GENERAL OVERSIGHT OF THE U.S. POSTAL SERVICE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON THE POSTAL SERVICE

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

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GENERAL OVERSIGHT OF THE U.S. POSTAL SERVICE

THURSDAY, FEBRUARY 23, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE POSTAL SERVICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:26 a.m., in room 2247, Rayburn House Office Building, Hon. John M. McHugh (chairman of the subcommittee) presiding.

Present: Representatives McHugh, Sanford, Gilman, Shays, Ehrlich, and Barbara-Rose Collins.

Staff present: Dan Blair, staff director; Robert Taub, Heea Fales, and Jane Hatcherson, professional staff members; Meryl Cooper, clerk; and Denise Wilson, minority professional staff.

Mr. MCHUGH. I will call this subcommittee meeting to order. We will certainly welcome the addition of Miss Collins when she arrives, but I know that time is a significant factor, and we don't want to impose upon the individuals who are here today any more than we have to.

Today the Subcommittee on Postal Service begins a series of general oversight hearings regarding the operation of the U.S. Postal Service. These sessions are intended to provide the members of the subcommittee with an overview of the present administrative and operational status of the Nation's largest civilian employer, the U.S. Postal Service.

This morning we are honored to have before us the Postmaster General of the United States, Mr. Marvin Runyon. In addition, Mr. Mike Motley, who is the Associate Director of the General Accounting Office, will also present testimony, and it is my honor and privilege to welcome both of these gentlemen here this morning—thank you for being here—and also to welcome each and every one of you.

Certainly the Postal Service has not lacked for media attention these past few months. Allegations of poor delivery, unacceptable levels of service, and rate increases have led to calls for privatization and, unfortunately, a general lack of respect among much of the public for an institution that is literally as old as the Republic itself.

At the same time, reports of more positive developments such as improvements in service standards and the fact that our Postal Service, for all of its perceived shortcomings and for all of the challenges it faces each and every day, is still among the least expen-

sive in the world. These kinds of things seldom make the morning headlines.

What many people too often forget is the breadth and the magnitude of the mandate for the Postal Service in our country. While we will not attempt to gloss over past challenges and mistakes, we hope this series of hearings will provide the members of the subcommittee with the information to allow them to determine the strengths and the weaknesses of the Postal Service and to aid the Congress in facilitating a higher standard of delivery and service to all postal customers.

I look forward to Mr. Runyon updating the subcommittee members on a wide range of postal issues. Particularly, I hope progress can be reported to us today on the collective bargaining front. I know the Postmaster General has expressed his concerns regarding the inability of labor and management to reach collective bargaining agreements in the past, and we would welcome his perspective on what might be done to ameliorate this situation through future negotiations.

Another issue that certainly is of concern involves finances. With the recent rate increase, the state of postal fiscal affairs should look good for the forthcoming year. However, the budget process and a host of other unforeseen circumstances could adversely affect the Postal Service's breakeven point, and we are most interested as well in the Postmaster General's views on what the future might hold in this regard.

I want to extend the subcommittee's appreciation for the appearance of our second witness, General Accounting Office Associate Director Mike Motley. The GAO has performed admirably in works with the Postal Service and in the postal arena over the past few years, and I along with members of the subcommittee look forward to GAO's continuing cooperation with the Congress in its review and its analysis of postal operations.

For the record, today's meeting represents the first in a series of general oversight hearings to be conducted by the subcommittee. We have asked the Postal Rate Commission to appear before us next week, and we have scheduled a March 8 appearance before the subcommittee of the Postal Board of Governors.

As a legislative body devoted exclusively to the oversight of the Postal Service, this subcommittee plans to scrutinize in depth virtually all phases of postal operations and services. This will undoubtedly lead us into areas of inquiry that have often been totally ignored and even rejected in the past. While our dedication to probing all areas of postal operations might be unsettling to some, I believe that it is our solemn duty to the people of this Nation to ensure that no legitimate question goes unasked and no valid argument goes unheard and unheeded. This has been the unofficial motto of this 104th Congress, and it will be the guiding principle of this subcommittee.

With that, I thank the witnesses again for their appearance here today, and we look forward to their testimony.

[The prepared statement of Hon. John M. McHugh follows:]

PREPARED STATEMENT OF HON. JOHN M. MCHUGH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Good morning, the subcommittee will come to order. Today, the Subcommittee on the Postal Service will begin its series of general oversight hearings of the United States Postal Service. This series of hearings is intended to provide the members of the subcommittee with an overview of the present state of operations of the nation's largest civilian employer. This morning, we are honored to have before us the Postmaster General of the United States, Mr. Marvin Runyon. In addition, we have Mr. Mike Motley, Associate Director of the General Accounting Office. It is a pleasure to welcome all of you to the hearing this morning.

The Postal Service has not lacked for media attention these past few months. Calls for privatization, allegations of poor delivery and service, and recent rate increases have led to a lack of respect among the general public for an institution which is as old as the republic itself. However, good news such as improvements in service standards and the fact that our Postal Service is still among the least expensive in the world seldom makes the morning headlines. What many people seem to forget is the breadth and magnitude of the mandate for Postal Service in our country. While not attempting to gloss over past mistakes, I hope this series of hearings will help the subcommittee determine the strengths and weaknesses of the Postal Service in order to aid the Congress in facilitating delivery and service to all postal customers.

I look forward to Mr. Runyon updating the subcommittee members on a wide range of postal issues. I hope progress can be reported on the collective bargaining front. I know the Postmaster General has expressed his concerns regarding the inability of labor and management to reach collective bargaining agreements. Reaching out to a third party arbitrator can be beneficial; however, binding determinations reached by a party who is unfamiliar with the Postal Service and its structure can adversely affect operating abilities. Another issue of concern involves finances. With the recent rate increase, postal finances should look good for the forthcoming year. However, the budget process and other unforeseen circumstances could adversely affect the Postal Service's break even point.

I want to extend the subcommittee's appreciation for the appearance of our second witness, General Accounting Office Associate Mike Motley. The GAO has performed admirable work in the postal arena over the past few years and I look forward to GAO's continuing cooperation with the Congress and this subcommittee in its review and analysis of postal operations.

For the record, today's meeting represents the first hearing in a series of general oversight hearings to be conducted by the subcommittee. We have asked the Postal Rate Commission to appear before the subcommittee next week and we have scheduled for March 8 an appearance of the Postal Board of Governors before the subcommittee. As a subcommittee devoted exclusively to oversight of the Postal Service, we plan to scrutinize in depth all postal operations and services. I thank the witnesses for their appearance and look forward to their testimony.

Mr. MCHUGH. At this time, I would like to yield to the Honorable Barbara-Rose Collins, the gentlelady from Michigan, who serves as the ranking minority member of the committee, for any opening remarks she might have.

Miss Collins.

Miss COLLINS OF MICHIGAN. Thank you, Mr. Chairman.

I join you in welcoming our two panelists for the first of a series of oversight hearings on the Postal Service.

As the former chairwoman of the Committee on Post Office and Civil Service Subcommittee on Postal Operations and Services, I am pleased that we are embarking on a sensible and comprehensive examination of postal services and operations. I note that the GAO report on automation was in response to my subcommittee request. Mr. Runyon and Mr. Motley are familiar with my concerns, and my concerns have not changed.

I remain interested in the state of labor-management relations at the Postal Service, the status of technological innovations, the impact automation is having on the efficient delivery and handling of mail or the inefficient delivery and handling of mail, and, finally,

the overall state of mail delivery in our cities and communities across the Nation. In short, I, too, am concerned about the future of the Postal Service. To that end, I look forward to hearing from the Postmaster General and the GAO on matters affecting the delivery of mail.

I thank you, Mr. Chairman, for your foresight, your approach, and dedication to a thorough airing of postal matters.

Mr. MCHUGH. Thank you, Miss Collins.

Next I yield to the vice chairman of the subcommittee, the Honorable Mark Sanford, the gentleman from South Carolina.

Mr. SANFORD. I'll keep it very brief and say that I look forward to the testimony, and I really have no opening comment. I think you have said everything that needs to be said from my end.

