Incidental Paper

State Organizations and Policy Information:
The Reorganization of the Post Office Department

Charles Gerard Benda
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STATE ORGANIZATIONS AND POLICY FORMATION: THE REORGANIZATION OF THE POST OFFICE DEPARTMENT
Charles Gerard Benda, August 1978.

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Chapter 1

State Organizations and Policy Formation: Introduction
In the 1960's, one of the oldest of federal activities -- the postal service -- suddenly, at least for most citizens, entered the realm of public controversy and political struggle. Some analysts predicted the imminent collapse of the mail system. The President appointed a "distinguished" study commission to examine postal organization and make recommendations on its future. Beginning in 1969, there was more than a year and a half of sometimes acrimonious debate on Capital Hill over possible postal reorganization. A wildcat strike by postal workers -- the largest work stoppage ever by federal employees -- shut down much of the flow of mail in March, 1970. The consequences of the walkout were significant, threatening the continued operation of the New York Stock Exchange, for example, and leading President Nixon to declare a state of national emergency. When the political dust had settled, Public Law 91-375 -- the Postal Reorganization and Salary Adjustment Act of 1970 -- had converted the United States Post Office Department into the United States Postal Service, an "independent establishment of the Executive branch". As the postal service slowly receded to its former low level in the public's consciousness of political issues, political analysts no less than the public itself were left with several questions: What had happened in this political struggle? What did all this controversy signify? Why was the Post Office reorganized?

**Introduction**

Debates over public policy often revolve around the comparative performance of different types of organizations in providing services. Some
groups argue that only private organizations have the incentive to fulfill consumer demands in a low-cost and highly-efficient manner. Provision of services by government organizations, they claim, does not respond to the incentive of market demands and often introduces "extraneous" political or bureaucratic interests into the management of the necessary operations. Other groups claim that private organizations, particularly in situations of limited competition, often engage in "cream-skimming" and "price-gouging", thereby denying needed services to certain segments of the population. These groups conclude that only by governmental operation can important services be supplied in a non-discriminatory manner on a national basis. Still other groups attempt to steer what they see as a middle course between these alternatives by supporting the creation of a regulatory structure, whereby private organizations provide services within boundaries and standards established through governmental decisions. Yet this approach also has its detractors. Consumer groups often see conflicts of interest as government regulators take positions within regulated industries. Producers often see regulation as introducing a tangle of contradictory restrictions that delay the implementation of needed management policies.

Performance is not, however, an unambiguous concept, although participants in policy debates may be reticent to admit this. Groups competing for various economic or political rewards typically have competing notions of how "performance" should be defined and how it should be measured. As a consequence of the controversial nature of standards of evaluation, comparisons of organizational performance are more often polemical than objective.
The major way in which various structures (e.g. government operation, government regulation, private operation) for providing services differ may be in the ways in which different groups have access to the policy-making process within the given structure. That is, different methods of providing service may create different "arenas" in which decisions are made and policies are set. These arenas may differ in which groups they include or exclude in the policy-making process and what types of issues they emphasize or de-emphasize, thereby also affecting the ability to attain specific standards of performance.

Organizations and Policy Formation: A Description of the Research

This work focuses on how different types of governmental organizations affect the access of various groups to the policy-making process, as well as how they affect the emphasis that different types of issues receive in the policy-making process. These questions are addressed through a case study of the historical background of and political struggle over the reorganization of the Post Office Department into the United States Postal Service, a "corporate" governmental organization. A study of a reorganization in the state appeared to be a particularly useful approach in that there is likely to be some evidence of the differential roles of various groups in the policy-making process in a situation in which the organizational context and decision-making rules that the state utilizes in a particular area of policy formation are altered. The arguments of various groups pursuing different interests in reorganization might indicate how specific organizational features structure the expression of issues and conflicts and affect the outcomes of these conflicts.
Analysis of the relations of these groups, and of policy outputs, to the state before and after such a reorganization would provide additional information on the role of the state in policy formation to compare with arguments publicly expressed by interested groups. Furthermore, a case study can provide much detailed information on the possible existence of specific advantages or disadvantages that might systematically accrue to various groups involved in a given area of policy formation. In particular, it allows, more readily than do alternative methods, the examination of possible historical developments in the structuring of issues, conflicts and policy outcomes.

The Post Office is a particularly useful arena to examine for a case study on a reorganization in the state. It has a long history recorded in public documents. At the time of reorganization, as well as for much of its history, relatively influential groups were interested and active in postal policy formation. The strength of their involvement was likely to expose rather clearly the relative differences and conflicts they had over the reorganization process. The recentness of the reorganization (i.e. 1970 legislation that took effect in 1971) increases the usefulness of some of the conclusions, but it also limits the examination of changes in policy outputs: the full ramifications of certain organizational changes are probably not evident over a six- or seven-year time span.

The Analysis of Postal Reorganization: Principle Findings

Several specific questions guided the collection of information for the case study.
1. What were the major issues or conflicts that groups expressed during the political struggle over postal reorganization? What reasons did they give for pursuing these issues and conflicts?

2. Were these issues and conflicts important throughout postal history? How had the groups and the state dealt with these issues and conflicts historically?

3. How, if at all, would reorganization affect these issues and conflicts? Would specific organizational features have specific effects on these issues and conflicts? Did the groups involved in the political struggle over postal reorganization argue that specific organizational features were important in regard to postal policy formation generally or their interests specifically?

4. Had postal reorganization been debated previously in postal history? If it had, what were the common situational factors that explain this recurrence? If it hadn't, what were the unique situational factors that explain this recent occurrence?

5. How did the actual reorganization affect postal policy formation, if at all? What differences did reorganization produce in the organization and process of policy formation? Did the actual effects of reorganization have any similarities to those claimed by the groups involved in the political struggle over postal reorganization?

I felt that these questions would elicit empirical information to shed light on the more general question of the possible relationship between
political conflict and internal state structure, and of the possible selectivity of state organizations.

Two major postal issues or conflicts existed not only during the postal reorganization struggle of 1970 but also since at least the 1890's. One issue was that of labor relations, which pitted postal workers and their organizations against the top managers within the Post Office, the postal managers. This conflict raised questions very similar to those confronted in labor-management conflicts in the private sector: the extent of the workers' right to organize, the level of benefits that workers should receive, the method of discussing and resolving conflicts, etc.

The second issue was that of rate-making, which led primarily to some conflicts between mailers of the second- and third-class of mail ("special mailers" for whom postal service is a more or less integral part of their business activity and for whom postal rates have significant effects on their competitive position in this activity) and the postal managers. This conflict raised the question of the relationship between postal rates and postal costs: should total postal rate revenues cover total postal costs? should rate revenues by each mail category or class cover costs by that mail category or class? or should certain types of mail be entitled to rates lower than the costs they generate because of their particular social or cultural value? In effect, this conflict was not simply over rate-levels, but was also over the role the state was to take toward specific interests. In postal rate-making, as in other areas of political controversy, various private groups attempted to gain from the state certain types of benefits that would further their goals. Thus special mailers and rural groups argued that the Post Office was primarily a "public service" organization, in which a balanced postal budget was less important than the government's
support of diverse, low-rate, and widespread postal activities. Postal managers and large national businesses, however, argued that the Post Office was primarily a government-owned "commercial" organization in which efficiency and effectiveness were more important than the government subsidization of certain "parochial" interests through postal operations.

Historically, Congress directly addressed the issues and the conflicts of postal labor relations and postal rate-making, through legislation that set the levels of both postal wages and postal rates and also resolved certain associated controversies. Beginning in the early 1900's, postal labor unions and special mailers had developed strong relationships with Congress and had realized many of their goals through congressional action. At the same time, however, postal managers began to complain of their inability to control postal costs and revenues. Their complaints increased after World War II as postal wages and labor militancy increased and as rate-making became a prolonged and controversial process.

There was, however, another major issue that was present not only during the postal reorganization struggle of 1970, but through much of twentieth century postal history. While not a postal conflict per se, it set the stage for much of the postal conflict in the late 1960's. This conflict was over the need of the state to limit and order its spending priorities in the face of rising demands by private groups for state benefits as well as rising wage demands by state employees. While the historical development of this issue is beyond the scope of this work, its relation to postal reorganization is important. The postal labor force was the largest and most highly organized segment of federal workers, and consistently attempted to extend the bargaining rights of federal workers. The demands of the various postal interest groups, particularly the special
mailers, had led to regular and increasing postal deficits despite the historical use of a pricing mechanism to help allocate postal services. In short, postal operations were a reflection of and accentuated the need for the state to limit and order its spending priorities, a fact that the executive managers, certain top officials in the Executive branch, recognized most clearly.

By the mid-1960's, as these conflicts in postal labor relations, in postal rate-making, and in the general labor and budgetary problems of the state escalated, the state (the executive and the postal) managers saw a postal corporation as a method of resolving their problems. This specific organizational form would essentially transfer postal policy-making to a board of directors of a government corporation, thereby generally isolating postal policy-making from the congressional politics which postal labor and special mailers dominated. The state managers thought that postal reorganization would thus provide a way to structure postal issues, conflicts and policies in a manner more advantageous to their interests. The postal managers saw a postal corporation as increasing their control and autonomy in the areas of postal labor relations and postal fiscal affairs. The executive managers saw a postal corporation as decreasing the adverse effects of postal operations on federal labor relations and federal fiscal affairs.

The state managers led the effort to reorganize the Post Office as a government corporation. In 1967, then Postmaster General Larry O'Brien publicly proposed such a reorganization, and a year later a President's Commission on Postal Organization (the "Kappel Commission") presented a detailed report in support of the postal corporation concept. The opposition of the postal labor unions and the special mailers was strong, as each
group attempted to preserve the most beneficial aspects of its involvement in postal policy formation by offering specific organizational alternatives. Many members of Congress also expressed strong reservations over the proposed changes. The state managers, on the other hand, had the support of many large national businesses. The latter had dominated the composition of the Kappel Commission and were the major financial contributors to the pro-reorganization lobbying efforts. Through 1969 and 1970, various groups clashed repeatedly over several legislative proposals to restructure control over the Post Office, but it wasn't until the aftermath of the postal employees' walkout in March, 1970, that a proposal could finally develop into legislation. The Postal Reorganization Act of 1970 converted the Post Office to an "independent establishment" rather than a "government corporation", although it possessed most of the corporate features that the state managers had demanded. It also established, however, a semi-regulatory Postal Rate Commission, with much more independence from the Postal Service's board of directors than the state managers had desired.

The postal reorganization of 1970 does appear to have significantly altered the postal policy formation process. The detailed resolution of issues in postal labor relations and of postal rate-making no longer takes place through Congressional legislation. Postal labor unions now bargain collectively with postal managers, and the 1970 legislation specified a formal procedure for settling disputes. This replaced the more explicitly political process of labor bargaining with Congress for wages and other benefits. In addition, the highly organized postal workers were isolated from the activities and interests of the other federal employees. Special mailers must now present specified types of economic and technical
information for a board of "qualified experts" to consider in judging the appropriateness of rate changes. This replaced the more explicitly political process of bargaining with Congress for low rates and other benefits. In addition, the 1970 legislation attempted to isolate the effects of postal deficits from the general federal budget.

The net effect of the Postal Reorganization Act was to greatly diminish the direct role of Congress in the postal policy process. The postal managers obtained a direct role in postal labor decisions, while in a compromise move that only partially aided the postal managers, a Postal Rate Commission obtained significant responsibility in postal rate decisions. The managers in the Executive branch more or less successfully ended the role that postal labor unions had in stimulating the politicization of federal employees and inflationary wage demands throughout the federal sector. The executive managers were less successful in transferring postal costs entirely from the general federal budget to the now isolated Postal Service budget, although they did reduce the direct political element in the rate-making process. The legislation did not directly reduce the power of the postal labor unions and the special mailers, although now these groups had to utilize their power through new procedures which brought them into direct and formal bargaining with the postal managers in the policy process, rather than utilizing their power mainly through electoral and legislative bargaining with congressmen. The implications of these changes were clear to most of the participants in the postal reorganization struggle.
The Analysis of Postal Reorganization: Policy Implications

Several policy implications emerge from this case study of the 1970 reorganization of the Post Office.

First, the findings support the concept that specific state organizations and their features differentially influence the process of policy formation. More specifically, I have developed models (presented in Chapter 6) which describe the nature of the policy-making process in particular types of state organizations, the groups having relative influence in this process, the types of issues typically pursued through the process, and the arguments frequently used by various groups to legitimate or delegitimate the different types of organizations.

Second, the findings indicate that evaluations of organizational performance are closely related to the issue of participation in policy formation. Competing groups will present different standards of performance, standards that are typically used as justifications for the pursuit of their particular interests. Insofar as specific organizations allow specific groups greater access to the policy-making process, and therefore greater opportunity to realize their interests, these organizations are more likely to conform to the performance standards that the specific groups have outlined.

Third, the findings indicate that state officials do not merely react passively to demands raised by private interest groups, but have interests of their own that they attempt to realize. Private groups are more likely to obtain state organizations conducive to their policy interests if they are able to recognize the interests of certain groups of state officials and develop strategies which promote alliances rather than divisions with the appropriate state officials.
Finally, the frequent call to remove the provision of specific services "from the influence of politics" is doomed to failure. Such issues as managerial control, labor relations and rate-making are inherently political, involving as they do the distribution of power and benefits. Altering the organizational context in which policy is formulated may alter the groups having access to the policy process and the types of issues emphasized -- that is, how the political issues are resolved -- but it does not alter the fact that the issues are political. Such calls for the "removal of politics" are typically made by those groups desirous of an organizational structure for policy formation more conducive to the realization of their interests and more detrimental to the realization of their competitors' interests.

Outline of the Presentation

The following chapters describe the major issues present in postal reorganization and recent postal history, emphasizing the relationships between political activities, certain other societal processes and the organizational settings in which the activities and processes occurred.

Chapter 2 defines the major problem that the state managers experienced: the need to limit and order the state's expenditures through control and coordination of state fiscal and labor policies. This chapter sets the stage for detailed examination of postal reorganization by analyzing the corporation proposal and recounting some of the postal politics in the 1950's and 1960's. For an overview, it also portrays some of the historical changes in both the Post Office Department and the federal government in the late nineteenth and early twentieth centuries. In
addition, it examines the relationship between the state managers and large national businesses, the major supporters of the corporate proposal.

Chapter 3 describes the issues over labor relations and the attempts of the postal labor unions to improve their material position and bargaining rights in relation to their federal employer. The conflicts that these provoked with the interests of the postal and the executive managers, and the resulting alignment of postal labor with the Congress, are outlined. This chapter also describes the steps, culminating in the struggle for a government corporation, that the state managers took to isolate postal labor from Congress and other federal employees, and thereby resolve their economic and political problems in the area of labor relations.

Chapter 4 describes the issues over rate-making and the attempts of the special mailers to gain subsidies in the form of favorable rates, and to shift large portions of the postal operating deficit from postal users to the general taxpayer. The influence of the special mailers in Congress and the conflicts that these interests provoked with the interests of the postal and the executive managers are outlined. This chapter also describes the steps, culminating in the struggle for a government corporation, that the state managers took to end the relationship between the special mailers and Congress, and thereby resolve their economic and political problems in the area of rate-making.

Chapter 5 describes the actual legislative battle over reorganization of the Post Office from a government department to a government corporation. The arguments of the various groups in regard to specific organizational features, and the effects that these features would have on future conflicts and policy formation, are analyzed. In addition, it
analyzes the effects of the organizational changes on postal and federal policy-making in the major issue areas and examines how adequately the features of the United States Postal Service resolved the problems which the state managers had confronted in the Post Office Department.

Chapter 6 details the conclusions that I have drawn from the study of postal reorganization.

The Appendix to this work presents a brief summary of the organizational features and the historical use of government corporations. Those unfamiliar with government corporations may find it helpful to read the Appendix before proceeding to Chapter 2.
Chapter 2

Postal Reorganization:

The Corporation Proposal and the State Managers

"The business [of the post office] being one which both can and ought to be conducted on fixed rules, is one of the few businesses which it is not unsuitable to a Government to conduct."

--- J.S. Mill, *Principles of Political Economy*

"Although the Post Office is one of the nation's largest businesses, it is not run as a business, but as a Cabinet agency of the United States Government."

--- The Report of the President's Commission on Postal Organization, 1968
Introduction

With the Post Office as a government department, certain groups, most notably postal labor unions and special mailers, exerted major influence in the formation of postal policies. This influence affected the operations not only of the Post Office Department but also of the federal government generally. The state managers experienced these effects as obstacles to their control of labor relations and fiscal affairs. Consequently, the managers attempted to decrease the influence of these groups and increase their own managerial control by converting the Post Office to a government corporation.

This chapter presents the proposal of the state managers and analyzes the effects that the organizational features of a postal corporation would have on the postal policy process. It also sketches the historical development of the state managers' concerns with labor relations and fiscal affairs and the justifications that the managers offered in proposing this reorganization of the Post Office. Finally, it closely examines whether the activities of the state managers were entirely autonomous or whether they were in response to the demands of certain groups in the private sector.

This chapter portrays the long-term and short-term developments which led up to the postal reorganization struggle of 1969-1970. While it mentions the activities and effects of postal labor and special mailers, the following two chapters describe the development of postal labor and rate issues in detail.
The Postmaster General Proposes a Postal Corporation

On April 3, 1967, Postmaster General (PMC) Larry O'Brien, in an address before a meeting of the Magazine Publishers Association and the American Society of Magazine Editors, proposed that the Post Office Department (POD) be removed from the Cabinet and be operated as a non-profit government corporation. The President would appoint and the Congress would confirm the board of directors that would operate this postal corporation. Congress would then determine "by clear mandate" the percentage of costs that the various postal services must cover so that the directors might quickly revise rates on a fixed formula basis. This corporation would be free of the existing statutory restrictions on appropriated funds, having the ability to issue bonds and to generally control its own finances. O'Brien emphasized that prior reform efforts were not working because they were limited in scope.

During recent months a number of proposals have been made in the Congress to alter some aspects of the postal service. While all are well-intentioned, they are only props for the tottering structure we now inhabit so uneasily.

I believe the time for props is past. I think we must stop tinkering and begin constructing... We simply can't go on as we have been. (USN, April 17, 1967)

The Kappel Commission Details the Corporation Proposal

Five days after O'Brien's proposal, President Johnson appointed by executive order a ten person Commission on Postal Organization to study the structure of the postal system and to make recommendations on the various organizational alternatives which could be used to meet future
postal needs. Frederick R. Kappel, former chairman of American Telephone and Telegraph, headed this Commission. Kappel had had a wide range of business and governmental experience, having served as chairman of the board of International Paper Co., a director of Metropolitan Life Insurance Co., a trustee of Aerospace Corporation and as chairman of a federal Commission on Executive, Legislative and Judicial Salaries. Other members of this "Kappel Commission" were:

George P. Baker, Dean, Harvard University Graduate School of Business Administration
David E. Bell, Vice President, The Ford Foundation
Fred J. Borch, President, General Electric Company
David Ginsburg, Partner, Ginsburg and Feldman
Ralph Lazarus, Chairman, Board of Directors, Federated Department Stores
George Meany, President, American Federation of Labor and Congress of Industrial Organizations
J. Irwin Miller, Chairman, Board of Directors, Cummins Engine Company
W. Beverly Murphy, President, Campbell Soup Company
Rudolph A. Peterson, President, Bank of America

The Kappel Commission issued its report, Towards Postal Excellence, along with four volumes of supporting information in the form of contractor reports, in June, 1968. This report outlined the problems that the Commission claimed the "postal system" confronted and strongly supported a government postal corporation as the best solution to these problems. The problems fell into three areas. It was claimed that:

1. The quality of service was poor as evidenced by the recent breakdown of mail distribution in Chicago, public dissatisfaction, and unresponsiveness to public needs

(Kappel, 11-14);
2. Postal employment suffered from "unproductive" labor relations, antiquated personnel practices, poor working conditions and limited career opportunities (Kappel, 14-21);

3. Postal finances exhibited a "growing and unnecessary deficit" due to an "irrational" rate system and the failure to obtain productivity increases through technological advances and improved management techniques (Kappel, 22-31).

The report traced these three major problem areas to one major source: postal managers had "No Control" over the major factors in the postal environment.

The Post Office's principal failure is one of management... The organization of the Post Office as an ordinary Cabinet department guarantees that the nominal managers of the postal service do not have the authority to run the postal service. The important management decisions of the Post Office are beyond their control and therefore cannot be made on the basis of business judgment. (Kappel, 33)

The report claimed that this was because:

1. Treasury financing entailed the annual and difficult process of Congressional appropriation, which hampered the financing of capital needs, decreased organizational concern for efficiency, and reduced orientation to the market demand of customers (Kappel, 35-37).

2. Congressional control of rate-setting and postal labor relations removed the key organizational decisions from managerial control (Kappel, 37-40).
3. The political process rather than criteria of effectiveness were the basis of appointments throughout the POD management hierarchy (Kappel, 40-43).

To solve these problems at their source, the Kappel Commission stated that a major change in the organization of the Post Office and its economic and political relationships to the federal government, in particular to the Congress, was necessary. What was needed, it claimed, was the autonomy and flexibility of a government corporation.

The remedy demands a fundamental change in the anachronistic relationship between the Post Office and the rest of the Government... We have concluded that a Government corporation can be a vehicle permitting highly effective management for the Post Office. (Kappel, 53-54)

The Kappel Report detailed this proposal with five major recommendations on organization, labor relations, rate-making, patronage and service (Kappel, 55-64). Chapters 3 and 4 examine the recommendations on labor relations and rate-making.

In regard to organization, the proposed postal corporation would be owned entirely by the federal government, chartered by the Congress, operated on a self-supporting basis, regulated by the Government Corporation Control Act, and managed by a board of directors. The President would appoint and the Senate would confirm six of the directors, who in turn would appoint three additional directors to serve as full-time officers of the corporation. The postal corporation would have the power to sue and be sued, enter into contracts, acquire and dispose of property in its own name, use its own revenues, borrow funds through the issuance of bonds, and determine its own expenditures (Kappel, 55-57; 77-83).
An Analysis of the Corporation Proposal

The conversion of the POD to a government corporation would significantly alter the setting in which postal policies developed. Historically, Congress developed the specific features of the major postal policy areas, which in the twentieth century were the wages of postal labor -- the primary cost component of the POD -- and postal rates and appropriated funds -- the primary revenue sources of the POD. With a postal corporation, the board of directors of the corporation, under the broad supervision of Congress, would be responsible for developing policies in these areas.

As the following Chapters will detail, private groups had major interests in postal policy. By the beginning of the twentieth century, both postal labor and special mailers had begun to form close relationships with Congress and in the following years explicitly exercised their political influence to obtain legislation favorable to them in regard to labor issues and postal rate and POD subsidy issues. In the period after 1945 as post-war inflation grew and American labor exercised its strengths, the influence of the postal labor unions and the special mailers began to have particularly adverse effects, or so it was claimed, on certain activities of the federal government.

The influence of the postal labor unions affected the POD economically by driving up the costs of this labor intensive organization through their generally successful pursuit of wage increases. Politically, postal labor unions were able to by-pass the demands of the managers of the POD by lobbying with Congress rather than bargaining with these postal managers. The influence of the special mailers affected the POD economically by limiting postal revenues through their generally successful efforts to
lessen and delay postal rate increases. Politically, special mailers also by-passed the demands of the postal managers by lobbying with Congress. The influence of these groups affected not only the POD, however, but also affected the operations of the federal government more generally. Economically, the wage increases for postal labor paced the increases for most other federal workers, while politically, the postal labor unions led the drive for expanded bargaining rights for all federal workers. Economically, special mailers attempted to support an increasing share of the postal deficit on general tax revenues, while politically their conflicts with each other and with postal managers led to prolonged disruptions in the policy-making process (see Figures 1 and 2).

Within the federal government, the state managers -- the federal officials who occupied the uppermost decision-making positions -- comprised the group that primarily experienced these effects. More specifically, they were the postal managers, consisting of top officials in the POD: the Postmaster General and the Assistant Postmasters General; and the executive managers, consisting of those executive branch officials involved in federal labor relations and budgetary policies: the President, the Budget Director, the Secretary of Labor and the Civil Service Commissioner.² Apparently because of their organizational positions and responsibilities, they perceived the policy influence of postal labor and the special mailers as hampering their efforts to manage labor relations and budgetary affairs within the federal government as a whole, as well as within the POD itself. The state managers repeatedly clashed with postal labor unions and special mailers over postal policies throughout the twentieth century and attempted to curtail the effects of the influence of these groups.³
**Figure 1.** Effects of the Policy Process with the Post Office as a Government Department: Labor Relations.

<table>
<thead>
<tr>
<th>Political Effects</th>
<th>Economic Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Office Department</td>
<td>Postal costs increased;</td>
</tr>
<tr>
<td>Labor issues resolved by means of political influence on Congress;</td>
<td>Postal deficits increased;</td>
</tr>
<tr>
<td>Managerial discretion on labor issues limited.</td>
<td>Capital investment hampered.</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Postal labor led drive for wage increases of federal workers;</td>
</tr>
<tr>
<td>Postal labor led drive for expanded bargaining rights of federal workers.</td>
<td>Wage increases increased expenditures of the state and were considered inflationary.</td>
</tr>
<tr>
<td>Post Office Department</td>
<td>Fiscal Affairs</td>
</tr>
<tr>
<td>------------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Rate issues resolved by means of political influence on Congress</td>
<td>Postal revenues limited; postal deficits increased</td>
</tr>
<tr>
<td>Managerial discretion on financial issues limited</td>
<td>Transfer of postal costs from users to taxpayers disrupted federal budgeting</td>
</tr>
</tbody>
</table>

Figure 2. Effects of the Policy Process with the Post Office as a Government Department.
The state managers proposed and led the political battle for a postal corporation. Such a reorganization would solve the "problems" of the Post Office as the managers experienced them. It would remove the process of policy formation in the areas of labor and rates (among others) from the congressional arena. It would increase the involvement of the postal managers in each of these policy areas and force the postal labor unions and the special mailers to bargain with the managers rather than lobby within Congress. By isolating the Post Office from the ordinary federal budgetary and labor relations processes, it would also prevent the effects of these groups' activities from "spilling over" into other areas of federal operations.

The Report of the Kappel Commission outlined the problems of the postal system from the perspective of the state managers and provided a solution based on the needs of the state managers. It stated that postal operations should be isolated from the demands of postal labor, the special mailers and Congress, and that postal managers should be organizationally autonomous in the resolution of labor issues, rate issues and general management issues.

[The important requirement is that the Board of Directors] be given the authority to run the postal system... We propose a restructuring of the current relationship between the Post Office and Congress and the Executive branch to enable those branches to exercise proper policy functions (Kappel, 56).

The key to this organizational autonomy was the claimed economic and political independence that resulted from a government corporation's reliance on revenue funding and bond issuance rather than a government department's reliance on legislative appropriations (Kappel, 81-83). The active and vocal opposition of the postal labor unions, the special mailers and the
Congress in the legislative debate over postal reorganization, however, is one of the best indicators that the Kappel Report examined the problems of the postal system and their possible solution from the perspective of the state managers (see Chapter 5).

The Historical Development of the State Managers' Concerns in Labor Relations and Fiscal Affairs

In the late nineteenth century, a particular alignment of groups and issues emerged in debates over postal policies and this alignment has held rather consistently through the twentieth century. Basically, it has consisted of the state managers attempting to limit increases in the wages and bargaining rights of postal workers, and to increase postal rates and decrease the postal deficit associated with the special mailers. While labor and rate policies were important areas of debate prior to the late nineteenth century, the debates did not take the form or have the alignment that they had in the twentieth century. In the nineteenth century, debates on labor policies were primarily over patronage -- who was hired and who hired them -- rather than over wages or bargaining rights. Debates on rate and service policies were primarily over rate decreases and service expansion rather than over rate increases and service cutbacks. In addition, neither the top officials in the POD nor in the executive branch took a consistent position on these issues. These officials often engaged in the patronage struggles and fought for lower rates and expanded service, even at the result of higher postal deficits.

At the turn of the century, then, rather significant changes occurred in the involvement of top postal and executive officials in
postal policy-making. At the same time, certain changes were occurring in the Post Office and in the federal government. A brief examination of the history of the Post Office and of the relationship between it and the federal government helps to clarify the activities of the state managers in the twentieth century, and why their activities changed from those in the nineteenth century.

Legislation in 1789 had located the Post Office within the Department of the Treasury and it was to the Secretary of the Treasury that the PMG had to direct his reports (Rich, 113, 115). By 1829, however, the Post Office had gained autonomy from the Treasury and had established itself as a de facto executive department. In 1836, Congress obtained firmer economic and political control of the POD by requiring that it turn over all postal revenues to the Treasury and submit to annual congressional appropriations of all funds (Cullinan, 61). In addition, the legislation required presidential appointment with the advice and consent of the Senate of all postmasters whose commissions exceeded $1000 and who were to henceforth hold office for a four-year term (Fowler, 31).

The Constitution had given to the Congress the power to "establish Post Offices and post Roads" (Article 1, Section 8), and a recognition by contemporary political leaders of the political and economic utility of this power appears to explain the ascendancy of the Post Office to cabinet status. Congressmen and others could derive benefits from the expansion of post offices and post roads into frontier areas, and the postal clause of the Constitution figured prominently in debates over federal involvement in "internal improvements". Presidents and nascent political parties saw the advantages of patronage in the Post Office, the largest of federal employers for much of American history (see Figure 3). In addition, as
Figure 3. Federal Paid Civilian Employment: Total, Post Office and Defense, 1816-1970.

one of the several activities expressly given to the federal government, the "postal power" quickly became a focus for the political activities of groups desirous of federal involvement and federal benefits. The POD greatly aided the distribution of newspapers, subsidized railroads, provided useful services in rural areas, had a major involvement in the development of air travel, and was at the center of debate over whether the government should operate telegraph and telephone facilities.  

Thus, just as "interstate commerce" and "national defense" were constitutional catch-phrases and ideological umbrellas under which were subsumed and justified a wide variety of federal activities, so too for most of the 1800's and even as late as the 1920's, "postal service" served a similar function. In the nineteenth century, the domestic federal government was, for the most part, the Post Office and the POD was the major federal organization for the distribution of economic and political benefits. As such, it would have been perhaps inconceivable or at least extremely difficult to isolate postal operations from the demands of various groups. Postal policy was the mechanism for federal involvement in many diverse areas, and the determination of that policy probably had to be open to the influence of important economic and political groups.  

By the late 1800's, however, the federal government had developed and justified new organizations and methods for distributing political and economic benefits. The growth of the federal government, which was undoubtedly linked to the growth of a national economic structure, although its specific causes are clearly beyond the scope of this work, decreased the importance of the POD as a mechanism for distributing benefits, for new agencies became involved in important policy issues and granted subsidies.
Corresponding with this growth of the federal government was the perception by certain groups of the need for centralized and coordinated federal policies, particularly in budgeting and in personnel affairs. In the nineteenth century, federal agencies and departments had prepared their own individual appropriations requests for submission to one or two of a number of congressional committees. Supervision by the President or by the Secretary of the Treasury had been limited and sporadic. Around the turn of the century, a drive began for comprehensive executive budgeting. Progressive reformers who saw the budget as increasing public knowledge and popular control over government, as well as more business-oriented groups that saw the budget as reducing expenditures and taxation through the introduction of increased governmental economics and efficiencies, were reportedly the main elements in this drive (Burkhead, 12-24). President Taft’s Commission on Economy and Efficiency issued a major report on The Need for a National Budget in 1912, and the Accounting and Budgeting Act of 1921 legislated the preparation of a comprehensive federal budget under the direction of the President as well as the creation of a Bureau of the Budget.6

A central concern in this drive for economy and efficiency in the federal government was the matter of personnel issues. This was one of the five areas that Taft’s Commission investigated (Weber, 93). As an outgrowth of this concern, Congress established the Division of Efficiency in the Civil Service Commission, later (1916) the Bureau of Efficiency. Part of its responsibilities were to formulate and maintain a system of employee efficiency ratings, compare federal pay scales to state and municipal scales, and investigate the need for reclassifications of federal employees (Weber, 104 ff.).
Postal policy-making reflected this general emphasis on coordinated budgetary and personnel policies that was taking place in the executive branch. A joint congressional commission in 1907 and a congressionally appointed commission in 1912, which both studied second-class mail rates, pointed out the need for more statistical information on postal costs and revenues as well as for a probable increase in rates to cover postal costs. In 1908, a joint congressional commission, composed of the members of the 1907 commission, issued a report on "business methods" in the POD. This study emphasized the need to ferret out organizational and budgetary problems and it recommended a regular and accurate study of postal costs as the best method of doing this. It also stressed the need for standards of efficiency and economy for judging administrative results. In 1923, as an outgrowth of these studies and shortly after the authorization of the comprehensive federal budget, Congress authorized the Cost Ascertainment System to measure and distribute postal costs among the various mail categories (see Chapter 4).

In regard to labor, the 1908 Joint Commission on Postal Business Methods recommended the extension of "labor-saving" machines, as well as of efficiency rating systems for judging employees for possible promotion or demotion. In the early 1900's, both postal and executive managers issued a series of "gag orders" restricting the ability of postal and other federal employees to speak to congressmen concerning departmental policies. State managers claimed this was necessary to maintain executive control over budgetary and personnel policies, although others saw it as an attempt to repress the growth and political influence of postal organizations (see Chapter 3, particularly Note 8). In fact, however, budgetary issues and personnel issues are closely linked, particularly in the POD,
and postal managers who have attempted to operate the POD on a self-sustaining basis, such as PMG Burleson (1913-1921) and PMG Summerfield (1953-1961), have usually also incurred the hostility of postal labor with their actions.

A change in the composition of the postal labor force in the late nineteenth century probably further accentuated the budgetary and personnel problems of the state managers. In 1816, POD employment stood at 69% of the total paid civilian employment of the federal government, and it rose to over 80% in the 1850's and 1860's. The primary component of this labor force, however, were the postmasters (PM's) of the various post offices. While PM's did perform a number of clerical or manual tasks such as sorting mail, preparing it for shipment and collecting fees (Rich, 122), they also controlled their office's administrative activities, which were not without economic and political benefits. PM's typically influenced the choice of post roads (which hindered or aided development in certain areas), awarded transportation contracts to private carriers, and distributed funds for these contracts. Control of a post office often aided other activities of a PM, such as the distribution of his newspaper or the operation of his general store, and local PM's had franking privileges, especially useful when lotteries were prevalent. Appointees to the office were, more often than not, friends and associates of the local congressman, spreading his message at election time and serving as his eyes and ears when he was in Washington. If the PM had not already been an influential member of the community, he became one upon acceptance of the office, and his status increased as a consequence of being the sole representative of the federal government on the local scene (see Rich; Fowler, passim).
In 1863, however, the POD introduced urban free delivery and the postal labor force began to change dramatically from a rural based stratum of officials to groups of low-level clerical and manual workers concentrated in urban areas. The relative number of PM's further declined with the introduction of rural free delivery in 1897 and the peaking of the number of post offices in 1901 (see Figure 4). These new workers quickly formed organizations, made demands for improved pay and working conditions, and disrupted the fiscal and personnel policy concerns of the state managers in ways that the patronage-based PM's had not.

