²Mark Kodama, "Pace Election to Board Chief Runs Into Criticism," *Federal Times*, 21 January, 1991, 10.

Postal officials have met with a Mailer's Technical Advisory Committee (MTAC) since before the reorganization. According to the Center for Responsive Law's Kathleen Conkey,

MTAC could be an example of cooperation between the Postal Service and business carried too far. The committee's 70 members meet four times a year to discuss problems of general interest to major mailers, but often the members are pushing for better service for their own companies.¹¹³

The task forces' missions are of a more specific nature. Their recommendations are frequently implemented in postal policy or in Postal Service legislative "wish lists," and postal officials provide no forum through which other stakeholders may contest the recommendations.

The Joint Industry/Postal Service Alternative Delivery Task Force was formed in 1978 to "analyze postal ways of doing business that have not been examined for decades, with the goal of preserving the volume that drives the postal system and easing needless restrictions on customers." The majority of the task force's 89 recommendations, all designed to lower costs for large mailers and facilitate the expansion of private sorting companies, were implemented. These including looser restrictions on presorting and the lifting of postal restrictions on the use of overtime hours for sorting third class mail. A justification for the low third class rates had been that, with more relaxed time constraints, the mail could be used to fill off-peak hours when some workers may otherwise be idle, but use of overtime to sort this mail now would increase its cost without increasing the revenue.¹¹⁴

In recent years, special task forces have been convened more frequently and have taken an aggressive role in postal policy and in crafting key components of the proposed Postal Reform Act.

¹¹³Conkey, *Postal Precipice*, p. 296.

¹¹⁴Conkey, *ibid.*, p. 296.

In 1988, Postmaster Anthony Frank established a special task force whose job was to study ways to expand the private sector of mail processing and avoid the use of USPS labor. The committee was called the “Joint Industry/Postal Service Worksharing Project Team” and consisted of postal management, representatives of some of the largest mailers in the country, and executives of pre-sort bureaus. The Worksharing Team’s November, 1988 report addressed changes in USPS rates and procedures that would “enable the Postal Service and Industry to work more efficiently together . . .”¹¹⁵

The “cost-saving” concepts detailed in this almost 300 page report were reflected in the rate structure adopted by the USPS in February of 1991. The organizational changes and goals proposed by this team were also reflected in the USPS’ Corporate Automation Plan and in changes that were implemented in the mail sorting and delivery operations. Private industry was represented in two categories: a group of the largest mailers, like Time, Inc. and Reader’s Digest and a group of executives of mail sorting businesses.

In the Worksharing Team report, the members recommended postal rate and policy changes, of which some of the most significant were implemented. Each of those below benefits the private companies who sort mail and benefits the large mailers who are already granted large discounts:

1. Rate incentives for companies to sort mail in walk-sequence order, or the order in which the letter carriers deliver the mail. This change eliminated much of the postal clerk and letter carrier sorting and is an operation that is performed with advanced bar coding equipment.

2. Allow mixing of five-digit barcoded and Zip + 4 pre-barcoded mail and allow mixing of permit and meter mail. Previous to the implementation of the task force recommendations, bulk mailers were required to have these mailings accepted separately. They could not combine them for the deepest possible discounts.

¹¹⁵Final Report of the Joint Industry/Postal Service Worksharing Project Team, Special Projects Department, USPS, November, 1988.

3. Rebate money to the pre-sort firms for "value-added." When businesses or agencies have the pre-sort companies to pick up mail paid at the single-piece first-class rate, the pre-sorters can mix this with their lower-rate mail and be refunded the difference between the pre-sort rate and the full rate. This can amount to almost 9 cents per piece, and the rebating allows the private companies to operate as full-service mailing facilities.

4. Multiple mail acceptance times. The companies requested that the USPS relax its demands that the first-class mail be delivered to postal sorting facilities by an early evening hour and with a current postage meter date. This change required postal facilities to adjust their work scheduling to the largest presorts and probably played a significant role in the service's later relaxation of delivery standards.

Industry members of the Worksharing Team included:

Vince Giuliano - Vice President, ADVO
 Hank Ablauf - Vice President, Mellon Bank
 Ed Bjorncrantz - Sears Roebuck
 Robert Rosser - Bell & Howell
 George E. Stiver - R.R. Donnelly & Sons publishers
 Thomas Lagan - Vice President, Publishers Clearing House
 Deane Raley - Director of Postal Affairs, Time, Inc.
 John Ruggiero - Director, Aetna Life and Casualty Co.
 Ralf Seiffe - MailSort
 Heywood Girion - Mailing Services, Inc.
 Henry Daboub - President, National Presort
 Charles Thompson - Ace Mailing¹¹⁶

In 1992, the Competitive Services Task Force was created; its mission was "to make short- and long-term recommendations that will make the Postal Service more attractive as the carrier "of choice."¹¹⁷ The Task Force was chaired by Robert Kamerschen, CEO of ADVO, the nation's leading mailer of advertising circulars,

"Regardless of mail class, the industry should be very pleased with postal management's aggressive and conscientious initiative to make the Postal Service a more market-driven institution," said Kamerschen. The committee compared the Postal Service to

¹¹⁶Final Report of the Joint Industry/Postal Service Worksharing Project Team, Special Projects Department, USPS, Washington, D.C. November, 1988, appendix.

its competitors in "alternate delivery" for newspapers and magazines and in package and express services. It recommended that the USPS offer highest possible rate discounts, emphasize automation compatibility, offer tracking & tracing for Priority & Express mail, offer "system certification" for pre-sorts (allow certain commercial mail sorting companies to have automatic approval for their mailings, without inspection), and contract out some letter carrier routes. The CSTF took a particular interest in the USPS labor policies and recommended the invocation of layoff clauses, disciplining clerks for customer complaints, elimination of union rules, local area wage scales, and placing mirrors and instructions to "smile" at each postal window.¹¹⁸

Competitive Services Task Force private industry members included:

Vince Giuliano - Vice President, ADVO
 Bernard Schraml - Reader's Digest, Inc.
 Jeff Brewer - Bell & Howell
 David Allan - Sears Roebuck
 Richard Barton - Senior VP, Direct Marketing Association
 Gene Del Polito - Exec. Dir., Advertising Mail Marketing Assoc.
 William Mahoney - Pitney-Bowes/ Nat'l. Assoc. of Manufacturers
 Frank Delfer III - Senior VP, Int'l Billing Services/Cable Data
 John M. Nolan - CEO, Tritech Services/Merrill Lynch
 Dennis MacHarg - President, Advance Presort
 Deane Raley - Director of Postal Affairs, Time, Inc.
 Richard L. Graff - Dow Jones & Co.
 Gene A. Del Polito - Advertising Mail Marketing Association
 Richard Barton - Direct Marketing Association
 Robert C. Williamson - National Association of Presort Mailers¹¹⁹

FuturePost '95 was a conference that studied worldwide postal "reform." Executives of postal services in several European countries who had succeeded in corporatizing, privatizing, or establishing joint partnership with private couriers like DHL discussed strategy and international markets. The U.S. participants made recommendations that were largely reflected in the first version of Rep. John McHugh's postal reform act, HR 3717. Their recommended changes included customized service for some large mailers, universal

¹¹⁷Competitive Services Task Force Meeting Summary, April 6-9, 1992, USPS Washington, D.C. 1992, p.1.

¹¹⁸ibid., p. 14.

¹¹⁹Competitive Services Task Force Participants, USPS, 1992,

access to mailboxes, capping prices to an index, outsourcing services, no straying from "hard copy" delivery mission, and separation of the issues of uniform rates and universal service.

Future Post working group members included many of the same company representatives present on other task forces, among them:

Vince Giuliano - Vice President, ADVO
 Robert Kamerschen - CEO ADVO
 John M. Nolan - Tritech Services
 John Cleary - President and CEO, Donnelley Marketing, Inc.
 Michael Critelli - Vice Chairman, Pitney Bowes
 Cary Baer - Vice President, Reader's Digest
 Mury Salls - Vice President, International Billing Services
 Laurel Kamen - Vice President, American Express
 Theodore Deikel - CEO, Fingerhut Companies¹²⁰

Postal rates underwent a major revision effective July of 1996, and again the USPS used a special task force to set priorities. The new postal rates provided for deeper discounts for barcoded, presorted mail and required mailers to do more of postal workers' traditional jobs to qualify for discounts. A first class letter could be sent for as little as 23 cents postage, if properly barcoded and sorted, while the residential customer paid 32 cents. The new discounts were combined with higher bulk rates for mailers who didn't have the technology to barcode mail -- thereby virtually compelling some mailers to use private mail sorters to prepare their mail.

The Postal Service initially claimed that reclassification would be "revenue neutral" - that discounts and increases would offset each other.¹²¹ But this statement quickly changed once the new rates were approved. According to a June 29 New York Times article, the rate reductions could cost the USPS \$400 million in revenue, which, according to the article, was supposed to be made up for in labor cost savings.¹²²

¹²⁰FuturePost 95 Working Group Papers, USPS 1995.

¹²¹Most early publicity on reclassification makes this claim. See Western Area Update (USPS Western Area Employee magazine) April 1995, p. 4 and "Mail Reclassification Chart" Mail magazine.

¹²²New York Times, 6/29/96, p. 17.

Local postal management teams planned to cut union jobs to cope with the revenue decreases. According to the Seattle USPS "Performance Cluster Meeting" minutes, "USPS will be losing revenue due to classification reform, which must be offset by reduction of operating hours. . . Due to reclass impacts, the District budget will be significantly reduced, possibly by as many as a couple hundred positions. The District will be tasked for workhours savings of approximately 197,000 hours."¹²³ While reclassification would reduce revenue by deepening discounts, it did not significantly decrease the amount of mail postal workers eventually sorted nor did it ultimately decrease the number of workers employed.

The June 29 New York Times article estimated that a company could save an additional \$39,000 over the old rates on one 750,000 piece mailing under the new rates. The Times reported that ADVO, the nation's largest advertising mail company expects to save \$20 million under the new rates, \$15 of which would be passed on to their customers.

The Classification Reform Implementation Advisory Groups included:

Mury Salls - Vice President, International Billing Services
 Dennis MacHarg - President, Advance Presort
 Gene A. Del Polito - Advertising Mail Marketing Association
 Jeff Brewer - Bell & Howell
 Charles Thompson - Ace Mailing
 Robert C. Williamson - National Association of Presort Mailers
 Gretchen Schroeter - Metromail
 Marjann Caldwell - Time-Life, Inc.
 Charles Howard - Harte-Hanks Direct Marketing
 Dana Rhodes - Zip Sort, Inc.
 Cheryl Miller - ElectroCom Mail Systems¹²⁴

Finally, in late 1997, Postmaster Runyon sought support for legislative reform by summoning a "blue ribbon committee" of top mailing and advertising industry executives. Their report supported many of postal management's goals and supported the changes recommended in the Postal Reform Act. Runyon said he was "encouraged to hear the blue ribbon committee echo the beliefs of many in the mailing industry that we must see past the

¹²³Seattle district Performance Cluster meeting minutes, June 1996.

outstanding success of today and make change happen for the future . . . We're going to deliver your message on legislative reform to Capitol Hill," he said.¹²⁵ The committee recommended that the Postal Service more aggressively control costs and partner with the mailing industry to obtain postal legislative reform.

Blue Ribbon committee members included:

Theodore Deikel - Chairman and CEO, Fingerhut Companies, Inc.
 Randy Lintecum - President of International Billing Services
 Frank W. Delfer - VP for billing systems and operations, AT&T
 Robert "Kam" Kamerschen - CEO of ADVO, Inc.
 Leon Gorman - President, L.L.Bean
 Harry V. Quadracci - President, Quad/Graphics
 John L. Clark - President and CEO, CTC Distribution Direct
 Christopher M. Little - President, Meredith Corporation Publishing

Through the special task force, the board of governors, and management reliance on private interests to determine public policy, corporations have come to dominate the decision-making of a public institution. Workers, community organizations, non-profit organizations, environmental groups, and individual consumers are not at the table.

CONCLUSIONS

The enormous influence of big business on postal governance is exercised in official and semi-official forms, from the Board of Governors to the various task forces. This influence has yielded a direct benefit through a rate structure which favors large volume mailers and through contracting of work to private firms. The growth of the private-for profit mail sorting industry spawned by the rate discounts will be discussed in the next chapter, as will the practices of contractors.

It may be reasonable and efficient for the public Postal Service to grant volume discounts for large mailings. If the discounts granted were equal to the cost savings (and if

¹²⁴USPS Classification Reform Web Page, 1996.

¹²⁵USPS Web Site: <http://www.usps.gov> Release No. 95, September 8, 1997

low-wage labor were not considered an important "social cost") the discounts might be fair. Since, though, the discounts outweigh the cost savings, one can only assume that the full first class rate payer is contributing more than their own cost of service. Even proponents of privatization acknowledge that first class mail users pay a disproportionate burden and are "highly diffuse and not well organized," making it difficult for them to exert their interests.¹²⁶ Discounts could be apportioned differently; Sweden's deregulated postal service, for instance, gives coupons for household discounts on letter mail.¹²⁷

While it is also certainly reasonable to consult with officials of large economic organizations, it is not reasonable to consult only with business. There is constantly the danger that businesses with huge resources and great lobbying power will push decisions in their favor. The governing structure of the USPS has no role for, or individuals representative of, residential customers, community or environmental concerns, or small publications or non profit organizations. Congress' oversight is too far removed to have an impact on day-to-day decisions.