Mr. MCHUGH. Thank you very much.

To his left, and to your right, is the honorable gentleman from New York. Not all of us honorable gentlemen are from New York, but he is, and he is Mr. Ben Gilman.

Mr. GILMAN. Thank you, Mr. Chairman, and, Chairman McHugh, I want to thank you for calling this first meeting in a series of hearings to address the issues that the Postal Service is going to have to be confronting in the coming months and years, and it is my hope that in our subcommittee we will be able to engage in a constructive dialog to help improve the efficiency and customer service of what I consider an indispensable agency. While I understand that every department of our Federal Government must be considered in our efforts to try to control the Federal budget deficit, we hope that as we embark on those efforts we will be keeping service, good service, intact and that we will be honoring the commitments we have made to our postal employees.

I join in welcoming our Postmaster General, Mr. Runyon, and Mr. Michael Motley of the General Government Division of the General Accounting Office to our subcommittee. I welcome also Deputy Postmaster General Mike Coughlin, who is here with us, and Bill Henderson, the Chief Operating Officer and Executive Vice President.

I also want to welcome a number of our postmasters who are able to attend. They have been here for several days of meetings in Washington. We look forward to hearing the testimony of the Postmaster General.

Thank you, Mr. Chairman.

Mr. MCHUGH. Thank you, Mr. Gilman.

Next I will yield to the gentleman from Connecticut, Mr. Chris Shays.

Mr. SHAYS. Thank you, Mr. Chairman.

I just would add my voice to the appreciation for our holding these hearings and to thank you, Mr. Runyon, and your people for being here. I think you have an extraordinarily difficult task, and I would like to feel that Congress can help you in that effort rather than being a hindrance.

My ultimate hope is that you can do the job with less people and provide better service, and I know that you won't be reluctant in letting us know how we can help in that effort.

Mr. MCHUGH. Thank you.

Just for some general ground rules, we had hoped to have a 5-minute light, but we were told that, with all the other lights, those lights don't work in here. Therefore, we would just ask that, as we go through the rounds of questioning, members could try to contain their questions so that we might go through several rounds. We will try to ensure that everybody has an opportunity to pose questions to the Postmaster General.

Also, we have been informed by letter that it is the custom of the oversight committee to swear in all witnesses to appear before either the full committee or the subcommittee. So with that, if you gentlemen would rise and stand with me, and we will administer the oath.

[Witnesses sworn.]

Mr. MCHUGH. With the preliminaries out of the way, we would now again welcome the Postmaster General, Mr. Marvin Runyon, and allow him to make the formal introductions of the two gentlemen who have accompanied him.

Mr. Runyon, welcome, and we look forward to your testimony, sir.

STATEMENT OF MARVIN RUNYON, POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER, U.S. POSTAL SERVICE, ACCOMPANIED BY MIKE COUGHLIN, DEPUTY POSTMASTER GENERAL; AND BILL HENDERSON, CHIEF OPERATING OFFICER AND EXECUTIVE VICE PRESIDENT

Mr. RUNYON. Good morning, Mr. Chairman and members of the subcommittee.

With me today are Mike Coughlin, Deputy Postmaster General, on my left, and Bill Henderson, Chief Operating Officer and Executive Vice President, on my right. We are glad to be here this morning.

We have got good news to share with you and the American people. I am encouraged by the effort of our employees and the progress they have made in raising our performance. It is no secret that we had problems last year, particularly in a few of our larger cities. Service was off, our customers were concerned. We responded by adjusting our management structure, focusing on the basics, and working more closely with major mailers. We have a lot more work to do, but our folks have come a long way in the past year.

I am also encouraged by the support that we are getting from mailers across the country. Companies, large and small, are bringing us their business in record levels and working closely with us to make sure it gets delivered quickly and consistently, and I am encouraged by this breath of change that is in the air. The 104th Congress and the administration have the opportunity to change the Federal Government on a historic change. We stand ready to help in any way we can to make government more businesslike and responsive to the American people.

This morning I had the pleasure of welcoming most of you to the Postal Service. We are what government service is all about. No other organization touches more lives and provides more livelihoods than does the Postal Service. That is because no other company does what we do—serving everyone—everywhere—every day.

The American people count on the mail to communicate and exchange information. American businesses count on the mail to bring customers in the door and dollars to the bottom line. We are talking big business too. Companies marketing their products and services invested $29.3 billion in the mail in 1994, putting us in a virtual three-way tie with television and newspapers for the American advertising dollar. They made their sale by mail too. Consumers spent more than $200 billion in mail order purchases last year. America depends on the mail.

To meet that responsibility, I think we have to accomplish three things. We have to serve the Nation, run like a business, and keep an eye on the future. We are doing a pretty good job meeting the first mandate, serving the Nation. We visit 125 million addresses every work day—providing fair, economical access to 261 million Americans. And our people are doing it better than ever; 84 percent of all local first-class mail is being delivered overnight, tying our best performance ever. Tests by the media—from the Washington Post to the Los Angeles Times—show even better results. The 1994 Christmas season was the best on record with customers ranging from ADVO to Wal-Mart praising the efforts of our employees.

Financially we are on solid ground. Through the first 5 months of our fiscal year, we have a preliminary net income of $531 million, well ahead of forecast. Revenue is up, driven by a 5.3 percent increase in mail volume, yet at the same time expenses are running $176 million under operating projections.

Postal employees nationwide are doing a fine job in terms of both bottom-line performance and top line concern for customers. They care about their communities. They care about their neighbors. It shows in their performance. They are reminding us that serving the Nation one address at a time every day, consistently, promptly, carefully, is important worthwhile work. They are doing a good job.

That brings me to the second mandate, running the Postal Service like a business. In the last 2½ years we have made improvements in this area, too. We restructured our organization, saving $1 billion a year without resorting to layoffs; we held rates steady for 4 years, saving the American people $14 billion; and we kept the eventual increase 2 percentage points below inflation.

The Postal Reorganization Act of 1970 has served us well, creating a new breed of government organization—a businesslike public service. But the law never envisioned today's highly competitive communications industry. To a large degree it puts our destiny outside of our control.

Regulatory oversight is appropriate, but it should not impair our ability to serve customers and provide them with products they want at market prices. It is time for us to reexamine the 25-year-old law that created this organization. It is time for us to take the next step—to make the Postal Service more business-like and competitive for the American people.

There are three areas we need to focus on. First, we need to free our employees from burdensome rules and bureaucratic red tape and focus their efforts on serving our customers' mailing needs; second, we need to free the price setting process so we can respond to the market, stay competitive, and keep costs down; and, third,

we need to free our products of bureaucratic restrictions and make them more modern and customer oriented.

Let's take them one at a time, starting with our people. We have the largest civilian work force in the Nation. We set wages and work rules through collective bargaining—but it is clear after 20 years that the process is broken. For the fourth time in the last six labor contracts we are headed toward a settlement dictated by arbitrators—outsiders—people who aren't accountable to postal customers.

The methods for settling employee disputes also aren't working. They lead to multiple appeals on the same issue. They produce different outcomes in similar situations. It simply doesn't pay to make a Federal case out of every workplace dispute, not for employees, managers, and especially our customers who get stuck with the tab. We must have a system that promotes cooperation and agreement.

The second area we need to change is prices. The price-setting process is out of sync with the speed and direction of modern business. It takes too long, it costs too much, and it is too inflexible.

We are required to prepare a court case and present it to the Postal Rate Commission. The paperwork for the last one filled more than 50 boxes. The Commission studies the filing; they hear testimony from customers. Competitors lobby to raise our prices so they can raise theirs, then the Commission deliberates and eventually recommends new rates. All told, it takes more than a year, and that's no way to run a business.

While we have to spend months revealing proprietary business information to justify new rates, other companies can act overnight. They skim the cream from new business opportunities. We have to wait for the chance to compete.

