PRESIDENT FREDRIC V. ROLANDO

NATIONAL ASSOCIATION OF LETTER CARRIERS
2008–2010 BIENNIAL REPORT

RISING TO THE CHALLENGE WITH TRADITION, SOLIDARITY AND INNOVATION

This report is hereby submitted to the officers and delegates to the 67th Biennial Convention of the National Association of Letter Carriers, AFL-CIO, Anaheim, California, August 9-13, 2010, pursuant to Article 9, Section 1(k) of the *Constitution of the National Association of Letter Carriers.*

Detailed information pertaining to many of the National Association of Letter Carriers' most important activities can be found in the following pages and in the reports of my fellow officers. I am grateful for their efforts in fulfilling their responsibilities with diligence and competence. My role has been to coordinate and supervise their activities, set an overall direction for this great union, and, in a number of key areas, provide direct, active and assertive leadership in the best interests of the members of the NALC and, where appropriate, the U.S. Postal Service as well.

This report is presented on behalf of two presidents: Former President William H. Young, who retired on July 3, 2009, after more than 40

OVERVIEW

TWO YEARS AGO, WHEN DELEGATES to the 66th Biennial Convention gathered in Boston, we knew that the country and the Postal Service were in trouble. The recession that began in December 2007 had already taken a great toll on the Postal Service's business and its finances. Unemployment was rising and a crisis in the middle class that was a generation in the making was becoming painfully apparent. Wages and incomes were falling, pension and health coverage was in decline, and unions were under assault even as they struggled to protect their members from the economic fallout. But nobody expected what happened next. The global financial meltdown in the fall of 2008 transformed a bad situation into something much worse, for the country's workers, for the employees of the United States Postal Service, and for the members of the National Association of Letter Carriers.

The deep recession of 2007-2010 has shaped the past two years and will have a profound impact on both the future of the Postal Service and the NALC. The U.S. Postal Service's reaction to the crisis has challenged the union in unprecedented ways. Not only was the NALC faced with the need to responsibly deal with the sharp drop in mail volume and its impact on letter carrier routes, but we've also been confronted with a radical and risky plan, adopted by postal management in response to the crisis, that threatens to destroy the Postal Service as we know it. The plan, discussed in detail below, includes a reckless proposal to eliminate Saturday mail delivery that not only would destroy 25,000 city carrier jobs, but threatens the long-term viability of the Postal Service by reducing the quality of service and pushing more mailers out of the postal system altogether. The NALC has vigorously opposed management's five-day delivery plan as penny-wise and pound-foolish and will continue to do so in the months and years ahead. A full discussion of our approach is provided below.

The Anaheim Convention, as the highest policy-making body of our union, will provide a forum for the NALC's leaders at all levels to debate actions for resisting the elimination of Saturday delivery and a chance to shape a long-term strategy for the Postal Service in the Internet age. This report to the convention will review the developments of the past two years, which included not only the historic election of Barack Obama as president of the United States but also major collective bargaining and legislative advances that the NALC worked long and hard to achieve to improve the lives of letter carriers and other American workers. A full report on the activities of the various departments of the NALC's national headquarters will follow. But first, let us review the economic crisis we face and the Postal Service's plan to overcome it, as well as the NALC's approach to responding at the bargaining table and in the halls of Congress and the White House.

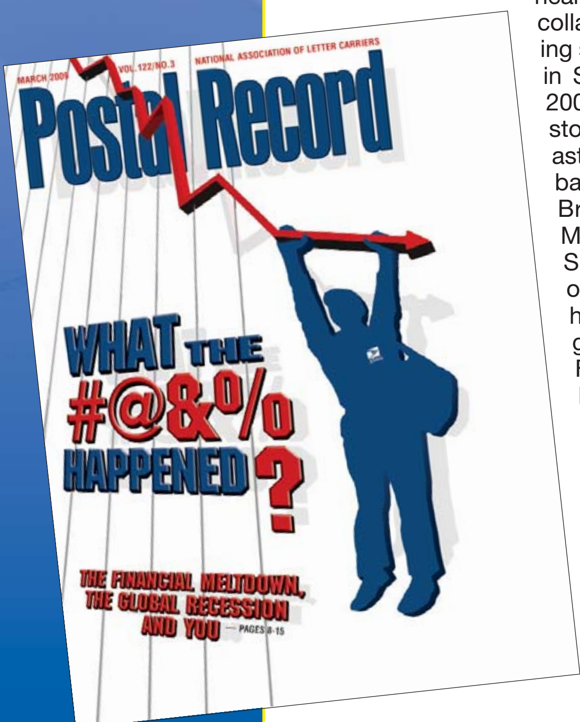
years in the Postal Service and more than 30 years of service to the NALC, and me. The contributions of Brother Young to this union are beyond measure and the entire membership of the NALC owes him a great debt of gratitude. It was an honor to succeed him as president under the terms of the *NALC Constitution* and I look forward to recognizing Brother Young's accomplishments in Anaheim at the Retiring Officers' Dinner.

President Fredric V. Rolando

THE ECONOMIC MELTDOWN

We are still learning about the cause of what has become known as the Great Recession of 2007-2010, but at its heart was the collapse of a massive housing price bubble in the United States. As it had in the late 1990s with the Internet stock bubble, a fully deregulated Wall Street went wild with speculative investments. This time, they gorged on mortgage-backed securities and, worse, on new financial instruments designed to let investors bet on the future value of these securities. Combined with easy credit, the collapse of lending standards (that made so-called “subprime” loans available to people who could not afford to borrow), and an explosion in corruption and fraud in the mortgage origination business, this speculative frenzy bid housing prices into the stratosphere. But as home prices skyrocketed, so did mortgage debt, rising from $2.5 trillion in 1990 to $10.5 trillion in 2005. As wages stagnated—for the first time ever, median family income actually fell over the course of a decade (2000-2009)—Americans borrowed against the value of their homes to fuel a consumption boom. Astonishingly, the average savings rate of American households fell to zero.

Then, it all came crashing down, bringing the stock market with it and nearly causing a complete collapse of the global banking system. For a few weeks in September and October 2008, the global economy stood on the verge of a catastrophe. Several massive banks collapsed (Lehman Brothers, Washington Mutual, Royal Bank of Scotland) and several other financial institutions had to be rescued by the government (Wells Fargo, Wachovia, Merrill Lynch). The Federal Reserve took extraordinary measures (calculated in the trillions of dollars) to support the reckless banking sector, fearing a second Great Depression. Under duress from the Bush administration, Congress approved a $700 billion bailout fund for the U.S. Treasury that, despite its political unpopularity, helped halt the downward spiral.



The resulting economic wreckage was extraordinary. Americans saw their homes lose $8 trillion in value and watched their pensions and other savings fall by another $6 trillion. Millions lost their homes to foreclosures. Consumer spending collapsed and unemployment soared. In the last quarter of 2008 and the first quarter of 2009, some 700,000 workers per month were losing their jobs and the economy was shrinking by 6 percent annually. Eventually, 8 million workers would become jobless, while millions more were forced to work part-time during the recession. The official unemployment rate shot up to nearly 10 percent, while the real rate of joblessness rose to 17.5 percent, after including discouraged workers (who had given up looking for work) and workers who were involuntarily working part-time. Those of us who grew up in the prosperity of post-World War II America reluctantly have gotten a taste of what our parents and grandparents lived through—we are experiencing the worst economic crisis since the Great Depression.

THE POSTAL IMPACT

The impact of the crisis on the Postal Service was devastating. Mail volume declined 4.5 percent in fiscal year 2008, the worst decline since the 1930s. And it got worse—much worse. As consumers stopped spending and business activity ground to a halt—car sales dropped to levels not seen since the 1940s and construction froze up almost completely—advertising mail dried up and transactions volume fell sharply. The crisis had hit in the most mail-intensive industries in America: housing, real estate and banking. In each of the first three quarters of fiscal 2009, mail volume fell by 9.3 percent, 14.7 percent and 14.3 percent over the same periods in fiscal 2008, and for the whole year mail volume was off by an astounding 12.8 percent.

The financial implications were similarly dire for the USPS. Postal revenues plummeted from nearly $75 billion in 2007 to $68 billion in 2009, and revenue per delivery point declined by 10.3 percent. What followed was the most intensive cost-cutting campaign in the history of the Postal Service. Virtually all capital spending was frozen, and successive rounds of early outs were offered, though very few postal employees chose to retire in such a precarious economic environment. Nevertheless, career postal employment was slashed by more than 95,000 jobs between 2007 and 2010, falling from 685,000 in 2007 to less than 590,000 today.

THERE IS NO SUGAR-COATING THE REALITY. OVER THE PAST TWO YEARS, **THE POSTAL SERVICE HAS FACED THE WORST CRISIS IN ITS HISTORY,** A CRISIS THAT WILL PERSIST FOR THE FORESEEABLE FUTURE.