Even the unions that negotiate employee pay and conditions are excluded from input on strategic decisions. The Postal Service began to meet with outside business leaders to "redesign" Priority Mail in 1993; it did not notify the union that the work would possibly be outsourced until mid-1996, three months after placing advertisements in newspapers for contractors. Similarly, the Service awarded a pilot for-profit contract to repair mail equipment in 1992, but the union was notified of possible outsourcing in late 1996.¹²⁸

If the public postal service were to truly balance social priorities, the results might differ. Discounts given to, and volume of advertising mail produced, might decline. Certainly, if environmental advocates were at the table, the rates would probably not promote the high volume of advertising mail currently going to homes. For instance, in The

¹²⁶R. Richard Geddes, "Agency Costs and Governance in the United States Postal Service," in J. Gregory Sidak, editor, Governing the Postal Service, American Enterprise Institute Press, 1994, p. 136.

¹²⁷"Country Profiles," Canadian Union of Postal Workers, Education Service, Toronto, ON, Canada, 1998.

Netherlands, residential customers can put a sticker on their mail boxes to refuse advertising mail. If worker and community economic interests were represented, the wages and benefits paid by contractors might be regulated to ensure adequate incomes for workers. Residential customers might ask for expanded local post office hours or more locations; they might also want the post office to provide internet access and facsimile service.

The governance policies of the Postal Service have consistently served business interests above all others, as intended by the initiators of postal reorganization. The next chapter will discuss the ways discounts have nurtured and expanded an alternative to the postal service's unionized mail sorting operations -- the private pre-sort businesses and the uses of technological innovation to expand the portion of operations contracted to private corporations.

¹²⁸USPS Project Charts, documentation in 1998 contract negotiations between APWU and USPS.

Chapter 3

Discounts, Contracts or Subsidies?**INTRODUCTION**

Throughout the 1980s and 1990s, corporations in the mailing industry and contractors have pushed to privatize the Postal Service through contracting to private business and through structuring rates to favor large mailers and private mail processing companies. At the same time, technical change has swept the USPS, as high-speed mail sorting equipment was perfected and put into operation. The new technology has made it easier to centralize and privatize mail sorting. As seen in the last chapter, postal policy has been to steer the benefits of technical and organizational change toward private industry. This chapter examines the ways that private businesses have benefited from recent changes.

Privatization, it turns out, requires a lot of public resources. In effect, the public subsidizes the "private" operations in many ways: through rate incentives, through public research and development, through USPS purchase of contractors' equipment, and through city and state financial "incentives" to private mail sorting companies. In addition, workers subsidize the private operations through working for low wages.

THE CLAIMS OF PRIVATIZATION ADVOCATES

Proponents of privatization claim that contracting of government services promotes economic efficiency for consumers, entrepreneurialism and technological innovation.¹²⁹ They also claim that privatization frees the public from subsidizing industries, that share ownership is broadened, and that competition replaces monopoly.¹³⁰ In addition, they

¹²⁹Douglas K. Adie, Monopoly Mail, New Brunswick, N.J., Transaction Publishers, 1989. pp. 1-2 and

¹³⁰J. Gregory Sidak, ed., Governing the Postal Service, (Washington: AEI Press, 1994), 1, "Pro and Con," Wall Street Journal, 2 October 1995, R27 and Dennis J. Gayle and Jonathan N. Goodrich, eds., Privatization and Deregulation in Global Perspective, (New York: Quorum, 1990), 8 & 54.

promise that replacing public service provision with private will "depoliticize industries."¹³¹ That is the theory; reality, especially as seen in case studies of postal contracting, is considerably different.

Taxpayers, or, as is the case in postal contracting, ratepayers find that instead of subsidizing companies under public control, they are now underwriting private companies with little or no interest in meeting social goals. The results of contracts are public subsidies of many kinds to private industries and public subsidies to transnational corporations with near-monopoly power. The innovation or technological advancement in the postal fields has been sponsored and nurtured by the public, but the beneficiaries of the new technologies are often private. Rather than democratize economics through broad shareholding, the postal contractors have increased economic inequality, bolstering the wealth of investors or executives and drastically lowering the wages available to community members for mail-related work.

CONTRACTING AND "ATTRITION"

There are three major ways that privatization can be accomplished: divestiture, contracting, or attrition. With attrition, government allows private investors to step in to areas that were once the exclusive domain of the state. As one theorist notes, "Privatization by this sort of attrition depends largely on the lobbying skills of the private sector itself."¹³²

In the case of the Postal Service, and in the United States in general, contracting and attrition are the major ways that functions of government are transferred to the private sector. The mail presorting industry is an example of "attrition," though the term hardly does justice in explaining the way that government created and nurtured an industry, through two decades of postal rate discounting.

¹³¹ibid., 76.

LOWER WAGES: A SOURCE OF PROFIT

E.S. Savas, Director of the Privatization Research Organization denies that low wages are a product or necessary condition of privatization. In a Wall Street Journal exchange, he stated, "It is a common fallacy to believe that the savings through competitive contracting come from lower wages. That is simply not true in the general case."¹³³ He goes on to explain that private corporations tend to use more advanced technology than government does, so they achieve efficiencies and lower costs through use of physical capital instead of simply through lower wages.

In fact, lower wages are consistently an important factor in contractor profits from postal operations. Studies of extensive municipal and state contracting of services show wages consistently lower when services are contracted out.¹³⁴ The charges by all proponents of postal privatization that USPS workers are "overpaid," Congressional hearing testimony about contracting, Postal Service cost studies, and GAO reports all indicate large wage differentials between public and private postal work. In the cases this chapter considers, lower wages are an important factor in a contractor's motivation to take on postal work, and profits are the ultimate goal.

On the other hand, union literature often claims that the purpose of privatization is to lower wages. This is also erroneous and assumes that the USPS will successfully cut costs by contracting out its operations. This chapter will show that the push for privatization is motivated by contractors' desire for profits (and the facilitation of this by postal managers and governors), not by public officials' desire to lower costs. Some of the postal operations that have been contracted out produce enough revenue to support high wages and profits; the fact that wages are lower reflect not only the contractors' desire to increase profits but

¹³²Fuat M. Andic, "The Case for Privatization: Some Methodological Issues," in Gayle & Goodrich, *Privatization and Deregulation in Global Perspective*, pp. 38-39.

¹³³Michael Allen, "Pro and Con," Wall Street Journal, 2 October 1995, R27.

¹³⁴John D. Donahue, The Privatization Decision: Public Ends, Private Means, New York, 1989, Basic Books, pp. 138-149 and William T. Gormley, Jr., ed, *Privatization and Its Alternatives*, Madison, The University of Wisconsin Press, 1991, p. 302.

also workers' limited bargaining power in a largely unorganized private sector. The postal contractors have been aggressively anti-union, largely in an attempt to keep wages low and profits higher.

RATE DISCOUNTS AND THE CREATION OF AN INDUSTRY

The growth of the private sector mail sorting industry is a result of rate discounts and policies recommended by special task forces and implemented by the Postal Service. It is a good example of the concept of privatization through attrition, as the growing private industry need not directly take over government facilities.

The Post Office has a long history of discounting rates for customers who mailed large volumes of correspondence, periodical literature, or advertising. The post office granted rate reductions for bulk mailing early in its history through the "pound rate" offered to magazines and newspapers as early as 1879. The pound rate stimulated the mail order industry and initiated the use of mail for large scale advertising. Companies like Sears, Roebuck benefited immensely from the resulting opportunities for mail-order business.¹³⁵ Letter mail, however, was charged at the per-piece rate until the decade after the Postal Reorganization Act. In 1976, with business increasing its influence over postal policies, the Postal Service began to offer discounts in postage for first class mail sorted into zip code order and bundled before being delivered to the postal processing centers for final sorting. These discounts began with minor rate reductions of 1 cent per piece. The discounts for presorted bulk third-class mail were introduced in 1979. Initially, the discounts were argued on the basis that pre-sorting saved work inside the post office. With postal wages rising to median wages for white males, private companies could hire people to pre-sort for minimum wage and make a profit on the process.

Discount rates for presorted first class mail have increased as a total monetary amount and as a percentage of the full first class rate since their introduction. The 1 cent

discount on the 13 cent stamp of 1976 represented a 7.7% discount on the single piece first class rate. The discounts have deepened over the years. As of 1996, mailers that meet volume and preparation requirements could mail first class at a 9 cent discount on the 32 cent stamp, a 28.1% discount. Similar discount rates exist in the other mail classifications, and third class (now called "standard") discounts are deeper than first class. The lowest available rate is for "saturation" standard mail, what most Americans term "junk mail," which can be sent for just over 11 cents per piece.¹³⁶

These discounts have two functions. The first, and most obvious, is that they allow large volume mailers a far lower price than is available to individual consumers. The savings on a 100,000 piece mailing of first class letters at this rate is \$9000. While individual households spend a small amount per year on postage, large mailers have a huge stake in lower rates. The second result has been the creation of private mail sorting companies. Though private companies are prohibited from delivering mail, they can collect mail from various mailers, prepare it in the correct order to qualify for the maximum discounts, and either deliver it to the Postal Service or have it picked up by the Postal Service. The rate discounts begun in 1976 provided the market for this industry.

The USPS' official term for private mail sorting is "worksharing." The Postal Service claims that the discount represents the cost savings provided by the customer's preparation of the mail. This claim does not withstand examination; in fact, the discounts function as subsidies for the largest mailers.

The 9 cent discount available on first class mail amounts to a discount of \$90 per thousand pieces. The Postal Service claims that its own cost for automated mail sorting is \$4 per thousand pieces.¹³⁷ Mail can be processed to carrier sequence with 4 to 5 sorting sequences on automated equipment; therefore, the processing should cost the Postal Service

¹³⁵Baxter, *ibid.*, 46-47.

¹³⁶United States Postal Service, The Mailroom Companion (Washington: USPS, 1996)

¹³⁷United States Postal Service, Postal Facts, Fiscal Year 1993, handout for Board of Governors meeting, 1994.

roughly \$20 per thousand, yet an additional \$70 per thousand more than this cost is discounted. The Postal Service's 1995 Annual Report contains a similar analysis of cost "savings" for private presorting. Under the heading "cost avoidance," the report says that eleven digit barcoding by private mailers "is expected to generate savings [for the Postal Service] of \$27 per thousand pieces."¹³⁸ By the most generous estimate, an excess of \$60 per thousand pieces over cost, or \$6000 on a 100,000 piece mailing, is being discounted. Even the most thoroughly bar-coded and sorted mail must be sorted again by the Postal Service to merge with other mail.

Discounts of this sort represent millions in annual savings to advertisers, banks, utilities, and even city and state agencies. The rate cuts seem to violate the postal mission of providing uniform rates, because no discounts are offered for the home consumer in the current rate structure. If discounts truly reflected the amount of USPS sortation that mail pieces required, individual household bill payers would certainly qualify. Consumers return bill payments in pre-printed envelopes which require less sortation than any other kind of mail, since the envelopes contain an exclusive bar code for the firm, are directed toward a special sorting process, and are made ready for the customer early in the morning, avoiding street delivery. The Postal Rate Commission, which reviews Board of Governors requests for rate changes and holds hearings, has heard testimony for a bill-paying discount, but none has been instituted. The office of the consumer advocate for the Rate Commission, a nominal public "ombudsman" in the hearing process, had proposed a 12 cent discount for individual customers' return payments, yet the Postal Service has opposed such a rate in its proposals. Rate Commissioner Edward Gleiman accused the Postal Service of renegeing on a promise to offer a return-bill discount and said a reduced price was workable.¹³⁹

¹³⁸United States Postal Service, Annual Report of the Postmaster General, Fiscal Year 1995 (Washington: USPS, 1995), 9.

¹³⁹Bill McAllister, "Agency Broke Promise, Rate Panel Chief Says," Washington Post, 14 March, 1996, A 25.

"A CREATURE OF THE RATES"

The postal rate discounts provide an environment for the growth of the private presort industry. Presort businesses pick up mail from their customers, sort it to gain maximum discounts, and charge a per piece rate for sorting, generally 1 to 2 cents. By pooling the mail from many customers, presort businesses can qualify for the maximum discounts. Presort companies have existed since the 1976 discounts were begun, and in the early years, they were generally small businesses that sorted mail by hand. Often, sheltered workshops for the handicapped did such work. The sorting was done manually by the majority of the businesses until the mid 1990s, and retired postal workers sometimes started businesses of this type. A phone survey of 40 presorting business in western Washington State in 1990 revealed that only 3 used automated equipment and only 12 employed more than 15 people.¹⁴⁰

Still, the industry was characterized as "an entrepreneur's dream" by a Wall Street Journal report written in 1989. According to the article, sorters were paid minimum wage, and start up costs were relatively low. In 1989, the National Association of Presort Mailers, an industry group formed in 1984, estimated there were 250 such companies in the nation.¹⁴¹

New sorting technologies were key to both the growth of presort businesses and the possibilities for privatization of mail processing. Optical character readers (OCRs) and bar code sorters (BCSs) had been in development by the Postal Service since the mid-1960s, but the technology was not deployed on a large scale, due to problems with accuracy, until the mid-1980s. The OCR "reads" an address and translates it into a bar code, which it sprays on the letter. The BCS "reads" bar-coded letters, and both operate at speeds of up to 40,000 letters per hour. The largest manufacturer of these machines is ElectroCom

¹⁴⁰author's survey, October 1-15, 1990.