Outside charges have also impacted the prices postal customers must pay. Through 1998, the Postal Service will have paid $14 billion to reduce the Federal deficit since 1987. Some are now proposing that the Postal Service prefund its health care costs. However, this would cost the Postal Service at least $11.6 billion and have a devastating impact on our finances. It would force us to file a new rate case seeking at least a 2-cent hike in the first-class stamp and similar increases in other types of mail. It would hurt our competitiveness and undercut the progress we have made. It is the wrong way to go.

Together we can correct the situation. We can avoid future assessments on postal ratepayers. We can simplify the rate-setting process while maintaining appropriate oversight, and make it faster and much less expensive. We can make our prices more market-based and competitive. The rewards could be great. With enough business latitude, I believe 1 day we could become a profit center for the Federal Government.

The third area of change is our products. Frankly, much of our product line is out of touch with the market. In many cases you pay for what you are sending, not when you want it to get there. Also, regulations are still too complicated and weighty. With changes in the law, we can get the pricing flexibility we need and the freedom to bring new products to market faster.

Our last mandate may be the most important—keep an eye on the future. America needs the mail—today, tomorrow, and for decades to come. We have a responsibility to provide for the Nation's present and future communication needs. We must continue to improve our delivery timeliness and keep our costs low and competitive. Mr. Chairman, our employees are working to do just that. In addition, customers are asking us to support their use of electronic communications. People want their electronic mail to be as private and secure as the letter we deliver today. With the help of some leading edge technology firms, we have developed an electronic postmark. It will validate and safeguard America's e-mail messages, backed by some of the toughest tampering laws in the land.

And starting this spring we will begin testing a combination of electronic and hard copy mail. Working with some major customers, we will use our mail scanning equipment to notify business customers today that this month's order or last month's payment is on the way. This new product will help companies manage their cash-flow and operations better and lower their costs.

We need to keep our positive momentum going. Hundreds of thousands of postal employees are doing a great job delivering for the American people. With the help of this subcommittee, they can do so much more.

With the right changes in the laws and regulations, we can continue to provide the communications safety net—mail service to everyone, everywhere, every day, and we can do a much better job of operating like a business, making ourselves more competitively fit for the future. Done right, these changes can benefit the entire Nation, bringing better service quality and lower prices.

The Postal Service can deliver excellence to the American people and continue to be one part of Government that pays its own way. Mr. Chairman, we look forward to working with you and the members of this subcommittee to deliver a new Postal Service, one that can deliver excellence in the next century.

Thank you.

[The response to written questions submitted to Mr. Runyon follows:]

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO MARVIN RUNYON [1]

Question 1A. To its credit, the Postal Service is measuring and attempting to improve mail delivery performance and customer satisfaction. Yet various news media frequently paint a negative picture of mail delivery, and this has been the case recently in the Washington, DC, area. Overall, mail delivery problems and customer dissatisfaction are more prevalent in larger cities than mid-size or smaller ones. What do you see as the most significant barriers to improving the Service's on-time delivery performance and achieving significantly higher levels of customer satisfaction?

Answer. Growing volumes, a constantly expanding delivery base and the highly complex nature of the postal system itself all present significant challenges to our efforts to improve service performance. We are focusing our efforts in several key areas which we believe hold considerable promise for service improvements. One of those is the area of address quality. In many of our urban areas, a substantial number of deliveries are apartment houses, and for a variety of reasons (e.g., security) apartment residents choose not to use their apartment numbers. The result is that we can't take full advantage of our less error prone automated processing, and we

[1] NOTE: Due to the high cost of printing, Attachments I–VIII have been retained in the subcommittee files.

must rely on the personal knowledge of the carrier to effect delivery. Another area of concern is our continuing reliance on commercial air transportation for a significant portion of our First-Class Mail movement. We have no direct control to ensure that our mail is transported in accordance with our service commitments. For example, mail may be bumped to accommodate passenger traffic. Similarly, since the majority of routings are not on direct air transportation, we rely upon the air carriers to effect prompt transfers which unfortunately are not always accomplished according to our service needs. In many of our large urban areas we face unique service challenges. While a significant facility modernization program is in place, a number of postal facilities are aging and not necessarily designed for optimal efficiencies. Transportation on heavily congested streets is also a problem, as is the coordination mail movement among numerous facilities in close geographic proximity.

Question 1B. Given that the news media often cites data gathered and reported by the Postal Service to criticize its performance, what plans, if any, do you have to change your public reporting of such data?

Answer. We work very hard to provide news media with the necessary perspective on data that management releases, be it service performance data or financial data. Invariably, when we have the opportunity to provide background, the media reports the story accurately. The obstacle we face—like other government organizations in Washington, D.C.—is the reporting of misinformation or data. Often, we find that in these instances, the information is either incomplete or its analysis is slanted to a particular point of view.

Question 2A. A report prepared by GAO in 1992 states that the Postal Service was developing a customer satisfaction index intended to monitor the satisfaction levels of business customers, which account for 88 percent of the Service's mail volume. I understand that the Gallup organization was awarded the contract to collect this data. What is the current status of this effort? Has the Service received any survey results on business customer satisfaction? If not, when does the Service expect to receive results from the survey? If so, what do the results show is the overall level of satisfaction? Are your managers and employees using information from these surveys to improve business customer satisfaction?

Answer. The Business Customer Satisfaction Index (BCSI) is an ongoing process of measuring the satisfaction level of our business customers. The BCSI system has gathered data since Quarter IV, FY 1994. At this point three quarters of data are available (Quarter IV, FY 1994; Quarter I, FY 1995; Quarter II, FY 1995). The BCSI looks at customers in a very a specific way. The marketplace is segmented into national accounts (very large mailers); premier accounts (mailers spending over $250,000 or more in postage but not national accounts); business accounts (mailers spending less than $250,000 in postage); and small businesses (mailers spending less than $100,000 on postage). Therefore, there is not an overall rating for business customers, nor are the results of the individual categories rolled up into a national rating. A review of our BCSI performance indicators is currently being conducted by an action planning team focused on the Malcolm Baldrige criteria, section 7.4 Customer Satisfaction Determination. Upon completion of this review, a determination will be made regarding the release of BCSI data.

Question 2B. How much have you spent on this contract to date? Please supply a copy of the contract for the record.

Answer. The Postal Service signed a four year fixed price contract with the Gallup Organization on April 8, 1993, for $8.3 million to develop and implement the BCSI process. Since the contract signing, several modifications have been made including additional sampling of large business accounts and an improved process for identifying the appropriate customer contacts to be surveyed. These improvements increased the net fixed price of the BCSI contract to $11.9 million, which will be expended over the life of the contract. The Postal Service has expended $4.2 million to date, for research and development, pilot testing, and quarterly data collection. A copy of the contract is provided as Attachment I.

Question 3. In a recent speech to the National Press Club, you mentioned a Peter Hart survey that showed 85 percent of Americans consider mail service reliable, although 39 percent see a wide gap between the "good" service they receive and the "excellent" service they expect. Was this survey requested by Postal Service? If so, why was it needed if you already have the Customer Satisfaction Index?

Answer. The findings cited were incidental to the purpose of the Peter Hart research. They were developed from a survey commissioned by our Corporate Relations department to measure the effectiveness of information being provided to the general public about the proposed rate increases. The purpose of the survey was to determine if messaging elements such as "four years since the last rate increase," "we don't use your taxes," etc. were having an impact on the receiving audiences. We also wanted to gauge the impact of the negative news coverage about service

problems in Chicago and Washington, D.C., and determine if it had seriously damaged the reputation and image of the Postal Service. These are not elements that can be determined from the data in the Customer Satisfaction Index.

Question 4. My office was recently contacted by a third class mailer who claims $5,000 in third class merchandise was lost by the Postal Service. What are your procedures in addressing such a claim?

Answer. We provide several services that may be purchased at the time of mailing that will provide indemnity for third-class merchandise. Insurance can be purchased for articles sent by third-class mail to provide coverage up to $600 for loss or damage which occurs in the mail. In the event of loss, the mailer may file an indemnity claim at any post office by presenting the original mailing receipt showing that insurance coverage was purchased and a written statement from either the addressee or the addressee's post office stating that the article was not delivered.