Thus as the federal government grew, a concern for the centralized and coordinated control of fiscal and personnel issues developed. While this took place in regard to the general affairs of the executive branch, it was reflected in the policy issues of the POD as postal managers attempted to cover postal costs through increased postal rates and to control the changing postal labor force. The distribution of federal domestic benefits that had been concentrated in the POD were gradually shifted to other agencies, and state managers increasingly viewed the Post Office as a purely commercial and business-type activity. The struggle of the state managers to gain full control of postal fiscal and personnel issues from the remaining political influence of the Congress, special mailers and postal labor organizations began in the early 1900's, was temporarily halted by the Depression and World War II, the restarted with increased controversy after 1945.
Figure 4. Number of Postmasters as Percentage of Total Postal Labor Force, 1816-1921.


Percentage calculated by dividing the number of post offices by the total POD employment. It was assumed that the number of postmasters equals the number of post offices.

The introduction of (A) urban free delivery, 1863, and (B) rural free delivery, 1897, greatly increased POD employment, while (C) the number of post offices began to decline after 1901.
The State Managers' Attempts to Control Postal Labor Relations and Fiscal Affairs After 1945

Initially after World War II, the state managers responded in limited and "piecemeal" fashion to their problems. In attempting to control labor costs, for example, President Eisenhower vetoed four postal pay bills during his two terms of office (CQ Almanac, 1960, 240-41), while his PMG emphasized the mechanization of postal operations. The latter not only promoted the automation of manually performed tasks, but also experimentation in electronic facsimile transmission (Summerfield, 207). Such efforts to hold down postal costs were generally unsuccessful, however, as Congress legislated postal wage increases regularly and usually at higher levels than the state managers were willing to accept (see Chapter 3). Automation of postal operations made little headway despite Summerfield's enthusiasm, and in 1969 another PMG returned to this idea in his proposal to create "mail factories" — large completely mechanized processing buildings — for the 300 largest post offices (USN, Jan. 27, Feb. 3, 1969).

Similarly, the state managers attempted to raise postal rates to cover the increasing deficits of the POD, but these attempts also met with little success. Congress usually legislated rate increases lower than postal managers had requested and often after lengthy delays (CQ Almanac, 1962, 356; Kappel 146). Furthermore, in 1958, Congress began to make a distinction between appropriations for "postal costs", as opposed to those for "public service costs", only the former of which postal rates were to attempt to cover. Such a distinction was in direct conflict with the efforts of the state managers to cover all POD operating expenses through revenues from postal rates. Several times the state managers proposed that the Congress formulate only general rate policies and delegate the
specific application of these policies to an independent rate commission (see Chapter 4).

In addition, the state managers introduced changes in services that transferred certain operations outside of the POD. ZIP code, for example, which became mandatory for second- and third-class mail in 1967 (a year later than planned, reportedly due to the opposition of special mailers), required the mailers to pre-sort their material before entry into the postal system (EW, Jan. 30, Feb. 6, 1965). The POD also urged that for mail-handling, new high-rise buildings incorporate conveyor systems costing $5,000 per floor to save the time of letter carriers (USN, April 12, 1965). In 1966, legislation discontinued the Postal Savings system, and in the same year, the POD began to place self-service postal stations in shopping centers.

Finally, certain limited organizational changes did take place. Under the Reorganization Act of 1949, the Executive branch altered top postal management, centralizing authority in the PMG. Legislation in 1950 centralized postal accounting and financial reporting and provided for a revolving fund for the POD based on postal revenues. Legislation in 1951 reduced the number of individual postal appropriations and in 1953 created a Bureau of Personnel (Siegel, 627-632; Cullinan, 161). These actions, however, as well as those in regard to labor, rates and services, did not diminish the role of Congress or the influence of postal labor unions and special mailers in postal policy. Rather, they were purely "internal" actions that increased the budgetary and organizational control of the postal managers and moderated some of the economic and political problems of the state managers within the confines of the existing organizational structures and relationships.
These activities of the state managers in the 1950's and early 1960's did little to alleviate the economic and political problems that they confronted. There were budgetary problems, labor militancy and threats of service reductions throughout the 1960's. Public sector employees in general were restless during the 1960's and there were signs of increasing discontent and militancy among postal workers. With the Vietnam War abroad and the Great Society programs at home making major demands on the federal budget, the state managers found it difficult to accept the constantly growing postal deficit while the postal managers found it difficult to obtain the funds they felt were needed for postal operations.\footnote{8}

In the midst of all this, an event took place that the state managers used to focus pressure for a major reorganization of the POD. In early October, 1966, a huge backup of mail -- reportedly exceeding 10 million pieces, mostly third-class -- occurred in the Chicago post office (\textit{BW}, Nov. 5; \textit{USN}, Nov. 7; \textit{NYT}, Oct. 10, 1966; Kappel, 11-12). Initial reports attributed it to greatly increased mail volume nationally, a Presidential directive cutting overtime work for government employees, and racial tension over the naming of the Chicago postmaster. Later reports cited, in addition to sharp increases in postal volume, "abnormal" absenteeism, hiring difficulties in a tight labor market, and defects in the physical facilities (\textit{NYT}, April 9, 1970).

Regardless of the cause, the state managers quickly identified the Chicago breakdown as symptomatic of the general chaos of postal operations and used it as a catalyst for moving toward a general restructuring of control over postal fiscal and personnel affairs. Under the existing structure of operations, they argued, another such breakdown could occur at any post office at any time.\footnote{9} Less than six months later, PMG O'Brien
announced his proposal to convert the Post Office from a government depart-
ment to a government corporation.

The State Managers' Justification for a Postal Corporation

In a significant statement in his book that described his years as Postmaster General (1953–1961), Arthur Summerfield outlined the actions that he thought were necessary to improve postal operations.

The first is that the postal service can and must be placed on a basis of paying its own way.

The second is that it is unlikely to achieve this basis as long as it remains at the mercy of some members of Congress who will use their power over it to suit their political ambitions and purposes.

The third is that the postal establishment must be put above the dictation of pressure groups determined that the Government shall continue contributing vast subsidies to their profit-making business operations.

The fourth is that, if the present political and pressure-group controls over postal operations are extended into the future, the Post Office Department will continue to be one of the largest annual contributors to our Federal debt.

And the fifth is that, if this great service is permitted instead to be master of its own house under reasonable balances and safeguards, it will grow magnifi-
ciently as a proud and positive part of the economy the American taxpayer wants. (Summerfield, 232)

Here Summerfield had summarized the major problems and solutions that state managers proclaimed throughout the 1950's and 1960's: the partic-
ular interests of certain pressure groups disrupted postal operations
and executive budgetary control, and only increased managerial autonomy,
particularly in economic affairs, would solve these problems. PMG O'Brien
and the Kappel Commission suggested a postal corporation as a specific
organizational setting in which the goals Summerfield elaborated were likely to be realized.

To justify their proposal for increased managerial autonomy and economic self-sufficiency, the state managers argued that postal services were "commercial" or "business-like" activities for which a "business-type" organization -- i.e. a government corporation -- was best suited. On this point, the Kappel Commission quoted President Truman's statement of January 3, 1947:

> Experience indicates that the corporate form of organization is peculiarly adapted to the administration of governmental programs which are predominantly of a commercial character -- those which are revenue producing, are at least potentially self-sustaining, and involve a large number of business-type transactions with the public.

> In their business operations such programs require greater flexibility than the customary type of appropriations budget ordinarily permits. As a rule, the usefulness of a corporation lies in its ability to deal with the public in the manner employed by private business for similar work. (Hastings & Sells, 174-75)

and added approvingly, "the description exactly fits the postal service" (Kappel, 54). In essence, they claimed that a distinction could be made between "governmental" activities and "proprietary" activities and the latter should be organized in a corporate fashion so that their performance could benefit from the economic and political autonomy and flexibility of that type of organization.

This distinction does indicate an important difference between postal operations and other typical activities of a government. Rather than being freely available to all, like the use of city parks, the POD has historically allocated its services through a pricing mechanism. This allows postal operations to be "revenue producing" and "at least
potentially self-sustaining", unlike most other activities of a govern-
ment which do not generate revenues through price allocation and which
thus must be supported by general tax funds. However, this argument
immediately raises the question of what determines whether an activity of
the government is allocated through pricing or supported by general tax
funds? A broad-based gasoline tax, for example, pays for most roads,
although specific user tolls support certain highways. Parks are gener-
ally free or charge a nominal entrance fee, although it is certainly
conceivable to support them entirely through users' fees. In the case of
postal operations, first-class mail has since 1926, according to the POD's
Cost Ascertainment System, consistently generated more revenues than it
had expenditures, while from 1879 to 1962 the POD carried second-class
material free within the county of its publication, although both activ-
ities appear to be identically discrete, businesslike and potentially
self-sustaining.

The response of the state managers to this issue was that there is a
distinction between public goods and services, which the government should
provide at no or minimal charge, and private goods and services, which the
government, if it should provide it at all, should provide on a commercial
and economically self-sufficient basis. Postal services, they argued,
were private services sold to individual customers and there was no reason
to support these services at below-cost postal rates through public
funding.

The postal system...is of benefit primarily to the
people who use it: and that benefit varies in proportion
to the degree of use. Charges for postal service...
represent payments by specific persons for specifically
identified services that such persons have voluntarily
decided they wish to receive... Society as a whole has
no...interest in subsidizing the users of the postal system...it makes little sense for the general taxpayer to foot the bill.

Unlike most other operations of the Government, the Postal Service can practically be placed on a self-sustaining basis. (PMG Blount, HPOC, 1969, 1209)

This public service-private service distinction, however, does not answer the question of what determines a "commercial" versus a "governmental" activity, or the use of pricing-allocation versus tax-funded allocation. It merely restates the issue: what is the distinction between a "public" service and a "private" service? Clearly there is nothing intrinsic to activities per se that can provide an answer, for there is a high degree of cultural and historical variation on whether societies consider specific activities public or private (e.g. education, railroads, health care). Even within one setting, different groups may have different perspectives on whether a specific activity is public or private, or should be operated in a tax-supported or self-supported manner.

Special mailers, for example, argued that the educational importance of their material to the public justified below-cost rates. Similarly, rural groups argued that the public interest was well served by low-rate, multi-service postal operations, even if this led to postal deficits (see Chapters 4 and 5). It appears that the specific interests of particular groups determine whether they believe an activity should be public or private, and that the combination of various economic and political forces determine whether an activity is organized as a "governmental" or as a "commercial" activity.

In the nineteenth century, as indicated on pages 27-34, above, top postal and executive officials often supported the expansion of postal services that placed relatively large demands on the federal budget at
that time. At the turn of the century, as the postal labor force changed, as the political role of the POD within the federal government declined, and as some groups began to demand a more centralized and coordinated federal government, the attitudes of these top officials began to change. In the twentieth century, the state managers argued with increasing frequency that the Post Office was primarily a commercial activity that should be operated on a self-supporting basis. By the mid-1960's, they were claiming that the POD was not involved in important public policy decisions and could operate according to "fixed rules". In short, they argued that the "business management" of a government corporation should replace the "political management" of a government department.

The Question of the State Managers' Autonomy

As the description of the legislative battle over postal reorganization will make clear, this proposal of the state managers conflicted with the perceived interests of the groups historically involved in postal policy debate -- postal labor unions, special mailers, and the Congress. It does not follow from this evidence, however, that the state managers were acting solely out of their own interests in supporting such a conversion of the Post Office. In particular, large national businesses supported the managerial efforts to create a postal corporation. Representatives of these businesses dominated the Kappel Commission and were the major contributors to the organized lobbying efforts in support of the corporate proposal during the Congressional debates. Rather than acting independently for their own interests, as this chapter has assumed, the
state managers may have been acting in the interests of these large national businesses in proposing a postal corporation.

Large national businesses may have had several reasons for supporting a government corporation for postal operations:

A) Large national businesses are typically large mail users. They are not, however, "special mailers" as defined above, for most of their mail -- bills, transactions, inter- and intra-business correspondence, etc. -- falls into the first-class category. As such, they do have a direct interest in the quality of postal operations, a quality that they might have felt the special mailers and the postal labor unions were threatening with their demands. Large national businesses may have supported a government corporation as a way of "rationalizing" and "modernizing" postal operations, for it would allow these businesses to obtain policies and rates geared to their concerns, rather than to the concerns of the special mailers, and would provide the possibility of speeding up the mail flow through mechanization. A postal corporation, large national businesses may have felt, would ensure sufficient funds for the operation of a nationally effective postal system unhindered by the "political" intrusions of postal employees, special mailers, the Congress, or even the Executive. Many of the statements of the state managers in the reorganization struggle were couched in such language.

B) Large national businesses were likely to increase their opportunity to sell equipment, knowledge and advice in the state sector as a result of reorganization. State managers wanted to decrease "labor intensivity" as well as the "outdated" and "political" attitudes of middle-level postal management. Large national businesses were the
probable source of machinery needed to mechanize postal operations, as well as of administrative techniques to "modernize" postal management. Large national businesses had begun to move into the postal market in the 1950's when PMC Summerfield involved Western Union, AT&T, Stewart-Warner, RCA and A.B. Dick in experiments in electronic communications systems (Summerfield, 207). In 1966, the POD reportedly ordered $22.7 million of data equipment from Control Data Corporation and $3.3 million of electronic data processing systems for six post offices from Honeywell (WSJ, May 5, 1966). In 1969, the Post Office awarded a $3.2 million contract to Ling-Temco-Vought Electrosystems, Inc., to combine various mail processing machines into a "modular mail factory" (WSJ, Jan. 16, 1969). However, congressional supervision of the Post Office as a government department created economic and political restrictions, such as limited capital funds, high responsiveness to postal labor, patronage concerns, etc., which appeared to hamper the rapid exploitation of this market. Perhaps, large national businesses supported a reorganized Post Office as a way of by-passing congressional supervision, thereby expanding the market they saw.

C) Large national businesses may have been concerned about the ramifications of postal policies on other federal and private activities. They may have viewed postal deficits as increasing state costs and as limiting state actions in other areas more important to their interests. In particular, they may have been concerned with the inflationary effects of the wage demands of postal workers. Such demands not only increased labor costs throughout the federal government, but also may have had negative implications for the large national businesses themselves, by constraining their labor market and inciting their labor costs. Businesses, for
example, expressed a desire for regional variation in postal wages since, they complained, postal wages often distorted pay-scales, particularly outside the major urban centers.

D) Large national businesses' support of the state managers may also have been generated by a shared perspective on how best to manage large-scale organizations. Managers in both the state (postal) and large-industry sectors probably face similar organizational problems in attempting to produce and nationally distribute goods or services. In particular, both must respond to the demands of a large and highly unionized work force, must coordinate and obtain the support of a large administrative staff, and must direct large expenditures toward technical development, expansion of facilities and future investments. Thus the similarities in the organizational context of their activities would develop in these two managerial groups similar perspectives on the problems of controlling fiscal policy, labor policy and administrative policy, as well as on the solutions to these problems. Consequently, the state managers would readily turn to large national industries (such as AT&T or other service or utility firms) for the management techniques and policies that they felt would most likely be successful in "modernizing" postal operations. Similarly, managers in large national businesses would judge the actions and proposals of the state managers in terms of their own experience in controlling policy in their firms. Some members of PMG O'Brien's staff, for example, stressed the need to infuse outside expertise into postal research and management. Consequently, for this purpose there was created a "Research and Engineering Advisory Council" composed of technical experts and executives from industry, education and government. Business Week reported that:
Represented are such companies as IBM, Chrysler, RCA, ITT, Xerox, Bell Telephone Laboratories, Ling-Temco-Vought, General Motors, International Harvester, TRW Systems, General Electric, Owens-Corning and DuPont. In addition to a systems approach to the massive problem of moving the mail, says Packer, "we are looking for a better relationship with a broader range of U.S. industry, hoping to persuade more companies of high caliber to get into postal R&D work." (April 1, 1967; see Fortune, March, 1967)

Although I found some evidence for each of these interests in this case study, it is difficult to judge the relative importance of these or other motives in generating the support of large national businesses for a postal corporation. Historically and in the 1969-1970 struggle, these businesses simply did not participate in the political battles in a manner explicit enough to provide conclusive information on the basis of their support.

Some political analysts (Kolko, Weinstein) suggest that "enlightened industrialists" directly transmit their policy interests to state managers by means of official planning commissions -- a mechanism which the Kappel Commission certainly appears to resemble. A close examination of the development of the corporate proposal, however, indicates that no such direct link occurred in the postal case study, and in fact the Kappel Commission may have served to transmit the policies of the state managers to the private sector. In August, 1966 -- before the Chicago breakdown -- PMC O'Brien appointed three, later four, of his top management staff to a small internal task force. Known as the "Quadriad", this group operated in secrecy to explore alternative methods to increase managerial control of the Post Office. It is claimed that O'Brien, reportedly desirous to "make his mark" as a government official, was frustrated in his attempts to control postal operations. He reportedly saw a small secret group of
young loyal advisors as the best method for developing managerial alternatives, which vested groups both inside and outside the Post Office might want to subvert (Dolenga, 239-45). In March, 1967, the Quadriad presented its recommendations, which prefigured those of the Kappel Commission. The report addressed four main areas: rate-making, financing, organization and personnel, and saw a corporate structure as the best means for realizing the goals in each of these areas (see Dolenga, 254-55). O'Brien transmitted this proposal to President Johnson, and requested an authorization to make a public announcement of the plan as well as of Johnson's belief in the "worthiness" of it. The President approved the requests upon finding the support of his Special Assistant, and the Director of the Bureau of the Budget (an analyst of which had just reached similar conclusions on the Post Office in an independent study) (Dolenga, 257-62).

Immediately after his April, 1967, speech in which he made the corporate proposal public for the first time, O'Brien reportedly felt the need for "a series of quick ordered, dramatic moves" (O'Brien's words, quoted in Dolenga, 273) to maintain momentum and to pre-empt congressional counter-proposals. Consequently, O'Brien's top aides, the staff of the Budget Director, and the Special Assistant to the President developed the notion of a commission composed of "distinguished citizens" having "broad managerial experience". Reportedly they made the explicit decisions to exclude representation from Congress, the IOD and major mail users, to form the Commission through an Executive Order rather than through congressional action, and to include labor representation (Dolenga, 273-75). Thus within five days of O'Brien's public proposal, the state managers had developed the concept of a presidential study commission on postal
operations and had found members to serve on it. The presidential advisor involved, Special Assistant Joseph Califano, claimed that there was no difficulty in obtaining members once Frederick Kappel accepted the chairmanship of the Commission. While the Executive Order formally charged the Commission to examine all alternatives on postal organization, it appears that the existing studies done in the POD and the Bureau of the Budget served to channel much of the Commission's work. Reportedly two members of the Quadriad, along with the Budget Bureau analyst who made an independent study of reorganizing the Post Office, played a major role in early formulation of the mission of the presidential commission. In addition, PMC O'Brien sent a twelve page personal memo to Kappel sketching various policy issues and held POD briefings for the Commission (Dolenga, 357, 362).

Available information on the very early stages of the development of the corporate proposal indicates that there were apparently no direct links between the state managers and large national businesses on the issue. The proposal developed primarily in the top staff of the POD but also independently in the Bureau of the Budget, and outside groups reportedly provided no input. The state managers assembled the staff of the Kappel Commission after the public proposal and they provided some early direction on its work. In short, there is no evidence to support the notion that large national businesses directed the state managers to convert the Post Office to a government corporation.

However, this study is unable to reject the possibility that large national businesses may have indirectly influenced the state managers to act as representatives of the interests of the national businesses. How such influence, possibly structurally-based, might have occurred is
difficult to say, since this work was not designed to examine in detail the relations between state managers and large national businesses. However, the study does indicate that it may be unnecessary to postulate such a link, since the state managers had ample reasons of their own to pursue a postal reorganization that would augment their control of and decrease their problems in labor relations and fiscal affairs. A more parsimonious explanation would see the state managers' actions as developing out of the demands of their managerial positions in state organizations. This explanation would see the formation and conclusions of the Kappel Commission not so much as a political tool for either the state managers or large national businesses, but rather more as an expression of the congruency in the managerial demands of their respective organizations.

Conclusions

The conclusions of this chapter are the following:

1. The conversion of the Post Office from a government department to a government corporation would alter the process in which postal policies developed. In particular, it would end the influence that postal labor unions and special mailers exercised in congressional lobbying and force these groups to engage in bargaining directly with the postal managers. Thus, a postal corporation would increase the autonomy of the postal managers and decrease the problems of the executive managers in labor relations and fiscal affairs.
2. The state managers have shown a concern in the areas of postal labor relations and fiscal affairs since the beginning of the twentieth century, rather consistently complaining of the adverse effects of postal labor and special mailers on postal operations and the associated lack of managerial control. These complaints were not consistently present in the nineteenth century and this change appears to be due to: a) a change in the nature of the postal work force from a decentralized rural administrative force to a concentrated urban manual labor force; b) the growth of the activities of the federal government and a resulting decline in the political importance of the POD; and c) the growth of demands for centralized and coordinated federal activities as the federal government grew.

3. The state managers attempted to deal with their problems in postal labor relations and fiscal affairs in various ways throughout the post-World War II period, but their attempts generally failed since they did not alter the organizational setting in which postal policies developed.

4. The state managers justified their proposal to reorganize the POD by reference to the "commercial nature" of postal operations. They claimed that the Post Office essentially provided private benefits to specific customers and therefore postal rates, rather than general tax funds, should cover postal costs. Whether an activity provides public benefits or private benefits is, however, a political question with the decision of specific groups on this question often paralleling their specific interests in the activity. The state managers increasingly viewed postal operations as commercial activities in the twentieth century, although they hadn't done so in the nineteenth century. Even
in 1970, certain other groups claimed that the Post Office provided public
benefits that general tax funds should support.

5. Large national businesses supported a postal corporation, and
probably would have benefited from it in several ways. Nevertheless, the
proposal for a government corporation appeared to originate entirely among
the state managers, with large national businesses providing no explicit
direction to them. Given the specific organizational interests of the
state managers in a postal corporation, it may be unnecessary to postulate
any indirect link with large national businesses.
Chapter 3

Labor Relations: Postal Labor Unions and the State Managers

"Those fellows can't elect me, but on the other hand, they certainly can defeat me."

-- reported statement of a House member on postal labor unions, 1960.

"Uncle Sam still lacks a great deal of being the model boss. With notable exception where labor-management no longer is a wishful experiment, the Members of Congress still have the task of having to legislate year after year on matters which could as well or better be settled around the table in friendly discussion in areas close to the problems."

-- address by George Meany, 1957.
Introduction

With the Post Office as a government department, labor policies developed through the legislative processes of Congress. In the early twentieth century, postal workers began to form a friendly relationship with Congress in reaction to the hostility of the state managers to their demands. Their large numbers and extensive organization aided the postal workers in obtaining specific benefits, most notably wage increases, through this legislative process of policy formation. The effects of these policies hampered the efforts of the state managers to maintain control of labor relations and fiscal affairs not only within the Post Office Department but throughout the federal government. Repeatedly during the twentieth century, the state managers attempted to limit the influence of postal labor and the effects of the policies that developed in Congress. Finally, the state managers proposed a postal corporation that would place the development of labor policies within a collective bargaining setting, and increase the involvement of the postal managers in the policy process.

This chapter describes the conflict between postal labor and the state managers over labor issues in the twentieth century. To portray the development of postal labor's relationship with Congress, it begins with an examination of the early collective actions of the postal workers and the reactions they provoked from the state managers. The chapter then describes the effects of postal labor's activities after World War II and analyzes the state managers' proposal for a postal corporation as a response to these effects.
Postal labor unions actively opposed the efforts of the state managers to alter the existing relationship between the Congress and postal labor, for it would have separated classified federal workers from the organizational strength of postal labor and removed postal labor unions from the beneficial support of the Congress. It was this opposition that apparently hindered the initial legislative attempts at postal reorganization in 1969-1970. A wildcat strike of postal employees in 1970, the first modern major strike of federal workers, broke this legislative impasse. In the resulting negotiations, the postal labor unions and the state managers developed the basic features of what became the Postal Reorganization Act of 1970.

Postal Labor's Alignment with Congress

In 1863, the same year that urban free delivery was introduced, letter carriers in New York City started a local employees labor association, and carriers in Chicago did the same in 1870 (Spero, 1924, 57). During the 1890's, postal workers in the various crafts formed national associations, and in 1900, the independent Chicago Post Office Clerks entered the American Federation of Labor (AFL) to become the first AFL-affiliated organization composed entirely of government employees (Spero, 1972, 119). For most of the nineteenth century, the local postmasters determined working conditions and also fixed pay levels of clerks and carriers. As a result, advancement within a post office often depended on personal ties, and decreases in postal appropriations were often transmitted directly to these workers as pay reductions (Spero, 1924, 59; Spero, 1972, 106). Finally in 1879, Congress passed legis-
lation which classified and set pay levels for carrier positions, and
there was similar legislation for clerks in 1889 (Spero, 1924, 59-60, 81).
Nevertheless, as late as 1900, investigations reported the existence of
syndicates for the purchasing of promotions (Spero, 1924, 89-91). In
addition, until the 1900's, employee associations made few distinctions
in regard to job levels and regularly included supervisory personnel.

The efforts of these employee associations to ameliorate their
working conditions quickly encountered the opposition of executive branch
officials, the Postmasters General, and other national and local POD
officials. Postal officials regularly interpreted an 1888 law providing
carriers with an 8-hour work day with overtime provision, for example, as
merely placing a limit of 56 hours on the carriers' work week and allowing
work days of just about any length. In 1893, the Supreme Court clarified
this matter, ruling that the legislation did intend an 8-hour limit within
one 24-hour period (Spero, 1924, 67, 73). In addition, nearly every
association of postal employees felt the harassment of the POD as official-
cially fired their leaders and attempted to disrupt or hamper
their organizing efforts (Spero, 1924, 100 ff.). The primary action of
the state managers was to order employees to refrain from commenting on
work conditions, particularly to Congress, unless they made the comments
through the Postmaster General. PMG Wilson issued the first such "gag
order" in 1895 (Spero, 1924, 86), and President Theodore Roosevelt issued
an Executive gag order in 1902 that applied to all federal employees
(Spero, 1924, 97). Roosevelt restated his order in 1906, perhaps as
emphasis for the civil service change two months earlier that permitted
the dismissal of federal employees without notice (Spero, 1924, 113).
That same year, the POD issued what became known as the "wreck gag" that
prohibited postal employees from "furnishing information to the newspapers or publicly discussing" conditions of the Railway Mail Service, which at the time were reportedly highly unsanitary and physically dangerous, causing disease, injuries and death (Spero, 1924, 119 ff.). In 1909, President Taft issued yet another gag order (see Mayers, 548-49).

In this situation of repression from executive and postal managers, postal employees attempted to influence the Congress to act in their behalf. As early as the 1880's, employee associations obtained legislation on job classification, pay levels, length of the work day and vacation periods (Spero, 1924, 59-60, 80-81, 96-97), and in 1904 the united opposition of postal workers was credited with defeating the reelection of the powerful Chairman of the House Post Office Committee, who was reportedly hostile to the demands of the workers (Spero, 1924, 99-100; Mayers, 547-48). The threat of mass resignations by railway mail clerks reportedly led Congress to pass a safety provision upgrading the quality of Railway Mail Service cars in 1911 (Spero, 1924, 139-48, 155). Finally, in 1912, Congress passed the Lloyd-LaFollette Act to outlaw the executive gag orders, legislation that had the active support of the National Federation of Post Office Clerks (AFL), the Harpoon, an independent publication for postal employees, and the AFL. Also passed at this time was legislation which provided that the 8-hour work day for postal employees must be contained within a period of 10 consecutive hours (Spero, 1924, 179).

The Lloyd-LaFollette Act stated the right of civil service personnel to petition Congress either individually or collectively, the right to belong to organizations which did not impose an obligation to strike or to assist a strike against the U.S. without fear of demotion or removal,
and the right to receive written notification of charges and to have an opportunity for rebuttal before removal (37 Stat. 583; see Spero, 1924, 172-73). While currently the federal government proclaims the act as a "milestone in federal labor-management relations" (U.S. Civil Service Commission, 1), at the time, postal and executive managers reportedly opposed it strongly (Spero, 1924, 170 ff.). Senator LaFollette claimed that for requesting the opinions of postal employees on the gag orders, postal inspectors had spied on his mail and retaliated against complaining workers, and the president of the National Association of Letter Carriers refused to testify on the bill unless the Congress mandated his appearance through a subpoena (Cullinan, 123). It is reported that prior to its passage, Samuel Gompers had approved the bill as guaranteeing the right of federal workers to join the AFL (Spero, 1972, 18).

While the legislation of 1912 strengthened the relationship between postal employees and the Congress, it did not end the repression from postal managers. During his eight year administration (1913-1921), PMG Burleson took a hostile stance toward postal labor organizations, stating in his 1917 Annual Report that

...the conduct of these organizations at this time is incompatible with the principles of civil service and with good administration of the Postal Service. They are fast becoming a menace to public welfare and should no longer be tolerated or condoned. It is earnestly recommended that the [Lloyd-LaFollette Act]...be repealed. (ARPMG, 1917, 35)

He repeated this recommendation in his next three Annual Reports (1918, 24; 1919, 52-56; 1920, 14-16). Apparently, Burleson felt that labor organizations, particularly those affiliated with the AFL, threatened the sovereignty of the state by introducing "selfish" demands through the
threat of work stoppages (ARPMG, 1917, 32-34; 1919, 53-54; 1920, 14-15). He reportedly dismissed the national leader of every postal union associated with the AFL (Spero, 1972, 42) and arrested employees who resigned en masse (ARPMG, 1920, 15; Spero, 1972, 19-29). In addition, Burleson stated a firm belief in a self-supporting POD (ARPMG, 1919, 2) and felt that the influence of postal employees in Congress reduced postal efficiency and accentuated postal deficits (ARPMG, 1917, 35; 1920, 9-10). Consequently, he introduced efficiency rating systems for judging the performance of railway clerks (Spero, 1924, 187-88), argued against legislating further wage increases (ARPMG, 1918, 24; 1919, 62), and reportedly obtained salary waivers "under duress" (Spero, 1924, 188-90). His actions, however, failed to have the effects that he had apparently intended. Instead, nearly every association of postal employees affiliated with the AFL and postal labor became more skilled in utilizing Congress to limit or repeal what it saw as the hostile activities of the state managers (Mayers, 550-51; Spero, 1924, 182 ff.; Spero, 1972, 149). There were pay increases for postal employees in 1918, 1919, and 1920 (Spero, 1924, 205-207). Congress moved to prevent the waiver of salary rights in 1916-1917, and after Burleson left office most of the dismissed employees were reinstated (Spero, 1924, 188-90). It has been claimed that nearly all of the POD's bills that organized labor opposed during this period failed to pass through Congress (Spero, 1972, 149).

By 1921, the essential features of labor relations in the POD had been established. Postal employees had accepted the trade union concept of the AFL and formed a working relationship with Congress to block the activities of the state managers that they opposed. After 1921, state managers had accepted the presence of employee organizations and attempted
to respond to their demands with something other than harrassment. The new Postmaster General after Burleson set out to "humanize" the Post Office (ARPMG, 1921, 69-72) and he created national, county and local Postal Service Relations Councils, composed of delegates from the national labor organizations, to discuss matters affecting postal workers and to advise postal officials (ARPMG, 1921, 72-75; 1922, 44-51; 1923, 42-43). In 1921, the Railway Mail Association, representing railway postal clerks, and the POD signed a series of agreements on seniority, promotions, hours of work, and the like. While the Attorney General later ruled that the POD had no authority to enter such legally binding agreements, nevertheless they were reportedly the first formal agreements between a federal agency and a union representing its staff, and the negotiations resumed a few years later (Spero, 1972, 361-63). The conflict between the state managers and the postal employees did not end at this time, however, but rather it reappeared after World War II as postal labor costs escalated. Interestingly, the fiscal and political problems that the state managers confronted in the 1950's and 1960's were very similar to those of which PMG Burleson warned in his Annual Reports between 1917 and 1920.

Postal Labor's Demands After World War II

Government workers were specifically exempted from the coverage of the National Labor Relations Act (NLRA) of 1935, the War Labor Disputes Act of 1943, and all but one section of the 1947 amendments to the NLRA (Moskow, 35). In addition, the Taft-Hartley Act had a strong provision prohibiting federal employees from striking (Spero, 1972, 29). The net
effect of this legislation, in combination with the congressional determination of federal wages, however, was to reinforce one of the strengths of postal labor organizations: their close relationship with the Congress. The strength of this relationship was based on the nature of the postal labor force. Historically, the Post Office was the largest federal employer until the 1930's, and after World War II its growth matched that of federal employment in general, holding between 23% and 24% of the total federal civilian employment (see Figure 5). More significantly, postal employment accounted for over 1.15% of the total U.S. labor force in 1970 and it was distributed in every congressional district. Coupled with the sheer size of the labor force, was a long history of national employee organizations, the membership of which included high percentages of eligible workers (see Chapter 2, Note 1). In congressional elections, the organizational and numerical strength of the postal employees apparently had impact. In addition, the major postal labor unions were often the leading congressional lobbyists in terms of money reported spent (see Figure 6).

As a result of their close relationship with Congress, as well as of the hostility of the state managers to their demands, postal workers and their organizations utilized the legislative process to deal with issues of labor relations. Postal labor exerted influence on its conditions of work, but it did so through petitioning members of Congress rather than through collective bargaining with postal managers. In effect, postal labor unions were able to by-pass or ignore the demands of postal managers in making appeals to win benefits for postal workers. Figure 7 compares the scope of bargaining between postal managers and workers with that typically found in private industry.
Figure 5. Postal Employment as Percentage of Total Federal Civilian Employment, 1816-1970.