¹⁴¹John R. Emshwiller, "Presorters Prosper in Niche Provided by Postal Service," Wall Street Journal, 5 June 1989, B.2.

Automation, currently a subsidiary of the German company, Siemens. Siemens also contracts with the Postal Service to provide the new mail transport system in large facilities.

In the late 1980s, the Postal Service encouraged the private presort companies to invest in OCRs and BCSs by cutting the discounts for non-barcoded, manually presorted mail. The larger presort companies began to buy the automated equipment in the late-1980s and 1990s, and the rate structure began to reward private mail processing more handsomely. The trend has been for the smaller businesses to close and for larger capital to buy out presorts and invest in this business.

The presort mailers have formed national lobbying associations and work directly with postal managers on local and national committees. They intervene in rate commission and Congressional subcommittee hearings, and they are members of the Postal Service's "special task forces," putting them in a position to recommend rate and procedural changes. As Ralf Seiffe, Chairman of Mailsort Chicago and Vice President and Treasurer of the National Association of Presort Mailers testified before a Congressional committee, "I am here today to talk about our industry . . . because we are a creature of the rates. No one is more interested in how rates are made and applied than we are. . ." ¹⁴² The presort mailers have lobbied to increase their "worksharing." Their goals match those of postal management closely, and they have been successful, with the proportion of mail they handle rising. Currently, 48% of letter mail is barcoded outside the Postal Service; in 1991, 38.1% had been barcoded by private firms. ¹⁴³

LOW WAGES -- AN *ADDED* INCENTIVE

Since their formation, the presort businesses have paid low wages. Objective wage data is difficult to get, because the industry does not have its own SIC code (it is included

¹⁴²Hearings before the Committee on Post Office and Civil Service, House of Representatives, 102nd Congress, Second Session, Serial No. 102-51 (Washington: USGPO, 1993), 293.

¹⁴³United States Postal Service, Annual Report of the Postmaster General, Fiscal Year 1997 (Washington: USPS, 1997), available at www.usps.gov and USPS, Comprehensive Statement on Postal Operations, 1992 (Washington: USPS, 1993), 27.

with mail advertising and mailing list companies), and Bureau of Labor Statistics household data for non-government mail clerks includes people who work in the mail rooms of businesses preparing incoming and outgoing mail. Still, the evidence is overwhelming that wages are very low and the industry boasts that it pays far below wages paid to USPS workers for virtually identical work. An industry survey published in Gale Research's Service Industries, USA, showed that average payroll per employee in these establishments was \$16,574 in 1987. This figure includes the income of managerial and sales staff. By comparison, the USPS figure for the same year, excluding managerial costs but including employee benefits, was \$34,424.¹⁴⁴

In a statement prepared for 1995 Congressional hearings, National Association of Presort Mailers director Robert Williamson said that USPS paid "wage rates more than 4 times that paid workers in the private sector."¹⁴⁵ While Williamson's USPS figure presumably must include benefits, with USPS automation clerks earning a maximum of \$17.51 per hour in 1997, presort businesses would be in violation of federal minimum wage standards to pay one-fourth of that. Still, presort wages have been stuck at or near minimum wage levels by most reports.¹⁴⁶

Seattle, Washington presorts were reported paying \$4.25 per hour in 1992 and \$5.25 to \$7 by 1994.¹⁴⁷ The March, 27, 1995 issue of Business Mailers Review reported presort wages in the range of \$5 to \$7.50 per hour.¹⁴⁸ A report by an American Postal Workers Union observer in suburban Chicago lists \$4.50 as the wage rate in 1994, and a union contract agreement with a New Jersey presorter in 1992 shows rates of \$5.05.¹⁴⁹ Bureau of Labor Statistics household data show extremely low wages for private sector mail

¹⁴⁴US Department of Commerce, Statistical Abstract of the United States, 1992, p. 549.

¹⁴⁵Hearings before the Subcommittee on the Postal Service of the Committee on Government Reform and Oversight, House of Representatives, 104th Congress, First Session, 104-1 (Washington: USGPO, 1997), 482.

¹⁴⁶American Postal Workers Union, August 1997 pay charts (Washington: APWU)

¹⁴⁷Zipsort wage agreement document, 1991; author interview with Postal Services, Inc., worker Jennifer Sung, 4 April, 1994.

¹⁴⁸Business Mailers Review, 27 March, 1995, 2.

¹⁴⁹Agreement between Mailing Services, Inc. and Local 888 UFCW, Effective April 3, 1992.

clerks as well. As late as 1992, the private sector full time workers' mean weekly income was less than \$300. This figure includes overtime. Private mail clerks earn half, or even less, of what unionized USPS clerks earn by these estimates (See Table 4).

THE GROWTH OF PRESORT INDUSTRY

In contrast to privatization advocates' ideal of small-scale entrepreneurs who compete with bloated government bureaucracies, some of the presort facilities employ nearly as many workers as do many USPS urban processing centers. The Chicago area's Advance Presort employs close to 500 workers;¹⁵⁰ the Los Angeles area United Presort Services employs 600 workers.¹⁵¹ Recently, larger corporate partners including R. R. Donnelly, World Marketing, Inc., and Lockheed are acquiring presorts, and several chain operations have developed.¹⁵² Postal Services, Inc. is an Omaha based chain which is creating a national network by buying up mailing companies across the country. The company's 1994 annual sales were \$50 million.¹⁵³ Another chain called Presort USA was announced in the February 1995 issue of Business Mailers Review. Phoenix-based International Mail Processing Inc. has mail sorting operations in Las Vegas, Portland, Sacramento, San Francisco, and Seattle, as well as in its home city, and the company is part of a new Postal Service "prequalified wholesaler" program, under which the company passes certain standards for volume and quality and gets the ability to use the Postal Service

¹⁵⁰Doreene Motley, "A Visit to a Non-Union Job," The Local Line, American Postal Workers Union, Carol Stream, IL, September/October 1994, 10 and "Postal Partnerships," USPS Focus, March 1993, 6.

¹⁵¹"United Presort Enhances Service With Image Processing," MAIL: The Journal of Communication Distribution, October, 1997, 100.

¹⁵²"Lockheed Martin Announces Acquisition of Postal Service Companies, PR Newswire, 25 February 1998, available at <http://www.prnewswire.com>; "Acquisitions Changing Face of Industry," MAIL: The Journal of Communication Distribution, October, 1997, 16; "Rate Hikes Demand That We Plan Ahead," *DM News*, 23 April 1990, 18.

¹⁵³The Business Journal, Sacramento, May 30, 1994, p. 10.

logo in advertising. The program also means that the Postal Service can recommend the use of IMP to businesses that inquire about presorting.¹⁵⁴

Other beneficiaries of rate discounts include large firms that, rather than use presorts, have enough mail volume to set up in-house automated mail sorting operations. Fidelity Investments, the nation's largest mutual fund, is an example of such a firm. Fidelity opened its own in-house operation precisely in order to maximize the gains available from pre-sort discounts. The 2,000 workers earn a base of \$17,000 to \$19,000 a year and processed 140 million pieces of mail in 1995. Reporters said that employees often worked six- or seven-day weeks, 10- to 12-hour days. Most of the mail is trucked by the Postal Service to the nearby airmail facility for dispatch. Fidelity also received public subsidies in the form of free land from the state of Kentucky in exchange for the creation of 500 "new" jobs in 17 years, though the work would have been done by local USPS workers for higher wages had Fidelity not set up its own facility.¹⁵⁵

Eventually, by contracting to private companies, the USPS could privatize mail sorting, eliminating approximately 100,000 public sector jobs. Certainly, that course has been advocated by such diverse groups as the Heritage Foundation and the Progressive Policy Institute, and the Postal Service now officially promotes the use of these low-wage operations. The USPS has already contracted out mail processing on a temporary basis, making agreements with presorts in Denver, Phoenix, Santa Ana, and Portland to process regular fully-paid first class mail during peak times.

CONTRACTING OUT VIA REMOTE VIDEO ENCODING: THE PUBLIC FUNDS PRIVATIZATION

While the nurturing of the presort business represents "privatization by attrition," large scale, direct contracting of labor-intensive postal operations has also been a feature of

¹⁵⁴Stephanie Balzer, "Putting stamp of success on mailing firm," The Phoenix Business Journal, 21 July 1997.

USPS operations since 1991, when the Postal Service announced it would contract out its Remote Video Encoding (RVE) operations. The American Postal Workers Union eventually won an arbitration award requiring the Postal Service to offer the jobs to USPS workers, and an agreement was negotiated to bring the work back in-house in 1994. The contracts awarded for RVE work, though, are representative of the types of postal contracts that are attractive to corporations in the defense, information processing, electronics, and transportation industries. The experience of RVE contracting is representative of the types of contracts USPS management is currently pursuing. The wages paid are typical of contracted postal work, and the public subsidies given to the contractor corporations show the considerable mobilization of public resources involved in "privatization."

The Remote Bar Coding System was developed as a new method of sorting mail pieces which cannot be "read" by the high-speed Optical Character Reader (OCR) -- mail that has handwritten addresses or interfering graphics. With remote encoding, a modified OCR, containing a video camera, captures the image of non-readable mail. An identification tag is sprayed on the back of the letter, the image is transmitted by phone lines to a remote location, and an operator at a video terminal keys an extract code. A computer programmed with address directories determines the correct bar code, and that bar code is transmitted back to the mail site and is applied to the letter on a second pass through a Bar Code Sorter. From that point on, the mail can be read by Bar Code Sorters.¹⁵⁶

The Remote system was designed to allow mail which would otherwise have to be hand-processed to enter the automated sorting stream. It also allows large concentrations of mail "images" to be built up in a single location; in other words, one remote keying site may process mail which is physically located in several different cities. While in some countries, video encoding is done close to the actual pieces of mail, the system was designed to allow distant operation. With manufacturing jobs in many countries being moved to low

¹⁵⁵ The Wall Street Journal, Mar 20, 1996, A1.

¹⁵⁶ Postal Life magazine, September-October 1990. U.S. Postal Service, Washington, D.C.

wage “export processing zones,” the technological possibilities in this system mean that the mail can be processed outside the country. In fact, the private mail sorting companies have a parallel process, and there are remote video encoding plants in Mexico.

The RBCS technology is not unique to the United States. Remote systems have been installed in Canada, Australia, Sweden, Switzerland, and France.¹⁵⁷ While in all other countries, the remote encoding operations were performed under public auspices, the U.S. Postal Service management initially decided to contract the operation out to private, for-profit corporations.

CONTRACTING OUT AND “SAVINGS”

The preliminary decision to contract the operation was announced in July of 1990, after a USPS study of the comparative costs of in-house versus contracted operations found that a substantial “costs savings” would occur if the RBCS was contracted to private business. Low labor costs for the contracted facilities were the only basis for the projected savings; in fact, the contract administration costs and the separation of the coding facility from the mail itself entailed high additional costs that would not occur if the work were to be done in-house.¹⁵⁸ The Postal Service supplied all of the equipment to the contractor and had done all of the research and development on the process. The USPS also paid for all of the telecommunications interface.

The corporations that were granted contracts for the video encoding were not small entrepreneurs but major electronics and data processing firms, primarily from the defense sector. Having grown accustomed to a steadily-increasing stream of federal dollars throughout the 1980s, defense contractors found later modest spending cuts difficult to endure. Mail-sorting work allowed companies with an overwhelming dependence on defense to put their political connections and information systems expertise to work. Martin

¹⁵⁷Minutes of the December 7, 1990 meeting of the Technological Change Committee on the Video Encoding System. Canada Post Corporation and Canadian Union of Postal Workers.

Marietta is an example of this corporate cohort. According to a Financial Times article entitled, "Sword makers do not easily switch to ploughshares," "three quarters of Martin Marietta's business is with the Department of Defense and half the rest with other government branches. Its civil initiatives are mostly within the limits of that marketing niche: air traffic control, information systems, postal automation."¹⁵⁹ Defense industry leaders Lockheed, DynCorp, Bell and Howell, Envisions, and ITT were prominent contractors.¹⁶⁰

The Postal Service paid approximately \$16 per console hour to the firms, so their profits were dependent on how low they could get wages and other related costs.¹⁶¹ When possible, the contractors got other public entities--cities, states, and counties--to subsidize the operations in the name of economic development. Communities and states competed against one another to locate the plants, offering low wage rates, tax incentives and outright grants in order to lure the companies to their areas. Though the remote contractors replaced postal workers who operated letter sorting machines, they claimed to be bringing "new" jobs to communities. A West Virginia business journal said that economic development officials were "scrambling for a piece of this federal largess." When a Hagerstown, MD, economic development agency was approached by a bar-coding contractor, they decided to have the state undertake a new area wage survey so they could lure the contractor with lower labor rates. The state decided that previous surveys by the Bureau of Labor Statistics were incorrect due to a "large-firm bias." When the state determined a new "reasonable wage" for data entry, they were able to come up with a figure of \$5.75 an hour.¹⁶²

REMOTE VIDEO ENCODING: SUBSIDIZED, POLITICAL CORPORATIONS

¹⁵⁸Comparative Analysis In-Service Versus Contracting Out of Video Encoding, USPS, June 5, 1990.

¹⁵⁹Financial Times, March 27, 1990, Sec. 1, p. 4.

¹⁶⁰New Release, USPS, July 17, 1991, Washington, D.C., Washington Business Journal, September 10, 1990, p. 23, Business Week, January 25, 1988, p. 36

¹⁶¹USPS briefing, Carol Stream, IL, 13 April, 1994, author's notes.