Career city carrier employment was not spared in the downsizing, dropping from 222,000 in 2007 to less than 195,000 in mid-2010. (As will be discussed below in the section on Collective Bargaining, the NALC played an integral role in ensuring this painful contraction was done both fairly and efficiently. See page 8.)

Throughout this period, the Postal Service's finances have been strained to the breaking point. Although the Service's debt and deficit problems are largely caused by the congressional mandate to pre-fund retiree health benefits (see below), the worst recession in 80 years has also contributed to the financial crisis, particularly in 2009, when the USPS lost $3.8 billion despite getting a one-time, $4 billion reduction in its pre-funding costs. After having essentially no debt in 2006, the Postal Service has seen its external debt rise to more than $10 billion in 2009 after paying more than $12 billion to pre-fund retiree health. This year, that debt is expected to rise to $13 billion.

Due in part to the continued weakness of the economy and in part to the inflexible schedule of pre-funding payments hard-wired into the law, the USPS is forecasting continued losses over the next five years and expects its near-term recovery to lag the gradual recovery of the economy as a whole. In the short term, the Postal Service forecasts its mail volume to continue to decline until unemployment declines and consumer spending picks up. In fact, in the first eight months of Fiscal 2010, mail volume was down by 5.1 percent versus the same period last year, and First Class volume was down 6.2 percent—much better than in 2009, but still among the worst years in the history of the Post Office.

There are some signs that the USPS was doing a little better financially than it expected at the beginning of 2010. While it has lost $2.8 billion so far this year (through May), that was $1.3 billion better than expected in its annual plan. Moreover, it actually recorded a positive operating income of $800 million through May, since its entire loss can be explained by the $3.6 billion it has had to set aside so far this year to pay the cost of pre-funding retiree health benefits at the end of the year.

Nevertheless, there is no sugar-coating the reality. Over the past two years, the Postal Service has faced the worst crisis in its history, a crisis that will persist for the foreseeable future. This crisis has prompted the Postal Service to devise an "action plan" with the proposed elimination of Saturday mail delivery at its center. Entitled "Ensuring a Viable Postal Service for America," the plan was released with great fanfare—and a $5 million public relations budget—in March 2010. A brief review reveals both innovative and reckless elements, so the NALC has embraced some aspects of the plan while fiercely opposing others.

USPS ACTION PLAN

On March 2, 2010, Postmaster General Jack Potter convened a public stakeholders' conference to present a 10-year forecast on the future of the postal industry. He invited the Washington press corps to attend and dramatically called into question the long-term viability of the Postal Service before outlining an aggressive action plan to save it. That plan included steps the USPS might take on its own as well as proposed legislative and regulatory changes that might be necessary over the longer run.

As Potter made clear that day, the Postal Service believes that something fundamentally has changed in the postal industry and that mail volume will continue to fall even when the economy regains its health. This is not a new idea. We have been grappling with the impact of the Internet on traditional mail volume for years. What was new was a forecast on future mail volumes and revenues conducted by a group of consultants from the Boston Consulting Group (BCG) and McKinsey & Company.

Over several months in 2009, during the depths of the recession, BCG interviewed a small percentage (14 percent to be exact) of the nation's business mailers—banks, utilities, publishers and direct marketers that generate large volumes of mail. Based on those surveys, the USPS announced that it expected mail volume to decline from 176 billion pieces in 2009 to 150 billion pieces in 2020, if not more. This forecast implausibly assumed that the Postal Service would do absolutely nothing to generate new business or to market new services or new uses of the mail. Given that mail volume had already dropped by 17 percent from its peak of 213 billion pieces in 2006, a new forecast of an additional 15 percent drop in volume captured dramatic headlines in the media.

Since the number of delivery points will continue to rise, if this prediction proved true, there would

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be a 25 percent reduction in the number of pieces delivered, from four pieces per delivery per day to three pieces per delivery per day. Worse, the USPS expects the mix of mail to worsen as the volume of high-value First Class Mail shrinks by 40 percent over this time period while the volume of lower-value Standard Mail stagnates. These predicted trends combined would result in a 29 percent decline in revenue per delivery, from $1.40 per delivery per day to $1 per delivery per day. Using current wage and benefit levels, the McKinsey consultants concluded that such a loss of volume and revenue would result in an eye-popping $238 billion in financial losses over the next decade.

That figure got a lot of attention, both in the media and on Capitol Hill. It was designed to shock people, and it did. It was specifically designed to pave the way for five-day delivery as well.

Although it might be fair to wonder whether conducting such a survey during a major economic crisis might lead to overly pessimistic results, some industry players have endorsed the basic volume forecast. Of course, we have no idea if the BCG/McKinsey projections will prove to be accurate. In fact, there is a good reason to take the Postal Service's estimates with a grain of salt, considering its past performance in forecasting and the notorious inability of economists to predict anything—GDP growth, unemployment and interest rates—beyond a few months.

In fact, thanks to efforts by the NALC to raise hard questions about the USPS forecast, the Postmaster General admitted during congressional testimony in April that the $238 billion in forecast losses by 2020 was a "hypothetical" figure based on a "worst-case scenario." That said, there is no way to know for sure how Americans will use the mail in the future, and neither the USPS, the NALC nor Congress is going to sit idly by and take no action to find new ways to use the Postal Service. But it is reasonable to assume that electronic substitution for traditional mail will continue in the future.

What is not reasonable is to accept every element of the action plan the USPS devised in response to the BCG and McKinsey forecasts. The plan is comprised of seven such elements, five requiring action by Congress and two that the USPS will seek to undertake on its own:

1) Congress should reform or repeal the legislative mandate to pre-fund future retiree health benefits (up to 75 years in advance) that are provided by law to all retired federal employees, a mandate that no other agency or company faces.

2) Congress should repeal the legal mandate to require six-day delivery service, opening the way for USPS to end Saturday collections and delivery.

3) Congress should repeal the prohibition on closing small post offices for economic reasons and allow the USPS to offer access to retail services through alternative means.

4) Congress should loosen the price cap on market dominant classes of mail to permit flexible, demand-based pricing.

5) Congress should streamline the oversight burden on the USPS by limiting the role of the Postal Regulatory Commission.

6) USPS will seek greater workforce flexibility through negotiations with its unions.

7) USPS will seek to maximize revenue with new products and services.

Over the past several months, I have discussed and debated this action plan with countless groups of letter carriers, managers, journalists, and members of Congress and their staffers. To all, I have pointed out "the good, the bad and the ugly" from the perspective of the NALC.

At the top of the list in the "Good" category is the proposal to repeal the pre-funding requirement for retiree health, a topic I will discuss in greater detail below in the Legislative and Political Activism section. The USPS supports a recalculation of the postal pension surplus in the Civil Service Retirement System, which would allow a return to pay-as-you-go funding using the Postal Service Retiree Health Benefit Fund to pay for such benefits. We would go further: A complete reform would also allow the USPS to use excess funds in the CSRS to pay off the Postal Service's long-term debt—debt that was taken on to pre-fund health benefits over the past four years. We also support greater freedom to offer new products and services and the freedom to price them with commercial principles in mind.

Among the "Bad" proposals—or at least potentially bad ones—are those concerning workplace flexibility and closing post offices. If the USPS expects to create a low-wage, part-time workforce under the banner of "workforce flexibility," it is going to meet our total and fierce resistance. We are open to good-faith bargaining aimed at win-win solutions that will make the Postal Service more efficient and successful, but we will not abandon our commitment to good jobs and a decent standard of living for the nation's letter carriers. On post office closures, we will be open to facilitating new ways for customers to access our networks—city carriers could take on new retail functions through innovations in technology, for example. But we want to keep as many post offices open as possible and perhaps improve their value by using them to provide new services, including financial services and other government services for state and local governments.

Then there is the "Ugly:" The proposal to eliminate Saturday mail collections and delivery, at a cost of 80,000 postal employee jobs (and full-time equivalents). In the union's view, this would be the biggest blunder the Postal Service could make, far worse than the decision in 1978 to give away the express mail market to FedEx by creating the urgent letter exception to private express statutes. Unfortunately, the USPS has been stubbornly committed to this path despite the opposition of all its unions.

Reducing the quality of service by offering both less service and slower service will make things worse, not better. It will lead more mailers to abandon the mail, and the resulting revenue losses would swamp any short-term cost savings. Worse, it would place the USPS on a slippery slope to oblivion. As Jack Potter made clear in an interview with *The Washington Post* on May 10, five-day delivery would save money, but "[t]he value of going to four days—removing a second day—is even greater." If Congress eliminates the requirement to deliver six days a week, the USPS would be able to cut service by additional days without fanfare, and the exodus from the mail system would escalate.