Source: Calculated from U.S. Bureau of the Census, Series Y 308, 314, pp. 1102-03.
**Figure 6.** Lobbying Efforts of the Postal Labor Unions.

| Number of Times Postal Labor Unions Ranked Among The Highest Spending Lobbyists: 1960–1969. | Rank: |
|---|---|---|---|---|
| | First | Second | Third | Fourth through Twenty-fifth |
| United Federation of Postal Clerks (UFPC) (National Federation of Post Office Clerks prior to July 1, 1961) (AFL-CIO) | 4 | 2 | 2 | 1 |
| National Association of Letter Carriers (NALC) (AFL-CIO) | 1 | | 9 | |
| National Postal Union (independent) | | | | 1 |
| National Rural Letter Carriers Association (NRLCA) (independent) | | | 1 | |

Figure 7. Bargaining in the Post Office Department and Private Industry: A Comparison.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Private Industry</th>
<th>Post Office Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grievances and Adverse Actions</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Management and Union Rights</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Promotion</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Transfers</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Seniority</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Mediation</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Safety and Health</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Discharge and Discipline</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Recognition</td>
<td>Yes</td>
<td>Procedures only</td>
</tr>
<tr>
<td>Higher Level Pay</td>
<td>Yes</td>
<td>Scheduling only</td>
</tr>
<tr>
<td>Vacations</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Wages</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Employee Benefits (Insurance, etc.)</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Guarantee of Employment</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Hiring</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Hours, Overtime, and Holidays</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Layoff-Rehiring</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Leave of Absence</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Fact Finding</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Arbitration</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Strikes and Lockouts</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Training and Apprenticeship</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Union Security</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Technology of Work</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: Post Office Department Bureau of Personnel, presented in Kappel, Annex 1, p. 113, Table 1.3.26.
Typically, postal labor utilized the advantages of this "multi-lateral" bargaining situation to pursue wage demands. In the 25 years preceding 1970, postal employees received 18 pay increases (HPOC, 1974, 17). They successfully got pay bills out of House committees through the rarely used "discharge petition" in 1954, 1957, and 1960 (CQ Almanac, 1960, 240), the 1960 bill becoming law over President Eisenhower's veto. Congress overrode only two of his 769 vetoes in eight years (Cullinan, 165), and only one previous bill freed by a discharge petition after 1923 ever became law (CQ Almanac, 1960, 240).

One result of these demands was that the wages of postal workers kept pace with those of workers in the manufacturing and the communications sectors, the most highly organized sectors of private industry (see Figure 8). More significantly for postal management was the steady growth of labor costs as a percentage of total postal operating expenses, which climbed from around 70% in the early 1940's to over 80% by 1965 (see Figure 9). In addition, there were low productivity increases in postal operations. One study of the period from 1947 to 1958 claimed that of five agencies comprising two thirds of the civilian non-defense federal employment, the POD had the lowest rate of productivity increases, averaging 1.5% per year (Lytton). A study by the Kappel Commission reported that from 1955 to 1965, postal productivity increases lagged far behind those measured in manufacturing, communications and public utilities, the industries that had wage levels nearly identical to those in the POD (Figure 10; see also Figure 8), and the postal productivity increases were more similar to those in the finance and service sectors. Mechanization, perhaps the major source of productivity increases in private industry, was reported to be virtually non-existent in postal operations.
Figure 8. Average Annual Earnings per Full-Time Employee, by Industry, 1950-1970.

Figure 9. Postal Labor Costs as Percentage of Total Post Office Department Obligations, 1930–1970.

Source: ARPMG, 1970, Table 804, p. 146.

"Postal labor costs" calculated by combining "Salaries" and "Other personnel costs (fringe)".
Figure 10. Comparative Productivity Performance, 1955–1965.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Average Annual Rate of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total U.S. Economy</td>
<td>2.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2.6</td>
</tr>
<tr>
<td>Communications, public utilities</td>
<td>6.7</td>
</tr>
<tr>
<td>Trade</td>
<td>1.6</td>
</tr>
<tr>
<td>Finance</td>
<td>0.7</td>
</tr>
<tr>
<td>Services</td>
<td>0.6</td>
</tr>
<tr>
<td>Post Office</td>
<td></td>
</tr>
<tr>
<td>Index 1</td>
<td></td>
</tr>
<tr>
<td>(Pieces of mail per paid man year)</td>
<td>0.9</td>
</tr>
<tr>
<td>Index 2</td>
<td></td>
</tr>
<tr>
<td>(Weighted output per man-hour)</td>
<td>0.21</td>
</tr>
</tbody>
</table>

1. If 1954 becomes the base, the average rate increases to 0.4 percent.

Source: Kappel, Annex 1, Tables C-1 and C-2, pp. 122-23.
A contractor's report of the Kappel study noted that through fiscal year 1967, machines had replaced less than 2% of the clerk-mail-handler force (or less than 1% of the total postal work force) (see Figure 11).

The political and fiscal problems that postal labor generated were not confined to the postal managers in their effects, but also influenced, in somewhat altered form, the activities of certain executive managers, most notably the President, and executive officials concerned with budgeting and with labor relations in the federal government. Throughout the 1950's, Congress had considered legislation that would have greatly extended the representation and bargaining powers of labor unions in private industry under the NLRA. Some of the major postal labor organizations were the chief proponents of these bills, which the state managers strongly opposed and which the full House or Senate never voted on.\(^3\) Apparently in an effort to forestall such legislation so as to maintain managerial discretion and autonomy in federal labor relations (Nathan, 71; Hart, 1964, 205; Hart, 1966, 188), President Kennedy in 1962 issued Executive Order (E.O.) No. 10988, which allowed for the recognition of employee associations, and permitted limited collective bargaining between federal employees and their agencies under a strong "management rights" provision (Moskow, 38-39; Rehmus, 25; Shaw, 24; Craver). In the aftermath, federal labor relations changed rapidly and dramatically. Most of the growth in unionization of federal employees occurred through the organization of workers outside the POD (Moskow, 55), and by late 1968, 52% of executive branch employees were in exclusive bargaining units\(^4\) (see Figure 12). The American Federation of Government Employees had surpassed the United Federation of Postal Clerks (UFPC) as the largest exclusive representative in the federal government by 1967 although, except
**Figure 11. Effect of Mechanization on Postal Manpower Reduction.**

<table>
<thead>
<tr>
<th>Equipment Description</th>
<th>Total Number Installed or on Order thru FY '67</th>
<th>Cost per Machine</th>
<th>Total Cost</th>
<th>Manpower Supplanted Per Machine</th>
<th>Manpower Supplanted Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facer/Canceller</td>
<td>451</td>
<td>$17,500</td>
<td>$7,892,500</td>
<td>1</td>
<td>451</td>
</tr>
<tr>
<td>Edger-Stacker</td>
<td>368</td>
<td>3,800</td>
<td>1,398,400</td>
<td>1</td>
<td>368</td>
</tr>
<tr>
<td>Culling and Facing Conveyors</td>
<td>671</td>
<td>3,300</td>
<td>2,214,300</td>
<td>4</td>
<td>168</td>
</tr>
<tr>
<td>Letter Sorting Machines</td>
<td>150</td>
<td>125,000</td>
<td>18,750,000</td>
<td>10</td>
<td>1500</td>
</tr>
<tr>
<td>Parcel Sorting Machines</td>
<td>114</td>
<td>200,000&lt;sup&gt;1&lt;/sup&gt;</td>
<td>22,800,000</td>
<td>15&lt;sup&gt;1&lt;/sup&gt;</td>
<td>1710</td>
</tr>
<tr>
<td>Sack Sorting Machines</td>
<td>71</td>
<td>125,000&lt;sup&gt;1&lt;/sup&gt;</td>
<td>8,875,000</td>
<td>10&lt;sup&gt;1&lt;/sup&gt;</td>
<td>710</td>
</tr>
</tbody>
</table>

**Total: $61,930,200**

<sup>1</sup> Estimates.

2. The 5000 men supplanted are less than 2% of the clerk-mail handler force.

Source: Bureau of Operations, POD, presented in Kappel, Annex I, p. 70, Table 1.3.14.
**Figure 12.** Federal Agencies and Collective Bargaining Agreements.

**Agencies with more than 100,000 employees with exclusive recognition**  
**November, 1968**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Number of Employees</th>
<th>Percentage of Employees in Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In Exclusive Units</td>
<td>Under Agreement</td>
</tr>
<tr>
<td>Overall federal government total</td>
<td>1,416,073</td>
<td>1,175,524</td>
</tr>
<tr>
<td>Post Office</td>
<td>618,562</td>
<td>618,562</td>
</tr>
<tr>
<td>Tennessee Valley Authority</td>
<td>18,150</td>
<td>18,150</td>
</tr>
<tr>
<td>Justice</td>
<td>13,340</td>
<td>7,089</td>
</tr>
<tr>
<td>Treasury</td>
<td>54,913</td>
<td>16,775</td>
</tr>
<tr>
<td>Navy</td>
<td>206,213</td>
<td>178,796</td>
</tr>
<tr>
<td>Veterans Administration</td>
<td>89,934</td>
<td>76,228</td>
</tr>
<tr>
<td>Air Force</td>
<td>123,669</td>
<td>68,958</td>
</tr>
<tr>
<td>Defense Supply</td>
<td>24,118</td>
<td>5,285</td>
</tr>
<tr>
<td>General Services</td>
<td>15,746</td>
<td>12,649</td>
</tr>
<tr>
<td>Army</td>
<td>151,837</td>
<td>101,009</td>
</tr>
<tr>
<td>Health, Education and Welfare</td>
<td>35,086</td>
<td>28,128</td>
</tr>
<tr>
<td>Transportation</td>
<td>12,367</td>
<td>5,050</td>
</tr>
<tr>
<td>Agriculture</td>
<td>10,821</td>
<td>9,858</td>
</tr>
</tbody>
</table>

for the Tennessee Valley Authority (a corporate organization), the POD was far ahead of other agencies in the percentage of workers in exclusive units and under bargaining agreements (Moskow, 53; see Figure 12).

Dissatisfaction over the structure of bargaining remained, however. Labor organizations reportedly complained of the lack of a right to strike or to binding third-party arbitration in the face of the final authority of agency officials to resolve disputes (Moskow, 68-71). In 1963, an AFL-CIO national convention had passed a resolution calling for binding arbitration in the federal sector (Hart, 1966, 176), and throughout the 1960's, Congress once again considered legislation that would have extended and codified the bargaining rights of federal employees and that had the active support of the large postal labor unions. Top executive managers were also reportedly dissatisfied, feeling a need to coordinate the diverse personnel policies of the various agencies and to provide a single independent board to interpret and implement the system of federal labor relations (Moskow, 70 ff.; Craver, 572 ff.). Apparently, responding to the pressure of labor's legislative proposals as well as the needs of the executive managers, President Johnson set up a study panel on these issues in 1967, although no action was taken until President Nixon's Executive Order No. 11491 (1969) consolidated authority on federal labor relations in an Assistant Secretary of Labor and a newly created Federal Labor Relations Council (Moskow, 73-77, Shaw, 26-27).

Comprising nearly one fourth of all federal employees, and highly organized in some of the oldest and most politically skilled unions of government employees, postal workers threatened, and could hamper, perhaps significantly, the efforts of executive managers to coordinate and control labor policy in regard to federal employees. Benefits and bargaining
rights that postal labor might exact from Congress might not easily be denied to other federal workers. The activities of postal workers thus created for executive managers the risk of politicizing labor relations throughout the federal sector: disrupting executive managerial control by augmenting the control exercised by employee organizations and by the Congress.

Executive managers also encountered fiscal problems, beyond the POD's internal fiscal problems examined above, which postal labor generated. Pay legislation for postal workers generally included wage increases for classified federal workers who thereby benefited from the lobbying skills of postal unions, although postal workers often received larger increases in pay and other benefits. Postal labor unions also took the lead in fighting for greater pension and retirement rights for federal workers. In addition, while state managers urged greater wage increases for supervisory and managerial positions in order to "attract qualified applicants", Congress often ignored the requests, giving relatively greater increases to rank and file workers. Given these implications of the political strength of postal labor, its demands could trigger rising labor costs throughout the federal sector, driving up expenditures, and, given the lack of corresponding increases in productivity, generate inflation throughout the economy. State managers made precisely this claim in 1965 and 1966 in attempts to limit the size of postal pay legislation.7

During the 1960's, postal employees gave signs of increasing restlessness and militancy. The National Postal Union (NPU), accusing the AFL-CIO craft unions of being conservative, began to organize postal employees on an industrial basis in 1959 and was reportedly quite successful in large urban post offices (Moskow, 30-32). In 1964, 1965, and twice in 1967,
postal employees held demonstrations for wage increases at the New York City Post Office, and a meeting to demand pay raises in March, 1967, reportedly drew 10,000 workers (NYT, March 13, 1967). Also in 1967, the United Federation of Postal Clerks (UFPC) sued the Postmaster General for allegedly refusing to enforce basic work conditions established under a 1965 law (NYT, March 11, 1967). The UFPC and the NPU, as well as the National Association of Government Employees (independent), eliminated from their constitutions the "no-strike" provisions the following year, while the National Association of Letter Carriers (NALC) reportedly directed its officers to study ways in which federal employees might be granted the right to strike (Moskow, 65). Threats of work stoppages were frequent in the late 1960's, particularly in urban areas where the cost of living was high, and in 1969 the New York Times reported that many New York City postal workers were applying for welfare to dramatize their plight (NYT, Nov. 7, 1969).

The activities of postal labor had political and economic effects on both the POD and the federal government in general. These are summarized in Figure 1. For the state managers at least, labor relations in the Post Office were, in the words of the Kappel Report, "generally unproductive" (Kappel, 22). If postal and executive managers were to successfully resolve these political and economic problems, they would have to address the issue of how postal labor policies developed, altering in particular the relationship of postal labor to Congress and to other federal employees.
Figure 1. Effects of the Policy Process with the Post Office as a Government Department: Labor Relations.

<table>
<thead>
<tr>
<th>Political Effects</th>
<th>Economic Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Post Office Department</strong></td>
<td><strong>Postal costs increased; Postal deficits increased; Capital investment hampered.</strong></td>
</tr>
<tr>
<td>Labor issues resolved by means of political influence on Congress; Managerial discretion on labor issues limited.</td>
<td></td>
</tr>
<tr>
<td><strong>Federal Government</strong></td>
<td>Postal labor led drive for wage increases of federal workers; Wage increases increased expenditures of the state and were considered inflationary.</td>
</tr>
<tr>
<td>Postal labor led drive for expanded bargaining rights of federal workers.</td>
<td></td>
</tr>
</tbody>
</table>
The State Managers' Attempts to Control Postal Labor Relations

From the beginning of the twentieth century, as organizations of postal employees grew and as the need for coordination of federal policies increased, state managers have taken steps to deal with the problems generated by postal labor. As examined above, state managers attempted to "depoliticize" the activities of these workers in the early 1900's by disrupting the activities of postal employee associations and by issuing gag orders, spawned in part by postal workers' actions but applied to all federal employees. When these actions failed as postal employees strengthened their alliance with the Congress, state managers attempted to control the economic implications of postal labor demands by linking postal wage levels with postal rate levels. In 1924, President Coolidge vetoed a $300 annual pay increase and demanded that any such increase be accompanied by rate legislation that would generate a corresponding amount of revenues (65 CR 11127-28). Congress obliged the following year, although it reduced rates in 1928 (Cullinan, 134-35). President Coolidge in 1928 vetoed, on similar grounds, another postal pay bill that would have increased pay 10% for night work, although Congress overrode this veto (69 CR 9234; Spero, 1972, 155).

Postal labor organizations were reportedly worried about this association of wages with rates and sought legislation that would declare

...that compensation of postal employees shall be adequate and just and, together with working conditions, shall be based upon American standards, without regard to postal revenues. (H.R. Bill 13474, 69th Congress, 2nd Session; quoted in 68 CR 2741-42 (1927))
Congress eventually passed associated legislation ("Kelly's Law") that authorized the Postmaster General to use an accounting system that separated the costs of "public services" and "non-postal activities" from the POD's operating expenses, although the Congress dropped the provision stating the independence of wage levels from revenues. Kelly's Law was one of several congressional attempts, made usually with the support of special mailers, to reduce the postal deficit by legislative definition (see Chapter 4, passim).

The state managers in the 1950's continued these efforts to reduce the economic problems that postal labor generated. President Eisenhower vetoed four postal pay bills, although one was overridden (HPOC, 1974, 19). His Postmaster General Summerfield also began a major effort to mechanize postal operations (Siegel, 623). Summerfield not only promoted the automation of tasks previously performed by hand, but also began experiments in electronic facsimile transmission, although this test of "speed mail" was discontinued in 1961 (Summerfield, 207).

It was the Report of the Kappel Commission, however, which addressed in a comprehensive manner the effects that the existing policy process in the area of labor relations had on the Post Office Department and the federal government in general. Labor issues were resolved, according to the Kappel Report, in the relatively highly politicized arena of congressional decision-making which circumvented the involvement of postal managers, and settled wages, work conditions and grievances on a basis of the political strength of the postal unions rather than through a more structured collective bargaining in relation to the internal needs of the POD.
Since postal wages...are set by Congress, postal labor organizations are oriented toward lobbying, not toward collective bargaining.... Since it does not negotiate wages, postal management enjoys little influence with employee organizations.

A recurring management frustration has been legislative determination of matters normally resolved in bargaining. (Kappel, 39)

The Commission's contractor on personnel and labor relations reiterated this point:

Without the ability to negotiate basic money issues, and with the implied threat that the unions may carry their grievances to Congress, management has had little room to maneuver and has yielded bits of its authority...without buying union cooperation in improved management or productivity. (Robert R. Nathan Associates, 73; see p. 24)

As a consequence of publicly politicizing postal labor issues, the Report claimed that congressional involvement disrupted attempts by the state managers to control the postal cost environment of this highly labor-intensive organization.

Postal salaries...have not only kept pace with, but have risen somewhat more than, those in the rest of the economy. The inexorable result of rapidly rising labor costs and slowly rising productivity is a sharp increase in labor costs per unit of output. In a private industry in which personnel costs are 80.3% of total budget, any such increase would be directly reflected in higher prices. In the unique situation of the Post Office, they are reflected, as well, in a higher deficit. (Kappel, 25)

Associated with the rising labor costs was a corresponding lack of mechanization, which the Report linked to the difficulty of obtaining large sums for capital investment through the traditional appropriations process.
For many operations, the Post Office could employ methods and mechanization already in use in other industries.... The mechanization gap comes from a chronic shortage of funds for capital investment.... The major question...however, is whether Congress and the Executive Branch can invest substantially in this equipment at a time of increasing demands on the Federal budget. (Kappel, 26-28)

In short, postal managers felt that they would not be able to adequately control postal costs and deficits given Congress's responsiveness to postal wage demands and its opposition to capital funding.

Rather than concentrating on piecemeal attempts to limit labor demands or on purely internal changes, the Report recommended a major restructuring of the organizational context in which labor policies developed. The primary recommendation was the shift of control over labor issues from the Congress to the Board of Directors of a postal corporation.

The Corporation should...have the authority to determine the character and necessity of its expenditures ...(and) a Board of Directors charged with...paying fair wages to postal employees.... (Kappel, 55; see Robert R. Nathan Associates, 8)

Associated with this was the proposed removal of postal workers, 24% of the federal work force, from the Civil Service into a distinct and separate personnel system, which would preserve accrued employee rights and benefits.

A new merit personnel system independent of the Federal Civil Service and tailored to the unique character of the Post Office is an essential first step toward the flexibility needed in postal personnel administration. (Kappel, 58)
Significantly, the postal corporation would be responsible for funding the employer's portion of the pension plan after reorganization, although at that time, this pension funding had never been included in POD appropriations (58).

In addition, the Kappel Report suggested that work conditions as well as new procedures for settling grievances, such as the possibility of binding third-party arbitration, be determined through collective bargaining (58-59).

The limited negotiating opportunities under Executive Order 10988 must be replaced with full collective bargaining over pay, related benefits and other matters now negotiated in the private sector. (Kappel, 59)

The Report, however, explicitly refused to accept the extension of the right to strike to employees of the proposed postal corporation.

Labor-management relations at all levels of Government are in a state of transition as the techniques of collective bargaining attempt to mesh with, or supplant, the traditions of the public employer. In particular, the resolution of impasses is in a state of flux, though virtually all legislation and judicial opinions in the United States today prohibit strikes in the public sector. Pending the development of a better device for the amicable adjustment of disputes in public employment, we recommend that the existing prohibition against strikes by Federal employees, which includes those in Government corporations, continue for postal workers. We believe that this problem must be resolved in the context of Government-employee relations as a whole and not of the Post Office alone. (Kappel, 60; see Robert R. Nathan Associates, 82 ff.)

Finally, the Commission claimed that these organizational changes would promote large savings -- "at least 25%" -- of the cost of postal operations (24). Much of the claimed savings would result from mechanization, particularly in mail processing (160-63), and a contractor reported potential productivity increases as high as 50% in larger post
offices as a result of "systems engineering techniques" (27). In short, the report claimed that reorganization would promote the reduction of labor costs by permitting increased capital investment.

The Kappel Commission outlined the political and economic problems of the state managers in the area of labor relations and recommended the reorganization of the Post Office Department into a postal corporation as a method of resolving these problems. Such a reorganization would remove the resolution of postal labor issues from congressional control. The new postal managers -- the Board of Directors of the postal corporation -- would gain control of the major element in their cost environment, and productivity increases through mechanization would grow rapidly as machines replaced men. The proposed changes would break the link between postal workers and other federal employees, for the former would be located in a totally independent structure of labor relations. Funding of pension obligations by the postal corporation would not only ensure that postal employees had no residual interest in future Civil Service legislation, but also benefit executive managers by removing this large cost from their domain of federal budgetary affairs. Figure 13 summarizes the political and economic effects of this proposed postal corporation.

Postal labor was not ignorant of the implications of such a postal corporation. It is reported that the labor representative on the Kappel Commission, George Meany, President of the AFL-CIO, did not attend any of the formal meetings of the Commission, and in late 1967 asked to be officially removed from its membership (Dolenga, 385). While he was convinced to stay for the sake of "appearances", he requested in May, 1968, that the final report contain a statement of his dissent with its most basic conclusion:
**Figure 13. Expected Effects of the Policy Process with the Post Office as a Government Corporation: Labor Relations.**

<table>
<thead>
<tr>
<th>Political Effects</th>
<th>Economic Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Postal Corporation</strong></td>
<td><strong>Facilitate capital investment in mechanization to reduce employment and postal costs.</strong></td>
</tr>
<tr>
<td>Use collective bargaining to trade-off demands and formulate long-term agreements.</td>
<td></td>
</tr>
<tr>
<td><strong>Federal Government</strong></td>
<td><strong>Limit the inflationary aspects of postal labor by isolating postal labor costs and by ending postal labor's influence on federal wage and pension levels.</strong></td>
</tr>
<tr>
<td>Prevent postal labor from extending the bargaining rights of other federal workers.</td>
<td></td>
</tr>
</tbody>
</table>
I agree with the goal of modernizing the postal system and improving working conditions and job opportunities for its employees. However, the status of the Post Office as a Cabinet Department has a positive value that should not be discarded lightly. (Kappel, 2)

Postal labor was not passive, however, when the state managers attempted to guide the corporation proposal through the legislative process.

Conclusions

The conclusions of this chapter are the following:

1. Postal workers formed a close and friendly relationship with Congress at the beginning of the twentieth century as a result of the hostility that the state managers showed toward the workers' demands.

2. The influence that postal labor could exert on labor issues through this relationship was significant due to the large numbers and extensive organization of postal workers. Postal unions were major congressional lobbyists and could produce political pressure in nearly any congressional district.

3. After 1945, the activities of postal labor had political and economic effects on the Post Office Department and the federal government in general. In particular, postal labor

   a) was able to by-pass the demands of the postal managers in the resolution of labor issues;

   b) increased costs of the labor-intensive Post Office through their wage demands;
c) drove up federal labor costs by leading the wage demands of other federal workers; and

d) threatened the executive managers' control of federal labor relations by pushing for significant extensions of the bargaining rights of federal workers.

4. Throughout the twentieth century, state managers attempted to limit the effects that the activities of postal labor had on postal and federal operations. In particular, the state managers proposed a postal corporation which they hoped would

a) give postal managers the ability to bargain directly with postal labor without any congressional involvement;

b) decrease postal costs by facilitating capital investment;

c) isolate postal labor from other federal employees, thereby reducing the drive for general wage increases and extended bargaining rights throughout the federal government.
Chapter 4

Rate Making: Special Mailers and the State Managers

"[The Post Office] Department's...receipts and expenditures must be considered in their relationship to cost and to the general financial condition of the Government, and its rates for service must be fixed with regard to that relationship."

-- Postmaster General Cartelyou, 1906.

"While the postal establishment, as all other Government agencies, should be operated in an efficient manner, it clearly is not a business enterprise conducted for profit or for raising general funds...the post office is a public service."

Introduction

With the Post Office as a government department, rate policies developed through the legislative process of Congress. In the early nineteenth century, special mailers began to form a friendly relationship with Congress to influence their postal rate levels. The effects of their influence in the legislative process of policy formation hampered the efforts of the state managers to maintain control of fiscal affairs not only within the Post Office Department but throughout the federal government. Repeatedly during the twentieth century, the state managers attempted to limit the influence of special mailers and the effects of the policies that developed in Congress. Finally, the state managers proposed a postal corporation that would place the development of fiscal policies more directly under the control of the postal managers.

This chapter describes the conflict between the special mailers and the state managers over rate issues in the twentieth century. To portray the relationship of special mailers with Congress, it begins with a description of the early legislation on rate levels for publications. The chapter then describes the effects of the special mailers' activities in the 1900's and analyzes the state managers' proposal for a postal corporation as a response to these efforts.

The Special Mailers' Influence on Congress

Throughout the nineteenth century, Congress legislated relatively low postal rates for the carriage of newspapers. Legislation in 1792 set newspaper rates at 1¢ per copy for distances less than 100 miles and 1½¢
for over 100 miles, compared to 6c for a single sheet letter traveling no
more than 30 miles (1 Stat. 232),\(^2\) and two years later the newspaper
rates became 1c for anywhere within a state and 1½c for a copy sent to
another state (1 Stat. 359-66). A Senate Committee reported in 1832
that while newspapers comprised 14/15 of the weight of the mail, they
paid only 1/9 of the postal revenues (Rich, 146). Between 1845 and 1885,
Congress reduced newspaper postage 75-88% and magazine postage 95-96% (Kennedy, 90), compared to its reduction of letter rates 60% for under 300
miles and 80% for over 300 miles (U.S. Bureau of the Census, 807). While
the movement for a penny post (per ounce) for letters never succeeded in
the U.S. (see Staff), legislation in 1885 set second-class postage at a
penny per pound.

One of the major issues which Congress considered in the nineteenth
century was the extent to which the Post Office Department (POD) should
carry publications without any charge whatsoever. The 1792 legislation
allowed the free exchange of newspaper copies between publishers (Rich,
142) and in 1851, weekly newspapers began to circulate free within their
county of publication (9 Stat. 587-89). The legislation in 1879, which
established the four classes of mail and which reportedly major publishers
wrote (8 CR 690; ARPMG, 1878, 51-53; as cited in Kennedy, 48), extended
the "free-in-county" privilege to all second-class material (20 Stat.
358-61). In 1881, 1882 and 1884, the House and/or the Senate passed
resolutions to study the possibility of ending postage on all second-class
material (13 CR 3704; 15 CR 714; as cited in Kennedy, 49-50). The Post-
master General in 1881 reportedly supported this proposal stating that:

of course, it will add somewhat to the cost of the service
[which had a deficit of $2.5 million in 1880] and it will
diminish the revenues nearly one and a half million of
dollars. (quoted in Kennedy, 49).
There were several factors which may have led Congress to legislate such rates for newspapers and magazines. Political leaders throughout the nineteenth century stressed the cultural and educational benefits of publications and the importance of information in safeguarding democratic institutions as reasons for encouraging the wide circulation of publications through low postal rates. In addition, however, newspapers existed in nearly every congressional district and their editors and publishers typically were influential people in local communities. Whether it was because of the cultural importance of publications or the political influence of publishers, Congress set relatively favorable rates for newspapers and magazines from the beginning of the nineteenth century.

The Effects of the Special Mailers' Activities

In the late 1880's, the Postmasters General (PMG's) began to complain to the Congress about the large financial losses which resulted from second-class mail (ARPMG, 1887, 901-903; 1892, 68-73; 1894, 4, 31-37; 1889, 4-11). Initially they attacked the inclusion in the relatively low rate category of second-class, contrary to the legislation of 1879, of books published in the form of periodicals, publications composed of advertisements, and excessive numbers of "sample" copies, and the POD moved against these "rate abuses" in the early 1900's (ARPMG, 1900, 12-15; 1902, 28-29; 1906, 69-73). Also, however, the POD began to pursue rate increases for second-class mail with the claim that this class failed to generate revenues commensurate with its expenditures (ARPMG, 1902, 29; 1906, 73). Publishers opposed these suggested rate
increases, and Congress, rather than legislating on second-class postal rates, established several commissions to study postal finances.

The Penrose-Overstreet Commission of 1906-1907 and the Hughes-Lowell Commission of 1911-1912 both examined the "second-class mail matter", while a joint commission of 1907-1908 (composed of the same members as were on the Penrose-Overstreet Commission) examined "business methods" in the POD. The commissions on second-class mail stated that second-class rates were probably low in relation to expenditures, and rate increases for this class were probably justified. More significantly, all three commissions cited the lack of detailed cost-revenue information on the postal classes, and urged the POD to undertake cost studies and accounting changes to gather this information on which to base future rate-making.  

It was not until 1917, as part of a War Revenue Act, that Congress legislated a rate increase for the reading portion and introduced zone rates for the advertising portion of second-class mail (40 Stat. 327, 328). After the war, as publishers pressured Congress to repeal this "war tax", the Congress finally authorized a permanent "cost ascertainment system" (CAS). Based on studies begun by the three commissions, the CAS was to annually measure postal volumes and allocate postal costs by class of mail, thereby providing information on which to base rate-making decisions.  

While the immediate cause of the enactment of the CAS was the controversy over second-class deficits and rates, the CAS was also part of the general movement to introduce "economies and efficiencies" into the operations of the federal government. This movement, which led to the Budgeting and Accounting Act of 1921, attempted in part to reduce federal expenditures and to provide centralized and coordinated control
of federal fiscal policies. Such control of POD expenditures and fiscal policies at this time was hampered by the increasingly aggressive actions of the postal labor organizations, as well as by the continuing lobbying efforts of special mailers.

The CAS did not reduce the political influence of the special mailers. In 1925, publishers successfully fought to keep second-class rate increases to a bare minimum (43 Stat. 1066-69; Kennedy, 63-65), and in 1928, legislation reduced advertising zone rates to approximately the level of 1920 (45 Stat. 940-44; Kennedy, 67). The latter legislation was in effect until 1931, except for a 2-year temporary increase during the Depression. In addition, a new group of special mailers -- those concerned with third-class postal rates -- began to exert influence in the congressional rate-making process. In 1925, the Direct Mail Advertising Association, while stating a willingness to accept the findings of the CAS, reportedly objected to paying more of their allocated deficit as well as higher rates for advertising material than did second-class mailers. When Congress virtually ignored these objections, third-class mailers formed a National Council of Business Mail Users with a reported budget of $250,000, and began to prepare for future congressional hearings on postal rates (Kennedy, 72-73). The 1928 postal legislation incorporated all the reported demands that this Council formulated in 1925 by introducing third-class bulk rates, providing COD business reply cards, restoring the penny post-card, and lowering parcel post rates (Kennedy, 74). The growth of third-class volume outstripped that of other mail classes in the twentieth century and the 1928 legislation reflected the emerging political influence of third-class mailers on the Congress.
While the special mailers continued to influence Congress on rate policies, the CAS nevertheless provided the state managers a base from which to push their demand for a self-sustaining Post Office, a demand which they made increasingly in the twentieth century.

After the enactment of the CAS, congressional debates on rate policies began to center around the size of the "true postal deficit" that legislators should use in calculating postal rates. Basically, special mailers argued that the inclusion of the cost of providing preferential rates for certain social service purposes (e.g. low rates for non-profit organizations, free mail for the blind, etc.) and of performing certain activities not directly related to postal service per se (e.g. subsidies for airlines and American ocean vessels, etc.) greatly inflated the reported deficit of the POD, could not justifiably be transmitted to postal users, and should be charged to the general treasury. If the POD would distinguish between these "public service" costs and "postal" costs, they claimed the POD would find that the "true postal deficit" was small, if not non-existent, and there would be little need to raise rates.

Special mailers utilized their congressional influence in attempts to legislatively require the POD to make such distinctions in its fiscal practices. In 1926, for example, Congress considered a bill "to declare the future policy of the Post Office...as an agency of the American people for their service and not for profit" (H.R. Bill 13474, 69th Congress, 2nd Session), which would have declared:

that postage rates on paid mail matter shall be determined by the cost of the service given such mail matter, exclusive of all free services and public welfare projects which have been or shall hereafter be adopted in connection with the Postal Service. (68 CR 2741-42)
This was contained in the same legislative proposal which would have separated issues of postal wages from postal revenues (see Chapter 3, pp. 76–77), and while this bill didn't pass the Congress, "Kelly's Law" of 1930 did require the PMG to separately classify the "extraordinary expenditures contributing to deficiency of postal revenues" in reporting to the Treasury Department and the General Accounting Office (24 Stat. 523).

In the post World War II period, the Carlson Committee of 1953 and the Citizen's Advisory Committee of 1957, both composed predominantly of second- and third-class mailers appointed by the Senate, carried on these arguments. One of the major results was the Postal Policy Act of 1958, which declared that

the sum of such public service items as determined by the Congress should be assumed directly by the Federal Government and paid directly out of the general fund of the Treasury and should not constitute direct charges in the form of rates and fees upon any user or class of users of such public services, or of the mails generally.... (72 Stat. 136)

As the POD operating deficit continued to climb and as the state managers, with the support of the appropriations committees in the Congress, refused to accept the broad definition of public service in this act (Bachman, 50–55), Congress in 1962 passed legislation that reiterated this policy and that "clarified" the definition of public service expenditures, thereby shifting a large portion of annual postal costs, estimated at $373 million in 1963, to the category of support by general Treasury funds (76 Stat. 832; CQ Almanac, 1962; see Figure 14). 7

The operating deficit of the POD grew rapidly after World War II and especially in the late 1950's and early 1960's (see Figure 15). Congress
Figure 14. Operating Deficits and Public Service Expenditures of the POD: 1956–1970.

### Deficits
(Dollars in Thousands)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Operating Deficits</th>
<th>Public Service Expenditures</th>
<th>POD Deficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>463,951</td>
<td>486,000</td>
<td>597,134</td>
</tr>
<tr>
<td>1957</td>
<td>547,824</td>
<td>523,000</td>
<td>--------------</td>
</tr>
<tr>
<td>1958</td>
<td>890,577</td>
<td>847,000</td>
<td>--------------</td>
</tr>
<tr>
<td>1959</td>
<td>605,117</td>
<td>618,000</td>
<td>--------------</td>
</tr>
<tr>
<td>1960</td>
<td>634,534</td>
<td>37,400</td>
<td>597,134</td>
</tr>
<tr>
<td>1961</td>
<td>875,355</td>
<td>49,000</td>
<td>826,355</td>
</tr>
<tr>
<td>1962</td>
<td>837,277</td>
<td>62,700</td>
<td>774,577</td>
</tr>
<tr>
<td>1963</td>
<td>819,400</td>
<td>412,000</td>
<td>407,400</td>
</tr>
<tr>
<td>1964</td>
<td>651,702</td>
<td>453,000</td>
<td>198,702</td>
</tr>
<tr>
<td>1965</td>
<td>792,450</td>
<td>514,107</td>
<td>278,343</td>
</tr>
<tr>
<td>1966</td>
<td>942,336</td>
<td>542,855</td>
<td>399,481</td>
</tr>
<tr>
<td>1967</td>
<td>1,147,044</td>
<td>561,647</td>
<td>585,397</td>
</tr>
<tr>
<td>1968</td>
<td>1,020,860</td>
<td>640,522</td>
<td>380,338</td>
</tr>
<tr>
<td>1969</td>
<td>1,022,966</td>
<td>699,428</td>
<td>323,538</td>
</tr>
<tr>
<td>1970</td>
<td>1,509,814</td>
<td>739,700</td>
<td>770,114</td>
</tr>
</tbody>
</table>

Figure 15. Operating Deficit of the Post Office Department, 1946 - 1970.