¹⁶²Peter Heerwagen, "Post Office Delivers Bar Coding Jobs," North Valley Business Journal, Martinsburg, WV, July 1992, Sec. 1, p.1.

The practices of the remote video contractors show, contrary to the privatizers' claims, that the "efficiencies" in privatization are indeed in low wages, not in new technology. The companies relied on technical subsidy from the Postal Service, which had done all of the research and development, and had to purchase none of the operational equipment. This clearly contradicts privatizers' claims that the private sector is technologically "innovative" while the public sector is not. Finally, the companies received direct subsidies from state and local governments, controverting the privatizers' claims that public business is the only recipient of consumer or taxpayer "subsidy."

Contractors of this type don't always win bids through technical, ethical or financial superiority. DynCorp, for instance, had its share of contracting scandal, often using its political influence illegally. In 1987, DynCorp's subsidiary, Dynalectric, plead guilty to federal charges of bid-rigging in a contract with a Kentucky rural electrical cooperative and was fined \$6.5 million.¹⁶³ Dynalectric was also convicted of bid rigging in Atlanta in 1987 and was fined \$1.5 million. In this case, the company conspired to rig bids on a \$45 million federally funded sewage treatment project in Georgia.¹⁶⁴ The Army considered debarring them, but eventually did not. In Canada, a DynCorp subsidiary was sued for \$15 million by a subcontractor charging fraud, misrepresentation, and breach of good faith in a government project in Ontario.¹⁶⁵ These problems led DynCorp to retain former U.S. Attorney General Benjamin Civiletti (of Watergate fame) as a special ethics counsel. He was placed in charge of setting up "educational programs for employees to teach them proper ethics."¹⁶⁶

DynCorp had attacked unions and their negotiated wage and benefit rates in previous contracts. When Local 6 of the International Longshoreman's and Warehouseman's Union in the Bay Area of California organized a DynCorp naval construction site in 1989, the company laid off union workers and hired new workers

¹⁶³ Washington Post, December 9, 1987, p. 59

¹⁶⁴ Washington Post, November 14, 1987, "DynCorp Unit Pleads No Contest on Bid-Rigging Charges"

¹⁶⁵ The Washington Times, September 10, 1987.

between projects, refusing to recognize the union's jurisdiction. Union activist Michael "Doc" Stevens said, "They wanted to get rid of the people who were active in the union -- everybody who was pro-union and spoke up." DynCorp slashed wages, sick leave and health and welfare benefits. The union finally won a legal settlement and negotiated a new contract.¹⁶⁷

DynCorp was given contracts valued at \$180 million for four years and operated remote facilities in York, PA and Tampa, FL.¹⁶⁸ In addition to the benefits from the postal contract, DynCorp received direct subsidies from the State of Pennsylvania, which offered nearly \$3.9 million to DynCorp to locate in York. Pennsylvania Governor Robert P. Casey spoke at grand opening ceremonies for the plant, where workers earned \$6.12 per hour. The state gave a \$650,000 loan for facility renovation, \$2.3 million worth of employment services (recruitment and training) and, from the city of York came a grant of \$200,000 to build a "free public parking lot."

Unibase, which operated the remote encoding facility in Twin Falls, Idaho, shared a heritage of public subsidy and political controversy. Unibase was a contractor with prison systems to employ inmates in data processing activities, although they did not attempt to use prisoners to sort mail. Unibase had a controversial contract with the state of Ohio which gave the company the exclusive right to employ prisoners in data entry within the state prisons. The company paid the state the equivalent of \$1.86 per hour for prisoners' work. In spite of this payment, the state lost money on the agreement in 1988-89. The prisoners themselves were paid from 35 to 42 cents an hour plus some "incentive" pay.¹⁶⁹

Envisions, a San Diego engineering and data-entry company, also received public financial support from city and state government when the company contracted for video encoding plants in Oakland, CA and San Diego, CA. The Oakland plant employed about

¹⁶⁶ Washington Post, November 14, 1987, op. cit.

¹⁶⁷ The Dispatcher, ILWU, September 24, 1991, p. 5

¹⁶⁸ PR Newswire Association, Inc., July 18, 1991.

¹⁶⁹ Business First - Columbus, Columbus, OH, February 4, 1991.

400 people and received local and state subsidies. When Envisions chose Oakland as one of two locations for the encoding plant, executives held a news conference with Oakland Mayor Elihu Harris to celebrate 400 “new” jobs, even though the mail being coded was from Oakland, and the USPS facility was expected to downsize. The company announced that it expected to pay “\$10 an hour in wages and benefits,” but the actual dollar figure was \$8.22 in San Diego and \$8.67 in Oakland. Envisions executive Jim Haskins emphasized that Oakland was lucky to get the facility. He said that the company could have located its operations anywhere, since it is connected to the post office only by phone lines, but they chose Oakland due to the city’s “strong recruiting efforts.” These efforts included a \$2.8 million state-funded job training package and tax breaks in the form of taxation on payroll, not revenue.¹⁷⁰ The contractor was also subsidized through the Postal Service picking up its massive workers' compensation bill. Repetitive strain injuries had been a common feature of the keying facilities, and the Envisions plant in San Diego, with 375 encoders at any one time, had 145 workers compensation injury claims for Carpal Tunnel Syndrome in a year and a half. The Postal Service was compelled to cover the \$1 million in insurance premiums because Envisions claimed it was not an “anticipated expense.”¹⁷¹

Twenty four additional contracts were awarded for Remote Video Encoding in 1992, and all went to companies with defense backgrounds. Lockheed Martin's "Lockheed Support Services" got contracts worth \$81.4 million, Orkand, of Silver Spring, MD got \$28.4 million worth, Envisions was awarded contracts worth another \$20 million, and ITT got a \$4 million contract.¹⁷²

¹⁷⁰ Sarah Thailing, "Postal contract means 400 jobs for Oakland," Oakland Tribune, 22 January, 1992, C7 and Stephen Franklin, "Sorting out the consequences of Postal Service streamlining," Chicago Tribune, 25 October 1993, 1.

¹⁷¹USPS internal memorandum, Seattle P&DC, "Remote Encoding Site Visit, San Diego, CA," 26 April, 1994

¹⁷²Terrey Hatcher Quindlen, "USPS says its bar coding system is necessary, if not the cheapest," Government Computer News, 17 August 1992, 10.

LOCKHEED'S POSTAL SERVICES : GLOBALIZATION AND CORPORATE STRATEGY

A look at the entry of the aerospace-based Lockheed corporation into mail processing illustrates the potential markets available and the private benefits of postal contracting and privatization. Winning eight of the 24 contracts awarded in 1992 for Remote Video Encoding, Lockheed planned to keep up its "batting average" and open approximately 80 more sites, as the Postal Service initially announced that 250 keying locations were planned.

A Lockheed Support Systems brochure issued in 1992 advertised the company's United States postal operations and appealed to customers, "Let us assist you in seeking improvements for your country's postal service."¹⁷³ In 1997, the company won a \$46 million contract to supply optical character reading equipment to the Australian postal service.¹⁷⁴ In 1998, another USPS contract worth more than \$130 million was awarded to Lockheed for USPS Tray Management Systems in postal facilities. The tray management system is an internal railway that sorts, distributes and stores trays of mail.¹⁷⁵ The company has hired former public officials it calls "subject-matter experts," and other contractors have challenged awards when they underbid Lockheed and still don't get contracts.¹⁷⁶

ARBITRATOR RETURNS ENCODING TO USPS WORKERS

The remote video encoding contracts were short lived, however. First, the American Postal Workers Union's grievances of the contracting of remote encoding jobs were taken to binding arbitration, and in 1993 the union received a favorable ruling that required the

¹⁷³"Worldwide Postal Support," Lockheed Support Systems advertisement, Arlington, TX.

¹⁷⁴*Washington Post*, 12 November 1997, C11.

¹⁷⁵ "Lockheed Martin Federal Systems Awarded U.S. Postal Service Contract Valued at More Than \$130 Million," PRNewswire, 27 February 1998.

¹⁷⁶Rick Wartzman, "Peace Initiative: Lockheed Navigates The Tricky Transition

USPS to offer jobs created with new technology to the current workforce first. Second, the Service Employees International Union won an election and a successful contract in the Oakland encoding plant, bringing the wages to near-postal levels.

Initially, the Postal Service reacted by declaring it was only required to offer the work to current employees. If there were not enough "takers," the service would be free to contract out again. The contractors put up a weak fight to keep the work, possibly because union organizing could slash their profits under fixed-price agreements, and possibly because little of their own capital was sunk into the centers, with the USPS supplying all of the equipment. The union was able to turn the arbitration ruling into a negotiated settlement with the Postal Service in late 1993.¹⁷⁷

The settlement represented an unprecedented victory against privatization, reversing the trend of contracting out, albeit at a price. In exchange for bringing the work back "in-house," the union agreed that 70% of the workers would be "Transitional Employees," lacking health care coverage or "just cause" provisions for firing, and would be paid at a lower hourly rate than regular postal workers. The workers would, however, be part of the union's bargaining unit. APWU had considerable success in signing up the workers, even though the Postal Service is an "open shop" in which no worker may be compelled to join a union. In some facilities, over 90% of the workers joined the union.

The settlement was attacked by a group of House of Representatives Republicans and by the General Accounting Office, both of whom predicted that the USPS costs would soar. Postmaster Runyon defended the settlement, contending that USPS costs were "not substantially higher than when the work was contracted out."¹⁷⁸

To More Civilian Work," *Wall Street Journal*, 10 February 1992, A1.

¹⁷⁷"APWU-USPS Landmark Agreement on RBCS," American Postal Workers Union News Service, Washington, 3 November 1993.

UNIONS FACE MORE CONTRACTING

The return of the encoding jobs did not end large scale USPS contracting. In 1996, service executives announced that up to 7,200 jobs in "call centers" would be contracted out, and in 1997, the service awarded a contract for 10 "Priority Mail Processing Centers" to Emery Worldwide Airlines, which will employ 1,400 people.

The process of contracting with phone centers illustrates the role of private industry in postal decision-making, the technical subsidies provided by the postal service, and the profits made on low-wage operations. Phone centers centralize phone calls made to tens of thousands of local post offices across the country into a single large facility. When customers call their local post offices in many cities, they are unable to get through and are now relayed to the call center. The call centers deal with customer questions ranging from postage prices and zip code information to requests for mail to be held during vacations. The Postal Service initially commissioned a study by the private industry consulting firm Telecommunications Resources International to analyze USPS telephone traffic in five major cities. Later, a team of "call management industry experts" was assembled to advise the Postal Service "on how to approach effective call handling and how to define such an effort."¹⁷⁹

The definition of effective call handling was provided by the contractors. A comparative analysis of cost published in March of 1996 showed that the USPS projected it could save \$611.5 million over ten years by contracting the services. All of the savings came from the low market wages in the call center industry; the USPS study cited wages 37% lower than postal wages. Administrative costs were added to the contracting plan and lowered the projected savings to 35%. The study failed to take into consideration that local post office phones were answered by clerks who otherwise sorted mail, worked on counters,

¹⁷⁸Bill McAllister, "Postal Service Coding Decision Will Prove Costly, GAO Asserts," Washington Post, 27 September, 1995.

¹⁷⁹United States Postal Service, "Comparative Analysis: Corporate Call Management," USPS, Washington, 15 March 1996.

or were disabled and on light duty work. Phones were also answered by managers, who would be at the stations regardless of whether they were answering phones or not. There were no full or part time telephone positions being cut.

Regardless of whether the phone centers were staffed with USPS employees or contracted to a for-profit provider, the USPS planned to acquire, manage, and maintain all of the equipment. The Postal Service set up two "National Learning Centers" early in 1996 to test run the centralized call operations, staffed with some USPS employees and some agency temporaries. In August, 1996, the USPS claimed the decision to contract out the call centers was made on a preliminary basis, but Denver city officials had already been told of the opening of a private facility paying \$8 per hour.¹⁸⁰

THE TELETECH CONTRACT

In September of 1996, the Postal Service announced a two-year, \$65.7 million contract with Teletech Holdings, Inc. of Denver to operate the Denver center. The facility was expected to employ 1,200 workers and serve the western United States.¹⁸¹ American Postal Workers Union officials protested the decision and argued that it violated the union contract in the same manner that the remote video encoding decision did.

