



The Postmaster General's Challenges

In his report to a Senate subcommittee Postmaster General Patrick Donahoe (left) spelled out clearly why the U.S. Postal Service can't make any money: too many cooks in the kitchen. Hamstrung and limited by rules and "stakeholders" with differing and often competing agendas, what's remarkable is that the postal service isn't deeper in the hole.



Heaven knows, he's trying. Through agreements finally reached with the letter carrier unions, he has been able, over the past two years, to eliminate 12,000 carrier routes and to consolidate others, saving 20 million man hours in labor costs. He has been able to whittle away at the massive employee base, cutting about 200,000 from his payrolls over the past 10 years. He has set up thousands of Automated Postal Centers (APCs), each of which generates more revenue than 19,000 of the 31,000 current fully staffed post offices. He has come up with incentive programs for high volume users, and wants to offer shipping of lightweight parcels through regular mail. He continues with massive customer surveys to determine customer preferences on Saturday deliveries, Priority Mail deliveries, potential rate increases, and satisfaction ratings.

His challenges, however, are daunting. Faced with the mandate from Congress to deliver the mail to everyone in the country at the same rate, he must find ways to have his high-profit customers pay for those who don't pay their own way. Although he enjoys a monopoly on being the only business able to deliver first and third class mail, his competition grows daily. Substitution is the biggest continuing threat, with online bill-paying services cutting deeply into the volume of their first class mail deliveries, to say nothing of competition from the Internet and personal communication devices. Total volume reached a peak of 213 billion pieces in 2006, and has declined ever since, and is expected to be less than 150 billion by the year 2020. And the profitable 78 billion first class deliveries his company made in 2010 are [expected to drop](#) by a third by 2020. His package delivery competitors, Fed-Ex and United Parcel Service (UPS), continue to gain market share, and show a profit doing so.

His biggest challenges are the raft of government agencies overseeing his operation, and his two



Written by [Bob Adelman](#) on August 25, 2011

unions, the American Postal Workers Union, AFL-CIO (APWU) and the National Rural Letter Carriers Association (NRLCA). His “stakeholders” as he likes to call them include the Postal Regulatory Commission (PRC), the Government Accountability Office (GAO), the Postal Service Office of the Inspector General (OIG), the Office of Management and Budget (OMB), and the Office of Personnel Management (OPM).

Donahoe would like to cut the 25,280 post offices that are [currently losing money](#) but he can't because of a rule that prevents him from closing such facilities “on purely economic” grounds. He has announced the closure of 2,000 of the worst offenders, but only 491 of them are “in process” of closing. And he is catching flak even from some of those few. Donahoe is closing the post office in Holmes Mill, Kentucky ([population 170](#)), a no-stop-light town in the Appalachians [over the protest](#) of local citizen Delmer Clark who complains that shuttering the office “ain't right doing this to our community.” Esther Sizemore, a retired school bus driver, agrees: “It will hurt us real bad.” However, residents will still get daily delivery of the mail, and if they need the services of a real live fully-staffed post office, there is one six miles away. In his report, Donahoe notes that “As populations expand and move outward, our Post Offices, stations and branches are located in areas where people no longer live, work, or shop. We often have a redundancy in our network, with one, two or even three locations within a five mile radius. Allowing the Postal Service the ability to close offices that fail to cover their costs [would be] a huge step toward our future viability.” So far, he hasn't been allowed to.

He'd like to cut another 100,000 workers but is meeting the usual expected resistance from the unions. He'd like to change substantially the health and retirement plans for his workers which would save his company millions of dollars annually, but the unions don't like that. He'd like to offer special incentives to his high-profit mailers, but can't get permission from the agencies that rule him. He's asked to raise rates again on first class postage, but the UPC turned him down. He's considering slowing down mail deliveries by one day in order to reduce Saturday and Sunday overtime shifts, without success. He'd like to institute work rules to reduce “[non-productive time](#)” which is estimated to average 28.4 percent of labor costs, but is meeting resistance to that from the unions.

In the past, revenue shortfalls have been closed by delaying pension plan payments or by borrowing from the Federal Financing Bank. But he has used up his \$15 billion line of credit there, and he has a big pension contribution payment due on September 30th.

In the world where Wal-Mart operates, Donahoe's job would be much easier. Wal-Mart's 8300 stores are profitable, providing consumer products to local customers that change with the times and are updated every day. Donahoe could fire the workers who don't produce, he could give rate reductions and incentives to his best customers, he could make the postal service offices more efficient by replacing most of them with APCs, and he could reward his best employees with bonuses and promotions. He could determine his high-profit market niches and work to serve them better in ways that UPS and FedEx can't or won't.

Surely the free market could provide the postal services that Donahoe's organization is trying to, at much lower cost and with much better efficiency. The “stakeholder” most vital to a profitable business, and missing from Donahoe's company, is private investors seeking a profit. Donahoe is trying to keep everyone happy, and unable to simply because of the government regulations, rules and limitations, and, of course, the inevitable unions.

In other words, in a free market, Donahoe's company could probably survive and perhaps even prosper. Under today's constraints, however, his U.S. Postal Service is a dead man walking.



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