Operating deficit was reduced by postal rate increases in (A) 1949, (B) 1952, (C) 1953, (D) 1958, (E) 1963 and (F) 1968.

It was also reduced by transfer of the airmail subsidy to the Civil Aeronautics Board in (C) 1953.
had enacted general rate increases in 1958, 1962, and 1967, but the state managers were not satisfied with this legislation. Reportedly the rate increases came much later than the postal managers had wanted and for smaller amounts than they had requested (see Figures 16 and 17). State managers also objected to the expanding public service definition that attempted to remove continually larger portions of the POD operating deficit from consideration in rate hearings. Postal managers delivered detailed rebuttals in 1954 and 1957 to the reports of the Carlson Committee of 1953 and the Citizen's Advisory Committee of 1957. The managers claimed that the "true postal deficit" was understated by the special mailers since the latter did not include certain normal business costs (e.g. pension funding for postal employees), grossly overestimated certain public service expenses (e.g. by using full costs rather than revenue foregone), and excluded costs required to maintain a national postal system (e.g. RFD).  

If the primary political controversies in the twentieth century concerned the amount of the postal costs to be allocated to postal users -- with the state managers arrayed against the special mailers and the Congress -- there were also secondary controversies among the special mailers themselves. Since the CAS presented cost information by class of mail, battles developed between second-class mailers and third-class mailers over which class was more responsible for postal deficits and which should bear the brunt of any rate increases. The publications of second-class cited the historical recognition of their cultural and educational importance and questioned the necessity of low rates for the "junk mail" of third-class. The mail advertisers of third-class, continuing the arguments they had made as early as 1925, pointed out the postal
Figure 16. Time Required for Congressional Legislation on Postal Rate Increases: 1951, 1958, 1962.

<table>
<thead>
<tr>
<th>Recommended</th>
<th>Passed</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 1949</td>
<td>October 1951</td>
</tr>
<tr>
<td>January 1953 (renewed 1956-57)</td>
<td>May 1958</td>
</tr>
<tr>
<td>May 1960 (renewed 1961)</td>
<td>October 1962</td>
</tr>
</tbody>
</table>

Source: Kappel, 146.

Figure 17. A Comparison of POD-Requested Rate Levels with Legislated Rate Levels: 1962.

<table>
<thead>
<tr>
<th></th>
<th>Prior to Legislation</th>
<th>Administration Recommendation</th>
<th>Congressional Legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second-class</td>
<td>23%</td>
<td>45.5%</td>
<td>35.1%</td>
</tr>
<tr>
<td>Third-class</td>
<td>65.6%</td>
<td>94.4%</td>
<td>82.1%</td>
</tr>
</tbody>
</table>

Source: Congressional Quarterly Almanac, 1962, 356.
and general economic profit that their mail generated, as well as their competition with second-class mailers for advertising revenues. Regardless of the accuracy of these charges and countercharges, they increased the political controversy surrounding postal rate-making as each group attempted to gain greater influence with Congress. The conflicts among special mailers and between special mailers and the state managers greatly delayed the rate legislation of 1962. In 1967, the lobbying of third-class mailers was so aggressive that it was credited with aiding those in Congress who sought to raise their postal rates. 9

Politically, the actions of the special mailers appear to have created for the state managers what one analyst has termed a "crisis of rationality". This is a situation in which the state is unable to reconcile the numerous specific demands of competing economic groups with a more systemic interest in the rational administration of certain necessary functions (Habermas, 46-47, 61-68). State managers claimed that it was increasingly difficult to provide an efficient national postal service given the financial drains created by the demands of the special mailers within the congressional policy process.

Special mailers had a close relationship with the Congress and exerted significant influence in the development of postal rate and budgetary policies. Publishers obtained relatively low rates from the beginning of the 1800's, and in the 1900's, mail advertisers also acquired political influence in the congressional rate-making process. Beginning in the late 1920's, but especially as postal deficits grew after World War II, these groups worked through Congress to reduce the "postal" deficit by legislative definition that would transfer a portion of the POD operating deficit to the general funds of the Treasury. In addition, each group of
special mailers attempted to use its congressional influence to minimize its own rate increases and to increase the rates of its competitor.

The activities of the special mailers had political and economic effects on both the POD and the federal government in general. These are summarized in Figure 2. For the state managers at least, the rate structure of the Post Office was, in the words of the Kappel Report, "disturbing in its irrationality" (Kappel, 29). If postal and executive managers were to successfully resolve their political and economic problems, they would have to address the issue of how postal fiscal policies developed, altering in particular the relationship of special mailers to the Congress.

The State Managers' Attempts to Solve Their Problems

From the beginning of the twentieth century, as postal costs grew and as the need for coordination of federal fiscal policies increased, state managers had taken steps to deal with the problems generated by special mailers. As examined above, state managers attempted initially to curb the "abuses" of second-class regulations and then pressed for rate increases for publications. The enactment of the CAS, which occurred in the 1920's, provided them with a method of linking postal costs to postal revenues generally, as well as of linking the rate levels of a particular class of mail to its specific allocated costs. President Coolidge in his 1924 veto of a postal pay increase, for example, stated that:

For the fiscal year 1923 the postal revenues were $32,000,000 less than the cost of the service for that year. This deficit has to be met from the monies paid by the taxpayers. We should not add to the amount of the postal deficit, as is proposed by this bill, but
**Figure 2.** Effects of the Policy Process with the Post Office as a Government Department: Fiscal Affairs.

<table>
<thead>
<tr>
<th>Political Effects</th>
<th>Economic Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Post Office Department</strong></td>
<td><strong>Postal revenues limited; Postal deficits increased.</strong></td>
</tr>
<tr>
<td>Rate issues resolved by means of political influence on Congress; Managerial discretion on financial issues limited.</td>
<td></td>
</tr>
<tr>
<td><strong>Federal Government</strong></td>
<td>Transfer of postal costs from users to taxpayers disrupted federal budgeting.</td>
</tr>
<tr>
<td>Administrative rationality disrupted.</td>
<td></td>
</tr>
</tbody>
</table>
should attempt as a sound business principle to have the users of the mails approximately pay the cost of the service....

The Post Office Department is now engaged by direction of Congress in a cost ascertainment for which half a million dollars was appropriated. This inquiry has been prosecuted with diligence and is nearing completion. When the results of this inquiry are available they will form the basis for an intelligent consideration by the Postmaster General and by Congress of all questions relating to the adequacy of postage rates. They will afford a proper basis for consideration of the relation of the cost of the Postal Service and the revenues derived therefrom. The time has arrived to consider putting the Postal Service on a sound business basis, so far as expenditures and revenues are concerned. (65 CR 11128)

Special mailers, concerned about this proposal to cover the POD's increasing costs solely through revenues generated by postal rates, began a successful campaign for congressional legislation to reduce the total operating deficit by defining a series of "public service" costs to be paid from the general Treasury rather than through postage revenues derived from postal users.

The state managers in the 1950's continued their efforts to reduce the fiscal and political problems which the special mailers generated. The Commission on Organization of the Executive Branch of the Government (the Hoover Commission) in 1949 published its report on the POD and stressed strongly the need for changes in rate-making and budgeting that would diminish the participation of the Congress so as to allow greater control, discretion, and flexibility to the state managers. The "business-like" nature of postal activities justified such changes, according to the Hoover Commission's Report:

It must be recognized that the Post Office is:

a. predominantly of a business nature;
b. revenue-producing and potentially self-sustaining;
c. characterized by a large number of business-type transactions with the public; and

d. in need of greater flexibility than the customary type of appropriation budget ordinarily permits.

Such a reorganization is essential to provide:

a. Accounting, budgeting, and auditing procedures designed to improve management's control of the business.

b. Flexibility of expenditures to meet fluctuating demands for postal service and varying conditions of operation on a nation-wide scale.

c. Reasonable freedom from restrictive laws and regulations governing contracts, purchases and personnel practices.

d. Administrative authority commensurate with responsibility.  

(Hoover Commission, 1949, 13)

While it supported the management methods that the Government Corporation Control Act of 1945 outlined, it did not consider incorporation under this law to be necessary (Hoover Commission, 1949, 14). It did propose, however, that Congress might take a more supervisory role in rate determination, possibly using the Civil Aeronautics Board or the Interstate Commerce Commission for securing recommendations on rate levels (Hoover Commission, 1949, 16). Postal managers reiterated this proposal for diminished congressional participation in rate-making. In its 1954 response to the Carlson Committee, the POD stressed that "much can be gained if the Congressional approach is changed from one of details to one of policies" in regard to rates (USPOD, 1954, 8). It went on to urge Congress to spell out clearly the general features of postal financial policies so that the POD's budget might be balanced and its rates set on a formula basis. A permanent and independent commission would enforce and administer the congressional formulas (USPOD, 1954, 12-14). PMG Summerfield also proposed a "Board of Postal Rates and Fees" (Summerfield, 242).
It was the Report of the Kappel Commission, however, which addressed in a comprehensive manner the effects that the existing policy process in the area of fiscal affairs had on the Post Office Department and the federal government in general.

One of the major problems of which the top postal managers complained was that rate issues were resolved in the relatively highly politicized arena of congressional decision-making. This process, according to the Kappel Commission, led to rate legislation based on the political strength of various groups of mailers rather than on the internal needs of the POD, or the external market demands of postal customers (Kappel, 31, 37, 127).

Testimony on rate bills is frequently colored by self-interest; the objective is to "make a record", to get views into print, rather than to resolve issues.... The market and cost analyses needed for sound rate-making cannot come to the fore in such an atmosphere. (Kappel, 146; see 39)

Treasury funding of the POD through congressional appropriations, the Report went on, also hampered the efficiency of operations by restricting the flexibility of postal managers through numerous regulations (Kappel, 35-36) that did not promote an interest in the quantitative information necessary to reduce postal costs and increase postal efficiency (Kappel, 28-29).

...the practice of making up losses from the Federal Treasury removes much of the incentive for efficient operation. There is no need to control costs if a supplemental appropriation may be expected as a matter of course. Indeed, the fundamental orientation of the postal financial information system is the justification of budget requests rather than the control of operating costs. As a result, there is an astonishing lack of data on the cost of various postal activities, on the relative performance of post offices, and on the productivity of workers. (Kappel, 37)
The Commission also claimed that the legislative process was simply not suited for the technical nature of rate decisions and that the Post Office was the only remaining, nationally important public utility for which the legislature had not delegated its authority to a more technically oriented rate-making body (Kappel, 39, 146-47).

As a consequence of publicly politicizing postal rate issues, congressional involvement disrupted the attempts of the state managers to control the postal financial environment. The Kappel Report claimed that the postal rate structure was "irrational and often inequitable" (Kappel, 22; see 29) and had "no uniformity" in regard to how the major parameters of postal costs applied to different sub-classes of mail (Kappel, 127). The "public service allowance" of the Postal Policy Act of 1958 contributed to a "growing and unnecessary deficit" by including costs that were an integral part of maintaining a national postal system (Kappel, 23, 49-50). The fact that postal managers could not obtain rate increases as soon and as quickly as postal operations warranted also reportedly increased costs (Kappel, 145-46), as did the poor quality of information which the CAS supplied (Kappel, 30-31, 132-33).

The Kappel Report also pointed out the political and economic effects that the activities of the special mailers had on the federal government. Fiscally, the Kappel Commission saw the operating deficit of the POD as becoming quite large in the next 10 years -- approaching a cumulative $15 billion (Kappel, 24) -- thereby competing with "far more urgent national needs" for the limited funds of the federal budget (Kappel, 35; see 28; see USPOD, 1954, IV, 7). The problem was not simply that this deficit was growing, the Report claimed, but that it was an unnecessary burden to
the federal budget since the activities of the POD were quite different from those of other government departments.

All Government services must be paid for one way or another; most can be paid for only through taxes. Unlike national defense or public health, however, postal services can be and always have been sold to users. (Kappel, 22)

Thus since postal operations were commercial services that could be allocated through a pricing mechanism, there was no reason, the Report claimed, to support the POD increasingly through funds of the general Treasury. Politically, the Kappel Commission saw the existing budgetary process as hampering their attempts to "rationally" administer a nationally-effective postal system.

...the officials of the Post Office have been severely handicapped in maintaining service levels by the penny pinching which inevitably results from rising costs and a limited budget. We believe that only an organization which is financially healthy can meet the nation's service needs. A fundamental management objective, therefore, will be to place the Post Office on a sound financial footing...through increased revenues. (Kappel, 57)

In particular, it stressed the need to correct "obvious inefficiencies" through a "sound rate structure" (Kappel, 64).

Rather than concentrating on piece-meal attempts to limit the specific demands of special mailers or to pursue purely internal changes in the POD, the Kappel Report recommended a major restructuring of the organizational context in which postal fiscal policies developed. The primary recommendation was the shift of control over rate-making from the Congress to the Board of Directors of a postal corporation.
The corporation...should...have...the freedom to use postal revenues and borrow funds from the public...[and] a Board of Directors charged with...offering universal service at reasonable rates.... (Kappel, 55)

Three postal-rate commissioners, "independent of operating management" and qualified in the technical aspects of rate setting, would hold hearings and issue recommendations on proposed rate changes. The Board of Directors, however, would appoint the Commissioners and could modify their decisions (Kappel, 61, 149-53). Thus the Commissioners' findings would essentially be advisory to, rather than binding on, the Board of Directors. Since it would be a government rather than a private corporation involved in postal operations, there was no need for rate regulation by an independent federal commission, which would only delay and interfere with the decisions of the postal managers, the Commission claimed (Kappel, 61, 147).

As an independent check on the rate-making power of the corporation's Board, Congress would retain the right to veto by concurrent resolution a rate proposal in its entirety, and the courts could review the procedural and due process aspects of the rate hearings (Kappel, 61, 152-53).

The Commission further recommended that the postal corporation be operated -- as a whole, rather than by class -- on a self-sustaining basis. The Congress would establish broad guidelines on postal rates and could establish specific subsidies in the form of publicly-acknowledged reduced rates for particular postal users. Rather than retaining congressional appropriation even for just these subsidies, however, the Commission argued that the revenue foregone through these lower rates be paid by general mail users and limited to a maximum of 3% of total postal revenues (Kappel, 61-62, 138-42). Finally, the report itself outlined criteria for distributing postal costs (Kappel, 129-35) and urged the
replacement of the CAS with a more sophisticated accounting system (Kappel, 62). It further stated that to raise sufficient funds for capital improvements it might be necessary to entitle bondholders with a first claim on postal revenues (Kappel, 81). Finally, the Commission claimed that the fiscal characteristics of such a postal corporation would "release well over a billion dollars a year of our Federal budget for the urgent social purposes of our time." (Kappel, 64)

The Kappel Commission outlined the political and economic problems of the state managers in the area of fiscal affairs and recommended the reorganization of the Post Office Department into a postal corporation as a method of resolving these problems. Such a reorganization would remove the resolution of postal rate issues from congressional control. The new postal managers -- the Board of Directors of the postal corporation -- would gain control of the major element in their revenue environment and would escape the restrictions and supervision of the congressional appropriations process. The proposed changes would break the link between the special mailers and the Congress. Funding of limited subsidized rates internally by the postal corporation would not only restrict the involvement of special mailers in congressional appropriations but also benefit executive managers by removing this cost from their domain of federal fiscal affairs. Figure 18 summarizes the expected effects of the Post Office as a government corporation on fiscal affairs.

Special mailers, however, were not ignorant of the implications of such a postal corporation, nor were they passive when the state managers attempted to guide the proposals through the legislative process. The next chapter describes the legislative struggle over postal reorganization.
<table>
<thead>
<tr>
<th></th>
<th>Political Effects</th>
<th>Economic Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Postal Corporation</strong></td>
<td>Provide managerial flexibility on financial issues.</td>
<td>Demand of self-sufficiency encourages efficiency and</td>
</tr>
<tr>
<td></td>
<td>Allow managerial determination of rate issues with minimal involvement of Congress.</td>
<td>reduces deficits, and allows the linking of postal rates with costs for second- and third-classes.</td>
</tr>
<tr>
<td><strong>Federal Government</strong></td>
<td>Decrease political controversies;</td>
<td>Limit effects of postal deficits on the federal budget by having postal users cover free and reduced rates.</td>
</tr>
<tr>
<td></td>
<td>Increase the possibility of administrative rationality.</td>
<td></td>
</tr>
</tbody>
</table>
Conclusions

The conclusions of this chapter are the following:

1. Special mailers formed a close and friendly relationship with Congress in the nineteenth century and exerted significant influence on rate issues through this relationship. This initial influence may have resulted either from the political power of publishers or the cultural importance of their publications.

2. In the twentieth century, the activities of the special mailers had political and economic effects on the Post Office Department and the federal government in general. In particular, special mailers:

   a) were able to by-pass the demands of the postal managers in the resolution of rate issues;

   b) limited the postage revenues of the Post Office through their demands for low rates;

   c) transferred increasing amounts of postal costs from postal users to the general federal budget;

   d) threatened the executive managers' pursuit of a "rationally" administered national postal system through their "parochial" and sometimes conflicting demands.

3. Throughout the twentieth century, state managers attempted to limit the effects which the activities of postal labor had on postal and federal operations. In particular, the state managers proposed a postal corporation, which they hoped would:
a) give postal managers the ability to determine rate levels, as well as flexibility on other financial issues, with little congressional involvement;

b) decrease postal deficits and increase postal efficiency through the demand for postal self-sufficiency;

c) end the impact of postal finances on the federal budget by isolating them entirely from the appropriations process and in particular by requiring the postal corporation to internally cover any revenues foregone through congressionally-legislated free or reduced rates;

d) end the political controversies over postal rates that disrupted the legislative process.
Chapter 5

The Legislative Battle Over Postal Reorganization

The Post Office Department has one purpose in being, and one purpose only -- service to the people of the United States.... The Founding Fathers did not ask whether this service would return a profit to the Government.... Today the advocates of change are trying to reverse this most basic, fundamental and time-honored concept.... Instead of glorifying service, they would glorify profit. Instead of expanding and improving service for this expanding nation, they want to restrict and curtail service. Instead of going forward they would go backward.... Higher rates for less service -- that is exactly what it boils down to.


In my judgment the Post Office is unquestionably a public service -- but a public service that can best serve the public by operating in an efficient and enlightened businesslike fashion, fully conscious that is is a nationwide enterprise dedicated to serving all -- including even the most remote rural areas. Surely, however, this public service is not serving the public well if it is run on a far more costly basis than it need be: public service should not mean public wastefulness.

-- PMG Blount, 1969.
Introduction

The legislative debate over postal reorganization centered around the organizational context in which postal labor policies and fiscal policies would develop. Postal labor unions and the special mailers strongly opposed any major alterations in the postal policy process. They feared the loss of their influence and demanded specific organizational features that would protect the realization of their interests, should the involvement of Congress in the policy process be diminished.

It was primarily in the aftermath of a massive wildcat strike of postal employees that the final features of the reorganized Post Office emerged. The resulting legislation -- the Postal Reorganization and Salary Adjustment Act of 1970 -- replaced the Post Office Department with the United States Postal Service, an independent establishment of the Executive branch. This new postal organization had many corporate features and significantly altered the process of policy formation in the areas of labor relations and fiscal affairs.

This chapter examines the legislative debate over the proposal for a government postal corporation and analyzes the arguments of the major groups involved. In addition, it describes the development of the political struggles over reorganization that culminated in the 1970 legislation. Finally, it analyzes the effects of the newly organized United States Postal Service on postal labor and fiscal policies.
The Major Issues in the Legislative Battle Over Postal Reorganization

The House Committee on Post Office and Civil Service (HPOC) conducted extended hearings on postal reorganization from April through mid-August, 1969, while the Senate Committee on Post Office and Civil Service (SPOC) conducted hearings from October to December, 1969. It was primarily during these hearings that various groups argued the advantages and disadvantages of converting the Post Office from a government department to a government corporation. The committees examined two major bills at this time. Representative (Rep.) Thaddeus J. Dulski, Chairman of the HPOC, introduced HR. 4, which would have retained the Post Office as a regular government department, but would have created a "postal modernization authority". The Postmaster General (PMG) would head this authority, which would act as a holding company for all POD property and equipment, issue, finance and retire bonds, conduct research and development, and lease needed property and equipment to the POD on a cost recovery basis (HPOC, 1969, 1). While HR. 4 proposed a corporate structure -- the modernization authority -- to facilitate capital improvements in and long-term development of the Post Office, the bill would not have altered the structure of political control that surrounded the Post Office. HR. 4 would have retained the high degree of congressional supervision over postal affairs and the existing process for developing labor and fiscal policies. Rep. Morris Udall was the chief sponsor of HR. 11750, the first major administration proposal. HR. 11750 would have created a postal corporation, the features of which were nearly identical to those the Kappel Commission had recommended.
The debates over these bills centered around three major issues. One issue concerned the fiscal characteristics of the reorganized Post Office: the determination of rates, the degree of economic self-sufficiency, and the nature of its bonds. Another issue concerned the process of resolving labor conflicts and of developing labor policies. Linked with both of these issues were general questions over the nature and need of congressional supervision versus corporate autonomy. The participants in the legislative battle over reorganization expressed these issues through debate over the specific organizational features which the Post Office should have. In particular, they were concerned with the organizational context in which major postal policies would develop. The alignment of groups around HR. 4, HR. 11750 and later proposals paralleled the structural advantages that the groups received, or thought they would receive, from each major organizational alternative. Figure 19 summarizes this alignment of groups, which will be analyzed after an examination of the major issues in the legislative battle over postal reorganization.

A. Autonomy of Organizational Structure

The basic issue of reorganization was the degree of autonomy from congressional control that postal managers were to acquire in the policy process, and this debate suffused the debates over postal fiscal affairs and labor relations. Proponents of a postal corporation argued the following: The goals of efficiency and effectiveness required that postal management acquire primary control of postal operations, unhampered by the political restrictions of a government department under congressional supervision. Centralizing authority in a managing board would end the decision-making fragmentation that existed in the POD (HPOC, 1969, 176,
Figure 19. Alignment of Groups over Postal Reorganization.

<table>
<thead>
<tr>
<th>Groups Favoring Features of the Post Office as a Government Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postal Labor Unions</td>
</tr>
<tr>
<td>Direct-Mail Advertisers</td>
</tr>
<tr>
<td>Small Publishers</td>
</tr>
<tr>
<td>Rural Groups</td>
</tr>
<tr>
<td>Congress</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Groups Favoring Features of the Post Office as a Government Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postal Managers</td>
</tr>
<tr>
<td>Executive Managers</td>
</tr>
<tr>
<td>Large National Businesses</td>
</tr>
<tr>
<td>Large Publishers</td>
</tr>
</tbody>
</table>
1196-98). Consequently, postal management could escape the personnel restrictions of government agencies and utilize labor more efficiently in response to changing economic demands (HPOC, 1969, 1198). More significantly, they claimed a government corporation would remove the Post Office from "congressional doles" and expose it to the market places of customer and bond-holder demands, insuring the most efficient provision of service (HPOC, 1969, 1208-9; 1970, 8). This improved utilization of tax revenues and scarce capital resources would diminish public wastefulness (HPOC, 1969, 1200-01). These changes were possible in the POD, proponents argued, because unlike other government departments, it was potentially self-sustaining and was not involved in the formation of public policy (HPOC, 1969, 310, 1197, 1209).

Opponents of a postal corporation argued the following: At a general level, reorganization of the Post Office as a government corporation simply "gave away" one of the major powers which the Constitution had vested in the Congress (116 CR 20201, 20494, 26964). More specifically, it would transfer a major agency from a position of control by and responsiveness to the public interest, as expressed through the Congress, to a new position of control by postal managers who were essentially outside any mechanism of supervision. Consequently, under the corporate proposal, they claimed, there would be no way to insure that the actions of the management would be responsive to the needs of the public (HPOC, 1969, 343-45, 748, 836-37, 1403-05, 1410; 116 CR 19848, 19853, 20201, 26963-64, 27601). In fact, narrow considerations of economy and efficiency would guide managerial actions. Opponents argued that a postal corporation would lead to higher rates and fewer services, particularly in rural areas, and it would abandon any conception of the Post Office as
a provider of public services (HPOC, 1969, 378, 733-35; SPOC, 1970, 1411; 116 CR 19848, 20201-02). Furthermore, there was no reason to believe that a corporation would automatically possess the qualities needed to improve postal operations (HPOC, 1969, 82; 1970, 189).

Organizationally, corporate opponents favored retention of the Post Office as a government department and made specific proposals in regard to congressional involvement in postal labor and fiscal policies. In addition, they argued that a degree of public control could be exerted if the top postal manager remained a political appointee, either through retention of the PMG in the Cabinet or through the President's appointment of the PMG for a twelve-year term (SPOC, 1970, 1403-05, 1410).

B. Fiscal Affairs

There were three issues in the debate over the fiscal features of the postal corporation: where the power to determine postal rates should reside, whether a "public service subsidy" should be appropriated out of Treasury funds to support the proposed postal corporation beyond the revenues generated by postal rates, and the possible implications of using revenue bonds for capital financing.

In regard to fiscal features, the provisions of HR. 11750 and the arguments of its supporters were generally very similar to those contained in the Kappel Report. Proponents claimed that rate-making, for example, was one of the core areas in which postal managers needed control if reorganization was to adequately address postal problems (HPOC 1969, 176, 1245; 1970, 9). Furthermore, since the postal corporation would be an arm of the federal government, they argued that there would be little likelihood of controversy over issues of due process and that an indepen-
dent rate commission or judicial review of substantive elements of rate cases would not be necessary (HPOC, 1969, 912; 1970, 9).

Congressional opponents of a postal corporation objected to the limited role of the Congress in the proposed rate-making process, basing their arguments on the need for "public control" of rates and the dangers of control by a "faceless bureaucracy". They viewed the provision for a congressional veto on rates by concurrent resolution within 60 days of a rate change as essentially eliminating Congress from a meaningful review of rate decisions, given the lengthy time it took bills to travel through Congress. Congressional opponents consistently argued for a longer time period for possible veto by either House, and also expressed fear of the mechanism by which the corporate board of directors could enact temporary rates without any congressional review (HPOC, 1969, 178).

The direct-mail advertisers presented rather consistent and well-developed arguments against the proposed rate process. They claimed that HR. 11750 gave the board of directors a large degree of rate-making power over which the public could exert no control (HPOC, 1969, 83, 883; SPOC, 1969, 563). A better alternative, they suggested, would be a genuinely independent rate commission patterned after other regulatory agencies. "Qualified experts" could then hold public hearings and make rate decisions. The possibility of judicial as well as congressional review of these decisions should be provided (HPOC, 1969, 879, 883-84, 898-99; SPOC, 1969, 563-65; HPOC, 1970, 188-91; cf. the administration's response, HPOC, 1969, 1271-72).

The direct-mail advertisers also claimed that since postal operations provided services to the American public in general, and since it was impossible to assign the costs of such services to specific mailers
(e.g. delivery costs), it was reasonable that Congress should provide a permanent federal subsidy of 10% of total postal operating costs to support these services (HPOC, 1969, 880-81, 901-07). In addition they stated that any legislation should specify certain procedures (e.g., distribution of "institutional costs") and define certain terms (e.g., "demonstrably-related costs") which postal managers would use in calculating costs, rates and subsidies (HPOC, 1969, 898-99; SPOC, 1969, 562).

The general thrust of the arguments of the direct-mail advertisers was to limit definitionally and procedurally the discretion and autonomy of the corporate board of directors in regard to rate-making. These directors, they felt, would be hostile to the interests of the direct-mail advertisers, and in fact, to any interest other than running the postal corporation in the black, a policy that would probably lead to rate increases. Direct-mail advertisers particularly opposed the provisions of HR. 11750 that gave Treasury-funded subsidies to those special rate categories which Congress might legislate, while denying Treasury-funded subsidies to the postal corporation as a whole. They believed the former subsidies would accrue primarily to the publishers of second-class mail, whose material was historically subsidized for its reputed educational importance. Thus they claimed, publishers, one of their major competitors for advertising, would not have to fear any burden of increased institutional costs which postal reorganization might create (HPOC, 1969, 881, 894-95). For these reasons, the direct-mail advertisers argued for a permanent Treasury subsidy to the postal corporation as a whole and argued against the use of any concept of "social acceptance" in the determination of rates (HPOC, 1970, 186).
Publishers, however, were divided over the issue of reorganization. Small and rural publishers generally opposed the suggestions of the corporate proponents on rate-making. These publishers, usually involved with low circulation and special interest periodicals, claimed that as the corporate board of directors pursued its budget balancing, the resulting cutbacks in service would severely damage the circulation of rural publications, while the resulting rate increases would ignore the special plight of small publishers. The Agricultural Publishers Association and the Catholic Press Association, along with the National Grange, argued the ability to solve postal problems within the existing framework of the POD, and their arguments found support among many members of the Congress (HPOC, 1969, 1266, 1261; 116 CR 20207).

Large publishing companies, involved with high circulation, usually general interest, periodicals, generally supported the proposals for a postal corporation. One basis for their support of the corporate form was an expressed need for a stable postal-rate environment that would allow them to engage in long-range economic planning of their own. Nearly every representative of large publishers stressed the havoc which shifting rates played on distribution policies and long-term subscription renewals. In addition, they were supportive of any proposal that would mechanize and upgrade postal operations (HPOC, 1969, 796, 807, 816-17, 812). However, their support of HR. 11750 was predicated on the continued existence of the historically reduced rates of publications as justified in the Postal Policy Act of 1958. More specifically, large publishers argued that second-class mail should pay no more than its incremental costs, as the postal system existed for the delivery of first-class mail which should consequently bear its "proper share" of institutional costs (HPOC, 1969, 799).
A third fiscal feature that the state managers had proposed to increase their economic autonomy was the ability of the postal corporation to issue its own bonds. The arguments of the corporate proponents on this issue tied directly to the other issues of corporate financing. The ability to issue bonds, they claimed, increased the future independence of the proposed corporation from Treasury financing and also weighed against a high degree of congressional supervision over rates, for bond buyers would be wary of investing in a corporation whose fiscal policies were influenced in the political arena (HPOC, 1969, 177-78; 1970, 23-24).

Opponents of HR. 11750 claimed that since the revenue bonds of the postal corporation lacked the full faith and credit of the government, interest rates would be higher than for general obligations of the government, a reservation which the General Accounting Office supported (SPOC, 1969, 63; HPOC, 1969, 1115-16). Opponents also claimed that the need to meet the demands of the postal bondholders would constrain the activities of the corporate directors (SPOC, 1969, 362; HPOC, 1970, 187-88). Consequently, it would be better, they argued, if all bonds were the obligations of the general government with purchase by the Secretary of the Treasury required (HPOC, 1969, 1034 ff.; HPOC, 1970, 188; cf. response of postal managers, HPOC, 1969, 1204-06). Opponents hoped that this would reduce the cost of capital funding and decrease the pressure for service reductions and rate increases.

C. Labor Relations

Postal labor unions actively opposed HR. 11750 because of its features in regard to labor relations. If legislation were to separate the Post Office from traditional congressional supervision and postal labor nego-
tions from congressional involvement, postal labor unions demanded that the legislation also remove from postal labor the restrictions imposed on federal employees. The Congress had always provided them with a counterbalance to Executive-POD decisions and if this were abolished, they desired a similar counterbalance, such as the right to binding third-party arbitration or, more appropriately, the right to strike (HPOC, 1969, 380, 876, 964, 967-69, 1054, 1082). HR. 11750 allowed the possibility of binding arbitration only if postal labor could successfully extract it in future collective bargaining, and the mechanism for third-party involvement immediately after reorganization was complicated, voluntary and uncertain, postal labor claimed (HPOC, 1969, 221, 235-45, 966). Since it lacked the safeguards they desired, postal labor unions opposed HR. 17750 and supported HR. 4 (HPOC, 1969, 965, 1082), a bill which they reportedly helped draft (Dolenga, 558).

As indicated in Chapter 3, postal labor unions had been pressing for their own legislation that would have greatly expanded collective bargaining rights for all federal employees. Separation of postal employees into a distinct category through a government corporation would have possibly prevented them from pursuing in the future such legislation in regard to federal employees and perhaps limited the future growth of federal unionism as well. Whether this concern also played a part in the rejection of a postal corporation by the postal labor unions is difficult to ascertain from their statements on HR. 11750. It is likely that this goal did contribute to their opposition, particularly in light of the actions of the AFL-CIO postal labor unions after the postal strike. In the negotiations, these unions agreed to accept reorganization of the Post Office as an "independent establishment within the Executive branch", an organization
from which the benefits and rights of postal employees could perhaps be extended to other federal employees more easily than from a totally independent postal corporation. George Meany's statement to the HPOC on this later reorganization proposal appears to support this point:

We in the AFL-CIO hope to be back before this committee in the very near future, urging adoption of a measure that will insure genuine collective bargaining for all aspects of employment for all civilian workers of the Federal Government.

We think this bill is only a beginning. We are convinced that other Federal employees also must have the right to economic self-determination and to the democracy of the collective bargaining table.

As we see it, the Congress is today paving the way for a new day in Federal employer-employee relationships -- a good day, too long delayed. (HPOC, 1970, 85)

An Analysis of the Alignment of Groups Over Postal Reorganization

In the congressional hearings on postal reorganization, the alignment of groups on the various proposals reflected the structural advantages that the groups received, or thought they would receive, from each major organizational alternative. The major opponents to postal reorganization -- postal labor unions, direct-mail advertisers, and small and rural publishers -- each recognized that a postal corporation would alter, in a manner threatening to their interests, the development of postal policies. Postal labor unions saw the loss of congressional support and the increase of managerial autonomy in the resolution of labor issues. Given the historical antagonism of the state managers to their demands, postal labor unions feared the loss of their congressional "counterbalance", particularly since HR. 11750 limited alternative counterbalances, prohibiting the right to strike and promising only future discussion of binding third-
party arbitration. In short, postal labor unions feared that the labor policies emerging from such an organization would be to their political and economic disadvantage, limiting their bargaining rights and wage increases.

Similarly, direct-mail advertisers and small and rural publishers saw the loss of congressional support and the increase of managerial autonomy in the resolution of financial issues. Given the historical efforts of the state managers to cover postal costs with postal revenues, these special mailers feared the loss of the congressional "counterbalance", particularly since HR. 11750 gave the corporate managers essentially final control over rate levels and there would be no federal subsidy to the Post Office as a whole to "cushion" the demands for self-sufficiency. In short, these special mailers feared that the rate policies emerging from such an organization would be to their economic disadvantage, leading to higher rates and reduced services. Some members of Congress also opposed the reorganization of the Post Office, either because of agreement with the arguments of the postal labor unions, the direct-mail advertisers, and the small and rural publishers, or because of opposition to the loss of congressional involvement and influence in these policy areas.