Customers may also choose to send requested third-class merchandise as Collect-on-Delivery (COD) and have the amount of the merchandise and/or the amount of the postage and fees collected from the addressee. COD service also includes insurance coverage for the value of the merchandise.

Question 5. You state in your testimony that 84 percent of all local First Class Mail is being delivered overnight. What is the Service's goal for overnight First Class on-time service performance.

Answer. Our goal is for each performance cluster to provide consistent service performance and continuously improve.

Question 6A. The Postal Service used to advertise its Priority Mail as "2 pounds in 2 days for 2 dollars". Because of the Service's inability to consistently deliver Priority Mail in 2 days, the ad was dropped. In 1993 testimony before the Senate, you stated that the Service was committed to delivering 90 percent of Priority Mail within 2 days by the end of September 1993. However, according to your 1994 Annual Report, 80 percent of Priority Mail was delivered within 2 days, which is down from the 1993 figure of 84 percent. How do you explain these declining statistics? What are you doing about it?

Answer. While we have not yet achieved our short-term goal of delivering 90 percent of all Priority Mail within two days nationally, there are many origins and destinations within our network that regularly meet or exceed that goal. In 1994, we went through a Business Process Reengineering of Priority Mail. This process enabled us to closely examine each step in the Priority Mail system. We are currently in the process of fine tuning the reengineering effort.

Question 6B. How do you respond to complaints from customers that they paid for a service—two day delivery—that they did not receive? What steps do you have in place to begin to respond to customers who are not satisfied with the service they are receiving?

Answer. We have removed any reference to "2-day" delivery from our advertisements. However, we still recognize our obligation to meet service commitments. In those instances where we fail to do so, we have managers across the country working with local Priority Mail customers to analyze specific problems. In some cases, the fix can be as simple as rerouting a truck or changing a dispatch time. In other cases, it becomes more complicated trying to determine where in the process the breakdown occurred. We are preparing to put in place a "system" that will help us to determine the root causes of failures so that we can be more responsive.

Question 6C. Are you still committed to delivering 90 percent of Priority mail within 2 days? If so, when will you achieve this goal and how?

Answer. Based on our current operating plans and available transportation, 95 percent of Priority Mail is committed for delivery within two days. We are currently in the process of fine tuning the reengineering effort as well as preparing the cost analysis for implementation. We are planning that a number of test sites will be up and running before the end of the year.

Question 6D. As of 1993, the Postal Service's national performance goal for Priority Mail was 2 day delivery 95 Percent of the time; is this still a goal? When and how will it be achieved?

Answer. Our ultimate goal for on-time service performance is to provide the same level of service as our competitors which generally falls within the range of 95–97 percent. Once our plan is fully implemented, we feel we will be in a position to provide this level of service.

Question 7. A few years ago, the Postal Service lowered service standards for a significant portion of First-Class Mail. Some First-Class Mail that was supposed to be delivered overnight was put into the two-day delivery category and some two-day mail was put in the three-day delivery category. This change was supposed to improve on-time delivery performance for all mail. However the Postal Service's per-

formance does not appear to have improved. Do you have any plans to further revise service standards?

Answer. We do not have any plans to systematically review and revise the current First-Class Mail service commitments.

Question 8. The Washington Post recently reported that the Board of Governors had taken greater control of decisions on selection and compensation of Postal Service executives. What involvement did the Board have in this area in the past? Specifically, what was the process followed in selecting your current Vice Presidents and setting their total compensation? How has this processed now changed?

Answer. Regarding the selection of Postal Service executives (PCES–II level officers), the Board of Governors has no involvement in their selection and appointment. The Postal Reorganization Act states specifically that officers are "appointed by, and serve at the pleasure of, the Postmaster General" (39 U.S.C. 204). There are, however, two exceptions: 1) The Bylaws of the Board require the concurrence of the governors with the Postmaster General in the removal or transfer of the Chief Postal Inspector [39 C.F.R. 3.4(f)]. 2) The charter of the Audit Committee provides that the official responsible for the internal audit function (Assistant Chief Inspector—Audit) may be removed only by action of the Board. (BOG Resolution No. 82–1.).

There has not been a real change in the process for setting officers' compensation. For years a bylaw of the Board has reserved for Board approval the compensation of officers in level PCES–II. [39 C.F.R. 3.3(n)]. In August 1992, to better utilize the Board's time, the Board delegated authority to the Postmaster General to fix the compensation of officers within a salary range and to report to the Board periodically on officers' compensation levels. In February 1995 the Board established a Compensation Committee, consisting of four governors, to review officers' compensation and any performance based incentive plan for PCES–I managers and PCES–II officers and to make its recommendations to the full Board on management's proposals. (BOG Resolution No. 95–3.)

Question 9A. During your approximately two and a half years as Postmaster General, there have been many changes at the corporate officer level. Sixteen of the 21 Vice Presidents in postal headquarters have served less time than you in current positions. Some key leadership positions are vacant such as Consumer Advocate. What has been the reason for this turnover at the corporate officer level?

Answer. There are several reasons for the changes we made at the corporate officer level: these included personal reasons, performance reasons, and organizational redesign reasons when we saw our original structure needed some adjustments.

Question 9B. Will the vacant officer positions be filled? If so, when?

Answer. We currently have four officer vacancies: Vice President, Marketing Systems; Vice President and Consumer Advocate; Vice President, Product Management; and the Vice President, Retail. We are currently considering finalists for the Vice President, Marketing Systems. We are identifying candidates for the Vice President and Consumer Advocate and the Vice President, Retail. We will be filling the Vice President, Product Management, sometime in the future.

Question 9C. You recently announced the appointment of your former Vice President for Marketing Systems as your new Vice President for Human Resources. It would appear at first glance that there is quite a bit of difference between the areas of marketing and human resources; what led you to believe that the experience gained in marketing was transferable to human resources?

Answer. Ms. Sonnenberg's marketing experiences are certainly transferable to Human Resources. Just as the Marketing function is customer focused, so, too, is the Human Resources function. Ms. Sonnenberg brings her knowledge and experience in developing and implementing systems, procedures and programs affecting field operations. She also brings a sense of reality to Human Resources based on her leadership in postal rate cases. Finally, as an officer of the Postal Service she brings her global vision and strategic planning capabilities.

Question 9D. I understand that several former City Bank employees have been hired as consultants to the Postal Service after Mr. Loren Smith became Senior Vice President for Marketing. Mr. Smith is a former City Bank official. How many such consultants have been hired?

Answer. There have not been any former Citibank employees hired as consultants to the Postal Service. Five individuals/firms with whom Mr. Smith has had professional relationships in the past are presently under consulting contract with the Postal Service for varying business needs.

Question 9E. Please explain the situation surrounding the recent retirement of the Postal Service's Consumer Advocate, Ann Robinson, and elaborate on any subsequent changes to the external measurement systems you have in place. What office

is responsible for receiving, monitoring, analyzing, and reporting these measurements?

Answer. Vice President and Consumer Advocate Ann McK. Robinson chose to retire on January 20, 1995, after a successful 29 year postal career. The Consumer Advocate's Office is still responsible for receiving, monitoring, analyzing and reporting on all the external measurements for the Postal Service.

Question 10A. One of the complaints of mailers and union officials is that the position of the Postmaster General has had significant turnover. This turnover has resulted in constant changes in management of the organization resulting from the style that is brought to the organization by new leadership. As noted in the previous question, changes in your senior level leadership has been significant. Please explain how you are attempting to control constant management changes due to different management styles at the levels directly below you.

Answer. Change is an integral part of today's business environment. Identifying and placing successful managers in critical vacancies is an ongoing process. The management changes executed over the last two years have resulted in the Postal Service attaining its financial goals and improving service to its highest levels, as independently reported by Price Waterhouse. Rather than attempting to control these successful changes, we will continue to look for opportunities to appoint executives and managers capable achieving our corporate goals.

Question 10B. What are your visions for the long-term of the current management team that you have in place? That is, are there additional management changes that you foresee at the senior levels over the next two years or do you think you have the correct management team in place now?

