

Memorandum for Henry Cashen

cc Ken Cole

FROM Ed Harper

SUBJECT Fiscal Implications of Postal Reorganization Plan

The purpose of this memorandum is to raise three issues with respect to the fiscal outlook and budgetary process ^{in the} and postal reform ^{measures} ^{before the Congress}

POSTAL SELF-SUFFICIENCY

When John Ehrlichman briefed the press on the postal settlement, he emphasized that the President's principle that the Post Office should be a self-sustaining organization had not compromised except to the extent that the Post Office would, during the next couple of years, phase into the position of being completely self-sustaining.

I am now told that this explanation is not correct, which I think means that John Ehrlichman and I do not understand the agreements which the Post Office Department has negotiated with the Congress.

I am now told that the House version of the Postal Reform Bill includes a ~~decline in~~ public service subsidy deficit to be paid out of the general fund which would taper off to approximately to \$400 million a year, but then would either level off or begin to rise again. The Senate version, I am informed, is very vague on this point, but has lead some people to the conclusion that it would result in general fund subsidy for the Post Office Department annually amounting to a billion dollars or more. ^{if my information is correct,} Clearly neither of these bills is consistent with the President's announced policy

POSTAL RATES AND DEFICITS

The highest Post Office deficit in the 1960's occurred in 1967 when the deficit was \$1.1 billion. The projected postal deficit for FY 70 is \$1.2 billion. The postal deficit now projected for FY 71 is \$3.3 billion.

The projected projected \$3.3 billion deficit assumes that postal workers will receive a 6% comparability increase in January, 1971, costing \$400 million, and that the \$1.6 billion in postal rate increases we had projected to go into effect July 1, 1970, will not be passed in FY 71. Given the temper of federal employee unions, and recent reports from Capitol Hill, these assumptions seem quite safe.

Given the fact that we can now anticipate a FY 71 deficit which will have to be announced shortly before the FY 70 elections, and that we project an FY 72 deficit many times larger than the FY 71 deficit, is there anything at all that can be done to get action on our rate increase proposal?

Dick Cook was of the opinion that there was nothing that ~~can~~ could be done to save our rate proposal, and the \$1.6 billion in revenues which they represent. He interprets the attitude of the Congress as being "why don't you just give them their 8% pay raise and leave us alone?"

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The attitude is further interpreted as being, "why don't you just forget about the rate increase for now and get it when the new postal organization takes effect?"

If we are to wait for the new postal reorganization to be approved, to be established, and to to grind through its lengthy processes for setting rates, we will be waiting probably ^{12 to} eighteen months before there will be any postal rate increases.

BUDGET PROCESS IN PROPOSED REORGANIZATION

There has recently been an exchange of memoranda among the BOB, the Post Office Department General Counsel and yourself about the budgetary process proposed for the reorganized postal service. Both BOB and Post Office agree that under the bills currently on the Hill, the President would no longer have any statutory power to modify, amend or revise the budget of the postal service. The BOB views this fact with alarm, because the Post Office Department will still be in the Administration's budget, and it could easily add literally billions of dollars in outlays in any given year. For this reason, the BOB has requested that the President be given some minimal statutory power to revise ~~them~~ or amend the Post Office Department's budget. The Post Office Department's reply is essentially (1) that the minimal budget supervisory powers asked by the Bureau ~~from them~~ for the President did not amount to anything more than moral suasion, thus there was no need for any statutory provisions.

Furthermore, the Post Office argues , that it has cut a deal with the union; and cannot back down from that deal

Three relevant points deserve careful attention in considering this debate

- 1 What is the nature of the legislation currently in the Senate and the House,?
2. What exactly is our agreement with the unions ?
- 3 What is the potential magnitude of the problem ^{to} which the BOB is pointing?

First, it is my understanding that on both the House and the Senate sides, the draft legislation is virtually silent on the matter of the budgetary ^{Process} ~~Process~~ - there isn't even a provision for an annual report to the Congress according to one person who has read the bills. Second, our agreement with the unions is, as I understand it, ~~it~~ that we would not change any of the points agreed upon in our negotiations with them which included an agreement that the postal organization would not be a government corporation, because this would "drastically undercut the bargaining power of postal employees and their unions " (AFL/CIO, Labor Looks at Congress, 1969, an AFL-CIO Legislative report, Page 11)

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The unions clearly object to converting the Post Office into a Corporation, however, I have heard no one say that the unions object to the minimal budget supervisory powers granted the President in the Government Corporation Act.

Finally the lack of any statutory President oversight over the postal budget could create incredibly difficult political and fiscal problems for the President. For example, if the new postal organization were controlled by forces unfriendly to the President, they could create a very difficult and embarrassing situation for him by greatly increasing their outlays without consulting him. As noted above, the postal operating deficit could range in the billions of dollars, as could the Post Office's capital investments.

If it could be guaranteed that the Post Office was going to be a self-sustaining operation, and that it would not be able each year to make or break the President's budget, the fact that he has no control over that budget would not be significant. However, it ~~xxxx~~ is now my understanding that the ~~Present~~ reorganization plan, before both the Senate and the House, guarantee a substantial operating deficit indefinitely ⁱⁿ the future.

RECOMMENDATION

1. That you ask the Post Office Department and the BOB to agree upon the fact of whether the present reorganization plan will result in sizable postal operating deficits indefinitely ⁱⁿ the future - ~~that is to say that~~ ^{Has} the President's fundamental principle ~~will be set~~

that the Postal service be set

on a self-subsanting basis has been abanonded.?

2. That an immediate and thorough review be done to see if there is anything the White House can do to rescue our postal rate bills?
3. That if indeed, the President's basic principles of self-sufficiency has been compromised since our negotiations with the labor unions were ~~comple~~ completed, the Postmaster inform the labor unions of this fact, and of the fact that he will go to the Congress and ask them under these circumstances to provide the President with minimal statutory supervisory authority over the budget of the new postal service

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