The state managers took the lead in pushing the proposal for a postal corporation through the legislative process. In fact, nearly all the public testimony in support of the corporate proposal came from present or former postal managers, although the proposal clearly had the support of the President. The previous chapters have already analyzed the interests of these state managers in converting the Post Office to a government corporation.
Several large publishers also publicly testified in support of HR. 11750, raising the question of how this group of second-class mailers differs from the special mailers who so vigorously opposed the corporate proposal. One distinction is that the product of large publishers is typically high-circulation, general interest periodicals. To the extent that their readership is concentrated in relatively high-density areas, these publishers can and have used distribution mechanisms other than the Post Office (e.g., carrier delivery of urban newspapers; distribution solely through newsstands, as with People magazine). Small and rural publishers generally produce low circulation or special interest periodicals. Consequently, readership is often sparse and geographically dispersed, increasing reliance on postal delivery.

Another possible distinction is that large publishers may be more able to pass on to customers the cost of increased postal rates than are small publishers who must deal with a much more limited demand for their product. In addition, there may be certain organizational requirements that large publishers must confront as a result of their scope of operations. They themselves cited, for example, their need for an orderly and predictable rate-making process.

It should be noted, however, that the large publishers predicated their support for HR. 11750 on the continued existence of reduced rates for second-class mail. Large publishers may simply have felt confident of their political ability to obtain congressionally-mandated rate reductions even with a postal corporation. Thus, in testifying in favor of HR. 11750, they did not abandon altogether their status as a special mailer and probably saw a postal corporation as realizing some of their
other interests in postal service, without seriously threatening their interest in postal rates.

Another major group -- large national businesses -- supported a postal corporation although they did not become directly involved in testifying at the congressional hearings over postal reorganization. A vehicle for their support of the corporate proposal during the legislative battle was the Citizen's Committee for Postal Reform. This was a "non-partisan public relations" committee which Larry O'Brien, the former PMG who had initiated the proposal for a government corporation and a former Democratic National Committee Chairman, and Thurston B. Morton, a former Republican National Committee Chairman, organized and led. In terms of money spent, this Citizen's Committee was the seventeenth largest congressional lobbyist in 1969, and the tenth largest in 1970 (Congressional Quarterly Weekly Reports, 1970, 1971).

An examination of the financial contributors and the (non-public-office holding) directors of this Citizen's Committee indicates the extent of support for a postal corporation among various groups as well as the groups this Committee was likely to represent in its activities. If ranking in the Fortune 500 is taken as an indicator of large national businesses, these businesses and their officers contributed over 75% of the financial support of this committee (see Figure 20). While the position of "Director" apparently had no real activities associated with it, it does indicate those groups that were willing to be publicly associated with the postal corporation concept as well as the groups whose support the leaders of the Citizen's Committee were attempting to develop. Over 70% of the "Distinguished Americans" serving as directors of the Committee were officers of large national businesses (see Figure 21). The composi-
Figure 20. Corporate Support for the Citizen's Committee on Postal Reform, Inc.: Financial Contributions as of July 14, 1969.

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>171</td>
<td>$133,624</td>
<td>100%</td>
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<tr>
<td>Corporations Ranked on the</td>
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<td></td>
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<tr>
<td>the Fortune 500</td>
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<td></td>
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<tr>
<td>Rank 1 - 100</td>
<td>17</td>
<td>76,000</td>
<td>73.7%</td>
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<tr>
<td>Rank 101 - 235</td>
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<td>22,500</td>
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<tr>
<td>Officers of ranked</td>
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<td>2,850</td>
<td>2.1%</td>
</tr>
<tr>
<td>corporations</td>
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<tr>
<td>Total contributions of</td>
<td>28</td>
<td>101,350</td>
<td>75.8%</td>
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<td>ranked corporations and</td>
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<td></td>
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<tr>
<td>their officers</td>
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<td></td>
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<tr>
<td>Contributions of unranked</td>
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<td></td>
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<tr>
<td>corporations</td>
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<tr>
<td>Large contributions¹</td>
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<td>11,000</td>
<td>8.2%</td>
</tr>
<tr>
<td>Small contributions</td>
<td>4</td>
<td>415</td>
<td>.3%</td>
</tr>
<tr>
<td>Total contributions of</td>
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<td>11,415</td>
<td>8.5%</td>
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<td>unranked corporations</td>
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<td>Publishing Companies</td>
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<td>Large contributions²</td>
<td>5</td>
<td>14,500</td>
<td>10.8%</td>
</tr>
<tr>
<td>Small contributions</td>
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<td>4,709</td>
<td>3.5%</td>
</tr>
<tr>
<td>Individual contributions</td>
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<tr>
<td>(unaffiliated)</td>
<td>112</td>
<td>1,650</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

1. Includes American Express Co., $5000.
2. Includes McGraw-Hill, No. 251 on Fortune 500, largest single contributor, $6,920.
3. Includes $750 apparently personal contribution of an officer of an unranked corporation who served as "Distinguished American" Director of the Citizen's Committee.

**Figure 21.** Corporate Support for the Citizen's Committee on Postal Reform, Inc.: "Distinguished Americans" Serving as Directors of the Citizen's Committee.¹

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
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<td>100%</td>
</tr>
<tr>
<td>Corporations ranked on the</td>
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<td></td>
</tr>
<tr>
<td>Fortune 500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rank 1-100</td>
<td>16</td>
<td>48.4%</td>
</tr>
<tr>
<td>Rank 101-500</td>
<td>8</td>
<td>24.2%</td>
</tr>
<tr>
<td>Total representatives of</td>
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<td>72.7%</td>
</tr>
<tr>
<td>ranked corporations</td>
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<td></td>
</tr>
<tr>
<td>Representatives of corporations</td>
<td>6</td>
<td>18.2%</td>
</tr>
<tr>
<td>not ranked on the Fortune 500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unknown affiliation</td>
<td>3</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

¹ Larry O'Brien and Thurston Morton were the national co-chairmen of the Committee while the national vice-chairmen were essentially the members of the Kappel Commission. Other categories of "Directors" in addition to the above "Distinguished Americans" were "Governors" and "Mayors".

tion of the members of the Citizen's Committee for Postal Reform and of its financial supporters indicate the strength of large national businesses' support for a government postal corporation, a support that did not involve their direct participation in the legislative process. Chapter 2 had analyzed several possible explanations for this group's support of a postal corporation.  

The Impasse Over Postal Reorganization and Postal Pay Legislation

In October, 1969, the HPOC rejected the Administration bill for a postal corporation, HR. 11750, on a 13-13 vote. Although direct-mail advertisers, small publishers, and several HPOC members were also hostile to the proposal, postal labor unions reportedly were the primary source of the bill's opposition and defeat (WSJ, Oct. 9, 1969; NYT, Oct. 9, 1969; Dolenga, 531). The opposition of the unions derived not simply from their dissatisfaction with the corporate proposal but also from delays in legislating pay increases for postal employees. Publicly the Administration threatened to veto a pay increase, claiming that it was inflationary, and privately the Administration reportedly tried to trade a concession on the pay issue for union support of postal reorganization (Dolenga, 530, 538).

In early December, 1969, Special Counsel to the President Charles Colson held a series of meetings with James Rademacher, President of the National Association of Letter Carriers (NALC), to search for possible resolutions of the pay-reorganization impasse. On December 18, 1969, Presidents Nixon and Rademacher personally discussed the issue, and reportedly reached an agreement whereby the NALC would support a "Postal Authority" in return for White House support of a postal pay increase.
Rep. Udall was to work out the details of the agreement as well as the general acceptance of it by the other postal labor unions and HPOC members (Dolenga, 533-34). On December 23, 1969, when this agreement was presented, apparently in verbal form, to the HPOC, it aroused the hostility of the postal labor unions and House members, who were reportedly indignant over such "secret" proceedings. The HPOC immediately rejected this proposal and continued to "mark-up" HR. 4, the bill that Rep. Dulski had proposed (Dolenga, 535; WSJ, March 24, 1970; House of Representatives, 1970).

The postal pay-reorganization impasse continued into 1970. When the budget for Fiscal Year 1971 was made public on February 3, 1970, it indicated that the Administration wanted to delay for 6 months a comparability pay increase that all federal workers were to automatically receive in July, 1970. Rep. Dulski, Chairman of the HPOC, several times found it impossible to get a quorum of committee members to work on HR. 4, reportedly due in part to pressure by the Administration on Republican members to delay separate postal rate and reorganization legislation. Dulski was also unable to get the Senate to convene a Conference Committee on the pending pay legislation (Dolenga, 536-38). Furthermore, the United Federation of Postal Clerks (UFPC), the second largest postal union, broke off talks with the state managers on postal reorganization and reportedly declared its "total opposition" to the changes that the managers had proposed. NALC President Radomacher reportedly warned that a pay-bill veto could lead to a strike of postal employees. At the end of February, Chairman Dulski of the HPOC stated that "all efforts toward a reasonable compromise or alternative plan have been exhausted" (WSJ, Feb. 26; NYT, March 11, 1970).
A major legislative coup for the Administration took place on March 13, 1970, when the HPOC voted 17-6 for a proposal that closely paralleled Nixon's original bill, although it carried the designation -- HR. 4 -- of Dulski's original bill. This new HR. 4 was substantially identical to the oral proposal that had emerged from the Nixon-Rademacher meeting of December, 1969, and which the HPOC had rejected at that time. After the administration's reported "intensive horse-trading" for votes, the HPOC substituted this proposal for the entire text of Dulski's HR. 4 without the possibility of further motion, debate or proceedings. Thus the Committee reported the 148-page bill to the full House without a reading and, it was claimed, with many HPOC members never having seen it (WSJ, March 13; NYT, March 11, 1970; cf. minority statements in House of Representatives, 1970). It contained the 5.4% retroactive wage increase that the NALC wanted, but other postal labor unions, reportedly desiring an additional raise in July, maintained their opposition (see Figure 22 for a chronology of events concerning postal reorganization).

The Postal Strike Breaks the Legislative Impasse

By this time, however, the discontent that had been increasing in the rank and file of the postal labor force throughout the 1960's finally surfaced in the first modern major strike of U.S. federal employees. Letter carriers in the Bronx and Manhattan voted to stop work, and on March 18, 1970, the wildcat strike began. The strike action centered around NALC Branch 36 and the Manhattan-Bronx Postal Union, both in New York City, but it spread quickly to other cities in the East and Midwest. Strikers ignored an early court injunction that ordered a return to work
Figure 22. Chronology of Postal Reorganization.

1965, August

PMG O'Brien creates the Quadriad, a secret task force.

1966, October

Breakdown of mail distribution in Chicago.

1967, March

Quadriad recommends corporate reorganization of the POD.

1967, April 3

PMG O'Brien publicly proposes a government postal corporation.

1967, April 8

President Johnson appoints a Presidential Study Commission (Kappel Commission).

1968, June

Kappel Commission reports; details support for government postal corporation.

1969

January 3


May 27

President Nixon's message on postal reorganization: transmission of future H.R.11750.

May 29


April 22 - June 12
June 20 - July 22
July 23 - August 12

House Committee Hearings on H.R.4; H.R.11750: "Post Office Reorganization".

July 1

Unofficial work stoppage: 72 Bronx postmen call in sick.

October 8

HPOC rejects H.R.11750.

October 6 - December 1

Senate Committee Hearings on H.R.4; H.R.11750: "Postal Modernization".

December 18

Presidents Nixon and Rademaker meet on postal reorganization.

December 23

Postal Reorganization proposal submitted orally to HPOC: result of agreement between Nixon and Rademaker; HPOC rejects proposal.
Figure 22. (cont'd).

1970

February 2  President Nixon proposes 6-month delay in federal employee pay increases.

March 13  HPOC approves completely revised H.R.4, 17 - 6.

March 18  Postal workers start wildcat strike.

March 23  Army called in to move mail.

March 27  Normal postal activities resume.

April 2  Postal labor unions and Administration reach general agreement on combined pay/reform bill; 2-stage, 14% postal pay increase.

April 15  6% pay increase for all federal employees becomes law.

April 16  Details of Labor/Administration agreement revealed; embodied in H.R.17070 proposal.

April 22, 23, 27  House Committee Hearings on H.R.17070: "Postal Reform".

April 23  Senate Committee Hearings: "Postal Modernization".

May 19  HPOC reports out H.R.17070: provides for postal reorganization and 8% postal pay increase.

June 8  Reps. Udall and Derwinski introduce substitute bill, H.R.17966.

June 16  House rejects consideration of H.R.17966 (Udall-Derwinski substitute bill) in procedural vote, 139 - 219.

June 18  House passes H.R.17070, 360 - 24.

June 30  Senate passes its version of H.R.17070, 77 - 9.

July 9  House instructs conferees to insist on ban on the union shop.

August 3  Conference Report on H.R.17070 passes Senate, 57 - 7.

August 6  Conference Report passes House, 338 - 29.

August 12  H.R.17070 becomes Public Law 376.

Initial demands centered on postal pay increases, cost of living provisions and the length of time needed to move through the postal pay schedule. While "comparability raises" had been given to all federal workers in July, 1969, these had averaged only 4.1% for postal employees, compared to 9.1% for classified workers. As indicated earlier, new pay legislation for federal employees had been stalled in the Congress from the end of 1969, and in his budget message on February 2, 1970, President Nixon had proposed that the next pay increase for federal employees be postponed from the expected July 1, 1970, to January 1, 1971, as an "anti-inflationary measure". The Administration's attempt to link a wage increase with postal reorganization further angered the postal workers, who apparently felt that the pressure of a walkout might reduce the delays in increasing wages (CQ Almanac, 1970, 348-49).

The leaders of some national labor unions agreed to cooperate with the state managers on ending the strike, but encountered the hostility of the rank and file. Rademacher reportedly threatened the NALC Branch 36 president with expulsion and warned of the dangers of continuation of the strike: loss of dues, check-off privileges, and the possible demise of the union. He also reportedly urged a moratorium on the strike and promised to personally call for its resumption if postal labor leaders had reached no agreement with the Administration in five days. New York City letter carriers hanged him in effigy, however, and letter carriers in Cleveland, Pittsburgh and Denver shouted down their leaders' requests for negotiations, it was reported. Rademacher called for an investigation
into the possible influence of the Students for a Democratic Society in

Businesses, particularly in New York, immediately experienced prob-
lems as the strike slowed or prevented the flow of credit, securities and
money. Numerous companies had to postpone stockholder and other meetings
as proxies were not being delivered, the National Association of Securi-
ties Dealers allowed blanket extensions of time for members to receive
customer payments on certain transactions, and the New York Telephone
Company reported a failure to receive $7 million in bill payments daily.
The continued operation of the stock exchanges was in doubt for several
days, the Treasury Department feared the strike's impact on its weekly
auction of short-term bills, and the New Jersey Bell Telephone Company
had to borrow $6 million to carry it through the strike. The New York
state legislature considered a bill to declare a moratorium on business
obligations dependent on the mail, and PMG Blount temporarily suspended
the enforcement of the Private Express Statutes to allow private transport
of the mail (BW, March 28; WSJ, March 20, 23, 24, 25; NYT, March 22,

The strike confronted the state managers with somewhat of a dilemma.
On the one hand, aggressive action against the strikers might jeopardize
the managers' interest in gaining more control of postal affairs by incurring increased hostility from postal labor that would effectively end the
legislative attempts at postal reorganization. Thus the Administration
continually denied the possible use of troops for moving the mail, repor-
tedly out of fear that this could easily trigger violence between the
strikers and the troops. On the other hand, the continuation of this
large, spontaneous and angry strike threatened to jeopardize the execu-
tive interest in controlling federal labor relations by increasing the militancy of other federal workers. Thus the managers reportedly tried to avoid actions that would "lock the Administration into a weakened bargaining position in future dealings with unruly government employees" (WSJ, March 24, 23, 20; NYT, 20, 21, 22, 1970).

Initially, the state managers attempted to maintain a middle course between these two objectives by refusing to negotiate until the "work stoppage" (i.e. not the "strike") had ended (WSJ, March 23). Gradually, however, control of the federal labor force became the primary issue as the fear grew that the actions of the postal workers would trigger actions by other federal employees. Leaders of various major unions of federal employees reported pressure from their members to stage walkouts either in sympathy with the postal workers or in support for some particular issue of their own. The president of the National Association of Government Employees stated:

> It's getting tougher to make any impression on our rank-and-file members by pointing out that strikes by Federal employees are illegal and can result in fines, imprisonment or dismissal. (WSJ, March 23)

In an editorial, the New York Times warned of the possible spread of militancy, and the Wall Street Journal ran an article that claimed that the "mail strike could spur other federal workers to resort to walkouts" (WSJ, March 24, 1970). An earlier editorial in the Wall Street Journal had urged an immediate government response to the strike which included calling on the military, and it was to this solution that the state managers turned (WSJ, March 20).

On March 23, President Nixon appeared on national television, declared a state of national emergency, and ordered troops into New York
City to move essential mail: "What is at issue...is the survival of a government based upon law" (WSJ, March 24). The Pentagon called up 30,000 men to deliver such mail as legal papers and documents, securities and financial transactions, social security, pension, welfare and salary checks, and medical records and prescriptions. Military personnel were reportedly instructed to avoid confrontation with the postal workers, and the Attorney General was directed to prevent the picket lines from interfering with those workers who wanted to return to work. George Meany stated that "this action will not restore mail services nor contribute to an early resolution of the problems and circumstances which caused the stoppage of those services" (WSJ, March 24).

With the President's action, however, thousands of postal employees began returning to their jobs. On March 24, a federal court found NALC Branch 36 and its president guilty of contempt for failing to observe the injunction issued against the strike on March 18. The following day, the members of the Manhattan-Bronx Postal Union voted to end the strike, and by March 27, 1970, regular mail service was all but attained in New York City as reportedly over 90% of the employees returned to work (NYT, March 25-28, 1970).

The Postal Reorganization and Salary Adjustment Act of 1970

The Administration moved quickly to meet with the seven national postal unions with exclusive recognition. The unions themselves wished to discuss only wages and reportedly refused to consider any postal reorganization proposals. They initially requested a 12% pay increase retroactive to October, 1969, the ability to reach maximum pay levels in
eight rather than 21 years, full payment of health benefits by the government, provisions for collective bargaining and binding arbitration, and total amnesty for all strikers. Already pending in Congress were an 11.1% raise, one half of which was retroactive to October, in the House, and a 6-7% raise for all federal employees, in the Senate. In addition, the postal reorganization bill, HR. 4, which the HPOC had just reported out, was linked with a 5.4% pay increase, retroactive to January 1 (WSJ, March 24; USN, March 30).

On April 2, amid renewed restlessness and demands in the ranks of the New York City letter carriers (WSJ, April 2), the negotiators reached an agreement on a combined pay increase-postal reorganization bill, and announced the details in a "memorandum of agreement" which PMG Blount, George Meany and leaders of the seven craft postal unions having national recognition (see Chapter 2, note 1) signed on April 16. While not calling for a "government postal corporation", its stated that the Post Office should become an "independent establishment within the Executive Branch" governed by nine public directors named by the President and confirmed by the Senate. Collective bargaining would be required for wages, hours, work conditions, grievances and "in general, all matters that are subject to collective bargaining in the private sector". The ban on strikes would be continued, but binding arbitration would take place in impasses after 180 days. The National Labor Relations Board would supervise elections and labor practices, and the number of years required to progress through the wage schedule would be shortened to eight. The reorganized Post Office would be able to borrow up to $10 billion, would be self-supporting by January 1, 1978, and its board of directors would set rates, after hearings by a rate board and subject to veto by 2/3 of
either House of Congress. This proposal was introduced as HR. 17070. In addition, there would be a 6% raise for all federal employees retroactive to December 27, and an additional 8% raise for postal employees that would take effect when the Congress had legislated postal reorganization. No disciplinary action would be initiated at any level against the strikers until discussions had taken place between the Post Office and the employees' union (House of Representatives, 1970 B, 57-59).

Congress passed the 6% general pay raise quickly and it became law on April 15 (USN, April 16), but opposition to the postal reorganization remained. Letter carriers in New York City threatened renewed strike action over delays in the pay legislation. The National Postal Union (NPU) and the predominantly black National Alliance of Federal and Postal Workers, non-affiliated industrial unions which lacked national recognition, denounced the agreement primarily since it failed to recognize unions other than the seven national craft unions (six of which were AFL-CIO affiliated), and the NPU also threatened strike action over this issue (HPOC, 1970, 113 ff., 141 ff.; USN, April 27; WSJ, May 4).

Senator McGee, SPOC Chairman, wanted to retain the PMG as a Cabinet member to maintain more public control over his actions (USN, April 27; BW, April 25). Direct-mail advertisers, small publishers and rural interests reiterated their earlier objections (HPOC, 1970, passim). The Congress modified several features of the bill in committee and on the floor to meet some of these objections, but the substance of the "memorandum of agreement" became law on August 12 when President Nixon signed HR. 17070, the Postal Reorganization and Salary Adjustment Act of 1970.3
The Effects of the Postal Reorganization Act on the Postal Policy Process

The state managers had supported a government postal corporation as a way of altering what they considered to be the adverse effects that the postal policy process generated on labor relations and fiscal affairs, with the Post Office as a government department. Figures 13 and 18 summarize the effects which the state managers expected a postal corporation to have on policies in these areas. The Postal Reorganization Act (PRA) of 1970 converted the Post Office Department into the United States Postal Service (USPS), an "independent establishment of the Executive branch" that had several features quite different from those contained in the original corporation proposal. This section will examine the short history of labor relations and fiscal affairs in the USPS to see if the specific organizational features of the reorganized Post Office had the effects on the postal policy process that the state managers, and other groups, expected. First, however, it will examine the general autonomy of the "independent establishment".

A. Autonomy of Organizational Structure

The legal powers of the USPS as an independent establishment are nearly identical to those of a government corporation. It possesses the power to sue and be sued, to enter into contracts, acquire property, construct and operate facilities, settle claims, adopt rules and regulations and determine its own system of accounts (§401, 84 Stat. 722-23). It possesses the power of eminent domain and the right to issue revenue bonds, the principal and interest of which are exempt from taxation by state and local taxing authorities although they are not obligations of
**Figure 13.** Expected Effects of the Policy Process with the Post Office as a Government Corporation: Labor Relations.

<table>
<thead>
<tr>
<th>Political Effects</th>
<th>Economic Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Postal Corporation</strong></td>
<td>Facilitate capital investment in mechanization to reduce employment and postal costs.</td>
</tr>
<tr>
<td>Use collective bargaining to trade-off demands and formulate long-term agreements.</td>
<td></td>
</tr>
<tr>
<td><strong>Federal Government</strong></td>
<td>Limit the inflationary aspects of postal labor by isolating postal labor costs and by ending postal labor's influence on federal wage and pension levels.</td>
</tr>
<tr>
<td>Prevent postal labor from extending the bargaining rights of other federal workers.</td>
<td></td>
</tr>
</tbody>
</table>
Figure 18. Expected Effects of the Policy Process with the Post Office as a Government Corporation: Fiscal Affairs.

<table>
<thead>
<tr>
<th>Political Effects</th>
<th>Economic Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Postal Corporation</strong></td>
<td><strong>Demand of self-sufficiency</strong></td>
</tr>
<tr>
<td>Provide managerial flexibility on financial issues. Allow managerial determination of rate issues with minimal involvement of Congress.</td>
<td>encourages efficiency and reduces deficits, and allows the linking of postal rates with costs for second- and third-classes.</td>
</tr>
<tr>
<td><strong>Federal Government</strong></td>
<td><strong>Limit effects of postal deficits on the federal budget by having postal users cover free and reduced rates.</strong></td>
</tr>
<tr>
<td>Decrease political controversies; Increase the possibility of administrative rationality.</td>
<td></td>
</tr>
</tbody>
</table>
or guaranteed by the federal government (§2005, 84 Stat. 741). The legislation also created the Postal Service Fund, as a revolving Treasury fund based on postal revenues (§2003, 84 Stat. 739). Unlike the earlier legislative proposals, there was no provision for the application of the Government Corporation Control Act.

The provisions concerning the Board of Governors of the USPS, the managing board of this organization, appear to favor large national businesses, or at least to disfavor the influence of special mailers and postal labor unions in the formation of postal policies. Section 202 of the 1970 act states that "the Governors shall be chosen to represent the public interest generally, and shall not be representatives of specific interests using the Postal Service..." (84 Stat. 720). This apparently is meant to ensure that the board represents and considers systemic rather than parochial interests in postal policy formation (see Chapter 6). Of the thirteen individuals who have been governors from 1971 to December 8, 1976, seven listed corporate affiliations and four of these were affiliations with large national businesses. The two Chairman of the Board in the short history of the USPS were the former Chairman of AT&T (Kappel) and the Chairman of Exxon Corporation. It is unclear why these are considered representatives of the "public interest" rather than of "specific interests using the Postal Service", since both of these corporations appear to heavily utilize postal operations in the first-class category.

The legislation also created a Postal Service Advisory Council composed of four representatives from postal labor organizations involved in collective bargaining, four from "major mail users" and three from the "public at large", who were to advise the USPS on "all aspects of postal operations" (84 Stat. 722).
B. Labor Relations

The organizational features of the USPS appear to have had the political and economic effects that the state managers expected in labor relations. Postal managers obtained the ability to negotiate wage and other labor issues without the involvement of Congress. Postal wage agreements develop through a collective bargaining structure and three such agreements have been negotiated since the USPS began (Commission on Postal Service, 14). Not only does this new process effectively end the political lobbying of postal labor unions over wage issues but it also isolates their wage settlements, preventing the automatic application of increases to other federal workers. The PRA does not completely isolate postal labor from the rest of the federal labor force, however, as it locates the Postal Career Service within the U.S. Civil Service, with existing Civil Service and veterans benefits, including retirement rights, applying, although the USPS is responsible for the costs of these and other fringe benefits of postal workers (CQ Almanac, 1970, Commission on Postal Service, 31). Prior to 1970, the POD was not responsible for such compensation for Civil Service expenditures.

In regard to labor costs within the USPS, the managers do not appear at first glance to have been so successful. Labor costs as a percentage of total postal operating costs rose from 81.8% in 1971 to 86.1% in 1974, and were 85.5% in 1976 (Commission on Postal Service, 13). A recent study commission on postal operations reports annual productivity increases averaging no more than 1.8% between 1972 and 1976 (Commission on Postal Service, 16), a figure fairly comparable to those of the old POD.
However, these figures do not tell the whole story. General economic inflation accounts for much of the rising labor costs as reportedly 37% of the postal wage increases since 1971 are due to cost-of-living increases tied to the consumer price index (Commission on Postal Service, 29). Furthermore, capital investment is occurring on a much greater scale than prior to reorganization (Figure 23) and the PMG has reported that the number of letters sorted mechanically has jumped from 25% in 1971 to 63% in 1976 (ARPMG, 1976, 6). Most significantly, by June 30, 1976, postal managers had decreased postal employment 8.4% -- 62,267 jobs -- from its 1970 level (ARPMG, 1973, 1976). While the economic effects are not immediately visible, it does appear that the USPS has embarked on the slow process of reducing the postal labor force and of mechanizing postal operations, actions that the POD had not been able to undertake.

Since this "independent establishment", the USPS, appears to have had all the same effects in labor relations that the originally proposed government corporation probably would have had, why did the postal labor unions agree to this form of reorganization when they had successfully blocked earlier proposals and since they were bargaining from the strength of a significant postal strike? One explanation is simply that the postal labor unions won a specific mechanism for third-party binding arbitration. The PRA specified that an arbitration panel would be named if management and labor reached no agreement within 90 days after the expiration or termination of an old agreement (§1207, 84 Stat. 736). Thus postal labor won the "counterbalance" it has sought to replace loss of congressional involvement in the development of labor policies. While the postal managers had opposed the legislation of a specific mechanism to resolve disputes in the reorganized Post Office, they had been willing to grant
Figure 23. Capital Investments of the Post Office, 1960 - 1975.

Sources: 1960 and 1965: ARPMG, 1960, 1; 1965, 1;
1965 - 69: Supplied by U.S.P.S. Bureau of Accounting;

"Capital investments" are commitments to capital projects including new or renovated buildings and equipment.

third-party arbitration through future collective bargaining. Their major concession in this area then was the rather minor one of accepting a specific arbitration procedure sooner rather than later.

In addition, postal labor won a rather significant wage increase that the Administration had been unwilling to grant. In effect, the state managers and postal labor struck the somewhat classic bargain that has often taken place between big capital and big labor in the private sector of the United States: management exchanged large immediate monetary benefits for the ability to mechanize operations and decrease the labor force through natural attrition in the future, unhampereed by union opposition.

Another possible explanation for postal labor's support of the PRA is that perhaps the AFL-CIO felt that it could advantageously utilize an independent establishment within the Executive branch in its future attempts to increase the bargaining rights of other federal employees. In particular, George Meany may have felt that it would be politically easier to attempt to increase unionization and bargaining among federal employees, if postal employees could push forward their bargaining rights "within the Executive branch" rather than within a totally independent government corporation. In addition, the original "memorandum of agreement" that the state managers and the leaders of the seven postal craft unions (six of which were AFL-CIO affiliated), signed on April 2, 1970, would have effectively ended the existence of the non-affiliated industrial unions in the Post Office.

In addition, however, the state managers were able to utilize, rather successfully, the postal strike to promote their reorganization efforts. As with the Chicago breakdown of 1966, the managers claimed that the current problem of the strike was symptomatic of the ills of the existing
POD organization and of the need for a large-scale reorganization of the postal system. During the strike, PMG Slount proclaimed, almost proudly, that "at the present time, there's no way the employees can bargain collectively with the postal management" (WSJ, March 24, 1970). The Citizen's Committee for Postal Reform ran full-page advertisements in the New York Times boasting that "the Post Office strike need never have happened!" (March 26, 1970). Large corporations and financial institutions, particularly in the New York City area, could now recognize, if they hadn't earlier, their interest in a "well-managed postal system". The Wall Street Journal ran three editorials in seven days that, while urging an immediate end to the strike and applauding Nixon's use of the military, linked the walkout to the lack of reform in the POD's structure. Business Week ran a similar editorial, along with a special report on the need for reorganization entitled "Untangling the Mess in the Post Office" (BW, March 29, 1970). Perhaps most significantly, however, the strike silenced and perhaps frightened other opponents of the corporation proposal, particularly the members of Congress. They could now be challenged with the questions: What had the old system done to prevent the walkout? What could it do to prevent a future strike?

C. Fiscal Affairs

The USPS does not appear to have had the political and economic effects that the state managers expected in fiscal affairs, mainly because the managers failed to obtain all the organizational features that they had proposed. In their attempt to limit the effects of the postal deficit on the federal budget, they were successful on some issues. The PRA essentially postpones resolving the question of whether there should be a
permanent congressional appropriation for the public services of the Post Office. The final legislation provides for an appropriation declining from 10% of total postal costs (with Fiscal Year 1971 as a base) to 5% in 1984, at which time Congress might modify or eliminate this annual appropriation. Since in all their proposals the managers had suggested a transition appropriation for the initial years of a postal corporation, this provision was not a setback in their attempt to isolate the fiscal effects of postal operations.

The PRA does continue congressional appropriations to cover the revenues foregone by certain congressionally-mandated free and reduced rates: rates of small circulation newspapers, in-county publications, second- and third-class mailings of non-profit organizations, library mailings, mail for the blind, and some other minor categories. The initial corporation proposal from the Kappel Commission had recommended covering such foregone revenues internally within the Post Office, although all the legislative proposals of the state managers would have continued the funding through congressional appropriations. Nevertheless, the managers obtained a provision in the PRA that stipulates that rates for the second- and third-class mailings of non-profit organizations could be increased over a ten-year period (changed to a 16-year period in 1973 legislation) to cover their attributable costs. Furthermore, the effect of the congressional appropriation for these reduced and free rates is probably minimal, since they amounted to less than $300 million in 1976 (Commission on Postal Service, 68). The "Public Service" expenses in 1970 were nearly three times the size of these "Continuing Appropriations" in 1976.
It is in the area of rate-making that the state managers suffered their greatest setback. They had sought a postal corporation to end the political influence of the special mailers in the congressional process of policy development, thereby gaining greater managerial control over postal revenues and reducing postal deficits. However, rather than providing the managing board of the postal corporation with final rate powers subject only to possible congressional veto as the managers had originally proposed, Congress removed itself altogether from the normal rate process while legislating a rate commission which is much more independent due to increased restrictions on the ability of the managing board to alter the commission's decisions. Thus, while the PRA ends the former relationship of special mailers to Congress in the rate-making process, it does not provide postal managers with the autonomy which they sought in this area. Instead, the Postal Rate Commission (PRC) was set up as more of a regulatory than an advisory organization, and this increased independence apparently satisfied Congress's concern over preserving the "public interest" from the "almost unlimited" powers of the managing board.

It appears that the PRC's organizational independence in the development of rate policies has hampered the postal managers' control of fiscal affairs in the USPS. In particular, the USPS Board of Governors complains of the length of time that the PRC requires to hear rate cases and render decisions. The resulting delays in rate increases, the postal managers claim, severely hamper their flexibility in adjusting rate levels to the fiscal demands of the USPS. In 1976, Congress amended the PRA to limit to ten months the time allowed to the PRC for rendering rate decision (Commission on Postal Service, 17; CQ Almanac, 1976, 653). In addition, there are reports that the Board of Governors has attempted to
curtail the activities of the PRC, which is financed through the Postal Service Fund of the USPS, by decreasing the funds allocated to it (see Commission on Postal Service, 78).

While the PRA does not provide the state managers with everything they wanted in regard to rate-making, it nevertheless dramatically alters fiscal affairs in the Post Office. Most significantly, the legislation of 1970 requires that

\[ \text{...each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type. (§3622, 84 Stat. 760)} \]

Thus it removes the consideration of the costs of various free and reduced rates from the formulation of rates for regular second- and third-class mail (i.e. of the "special mailers"). Instead, the Postal Rate Commissioners are to consider the rates of all types of mail (except those of the free and reduced categories listed above) only in relation to their individual attributable and assignable costs. Thus special mailers can not attempt to reduce the deficits that their rate revenues have to cover by reference to some definition of the "public service aspect" of postal operations.

This change in the process of resolving rate issues not only has certain economic effects, it also has certain political effects. With the Post Office as a government department, the special mailers had to convince Congress of the public service aspects of their material in order to obtain reduced rates. With the USPS, special mailers have to convince the Postal Rate Commissioners, and perhaps the courts, of the difficulties of or errors in attributing and assigning costs to their
material in order to obtain reduced rates. Thus postal reorganization has shifted debate in the normal rate-making process from legislative definition of the "public interest" to a more judicial-technical definition of "costs" and cost-measurement (see Commission on Postal Service, 57-64). While the latter definition remains an inherently political decision, this decision is not made with the same rules that operate in the legislative arena. The new process is still political, but it is not so politicized.