The NALC is fighting this proposal with all our might in the face of a stubbornly arrogant Postal Service campaign to mislead the American public that the change to five-day delivery is a "done deal." The USPS set up a website to help mailers and the public plan for the implementation of five-day delivery, even before the Postal Regulatory Commission issued a legally required advisory opinion on the proposed service cut and even though Congress has shown no interest in granting its request to end Saturday delivery. We have developed a media campaign and a grass roots campaign to influence both the PRC and Congress on Saturday delivery. (A full description of our efforts is provided on page 14.) I am confident we will prevail.

CRISIS AND HOPE

The economic crisis, which did not wait for the results of the 2008 general election to be decided, overshadowed a moment of great hope for America: The inauguration of Sen. Barack Obama as the nation's 44th president. His historic victory offered a brief moment for all Americans, including those who did not vote for him, to share in the progress and pride represented by his election. Few people in my generation could have conceived of an African-American president in our lifetimes. The long, hard fight for freedom and equality that began in 1776 was advanced in dramatic fashion. That President Obama was confronted with such a dire set of problems (a financial crash, an economy in free fall, two wars, etc.) and that he could not immediately heal the harsh partisan divide in our politics does not take away from the achievement for the country.

The NALC can take great pride in the results of the 2008 election. We not only endorsed Obama, but we also worked tirelessly for his election with thousands of Carrier Corps volunteers and one of the largest groups of released activists in the AFL-CIO's Labor 2008 get-out-the-vote campaign. The payoff was immediate for working people and letter carriers, with hundreds of pro-labor appointments to every agency of the government and a seat at the policy-making table for the NALC and other unions. The quick adoption of Obama's American Relief and Recovery Act, an economic stimulus bill designed to halt the downward spiral of the economy and offer relief to millions of unemployed workers, helped save or create between 1.8 and 4 million jobs (according to the non-partisan Congressional Budget Office) and helped avert a second Great Depression. Major progress was also made in the fight to rebuild the middle class with the successful drive to enact comprehensive health insurance reform earlier this year, though the failure to overcome a GOP filibuster on the Employee Free Choice Act in 2009 was a major disappointment.

Despite these achievements, the economic crisis is far from over. It remains the overwhelming problem facing the country, the Postal Service and the NALC—and it is likely to shape much of the next two years before we convene again in Minneapolis for the 68th Biennial Convention. It has challenged the union to respond in both of the key ways it represents the interests of letter carriers: at the bargaining table and in our political and legislative programs. The next two sections will discuss both areas of activity.

BUILDING ON A TRADITION: COLLECTIVE BARGAINING

This year marks the 40th anniversary of the Great Postal Strike of 1970, the key turning point in a proud 120-year tradition of struggle that won collective bargaining rights for letter carriers and other postal employees. It is safe to say that no other strike in American history did more good for more workers and their families than the strike that letter carriers in New York City kicked off on March 17, 1970. The strike not only transformed postal labor relations and the Post Office for the better, but it also elevated hundreds of thousands of workers into the middle class by giving them the power to negotiate their wages and benefits.

We marked this historic occasion in three ways. First, we sponsored a major exhibit on the history of the NALC at the Walter Reuther Library in Detroit, a portion of which will be presented at the Anaheim Convention (*see photo below*). Second, President Emeritus Vincent R. Sombrotto participated in a special celebration and panel discussion on the strike at the National Postal Museum in Washington in March (*see photo at right*). And third, at this convention, we will release a special video on the strike entitled “The Strike at 40: Celebrating the Heroes of 1970.”

Over the past four decades, the NALC has built a tradition of progress at the bargaining table through the negotiation of 12 national labor contracts with the U.S. Postal Service. Year after year, we have sought to improve the standard of living of letter carriers while fighting for a more harmonious and fair workplace. That tradition is a strength that delegates to the Anaheim Convention can build on.

In the first 10 contracts, the NALC negotiated very traditional agreements with two- and three-year terms. Bargaining was conducted in the last three months of each contract and the union focused on enforcing the contract in between rounds of negotiations—whether the contracts were settled volun-

tarily or through interest arbitration. Since 2001, however, the NALC and the USPS have adopted a more dynamic approach to bargaining, with two five-year contracts aimed at establishing continuous engagement and negotiations on workplace issues. The 2006-2011 National Agreement, for example, established task forces on route adjustments, Article 12, the Flat Sequencing System and a wide variety of other matters that have required the NALC and the USPS to discuss, debate and bargain on an ongoing basis—all of which are discussed in the officers’ reports to this convention.

Over the past two years, the NALC has focused on four major tasks in the area of collective bargaining: extending and enforcing the ban on outsourcing letter carrier work; winning more work for letter carriers through the assignment of new deliveries; developing a better, fairer system for evaluating and adjusting routes; and preparing for the next round of bargaining. The framework for addressing the first three tasks was developed in a pair of memoranda of understanding negotiated in October 2008.

A BAN ON CDS AND PROGRESS ON ASSIGNMENTS AND ROUTE ADJUSTMENTS

The Memorandum of Understanding on the Assignment of City Delivery extended the temporary moratorium on delivery outsourcing negotiated in the 2006 contract through to the end of the contract and set out new rules for assigning new deliveries in offices where city carriers work alongside rural letter carriers and highway contract routes. Under the MOU, the NALC not only stopped the renewal of subcontracted delivery (Contract Delivery Service, or CDS), but also guaranteed the assignment of most new delivery work to city letter carriers. This reversed the practice of postal managers, who for years routinely assigned new work to lower-paid rural letter carriers (or contractors) whenever possible.

Since 2008, NALC leaders across the country have had the opportunity to monitor the implementation of the agreement and, for the first time in decades, the NALC's share of delivery work has stabilized after drifting down from 85 percent of all deliveries in the 1970s to less than 70 percent in 2005.

The MOU on the Interim Alternate Route Adjustment Process (IARAP or I-RAP) was a major breakthrough aimed at (1) ensuring fairness for letter carriers in route adjustments while relieving the stress and conflict long associated with route evaluations, and (2) adjusting routes as nearly as possible to eight hours based on current mail volume. IARAP resulted from a joint process to develop and test various methodologies for evaluating routes. Those tests were conducted in 2007 and 2008. The process empowered the union to play a direct role in the process and provided individual letter carriers the ability to provide input to labor-management teams established to evaluate routes. Its basic premise was to use regular letter carriers' actual office and street times over a period of time (up to a year) and to compare them to estimated standard office time based on the route's volume and fixed office time for the same period.

Although the goal is to eventually use year-round data in an alternate process, the decline in mail volume in recent years led the parties to use data from May and September 2008 for the IARAP adjustments. All across the country, representatives of the NALC and postal management were jointly trained on the new process and, despite the crisis conditions in the Postal Service, some 90,000 routes were adjusted by February 2009. At a time when a unilateral management process might have led to draconian adjustments due to the steep decline in mail volume, the NALC had a seat at the table and ensured a basic level of fairness.

Since the initial agreement in 2009, two successor agreements were reached to refine and improve the new alternate process. In April 2009, the Modified Interim Alternate Route Adjustment Process (MIARAP) was unveiled and was used to adjust some 150,000 routes. And in May 2010, we concluded an MOU on the Joint Alternate Route Adjustment Process. JARAP embraced the principles of IARAP and MIARAP—a place at the table for letter carriers in the route adjustment process and an ironclad requirement that no decisions on adjustments can be made without the consent of both labor and management. JARAP also improved the process by mandating automatic data integrity reviews and giving both parties a say in which routes are to be adjusted.

AT A TIME WHEN A UNILATERAL MANAGEMENT PROCESS MIGHT HAVE LED TO DRACONIAN ADJUSTMENTS DUE TO THE STEEP DECLINE IN MAIL VOLUME, **THE NALC HAD A SEAT AT THE TABLE AND ENSURED A BASIC LEVEL OF FAIRNESS.**

The NALC believes the new route adjustment process offers an excellent model for the future of postal labor relations. It shows that even in the most extreme circumstances—with the collapse of the mail-intensive finance and housing sectors—that dialogue and good faith bargaining aimed at win-win solutions is the best approach for the future. Our union has been a responsible partner that has helped the Postal Service weather one of the most difficult periods in its history, saving the USPS billions of dollars by allowing it to rapidly adjust city carrier routes in record time. Under the traditional route adjustment process, it would have taken the USPS up to five years to evaluate every city carrier route in the country. Working together, we have done it multiple times over the past 18 months.

The experience we have developed on route adjustments can be used to address a whole range of workplace issues, including the all-important need to develop new lines of business and services for the Postal Service. The NALC is prepared to do whatever it takes at the bargaining table to find new ways to organize our work to maximize the potential of the nation's postal network. Our best job security will be to help America's citizens

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and its businesses find ever more useful ways to tap into the Postal Service's unmatchable first-mile (collections) and last-mile (delivery) networks. As traditional letter mail is replaced by electronic alternatives, we must develop and embrace the new opportunities made possible by e-commerce and seek to embrace innovation. That will be a focus of the next round of bargaining.