The contracting is a "customer service nightmare," according to USPS customer service specialist Diane Radischat, and is unlikely to really save any postal money. When postal patrons call a local number for their neighborhood post office, their calls are relayed to the Denver facility, where miscommunication and long delays often occur. Many patrons have long and familiar relationships with local postal staff and have been accustomed to being able to talk with employees or managers directly. They can no longer do this. Before the implementation of the new system, patrons could often call and request to pick up their mail or place a vacation hold the same day they wanted it to start; now, they must have three

¹⁸⁰Chet Bridger, "Up to 7,200 Jobs May be Contracted Out," Federal Times, 12 August 1996, 10.

days' notice. Some calls are eventually relayed back to the local office, but the call center attempts to avoid this. As a local newspaper columnist in Pacific Palisades, California complained of her ordeal in trying to reach a local office, "How effective can this new system be if you have to call an 800 number and respond to a 'menu' just to reach the post office down the street?"¹⁸²

Teletch contradicts the pro-privatization stereotype of the small entrepreneur. Teletch Holdings had its initial public stock offering in August of 1996, the same month the USPS announced the "preliminary" decision to contract out the services. Teletch's initial offering price of \$14.50 per share shot up to \$40 by October of 1996, enough to put CEO Ken Tuchman on the "new billionaires" list of the Forbes Four Hundred (list of wealthiest Americans). When the stock price declined to \$26, Tuchman fell out of the billionaire category, but still was credited by Forbes with net worth of \$660 million as of October 1997. He owns 65% of Teletch.¹⁸³

Teletch is the dominant corporation in the call center business, as it also contracts phone services for United Parcel Service, General Motors and other major corporations. Some analysts credit Teletch's success to other corporations' downsizing. According to Denver Business Journal writer Henry Dubroff, "Teletch is a company that clearly has prospered as thousands of people have been let go from full-time jobs at major corporations." He provides AT&T's downsizing as an example; the company provided Teletch with 31 percent of its business in 1996.¹⁸⁴ Teletch's revenue went from \$50.5 million in 1995 to \$263.5 million in 1996, with earnings per share going from 8 cents to 34 cents in the same period and employment jumping from 2,100 to 8,500. The company

¹⁸¹Bill McAllister, "Private Sector Contract Angers Union," Washington Post, 23 September, 1996, Federal page.

¹⁸²Lisa Waring, "Call 1-800 for Your Local Post Office," Palisidian-Post, 20 February, 1997 (American Postal Workers Union reprint)

¹⁸³"Forbes Four Hundred," Forbes Magazine, 13 October, 1997, available: <http://207.87.27.10/asp/redirect.asp?forbes/current/>

¹⁸⁴Henry Dubroff, "TeleTech IPO: A tale of the new economy," Denver Business Journal, 8 July, 1996, available: <http://www.amcity.com/denver/stories/070896>

exemplifies the interests of transnational corporations in privatization and contracting, as it operates call centers in Australia, New Zealand, Mexico and Scotland.¹⁸⁵

Teletch pays lower wages than the corporations for which it contracts did, and it often gets public subsidies for locating call centers in communities. The company asked Houston, Texas for an abatement that would average over \$27,000 per year for 10 years to locate there.¹⁸⁶ It received incentives from Fayette County, Pennsylvania and recently opened a facility in Glasgow, Scotland with public incentives. British Prime Minister Tony Blair spoke at a ceremony announcing plans for the Scotland call center.¹⁸⁷

Teletch has also been aggressively anti union. The company fired Miguel Guzman, a former "quality coach" in Tucson, Arizona, for union activity. "Teletch outright said I was fired for organizing, which is actually against federal law," he explained. Teletch has attempted to discourage union activity by warning workers in Denver that if costs are too high, they may lose their postal contract. The USPS Board of Governors, however, renewed it for three more years in March of 1998.¹⁸⁸

CONTRACTING THE FASTEST-GROWING CLASS OF MAIL

Postal contracting is not the service's attempt to divest itself of marginal or money-losing operations, as is currently the trend in the private sector. The sorting and transportation of the fastest-growing category of mail, Priority Mail, is being contracted to one large firm. According to the 1997 Annual Report of the Postmaster General, Priority Mail, the \$3 and-over expedited parcel category, is the fastest growing class of mail, with 14% growth over 1997. Though some of the 1997 growth was attributable to that year's two-week Teamsters Union strike against United Parcel Service, Priority Mail has been

¹⁸⁵Leyla Kokmen, "Teletch Holdings is taking on the world," Denver Post online, 14 March 1997, available: <http://www.denverpost.com/business/biz465.htm>.

¹⁸⁶Tanya Sasser Rutledge, "Denver-based TeleTech seeks city tax abatement," Houston Business Journal, 7 April 1997, available: <http://www.amcity.com/denver/stories/060297/story4.html>

¹⁸⁷"British Prime Minister Tony Blair Attends Teletch Ceremony Announcing Plans to Build State-Of-The-Art Customer Care Center in Glasgow, Scotland," PR Newswire, 11 March, 1998.

aggressively and successfully promoted as an alternative to higher-priced services of UPS and Federal Express.

The decision to contract Priority Mail involved private sector executives. A special task force, the "Priority Mail Redesign Team," was assembled in 1995 to "recommend comprehensive service improvements," and the group's report was approved by the Board of Governors in November of 1995. The USPS then pursued cost studies based on the way that the team had configured a new system: without using existing postal facilities or taking their current operational costs into account.¹⁸⁹

Then, on April 24, 1997, postal officials announced that Emery Worldwide Airlines had been awarded a \$1.7 billion, 58-month contract to operate 10 Priority Mail Processing Centers in the eastern United States. If the ten centers are effective, Emery may eventually operate 50 centers nationwide.¹⁹⁰

Emery's \$1.7 billion postal contract compares with its pre-contract annual operating revenue of \$1.5 billion. It is a subsidiary of CNF Transportation (formerly Consolidated Freightways); another CNF subsidiary, Menlo Logistics, will operate the centers, with Emery flying the mail and CNF trucking between centers and airports. Emery will employ about 1,400 workers at the centers, and the contract is one of the largest in postal history.

The American Postal Workers Union has filed a grievance against the contract, and the National Association of Postal Supervisors has also protested. According to Federal Times writer Chet Bridger, the conflict over the Emery contract "could be a watershed battle over the future of postal labor contracting."¹⁹¹

The Postal Service decision was not driven by cost-cutting. A Postal Service study found that the priority mail processing could be done in-house for \$0.5 million less than through contracting; the American Postal Workers Union produced another study that

¹⁸⁸Dennis Enerson, Vice President, Denver Metro American Postal Workers Union, telephone interview by author, 19 March, 1998.

¹⁸⁹United States Postal Service, "Comparative Analysis: Contract Vs. In-House Resources For Ten Phase 1 Priority Mail Processing Centers," 22 May 1996.

¹⁹⁰Chet Bridger, "Competitors Top Headlines," Federal Times, 5 January 1998, 15.

showed in-house operations could save \$2 million. The Postal Service then denied that cost savings motivated the contracting and explained that the decision to contract was based on service, not cost, since Emery's contract requires a 96.5% on-time delivery standard.¹⁹² A year earlier, however, USPS spokesman Frank Brennan argued to The Washington Post that postal management was considering contracting out the operations as "the most cost-effective way" to move the expedited mail.¹⁹³

Neither cost nor quality improvements were realized as of early 1998 with five centers running, and off to a "rough start," according to Federal Times. The centers were reported "swamped" in their first months of operation, and five other centers scheduled to open were "on hold" as of February. Emery did not anticipate the Christmas mail volume, and its centers in Springfield, Mass., and Kearny, N.J. had to direct mail back to Postal Service processing plants.¹⁹⁴

CONCLUSIONS

No internal crisis compels the Postal Service to contract out operations or to set up discounts to direct processing to private companies. In each case looked at above, the USPS assembled a team of private industry interests to study and recommend changes. In each case, the decision to contract was made over union objections and without other public review or input. In each case, lower market wages were a basis for contractor profit and the beneficiaries were stockholders of transnational corporations or, in the case of presort mailers, rapidly expanding and merging national corporations.

In no case was the contractor the source of any capital intensive efficiency. "Efficiency" was achieved only in terms of lower labor costs per hour of work achieved. Often, delays and customer inconvenience resulted from the contracting or outsourcing. The

¹⁹¹Chet Bridger, "Unions to Fight Priority Mail Contract," Federal Times, 5 May, 1997, 14.

¹⁹²Chet Bridger, "Contracting Priority Mail Will Cost More," Federal Times, 26 May 1997, 10.

¹⁹³Bill McAllister, "Postal Service explores farming out Priority Mail service," Washington Post, 20 April 1996.

use of internal industry task forces and corporate directors to make fundamental decisions about the USPS' direction paid off for the private sector mailing industry, but not for workers, either USPS or private sector, and not for the residential customer.

The public subsidized the privatized operations in many ways. First, postal ratepayers had funded research and development on technical and operational methods used. Second, postal ratepayers had funded the physical equipment in the cases of video encoding and phone centers, so that contractors had small start-up capital costs. Third, citizens and taxpayers of states and municipalities funded training costs and tax abatements for contractors, and fourth, working class communities subsidized the contractors by working for wages that were often below urban poverty levels.

Rather than "decentralizing" or "democratizing" the economic activity of a large government industry, private contracting and attrition build the political and financial power of corporations with monopoly, or near-monopoly power in the global economy.

¹⁹⁴Chet Bridger, "Priority Mail Centers Swamped, On Hold," Federal Times, 9 February 1998, 9.

Chapter Four

How Can Postal Unions Effectively Fight Privatization?

INTRODUCTION

Since the 1970s, postal union members and leaders have appeared to be trapped in a popular and media stereotype that they were overpaid, slow, prone to violence and impossible to fire. These perceptions, built over the last two decades, have had the effect of making union leaders shy away from asking for public support. This was not always the case; leading up to and during the 1970 strike, postal workers actively sought popular support for their wage demands, staging public events such as "pray ins" for wage increases and bringing groups of letter carriers in uniform to quite publicly apply for welfare.

The success of the unions in bargaining for wages over the course of the next decade changed their economic reality and public perceptions of postal work. Often, thousands of people in a single city would come to take the competitive examinations from which workers were hired. At the same time, postal rates were rising as the old Post Office Department was turned into an independent corporation and gradually produced a surplus. From all appearances, stamp buyers were paying for wage increases, and the interests of postal workers were objectively counterposed to those of the general public.

When privatization or contracting were argued as cost-cutting measures, the picture was complicated further for unions. If they themselves accepted this explanation, it would be even more difficult to get public support for either wages or for continued public operation of postal services, since the implication would be that in-house operations would be more expensive. Therefore, the unions' ability to effectively mobilize opposition to privatization became dependent on their analysis of the problem. If privatization is motivated by, and effective for the purpose of cost cutting, then the only possible union response is to help find ways to produce services more cheaply, whether that be by reducing labor costs or increasing productivity. Some public sector unions have been forced to bid against

contractors, reducing their wage demands. When some unions have found valid cost arguments, they have also worked to improve productivity or service.¹⁹⁵

If, on the other hand, postal privatization and contracting have not resulted in lower costs or been motivated by a desire to cut costs, then there may be a basis for a broad coalition against privatization. As shown here, contracting measures have been a result of pressure by contractors and the private sector mailing industry for access to government markets and funds. Most often, steps toward privatization have increased costs to the public in a variety of ways. In addition, privatization robs citizens of any chance to control decision making about services.

If postal privatization is ultimately hostile to the "public interest" and beneficial only to large businesses, unions can potentially mobilize a coalition to defend, or possibly even expand, public and publicly-owned mail service.

Another, related problem confronts postal unions. In order to defend their incomes, they must find ways to raise wages throughout the industry. Organizing into unions and bargaining for all workers in the economic sector is the traditional strategy that labor organizations have used to take wages out of competition and create higher standards. Thus far, though, no USPS-based labor union has done this.

Postal unions, then, have two immense tasks to undertake in response to pressure for privatization. First, they must defend wages and working conditions by organizing all workers in the mailing industry, especially those who work for contractors of USPS. Second, they must unite diverse support for public ownership into a broad and powerful coalition. A dramatic change in strategy, organizational methods and internal culture will be necessary to accomplish these goals. This chapter examines these issues and makes

¹⁹⁵see Krista Schnieder, ed., The Human Costs of Contracting Out: A Survival Guide for Public Employees, Washington, D.C., AFL-CIO Public Employee Department, 1993 and Seeking Excellence in State & Local Government: A Symposium, State and Local Labor-Management Committee (AFL-CIO) Washington, D.C., 1994.

recommendations for postal unions in general, and for the American Postal Workers Union in particular, the author's union.

TWO RECOMMENDATIONS

This paper recommends that postal unions do at least the following to build an effective response to privatization:

1. Organize private sector postal workers into unions and attempt to organizing the industry by creating alliances between unions in the package delivery and mailing industries, both within the United States and internationally. In order to do this, the unions will have to substantially change their culture and practices and will need a serious effort to educate their members about the threat of privatization.

2. Propose an alternate reform, showing the potential for improved and expanded service. The Postal Service, for instance, could provide electronic communication as well as "paper" communication. The unions should challenge the composition of the Board of Governors and special task forces and advocate the involvement of residential customers, community-based non-profits, small business and environmental organizations on all official postal advisory bodies.

Before explaining these recommendations, it will be helpful to review the current state of postal unions and the pressures they face due to the growth of the private mailing industry.

THE STATE OF POSTAL UNIONISM IN THE U.S.

Over 735,000 postal workers are represented under the terms of 12 labor contracts with the USPS; the vast majority of those are members of the American Postal Workers Union (APWU), the National Association of Letter Carriers (NALC), the National Postal Mailhandlers Union (NPMHU, an affiliate of the Laborers International Union) and the

Rural Letter Carriers Association (RLCA).¹⁹⁶ There are also unions for nurses and guards and separate labor agreements covering auxiliary services. In the private sector mailing and package express industry, almost 200,000 United Parcel Service employees are represented by the Teamsters union, and among Federal Express Employees, the pilots are represented by the Air Line Pilots Association. Outside of these pockets of union strength, employees in the mailing industry and most of the package delivery industry lack representation and face "at-will" conditions of employment. At most, a few dozen presorts nationally have any union contracts, nor does any union prioritize organizing private sector postal workers. Organized labor's power to improve wages and working conditions in the mailing and parcel express industry is contingent on the strength of the four large postal unions and the Teamsters at UPS -- on their power in the industry and their potential to organize collectively.¹⁹⁷ Before the 1980s, the unionized Postal Service and the unionized UPS workers unquestionably had some power over what was a "duopoly," but as competitive businesses or contractors expand their share of the wage market, the ability of the unions to improve conditions or wages will be diminished. How, or whether, they respond to this crisis is uncertain.