While the state managers obtained many of the organizational features in labor relations and fiscal affairs that they had demanded, an increasing postal deficit has continued to cause economic problems for both postal and executive managers (Figure 24). The reported effect of general inflation in driving up the costs of this labor-intensive activity appears significant, although its control lies outside of postal organization and affairs. The reported effect of the Postal Rate Commission in delaying rate increases also appears significant, and can be traced to the failure of the postal managers to gain the organizational autonomy in rate-making that they had demanded. A third factor also appears to be significant in increasing the economic problems of the USPS, particularly since it was a factor not expected by state managers when they proposed a self-sustaining government postal corporation: mail volume has failed to increase as rapidly from 1966 to 1976 as it did from 1956 to 1966. Since reportedly postal costs do not change much in proportion to postal volume changes, the net effect has been unexpected losses of postal revenues and increases in the postal deficit (Commission on Postal Service, 15). In particular, since special mailers can utilize alternative distribution mechanisms for their materials, USPS attempts to
Figure 24. Financial History of the United States Postal Service, Fiscal Years 1972-1978.

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Finances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses²</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Operating Revenue³</td>
<td>$9,593</td>
<td>$9,945</td>
<td>$11,316</td>
<td>$12,650</td>
<td>$14,000</td>
<td>$15,658</td>
<td>$17,005</td>
</tr>
<tr>
<td>Accrued Net Expenses</td>
<td>7,993</td>
<td>8,446</td>
<td>9,128</td>
<td>10,129</td>
<td>11,270</td>
<td>12,955</td>
<td>15,500</td>
</tr>
<tr>
<td>Less Appropriations</td>
<td>1,600</td>
<td>1,499</td>
<td>2,189</td>
<td>2,522</td>
<td>2,820</td>
<td>2,703</td>
<td>1,505</td>
</tr>
<tr>
<td>Net Income or Loss</td>
<td>1,424</td>
<td>1,496</td>
<td>1,750</td>
<td>1,533</td>
<td>1,645</td>
<td>1,712</td>
<td>1,947</td>
</tr>
<tr>
<td>Accumulated Deficit</td>
<td>(175)</td>
<td>(13)</td>
<td>(438)</td>
<td>(989)</td>
<td>(1,176)</td>
<td>(991)</td>
<td>442</td>
</tr>
</tbody>
</table>

¹. () loss

1. Expenses annualized at year-end levels. Revenues assume rate increase effective October 1, 1977.
2. Includes interest expense.
3. Includes investment income.

Source: United States Postal Service data, from Commission on Postal Service, II.
increase their postal rates may merely drive them out of the Post Office and further increase the deficits of postal operations, perhaps leading to further rate increases and decreases in postal volume. In addition, the spread of electronic funds transfer (EFT) systems may provide an alternative mechanism for much of the business transactions in the more lucrative first-class rate category. Thus, because of the failure of the USPS to exercise an effective monopoly over its services, postal users may continue to influence postal rate levels through the threat of abandoning their utilization of the Post Office. One major issue in future postal debate will probably be the extent of the government's monopoly on certain postal services: should the monopoly include some portion of EFT transactions or should the monopoly be abolished altogether? (see Commission on Postal Service, Chapter 3.)

In 1976, Congress provided a special $1 billion appropriation over two years in an attempt to reduce the accumulated deficit of the USPS. The same legislation imposed a temporary moratorium on the closing of small post offices, outlined the procedures that the USPS would have to follow in future closings and consolidations, and created a special postal study commission, which unlike the Kappel Commission had representation from postal labor and special mailers, as well as strong congressional involvement (CQ Almanac, 1976, 653). State managers are aware, however, of the political and economic dangers of reducing the autonomy of the USPS through increased congressional or executive supervision and involvement.

With the President's intention to balance the national budget by 1981 emerging as a guiding factor for much of his legislative program, postal planners are becoming wary of any change in policy that would place heavier
financial obligations on the Federal treasury.... Because of costs and other problems with the [postal] service, the White House was said to have concluded that Presidential appointment of the postal administration would not reflect favorably on the Administration. (NYT, July 29, 1977)

Debate over postal policy and organization will continue in the future, but this does not imply that the Postal Reorganization Act did not significantly alter the process of postal policy formation. In many respects, both in its operation and in its effects, the present U.S. Postal Service is quite distinct from the former Post Office Department. Reorganization did not abolish the major postal interest groups, although it did abolish some of the organizational settings in which they exercised influence and pursued their interests. Postal labor will continue its struggle to obtain benefits and rights from its employer, and special mailers to obtain state subsidies for competitive advantage. The state managers' concern for increasing their autonomy and decreasing their problems in postal labor relations and fiscal affairs will also remain. Undoubtedly much of the debate will continue to be over the specific organizational features through which power is utilized and benefits distributed.

Conclusions

The conclusions of this chapter are the following:

1. In the congressional hearings on postal reorganization, debate centered around the organizational features of the proposed postal corporation in the areas of labor relations and fiscal affairs. The broad issue
that linked all the debate over postal reorganization was the degree of organizational autonomy that the postal managers should possess generally.

2. The alignment of groups for and against the postal corporation proposal reflected the advantages that the groups received or thought they would receive from each organizational alternative. In particular, postal labor unions and special mailers, groups that had major influence in the policy process of the Post Office Department, both strongly opposed changes in the Post Office unless they could obtain specific organizational features to protect their influence in the new policy process.

3. The corporate features of the reorganized Post Office, the USPS, had the effects on the postal policy process that the state managers had expected. In particular, the state managers have now been able to decrease the postal labor force, increase the mechanization of postal operations, and alter the emphasis of the rate-making process from legislative definitions of the "public interest" to more judicial-technical definitions of "costs" and cost measurements.

4. The state managers failed, however, to get the control that they desired in fiscal affairs since Congress created a Postal Rate Commission with a higher degree of autonomy than the state managers had proposed.
Postal Reorganization and the Process of Policy Formation:

Some Conclusions

For what the state does if it works on a problem is a dual process: it organizes certain activities and measures directed toward the environment and it adopts for itself a certain organizational procedure from which production and implementation of policies emerge. Every time a state deals with a problem in its environment, it deals with a problem of itself, that is, its internal mode of operation.

Introduction

This work has addressed the issue of how state organizations influence the process of policy formation. The present chapter reports the conclusions that can be drawn from the case study of postal reorganization. In particular, it presents a model on the effects of different types of state organizations on the policy process, examines the role of the state managers in the political process and analyzes the situations in which government corporations are utilized.

The Effects of State Organizations on the Policy Process

These findings provide significant insight into how particular types of state organizations structure the process of policy formation. Coupled with general historical information on the utilization and operation of other government corporations (presented in the Appendix), it is possible to present a model of the "biases" of specific types of state organizations. This model describes the nature of the policy-making process in different types of state organizations, the groups having relative influence in this process, the types of issues typically pursued through the process, and the associated legitimating and delegitimating arguments that the different types of organizations possess as a result of their specific organizational features. This model not only clarifies what took place during the postal reorganization of 1970, but also can aid in analyzing other struggles of state organizations.
A Model of State Organizational Bias: Government Departments and Government Corporations

Government corporations are corporate bodies organized and, to a greater or lesser degree, financed and operated by the government. Government corporations differ from "traditional" government agencies and bureaus on three major dimensions (see Figure 25). Control of a government corporation resides in a board of directors rather than in a combination of legislative supervision and executive direction. Rather than having an annual budget based on tax revenues and annual legislative appropriations, government corporations are generally self-sufficient with their own internal budget based on fees and charges for services performed and on the issuance of revenue bonds for capital improvements. While government agencies and bureaus fall under civil service regulations, government corporations typically have discretion on employment practices and wage levels. In short, government corporations possess a greater degree of autonomy in decision-making, financing and employment, compared to government agencies. In addition, they usually possess certain state powers such as legal monopoly, the right of eminent domain, police powers, tax-exempt property and bonds (although bonds lack the "full faith and credit" of the parent government), and the like. The Appendix of this work presents a more detailed summary of the features and history of government corporations.

As a result of these organizational features, the basic policy-making process in government corporations is quite different from that in government agencies. The latter must take their budget and program proposals to the "political marketplace" of the legislature, which subjects the amount and purpose of their expenditures to "public" scrutiny. Political consensus must be developed within political groups (e.g. key congressmen) and
Figure 25. Organizational Differences Between Government Agencies and Government Corporations.

<table>
<thead>
<tr>
<th>Policy-Making Features</th>
<th>Government Agencies</th>
<th>Government Corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Legislative Supervision and Executive Direction</td>
<td>Decisions by the Board of Directors</td>
</tr>
<tr>
<td>Fiscal Features</td>
<td>Annual appropriations based on Budget submitted for annual legislative approval</td>
<td>Internal budget supported by fees, charges and bonds</td>
</tr>
<tr>
<td>Employment Features</td>
<td>Restricted by Civil Service Regulations</td>
<td>Not limited by Civil Service Regulations</td>
</tr>
</tbody>
</table>
economic groups (e.g. clients, suppliers). Compromises and log-rolling may be essential for policy approval. Government corporations, on the other hand, are free of this responsibility to obtain legislative approval for budget and programs proposals, as well as the corresponding need to develop the same type of political consensus. Instead, government corporations possess rather wide managerial discretion in policy formation, although they do experience the financial constraints of the market demands for corporate bonds and services.

Within the state, the corporate policy-making process appears to shift power relatively from the legislature to the executive. This is because the corporate form essentially removes legislative involvement in policy authorization, appropriation and review, while the executive retains its power to appoint the managing board of a government corporation, and to remove board members, if it should choose to do so, without legislative or judicial review. While the executive branch also possesses the power of appointment and removal of top officials in government agencies, the policy-making discretion of these agency officials is typically more limited than that of the managing board of government corporations. In the struggle over postal reorganization, executive and postal managers were the main proponents of a postal corporation, while Congress was extremely hesitant about reorganizing the Post Office in this manner. Congressional proposals in postal reorganization attempted to preserve the policy powers of the Congress by retaining the top manager of the postal corporation as a member of the President's Cabinet, increasing congressional discretion on vetoing rate changes, maintaining postal employees within the Civil Service, and the like. It was apparently out of fear of this lack of congressional involvement in policy formation that the
Congress established a Postal Rate Commission that was much more independent of postal management than the state managers had desired.

The policy-making process of government corporations also shifts power relatively between groups in the private sector. In particular, it appears to shift relative power from small local businesses and pressure groups to larger national businesses. Congress is typically the domain of the former groups with their interests that are usually local, specific or "parochial" in concern. Given the geographical basis of legislative representation, legislators are particularly attuned to the demands of such limited groups and interests, which often have significant impact on community opinion and well-being, particularly in smaller districts. Large national and international businesses pursue interests that are usually not defined by a particular location and that tend to be national or "systemic" in scope. As such, these large national businesses are naturally concerned with policy-making by the executive, which similarly is not bound by a limited geographical representation and which has the responsibility to coordinate diverse governmental programs from a "systemic" perspective. 3

In regard to postal reorganization, large national businesses supported the efforts of the state managers in several ways (see Chapters 2 and 5), although the former did not become directly involved in the legislative struggle, nor had they been directly involved in postal legislation previous to this time. Chapter 2 analyzed possible bases for this relationship between large national businesses and the state managers. Direct-mail advertisers and small publishers, smaller businesses with more specific concerns, had, at least in the twentieth century, a strong influence on the postal policies that emerged from Congress and had rather
consistently struggled with executive and postal managers over these policies. They very actively opposed the proposal for a postal corporation since they feared that, like the Kappel Commission that first supported the corporate alternative, the managing board would be dominated by representatives of large national businesses who would pursue interests other than the expansion of postal services at low postal rates.

As a consequence of the need to obtain capital funds outside the process of legislative appropriation, corporate bondholders are another major group that gains power that can be translated into specific policies within a government corporation. This power appears to accrue mainly to financial institutions, since they typically assign the ratings of corporate bonds and often purchase the bonds in blocks. Special mailers objected to such capital financing of the Post Office, for they feared that the exclusive concern of the bondholders would be postal self-sufficiency to the detriment of rate and service levels. The need for capital funding of the much-stressed postal mechanization as well as the use of bonds based on postal revenues rather than the full faith and credit of the federal government would accentuate this drive for self-sufficiency, special mailers claimed.

Since government corporations must market their services as well as their bonds, it might appear that users of such corporate facilities and services gain more power in corporate policy-making than they have in the policy-making of a government agency. Most government corporations, however, have a de facto, if not de jure, monopoly on the services they provide, and users typically have no choice as to which school, water system, or turnpike they might utilize. The postal monopoly, as defined in the Private Express Statutes, extends almost exclusively to first-class
mail, while the Post Office does not monopolize the other mail classes, which most of the major special mailers utilize. Thus special mailers might effectively challenge a postal corporation's policy of self-sufficiency by shifting or threatening to shift material outside the Post Office. This power over corporate policies, however, is a negative one of refusing to buy corporate services, and one that depends on the existence of private organizations offering comparable rates and services. It contrasts sharply with the major influence that special mailers had in congressional policy formation in the Post Office Department. Thus while special mailers possess more power over policies in the United States Postal Service relative to the power of users in most government corporations, the special mailers nevertheless lost much of the power they exerted as a client pressure group of the Post Office Department.  

Along with these differences in the policy-making process and the groups having relative influence in it, government corporations and government agencies also differ in the types of issues that are generated in the policy-making process. In the process of congressional legislation, legislators and small local pressure groups typically tend to develop specific programs geared to particular interests. Policy decisions are essentially over the size and nature of economic subsidies that the state will grant to these various groups. Special mailers, for example, consistently fought for subsidies in the form of low postal rates and for the transfer of portions of the postal operating deficit to the general tax funds. In the process of corporate policy-making, the managing board, as a representative of the bondholders, large national businesses and the (political) executive, must realize the goals of these groups in a manner that maintains the financial autonomy of the government corporation. Policy decisions
are essentially over how to utilize the power of the state to develop and maintain various systemic interests. State managers and large national businesses stressed the systemic needs of providing an efficiently operating communications network, of decreasing the federal budget deficit and of improving federal labor relations, in arguing for a government postal corporation. Figure 26 summarizes these differences between government corporations and government agencies in the process of policy formation.

At a general level, government corporations place definite political and economic boundaries around specific governmental activities. Revenues that these corporate organizations generate are restricted for specific purposes. Government corporations more or less assure funds for certain activities while preventing the possible application of these funds toward other, perhaps no less important, state expenditures. Thus, the capitalist state does generate profits from some of its activities, but these are organizationally isolated from the political conflict and fiscal discretion that exist in the normal appropriations process. This organizational charade can be used to preserve the ideological argument that the state is too ineffective or inefficient to engage directly in productive activities.

Political discussion over the specific purposes to which revenues and programs should be devoted is itself restricted within government corporations. The policy-making process of government corporations, as well as the groups having influence in this process, are usually more limited than in the policy-making process of government agencies. The Postal Reorganization Act, for example, specifically states that the corporate directors "shall not be representatives of specific interests using the Postal Service" (§202; 84 Stat. 720). This restriction of political participants and political controversies that occurs through a government corporation
### Table: Differential Effects of Government Agencies and Government Corporations in Policy Formation

<table>
<thead>
<tr>
<th>Category</th>
<th>Government Agencies</th>
<th>Government Corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy-Making Process</td>
<td>Building of political consensus and compromise.</td>
<td>Managerial discretion within the constraints of market demands for services and bonds.</td>
</tr>
<tr>
<td>Groups having relative influence:</td>
<td>Small local businesses and pressure groups; &quot;Parochial&quot; interests.</td>
<td>Large national businesses; financial institutions; &quot;Systemic&quot; interests.</td>
</tr>
<tr>
<td>Economic groups</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political groups</td>
<td>Congress</td>
<td>Executive</td>
</tr>
<tr>
<td>Types of issues pursued</td>
<td>Subsidies from the State: specific programs geared to particular parochial interests.</td>
<td>Power from the State: fiscal autonomy in attainment of systemic goals.</td>
</tr>
<tr>
<td>Ideology</td>
<td>Public accountability: Actions legitimated by &quot;public consensus&quot; expressed through Congress.</td>
<td>Management skills: Actions legitimated by &quot;effectiveness and efficiency&quot; in attaining organizational goals.</td>
</tr>
<tr>
<td>Pro</td>
<td></td>
<td>Organizational narrowness to changes in the social environment; empire building; higher long-term costs due to revenue bonds.</td>
</tr>
<tr>
<td>Con</td>
<td>Uncoordinated policies designed to subsidize special interests.</td>
<td></td>
</tr>
</tbody>
</table>
may aid the efforts of the state managers to attain administrative rationality and, ideologically, to decrease the likelihood that they will confront a "legitimation crisis" (Habermas, 45-95).

A Model of State Organizational Bias: Government Regulatory Agencies

The struggle over postal reorganization also led to the creation of a relatively independent regulatory commission on postal rates. While this case study did not examine the operation of this type of state organization in detail, it is possible to draw some general conclusions about the effects of government regulatory agencies on the policy-making process.

Within regulatory agencies, the policy-making process is based on specified procedures for developing and judging appropriate "evidence," and the resulting actions are legitimated by the claimed neutrality of these methods and procedures. One effect of this organizational form appears to be the preservation of the existing market relationships. In particular, a regulatory agency appears to preserve the existing market relationship between producers and consumers. Market operations often fail to provide socially needed or desired services and goods at costs acceptable to specific groups or the public at large. Quite often this leads to consumer organizations demanding government provision of goods or services. Regulation preserves private enterprise from the threat of government takeover while providing consumers with a mechanism for greater input on rates or service levels than the marketplace allows.

These features can be seen in the political struggle over postal reorganization, although in a rather inverted form, since the service was provided in the state rather than the private sector to begin with. The
primary organized consumers of postal services, the special mailers, argued that congressional control of the POF ensured that socially needed services were supplied to the public at acceptable costs. Movement toward the marketplace, in the form of a government corporation, would lead to decreased services and increased rates because of the unregulated monopolistic powers of the corporate board of directors in these areas, they claimed. To preserve their interests as well as those of the general public, special mailers argued for a regulatory rate commission that would be independent of the managing board. The producers of postal services, the postal managers, viewed an independent regulatory rate commission in the same way private managers view government regulation: it decreased managerial autonomy and discretion, but was probably better than total legislative control of rates and services.\(^6\)

In regard to political groups that gain relative influence, regulatory agencies appear to benefit neither the executive nor the legislature significantly. Rather, influence appears to accrue to lawyers, economists and other professional technicians who can appear to apply the specific rules in a neutral manner.\(^7\) The types of issues that are typically expressed in this organizational setting are technical and judicial compromises that serve to maintain the existing relationships between producers and consumers. In effect, legitimation from the state is used to preserve existing market relationships. The effects of a regulatory agency are summarized in Figure 27 and compared with the effects of the unregulated marketplace.
Figure 27. Differential Effects of Regulatory Agencies and the Unregulated Marketplace in Policy Formation.

<table>
<thead>
<tr>
<th>Policy-Making Process</th>
<th>Regulatory Agency</th>
<th>Unregulated Marketplace</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Specified procedures for developing and judging evidence.</td>
<td>Individual profit maximization.</td>
</tr>
<tr>
<td>Groups having relative influence:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic groups</td>
<td>Existing market groups</td>
<td>Monopolies/oligopolies</td>
</tr>
<tr>
<td>Political groups</td>
<td>Lawyers, economists</td>
<td>Monopsonies/oligopsonies</td>
</tr>
<tr>
<td>Types of Issues Pursued</td>
<td>Legitimation from State: technical/judicial compromises which preserve existing market relationships.</td>
<td>Profit-making</td>
</tr>
<tr>
<td>Ideology</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pro</td>
<td>Technical/Legal skills: Actions legitimated by &quot;neutrality&quot; of methods and procedures.</td>
<td>Business skills: Actions legitimated by &quot;market survival&quot;.</td>
</tr>
<tr>
<td>Con</td>
<td>Costly bureaucratic and legal delays; Compromises satisfy no group.</td>
<td>Loss of socially-needed service; &quot;Cream-skimming&quot;</td>
</tr>
</tbody>
</table>
The Role of the State Managers in the Political Process

Closely related to the issue of the effect of state organizations in policy formation is that of the role of state managers in the political process. Many political analysts assume that government officials are essentially neutral components in the policy process because of their responsiveness to all claimants, their professional regard for "objective criteria" of action, or the diverse pressures they experience that minimize their autonomous actions.

The struggle for postal reorganization, however, calls into question these assumptions on the role of state managers in the political process, for here the state managers took an active and apparently self-interested involvement. They were the primary exponents of the existence of a postal crisis and also led the political struggle for a government postal corporation that they claimed was able to resolve this crisis. Postal managers would gain power in the form of autonomy from the demands of special mailers and postal labor as expressed through congressional legislation, thereby reducing some of the managers' economic and political problems. Executive managers would minimize the adverse effects that the conflicts in postal labor relations and fiscal affairs had on general federal activities. Whether the state managers acted primarily to aggrandize personal power and flexibility or primarily to provide what they believed to be a genuinely more efficient and effective postal system is theoretically unimportant. What is important is that their perception of a crisis, as well as their proposed solution to this crisis, appeared to develop, regardless of motivation, from the positions that they held in the political structure: managerial positions involving supervision of labor and fiscal policies.
Postal reorganization does not fit easily into either of these historical examples, however. While postal service is a form of infrastructural activity, it has existed as a government department for nearly 150 years (see Chapter 2) and the reorganization did not result from the direct crisis demands of a war or depression. Generally, the context of postal reorganization corresponds closely to what some writers have described as the "fiscal crisis of the modern state" (O'Connor). This is a situation in which the state becomes financially and politically limited in its ability to function due to the increasing and conflicting demands of public employees for increased benefits, of citizen groups for expanded services, and of taxpayers and users of services for reduced rates. Important for the purposes of this study, the state managers utilized a particular organizational form to resolve the problems that they encountered. If the fiscal crisis continues at various levels of government, this work suggests that state managers may attempt to isolate in corporate organizations other activities that "drain" governmental revenues and suffer the disruptive demands of small local pressure groups and public employees. Future struggles over policies and programs may increasingly involve debates over and attempts to alter the organizational context in which policies are formulated.

Conclusion

This case study indicates that the activities and demands of private groups are not passively reflected by the government in the process of policy formation. Rather, the state appears to have certain interests of
national concerns (see Appendix). Many temporary government corporations were set up during World Wars I and II, primarily to deal with basic commodities and war materials, although the railroads, the telegraph and the telephone were also briefly "nationalized" during the first World War. During the 1930's, a large number of government corporations dealt with financial affairs. Many of these still exist, primarily providing agricultural credit and banking insurance. Government corporations have also been utilized extensively in the provision of new facilities and services which private capital has been unable or unwilling to provide. The construction of many railroads and canals in the nineteenth century took place within corporate government organizations. In the twentieth century, they have been used in the areas of public broadcasting, hydroelectric power and satellite communications at the federal level, and for port, airport, mass transit and bridge facilities at the local level. 8

Crisis situations, such as wars or depressions, are of course the primary instances in which political controversies and particularistic demands may threaten the continuation of the state by impeding its ability to realize systemic interests. Thus the executive as well as large national financial and industrial groups are likely to isolate, through utilization of a government corporation, commodity, credit or other important policy areas, from the delays, alternatives and log-rolling that the legislative process would introduce. Similarly, in peacetime, banking, communications and transportation are important infrastructural activities that the executive and the large national financial and industrial groups need to develop, maintain and coordinate in a systemic manner. If provided through the normal political process, such infrastructural facilities and policies might be captured or subverted by existing groups. 9
its own that it actively attempts to realize, and it also has various ways of structuring the demands that are placed on it. One indication of this was the major change in the process of resolving labor issues and rate issues that the postal reorganization brought about. Another was the active leadership of the state managers in support of the conversion of the Post Office from a government department to a government corporation.

In their proposals, however, the state managers encountered strong opposition, and the final legislation contained several major differences from their initial proposals. In part because of these differences, the state managers continue to encounter problems in their attempts to control postal labor relations and fiscal affairs. As long as the existing groups and interests remain, there will continue to be political activity and struggle over the definition of postal problems and solutions. However, while they may have significant effects on the process of policy formation, these activities and struggles will always be structured by the operation of specific state organizations. Any analysis of the development of public policies requires an analysis of the state organizations in which the policies develop.
Appendix: Government Corporations

"A corporation clothed with the power of government, but possessed of the flexibility and initiative of a private enterprise...."

-- President Roosevelt in his message to Congress asking for the establishment of the Tennessee Valley Authority, 1933.

"[Public enterprise] is, if not terra incognita, a little known and studied area. No comprehensive, systematic account is to be found in the literature.

Figure 28. Traditional and Corporate Forms of Government Organization: Degree of Organizational Autonomy.
Introduction

In the provision of goods and services, governments -- federal, state and local -- utilize two major types of organizations. Agencies, bureaus and departments are the "traditional forms" of government organization and will be so called in this study. In addition, however, there are a whole series of organizations that, while organized and controlled in varying degrees by a government, are quite distinct from the traditional forms in organization and operation. These possess a variety of names -- district, special district, authority, special authority, public authority, public corporation, government corporation, mixed corporation, etc. -- and will be referred to collectively as "corporate forms". Some amount of research has been done on these corporate forms, but it has tended to be descriptive rather than analytic. What one observer has described as "ad hoc" governments have become surrounded by similarly ad hoc explanations (Smith, 1974). One way of relating these corporate forms to one another and to traditional forms of government operation is by comparison along a continuum representing degree of autonomy from the modes of control usually found in government bureaus, agencies, and departments (see Figure 28). More specifically, this continuum of autonomy/control is not unidimensional, but multidimensional along the axes of a) fiscal features, b) decision-making features, and c) employment features.

Fiscal Features

Traditional forms are financed by revenues generated through taxation and appropriated annually for specified purposes. A legislative body
often with no specific appropriation account. More generally, "revolving funds" allow agency receipts or incomes to be placed in the Treasury for agency use, without appropriation, for specific authorized activities in the future. Such features emphasize the continuous nature of the characteristics under investigation.¹

**Decision-Making Features**

Policy decisions of traditional forms are matters of executive policy formation and legislative authorization. While in theory, agencies are purely administrative bodies, numerous studies point out that in practice they do possess a degree of *de facto* policy control. Nevertheless, it is equally clear that their discretion in goals and methods are limited. Final decision-making resides in the legislature and the executive, primarily because they ultimately control the fiscal affairs of these organizations.

Policy decisions of the corporate forms are typically vested in a specific "governing board", similar in powers to boards of directors in private corporations (Frazer, 40; SSRC, 6; Friedmann, 1971, 57; Thurston, 148-84, 266-67), although there has been some use of single administrators (Seidman, 109). Government corporations and public authorities often have boards composed of members appointed by the executive of the government with or without legislative confirmation, and the executive generally has the power of removal (Frazer, 44; Gerwig, 601; Thurston, 162). Special authorities and districts may have board composed of elected officials of the traditional government unit (e.g. county commissioners who automatically serve as the directors of a coterminous water
typically limits the expenditures according to amount and purpose, reviews budgets annually, and requires justification for deficits, proposed budget increases, and misspent funds. Appropriations that remain unspent must be returned to the Treasury annually.

Corporate forms have a degree of independence, sometimes quite large, in carrying out their fiscal affairs. They can often gather revenues from fees and user charges, issue bonds based on these revenues, obtain and dispose of property, make contracts, sue and be sued, carry-over surplus funds, and generally manage their own fiscal affairs without the government supervision that restricts bureaus and agencies. Typically the bonds they issue are not general obligation bonds of the government; that is, they do not carry the "full faith and credit" of the parent government.

There is variation among corporate forms in the possession of these characteristics. Government corporations and public authorities tend to have more fiscal power and independence, relying heavily on self-generated funds from fees, charges and bonds. School districts and special districts, on the other hand, often lack bond-issuing powers and must rely on taxes and assessments. When possessing the power to issue bonds, these often must be approved in public referendum. In some instances, a combination of government appropriations, user charges and bonds finance corporate forms. This is the case for the Tennessee Valley Authority (Jones) and for various metropolitan authorities (Smith, 1974, 157 ff.).

Traditional forms of government operations also have variation in their fiscal features. Legislation may grant agencies "contracting authority" to obligate the government for payment of goods and services in advance of appropriations. "Public debt transactions" involve expenditures based on the issuance of public debt securities by the Treasury,


Employment Features

Civil service regulations usually cover employment practices within traditional forms. Typically, these attempt to prevent the influence of partisan factors in the selection and promotion of lower and middle level employees, outline grievance and dismissal procedures, and define job responsibilities and corresponding pay scales. The legislature defines these regulations by specific statutes.

Employment in corporate forms is usually outside the civil service of the parent unit of government. Typically, a set of regulations and definitions modeled after those of a civil service system are specifically developed for the particular corporate organization. One of the major features of these appears to be pay levels that are generally much higher for administrative and technical positions than those in traditional forms. Proponents of the corporate form view exclusion from civil service regulation as one aspect of decision-making autonomy, reflecting and aiding the flexibility of these organizations in the performance of their stated activities (Abel, 353-54; Thurston, 185).

Governmental Powers

While these corporate forms possess several dimensions of autonomy from government, they nevertheless retain certain governmental powers and privileges. Their initial operation is often given an impetus from the parent government in non-repayable forms of assistance. They often have powers of eminent domain, police regulation and legal monopoly. Courts have generally held that their bonds and property are tax-exempt. In
district), or elected officials may serve as ex officio members of the board (CSG, 62). The public often elects school board members in elections distinct from those of the general government. The appointment of legislators as directors is rarely used in the U.S., primarily because of claims of violation of the separation of powers.

Typically, the legislative acts enabling these corporate forms attempt to circumscribe policy powers by delineating a specific function or activity to which the organization is constrained: providing transportation facilities or electrical power in a specific area, delivering the mail, etc. (Smith, 1974, 44). Such statements are usually so broad as to provide few practical limitations. Furthermore, unlike traditional government agencies in which the methods used to perform the activity are subject to supervision, the methods to be used by the corporate forms are left unspecified (Smith, 1974, 125; CSG, 3; SSRC, 6; Friedman, 1971, 57). Indeed, one of the major arguments in support of the corporate form is that it provides a high degree of flexibility in performing a job. To define and limit its methods a priori would be to reduce it to a traditional government organization (SSRC, 21; Smith, 1964, xvii-xix).

Finally, simply because these corporate forms possess an often high degree of fiscal autonomy, they can also acquire a high degree of policy-making autonomy. The threat of loss of funds is not easily applied, if at all. In some instances, certain officials of the parent government might retain certain rights of policy approval (CSG, 62) or veto power (Frazer, 44) over actions of the corporate units, although this is rare (CSG, 60-61).
The claimed efficiency of these forms results from their separation from certain "negative" influences of the political process -- such as partisan intrigues, lack of modern administrative structures, mismanagement, unwillingness to take on new services (Bollens, 9-10, 13-14) -- and their movement toward the "positive" competitive struggle of the marketplace. The corporate forms are thus forced to be efficient, it is claimed, because their survival depends on their ability to sell their services and their bonds. They have no recourse to government largesse to bolster inefficient operations (Smith, 1964, Chap. 4, 5; Smith, 1974, 36).

Furthermore, corporate managers can act on their own discretion, responding to the conditions of the moment based on their detailed knowledge of operations and unencumbered by a maze of restrictions. Distinct employment practices aid efficiency, it is claimed, because the corporate forms can thereby attract competent professional employees and managers, and avoid the restrictiveness of civil service regulations or the patronage struggles that often occur at the state and local levels (Lilienthal, 556-567; Smith, 1964, Chap. 3; Smith, 1974, 35).

Finally, it is claimed that certain "business-type" activities simply demand a "business-type" organization. President Truman, in his message to Congress accompanying the budget on January 3, 1947, most clearly stated this argument:

Experience indicates that the corporate form of organization is peculiarly adapted to the administration of governmental programs which are predominantly 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 appropriations budget ordinarily permits. As a rule, the
some cases, government regulation does not apply to their activities. Furthermore, while bonds issued may not carry the full faith and credit of the parent government, the government may, when confronted with the threat of default by one of these corporate forms, find that it has a very strong de facto obligation in the affair (Smith, 1964, 35; Smith, 1974, 81). A corporate form is, of course, the creation of a government and the government could conceivably restrict or abolish the corporate organization. The likelihood of this actually occurring probably diminishes as the corporate organization grows in size and influence (Netherton, 684–85).

Claimed Advantages of the Corporate Form

Three major advantages are claimed for the corporate forms: they are effective, efficient, and well adapted to perform certain types of activities. The arguments in support of these claims are the following:

The claimed effectiveness of these forms lies in the "flexibility", the major aspect of which is the avoidance of the restrictions on traditional government financing, such as the need for legislative approval or the statutory limitations of the debt-ceiling. These traditional procedures severely limit the discretion of administrators in the use of funds, in planning in terms beyond the yearly appropriation, and in the funding of large capital improvements. At the state and local levels, the corporate forms are claimed to be effective because they can avoid traditional governmental boundaries and address issues that cross a number of jurisdictions (Bollens, 6–7; Smith, 1964, Chap. 6; Smith, 1974, 36).
coordination or systematic planning among the corporate organizations (SSRC, 22). The parent governmental unit may decline, it is claimed, as possible sources of revenue are delegated, its powers are shared, and it competes in the hiring of personnel with these corporate forms (Bollens, 105, 114; Smith, 1964, 20, 28, 106; Smith, 1974, 185, 208, 223-24).

The use of revenue bonds, as opposed to the general obligations of the government, reportedly leads to higher long-term cost in carrying out a task (CSG, 70-75, 104; USAC, 40-41). The low position that these corporate forms hold in the public consciousness enhance these problems, it is claimed.

Claimed Advantages of the Traditional Form

At the federal level, the restrictions which surround the traditional form developed from a long history of struggle between the Congress, attempting to maintain its control of the purse; the executive, attempting to maintain overall budgetary and policy control; and the agencies, attempting to pursue their programmatic concerns. Congress acted throughout the nineteenth century to curtail the mingling of appropriations, to require the return of all unspent funds into the Treasury, and to control "coercive deficits" that agencies created. In addition, it turned to ever more detailed appropriations statements to limit the fiscal, and hence the programmatic, discretion of agency officials (Wilmerding, passim). The claimed advantage of these restrictions, and similar ones at the state and local levels, is that they retain public control over governmental operations: annually, the legislature exposes agency claims for funds to public scrutiny and balances them against other claims, helping to check attempts
usefulness of a corporation lies in its ability to deal with the public in the manner employed by private business for similar work. (Haskins & Sells, 174-75)

In essence, it is claimed that there is a distinction between "governmental" activities and "proprietary" activities, and that the latter, because of their particular features, should be organized in corporate rather than traditional forms.  

Claimed Disadvantages of the Corporate Form

The following arguments have been made on the disadvantages of the corporate form:

On the one hand, possessing a distinct and usually monopolized source of income and aided by various governmental powers, and on the other hand, free of the traditional legislative supervision and control of the purse strings, corporate forms are claimed to be unaccountable to any type of public control. It is claimed that this can result in a lack of responsiveness to citizen demands as the corporate organization pursues "empire-building" in profitable activities that perpetuate its existence beyond the "ad hoc" conditions that led to its creation, while at the same time it shows an "organizational narrowness" by refusing to engage in not-so-profitable activities.