Answer. Currently we have four officer vacancies. We are in the process of identifying and appointing qualified individuals to fill these important positions. The current officer corps consists of executives who are helping the Postal Service achieve its strategic goals and are a successful management team. We anticipate that as future vacancies occur, as they do in any dynamic workforce, we will fill those positions with similarly experienced individuals.

Question 11A. In the 1992 reorganization, you eliminated 30,000 jobs, but over 48,000 workers left the Service. As a result, many facilities lacked qualified job applicants and overtime was running higher than anticipated. Although the restructuring cost the Service slightly over a billion dollars, you expected to save about $1.4 billion annually beginning in 1994. However, GAO's report on automation released on February 22, 1995, shows that career employment has grown to pre-downsizing levels. To what extent have you hired new employees to replace those who retired as part of the 1992 downsizing? Also, please provide for the record a chart showing for each year since 1990, the number of full-time, part-time, and transitional employees working for the Postal Service at the beginning of each fiscal year. Please include a brief explanation of how or when a transitional employee becomes a full-time employee.

Answer. It is not possible from national statistics to determine whether individual employees were hired due to mail volume and Population growth, or as replacement hiring.

Attachment II is a report which shows the NALC and APWU employment figures for full-time, part-time and transitional employees for each union as of accounting period 1 each fiscal year. It does not include EAS, rural carriers, mail handlers, etc. in our counts since there is no transitional category of employment for those groups. The second report shows the number of transitional employees currently on the rolls in each of our Performance Clusters in order of highest to lowest.

With regard to how a transitional employee becomes career, the Postal Service signed a Memorandum of Understanding (MOU) for enhanced career opportunities with the National Association of Letter Carriers (NALC) in July 30, 1993, that gave NALC transitional employees an opportunity to take the examination for career appointment. A minimum of 180 days employment in a transitional assignment is required for a transitional employee to take the examination. On September 24, 1993, we signed a similar MOU with the American Postal Workers Union which gave their transitional employees two opportunities to take an examination.

Concerning transitional employees understanding of our employment procedures, we recently introduced a new battery examination which replaced four of our older examinations. Because of this change, Districts posted instructions in work places with transitional employees for them to sign up to take the new examination. In the case of both NALC and APWU transitional employees, they are represented by their unions, which polices the appropriate application of the respective MOUs with regard to career opportunities.

Once transitional employees qualify on the examination, their names are placed on the competitive hiring register in regular rank and score order along with other

applicants. This includes veteran preference points when claimed. Transitional employees are given consideration for conversion to career status if their scores come within competitive reach on the register.

Question 11B. What is the current staffing level in Postal Service headquarters operations, and how does this compare to the headquarters' staffing level before the restructuring began in 1992?

Answer. The current staffing level in the Postal Service Headquarters as reflected in the ORPES report for A/P 6–95 (3/17/95) is 1,724 which represents a reduction of 741 employees from the headquarters complement before restructuring. The Headquarters staffing level in A/P 11–92 (7/10/92) was 2,465 on-rolls.

During accounting period six of Fiscal Year 1992, the Postal Service had 2,470 employees on the rolls at Headquarters at L'Enfant Plaza and an additional 10,098 in headquarters field service units. During accounting period six of fiscal year 1995, the Postal Service had 1,796 employees on the rolls at Headquarters at L'Enfant Plaza and an additional 8,354 in headquarters field service units. Current Headquarters staffing represents a reduction of 27 percent at L'Enfant Plaza and a 17 percent reduction in headquarters field service units from 1992 levels.

Question 11C. How many Postal Service employees who took the buyouts were later employed by the Postal Service as consultants or as principals of small corporations which received contracts from the Service?

Answer. Attachment III is a list of former employees who have contracted directly with the Postal Service since the buyouts began in August 1992. This list does not reflect principals of small corporations which have received contracts from us; nor does it reflect former postal employees who may now be employed by a Postal Service contractor. This is because our contractual data base tracks the contractor with whom we contract, not the employees working for the contractor (whether they are former postal employees or not). To determine the principals of small corporations which have contracts would require research into the articles of incorporation of each of the corporate contractors. This sort of data is also not captured or tracked by our contractual data base.

Question 11D. Given that you expected to save about $1.4 billion annually beginning in 1994, how much money did the Postal Service save in fiscal year 1994 as a result of the downsizing? What are you estimating for savings in fiscal year 1995 as a result of downsizing?

Answer. As a result of the Postal Service's aggressive steps to eliminate layers of bureaucracy, to streamline administrative functions, and to reduce overhead staffing, the restructuring of late 1992 and early 1993 eliminated over 23,000 equivalent overhead positions. The savings associated with the overhead reduction in 1993 carried over to $1.3 billion in annualized savings in 1994 and in years to come.

Question 11E. What advice did the Office of Personnel Management give you and the Postal Service regarding how to downsize the organization without violating the government-wide reduction-in-force rules? What advice did your General Counsel offer regarding the risk of violating the statutory rights of veterans during the downsizing?

Answer. In the summer of 1992, during a meeting with representatives of the Office of Personnel Management (OPM), the Postal Service was advised that a reduction-in-force (RIF) should be conducted only as a last resort when downsizing an agency. With the advice of Counsel, the Postal Service considered a number of alternatives which were sanctioned in OPM's RIF regulations and the Federal Personnel Manual. The Postal Service sought and received OPM approval for a voluntary early-out retirement period. The original period of August 17 through October 8, 1992, was extended to November 20, 1992, at the Postal Service's request. Further, the Postal Service offered as an incentive the equivalent of six months' salary to those employees who chose to retire.

As another alternative to a RIF, the Postal Service assigned employees to positions in the new structure without the loss of grade and pay. Interpreting its own regulations, OPM said that this was not a RIF. In fact, OPM stated clearly:

Inasmuch as *all* actions taken by the Postal Service were reassignments without loss of pay, grade or tenure, there cannot have been a RIF under OPM's regulations . . . There simply was not RIF; it is impossible in these circumstances. (emphasis in original)

Office of Personnel Management's Brief in Support of its Intervention in *Robinson, et al.* v. *U.S. Postal Service,* p. 9.

Ignoring OPM's interpretation of its own regulations, the MSPB Board found that the Postal Service's 1992/1993 restructuring was a RIF.

Question 12. Related to the aftermath of your 1992 downsizing and restructuring, a "performance cluster" concept is now being pushed at the operating level to get managers in different functions to voluntarily coordinate their efforts and work to-

gether effectively. Some postal officials believe that management positions that existed before the downsizing at the district and plant level to coordinate customer service and processing operations need to be reestablished. Such a position was established recently for the Washington, D.C., metropolitan area because of poor delivery service. How well is the performance cluster concept working? Do you plan to reestablish local manager positions to oversee both customer service and mail processing operations in the metropolitan area?

Answer. The performance cluster concept is generally working well, as evidenced by the significant improvements in service and financial indicators. We will continue the open dialogue with field management about the need to expand the Metro Manager concept used in Washington, D.C., (or other alternatives) to other Districts or large complex Metropolitan locations.

Question 13A. In 1993, you said that the Postal Service had lost $100 million or more as a result of postage meter fraud. According to a GAO report on the subject, the Postal Service had relied largely on postage meter manufacturers to account for meters and ensure that the meters were used by customers for postage payment transactions totaling about $21 billion in 1993. GAO reported that controls over postal meters have been inadequate and that a substantial risk exists that postage meters are being used to defraud the Postal Service. What steps have been completed to-date to get better control over postage meters? What are the current estimates of losses associated with meter fraud?

Answer. Working with our customers, foreign postal administrations, and the meter manufacturers, we have sought to identify and implement greatly improved controls over the use of postage meters and to reduce the risk of postage meter fraud. The primary aspects of this effort are the following:

1. The Postal Service is building a national database which will centralize relevant information about who uses meters, which meters they have and how they use them. A total inventory of all meters is included by serial number and location and, by May 30, 1995, the manufacturers will affix to every meter in use a bar-coded label that will aid in automating the tracking of meters. The database will also include the serial numbers of all lost and stolen meters and a record of postage purchased for each meter. One aspect of this system, now in place, involves the sampling on a daily basis of thousands of pieces of metered mail. Where meter indicia are noted that bear the serial numbers of lost or stolen meters, the Inspection Service investigates to determine if the meter is in legitimate use. At least two cases of fraudulent use have been identified and hundreds of meters improperly reported as lost or stolen have been identified.