NEGOTIATING A NEW NATIONAL AGREEMENT

Negotiating any labor agreement is a monumental task. Doing it while the economy is in a deep slump is doubly so. A look across the landscape of the American labor market shows that unions face the worst economic conditions for bargaining in more than 60 years. Layoffs, furloughs, reduced hours, benefit cuts and pay reductions are common across many industries. That's the challenging environment facing the NALC in the upcoming round of bargaining. As always, we will seek to maintain the standard of living of our members and find ways to improve their quality of work life while seeking to protect the long-term job security of letter carriers.

Compounding the difficulty will be the schedule for negotiations between the Postal Service and the other postal unions. Both the American Postal Workers Union (APWU) and the National Rural Letter Carriers' Association (NRLCA) will seek to renegotiate their labor contracts before November 2010, a full year before our contract expires in November 2011. The NALC will not be bound by any "pattern" set by the APWU or the NRLCA, but we can be sure the USPS will nonetheless attempt to set such a pattern with the other unions. The NALC will explore all the options, including early bargaining with postal management, to serve the best interests of city letter carriers.

Once bargaining does begin, the NALC is prepared to continue along the path established by the past two five-year agreements, in which we have emphasized continuous engagement to improve both the quality of work life and the efficiency of the Postal Service. In the 2001-2006 agreement, we streamlined and revolutionized the grievance-arbitration system with the inclusion of a joint Dispute Resolution Process that relies on joint training and uses a *Joint Contract Administration Manual*, and we pioneered an Intervention Process that has helped the parties address chronic labor-management problems in troubled installations. In the 2006-2011 agreement, we made further progress by institutionalizing continuous engagement on a whole range of issues, including the key innovations on route adjustments, automation and subcontracting.

The NALC is not prepared to sacrifice its basic principles or undermine the basic standard of living we have fought for generations to build. If the USPS approaches bargaining with respect and with a sense of creativity, it will have a willing partner. But if the USPS approaches bargaining with the goal of gutting our pay and benefits by taking advantage of the national economic crisis or with demands for draconian givebacks that fail to recognize the enormous sacrifices letter carriers have already made to help the USPS survive this crisis, then it will have a bloody fight on its hands.

I am optimistic that the Postal Service will choose the constructive path that has proved so successful over the past decade. I am also hopeful that management will recognize letter carriers as the public face of the Postal Service and an indispensable key to a future based on innovation surrounding its untapped first- and last-mile strengths. But if management unwisely chooses a path of confrontation, the NALC is prepared to fight back with all the resources at its disposal. We have a proud tradition to uphold and I have no doubt that we will.

Bargaining, of course, is not the only way that the NALC fights for letter carriers. We also fight for them every day through political and legislative activism. Electing pro-letter carrier and pro-labor candidates from both parties and lobbying Congress to protect our pensions, health care and other federal employee benefits are central parts of what we do as a union. Going forward, this work will only become more important because we need Congress and the Obama administration to do their part to help the Postal Service survive the current crisis and to adapt to meet the evolving needs of the American economy in the Internet age. Let us turn to this important area of activity.

SOLIDARITY IN ACTION: POLITICAL AND LEGISLATIVE ACTIVISM

At our last convention, we set our sights on two great goals: strengthening the Postal Service and reviving the middle class in America. Both goals share a common purpose that is admittedly self-interested—to advance the well-being of city letter carriers. We must bolster the USPS to protect the job security of our active members and we must rebuild the middle class to protect the standard of living of all letter carriers, whose pay and benefits are subject to a private sector comparability standard.

But our fight for the middle class is proudly a fight for solidarity with all workers in America. When we win our battles in Congress to strengthen the rights and benefits of postal and federal employees, all American workers win. And when we fight for candidates and/or laws and it helps working families improve their lives, all letter carriers win.

In Anaheim, we will recommit ourselves to these great goals. In this section of the report, we review our progress toward achieving our goals and outline the challenges we face in the years ahead.

PROTECTING THE VIABILITY OF USPS

There are three essential steps to saving the Postal Service: We must permanently reform the retiree health pre-funding provisions of the law, building on the one-year temporary relief we achieved in 2009 (with the passage of H.R. 22); we must save the USPS from itself by defeating the proposed elimination of Saturday mail delivery; and we must prepare for a new round of postal reform legislation.

Delegates might rightly ask, Didn't we already do Postal Reform in 2006? In fact, the last Republican Congress did enact postal reform legislation in 2006 on a bipartisan basis. But that was before the economy crashed. And as we move ahead, it is becoming increasingly clear that the Postal Accountability and Enhancement Act of 2006 was too little, too late and probably too optimistic.

It was too little because the Postal Service needs much more freedom to re-invent itself for the future than the 2006 law provided. Our industry is changing too rapidly and the USPS must rethink the range of services it can provide to serve the evolving needs of the American people. It was too late because it took 12 years to pass. The limited freedom to set rates on competitive products sounded radical in 1994 when the debate over postal reform first started. But that debate dragged on so long that the bill was probably outdated by the time it passed. It was too optimistic because it assumed the Postal Service could afford to pre-fund retiree health benefits on a schedule that has proved to be entirely unrealistic—especially in light of the deep recession that began just after the PAEA took effect.

Going forward, we have to address each of the major threats to our viability: the pre-funding burden, the proposed elimination of Saturday delivery, the recession and the impact of technology on mail. Congress and a fully engaged White House will be needed to overcome each of these threats.

REFORMING THE PRE-FUNDING OF RETIREE HEALTH BENEFITS

Under the Postal Accountability and Enhancement Act of 2006, the Postal Service was mandated to make a series of payments to help pre-fund future retiree health benefits. These payments will average about $5.6 billion per year over the next seven years and must be made on top of the billions the USPS must pay for health benefits for current retirees. Together, this will cost the USPS $65 billion between now and 2016.

WHEN WE WIN OUR BATTLES IN CONGRESS TO STRENGTHEN THE RIGHTS AND BENEFITS OF POSTAL AND FEDERAL EMPLOYEES, **ALL AMERICAN WORKERS WIN.**

It's a huge burden, one that was hard-wired into the law without regard to the profitability of the Postal Service and without regard to current economic conditions. This is contrary to the practice in the private sector and contrary to the recommendation of the 2003 Presidential Commission on the Postal Service, which called on the USPS to pre-fund only if it was profitable. Imposing this burden at the very moment the bottom dropped out of the economy makes it virtually unaffordable. This must change.

When Congress set the schedule of payments in the law, it relied on the calculations of the Office of Personnel Management (OPM), which was tasked with (a) quantifying the cost of retiree health benefits over the next 75 years (so that the costs could be amortized); and (b) setting up the Postal Service Retiree Health Benefits Fund with a down payment from the postal surplus in the Civil Service Retirement System (CSRS). The OPM botched both jobs. No other company in America is required to pre-fund retiree health benefits; it's voluntary, and most don't do it. So, if we have to pre-fund, the least the OPM can do is get the calculations right.

The OPM significantly overstated the future cost of postal retiree health benefits by using questionable assumptions: assuming that postal employment would remain at 2007 levels forever and that FEHBP heath care premiums would rise indefinitely by an unsustainable 7 percent annual rate. Thanks to our intervention with the Obama administration, the OPM agreed to fix these problems right away, adjusting employment levels to reflect the recent downsizing of the postal workforce and dropping the long-term medical inflation rate to the lower levels (5 to 7 percent) used by private sector insurers. But fixing the second OPM error has proved more difficult.

NO OTHER COMPANY IN AMERICA IS REQUIRED TO PRE-FUND RETIREE HEALTH BENEFITS; IT'S VOLUNTARY, AND MOST DON'T DO IT. SO, **IF WE HAVE TO PRE-FUND, THE LEAST THE OPM CAN DO IS GET THE CALCULATIONS RIGHT.**

When it set up the Retiree Health Fund, the OPM grossly understated the postal surplus in the CSRS and therefore shortchanged the Postal Service when the down payment was made in 2007. When it measured the postal surplus in the CSRS pension fund, it had to calculate the difference between the revenues contributed by the Postal Service and its employees to the Civil Service Retirement Fund and the costs of benefits paid to postal employees for CSRS service, both in the past and in the future.

It was easy to calculate the revenues and the associated interest earnings. It was not so easy to calculate the cost of benefits, since a lot of postal employees worked considerable time in the Post Office Department before the Postal Service was created in 1971. The cost of benefits earned before 1971 had to be allocated to taxpayers, while those earned after 1971 belonged to the Postal Service. It sounds straightforward, but it's not, because wage increases after 1971 increased the cost of pre-1971 benefits—our pension benefits depend on both years of service and our "high-3" average salaries. As salaries rise with inflation, the pension costs associated with all preceding years of service also rise.