In addition, corporate forms are likely to become, contrary to original intentions, permanent fixtures of government activity (Smith, 1964, 39-41). Some claim that the spread of these single purpose, semi-autonomous organizations can lead to a long-run, over-all governmental inefficiency due to the fragmentation of power, and the lack of
Use of Corporate Forms in the United States

Government use of corporate forms has a long but sporadic history in the United States. At the federal level, the earliest involvement was in banking, as the government obtained 63 1/3% of the stock of the nationally incorporated Bank of North America in 1781. Better known was the participation in the First (1791) and Second (1816) Banks of the U.S., and the decision of the Supreme Court in McCulloch vs. Maryland, which prevented state taxation of the bank notes of the First Bank, is generally regarded as settling the constitutional issue of the federal use of the corporate form (Watkins, 261-63; Abel, 338). After the charter of the Second Bank expired in 1836, federal use of the form was minimal although the government did grant charters to private companies for the establishment of transportation facilities and national banks (Watkins, 264-65; Abel, 340). It wasn't until 1904 that the U.S. once again held controlling interest in a corporation when the federal government purchased the entire stock of the Panama Railroad Company (Watkins, 265-66).

Major federal involvement with the corporate form occurred after 1916. During World War I, the federal government used seven government corporations, most for a relatively short duration, to deal with financing, war materials and foodstuffs (Lilienthal, 547; McDiarmid, 24-30; Watkins, 268-69). With the Depression came another series of corporations involved primarily with banking, insurance, credit and agricultural loans (Abel, 343; Lilienthal, 548-49; McDiarmid, 34-47). Perhaps the best known, however -- the Tennessee Valley Authority, created in 1933 -- was a regional planning and development organization (Abel, 344; McDiarmid, 35; Jones). The extensive use of the corporate form during World War I
at "empire building". Furthermore, changes in public sentiment will be reflected within the membership of the legislature and hence the types of programs it authorizes and the level of funds it appropriates (Bollens, 34-35; Smith, 1964, 116-118; Smith, 1974, 127). Within Congress there is often significant opposition to public debt transactions and revolving funds, which Congressmen view as methods of avoiding the public control of the appropriations process and which they refer to derogatorily as "backdoor spending" (Fenno, 46, 96-97; W. Limerding, 219, 250-51).

Claimed Disadvantages of the Traditional Form

Supporters of the corporate form argue that legislative control is not in the interest of the general public, but rather responds to and is distorted by the pressures of special, local and parochial interests. The legislature is ignorant of the need for efficiency and systematic approaches, and its partisan actions are inappropriate for a business-type activity which, once the goals are determined, can proceed according to non-controversial standards of managerial effectiveness and efficiency (Lilienthal, 560; Thurston, 260; Wildavsky, 38-39). Traditional fiscal restrictions (Thurston, 236; McDiarmid, 14-17), as well as legislative involvement in the appointment of the governing board (Thurston, 162, 256-57), must be minimized. Such traditional controls must be largely abolished for corporate forms, supporters argue, since for the business activities of the government these controls merely interfere with managerial efficiency and effectiveness in goal attainment.6
the Port of New York Authority in 1921 popularized the public authority form, but it was once again during the depression that the corporate form expanded most significantly. In 1934, President Roosevelt sent a letter to every Governor urging state legislation to enable the issuance of revenue bonds and the creation of public authorities. Such action allowed the avoidance of borrowing and taxing limits and permitted federal funds to bypass the restrictions and politics of state governments and go directly to the cities. State governments cooperated with this, and use of the corporate form expanded at the local levels with the urging and support of the federal government. In the 1930's, the form was used primarily for housing and relief, while in the 1940's and 1950's it was for automobile facilities, and in the 1960's, metropolitan transit facilities.  

The Government Corporation Control Act

Attempts to gain some control over these corporate forms at the federal level resulted in 1945 in the Government Corporation Control Act (GCCA). This required each government corporation to submit a "business-type budget" to the Bureau of the Budget for presidential review and transmission to the Congress as part of the annual federal budget. The extent of congressional review of their budgets was moderate, especially when compared with the original congressional proposal that would have essentially returned all government corporations to the appropriations process. The final legislation stated:

The budget programs [of government corporations]...shall be considered and, if necessary, legislation shall be enacted making available such funds or other financial resources as the Congress may determine. The provisions of this section shall not be construed as preventing
and the Depression led many analysts to consider it primarily an "emergency device" for governmental action. However, in the 1960's, there was renewed use of the form in situations that appeared less than of national emergency. Comsat was organized in 1962 for the development of satellite communications, and in 1967 the Corporation for Public Broadcasting was created. In 1970, Amtrak was set up to manage passenger rail service, the Small Investor Protection Corporation to protect public customers of stock brokers, and the Post Office Department was reorganized as the United States Postal Service (Miller and Ferrara, passim).

The use of the corporate form at the state level has a similar history. It was used initially in the areas of banking and transportation to promote development in competition with neighboring states and to attract foreign capital (Abel, 346-347; CS3, 10). The public credit and debt of the states expanded rapidly in the 1830's, and it could not absorb the crisis of 1837 (Abel, 347-348; see CSG, 11). The results were public and private default, heavy losses to investors, and constitutional clauses limiting the power of the state legislature to borrow and use state credit (Abel, 348-350; CSG, 11).

States had little involvement in such activities in the last half of the nineteenth century, but around the turn of the century, borrowing and corporate activity once again increased. In 1897, Spokane, Washington, became the first city to finance its water works with revenue bonds (CSG, 19), and use of the corporate form spread as a device to avoid constitutional debt limitations, a trend that was aided by the "Special Fund Doctrine" that evolved from various court decisions. This held that "bonds payable out of a special fund [were] not 'debts' within the meaning of constitutional or statutory debt limitation;" (CSG, 20). The creation of
executive branch also favored general legislation to standardize administrative procedures and increase executive control and coordination of corporate fiscal and policy affairs (Pritchett, 496; Dimock, 1146-57). In the 1930's and early 1940's, for example, several executive orders had extended executive control over corporate fiscal (Pritchett, 500 ff.; Wilmerding, 189-92) and employment (Dimock, 1158-61) practices. Thus the GCCA can be viewed as one of several "attempts of the higher executive to bring the lower executive under its control, and coincidentally under the control of Congress" (Wilmerding, 193).
wholly owned Government corporations from carrying out and financing their activities as authorized by existing law.... The provisions of this section shall not be construed as affecting the existing authority of any wholly owned Government corporation to make contracts or other commitments without reference to fiscal year limitations. (quoted in Abel, 366-367)

In addition, the General Accounting Office began to audit corporate accounts "in accordance with the principles and procedures applicable to commercial corporate transactions" (Abel, 367-368) and private audits were prohibited (Abel, 371). The Comptroller General began to report on the revenues and expenditures of each corporation and comment on fiscal irregularities or expenditures unauthorized by the enabling legislation. The Secretary of the Treasury obtained discretionary control over where government corporations deposited their funds, and the right of approval over time, terms and conditions of their obligations. Only the specific authorization of Congress could establish future corporations, and all federal corporations incorporated under state laws were to be liquidated or federally incorporated (Abel, 373; Pritchett, 508).

Contemporary supporters of the corporate form lamented the passage of the GCCA as returning these forms to the legislative control which traditional agencies experienced (Pritchett, 509), but in hindsight their fears appear groundless. While the GCCA did establish a mechanism for congressional review of corporate actions, this provision, both in the legislation and its subsequent interpretation, appears to have been more to state the right of Congress to review corporate activities than to insert Congress into the details of corporate operations. Furthermore, the enactment of the GCCA was not solely a congressional effort, as the
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PM</td>
<td>Postmaster</td>
</tr>
<tr>
<td>PMG</td>
<td>Postmaster General</td>
</tr>
<tr>
<td>POD</td>
<td>Post Office Department</td>
</tr>
<tr>
<td>PRA</td>
<td>Postal Reorganization Act</td>
</tr>
<tr>
<td>PRC</td>
<td>Postal Rate Commission</td>
</tr>
<tr>
<td>Rep.</td>
<td>Representative</td>
</tr>
<tr>
<td>RFID</td>
<td>Rural Free Delivery</td>
</tr>
<tr>
<td>S</td>
<td>Session of Congress</td>
</tr>
<tr>
<td>S</td>
<td>Prefix of bill numbers in the Senate</td>
</tr>
<tr>
<td>SPOC</td>
<td>U.S. Senate Committee on Post Office and Civil Service</td>
</tr>
<tr>
<td>SSRC</td>
<td>Social Science Research Council</td>
</tr>
<tr>
<td>Stat.</td>
<td>U.S. Statutes</td>
</tr>
<tr>
<td>UFFC</td>
<td>United Federation of Postal Clerks</td>
</tr>
<tr>
<td>USAC</td>
<td>United States Advisory Commission on Intergovernmental Relations</td>
</tr>
<tr>
<td>USN</td>
<td>U.S. News and World Report</td>
</tr>
<tr>
<td>USPOD</td>
<td>United States Post Office Department</td>
</tr>
<tr>
<td>USPS</td>
<td>United States Postal Service</td>
</tr>
<tr>
<td>WSJ</td>
<td>Wall Street Journal</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>AFL</td>
<td>American Federation of Labor</td>
</tr>
<tr>
<td>AFL-CIO</td>
<td>American Federation of Labor-Congress of Industrial Organizations</td>
</tr>
<tr>
<td>ARPMG</td>
<td>Annual Report of the Postmaster General</td>
</tr>
<tr>
<td>BW</td>
<td>Business Week</td>
</tr>
<tr>
<td>C</td>
<td>Congress</td>
</tr>
<tr>
<td>CAS</td>
<td>Cost Ascertainment Study</td>
</tr>
<tr>
<td>CQ</td>
<td>Congressional Quarterly</td>
</tr>
<tr>
<td>CR</td>
<td>Congressional Record</td>
</tr>
<tr>
<td>CSG</td>
<td>Council of State Governments</td>
</tr>
<tr>
<td>EFT</td>
<td>Electronic Funds Transfer</td>
</tr>
<tr>
<td>E.O.</td>
<td>Executive Order</td>
</tr>
<tr>
<td>GCCA</td>
<td>Government Corporation Control Act</td>
</tr>
<tr>
<td>Hoover Commission</td>
<td>U.S. Commission on Organization of the Executive Branch of the Government</td>
</tr>
<tr>
<td>HPOC</td>
<td>U.S. House Committee on Post Office and Civil Service</td>
</tr>
<tr>
<td>HR</td>
<td>Prefix of bill numbers in the House of Representatives</td>
</tr>
<tr>
<td>Kappel Commission</td>
<td>President's Commission on Postal Organization</td>
</tr>
<tr>
<td>NALC</td>
<td>National Association of Letter Carriers</td>
</tr>
<tr>
<td>NLRA</td>
<td>National Labor Relations Act</td>
</tr>
<tr>
<td>NPU</td>
<td>National Postal Union</td>
</tr>
<tr>
<td>NRLCA</td>
<td>National Rural Letter Carriers Association</td>
</tr>
<tr>
<td>NYPA</td>
<td>New York Port Authority</td>
</tr>
<tr>
<td>NYT</td>
<td>New York Times</td>
</tr>
</tbody>
</table>
The role of Congress in postal reorganization raises several important issues. First, to what extent can the statements and decisions of individual congressmen and specific congressional committees be accepted as the statements and decisions of the Congress as a whole? Second, what is the nature of the historical and institutional relationship between the Congress and the Executive branch? While these are significant concerns, they are far beyond the scope of this work. I have essentially treated Congress as a "black box", noting its inputs and outputs, but accepting its structure and its relationship to the Executive as givens.

2. I have termed this collection of top officials, which Chapter 2 specifies in detail, "managers" because their primary interest in postal reorganization was apparently to obtain greater managerial control in the areas of labor relations and fiscal affairs. Furthermore, this interest was not confined to a particular administration or political party, but rather various incumbents of these state positions expressed and acted on this interest throughout the twentieth century. Chapters 2, 3 and 4 describe and analyze this recurring interest in managerial control. The managers in the Post Office Department and certain managers in the Executive branch were the significant state managers involved in postal reorganization, although I do not mean to imply that they are the only managers within the state or that their interests are identical.
NOTES

Chapter 1

1. "Reorganization" refers to any major change in the structure or processes that an organization utilizes in carrying out its activities, as well as any major change in its relationship with its immediate environment. Throughout the text, "postal reorganization" refers to the attempt to convert the Post Office from a government department to a government corporation in the period between 1966 and 1971. This reorganization consisted of a number of specific changes, some of which were merely proposed and some of which were actually realized. For descriptive accounts of this postal reorganization, see Chaifetz, Collier and Bostick, and Siegel.

I define the "state" as the distinct and fairly limited set of institutions that possesses a de jure sovereignty in the geographical area in which it has jurisdiction. The state is distinct from other institutions in society in that (as a consequence of its sovereignty): 1) it is the final arbiter of controversies over social rules, laws and behavior; and 2) it possesses a monopoly on the legitimate use of physical coercion (which is necessary to make (1) effective). The specific institutions that comprise the state are governmental institutions (legislature, parliament, executive), administrative institutions (bureaucracies, agencies, etc.), judicial institutions (courts) and the legal system, and institutions of coercion (police, army).

I define "government" as (1) the formal institutions and procedures through which official state decisions are reached; as well as (2) the collection of people that formally exercise state power by making official state decisions through the specified institutions and procedures. Thus "government" is a limited sub-set of the "state". According to this distinction, for example, a bureaucracy is part of the state but not part of the government. In the text of this work, terms such as "government corporation" and "government agency" are used. Although such use is a misnomer according to the above definitions of state and government, I have retained the terms, since they are the standard ones utilized in most discussions of state activity in the United States.

In this definition of state, I do not mean to imply that there may not be conflict among and within state institutions. In the case of postal reorganization, it is possible to distinguish between the interests of the Post Office Department and those of the Executive branch in general. In addition, the Executive branch and the Congress had conflicting opinions on the desirability of postal reorganization. The text attempts to highlight these divisions within the state.
Special mailers are those mailers for whom postal service is a more or less integral part of their business activity and postal rates have significant effects on their competitive position in this activity. For this study, special mailers consist of magazine and newspaper publishers (second-class mailers) and direct-mail advertisers (third-class mailers). These businesses rely to a great extent on the Post Office for distribution of their products and are in competition both with one another and with other media forms, such as television and radio, for advertising dollars. Thus they differ from other large mailers in first-class, such as AT&T, reportedly the largest single mailer after the federal government, for whom postal costs are a minor part of business expenses, at least as far as their competitive position is concerned.

The organizations of special mailers which testified at the legislative hearings on postal reorganization in 1969-1970 were the following:

Second-Class

Agricultural Publishers Association
American Business Press, Inc.
American Educational Publishers Institute
Catholic Press Association
Magazine Publishers Association, Inc.
National Newspaper Association

Also representatives of specific publishing companies:

Chilton Co.
Esquire, Inc.
Johnson Publishing Co.
New York Magazine

Third-Class

Direct Mail Advertising Association
Mail Advertising Service Association International

See Chapters 4 and 5, passim.
Chapter 2

1. The postal labor unions and their estimated membership in 1968 were the following:

<table>
<thead>
<tr>
<th>Name of Organization</th>
<th>Estimated Membership</th>
<th>Type of National Recognition Under Executive Order 10988(^2)</th>
<th>Number of Employees Represented Under National Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Association of Letter Carriers*</td>
<td>190,000</td>
<td>Exclusive</td>
<td>195,386</td>
</tr>
<tr>
<td>United Federation of Postal Clerks*</td>
<td>143,000</td>
<td>Exclusive</td>
<td>308,078</td>
</tr>
<tr>
<td>National Rural Letter Carriers' Association</td>
<td>40,000</td>
<td>Exclusive</td>
<td>30,753(^3)</td>
</tr>
<tr>
<td>National Association of P.O. Mail Handlers, Watchmen, Messengers &amp; Group Leaders*</td>
<td>35,000</td>
<td>Exclusive</td>
<td>47,565</td>
</tr>
<tr>
<td>National Association of P.O. &amp; General Services Maintenance Employees*</td>
<td>21,500</td>
<td>Exclusive</td>
<td>22,473</td>
</tr>
<tr>
<td>National Federation of P.O. Motor Vehicle Employees*</td>
<td>8,000</td>
<td>Exclusive</td>
<td>11,433</td>
</tr>
<tr>
<td>National Association of Special Delivery Messengers*</td>
<td>2,500</td>
<td>Exclusive</td>
<td>5,540</td>
</tr>
<tr>
<td>National Postal Union</td>
<td>70,000</td>
<td>Formal</td>
<td>---</td>
</tr>
<tr>
<td>National Alliance of Postal &amp; Federal Employees</td>
<td>32,000</td>
<td>Formal</td>
<td>---</td>
</tr>
</tbody>
</table>

1. Source of membership figures, Post Office Department.
2. Under Executive Order 10988 (1962) exclusive recognition was granted to any organization representing a majority of employees within an appropriate bargaining unit.
3. An additional 18,317 substitute rural carriers excluded from coverage under national agreement.

* Affiliated with AFL-CIO.

(Kappel, 19)

See Chapter 3, p. 201.
and readily increased costly postal services, such as Rural Free Delivery, at a time when postal revenues were continually lower than postal expenditures, as these were then measured. It wasn’t until the 1890’s that postal officials began to regularly express concern over the economic position of the POD and to suggest actions to limit the influence of specific postal interest groups. See Chapter 4.

5. Around 1823, the PMG began the practice of submitting annual reports to the President (Learned, 235) and began heading his correspondence with "Post Office Department" rather than the previous "General Post Office" (Rich, 112). In 1827, Congress raised the PMG salary to that of Cabinet Secretaries (Learned, 240) and in 1829, President Jackson included the PMG as part of his Cabinet (Learned, 244). It was not until 1872, however, that the POD was formally recognized as an executive department (Learned, 231). See also Learned, 249-50, on the growing importance of the Post Office in the 1820’s.

For further information on:

— the development and general importance of the Post Office in American history, see Chu, Cullinan, Cushing, Daniel, Day, Fuller, 1972, Hubbard, Kelly, Konwiser, Leech, Meilus, McReynolds, Rich, Rogers, Roper, Scheele, Summerfield. See also the statements of PMG Pickering (Rich, 70), PMG McLean (Rich, 110; Roper, 52), J. Q. Adams (Roper, 51), A. Jackson (Roper, 54), Calhoun (Rich, 70), and Secretary of the Treasury Rush (Rich, 110). George Washington’s statement in his 1791 message to Congress is not atypical:

...the importance of the post office and post roads on a plan sufficiently comprehensive as they respect the expedition, safety and facility of communication is increased by their instrumentality in diffusing a knowledge of the laws and proceedings of the Government, which, while it contributes to the security of the people, serves also to guard them against the consequences of misrepresentation and misconception. (Rich, 68)

— post roads, see Rogers and Priest. Rich claims that "the establishment of post roads was one of the favorite species of Congressional 'pork' of the period..." (108), while Priest notes that "obtaining a new postal route for one's district became an expected perquisite, a simple means for any congressman to endear himself to his constituents" (54). In 1796, the PMG stated in a letter to the House Committee on Post Offices and Post Roads that:
(Chapter 2, cont’d.)

2. In this work, the term "state managers" signifies simply the combination of postal managers and executive managers as defined in the text, for these were the major managerial positions publicly involved in postal reorganization.

This is not to imply that these are the only state managerial positions. Certain postal officials at the regional level, as well as postmasters of certain large urban post offices, might be considered postal managers. In every federal department there are agency managers.

There is also no implication that the interests of the postal managers and the executive managers are always identical. Agency managers, for example, may have programmatic interests with which executive managers are unconcerned, or may pursue agency expansion that conflicts with executive pursuit of budget or manpower ceilings. Similarly, executive managers may have interests in monetary policy, with which agency managers are unconcerned, or may even pursue the elimination of agency programs and organization. A coincidence of interests or of actions is neither automatic nor should it be readily assumed.

3. Formally, of course, executive managers — most notably within the Executive Office of the President — coordinate and direct the budgetary, personnel and programmatic policies of the various federal agencies. In fact, agency managers often align with congressional committees or individual Congressmen, and develop support from clients or a "concerned public" in opposition to executive policies. Both Colm (713) and Steelman and Kreager (700-04) discuss such divisions between the Executive Office and departmental Secretaries.

Conflict may also exist between agency managers and the administrative staff — "middle management" — that has the responsibility of carrying out policies and programs. Within the POD, the Bureau of Operations, the major organizational link between postal managers and the field, reportedly actively opposed the reorganization of the POD into a postal corporation. Bogue (3-43) describes the organizational significance of this Bureau.

4. In the twentieth century, there has been considerable debate over whether political leaders in the nineteenth century had "intended" the Post Office to be a "public service", unconcerned with operating costs, or a self-sustaining "public business". Proponents of both positions have found many quotations from political figures throughout history that appear to support their interpretation (USPOD, 1957, 10-23).

Beginning in the 1830's, postal deficits have appeared regularly, although both the "service" and the "business" proponents have claimed that these were not "real" deficits. Nevertheless, throughout the nineteenth century, the POD rather consistently lowered postal rates
(Chapter 2, cont'd.)

6. For general histories of federal budgeting, see Burkhead, Fisher, Smithies. Willoughby, 1918 and 1927, offers a contemporary account of the drive for a comprehensive executive budget. The work of the Taft Commission and other commissions is detailed in Weber. See also The Need for a National Budget, (House of Representatives, 1912), the report of the Taft Commission. Executive administration is discussed briefly in Colm, Short, and Steelman and Kreager. Kimmel describes changing American conceptions in regard to budget balancing and fiscal policy.

7. The Kappel Commission noted the changing role of the POD in American history in its Report (46-47). This changing role, as well as the growing problems that postal operations experienced around the turn of the century, were evidenced in several ways. Postal rates were rather consistently lowered before 1885, and rather consistently raised after 1917. In the 1890's, the PMG began to complain about the POD's economic problems. The Pendleton Civil Service Act in 1883 slowly began to decrease the political benefits of the patronage system. The number of post offices peaked in 1901, as top postal officials began to consolidate small offices and extend RFD from larger offices.

It is difficult and perhaps erroneous to speak of agency or executive "managers" prior to the early 1900's when this concern over centralized and coordinated budgetary and personnel policies developed. Top agency and executive officials have, of course, always been concerned with the content of specific policies and there have also always been political leaders who took a more "holistic" perspective in regard to governmental affairs. What is distinctive in the twentieth century is that top officials appear to have become increasingly concerned with the coordination of various policies, both within agencies and within the executive branch generally, rather than with just the content of these policies. In any event, this paper reserves the term "managers" for the twentieth century and refers to "officials" when speaking of the nineteenth century.

8. Dolenga, who did a detailed examination of the development of the proposal for a postal corporation based on extensive interviews with the major participants, reports,

there are indications that [President] Johnson had become convinced that the massive postal deficit ($1.2 billion in Fiscal Year 1967) had become such a drain on the Treasury so as to jeopardize his ability to finance the spiraling cost of important "Great Society" programs. (Dolenga, 235)
...those who are remotely situated appear to have a just claim to that liberal establishment of post roads which has been extended in every direction through this great and flourishing country. It has been a very wise policy to open this useful source of information to the settlers of a new country, and the expense will not be considered when the object is so important. (Rich, 71)

See also the statement of Edward Everett in 1832 (Priest, 56-57). Daniel Webster was in a minority when he bluntly stated in the 1835 discussion to extend a post road from Independence, Missouri, to the mouth of the Colorado River:

...What do we want with this worthless area? This region of savages and wild beasts; of deserts, shifting sands and whirlwinds of dust; of cactus and prairie dogs? To what use can we hope to put these great deserts or those endless mountain ranges?.... Mr. President, I will never vote one cent from the Public Treasury to place the Pacific Coast one inch nearer to Boston than it now is. (Cullinan, 58)

--- patronage and civil service, see Fish, Fowler, Mayers. See Story, 338. The large number of people under the direction of the PMG was one of the stated reasons for raising his salary to cabinet level in 1817 (Roper, 53). After the 1836 legislation that provided for Senate confirmation of the "Presidential postmasters", the PMG continued to appoint the bulk of the postmasters.

--- newspapers, see Fred and Chapter 4 of this work. On the importance of the rural press as part of the general virtue of agrarian life, see Smith, 1917, 151, fn.

--- railroads and mail service, see Fair and Williams, Long and Dennis, Tunnell, White.

--- telegraph and telephone, see Lindley, Reid. The POD controlled the telegraph and telephone service briefly during World War I.

--- Rural Free Delivery (RFD) and Parcel Post, see Fuller, 1964. It was claimed that RFD would slow or stop the rural to urban migration and parcel post would lower food costs through a "farm-to-table" movement that eliminated the middlemen in the marketing of agricultural products.

--- airline development, see Blomquist, David, Glines, Spencer.
Chapter 3

1. This 1888 legislation was not the first dealing with the length of the work-day of federal employees. In the 1860's, the National Labor Union had pushed for an 8-hour day for all workers employed by the federal government. Congress considered the first such resolution in 1865 and passed legislation on the issue in 1868. It is reported that government officials generally ignored the law or reduced wages in addition to hours of work. President Grant issued several proclamations ordering compliance with the law, and in 1872, Congress legislated restitution to workers of monies lost through such wage reductions after 1868. The 1868 law apparently applied only to laborers, mechanics and artisans hired by the federal government (Andrews, 104-105, 124-25).

2. This issue has also been noted by other analysts of collective bargaining in the public sector:

Congress remains responsible for establishing employee compensation, including supplementary benefits. The larger and older organizations composed entirely of federal employees have accumulated much skill in lobbying for improvements in the compensation package, and other employee organizations are learning the techniques quickly.

Lobbying may help to alleviate organizational frustration with the existing process. At the same time it poses a dilemma for federal agencies. A strong "management stand" on a given demand may cause employee organizations to by-pass the agency and to press their case in Congress. Agreeing to the demand at the outset may avoid possible wasted effort and ultimate embarrassment, on the other hand it may weaken the agency. The issue is sometimes complicated by management uncertainty about its authority and its scope of bargaining. (Moskow, 68)

McLennan and Moskow refer to this ability to utilize more than one bargaining setting as "multi-lateral" bargaining.
Dolenga goes on to claim that

...the spiraling postal deficit was a matter of concern not only in the Post Office Department, but also in the White House and in the Congress. Because of its magnitude, the postal deficit has a noticeable impact on the total federal budget, an impact that could not be ignored or wished away... Although this financing dilemma was a situation that had plagued the White House and the Post Office Department for many years, the overall political and economic climate in the country at the time [1967] exacerbated the problem. (Dolenga, 265-66)

9. In The Cybernetic Theory of Decision, John Steinbruner uses the concept of a "coercive fact" to describe an event that breaks up traditional modes of dealing with problems. The Chicago breakdown might be considered such a "coercive fact" insofar as it challenged the use of limited postal reforms to resolve the problems of the Post Office Department (although Steinbruner applies this concept to the cognitive processes of individuals rather than to the operations of organizations). Steinbruner apparently fails to recognize, however, that coerciveness as well as factuality may be controversial issues. In the case of the Chicago breakdown, observers offered several different explanations, each with a modicum of supporting evidence. Even if the explanation of the facts that the state managers provided are accepted, there is still the issue of whether this coerces one into accepting a government corporation as a solution, as the state managers argued, rather than some other alternative. Groups with specific political and economic interests interpret facts and may be in relatively advantageous or disadvantageous positions to make them appear coercive.

For differing perspectives on the Chicago breakdown, see the statements of the Kappel Commission (Kappel, 11-12); the POD (HPOC, 1969, 441-42); J. Edward Day representing direct-mail advertisers (HPOC, 1969, 1024); and James Rademacher, President of the National Association of Letter Carriers (HPOC, 1969, 733-54).

10. See the statements of Presidents Roosevelt and Truman, Austin Tobin, and Thurston in the Appendix of this work. See also Kappel, 1-2, 53-54.

Most agency managers would, of course, like to escape the restrictions of Congressional appropriations and obtain a degree of autonomy through such means as direct Treasury financing, public debt transactions or the use of revolving funds, particularly if their programs arouse hostility in the Congress. Few succeed in gaining this autonomy as the House, and in particular the House Appropriations Committee, typically oppose such "back door spending". See Fenno, passim.
Thus the major private "interest groups" historically involved in postal affairs did not initiate or lead the demand for organizational changes in postal operations, and in fact actively opposed the changes that the state managers proposed. This seriously challenges any simple-minded assumption that public policy develops solely out of the interests and relative influence of groups in the private sector. Since the Post Office was located in the public sector, the actions of the state managers may appear neither unusual nor unexpected, for it might be claimed that these managers were, after all, assigned the responsibility of directing postal affairs and resolving postal problems. What is significant in postal reorganization, however, is that the state managers appeared to have carried out these responsibilities in terms of their own interests rather than of the expressed interests of any private group. As indicated in Chapter 2, this study is unable to reject the possibility that large national businesses may have indirectly influenced the state managers to act as representatives of the interests of these businesses. This study does indicate, however, that it may be unnecessary to postulate such a link since the state managers had ample reason of their own to pursue a reorganization of the Post Office to augment their control of and decrease their problems in labor relations and fiscal affairs.

Situations in Which Government Corporations Are Utilized

The history of the use of government corporations in the United States appears to support the conclusion that this organizational form allows the executive, large national businesses and financial institutions flexible administration, and maximum control of and responsiveness to systemic or
3. For information on some of the legislative attempts to increase collective bargaining for federal employees during the 1950's, see:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DOCUMENT</th>
<th>CONGRESS &amp; SESSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>House Post Office Committee (HPOC)</td>
<td>82C 2S</td>
</tr>
<tr>
<td></td>
<td>Hearings on HR.554 and HR.571</td>
<td></td>
</tr>
<tr>
<td></td>
<td>H Report No. 2311</td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td>Senate Post Office Committee (SPOC)</td>
<td>84C 2S</td>
</tr>
<tr>
<td></td>
<td>Hearings on S.3593</td>
<td></td>
</tr>
<tr>
<td></td>
<td>S Report No. 2635</td>
<td></td>
</tr>
<tr>
<td>1958</td>
<td>HPOC Hearings on HR.6</td>
<td>85C 2S</td>
</tr>
<tr>
<td></td>
<td>104 CR 19666</td>
<td></td>
</tr>
<tr>
<td>1959</td>
<td>S.95, HR.6 were introduced</td>
<td>86C 1S</td>
</tr>
</tbody>
</table>

These bills were generally called the "Rhodes bills" or the "Rhodes-Johnston bills" after their chief sponsors in the House and Senate.

Hart (1961) makes the claim that these legislative attempts would have given unions in the federal sector more power than that possessed by unions in private industry under the NLRA (168, Chap. 9, passim.). He bases this claim on his interpretation that the proposals would have:

a) benefited the members of national labor unions over other workers (152-53);

b) did not require union leaders to represent non-union members impartially (157-58);

c) did not require evidence of majority representation (154-55);

d) retained few, if any, management perogatives (165-66);

e) did not provide for real collective bargaining, but rather for arbitration by the Secretary of Labor (162); and

f) this arbitration was compulsory and its decision without appeal (163-65).
(Chapter 3, cont'd.)

4. Under E.O. 10988, exclusive recognition is granted to any organization representing a majority of employees within an appropriate bargaining unit (Rehmus, 25; Moskow, 40). See Craver for a comparison of bargaining in the federal sector under E.O. 10988 and in the private sector under the Labor-Management Relations Act of 1947.

The number of federal employees in collective bargaining units with exclusive recognition jumped from 19,000 prior to 1962 to 1,416,073 in 1968 (Moskow, 52).

5. Some of the legislative attempts to increase collective bargaining for federal employees during the 1960's were:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>BILL</th>
<th>CONGRESS &amp; SESSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td>HR.12, S.473</td>
<td>87C 1S</td>
</tr>
<tr>
<td>1965</td>
<td>HR.6883, S.2631 see 111 CR 26639</td>
<td>89C 1S</td>
</tr>
<tr>
<td>1967</td>
<td>HR.460, HR.2392</td>
<td>90C 1S</td>
</tr>
<tr>
<td>1968</td>
<td>S.341 cf. SPOC Hearings on S.341</td>
<td>90C 2S</td>
</tr>
<tr>
<td>1969</td>
<td>S.309</td>
<td>91C 1S</td>
</tr>
</tbody>
</table>

For the support of postal labor unions on this issue, see Congressional Quarterly Weekly Reports, June 30, 1969, p. 1129, and July 12, 1968, p. 1754. See also, Harper for general information on labor relations in the postal service in the early 1960's.

6. The officials composing President Johnson's panel in 1967 were identical to those on the panel which advised President Kennedy prior to his E.O. 10988, and indicate the executive managerial positions which are involved in the formation of policies on federal workers. Included were the Secretary of Labor, the Civil Service Chairman, the Budget Director, an Assistant to the President and the heads of the two largest federal employers, the Secretary of Defense and the Postmaster General (Moskow, 70; Hart, 1964, 206).

Hart (1961, Chapters 1, 2, 6, 7; 1966) portrays a struggle between one group of executive managers which favors a "paternalistic" or "enlightened management" approach to federal labor relations and another group which favors a "collective bargaining" approach. He claims that the latter group, which is centered around the Secretary of Labor, took
command of federal personnel management "for the first time" around the period in which E.O. 10988 was issued, although the former group, centered around the Civil Service Commission, was able to block the implementation of much of that order (Hart, 1964, 207; 1966 passim.).

Hart reports the same division in the managers during Eisenhower's administration, when PFG Summerfield acted as the spokesman of those opposing the extension of greater recognition of federal employee unions (Hart, 1961, 8). Such an extension would, of course, create problems for the PFG in his position as an agency manager with one of the largest and best organized work forces. The Secretary of Defense apparently had similar fears, for adoption of E.O. 10988 procedures is reported to have occurred very slowly in the Defense Department (Hart, 1964, 203). In short, there was conflict between agency managers and executive managers over how to handle labor relations. Craver claims that agency managers saw the organization of federal employees in part as a threat manufactured by executive managers to reduce the autonomy of the agencies (572). Later, agency officials were also opposed to relinquishing the wide discretion given to them by E.O 10988. This underlines the point made earlier that the interests of agency managers and executive managers are not always identical.

7. Federal workers fall into three main categories of employment. Most of the trades, crafts and manual workers fall under the Wage-Board system, while the Classification Act of 1949 places clerical and other white collar workers ("classified" workers) in the General Schedule of Civil Service positions and wages. Postal employees of the Postal Field Service were covered by the Postal Pay Act, which had positions and wages similar to, but not identical with, those of classified workers in the General Schedule (Hart, 1961, 236–37; U.S. Bureau of the Census, 1103). Congressional control of federal wages is large but not inclusive. It has granted the Executive branch discretion concerning wage levels under the Wage-Board system, and the Executive possesses the power to classify and upgrade positions in the other sections of federal employment (Hart, 1961, 231–39).