2. *Meter Improvements.* All existing meters are being examined to determine if they are subject to tampering. Those that are found to be vulnerable are being modified by the manufacturers to eliminate this risk. The type of meter that initially raised concern about tempering has been removed from the market.

3. *Meter Supplier Procedures.* Manufacturers will be required to report any known security deficiency in their meters, to increase their inspections of meters placed in what we believe are high risk locations, and we are working on procedures to increase the security of meter shipments to and from manufacturers.

4. *Postal Service Procedures.* We have adjusted our procedures for inspecting meters to pay greater attention to meters in high risk locations, to examine any meter that has not been reset with postage during a three-month period, to place more secure seals on meters, and to tighten our procedures for refunds of metered postage.

5. *Meter Regulations.* A sweeping revision of our regulations relating to the use of postage meters was published in the Federal Register of January 31, 1995 (60 F.R. 5964). The time for comment on the proposed regulations expired on March 17, 1995, and comments are now being analyzed. We expect to publish a final rule within the next few months.

6. *New Technology.* We have been working with the meter manufacturers and others to develop more secure postage payment systems than the mechanical meters that currently dominate the market. Promising computerized systems using encrypted data are being considered at the present time and early exemplars of this technology are beginning to enter the market.

Question 13B. Meter manufacturers lease Postal Service approved meters directly to mailers. Some mailers have complained about the continuing and increasing cost of leasing these meters, particularly after the actual cost of the postage meter has been met. What has the Postal Service done to address mailers' concerns about these leasing fees?

Answer. Postal Service regulations prohibit the individual ownership of a postage meter for reasons of control and security. Meter manufacturers lease postage meters for reasons of control and security. Meter manufacturers lease postage meters to in-

dividuals and provide maintenance service and supplies to them. The monthly payment agreed upon in the terms of the leasing agreement, in theory, offsets the cost of maintenance provided, the manufacturer's costs to comply with Postal Service security and inspection requirements, and various internal operating expenses. The Postal Service tests, approves and monitors these meters, but does not regulate their pricing or advise the public about which manufacturer to choose. Currently, there are four authorized meter manufacturers and we encourage customers to compare service and pricing options. As new meters and technology are introduced by these and other manufacturers who may enter the marketplace, we would expect customers to get better value for their money. For example, in November 1994 a new remote set meter using the first thermal printing technology approved by the USPS was introduced. We anticipate that three or four additional innovative meter products will be available to meter users in the near future. The Postal Service supports technological advances since they ultimately stimulate competition and that is a benefit to our customers.

Question 14A. GAO reported that the Postal Service's automation program is producing less and taking longer to implement than anticipated. The project has been underway for about 12 years, and the Service's investment in automation equipment will total about $5 billion. Few would argue against the benefits of automation when compared to manual methods of sorting mail. However, the Postal Service has been unable to significantly reduce its workforce over the past 12 years and labor costs continue to run about 82 percent of total operating cost—the same as 25 years ago. What do you see as the current role and purpose of automation in the Postal Service? If not to reduce labor costs, what is automation's purpose? What has been your personal involvement in directing and supporting the automation efforts?

Answer. The role of automation has always been to help the Postal Service to control its labor costs, while helping to improve service where possible. Growth in mail volume and in the number of locations to which we deliver, along with inflation in the general economy which impacts our costs, make it unreasonable to expect total labor costs to be reduced. Since 1989 we have achieved costs savings/avoidance of between 2.4 and 5 billion dollars in processing and delivery operations impacted by automation. The range depends on whether one considers only direct distribution costs or includes allied labor costs.

The key elements in directing and supporting the automation efforts include making and supporting strategic decisions regarding equipment investments, operational changes in implementation of programs such as Remote Bar Code Sorting and Delivery Point Sequencing, and requests for changes in rates and mail classification. Postmaster General Marvin Runyon's contribution to these decisions is based on his understanding of the needs of postal customers, and on his experience in working with automated manufacturing processes at Ford and Nissan.

Question 14B. In your view, why has automation not had the impact on the workforce that was expected?

Answer. Automation has had a substantial impact on the workforce. From 1989 to 1992 more than 50,000 career employees were taken off the roles through attrition. There was a reduction of 42 million work hours in direct-distribution labor in the same period, equivalent to 22,000 positions in automation-related activities alone. These declines occurred despite a weighted mail volume growth of 3.8 percent. Then, 1992 and 1994, weighted mail volume grew by 6.2 percent and delivery points by 2.8 percent. Without automation, these factors alone would have meant a workload-generated increase of 45,000 equivalent positions. The bottom line is that, while career employment stood at 778,000 in 1989, at the end of Fiscal Year 1994 it had been reduced to 729,000, quite significant in the context of the above mentioned workload increases.

Question 14C. What is the Service's current strategy for controlling the growth and cost of the postal workforce?

Answer. The Postal Service employs many strategies for controlling the growth and cost of the postal workforce. While the individual strategies are too numerous to mention here, they fall into three basic categories:

Automation Program

The automation program is critical to achieving productivity improvements. Productivity improvements driven by automation act to constrain growth in work hours caused by workload increases. Current plans call for expansion of the existing automated environment from 6,148 pieces of equipment in place at the end of March 1995 to over 14,000 pieces of equipment when the system is complete three years from now. Successful implementation of the entire automated system will create additional opportunities for cost avoidance or savings.

In order to be successful, the automation program must be supported by effective complement planning and workforce management. The Workforce Planning and Service Management Department was created to report on and improve service, while insuring maximum utilization of the workforce. This group is working to provide field managers the tools needed to effectively manage the workforce in an increasingly complex environment.

Methods Improvements

While the automation program is important in controlling costs, it is by no means the only strategy employed by the Postal Service to constrain workforce growth. Other methods improvements, unrelated to automation, are identified and implemented every year. Targeted work hour savings for these improvements are removed from operating budgets of field units to ensure that the expected benefits are realized.

Labor Relations

Success in controlling the growth of the workforce is in part dependent upon increasing the flexibility of the workforce. As a result of the 1990 labor negotiations, the Postal Service added a new, lower cost level of employee called a transitional employee. Transitional employees are compensated at the lowest rate of pay for career employees of the same level, and receive reduced benefits. This category of employee was created to be used in positions which were targeted for elimination due to automation. In addition, in November 1993, the Postal Service signed a Memorandum of Understanding with the APWU which expands the use of transitional employees to the Remote Encoding Centers (RECs). Under this agreement, the Postal Service can operate the RECs with 70 percent transitional employee work hours and 30 percent career employee work hours, an arrangement that provides significant reductions in the average cost of a work hour at each REC.

Effective use of non-career employees is also important in controlling the cost of the workforce. In addition to transitional employees, the Postal Service employs another type of non-career employee called a casual employee. Casual employees are compensated at a lower rate of pay than career employees and do not receive benefits. These employees are used by the Postal Service in positions which are temporary in nature and where the job does not require substantial training as a prerequisite to good performance. As of the end of March 1995, transitional and casual employees made up about 7.2 percent of the Postal workforce.

Question 14D. With the Postal Service's labor costs running about 82 percent of the total operating costs, what items are left in the 18 percent that can be controlled by the Postal Service? Do you plan to address those items in your cost control efforts?

Answer. Actually, our labor costs run about 80 percent of total costs. The remaining items include transportation, depreciation, rent, fuel and utilities, building and vehicle maintenance along with supplies and services. To a certain degree, they can all be controlled by the Postal Service and we do address them in our cost control efforts. However, there is a base level below which costs cannot be reduced without adverse consequences. For instance, transportation costs can be (and are) reduced through competitive bidding of contracts and realignment of routes, but service will suffer if cost becomes the only consideration. Likewise, imprudent reductions in building and vehicle maintenance could endanger employees and customers, potentially resulting in higher accident costs in the future.