The OPM shortchanged the Postal Service by making it responsible for all pension costs resulting from wage inflation after 1971—even the benefits associated with years of service under the Post Office Department. The OPM also unfairly divided the costs of cost-of-living adjustments between the USPS and the old Post Office Department. As a result, the Postal Service's CSRS surplus was reduced by tens of billions of dollars. In January 2010, the Postal Service's Office of Inspector General took a look the calculations and concluded that the OPM shortchanged the USPS by an astounding $75 billion. A more recent Postal Regulatory Commission study conducted by the Segal Company confirmed the main conclusion of the OIG study and suggested an overcharge of at least $50 billion to $55 billion.

If $50 billion to $75 billion had been transferred to the Postal Service Retiree Health Benefit Fund in 2007, there would simply be no unfunded liability for future retiree health benefits today. And there would be no grounds to force the Postal Service to make pre-funding payments averaging more than $5 billion per year between now and 2016. Correcting this situation is the single most effective way for Congress to help the Postal Service survive.

In fact, if Congress were to require the OPM to fairly allocate pension costs, the surplus funds would automatically be transferred to the Postal Service Retiree Health Benefits Fund in 2015 (under current law). The balance in the fund would grow to more than $100 billion, enough to cover all future retiree health costs and pave the way for repealing the annual pre-funding payments. It might also allow the USPS to pay off its current $10 billion debt (incurred to finance pre-funding) and allow it to cover the cost of current retiree health premiums with money from the PSRHBF. Altogether, it could save the USPS some $8 billion annually.

In 2009, we made progress on the pre-funding issue and won some short-term relief. Congress passed an amended version of H.R. 22 to cut the Postal Service's pre-funding payment in 2009 by $4 billion. That slashed the Postal Service's projected loss by half. Now it's time to permanently fix this problem. As this report went to press, the NALC was working with leaders in the House on legislation to recover the postal pension surplus and restructure the pre-funding schedule.

The biggest obstacle for both Congress and the White House has been the Congressional Budget Office and the budget rules used by Congress to control the massive federal budget deficit. Since the Postal Service is off-budget and the Postal Service Retiree Health Fund set up by OPM is on-budget, any reduction in payments to the Fund by the Postal Service technically increases the federal budget deficit.

If the CBO "scores" legislation as raising the deficit, it becomes almost impossible to pass it because of rules enacted into law that require Congress to "pay" for any legislation that increases the deficit (with tax increases or spending cuts) before it can "go" forward with a vote. We managed to overcome these so-called PAY GO rules by attaching a one-year version of H.R. 22 to a must-pass bill at the end of the fiscal year. Getting a long-term fix will be more difficult. But a permanent solution is still needed and the NALC will not stop until we succeed.

SAVING SATURDAY DELIVERY

By now, every letter carrier knows that the Postal Service wants to eliminate Saturday mail delivery beginning in October 2010. What they may not know is, neither the Postal Reorganization Act nor the more recent PAEA requires the Postal Service to provide six-day delivery. Before 1983, six-day delivery was a tradition, not a legal requirement. In 1983, as it did in 2009, the Postal Service conducted a study about converting to five-day delivery and Congress quickly stepped in to prevent a cut in services. Congress included a provision to require the USPS to maintain six-day delivery as part of the annual budget appropriation for military voting and free mail to the blind.

That appropriation provision—which is sometimes called a "rider"—has been renewed every year since, including in 2009 when the financial service and general government appropriations bill for Fiscal Year 2010 passed. At the moment, the key leaders in Congress on the appropriations committees and the postal oversight committees are strongly opposed to eliminating Saturday delivery. So is the Obama administration, which included the existing rider in its budget for Fiscal Year 2011. The NALC will continue to lobby these committees to ensure that the 1983 rider is renewed once again.

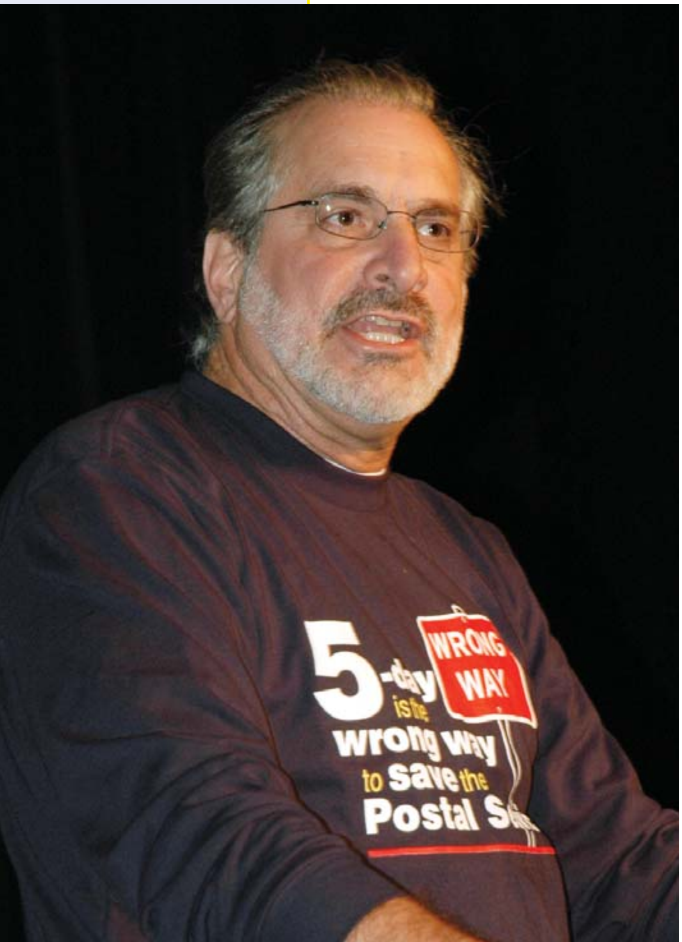
Unfortunately, the Postal Service has already concluded that mail volume will keep declining, as I noted earlier, and that nothing will be done. So in March, the Postal Service formally proposed shutting down most of its collection and delivery operations between Friday night and Sunday night to cut costs. Under the USPS plan, post offices will remain open on Saturdays, remittances sent to P.O. boxes will be processed and Express Mail will be delivered. But letter carriers would no longer deliver or collect mail on Saturday.

As required by law, the USPS filed for an advisory opinion from the Postal Regulatory Commission on this proposal in March. Regardless of what the PRC concludes, the USPS has said that it will ask Congress to drop the six-day rider from the fiscal year 2011 financial service and general government appropriation.

We have been fighting this proposal with all our might. We believe such a radical service cut is foolish and could backfire. Reducing service and making the Postal Service less valuable to mailers is sure to drive more mail away from the system.

We know that many mailers depend on Saturday delivery. Think of the online retailer Amazon.com or prescription drug mail order companies like CVS/Caremark. How about the Florida fruit shippers, whose fruit might rot if it is not delivered as quickly as possible? Or newsmagazines like *Sports Illustrated* or *The Week*—it makes a huge difference when magazines are delivered, especially in the age of the Internet. On Saturday, the news is fresh; on Monday, it's old news.

We also know that in the fastest-growing part of the postal industry—parcels and packages—the USPS has a clear advantage over companies like FedEx and UPS. We deliver on Saturday; they generally don't or, if they do, they charge an arm and a



leg for the service. In fact, one of the reasons our competitors are giving us huge volumes of small packages to deliver through Parcel Select is that we reach households on Saturdays. Does it really make long-term business sense to give up this advantage?

Besides, the NALC is quite skeptical about the Postal Service's estimates of the savings it can generate by eliminating Saturday services. The PRC questioned the $3.5 billion savings estimate in 2009, concluding that the savings would be a much more modest $1.9 billion. We don't know if they have sufficiently taken into account the possible loss of revenue from eliminating Saturday delivery. A one-sixth cut in service is not worth such paltry savings at this point.

Eliminating the rider would also set a terrible precedent. It would effectively allow the USPS to continue to cut service whenever it decided to do so. Soon, it would opt for four-day delivery or three-day delivery without giving Congress any say in the matter. Jack Potter's quote from *The Washington Post* proves this.

Even worse, if we don't deliver on Saturday, other firms would step in to fill the void. FedEx and UPS might reconsider their plans and many small companies have already announced plans to offer Saturday advertising delivery if the USPS stops serving mailers on the most important shopping day of the week. This is a direct threat to our jobs and to the future of the Postal Service.

Once new competitors emerge, it would only be a matter of time before they demand repeal of the mailbox statute, a law that gives the USPS exclusive access to Americans' mailboxes. That statute makes it possible to enforce the postal monopoly, which is central to universal service and our job security. In fact, it will only be a matter of time before competitors demand repeal of the monopoly as well.

THE CAMPAIGN TO SAVE SATURDAY DELIVERY

We believe that Congress should pass pre-funding relief as the best alternative to cut costs in the short run. And it should reject the proposal to eliminate Saturday mail delivery. To drive this message home, we recently unveiled the Save Saturday Delivery campaign with a national mailing to the leadership of the union at the state and local levels. The mailing presented a plan of action over the summer months aimed at pressuring both Congress and the Postal Regulatory Commission to reject five-day delivery while urging Congress to enact comprehensive pre-funding reform. The mailing also included a comprehensive toolkit that provided fact sheets, talking points and instructions on how individual members can help.