The unions that organize and collectively bargain for USPS workers have been called "enterprise unions" by some commentators, meaning they have no membership outside of the Postal Service.¹⁹⁸ They have naturally seen their survival as linked to the fate of the Postal Service. With increasing contracting of their work and with the expansion of the private mailing industry, union members find their power to bargain for wages and working conditions waning. They have fought to maintain a public postal service through lobbying and legislative action and sometimes through direct action protesting specific contracts.

¹⁹⁶United States Postal Service Five Year Strategic Plan, USPS, Washington, 14.

¹⁹⁷Richard B. Freeman and James L. Medoff, What Do Unions Do? (New York: Basic Books, 1984), 6.

None of the postal unions has lost membership from contracting thus far, because overall postal employment has held steady with mail volume growth, and the unions have maintained their share of membership at approximately 80% through effective internal organizing. The APWU has 83% of its bargaining unit as members, the highest percentage of any AFL-CIO union in an open shop.¹⁹⁹ It is the growth of the private sector mailing industry and the absence of union representation among contract and presort workers that threatens the unions' economic power. Since privatization is a central goal of USPS management, federal employees will have increasing difficulty in raising or protecting their wages, benefits and working conditions.

DOWNWARD PRESSURE ON WAGES

All of the unions' contracts with the Postal Service expire in November of 1998, and they enter negotiations during the summer of 1998. These negotiations are expected to be difficult, as the ongoing privatization of postal work and the threat of contracting work out can force the unions to make concessions in pay, benefits, or work practices. Certainly, this was the case with the contracting of Remote Video Encoding. To negotiate a settlement to bring the work back into the USPS, the American Postal Workers Union accepted a settlement wherein 70% of the work hours in the video encoding facilities were performed by Transitional Employees -- workers with no health care benefits, no sick leave (a limited amount of personal leave), no "just cause" provisions for termination of employment, and no guaranteed hours. The TE pay scale for November of 1997 was \$10.69 per hour for most categories; on the same date a new career employee at the same level would earn \$12.06, be guaranteed 20 hours of work, receive 75% of medical premiums paid, and have

¹⁹⁸For instance, see John Walsh and Garth Mangum, Labor Struggle in the Post Office: From Selective Lobbying to Collective Bargaining, Armonk, New York, M.E. Sharpe, 1992, 245.

¹⁹⁹Author interview with APWU Organization Director Frank Romero, Boise, ID, 5/15/98.

substantial vacation and sick leave.²⁰⁰ Arbitration panelist and economist Joel Popkin estimated that, because of restricted hours, transitional employees in the remote encoding sites earned on average \$15,000 annually.

Postal unions constantly face the issue of "comparability" when contracts are arbitrated, because the Postal Reorganization Act requires that "the Postal Service shall achieve and maintain compensation for its officers and employees comparable to the rates and types of compensation paid in the private sector of the economy of the United States."²⁰¹ While the requirement for comparability was intended, in 1970, to raise postal wages, it has been used by management in negotiations in the 1980s as an argument to lower postal wages.²⁰² Private sector postal workers in presorts, contracted postal stations and private mailbox and shipping services earn about half of union postal wages (See table 4). Since compensation for the contracted postal operations and presorts is substantially lower than union pay levels and contracting of operations continues at a rapid pace, the pressure on wages will increase.

Private mailers' organizations will also have an influence on postal wages and other issues in contract negotiations, even if they are not formally represented at the negotiating table. A recent example of their influence occurred in Canada. In 1997, the Canadian Union of Postal Workers struck Canada Post for 15 days. Before the strike began, Canada's Public Works Minister Alphonso Gagliano had promised the president of the Canadian Direct Marketing Association, the mailer's organization, that the postal workers would be quickly legislated back to work if they struck. A delay in parliamentary action drew CDMA President Gustavson into the negotiations as a public figure -- so public, that Gustavson felt compelled to issue official denials that he had played any direct role in the negotiations.²⁰³

²⁰⁰"Arbitration Proceedings," United States Postal Service and American Postal Workers Union AFL-CIO, Supplemental Opinion and Award. Clarke, Clark, Jr. and Popkin, Board of Arbitrators. Washington, D.C. 7 June 1996 and American Postal Workers Union Pay Charts, August, 1997.

²⁰¹39 USC, Sec. 101.

²⁰²see, for instance, Jeffrey Perloff and Michael Wachter, "Wage Comparability in the U.S. Postal Service," Industrial and Labor Relations Review Vol. 38, No. 1, October 1984.

²⁰³Barry Came, "Ottawa legislates an end to the postal strike," Maclean's, 15 December, 1997

A year before the strike, however, the CDMA submitted a proposal and plan to reduce Canada Post's labor costs by \$350 million.²⁰⁴

The CDMA's parallel organization in the United States is the Advertising Mail Marketing Association, (AMMA) whose officers and board members represent Reader's Digest, L.L. Bean, R.R. Donnelly, ADVO, Inc., Publisher's Clearing House, Time, Inc., and Metromail (a presort business).²⁰⁵ AMMA is an aggressive lobby and constant presence in Congressional hearings and on postal task forces. The organization recently publicized a speech by USPS Chief Operating Officer (now Postmaster General) William Henderson given at the National Postal Forum, a business mailer's conference, in which Henderson blamed cost per work hour for increasing postal prices and vowed to contain costs through outsourcing, using the "right mix" of employees and overtime, and bargaining aggressively in the 1998 contract.²⁰⁶

DECLINES IN UNION REPRESENTATION, WAGES

Postal wages will be hard to maintain with large and growing contingent of non-union workers in the private mailing industry. The organized labor movement has a similar problem across the U.S. economy. From a height of almost 35% of the workforce organized in the 1950s, union membership has declined through the 1970s, 1980s and 1990s to a current low of 14.1%.²⁰⁷ Accompanying a decline in unionization has been a decline in average real wages across the economy, which fell by 19 percent from 1972 to 1995.²⁰⁸ According to a recent study by the Economic Policy Institute, the falling

²⁰⁴Greg Gattuso, "Canadian mailers blast CP labor costs," *Direct Marketing*, May 1996, 13

²⁰⁵AMMA letterhead, February, 1998.

²⁰⁶Remarks by U.S. Postal Service Chief Operating Officer and Executive Vice President William J. Henderson at National Postal Forum Anaheim, CA, April 23, 1996, available <http://www.amma.org>

²⁰⁷Glenn Burkins, "Union Membership in 1997 Continued To Decline, Despite Recruiting Efforts." *Wall Street Journal Interactive Edition*, 18 March, 1998.

²⁰⁸Labor Research Association, *Economic Notes*, March 1996.

proportion of workers represented by unions has contributed substantially to the wage decline and made it more difficult for union workers to negotiate wage increases.²⁰⁹

The larger labor movement's hard times have led to a discussion among union members and their allies that focuses on ways to rebuild the economic and political power of organized labor. The first contested election in the AFL-CIO since the 1920s resulted in the election of John Sweeney, who was previously the president of the Service Employees International Union, one of the few in the federation whose membership had grown in recent years.

Sweeney and thousands of other unionists have come to the conclusion that labor must begin an aggressive organizing campaign and must also rebuild its leadership on social and political issues. He has stated,

One of the things we need most is a strong counterbalance to the power of corporations -- in the workplace, in the marketplace, and in our policy-making arenas. And the only institution that can play that role is the American labor movement.²¹⁰

Sweeney has urged unions to dedicate 30% of their budgets to organizing new workers, but progress has been slow. Unions spend most of their funds on representation and focus on servicing their current members; a decision to spend one third on organizing would mean cuts in other areas, and cutting representation funding could trigger opposition from some members.

ORGANIZING PRIVATE SECTOR POSTAL WORKERS

None of the postal unions has members who work for private sector employers, and none has made a serious attempt to organize private sector postal workers. Within the APWU, however, there has been an ongoing campaign, led by scattered local organizations

²⁰⁹Lawrence Mishel, Jared Bernstein, John Schmitt, eds., The State of Working America, 1998-99, Washington, D.C., Economic Policy Institute, 1999, 183-184.

²¹⁰John J. Sweeney, "America Needs a Raise," from Audacious Democracy: Labor, Intellectuals, and the Social Reconstruction of America (New York: Mariner 1997), 17., Burkins, *ibid.*

of the union, to mobilize the union's considerable resources for organizing. The union has no organizers on its staff, according to Director of Organization Frank Romero. Though the Organizing Department of the national administration spent \$1.2 million in 1995 and 1996 and \$858,000 in 1997, most of the funds are rebated to local chapters as an incentive for signing up members who are already covered under the contract. The postal unions have a large internal organizing task since, by law, the contract with USPS cannot compel union membership and does not include any agency or representation fee.²¹¹ The Organizing Department funds pay for pamphlets and brochures, t-shirts, aprons, and prizes awarded for organizing. In 1997, only \$41,810 was spent on "non-postal organizing."

Since 1988, a group of working members and local officers of the APWU have promoted resolutions at national conventions that urge organizing private sector postal workers. According to Lou Truskoff, former president of the Greater Seattle APWU:

"For several years, an informal coalition supporting private sector organizing has existed within our union. We've had support from locals in North Carolina, Iowa, Michigan, Utah, California and scattered cities, and we've coordinated resolutions to the APWU National Convention to begin organizing workers in contracted postal operations and in presort firms. In 1990, we were able to sponsor a preconvention workshop on the subject with some national funds. While the support has grown steadily over the years, the national leadership of the union has been unwilling to debate the issue openly on the floor of the convention. Our resolutions have been referred to committees and not voted on unless they had the "teeth" amended out of them, until 1996."²¹²

At the 1996 national convention, the union's National Executive Board faced the contracting of Priority Mail processing centers and had sponsored a nationally-coordinated, highly successful series of picket lines protesting USPS contracting out under the theme, "SOS: Save Our Service!" Tens of thousands of postal workers and supporters from the labor movement and community organizations picketed in small towns and large cities alike. The local unions' efforts were rewarded by member participation and positive media coverage. The National Association of Letter Carriers had its own picket lines June 18; the

²¹¹American Postal Workers Union, Officers' Reports, Thirteenth and Fourteenth Biennial Conventions, Washington, D.C., 1996 and 1998.

two organizations' leaderships could not agree on a common date. Union members all over the country joined each others' picket lines, however, and most were successful.

At the national convention the following August, with contracting of many operations and growing pressure from the membership, the National Executive Committee of the APWU proposed a resolution to levy a special dues assessment of 20 cents per member per pay period, or \$2.5 million over 2 years, to support organizing of private sector postal workers.²¹³ More than two years after the convention passed the resolution, the union has yet to develop any coordinated or national effort. A small campaign to organize an equipment repair contractor's employees in North Carolina was begun using organizers from the Communications Workers of America, but the progress of this campaign was not reported through the union's newspaper. The other funds have remained unspent as of May, 1998. At the union's 1998 national convention, the assessment for organizing was not renewed, so the future of funding for organizing is uncertain.

TWO SUCCESSFUL EXAMPLES

If APWU's national officers have been unwilling to organize private sector workers, other unions have begun to organize non-government postal workers. Two successful organizing campaigns carried out by locals of "non-postal" unions have shown the willingness of private sector postal workers to fight to join unions. The Service Employees International Union led hundreds of video encoding workers in Oakland, California in a hard-fought campaign for union recognition and a fair contract in 1993, and a local of the Teamsters union in Seattle, aided by the Seattle APWU local, was successful in winning an election at an automated presort firm, Postal Services Inc., (PSI) an Omaha-based chain.

²¹²Author interview with Lou Truskoff, former president, Greater Seattle APWU, Seattle, WA 3/5/98.

²¹³Bill McAllister, "Private Sector Contract Angers Union," Washington Post, 23 September, 1996, Federal Page.

Both the SEIU and Teamsters' efforts were given some aid from the unions' respective international organizations.

The owner of PSI merged two smaller mail sorting companies into the largest automated presort in Seattle. The company's customers included the State of Washington, several agencies affiliated with the City of Seattle and its county government, and many of the larger banks and department stores. Three times a day, USPS drivers hauled away a trailer full of sorted mail from the warehouse-like building. PSI had the same high speed equipment the Postal Service uses.

The company had a policy of hiring young Asian workers, including many women and new immigrants, acting on a stereotype that such workers were timid and appreciative of any employment. Wages were \$5 to \$7 an hour, with no paid holidays, vacation, sick leave or health care benefits. Managers admitted (to a union member applying as a "salt" -- a person who gets a job to help organize a union) that an independent person couldn't live on such wages in Seattle and discouraged any workers with higher expectations. One Caucasian job applicant was told she "didn't want this job . . . besides, we like the Orientals with their nimble fingers."

Teamsters Local 174 in Seattle had elected a leadership that was committed to organizing and allowed its staff organizers input in choosing targets. The local hired two interns from the AFL-CIO's Organizing Institute, two young Asian-American women, and created a plan to cooperate with the Seattle APWU in carrying out the campaign.