Transportation is one of the Postal Service's largest expenses. One of the more significant single cost-reduction efforts in this area took place a few years ago. In 1989, the Postal Service negotiated a uniform air contract rate for mail carried via commercial airlines. This was a substantial improvement over the previous segment/system contracts. It allowed the Postal Service to improve the routing of mail, while at the same time reducing costs by about $100 million per year.

The Postal Service continually undertakes efforts to reduce its nonpersonnel costs. We are a leader in the implementation of environmentally sound operating policies, which in the long-run, reduce expenses. The Postal Service operates the nation's largest fleet of alternative fuel vehicles, which have lower annual operating and maintenance costs than gasoline-powered vehicles. We are also committed to reducing the cost of operating our 39,000 facilities through energy conservation programs.

Another example of our cost reduction efforts is our stamp acquisition process. The Postal Service has achieved significant savings by contracting with a number of private-sector printers to produce postage stamps.

In short, the Postal Service constantly strives to minimize its nonpersonnel costs, so long as doing so does not sacrifice customer service, safety or result in higher repair and replacement costs in the future. Consequently, our challenge is to control

costs, through business process redesign, in a manner that avoids these undesired results.

Question 14E. The Postal Service plans to ultimately have 268 remote barcoding sites to handle letters that optical character readers cannot read. I have seen several news items from around the nation—Duluth, Minnesota; Davenport, Iowa; and Nashua, New Hampshire to name a few—announcing the opening of some of these new barcoding sites. How do you square the additional hiring required for these sites with the need for cost control?

Answer. It should first be noted that the 268 sites referenced pertain to processing and distribution centers (P&DCs) projected for the entire Remote Bar Coding System (RBCS) network. The sites mentioned in this question are locations for new remote encoding centers (RECs). The RECs perform the data entry work to resolve images transmitted from the P&DCs. There will be no more than 75 RECs nationwide. The data conversion operators (DCOs) hired to perform the image resolution work in the RECs are low cost level 4 positions. More importantly, 70 percent of the DCO workhours will be performed by transitional employees who will not receive the benefits package afforded career postal employees. Only 30 percent of the workhours will be attributed to career employees. With the advent of future technology such as modifications to Multi-Line Optical Character Readers (MLOCRs) to increase read rates and remote computer reading which will significantly decrease workhour requirements at the RECs, we will have flexibility to easily reduce our complement through the reduction of transitional employees.

Also, the additional hiring at the RECs enables significant reduction of workhours at the P&DCs. The images resolved at the REC enables additional volume to remain in automated operations versus higher cost mechanized and manual operations. It further enables greater volumes presented to carriers in delivery point sequenced order which results in reduced carrier workhours.

Question 14F. As originally planned, your Remote Bar Coding facilities were to be staffed by contract, non-postal employees. You later altered that plan and reached agreements with your unions to utilize career postal employees at these sites. What has been the positive and negative changes you have seen as a result of your decision?

Answer. Approximately 70 percent of the workhours in the remote encoding centers will be performed by transitional employees. Only 30 percent will be attributed to career employees. This gives the Postal Service a great deal of flexibility in the workforce and a labor cost structure that makes RBCS profitable. The ratio of 70 percent transitional workhours versus 30 percent career workhours reduces our keying costs by over 30 percent of that required using all career employees.

Implementation of Postal RECs has gone well and is producing some very positive results. For example, our facility costs are less than planned and productivity of the keying operation is greater than planned. Keying rates are currently approximately 10 percent higher than the rates used in the decision analysis report (DAR) which justified the equipment expenditures and approximately 25 percent higher than the targets agreed upon in the memorandum of understanding (MOU) with the APWU. Also, the management and administrative overhead in the RECs is less than planned when compared with the DAR.

The MOU also provided the opportunity to move ahead rapidly and avoid further delays in the program. Delays would certainly have been incurred had we gone through the competitive process to select contractors to provide the image keying services. The MOU itself is viewed as a landmark agreement in the relationship between the Postal Service and the APWU. It establishes a relationship built on mutual trust and a determination to explore and resolve issues jointly.

On the negative side of using postal employees at the RECs would be a cost comparison. It is somewhat more expensive than contractor keying.

Question 14G. How has the Postal Service been able to extricate itself from the contracts it had already entered into for the contracted sites?

Answer. The keying services contracts were awarded as two year contracts with a non-guaranteed two year option period. In some cases, the contracts were terminated at the end of the base two year period and in other cases contracts will nun through the end of the full two year option period. However, in most cases, the contracts will be terminated for convenience at some point during the two year option period. The termination for convenience clause is necessary to avoid several contracts ending at the same time. Because of the complexity involved with transitioning of contractor sites, the need to protect service at the affected P&DCs, and the management support required, it is necessary to spread these termination dates over the entire deployment time frame.

Question 14H. How many of these facilities do you presently have up and running, and what is the total number of employees working at these facilities?

Answer. There are presently 16 postal remote encoding centers (RECs). This includes two RECs which were previously contract operations which we converted to postal RECs. There are approximately 6200 employees at these RECs. On April 1, 1995, we are converting another contractor operation to a postal REC. This will result in an additional 400 postal employees. Therefore, after April 1, 1995, there will be 17 RECs employing approximately 6600 employees. It should be noted that while there are approximately 6600 employees on the rolls 70 percent of all the work hours attributable to these employees are performed by transitional employees. Further approximately 70 percent of the transitional employees are only working either 4 or 6 hours per day.

Question 14I. Given that some of the automation work in question (i.e., remote barcoding of letter mail) is being done by contract employees and some is being done by postal employees, is the Postal Service comparing the cost and productivity of the alternatives (government versus contract)? If not, what would be the pros and cons of such a comparison?

Answer. The Postal Service is not comparing the cost and productivity of the alternatives in a formal manner. We are not doing this because the decision to postalize the keying operation was made in November 1993. This decision was formalized in the memorandum of understanding signed at that time. For that reason it is viewed as irreversible.

It should be noted that while we are not formally tracking productivity in a comparative analysis, the productivity in the postal RECs is already exceeding expectations and is continuing to rise. Based on all information available, it is approximately equal to the productivity at the contractor sites which have been in operation for a much longer period of time.

As far as the benefits or negatives of a formal cost and productivity analysis, it simply would provide information on the subject. We expect it would reveal similar productivity with costs slightly favoring the contract operation.

Question 14J. I know that "address hygiene" is an important topic to the Postal Service now and that re-training postal customers to remove the comma between the city and state is an important task for you. Please explain the efforts you are making in this area. Are you having success with the public or are you having to re-evaluate the equipment?

Answer. The proper formatting of addresses continues to be an important requirement for the automated processing of mail; however, punctuation is no longer a problem. We are making steady progress in how the mail of individual customers is handled. Our automated equipment has been able to read addresses with a comma between city and state for several years. The remote barcoding of mail helps automate mail that does not meet addressing or other automation standards. But we are not just looking at technology for solutions to increase the amount of automation compatible mail.

Customers are more knowledgeable today about address requirements as a result of such programs as our "Correct Address Notification" which is in its third year of operation. This program involves sending out direct mailings to households as well as businesses, giving them their unique, complete mailing address and explaining that by using a proper address they can improve their delivery service. Under this program thus far, twenty million mailpieces have been delivered on a phased basis. To cite additional initiatives for improving the mailbase, our Postal Business Centers offer a service whereby customers can have their mailing lists converted to ZIP+4 and standardized addresses. These same Postal Business Centers also provide customers with proper formats for business and courtesy reply mail. We have technical experts available in these facilities who can advise customers on proper addressing as well as other requirements for preparing mailings so they can be processed on postal automation. Through the Business Partners program in 1994, Postal Business Centers reached out to over 9,000 mailing industry vendors to educate them on addressing and mailpiece design standards. Since each vendor has many small business customers, we achieve greater penetration of our customer base and the impact on mailbase addressing and mailpiece quality is amplified. Yet another example of our broad and diverse approach to upgrading addressing quality, is the recent reclassification proposals which include a requirement that customers provide proof they have used proper addresses for discounted rate mailings. Previously, only automation rate mailings had to meet this requirement.

