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THE PRESIDENT HAS SEEN <sup>68</sup> *68*

## THE WHITE HOUSE

WASHINGTON

February 4, 1975

MEMORANDUM FOR THE PRESIDENT

THRU: JIM CAVANAUGH *JC*

FROM: GEOFF SHEPARD *GS*

SUBJECT: United States Postal Service

*MA*BACKGROUND

As you are aware, the Nixon Administration sponsored the Postal Reorganization Act of 1970 which removed the Post Office from the Executive Branch and created the new United States Postal Service. The Postmaster General is now solely responsible to a Board of Governors nominated by the President and confirmed by the Senate. The intent of the legislation was to remove the Postal Service, with its \$12.5 billion budget and 700,000 employees, from the realm of politics and patronage and make it a cost effective operation. Personnel costs now account for about 85% of this budget.

The Postal Service suffered a deficit of \$438 million in FY 1974. Part of this was anticipated because a six month delay between the settlement of new labor contract and the start of increased rates in January 1974. Another \$124 million of this resulted from automatic cost-of-living mechanisms in postal worker contracts and the inflated cost of fuel. The Postal Service projects a \$960 million deficit for FY 75 if current factors remain constant.

To make up the FY 74 loss, the Postal Service borrowed \$500 million. To repay this and to cover anticipated debts and deficits in FY 75, the Postal Service is going to request a rate increase of 2¢ to 3¢ in first class and a corresponding increase in other classes of mail. The rate increase will be formally presented to the Postal Rate Commission in March and will likely cause a uproar from the public and the Congress. Although it may lead to renewed threats by the Congress to reincorporate the Postal Service into the Cabinet, passage of legislation increasing existent Federal "Public Service" subsidies is more likely. A bill recently introduced by Congressman James Hanley, Chairman of the Postal Service Subcommittee, would raise government subsidies from nearly 10% to 20% of the Postal Service's Budget. It would also reserve two thirds of the appointments to the Board of Governors to the Congress.

The Postal Service faces other difficulties this year, which may further disrupt its financial stability:

In the Summer contract negotiations will begin. Postal worker union's have won large salary and benefit packages in recent years that have raised them above other government workers. Union leaders are threatening strikes if negotiations prove unsatisfactory. While a national strike is unlikely, local wildcat actions or slowdowns are probable. Postal workers are asking for substantial pay increases and benefits.

The Postal Service has engaged in an extensive process of revising mail handling procedures and relocating facilities. The former has led to intermittent dislocation of service and resulted in public outcry. The latter has often brought about local and political pressure to prevent relocation. The Postal Service has invested nearly \$2 billion in capital projects during the first three years of its operation to revise antiquated facilities and machines that had been neglected during the last years of the Post Office. Several GAO reports within the last year have criticized the Postal Service's purchase of experimental machinery, alleging mismanagement.

The operation of the Postal Rate Commission has been detrimental to the effectiveness of the Postal Service. Its two main functions are to review rate increases and suggest changes in mail classification system. The 10¢ first class stamp is still a temporary rate being examined by the Postal Rate Commission. The Postal Rate Commission has also been ineffective in reviewing mail classification to assure equitable rates for the different classifications of mail. OMB is currently reviewing the operations of the Postal Rate Commission and may recommend changes in the Postal Reorganization Act to strengthen it.

The Postal Service currently faces both tremendous public and employee relations problems:

The former largely stems from the rapid growth of the cost of postal service from a time when rates were deliberately kept down by government subsidies. The 1970 Act places most of the burden of costs on the individual mail user, although phased subsidies have temporarily reduced the burden on third class mail users e.g., publishers. Public dissatisfaction with increased costs is also enhanced by real or perceived diminution of service resulting from cost-cutting or mail handling alterations in postal operations.

Conflict with employees began soon after the inception of the Postal Service. E.T. Klassen, who became Postmaster General in late 1971, brought in a management team from private industry which clashed with the

bureaucratized mailworkers. Mechanization and conscious efforts to decrease the size of the work force worsened relations. Substantial pay and benefit increases strengthened union leadership and resistance to management. In the last year, Klassen attempted to bridge the gap between management and labor by institutionalizing grievance meetings and in-house training and promotion of supervisors, but the animosity remains.

Klassen, a target of numerous allegations of malfeasance and mismanagement by Jack Anderson, resigned last month. He has been requesting a meeting with you since last Fall to brief you on problems facing the Postal Service, but your schedule has not permitted it. A schedule proposal for this meeting has been resubmitted to include Klassen and his successor, Ben Bailar, who will take office on February 15, 1975. He was hand picked by Klassen and was appointed by the Postal Board of Governors unanimously. He, like Klassen, was a former American Can Executive and has been with the Postal Service for two years. He has the personal respect of the Board of Governors and of many Congressmen, but his association with Klassen may cause Congressional criticism.

#### OUTLOOK

The Postal Service faces a difficult period in the near future. The postal unions will try for expensive contract settlements. They will watch closely the Federal employees struggle against the 5% ceiling. Powerful interest groups like the publishing industry will attempt to pass on third class mail increases to the taxpayer in the form of phasing subsidies. Elements of the Congress will support the efforts of these forces with legislation supporting their goals. The rate increase should balance the deficits facing the Postal Service, barring a new inflationary wave or a revenue loss from a strike.