From 1945 to 1969, every year in which postal employees obtained a pay raise, classified employees did also, and in the 1960's, the same legislation covered both groups. Classified workers obtained a separate wage increase once, in 1954; however, the percentage increase of classified wages has been lower than that of postal wages eleven times and has been the same only three times in these 24 years. Pension, retirement and other benefits were increased in 1962, 1965, 1966 and 1967 for all federal employees. In 1965 and 1966, state managers used the wage-price "guidepost" concept, enunciated by the Council of Economic Advisors in 1962, in an attempt to limit pay increases of federal workers. The purpose of the "guidepost" concept was to limit wage and fringe benefit increases of all workers to the measured annual increase in labor productivity nationally.
This information on pay legislation for federal employees is found in the various Congressional Quarterly Almanacs and in HPOC, 1974.

The organization of postal affairs and civil service affairs in the same House and Senate Committees undoubtedly aided postal employees in their political efforts after World War II.

8. In The Labor Problem in the Public Service, Godine offers an explanation for these gag orders which is worth quoting in length:

The concentration by federal employees upon lobbying activities has in turn contributed to an unmistakable penumbra of administrative indifference or hostility to the aspirations of employee associations. For the pursuance of staff objectives in this manner has conflicted with proposals for the centralized and coordinated executive control of fiscal matters and personnel policy. Attempts have been made, for example, to require Federal employee organizations to present their demands for pay increases through department heads and budget officials rather than through direct petition to Congress. It was this consideration as much as any allegedly insidious desire to suppress the growth of employee organizations which led to the so-called "gag orders" of Presidents Theodore Roosevelt and Taft....

That President Roosevelt himself was not motivated by considerations of hostility toward public-employee organizations but had rather been provoked to such action by the lobbying activities of administrative personnel in general was indicated in his sharp reply to the memorial addressed to him by President Gompers of the AFL requesting a rescinding of the "gag orders".

"I cannot have and will not have, when I can prevent it, men who are concerned in the administration of government affairs going to Congress and asking for increased pay without the permission of the heads of the department.... This applies to postmasters, to Army and Navy officers, to clerks in the government departments, to laborers...and must apply as a matter of simple discipline."

In like manner the "gag order" issued by President Taft on November 26, 1909, was not a malevolent attempt to impede the development of public-service unions, but was apparently inspired by a desire to improve fiscal and administrative organization through the introduction of an "executive budget" in the sense in which this term was recommended in general principle by President Taft's Commission on Efficiency and Economy. (Godine, 194-95)
(Chapter 3, cont'd.)

The argument of this thesis has been precisely that it was the efforts of the state managers to gain "centralized and coordinated executive control of fiscal matters and personnel policy" (as well as postal labor's efforts to obtain certain conditions of benefit and security) which generated the conflict between postal labor and state managers. This conflict took many forms historically, one of which was a series of so-called gag orders. One does not have to refer to desires, insidious or otherwise, to suppress labor as an explanation for these orders. Simply by filling a state managerial position and attempting to carry out its structured requirements, an individual must be concerned with centralized and coordinated control of fiscal and personnel policy and must attempt to limit the influence of groups whose actions might disrupt this control, whether these groups be postal labor organizations, the Congress, or special mailers.

Chapter 4

1. Note 1 in Chapter 2 defines the special mailers and lists their organizations. Publishers, particularly newspaper publishers, were the primary component of the special mailers in the nineteenth century. In the twentieth century, direct-mail advertising grew rapidly and by the 1930's, direct-mail advertisers had begun to exert significant political influence in the rate-making process. See text, pages 88-90.

2. Until 1845, rates for letters were based on the number of sheets of paper in the letter and the distance sent. After 1845, rates were based on weight and there were only two distance categories. After 1863, postal rates did not consider distance, although a "local" rate continued until 1933.

Legislation in 1863 recognized three classes of mail, and in 1879 formally defined four classes which have remained essentially unchanged down to the present time. First-class consists of letters and post cards; second, of newspapers and magazines mailed by publishers; third, of advertising material and miscellaneous articles under 8 ounces; and fourth, of parcel post, books, catalogs and articles of more than 8 ounces which do not fall into the first- or second-classes. These four classes are not exhaustive of the composition of the mail, as certain types of mail such as airmail, franked mail, international mail, etc., do not fall into any of these classes. In 1970, however, the four classes comprised 93% of the postal volume in pieces, 89% of the volume by weight, and 84% of the postal revenues (APMG, 1970).

The fourth class of mail is distinct from the other classes in that the PMG has the authority to set rate levels and weight and size limitations of parcel post, catalogs and controlled publications, subject
(Chapter 4, cont'd.)

to the approval of the ICC, although the latter has usually readily accepted whatever the PMG has proposed. Congress has also legislated on parcel post rates and sizes (Backman, 10-12; Kennedy, 77). In addition, the fourth class is distinct in that Congress legislated that parcel post must generate sufficient revenues to cover its estimated expenses. This was apparently enacted so as not to give the POD an "unfair advantage" in competition with private express companies in the carriage of packages (Baratz, 22).

3. See the statements of Washington and others which are listed in Chapter 2, note 5. For praises of the rural press in particular, see Smith, 1917, 151, fn., and Kennedy, 37. This statement by the House of Representatives in 1792 is not atypical:

The operation of the law establishing the Post Office as it relates to the transmission of newspapers, will merit our particular inquiry and attention. The circulation of political intelligence through these vehicles is justly reckoned among the surest means of preventing the degeneracy of a free government, as well as of recommending every salutary public measure to the confidence and cooperation of all virtuous citizens. (quoted in Rich, 91)

4. The Report of the 1906 Commission stated that:

...the rate [of second-class mail] is probably below the cost of the service...[but] the Post Office Department is not now able and has never been able to furnish statistics as to the cost of various classes of mail matter by class.... Until the entire system of expenditures, accounting and bookkeeping in the Post Office Department is completely overhauled and put upon a new basis, it will be impossible...statistically to ascertain the cost of the respective classes. (Joint Commission, 1907, 24; see 45 ff.)

The Report of the 1911 Commission stated that:

...there should be an increase in the charge for second-class mail in order that a more equitable adjustment [between rates and costs] exists... Provision should be made in the department for the maintenance of an adequate cost system, so that the operation of rates might be observed continuously and accurately, and in the light of this experience the propriety of any further modifications may be determined. (Commission, 1912, 95)
(Chapter 4, cont'd.)

At the hearings of this latter commission, publishers argued that the POD deficit resulted from activities such as RFD and the free carriage of certain mail (Periodical Publishers Assoc., 3-4). The postal managers decried the low second-class rates and argued for a self-sustaining POD. (Commission, 1911, 5-10)

The Joint Commission on Business Methods described itself as:

...the first effort in the history of the Government to thoroughly inquire into and ascertain the defects and infirmities of the system under which this great business has been, and is being, conducted, and to devise, if possible, a more efficient and satisfactory system....

(Joint Commission, 1908)

It stated that the primary objective of a cost system was to ascertain the true cost of each type of mail, while the secondary objective was to observe opportunities for economies and improvements in methods (88). This report is noteworthy, for it appears to be one of the few times a congressional committee took a state managerial perspective in regard to postal affairs. Its recommendations are very similar to those which the Kappel Commission made 60 years later. In addition to supporting a regular system of cost ascertainment, it suggested the extension of labor-saving devices (77, 122), standards of efficiency and economy for judging employees and administrators (65-66, 76-77), the ending of political influence which interfered with efficiency (5, 121), and the creation of a "Director of Posts". This would be an operating head appointed by the President with the advice and consent of the Senate at a "salary sufficient to attract the best administrative talent in the country and...[w]ith sole charge of the operations of the Department and service, subject only to the control in matters of policy of the Postmaster General as a Cabinet officer" (121, see 4). Rather than hearing witnesses, the Commission sought an informational study from "expert" public accounting firms in part because of the possible opposition of those who might be replaced by a new system of postal operations (1-3).

5. Unlike many utilities, the POD has a problem of measuring utilization of its services (i.e. by class) as well as allocating costs. The CAS annually measured the number of pieces, weight and postage value of all originating mail at 509 specifically designated post offices for one week in each quarter of the year. The measurements found in this sample were then applied to the total revenues of the POD to calculate revenues, pieces and weight of each class of mail. The CAS calculated costs through a measurement of post office and transportation space, and labor time devoted to each class of mail in the designated post offices during the four sample weeks (see Kennedy, 179-83).
(Chapter 4, cont'd.)

6. In the twentieth century, there has been "a secular decline in the importance of second-class mail, and a rise to prominence of third-class mail," one analyst has concluded (Kennedy, 178). Third-class volume, measured in pieces, grew faster than any other class of mail, despite the fact that books and catalogs were reported separately from it beginning in the late 1930's.

GROWTH IN PIECES: 1926 - 1927

<table>
<thead>
<tr>
<th>Class</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>275%</td>
</tr>
<tr>
<td>Second</td>
<td>187%</td>
</tr>
<tr>
<td>Third</td>
<td>530%</td>
</tr>
</tbody>
</table>

It appears that when the postal managers "corrected the abuses" of second-class regulations around the turn of the century, mailers merely shifted the prohibited material into third-class where regulations were few, thereby creating the conditions for a distinct third-class lobbying effort which emerged in the 1920's.

The decline in second-class volume appears to have been a real change rather than one due to changes in PDB classification (Kennedy, 121), and is perhaps due to the increasing urbanization of the country which decreased the utility of the post for the circulation of second-class material, particularly newspapers. Not all second-class publications have an equal interest in utilization of the post. While the carriage of daily newspapers accounted for the largest portion of the second-class revenue loss (Kennedy, 211), in recent years only about 12% of all copies of daily newspapers were carried through the mail, while nearly all of the newspapers other than dailies and between 35 and 40% of all magazines were sent through the mail (Kennedy, 133 ff.; see Kennedy, Table 16). In addition, particular types of magazines are especially dependent on mail service: in 1947, 99.94% of farm magazines, 98% of business magazines and 85% of religious magazines circulated through the Post Office (Kennedy, 140).

7. See the reports of the Carlson Committee, Postal Rates and Postal Policy (SPC, 1954), and of the Citizen's Advisory Council, The Post Office as a Public Service.

Kelly's Law distinguished losses from penalty, franked, and free-in-county mail, non-profit second-class publications, free mail for the blind, and subsidy payments to airlines and ocean vessels as public services expenditures. The Postal Policy Act of 1958 basically added to these the losses incurred by the star route system, third- and fourth-class post offices, and the performance of certain "non-postal"
functions. These new additions were the ones which the POD refused to accept in the next appropriations debate. The legislation of 1962 therefore specifically defined that 13% of the gross cost of the operation of third-class post offices and the star route system and 20% of the gross cost of fourth-class post offices and rural routes were public service expenditures and then defined the term "loss". It also ended, however, the long history of free-in-county carriage of second-class publications.

It should be noted that since "public service" deficits as well as "postal" deficits were financed by the general treasury, the effect of such legislation was primarily political -- an attempt to limit the maneuverability of the postal managers when they called for rate increases.

Special mailers also attacked the methodology of the CAS (e.g. SPOC, 1954, 243-58), and argued that the POD had been established primarily for handling first-class mail, which should therefore be allocated the institutional costs of the whole POD (e.g. SPOC, 1954, 7).


The debate over the size of the "true postal deficit" became so involved that both sides could maintain -- although for different reasons -- that the POD had never shown a deficit before the end of World War II. Service proponents claimed that when public service expenditures (as defined in the 1920's) were subtracted from the POD's budget throughout history before 1945, its recurring deficit was revealed as a recurring surplus in combination with a federal commitment to service expansion (Backman, 6-7). Postal managers claimed that the Congress had always pursued the principle of self-sustaining postal operations; the recurring POD deficits were merely minor losses created by the delays in congressional rate-making. Only after World War II, they claimed did the POD evidence a "meaningful loss history" (USPOD, 1954, 36-38; see 44).

Thus the "hard data" which economists and statisticians so eagerly seek, rapidly dissolves under the pressure of political and social interpretation and conflict.

9. The arguments of the third-class mailers and a description of the arguments of the second-class mailers can be found in Shimek. See also Chodorow, and Myers.

The controversy generated by the opposition of special mailers to the rate legislation of 1962 is described in the New York Times, April through October, 1962. In 1967, the activity of the third-class lobby "generated considerable controversy and probably helped
(Chapter 4, cont'd.)

the cause of members of Congress who sought to raise the postal rates for those mailers" (CQ Almanac, 1967, 606). In floor debate, Senator Monroney, Chairman of the FPUC, reportedly accused these mailers of "some of the most vicious lobbying activities it has been my experience to witness in some 29 years in Congress" (CQ Almanac, 1967, 606).

10. The Hoover Commission also recommended the internal reorganization of upper management and the ending of political patronage. The Task Force Report prepared by private consultants for the Hoover Commission also strongly emphasized the need for managerial autonomy in financial and rate policies. Here the primary recommendation, listed under the heading "The Business Principle", was to establish the POD as a "revolving fund agency of the Executive Branch". This was seen as the "key" reform in that the substance of the other recommendations would be lessened if this weren't enacted.

Although many of the recommendations which follow could be acted upon independently with great advantage to the Department without its actual establishment as a revolving fund agency, management would not attain the degree of control recommended herein, and operations would not reach the efficiency contemplated. Without this control and efficiency, maximum economies would not be attainable and improvements in service would be retarded. (Robert Heller and Associates, 38-39).

Also proposed was the removal of Congress from the actual determination of rate levels. Instead, Congress would establish basic rate policies and possible subsidies. The FPC would submit annually, if not more often, to the President proposed revisions and supporting data, which would be reviewed by Congress and put into effect by Executive Order unless disapproved or altered by Congress within a reasonable time period (Robert Heller and Associates, 63).

Chapter 5

1. President Nixon proposed reorganization of the POD in a message to Congress on May 27, 1969, which stated "total reform of the nation's postal system is absolutely essential.... The ills of the postal service cannot be cured by partial reform" (House of Representatives, 1969, 1, 3). He cited the need for improvements in regard to career opportunities and working conditions, high deficits and increasing rates, and the quality of service. He also cited the Chicago breakdown as symptomatic of the ills of the POD.
(Chapter 5, cont'd.)

Other bills were also introduced at this time. HR. 11751, 11752, 11753 and 11781 were all identical to HR. 11750. HR. 1388 (Rep. Wilson) would have created a Postal Modernization Authority similar to that of HR. 4. HR. 1133 would have made the PMG a non-cabinet office with a 12-year term of appointment, and HR. 1134 would have prohibited political influence on appointments, promotions and transfers of Postmasters and rural carriers (both bills of Rep. Gross). Earlier, HR. 1382 (Reps. Udall, Hamilton, and Waldie) had embodied the Kappel Recommendations, but it was later dropped for the specific proposal of the Administration, HR. 11750.

2. The National Association of Manufacturers (NAM) and the Illinois Small Business Men's Association both supported the concept of an independent postal corporation. This is perhaps surprising, since an argument could be made that small businesses would be most likely to suffer from the economic effects of the possibly higher rates of a self-sustaining post office, and would be most opposed to the creation of a new and perhaps uncontrolled federal bureaucracy. In fact, these groups saw a postal corporation as reducing the size and cost of the federal government and as being a possible transition stage to the total abolition of the government's postal monopoly, eventually allowing private competition. In fact, the Small Business Men's Association called for the immediate elimination of the postal monopoly, the sale or disposition of all postal assets to the private sector within twenty years and starting within five years. Bids for sale to the private sector should be limited to a size of operation no larger than a zip code area or a local PO, whichever was smaller, the Association urged. In case of equal bids, preference should be given to the smaller business (HPOC, 1969, 401). Thus while several associations of small businesses supported the corporate proposal, they apparently did so for reasons quite different from those of large national businesses.

3. The HPOC reported HR. 17070 out of committee on May 19, 1970, and it contained several distinct changes from the Administration proposal that emerged from the strike negotiations. The House version stated that:

1. The 8% pay raise would be effective from April 16, rather than from the signing of the legislation.

2. Rate changes were subject to a majority vote veto of either House within 90 days, rather than a 2/3 veto within 60 days.

3. It eliminated the restriction of collective bargaining to the seven national (AFL-CIO) craft unions.

(WIJ, May 12, 1970)
Strong objections to the possibility of a "union shop" were voiced by four members of the committee (Henderson, Cross, Scott and Purcell). Rep. Derwinski objected to possible loss of "investor confidence" due to the increased role of Congress in rate-making and also the possible fragmentation resulting from including the industrial unions in collective bargaining.

Both the Administration and Meany were upset by these changes and by the growing momentum for a prohibition on a union shop urged by the National Right to Work Committee. Both the Administration and Meany shifted support to a substitute reform bill presented by Udall and Derwinski (HR. 17966). While the right-to-work clause would have little effect on postal employees, since 87% of the work force was represented by unions, Meany saw the right to bargain for "union security" as a key part of a package that would eventually be extended to all federal employees.

A resolution to consider HR. 17966, the Udall-Derwinski substitute bill for the revised HR. 17070, was defeated on a procedural vote, 139-219. Eighteen of the 26 HPOC members had signed a statement urging the consideration of only HR. 17070 in the interest of accomplishing at least some reform. In addition, there was the procedural difficulty that if HR. 17966 were defeated in the full house, no amendments could be offered to HR. 17070 (116 CR 19837-47). This latter point was particularly important to those Congressmen who feared a "union shop". Floor debate in the House centered on this topic particularly in light of the earlier statement which George Meany had delivered to the HPOC (p. 122). The amendment offered by Rep. Henderson to ban the union shop by retaining the ability of postal workers to join or not to join labor unions passed, 179-95. On July 9, the House, by a vote of 228-158, instructed its representatives to insist on the union shop ban in conference committee with the Senate.

The Conference Committee eventually eliminated any type of congressional review of rate changes and instead gave a newly created Postal Rate Commission more independent control over rate changes than earlier legislative proposals would have given it.

4. Legislation in 1970 -- the Federal Pay Comparability Act (Public Law 91-656) -- authorized the President to automatically adjust each year the pay rates for federal white collar workers in order to maintain pay scale comparability with workers in private industry. The automatic adjustments would be effective October 1 of each year, unless the President submitted an alternative plan to Congress by September 1. Either House of Congress could veto the alternative plan by simple majority vote within 30 days. This bill indicates that the Executive's pursuit of federal labor relations control was not confined to the Post Office. Furthermore, the application of the legislation is interesting in light of the history of Congressional-Executive conflict over wage issues in the Post Office. Prior to 1975, the President attempted to
(Chapter 5, cont'd.)

postpone as inflationary the automatic increases scheduled for January 1, 1972 (a raise permitted by special provision of the 1970 legislation), October 1, 1972, October 1, 1973, and October 1, 1974. Only the first postponement was successful, as Congress vetoed the attempts in 1973 and 1974, and a U.S. Court of Appeals ruled the October, 1972, postponement illegal (CQ Almanac, 1970, 861-62; 1974, 647-48).

5. The reason why the legislative proposals of the state managers did not attempt to cover these costs internally is unclear, although it may have been an early political concession to Congress (by allowing Congress to retain economic involvement in a consistently recognized public service area) or, more likely, an economic concession to the postal managers (by easing the economic demand of self-sufficiency in the initial years after reorganization).

6. The PRA authorizes the Board of Governors to modify a rate decision of the Postal Rate Commission (PRC) only through a unanimous written statement of the Governors after the decision in question has been resubmitted to the Rate Commission and gone through a second set of hearings. Given the length of time which the PRC takes for one set of rate decisions, the Board of Governors has found it more practical to simply request new rate increases than to attempt to modify a prior decision of the PRC.

7. This declining volume may be ending, however. It was reported in October, 1977, that the USPS was "experiencing an unexpected rise in mail volume", leading to predictions of a revenue surplus in 1979 (Boston Globe, October 11, 1977).

Chapter 6

1. This is not to say that all groups or interests are represented in the legislative arena. Just as in the economic marketplace certain groups do not have the resources to compete, so too in the political marketplace certain groups cannot compete — due to lack of political resources, repression, etc.

2. The question of who should appoint the directors of a government corporation is an exceedingly important one, since the person who makes the appointments determines the type and point of view of the men who will run the industry and, particularly as the power to appoint
generally carries with it the power to remove, has some
general control over the policies to be followed in
managing the corporations' affairs. (Thurston, 151)

The first chairman of the Tennessee Valley Authority, for example,
Arthur E. Morgan, attempting at one point to resist presidential
authority, refused to respond to questions from the Executive and
declared that he was solely responsible to Congress. President
Roosevelt promptly removed him, an action that the courts sustained
(Seidman, 110).

As chief executive, the President is responsible and
accountable to the people for the conduct of the entire
executive branch, including Government corporations.
Consequently, limitations cannot be placed on the
President's general authority to direct and supervise
Government corporations.... Control over appointment
is calculated to assure general sympathy with and sup-
port of policy objectives established by the President
(Seidman, 110).

3.

...Congress is organized in a manner calculated to protect
and foster parochial economic interests at the expense of
the larger...interest. Each Congressman represents a
particular geographical area, often quite small. The
welfare of his constituents may depend disproportionately
on a few key industries. The promotion of those industries
becomes one of his most important duties as a representa-
tive of the district...however unimportant those interests
may be from a national standpoint. (Posner, 82-83)

Normally...individual Congressmen seek sympathetic con-
sideration and money for their "pet projects".... The
intensity of such demands stems from the belief of most
members that their re-election may well depend on the
[Appropriations] Committee's decision in such matters.
"The biggest thing in electoral politics, in Congressional
politics," said an experienced House member, "is boodle
and the reputation you get back home for being able to get
boodle." True or not, many Congressmen believe it is.
They express their expectations clearly and urge them upon
the Appropriations Committee. (Fannon, 8)

"Systemic" interests are not any less self-interested than are
"parochial" interests. As used in this work, interests are systemic
if they have ramifications throughout a large part of the economy and
(Chapter 6, cont'd.)

polity, and the failure to realize them creates problems in widely
diverse areas of activity. Parochial interests lack these features.
For example, the managers of General Motors as well as the proprietor
of a pizza shop pursue similarly self-interested goals, such as the
maintenance of a certain profit rate, a search for cheap labor, a
desire to limit private competition, etc. Many of GM's interests are
systemic, however, since they will invariably have significant effects
in such areas as the national levels of production and employment,
inflation and monetary policy, and the balance of trade and defense.
The interests of the pizza shop are parochial, since they have few
ramifications beyond the economic and political activity of a small
neighborhood. (GM may also pursue parochial interests, such as the
location of a freeway close to its production plant.)

The systemic interests of large national businesses, financial
institutions and the state itself may of course conflict, and the exec-
utive branch often attempts to balance the demands of these various
systemic interests in its development of policies. In addition, there
is no necessarily inherent conflict between parochial and systemic
interests. In postal reorganization, for example, the reduction of
postal labor costs through increased mechanization that the state mana-
gers proposed did not directly threaten the interests of the special
mailers and the special mailers could support this goal. The method of
attaining this goal was potentially threatening to the special mailers,
however, if, as with the case of corporate bonds not backed by the
federal government, it might add to the financial costs borne by the
mail users.

4.

The real balance of power in the affairs of the Area-
Development Authorities -- as with any other public
authority which is predominantly dependent upon private
capital -- lies with the investment bankers.
(Netherton, 685)

The bondholder gains this pre-eminent role from the very
inception of a public authority. (Smith, 1964, 24)

See also Smith, 1964, 19; Smith, 1974, 229.

One of the most famous examples of this is the "Covenant" between
the New York Port Authority and its bondholders that forbids the use
by the Authority of any revenues or reserves for mass transit rail
service without the consent of the bondholders or unless the deficits
from such service would not exceed one tenth of the Authority's
reserve funds at the end of the preceding year. The interest of the
bondholders of the NYPA are guarded by a bank that serves as a trustee
for the Authority, operating under an indenture, responsible for all
of its banking and commercial transactions, and with the power to
initiate a suit against the Authority if it should violate the rights
of the bondholders (Smith, 1974, 81-82).
(Chapter 6, cont'd.)

5. See Chapter 5, pp. 151-153 on the use of this "negative" power by the special mailers after postal reorganization. This power of the special mailers should be compared to that of the major users of the New York Port Authority (NYPA): operators of motor vehicles (see Appendix, Note 5). Given the NYPA's monopoly on bridges and tunnels, users could exert influence only if they decided en masse to swim the Hudson River rather than pay their daily tolls. On the influence of users of corporate facilities, see Smith, 1964, 30, 193, who fails to recognize the importance of monopoly rights in decreasing user influence. On the Private Express Statutes and the postal monopoly in general, see Haldi, Johnston, Priest.

Another group that, while perhaps not gaining significant control through the corporate form, appears to be attracted by participation in it, is that of professional and technical personnel (Smith, 1964, Ch. 3). Smith presents evidence that the social backgrounds of those participating in authority affairs are generally more upper-class and better educated than those participating in traditional local political affairs.

The authority provides a bridge between the citizen's exclusive specialization to which his profession or business leads and the single technical achievements of the authority. The frame of reference for this participation in the authority therefore is much more closely associated with the normal pattern of his thinking than is that of a county board or municipal council where he is faced with varied questions requiring the approach of the generalist. (Smith, 1964, 194)

Bollens also cites the support of "professional functional specialists" in the creation of these corporate forms (Bollens, 12). See also Thurston, 218-19.

6. The postal case is also somewhat anomalous, since the Postal Rate Commission regulates only one "producer", the USPS. The role of this Commission in future debate over relaxation of the Private Express Statutes or over USPS supervision and involvement in electronic funds transfer should prove interesting, as these might provide the Commission with expanded power over a larger number of providers of communications services.

7. [T]he influence of the lawyer in the field of governmental regulation of business has been pervasive and in some respects possibly decisive. Lawyers have preempted the term "administration" to refer to the adjudication of cases by government agencies. They have been far more inventive in devising ways of protecting individual
interests than in promoting the public interest without violating individual rights.... Prevailing legal opinion has been in favor of prescribing a fixed code of procedure that the regulatory agencies must follow, widening opportunities for judicial review of administrative decisions, and giving parties affected by regulations all possible opportunity to participate in the making of regulatory decisions. In terms of research of study, more attention has been devoted to the legal aspects of regulation by commission than the political administrative and economic aspects. (Bernstein, 15-16)

See Posner, 84-86.

While traditional government organizations as well as government corporations also have involvement of professional groups seeking in many instances to extend their domain, the peculiar features of the regulatory agency amplify the influence of the law profession. It is, after all, a "quasi-judicial" organization that is legitimated by its procedures and that does not have to be responsive to the demand of specific financial supporters of the organization.

8. In 1969, the government-owned corporations at the federal level in the United States were the Federal Intermediate Credit Banks, the Banks for Cooperatives, Commodity Credit Corporation, Federal Deposit Insurance Corporation, Tennessee Valley Authority, Federal Prison Industries, Federal Savings and Loan Insurance Corporation, Export-Import Bank, U.S. Housing Authority, Federal Crop Insurance Corporation, Federal National Mortgage Association, Panama Canal Company, and St. Lawrence Seaway Development Corporation. Recent corporations organized but not owned wholly by the government include the Communications Satellite Corporation, the Corporation for Public Broadcasting, Amtrak and Conrail.

Eight of the thirteen government-owned corporations listed deal with credit and banking.

See Appendix, Note 7, for the number of corporate forms at the local level.

9. The development of the St. Lawrence Seaway, for example, was opposed by existing port facilities, particularly on the east coast. See Penno for a description of congressional conservatives attempting to return the funding of the Export-Import Bank to the traditional appropriations process.

Due claims that toll roads were utilized in the 1950's to avoid the rural bias of state legislatures that controlled the funds for state highway construction (Dre, 359-60).
(Chapter 6, cont'd.)

10. An example of this at the regional level is the Municipal Assistance Corporation, which is dealing with New York City's fiscal crisis. Through this organization, financial institutions, large businesses and New York State managers might resolve the City's fiscal crisis in a manner that aids their systemic interests and that local capital, city employees, social service clients and the citizen/voter are unable to influence.

Appendix

1. On the fiscal features of corporate forms, see Abel, 361-62; Gerwig, 600-602; McDiarmid, 58-59, 72-73; CSG, 3, 5, 52-53; Bollens, 4-42, 187, Chapter 6; Seidman, 106-108; Smith, 1964, 55-57; Smith, 1974, 44-45, 116-20; Friedmann, 1971, 57; Thurston, 43-66, Chapter 3, 266; Brown; Nehemkis; Foley; Watkins, 82; Weintraub, 16-17.

   The corporate forms also have distinct legal status (Abel, 361-62; Seidman, 106; Thurston, Chapter 2; Watkins, 276-86). While general enabling legislation does exist at the state and local levels, most corporate organizations are created by means of specific ad hoc legislation.

   On the fiscal features of traditional forms, see Lilienthal, 586-95; McDiarmid, 9-13; Abel, 334-59; Smith, 1964, Chapter 2; Hoover Commission, 1948, 164-74.

   In The State and the Rule of Law in a Mixed Economy, Wolfgang Friedman writes (55):

   The entrepreneurial activities of the state are carried out in three legal forms:

   1. By departmental government enterprises, which have varying degrees of administrative and financial autonomy.

   2. By public corporations proper, i.e. autonomous legal entities under general ministerial direction, which are established by charter or statute.

   3. By commercial companies, which outwardly are like any other private enterprise and are governed by the appropriate civil and commercial codes or statutes, but in which the state or some other public authority holds a proportion of the shares, varying from complete control to a minority holding.
(Appendix, cont'd.)

The third legal form is often referred to as a "mixed corporation" or a "federal business corporation" (Thurston, 4-6, 272-73; SSRC, 4).

In this work, the terms "corporate form" and "government corporation" include such "mixed corporations", examples of which are Amtrak, Conrail, Comsat, etc. For general analyses of corporate forms, see Friedman, 1974; Gerwig, 1956; Drucker.

2. For example, in the early days of the New York Port Authority (NYPA), the states of New York and New Jersey bought many of the first bonds, underwrote early costs with a claim on revenues secondary to that of the private bondholders, gave monopoly powers for certain activities, and agreed not to control rates charged on the NYPA facilities while bonds were outstanding (Bird, 18-49). See also Bollens, 15-20; CSG, 3, 67.

See Lilienthal, 596-601, on immunity of federal corporations from state taxation and Weintraub, Chapter 4, on their immunity from state regulatory powers. See also Abel, 159-65; Bird, 38; Frazer, 39; Thurston, 66-98; Watkins, 637-60; Weintraub, Chapter 2. See also "The Applicability of Sovereign Immunity".

Another governmental power that government corporations typically possess but which is seldom mentioned in the literature is the power to prohibit strikes by their employees. However, employees usually have the ability to unionize and bargain collectively.

3. Abel, 354-59; Bollens, 7-9; CSG, __; Gerwig, 612-13; Lilienthal, 561-65; Smith, 1964, Chapter 2; Smith, 1974, 35, 228; Watkins, 285; USAC, 53-54.

4. Austin Tobin, former Executive Director of the New York Port Authority, offered five guidelines for determining whether a public authority is a suitable form for performing some activity:

   Is the program self-supporting?

   Is the program one which requires business efficiency?

   Is the enterprise one for which decisions to be made are essentially of a commercial and business character?

   Is the enterprise one for which decisions cannot be governed by considerations of party politics or political boundaries?

   Is the enterprise one which requires initiative, imagination, risk-taking? (quoted in CSG, 111).

See also CSG, 111-14; SSRC, 8; Thurston, 260. See also Chapter 2 of this work.
(Appendix, cont'd.)


Empire building is, of course, aided by their autonomous sources of revenues, as well as the judicious use of cross-subsidization. Within the NYP, for example, by 1955, the tolls on the George Washington Bridge had paid for its construction twice, while the Holland Tunnel had paid its costs four times (Netherton, 686). Yet in 1960, over 50\% of the revenues of the NYP came from its bridges, compared to 33.2\% from air terminals, 11.7\% from the marine terminals and 11\% from the inland terminals (Frazer, 175-76). This 1960 information, incidentally, was obtained and made public only through the efforts of the New Jersey Senate. In 1956, a year after the information relating toll revenues to construction costs was published, the NYPA quit listing separate sources of income in its financial statements (Frazer, 92). For more on the NYP, see Bard, Bird.

Such practices do not appear to be "unintered consequences" of the corporate form. In the 1952 congressional hearings on the interstate compact to create the Delaware River Port Authority, authority proponents argued quite strongly for just such cross-subsidization practices (Netherton, 687-90). See also Gerwig, 615; Smith, 1964, 41-46, 193.

6. Some observers feel that supervision of corporate forms, even by the executive branch, introduces political pressures and inefficiencies, and should therefore be minimized (Dimock, 1146-57; Thurston, passim). Most, however, view the executive as a more or less purely administrative body, relatively untainted by partisan or parochial interests.

Other than congressmen themselves, there appear to be few defenders of the role and claims of Congress. One such supporter is Wildavsky in The Politics of the Budgetary System (revised edition), Chapter 7.

7. The National Industrial Recovery Act would have been more open in disregarding state and city restrictions during the Depression, but the Supreme Court declared this act unconstitutional (Smith, 1974, 108-110; CSG, 27).

According to the Census of Governments, the number of special districts grew from 8,299 in 1942 to 14,405 in 1952, and 23,886 in 1972. This excludes school districts which numbered 15,780 in 1972 (Smith, 1974, 22; see Smith, 1974, 232-37).

For a list of federal government corporations, see Chapter 6, Note 8.
(Appendix, cont'd.)

8. A text of the GCCA appears in Abel, 564-73. Senator Harry F. Byrd, Chairman of the Joint Committee on Reduction of Non-Essential Federal Expenditures, pushed for increased congressional control of the corporate forms. See Abel and the Tax Foundation (11) for descriptions of the earlier congressional proposals.

In regard to the diversity of auditing procedures in the corporate forms prior to 1945, as well as conflict between the Comptroller General and corporate administrators, see Lilienthal, 583-86; Thurston, 232-34; Watkins, 287; Seidman 113; Pritchett, 505; McDiarmid, 18-20. In regard to Treasury control, see Abel, 372; Pritchett, 506; Tax Foundation, 7, 15.

Arguments for executive control at the state level are listed in USAC, 75-86.

"Higher" executive support of the GCCA indicates that its interest in corporate autonomy is not identical to the interest in corporate autonomy of the corporate managers. The executive pursues autonomy primarily from the legislature to control and coordinate fiscal, employment and programmatic policies. Corporate managers desire autonomy from both the legislature and the higher executive to pursue program development and a self-sustaining, if not expanding, financial base.
Chapter Epigraphs

Chapter 2

Statement of the President's Commission is located at Kappel, 1.

Chapter 3

Statement of House member reported in Congressional Quarterly Almanac, 1960, 246.
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Chapter 4

Statement of PMG Cartelyou is located at ARPMC, 1906, 73.
Postal Policy Act of 1958 is located at 72 Statutes 134-35.

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Statement of Rep. Wright reported in 116 Congressional Record 20201-02.
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