First, we will continue to lobby House and Senate members to support letter carriers and the NALC's solutions to the Postal Service's problems. Our immediate goal is to retain the six-day mandate that is included in the annual financial service and general government appropriation bill. But we are also working to prevent the Postal Service from attaching its five-day plan in any other postal legislation that might be drafted, such as any bill to reform the pre-funding or retiree health benefits.

Second, we will fight the battle to save Saturday delivery in the PRC proceeding. The PRC will rule in October or November on the Postal Service's five-day plan. Its opinion is a non-binding, advisory opinion. Only Congress can decide the issue of delivery frequency. However, the PRC's opinion could have a major impact on what Congress decides to do, not just this year but for many years to come. We are approaching the PRC work on multiple tracks.

On a legal track, the NALC's team of lawyers from New York City-based Cohen, Weiss and Simon is recruiting witnesses and preparing cross-examination questions for the PRC case. They are also working with NALC officers and staff on direct testimony and developing the best possible case to preserve Saturday delivery. At the grass roots level, the NALC is working with our branch leaders to find local witnesses and community allies to support our position with the PRC. The union is also working with a media consultant to reach out to local and national media outlets to provide information and union leaders for interviews on the subject of Saturday mail delivery, a tactic that was especially effective with the news coverage of the PRC's seven field hearings on the five-day proposal.

Third, we are mobilizing branch leaders across the country to engage our members, our family members and the public at large to influence both Congress and the PRC. Our state legislative chairs and our congressional district liaisons will seek in-district meetings with their Senate and House members. Branch activists will seek to recruit local businesses and community organizations to submit comments to the PRC's website opposing the elimination of Saturday delivery.

All through the summer months, we are urging all members (active ones when they are off the clock and out of uniform, and retired members who have no such restrictions) to visit businesses that receive Saturday mail delivery and to urge them to intervene in the PRC case to express their opposition to the elimination of Saturday delivery. We hope that each Saturday, more off-duty and retired carriers will reach out to the businesses and other local organizations in their communities, ask them to defend Saturday delivery, and give them instructions on how to participate in the PRC proceeding.

REBUILDING THE MIDDLE CLASS

If the immediate cause of the Great Recession was the collapse of a great housing price bubble, the underlying cause was a long-simmering crisis of the middle class. Wage stagnation caused by a sustained attack on the right to organize unions and the loss of middle class jobs resulting from an era of free trade and deregulation has been eating away at the middle class for decades. For many years, American households maintained their living standards by sending more members into the workforce and taking on more and more household debt. A series of asset bubbles—the savings and loan crisis, the Internet stock frenzy and the housing bubble—helped feed debt-financed consumption instead of the wage-based consumption of the immediate post-World War II years. As cheap imports replaced domestic production, good paying manufacturing jobs migrated overseas. Meanwhile, with union organizing virtually impossible due to legalized corporate obstruction, ever more middle class service jobs were outsourced and downgraded. Pension and health coverage deteriorated. For the first time since records were kept, the median family income declined in the United States over the course of a decade (2000-2009). Of course the economy grew, but virtually all the income gains went to the wealthiest Americans, led by the pirates on Wall Street.

Reversing this situation is what motivated the labor movement and other progressive forces during the 2008 presidential election. It also helped shape the agenda for rebuilding the middle class: comprehensive health care reform, labor law reform and a jobs and economic recovery campaign.

HISTORIC, IMPERFECT HEALTH CARE REFORM

In the area of comprehensive health care reform, the labor movement made progress over the past two years, concluding with passage of the Patient Protection and Affordable Care Act in March 2010. Despite all the hyperbolic political rhetoric and misleading hot air on talk radio and cable news, this is a huge victory for working people.

The labor movement has been working for decades to establish not only the right of all American workers and their families to be covered by health insurance, but an expectation of that right. The new law expands coverage by making everyone contribute through employer and employee mandates while extending assistance to low-income workers by opening access to Medicaid and/or helping pay for private insurance premiums.

DESPITE ALL THE HYPERBOLIC POLITICAL RHETORIC AND MISLEADING HOT AIR ON TALK RADIO AND CABLE NEWS, **[HEALTH CARE REFORM] IS A HUGE VICTORY FOR WORKING PEOPLE.**

It will reform the deeply flawed private insurance markets that currently allow insurers to deny or curtail coverage if you get sick, and it injects competition into the market for insurance plans for small business and individuals who buy insurance on their own by creating exchanges along the lines of the Federal Employees Health Benefits Plan but at the state level. It will also improve Medicare Part D by gradually filling the so-called "donut hole" in the Part D program, starting with a $250 reimbursement in 2010 for enrollees who hit the coverage "donut hole" this year.

The health care debate was a long and heated one. The level of misinformation about the bill was extraordinary. There was a massive campaign designed to scare people about so-called “Obamacare,” a campaign that is still underway. It’s important to remember that while the goals of health care were ambitious, the route taken to achieve comprehensive coverage is a moderate one. Many of us wanted a single-payer system—“Medicare for all”—or at least a “public option” to give Americans an alternative to private insurance. But Congress would not go along with it and the final bill resembles the bipartisan plan adopted in Massachusetts a few years ago.

According to the nonpartisan Congressional Budget Office, the new law will reduce premium growth for plans like ours—those that are provided by employers—by eliminating the hidden premium taxes we pay to help cover the cost of uncompensated care, the health care that doctors and hospitals must provide. The CBO says premiums for individual plans might go up modestly more than under current law, but the quality of coverage will dramatically improve.

That’s what the bill does. What it does not do is call for a “government takeover” of health care. It reforms the current system, mitigating but not eliminating its flaws. It will do that while reducing the federal budget deficit. The expansion of coverage will cost far less each year than the wars in Iraq and Afghanistan, and it will be paid for by reforming the Medicare Advantage program and by raising the hospital insurance tax component of the FICA payroll tax on the very highest-income taxpayers.

Finally, the new bill will not interfere with doctor-patient relations—indeed, the American Medical Association and most other professional groups endorsed the bill along with the AARP and many other key interest groups.

The AFL-CIO and the NALC can be rightly proud of our efforts to make health insurance reform a reality. Some 35 million Americans will gain coverage. The legislation is not perfect, just as Social Security was not perfect when it passed in 1935. But we have established the principle that Americans should have health insurance and we can work in the years ahead to improve the bill by campaigning for a public option in the exchanges as well as for other enhancements.

The NALC participated actively in the AFL-CIO’s field campaign over the past year, starting in 2008 with the creation of Health Care for America Now!, a broad business, labor, non-governmental organization coalition that supported making health care reform an election issue. We also responded to match the passion of anti-reform protesters last August when many members of Congress called for help *(see photo at left from a rally held in March 2010).*

In the end, the AFL-CIO played a central role in negotiating the improvements to the flawed Senate bill that made reform possible. We didn’t get a complete repeal of the excise tax on high-cost plans, but we made it fairer and laid the groundwork to use more progressive means to finance reform in the future.

EMPLOYEE FREE CHOICE ACT

We had less success in labor’s goal to enact the Employee Free Choice Act (EFCA). Union density has declined to just 7 percent in the private sector in the United States. Even if the economy recovers, the labor market will not improve until more workers can bargain for improved wages and benefits. Labor law reform is the best way to make that happen. It is long, long overdue. Employers now routinely resist union organizing drives through intimidation, delay and stonewalling. Companies routinely and intentionally violate labor laws to sow fear among workers who even think about organizing a union. EFCA would expedite union elections, prohibit intimidation and provide for first-contract arbitration.

Delegates who attended the Boston Convention will recall how active the NALC was in the AFL-CIO's Million Member Mobilization campaign to petition Congress to enact EFCA. All through 2009, NALC activists were in the field working full-time with the AFL-CIO, its Working America affiliate and other unions to advance the cause. While it was clear that we had a majority of votes in both houses of Congress, the legislation could not muster 60 votes in the Senate, the number needed to overcome a GOP-led filibuster.

This is a deep disappointment to the entire labor movement. The fact that the new administration had to focus on economic recovery first and then gave its highest priority to health care reform did not help EFCA's chances. But the overwhelming opposition of the American business community was decisive. Corporate interests spent tens of millions of dollars on bogus TV ads demonizing unions and misleading the public about what EFCA would do. And the Republican Party decided to favor Big Business over workers.

As with health care reform, the NALC and the labor movement will not give up on the Employee Free Choice Act. We will keep pressing for it, as long as it takes. In the meantime, the AFL-CIO will work with allies in the Obama administration to use the new pro-labor majorities on the National Labor Relations Board and other labor regulatory bodies to do what we can within the current law to crack down on the abuses of corporate union busters.