APWU members loaned their office for meetings, volunteered to visit workers' homes in support of the union, attended organizing committee meetings, and invited PSI workers to educational events. APWU truck drivers and clerks, who knew PSI workers from daily visits to the plant, gave encouragement, and the local officers wrote letters of support which were passed out to PSI workers. Tours were organized of the Seattle USPS Processing and Distribution center for the PSI workers, so they could see the same work being done for more than double the wages, in only slightly different circumstances.

After a weekend of house calls to PSI workers by members of Teamsters, APWU, and the inside union committee at PSI, nineteen people - more than a quarter of the PSI work force -- came to a Sunday night meeting with postal and Teamster union members, Jobs with Justice organizers, and a pro-labor State Representative who had been an organizer for a health care union.

PSI's manager attempted to discredit postal unionists' participation by charging in his memos that "The Postal Service Union (sic) is behind the Teamster effort to unionize you. The Postal Service Union wants to put our company and companies like FedEx and UPS out of business because these companies are a threat to their union jobs."²¹⁴

On December 20, 1994, the workers voted 43-28 to join the Teamsters union. Community support was vital to the union win. A delegation of Asian community and labor leaders visited the company officials to support workers demands. Asian community newspapers reported on the workers' organizing progress and a candlelight rally to "shine a light on injustice at PSI" was sponsored by Jobs with Justice, drawing over 150 people on November 17. Rally participants signed a giant letter to PSI executives asking for union recognition and a fair deal for the workers. Postal Police were present at the rally and inside the PSI building, though they had no authority over the facility or the mail it contained and in spite of the presence of city police. USPS managers threatened to discipline postal workers who supported the PSI unionization, but no threats were carried out.

The union win was noted in the national industry publication, Business Mailer's Review:

As representatives of federal employees, postal unions can't organize workers in private industry even if they are threatening postal workers' jobs. The American Postal Workers Union local in Seattle is easing this handicap by helping a Teamster local organize Seattle presort bureaus. Seattle APWU officers gave fraternal help to Teamster Local 174 when it recently won the right to represent employees at PSI, Inc.'s Seattle bureau. . . The APWU local initiated this program for supporting the Teamsters. The APWU's national leadership hasn't become involved.²¹⁵

²¹⁴Memorandum from to PSI employees from Neal Dean, 10 November 1994, author's files.

Though the above report was incorrect in its statement that APWU was legally prevented from organizing private sector postal workers, the existence of this news item indicates the relative rarity of union organizing in presorts and indicates some worry that the campaign might be expanded to other shops.

The PSI workers were unable to get a signed agreement with the company over three years later. Though there was some support from Asian community leaders and a section of the labor movement, neither the APWU nor the Teamsters mobilized any national resources to extend the organizing or pressure PSI, nor did the public sector unions representing city and state workers make an issue of public agencies using private and anti-union mail sorting facilities.

A MORE POWERFUL CAMPAIGN IN OAKLAND

Workers at a privately contracted Remote Video Encoding facility in Oakland, California provided the best example to date of successful organizing by private sector postal workers. The facility, contracted to Envisions Corporation, opened in early 1992. The company was paid \$1,900 for each worker it hired off the welfare rolls, and the mayor and local newspaper had publicized the "new" jobs. Workers were well aware that they were doing postal work for far lower than postal wages, so they contacted the Oakland APWU.

The national union's officers cautioned the local against organizing the plant, saying they feared organizing would endanger a pending arbitration decision on the contracting. The APWU referred the workers to the Service Employees International Union Local 790A, a Bay Area public sector local.²¹⁶

Envisions' workers complained of strong-arm management, racial discrimination and a driving pace of work. "They fired people at the drop of a hat," one worker told a reporter for the Oakland Postal Worker. Workers suspected that the incentives paid for

²¹⁵Business Mailers Review, 27 March, 1995, 2.

²¹⁶Author interview with Tom Beardsley, President, Oakland APWU, July 16, 1998, Detroit, MI.

initially hiring people gave the company a big stake in keeping turnover high. Most of the workers were African American and Asian women, many of whom were hired directly from welfare roles. Two of the workers, fired for their union activity, became full time union organizers. Local 790a also supplemented its staff organizers with volunteers from other public sector locals in the area.

Despite an attempt to divide workers along racial lines by the Envisions management, the union supporters remained united and in an NLRB supervised election voted 192 to 65 for the union. The local bargained a contract that included improved pay, more holidays and personal leave, just cause provisions, and a grievance process. When APWU prevailed in arbitration and the private contracts were canceled, many of the workers were hired as "transitional employees" and are now members of APWU.²¹⁷

Workers who sort mail are often aware that postal workers are paid higher wages and have better benefits; it is natural that they call on the APWU, as phone center workers have in Denver. If the union chooses to make its \$2.5 million "war chest" available to support local union efforts, there is more support now available through the AFL-CIO's organizing programs than in the past.

FOLLOWING THE WORK

Two other public sector unions have had success in following their privatized work recently. The American Federation of Government Employees signed its first major contract with a private firm in March of 1997, when it became the bargaining agent for 365 employees of Hughes Technical Services Co. in Indianapolis. The contract had comparable, if not better, pay and benefits than the federal employees received. Though AFGE remains opposed to privatization, the union decided to represent workers when it loses a battle

²¹⁷Peter Shapiro, "RBCS Workers Win Union at Envisions!" The Oakland Postal Worker, December 1993, 1.

against contracting. AFGE has other active campaigns at workplaces recently contracted.²¹⁸ The National Air Traffic Controllers Association is also expanding into the private sector. NATCA won elections at three privately-contracted air traffic control towers in February, 1997. Both AFGE and NATCA won the elections after protesting the decision to contract to private companies.²¹⁹

There is no law or internal rule that prevents the postal unions from organizing private sector workers. The APWU's constitution states that the union's jurisdiction includes private and public sector postal workers:

The jurisdiction of the APWU includes all postal and mail handling operations, including but not limited to all work or operations directly or indirectly related to postal and mail handling operations, whether performed by employees of the U.S. Postal Service or any other employer, and including any operations that transmit messages by electronic or other means, and including personnel in headquarters, regional offices and technical support operations.²²⁰

But APWU national publications and internal communications indicate no immediate organizing plans. Members in the local areas are raising questions at conferences of local presidents and on internet conferences, demanding to know when the vote to organize will be implemented.²²¹

A resolution passed by the APWU Presidents' Conference called for the creation of an "action response committee" to counter the "Postal Service's concerted and aggressive attack against the APWU." The committee met and recommended that the union immediately begin organizing contracted facilities, organize the "casual" employees within the Postal Service (temporary employees with no benefits, market wages, and no union representation) and form a long term strategic plan, responding to the Postal Service's Five-

²¹⁸Lisa Daniel, "AFGE Signs First Private Contract," *Federal Times* 3 March, 1997, 6.

²¹⁹Lisa Daniel, "Controllers Book More Seats," *Federal Times* 10 March, 1997, 6.

²²⁰Constitution and Bylaws of the American Postal Workers Union AFL-CIO as amended August 1994, APWU, Washington, 1994.

²²¹Agenda items submitted to APWU Presidents Conference, April 4, 1998, Jeff Mansfield, APWU local president; postal-talk internet conference, March 1998.

Year Strategic Plan. The Action Response Committee also called for a media/educational campaign, coalition building with other unions, and a public relations campaign.²²²

While local leaders are calling for a five-year strategic campaign, national leaders have been slow in responding. According to the APWU's national Organization Director Romero, the enthusiasm for organizing is "in the field," but the culture of organizing is not present at the national level. In a May, 1998 interview, Romero said the union intended to start using some of the 1996 money and would begin to work with the AFL-CIO's George Meany Institute to teach private sector organizing.

The inaction on the part of APWU's national leadership is puzzling, considering the seriousness of the USPS' contracting program and the rapid growth of private mailing businesses. The union's national leaders have indicated informally that they do not believe dues income from low-wage workers would ever pay for the cost of organizing and representing them, so they may be unwilling to risk current financial resources for an outcome that may not "net" them any funds. Further, none of the leaders has any experience organizing new industries or shops and may not know how to lead such a campaign. A third possible explanation is that they have not studied, and therefore do not really understand, the seriousness of the private sector challenge.

RESEARCH AND EDUCATION

Along with their reluctance to organize, the postal unions have not done the kinds of research and education that are necessary to both make a case to the public or to their members. A reader leafing through the 1998 issues of The American Postal Worker, the APWU's official tabloid, would not know that five Emery Priority Mail Processing Centers had opened, that hundreds of low paid workers were answering postal phones, or that the presort volume jumped by almost 20% in each of the last two fiscal years. APWU members

²²²Memo from Greg Bell, Director of Industrial Relation to Local/State Presidents and National Business Agents, 24 October 1997, APWU, Washington.

in the field see the expansion of these businesses and are aware of the contracting, but they are not given information about contractors or about the strategic plans of the USPS and mailing industry. They do find contracting out referred to in top leaders speeches and articles, but details and strategies are lacking.

The educational workshops for the APWU's 1998 national convention did not include any programs on privatization or on the private sector mailing industry. To the extent that information has been distributed or research encouraged, it has been through local and state organizations or rank-and-file caucuses such as Workers for One Postal Union.²²³ The Washington State American Postal Workers Union members have sponsored research through their state labor center and have supported resolutions at national conventions to organize private sector postal work since 1988. The New Vision caucus in the National Association of Letter Carriers also advocates organizing private sector postal workers; the caucus ran a candidate for national president of the NALC, Jon Gaunce, in 1995.

The discovery of private sector remote encoding sites in Mexico was a result of rank-and-file initiative; Cindy Martinez, President of the McAllen, Texas APWU local was told by union members at the remote encoding site that their Mexican relatives were being solicited to work in a plant encoding U.S. mail for private presort plants. Mexican-American union stewards crossed the border and were able to get into the plant identify the corporation. They found out that Texas Governor Bush had ordered state mail routed through presorts, so that even the mail for the state of Texas was being coded in Mexico.²²⁴

While the local efforts are important, the national union, with a full time director of research and education, has not produced any information about contractors, mailers, or their organizations. With a total budget of \$41.7 million for the national office of the

²²³Workers for One Postal Union, web site <http://wopu.org>

²²⁴Minutes, APWU President's Conference, Hyannis, MA, 29-30 June, 1997, 53-56.

APWU in 1995, only \$34,000 was spent on research and education for over 300,000 members. Expenditures in 1996 and 1997 were only \$26,000 and \$14,000 respectively.

In contrast, the Canadian Union of Postal Workers (CUPW) administers a member education program funded at 3¢ per member per hour. The union has created an educational program on privatization and deregulation entitled, "CUPW, Post Office and Society," which is used at residential schools and weekend conferences to educate rank and file members, stewards, and officers and help them become more effective advocates for public service. The union also issues informational bulletins called "Negotiations Backgrounders" which are required by the union's national constitution. These contain the economic and political information that underlie the union's bargaining strategy. CUPW has 45,000 members and a far smaller budget but places a premium on member education. The union's publications are well researched and cover employer strategy, the effect of rates, automation, wages' holding power against inflation, members' opinions on job security, progress toward shortened work time, and international monopolies in shipping and express.²²⁵

Similarly, the Teamsters union has used member education effectively before its 1997 negotiations with United Parcel Service. Though the union struck UPS for two weeks, the nearly unanimous support given by the union's members to the strike was not a foregone conclusion. The union spent more than a year surveying workers, educating them about the employer's business plans and profitability, and asking tens of thousands to sign petitions, attend rallies, blow whistles, and appeal to the public in support of their demands.²²⁶

The postal unions could use information on contractors to strengthen postal workers' understanding of bargaining issues, to develop organizing campaigns, and to create coalitions with community, labor and consumer organizations. In several cities, for instance,

²²⁵"Solutions and Progress," Canadian Union of Postal Workers, Ottawa, Ontario, December 1994; "Job Security: a must for postal workers," CUPW Negotiations Backgrounder No. 1, 1990, Canadian Union of Postal Workers, Ottawa, Ontario.

²²⁶Steven Greenhouse, Yearlong Effort Key To Success For Teamsters, New York Times, 25 August 1997, available: <http://www.nytimes.com>

labor organizations have attempted to expose and halt incentives and tax breaks to corporations that pay low wages. Research into contractors could help unions and other community based organizations effectively oppose "corporate welfare."

AN INTERNATIONAL UNION COALITION IN THE INDUSTRY

Increasingly, postal workers, UPS workers, Federal Express employees and private mail industry workers are finding themselves facing similar wage cutting, similar surveillance and tracking, similar repetitive strain injuries, and similar corporate employers. The mailing and package express industry is becoming more concentrated globally, with TNT, CNF, FedEx, and UPS dominating the global market, often in partnership with national public postal services. A few powerful providers manufacture mail sorting equipment, and many of those, like Lockheed, are also interested in operating postal systems.

In the past, postal workers, FedEx workers, and UPS Teamsters have looked at each other as "the competition," and there has never been an attempt to set wage and safety standards across the industry. This competitive outlook is fostered by the managements of UPS and the Postal Service; both put out pamphlets and posters trying to motivate their employees outwork the competition. The 1997 UPS strike, however, and the outpouring of labor solidarity that greeted it, went a long way toward breaking down the barriers between postal and UPS workers. Postal workers in virtually every city saw common issues, goals, and problems and joined UPS picket lines. Several locals made impressive donations to strike funds. This recent change in attitudes, and some recent organizing by the Teamsters union, show the potential for industry-wide bargaining and organizing. The Teamsters union is currently attempting to organize Federal Express employees, and some preliminary discussions took place at a 1997 labor conference between Teamsters working for United

Parcel Service, Teamsters organizing Federal Express workers, and members of all four postal unions about similar working conditions and labor-management problems.²²⁷

The ability to set wage and safety standards across the industry would benefit all the industry's workers. A step in this direction would be to call a conference to find common ground between postal, UPS and Fed Ex workers. Common work could begin through support to each others' union organizing campaigns in the industry and by joint legislative work on occupational safety and health and other labor-related issues.