CONFRONTING THE JOBS CRISIS

Finally, the NALC shares the labor movement's deep concern about the jobs crisis that still plagues the United States. As this report went to press, the unemployment rate stood at 9.5 percent of the labor force—and that does not include the millions of workers on part-time hours or who have given up looking for work altogether. More than half of the 15 million officially unemployed Americans have been out of work for more than six months, the highest percentage on record. There is now only one job vacancy for every five workers seeking employment.

WE KNOW THE DEFICIT IS LARGE, BUT **IT WILL ONLY GROW LARGER IF THE ECONOMY SLIPS BACKWARD.** THAT IS WHAT HAPPENED IN 1937. IN THE NAME OF SOLIDARITY, WE CAN'T LET THAT HAPPEN AGAIN.

Last year, we averted another Great Depression with a major stimulus bill. President Obama took a lot of heat for saving the automobile industry and for enacting other safety-net measures. But those actions were essential, and we have to do even more to get the economy growing. The Postal Service will not recover until the American economy recovers; indeed, payroll employment growth is one of the leading predictors of mail volume growth. That means we need to start creating jobs again. The AFL-CIO has calculated that there is now a jobs gap of 11 million workers—that's how many jobs we would need to create to reach full employment.

Congress must enact further legislation to spur job growth. Additional aid to state and local governments to avoid layoffs of teachers, police officers and other public employees would help a lot. More public infrastructure spending would also put people back to work while filling the gap in demand from consumers and business investors. NALC activists should view our campaign to save Saturday mail delivery as part of this broader campaign to create and save jobs at this time of economic peril.

Of course, we know the deficit is large, but it will only grow larger if the economy slips backward. That is what happened in 1937—Congress thought the Great Depression was over and started raising taxes and cutting spending to close the budget deficit. Instead, the deficit exploded because the economy fell back into a deep slump. We didn't emerge from the depression until World War II. In the name of solidarity, we can't let that happen again.

A FOCUS ON INNOVATION: THE FUTURE OF THE USPS

I will conclude this report with some observations about the future of the Postal Service, which obviously affects the future of our union. Let's not kid ourselves. There are no guarantees in the modern global economy. Technology, politics and the economics of our industry are brazen forces that will show us no mercy. That does not mean we are powerless to shape our future, but it does mean we will have to be smart and creative. If postal workers want to avoid the fates of workers in other industries that have been overwhelmed by change, we will have to be both clear-headed and flexible. We will have to understand the challenge before us and then act forcefully to help Congress devise a business model that will work in the 21st century.

THE INTERNET CHALLENGE

Even before the recession, the handwriting was on the wall for a whole range of industries that are grounded in paper and physical distribution. The Internet technology revolution that is cannibalizing the billing and payments volume we have long delivered is reshaping many other important industries. Google is working around the clock to create electronic versions of millions of books, and Amazon.com and Apple are selling e-book readers by the millions. The same process of electronic substitution is transforming the music industry as iTunes song downloads replace physical compact discs, and new online media outlets are emerging at the expense of traditional magazines and newspapers.

Increasingly, the Postal Service has become more dependent on Standard Mail, mail that is less profitable and subject to greater competition from other advertising media, including many Internet-based options. Worse, Standard Mail is increasingly the target of unfair attacks from environmentalists who advocate "do not mail" registries.

Does this mean that new types of mail will not emerge? Does it mean that the Postal Service must forever restrict itself to traditional letter mail services? The answer to both questions is: Of course not. New business and new types of "mail" are always being developed. Few people had heard of Netflix or eBay 10 years ago; now they are among the USPS's biggest customers (though Netflix, too, is planning a digital future based on streaming video). Vote-by-mail barely existed outside Oregon even a few years ago; now it is growing by leaps and bounds. Online distribution of prescription drugs and other web-based merchants points to the tremendous growth opportunities that exist for last-mile delivery.

But to fully take advantage of these opportunities, the so-called business model of the USPS will have to change. The NALC can either shape that change or get run over by it. I think we all know what path our members want us to take.

THE BUSINESS MODEL DEBATE

When the Founding Fathers provided for a Post Office in the American Constitution, they considered it a basic service to the people and a crucial part of our fledgling democracy. They did not think in terms of business models. That bit of academic jargon is relatively new to the postal community.

The quote-unquote "business model" of the Post Office for much of its history was that of a standard public service, paid for by postage and supported by taxpayer funds. Since the Postal Reorganization Act of 1970, the Postal Service's operating model has taken on a "business" character. The USPS was reorganized as a government-owned, non-profit corporate organization with a public mission. It was called on to cover its own costs while investing to expand services as needed.

For decades, that model worked—as mail volume rose every year, the Postal Service managed to generate the revenue to cover the cost of an ever-expanding delivery and logistics network. But the Internet and the changes briefly summarized above have undermined the viability of the 1970 PRA model.

In 2006, the Postal Accountability and Enhancement Act tweaked that business model a bit, allowing for profits and some flexibility in pricing, but it left the 1970 reforms largely in place. Unfortunately, the timing of the PAEA proved troublesome, coming into effect at the precise moment that the economy entered a deep recession. Add in the new law's retiree health pre-funding requirement and we had the makings of the current crisis. Congress is being forced to once again reconsider the postal business model.

There are basically five options on how to change the Postal Service—some aimed at further tweaking the existing model, others calling for radical legislative reform. Let's briefly review them, starting with the approach supported by the USPS and finishing with the approach the NALC prefers.

The Postal Service's preference is for a "more flexible" version of the current model. It would keep the current legal structure but let the USPS eliminate Saturday delivery, contract out craft work without restriction, replace full-time workers with part-timers, and force postal unions to bargain for fringe benefits now provided through federal government programs like FEHBP and the Federal Employees Retirement System (FERS). While it pays lip-service to the freedom to generate new revenues, this "flexible model" focuses essentially on cost-cutting. In other words, it's the "break the postal unions" model. Clearly, we would fight this approach to the death.

Second is the "back to the future" model. In this case, the Postal Service would return to the bosom of the federal government as a civil service agency, supported by taxpayer subsidies and subject to direct management by Congress. Although we believe the mission of the USPS merits taxpayer support, this option is highly unrealistic. After decades without taxpayer appropriations, it is doubtful Congress would agree to their resumption—especially at a time of huge federal budget deficits caused by economic crisis. Besides, we would not welcome the politicization of postal operations and the involvement of Congress in our collective bargaining.

Option Three is the "deregulate" model. It would deregulate postal services altogether, repealing the postal monopoly and opening American mailboxes to competitors in mail delivery. This is the disastrous path adopted by the European Union, a path that has devastated postal employee living standards in Europe while failing to meet the promises of better service at lower costs. While this path seems to offer a way to let postal operators diversify their businesses to generate more revenue, it ignores the fact that universal, last-mile delivery is a natural monopoly. Indeed, in practice, deregulated Post Offices are burdened with a universal service obligation that competitors don't have, a circumstance that virtually guarantees their financial failure. The NALC would adamantly oppose this model.

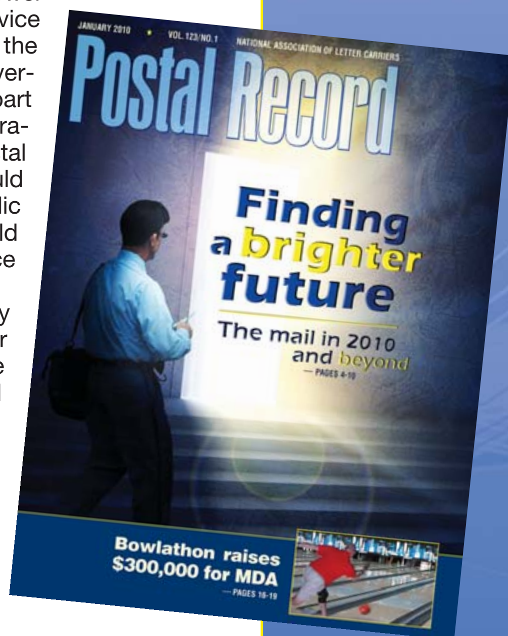
Fourth would be full privatization in addition to deregulation. This is a non-starter for obvious reasons: It would destroy our jobs and the Postal Service as we know it.

The fifth and final model is the so-called "public utility" model that would greatly expand the Postal Service's commercial freedom. We would focus on expanding the range of services provided by the USPS and focus on the Postal Service's natural monopolies, the provision of so-called "first mile" and "last mile" services—collections and deliveries of goods and materials as well as traditional mail.

In this model, the USPS would either downsize its retail networks or expand the range of services provided by post offices—say, for example, banking services or services for state and local governments. Since the public strongly supports a robust post office network and the USPS retail network supports tens of thousands of good middle class jobs, the NALC strongly endorses expanding services in post offices rather than downsizing the retail network. At the same time, we also embrace a business strategy that focuses on exploiting our collection and delivery strengths in residential America.