The postal unions participate in the Post, Telephone and Telegraph International labor body, but their relationship to this organization must become more central. For instance, USPS held a conference called "FuturePost" to gain information on privatization measures and "reform" in other countries. Postmaster General Runyon brought selected postal administrators from other countries to testify before Congress, but no worker representatives of those countries were there to respond to the pro-privatization testimony. Postal labor unions would have learned a great deal about defending working conditions, wages, and service had they held a parallel gathering. A start in this direction occurred in August of 1998, when APWU and NALC members in Washington State held an educational conference with the Canadian Union of Postal Workers. Union members from both sides of the border discussed organizing, international privatization and the impact of new technology.

As global concentration increases in the industry, organizing across borders is no longer a moral imperative, but an economic one. A global market is challenging all unionists to improve their knowledge, their organizing, and their solutions.

AN ALTERNATIVE REFORM

²²⁷Author's notes, panel on the mailing and package delivery industry, Labor Notes Conference, Detroit, Michigan, April, 1997.

The postal labor unions are facing the kind of "reform" that favors transnational corporations in the mailing industry and large advertisers and contractors, but another kind of postal "reform" -- one that favors residential customers, small mailers and workers -- would be possible. The USPS Board of Governors, the mailers' organizations, contractors, and the private mail sorting industry are in consensus that the USPS should continue to lower compensation of its current workforce, contract more extensively to private industry, and continue to give incentive rates to business. There are lobbying organizations and commercial organizations supporting this agenda, and the private mailing organizations desire an even larger role in postal policy -- bulk mailers even want to be consulted during the selection of the next postmaster general. ²²⁸

Postal unions have the potential to form a coalition that could challenge the industry/mailer/government forces. Below are some suggestions on ways postal unions could address issues and constituencies in order to build an alternative model to the way the postal service is currently run.

BETTER SERVICE

Postal unionists would gain public support if they were seen as advocates of better service. The national unions have featured slogans for "better service" in national days of informational picketing, but they have not defined an alternative standard. Local union chapters, however, have challenged service cutbacks. In 1990, the Postal Service "realigned" delivery standards, largely in response to the bulk mailers and presorters who valued predictability over speed and wanted to deposit their mail at later times. Areas that had formerly been "overnight" delivery areas were compressed, so that cities 200 miles apart no longer committed to overnight service, and areas that were 2nd day delivery often became

²²⁸Chet Bridger, "Bulk Mailers Want Role In Choosing Next PMG," Federal Times, 30 June 1997, 15.

3rd day delivery.²²⁹ On a national level, the postal unions did not challenge the realignment, but in many cities, unionists opposed the slower standards and set up local informational picket lines. The union sought to place the responsibility for slowed mail on management, not on the workers, and they made alliances in several areas with rural organizations, local government officials and small businesses.²³⁰

Letter carriers, in their June 18, 1996 picket lines, protested later mail delivery times that were occurring because of automation, which was, ironically, supposed to make mail travel more quickly. With automated sorting into carrier sequence, all of the mail must be stored over the evening and sequenced together at the end of the shift. Carriers were getting out on the street to deliver mail later in the day than when they had sorted their own mail by hand.

Postal unions have advocated extended hours, convenient locations, and expanded facilities for window service, though not on a coordinated level. This would be a promising campaign, as many communities do not have enough post office boxes available, and evening window service is often only available at locations near airports.

Better service could mean expansion to other related areas of communications. In Europe, for instance, postal services are providing computer access or are internet service providers. The Canadian Union of Postal Workers has called on Canada Post offer to services like bill payments, catalogue sales, greeting card sales, packing material, fax and photocopying services and have advocated that the Post provide a full range of electronic communication service at postal facilities, like e-mail, facsimile and internet access.²³¹ The union has recently succeeded in negotiating an experimental plan for rural internet access.

The Swedish National Post Office is developing an "@post" service, which will allow all citizens access to the internet, rather than just those with a computer and a modem.

²²⁹Mark Kodama, "Panel Seeks to Postpone Reducing Delivery Standards," *Federal Times*, 71 December 1990, 14.

²³⁰Author telephone interview with Bruce Clark, President, Iowa APWU, 22 February 1998.

²³¹Press release, Canadian Union of Postal Workers, 24 April, 1996, available:<http://www.newswire.ca/>

The plan is to give all citizens their own e-mail address and install computers in popular places. The postal service would provide electronic bill paying and e-mail "look-up" service.²³²

The American Postal Workers Union could advocate that the Postal Service become an internet provider and offer service at all postal locations. Internet service through the post office would allow people to truly match hard and electronic copy. Currently, postal counter computer terminals are "dumb" -- i.e., not linked to the internet. People who did not have computers could send or receive electronic messages at their post offices, and the address systems could follow zip codes. Electronic and hard copy interface could increase the speed of messaging as well, as the Postal Service would already have the delivery infrastructure to offer same-day delivery of urgent messages transmitted electronically to a local post office. The Postal Service is already exploring methods to authenticate electronic communications; it could go farther and offer fast hard-copy delivery of authenticated documents.

Rural residents and poorer communities would benefit enormously from expanded service and internet capability, and it is highly unlikely that any other entity would provide such a service. Libraries, which in some major cities provide computer access, are usually no more than "bookmobiles" in rural areas, if they exist at all, and office service retail stores which offer access (like the Kinko's chain) are expensive and not located in poor or rural areas. Internet service and bill paying services could create more customer service jobs for postal workers, as first class mail eventually declines as a share of the communications market.

BACKING RURAL RESIDENTS

The postal unions have an immediate opportunity to form a coalition with rural politicians and organizations. Rep. Earl Blumenauer (D-Ore.) has proposed the Post Office Community Partnership Act (HR 1231), that would give rural communities a say over

²³²Sylvia Dennis, Newsbytes, New York Times On The Web, 3 October 1997.

postal building codes, locations, relocations, consolidations and closings. The Postal Service would be obliged to consider the impact upon a small town's downtown core business area and would be obliged to consider the community's opinion on the decisions. It would expand the appeal rights of local communities before the Postal Rate Commission, which approves office closings.

Rural representatives to Congress have been opponents of postal privatization, as their citizens understand that there is no profit to be made serving sparsely populated areas. Postal workers badly need allies and would do well to take an example from the Canadian Union of Postal Workers' coalition with an organization called Rural Dignity in Canada to stop closings. The postal unions have not publicized the Community Partnership Act, but they could win allies by energetically supporting it.

Some new initiatives could boost mail volume, or hedge its decline, and advance the social goals of labor and working class organizations. An example is the mail-in election ballots that in several states have proved extremely popular with voters. Postal workers could also gain allies by advocating expansion of voting-by-mail.

CHANGING THE BOARD OF GOVERNORS

The Board of Governors is mandated to broadly represent the public but remains a business and political elite. There is no law that determines whom the Board members shall be; they are presidentially appointed and could represent a variety of interests.

Postal workers have always been unrepresented on the board, as has organized labor in general (See Table 4). Tony Huerta, a retired official of the Letter Carriers union, waged a lonely campaign for a board seat after Clinton's election in 1992. The Federal Times endorsed the concept of a worker governor, explaining that workers know more about the operations the post office, and union members are familiar with a variety of labor and

regulatory issues that are important to public decision making.²³³ NALC National president Vincent Sombrotto wrote a letter to President Clinton supporting Huerta, but the union did not campaign in support of the recommendation, and none of the other postal unions mentioned Huerta or any other candidate. In 1998, however, Rep. Chaka Fattah (D-Pa.) introduced an amendment to the postal reform bill proposing a postal worker seat be reserved on the board. The board member would be Presidentially appointed and approved by the postal labor unions. Fattah said that adding a voting craft employee to the board might improve labor-management relations.²³⁴

Naming a worker governor, and supporting the appointment of civil and human rights activists to the board, would be an important way to address many issues that are not addressed in contract negotiations. Postal workplace violence is an example. Since just 1983, 38 postal workers have been killed and 28 wounded in internecine violence. The General Accounting Office, in its 1994 report, "Labor-Management Problems Persist on the Workroom Floor," characterized the postal service as having a "highly autocratic management style."²³⁵ Postal workers have been fired for having a water container that was deemed "too large," for "taking little baby steps" delivering the mail, for wearing t-shirts with messages that managers construed as threats. The USPS unilaterally canceled its Employee Involvement program with the letter carriers, and internal employee opinion survey results were used in contract negotiations to attempt to lower wages. The problems with postal work culture are difficult, but no significant start to solving them will be possible without a change in the aims and composition of the executives. A campaign for a worker governor would give unions a way to discuss these issues in a larger community.

A CONSUMER VOICE

²³³Ed Winsten, "How About Naming a Worker Governor?" *Federal Times*, 26 July, 1993, 18.

²³⁴Stephen Trimble, "Board May Get Union Rep," *Federal Times*, 5 October 1998, 14.

²³⁵General Accounting Office, "U.S. Postal Service; Labor-Management Problems Persist on the Workroom Floor," GAO/GGD-94-201A, Washington, 1994, 2.

Consumer advocate Ralph Nader has long been a critic of the corporate priorities of the USPS and of its governing structure. Residential consumers lack a voice in policy -- Nader advocates that the Postal Service be required to send out two invitations per year inviting residential customers to join their own advocacy group. Nader argues that the USPS promotes the Postal Form and other organizations for business voice, so he argues that it would be proper for USPS to promote a residential voice.²³⁶

AN ENVIRONMENTAL VOICE

Households get far more advertising mail than they do correspondence, parcels or bills, and some estimates say almost half goes into the garbage unread. Mailing list sales invade privacy, and disposing of junk mail takes time from the recipient's life.²³⁷ There are many ways postal workers could work with environmental organizations to cut down on solid waste and paper usage, often in ways that would not damage business. In each delivery station, approximately one ton of mail goes to waste; third class or unaddressed mail with old or defective addresses is not forwarded or returned without an additional fee. Mailers could be required to pay for returns, and bulk mail could be required to have a "refused" box patrons could check, indicating their desire to be removed from a list. The Dutch post office now has a "yes/no" sticker residents can put on their mailboxes to reject advertising mail.²³⁸ Postal workers do not need mountains of junk mail; productivity and volume have increased, and postal workers could work toward a shorter workday with no pay cut should volumes eventually begin to decline. The overtime built into the postal service's planning could be eliminated; certainly, no postal worker would mourn the abolition of mandatory overtime.

²³⁶Ralph Nader, "How to put the punch back in politics," Mother Jones, July/August 1990, 24-27.

²³⁷Michael Worsham, "Junk Mail: Unsolicited Advertising that Pollutes Our Planet and Invades Our Privacy," proposal submitted to an American Bar Association for the 1995 Summer Intern Public Interest Program.

²³⁸John Kuiper, "Mail By Choice," MAIL: The Journal of Communication Distribution, October/November 1996, 45.

There are many possibilities, and certainly the necessity, for some truly positive postal reform. By allowing transnational corporations, advertising mailers, and private mail sorting interests to define "reform," postal unions lose their potential friends and allies in opposing privatization, wage-cutting and speedup.

SUMMARY

Postal privatization and contracting provide a good case study of the economic, political and social realities of privatization. Placing large public enterprises in private corporate hands is a practice of governments that are already dominated by the interests, politics and personalities of transnational corporations. The motivation for these practices is not efficiency or internal operational crises -- it is the desire of the corporations in the respective industry to gain access to large national and global markets and to profit from employing labor, not just from supplying technology or products.

If union members proceed from an incorrect assumption that cost-cutting or right wing social conservatism is at the root of these policies, they cannot have effective responses. If they analyze the goals and strategies of privatization's advocates, they will realize the inadequacy of methods from a previous era in fighting this trend. If, on the other hand, postal unionists proceed from an understanding of the transnational corporate power that currently dominates the public and private mailing industry, they will see the need to defend wages and working conditions through union organizing and they will also see the need to pull together a broad coalition for a more democratic, but public, reform.

The economics of the mailing and parcel shipping industry have already changed dramatically. As governments accommodate or accelerate these changes, there is no one watching out for the interests of workers, working class communities, the environment, small business, residential customers, or non-profit organizations except unions, because of their long term interest and "citizenship" in these industries. Unions can and should take on

the preservation of public services as a social good and should advocate the expansion of services.

Unions also cannot ignore the growth of low-wage work in their traditional fields and must begin organizing broadly across the mailing and package sorting industry. To do this, they will have to challenge their own traditions of organizing and bargaining only for a strictly-defined set of workers.

A study of postal privatization also contains broader lessons about privatization across the U.S. economy and around the world. In most cases, for-profit corporations' desire for new business motivates plans to privatize services from telecommunications to education. Many unions find themselves at the center of these conflicts and must find a way to define and mobilize around "the public interest."

The most unsettling challenge for labor organizations will be to develop a political approach and voice in the community that contests corporate claims to represent the public interest. If they successfully develop a new definition of "public interest," however, and act effectively to bring together a new coalition, they can sow the seeds for a new season of growth and social power.

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