Some versions of the public utility model call for privatizing the USPS while keeping its first mile (collections) and last mile (delivery) monopolies in place. Under this scenario, the USPS would take on the quality of a public power utility or other regulated service provider. At least for now, the NALC does not support this version of the model. As a key part of the national economic infrastructure, we believe the Postal Service's public mission should keep the USPS in the public sector where it can be held accountable for quality service and fairness to all.

The broad public utility model holds much promise for the NALC. It seems to offer the best setting for innovation and the best chance of defining a new, more expansive mission for the Postal Service. It also builds on our strengths: our unmatchable first- and last-mile networks and the trust people have in letter carriers and the USPS as a brand.



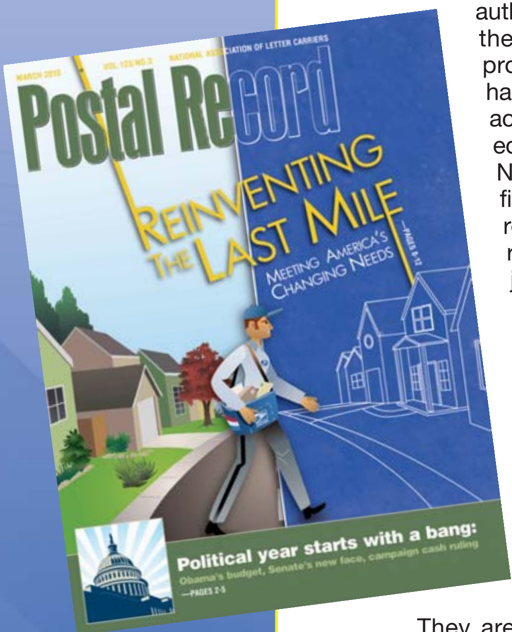
IMAGINING THE FUTURE

As Congress takes up the debate over the future of the Postal Service, the NALC will seek to build on these strengths and expand the range of revenue-producing services that we can offer. We believe the future depends on imagination and innovation and we hope Congress will embrace this view as it approaches its legislative work.

Let's imagine what the Postal Service might look like in November 2020:

It's the 10th anniversary of PAEA II, the postal reform law that amended the Postal Accountability and Enhancement Act of 2006. Thanks to the new law's vote-by-mail provisions, letter carriers all over America are delivering voter information packets on the hundreds of ballot initiatives before voters, along with vote-by-mail ballots that have boosted voter participation rates to above 75 percent.

The Postal Service's Last Mile Express subsidiary, a joint venture between the USPS, Costco and Google, has expanded beyond its Saturday guaranteed delivery product to offer a Wednesday night service for mid-week residential delivery. It has broken into the Fortune 500 while the Postal Service's expanded Parcel Select service has generated billions of dollars in carbon credits for FedEx and UPS under the landmark climate change legislation also passed in 2010.



The USPS's Green America Bank, authorized by PAEA II to give life to the national infrastructure bank proposed by President Obama, has grown to more than 20 million accounts with $100 billion invested in green bonds issued by the National Infrastructure Board to finance home and office energy retrofitting programs, high-speed rail and other clean energy projects—including a project to replace the entire postal vehicle fleet with electric and natural gas-powered vehicles. The GAB is also providing low-cost remittance services to tens of thousands of American residents each day.

Letter carriers are reading utility meters for gas and electric companies across the country with new, more sophisticated scanners. They are also fulfilling orders for shipping materials and office supplies from the more than 18 million small, home-based businesses on their routes, working in partnerships with companies like Office Depot and Staples.

More than 10 million Americans have signed up for a USPS Twitter monitoring service, receiving messages from carriers who briefly check in on customers' elderly relatives once a week.

All this sounds a bit far-fetched, I know. Certainly, the timing of PAEA II is doubtful—as you all know, it took us 12 years to get PAEA I. But the rest of it need not be.

The Postal Service has continuously evolved over the last 200-plus years to meet the emerging needs of the country. Its growth has always depended on adding new functions while fulfilling the old functions as long as they are needed. In this way, our past can be an inspiration for what comes next.

The Post Office Department served the early republic as the primary means of personal and political communication, a key distributor of letters, publications and books. As the country expanded westward during the 19th century, the Post Office added the distribution of merchandise goods bought through mail-order catalogues by Sears, Roebuck and Company and by Montgomery Ward (the Amazon.com and eBay of their day), even as the telegraph began to replace some letters.

In the early 20th century, the Post Office helped create the civil aviation industry through the innovation of air mail and bolstered the development of mass-market magazines, even as the number of newspapers delivered by mail declined. It also set up a Postal Savings Bank that filled a small but important purpose in the American banking system. By the mid-20th century, the P.O.D. had become a key component of the nation's financial infrastructure, handling the billing-and-payments flow between tens of millions of households and businesses as mortgage and consumer credit expanded—even as phone calls supplanted telegrams and personal letters.

Over the past 25 years, the Postal Service became a highly effective channel for marketing products through sophisticated mail targeting, as first the fax machine and then the Internet began to replace many business functions.

Going forward, the key questions are: Can we find new, useful ways to use the existing set of postal networks—the retail network, the mail-processing network and the last-mile delivery network? And can we continue to provide affordable, quality mail service that serves the old functions even as we take on new ones? With the arrival of companies like eBay, Medco and GameFly, and with the evolution of new uses of the mail such as vote-by-mail, we believe that the answer to both of these questions is a resounding "yes."

With a little creativity, our retail network could provide low-cost financial services that banks have stopped providing in many parts of the country. Our mail-processing networks could be used as warehouses for e-commerce and as recycling centers. And the last mile of residential delivery could be exploited more fully with new technology, placing letter carriers in a crucial role for businesses of all stripes, national retailers, local businesses and everyone in between. A partnership between letter carriers and small businesses to provide efficient local distribution would allow such businesses to compete with the "big box" stores and Internet retailers, combining personalized, high-quality service with convenience and efficiency.

INNOVATION CAN'T WAIT

Finally, it should be understood that there is much we can do to spur innovation even before

Congress gets its act together to reform the Postal Service's business model.

A top goal for the NALC over the next two years is to develop an innovation agenda. We cannot simply sit back and hope that the Postal Service or Congress or the postal industry will save us. We have to save ourselves. We have to be in the driver's seat on finding ways to redefine the way American businesses and American citizens might benefit from "last mile" services provided by the United States Postal Service.

For that reason, we have begun to have extensive discussions with significant players in the postal industry about how we could work together to develop and test new services and product offerings. With companies like Pitney Bowes and Siemens, we want to explore the use of hand-held devices that might expand the range of services we could offer to the tens of millions of small businesses and home-based offices that we serve every day. With members of the Parcel Shippers Association, we will investigate ways to position the Postal Service to take advantage of the growth of e-commerce, the one area of the postal industry that is expected to grow dramatically in the decades to come.

We are even prepared to talk to the companies with which the Postal Service competes every day—companies like FedEx and UPS—to make our low-cost, last-mile delivery service available to them. FedEx SmartPost is already one of the Postal Service's fastest growing customers. That is the low-cost, drop-ship service that FedEx offers to its customers: It collects and transports the packages and letter carriers provide the last-mile delivery. We offer the same service to UPS, which they market as UPS Basic.

Our goal should be ambitious: We want to deliver all the packages that FedEx and UPS have for residential customers all across America. We have the competitive advantage in residential neighborhoods. We have what economists call "economies of scope." Since we deliver to 90 percent of all households every day, the cost of parcel delivery through our network is minimal. It does not make economic or environmental sense for UPS and FedEx to send trucks down streets to deliver to one out of every 50 houses if we are going to every house on those streets already anyway.

Of course, we can't advance these ideas for product innovation alone. We need the Postal Service to embrace innovation as well. For that reason, we will urge the creation of a Labor-Management Task Force on Revenue Generation to bring together key executives and leaders in our union to work on product development and testing. The NALC has already identified several companies with an interest in testing a last-mile partnership with the Postal Service.

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For example, CVS/Caremark, the giant drug store chain, is willing to test an idea of giving customers who call in prescription drug orders the option to request next day postal delivery instead of coming down to the pharmacy to pick them up. Those who choose postal delivery will be asked if they desire other items from the store, which can also be delivered for a fee.

We know that we don't have all the answers at NALC Headquarters. So we want to expand the union's "Last Mile Project" to systematically tap the ideas and knowledge of our members to help us generate solid proposals for new ways to use the Postal Service to serve the needs of the American people. The NALC will also work with a global trade union federation, UNI Post and Logistics, to investigate ways that other post offices around the world are innovating to preserve the viability of their services.

CHANGE COMING

In the next few years, the NALC will have to imagine, and fight for, a viable future. It is impossible to know for sure what that future will look like. But I do know one thing for sure: Letter carriers will be at the heart of it. Letter carriers are the face and the future of the Postal Service and the NALC is determined to work with industry stakeholders on Capitol Hill and with the Postal Service at the bargaining table to secure a prosperous future for our members. If we can convince the Postal Service and Congress to work with us, I am absolutely confident we can succeed.