Question 15. You entered into two agreements in November 1993 with the President of the American Postal Workers Union, one of which, as noted in the previous question, gave automation jobs to postal workers rather than to contract employees. This agreement, I understand, increased the cost of the services to the Postal Service by at least $3 billion over the life of the project. The other agreement was for cooperation of the union with the Postal Service in dealing with service, budget, and

other issues. Yet, the service and the Union in November 1994 could not agree on a new contract, and the issues apparently will again be decided by a third party. What are your plans now for dealing with the Union and attempting to get some basic agreements on the changes that both the Postal Service and GAO say we needed?

Answer. Following the agreement mentioned above, the Postal Service and APWU established 12 committees to address various issues in the implementation of the agreement. These committees were extremely successful, resolving all problems raised to date. This landmark agreement has carried over into other areas of our relationship, and has allowed us to resolve other long-standing issues without third party intervention.

The fact that we could not come to finality on a new collective bargaining agreement is disappointing, but should not be viewed as the end of our cooperative working relationship or a failure of our commitment. The APWU has been unable to agree to an economic package that meets the Postal Service's needs for restraint in wages and compensation. Thus, collective bargaining is at impasse. However, we continue to work together in attempting to resolve workplace issues.

Question 16. You mention the positive momentum and the great job in delivering mail. However, can you comment on the present morale of the workforce? Further, what kind of message are you sending when Postal Career Executive Service (PCES) employees receive a three to 10 percent merit increase and Executive and Administrative Schedule (EAS) employees are given a .6 percent increase?

Answer. Change in the Postal Service, as in many private sector organizations, is occurring rapidly and it is recognized that this can have a negative impact on morale. While there is no single measure for assessing this, our most recent Employee Opinion Survey (EOS) indicates that there has been no decline in our employees' assessment of how they are being treated. In fact, in the majority of locations, our EOS index improved. Recognizing the apprehension created by change, every effort is being made to keep employees informed and to include them in the process.

Regarding the differences in pay actions between PCES and EAS employees, the facts tell quite a different story from what you have been told. For FY 1994 performance, the vast majority of PCES–I executives received a lump sum cash payment of 1.3 percent under our executive incentive program. The awards ranged from 0.0 percent for over two dozen poor performers to 12.1 percent for only ten executives. There were no general or COLA increases granted to any PCES–I executive for FY–94.

During the same period, EAS employees received a 2.0 percent general increase to basic salary, and two COLA increases which averaged a total of 1.3 percent. For FY 1994 performance, the EAS merit pay program provided average increases of 0.8 percent with a maximum award of 2.8 percent (merit awards were paid as lump sums for those at the maximum of their pay grades). On average, therefore, basic salary increases for EAS employees totaled 4.1 percent, which are permanent increases in basic salary that continue into the future, and also increase the value of retirement, life insurance, premium pay, and leave benefits. In addition to their basic salary adjustments, EAS employees received a cash payment under a group incentive program, Striving for Excellence Together. These ranged from 0 to $365, with an average payment of $82.

Question 17A. You said that there are areas to focus on in order to make the Postal Service more businesslike and competitive for the American people. How would you fix the arbitration Process?

Answer. Eliminating or limiting use of arbitration to settle our differences regarding local work place disputes would make the Postal Service more businesslike. It should be replaced with a process that encourages the parties to take more responsibility for its decisions. Any such process should also be structured to encourage problem-solving at the level at which the problem arose. If the local parties can't agree on how the contract should be applied, a speedy final resolution of the dispute should be available. We would like to accomplish this through several avenues: elimination of the step in the grievance procedure at the intermediate level, alternative dispute resolution such as mediation, and increased joint training at all levels.

Question 17B. In your view does an outside arbitrator represent an impartial decision-maker or does it represent an outside, meddlesome intrusion?

Answer. There are times when an arbitrator provides the impartial insight necessary to resolve a dispute, especially those jurisdictional disputes that involve management with more than one union. In most cases, however, an arbitrator's decision leaves one side happy and the other side bitter. When this happens the labor-management climate suffers. When arbitrators offer modification decisions it can leave

both sides feeling less than satisfied, but it may indicate that with a little help a compromise could have been reached. Had the parties reached that modification through mediated compromise, neither would likely feel slighted.

Question 17C. How do you want to improve the employee dispute resolution process? Have you discussed this with the employee organizations and unions? What were their responses?

Answer. The Postal Service and the American Postal Workers Union recognize the need to take more responsibility for our decisions. To that end, we are exploring an alternative dispute resolution process that will enable the parties at the local level to resolve local disputes. We believe this will strengthen workforce relationships, improve our culture and the way we treat each other, and create a greater sense of teamwork.

With the National Association of Letter Carriers, we have spent much time exploring this question, both informally and as a topic of collective bargaining. We continue to work toward a mutual understanding to improve the system.

Question 18. Mr. Runyon, would you expand on how the rate-setting process can be simplified while maintaining appropriate oversight—making the process faster and much less expensive while making the prices more market-based and competitive? Would the small and individual mailer have the same protection that they have now under your proposal?

Answer. The Postal Service has requested the Postal Rate Commission initiate a rulemaking to consider draft rules presented by the Postal Service to implement a broad array of recommendations for simplifying the rate-setting process for competitive services. A copy of the petition is provided as Attachment IV. These proposals maintain the current role of the Commission in ensuring that the views of interested parties are heard and independently evaluated by the Commission before it issues its recommended decision to the Governors of the Postal Service. A simpler process will benefit smaller mailers by reducing the expenses entailed in their participation in the process.

Question 19. You mention in your prepared statement that the paperwork for the last rate case filled 50 boxes and took more than a year. However, you do not mention that the Postal Rate Commission completed this last case well short of the ten-month requirement. In addition, you do not mention in your testimony that recommendations for making rate proceedings more responsive to the Postal Service—made by the Joint Task Force on Postal Ratemaking—have been awaiting action by the Postal Service since your arrival as Postmaster General. What has been the difficulty in pursuing some of those recommendations, which I understand could have been implemented without new legislation?

Answer. In Docket No. R94–1, the Commission was able to issue its Recommended Decision approximately nine months after the filing of the request, five weeks before the mandated completion date. Including case preparations, however, which began in the fall of 1993 and which are necessary to comply with the Commission's filing requirements, the elapsed time was over a year from when the Postal Service determined that new rates were necessary until the implementation of those new rates. It should also be recognized that the Commission was able to complete its deliberations in Docket No. R94–1 in a shortened period only because, in an effort to achieve settlement, the Postal Service and the parties limited the scope of the issues to merely a portion of those normally litigated in a general rate proceeding. This allowed the entire case to be moved along on an expedited schedule, eliminating approximately one month from the proceedings.

The Joint Task Force on Postal Ratemaking included at least two types of proposals in its report; those pertaining to general rate proceedings dealing with rates for all categories, and those pertaining to more limited cases dealing with rates for smaller sets of mail categories. With regard to the Task Force's primary recommendation regarding general rate proceedings, the Commission issued draft rules in the summer of 1992. The Postal Service did not find these draft rules attractive, but presented its own alternative proposal on how general rate cases could be improved. The Commission, in turn, was unwilling to adopt that proposal.

With regard to recommendations regarding more limited cases, the Postal Service has for some time been working to convert the Task Force proposals into actual draft rules. This effort was disrupted by the Postal Service's internal restructuring in 1992–1993, and by the pendency of Docket No. R94–1, on which the attention of the Postal Service and the Commission has been focused over the past year. However, the Postal Service recently petitioned the Commission to initiate a rulemaking on draft proposals regarding more limited cases.

Question 20. I know that as a businessman you have strong views regarding the Postal Rate Commission and the restrictions the present ratemaking process places on your abilities to compete. However, I would like you to elaborate on how postal

customers would be protected without the Postal Rate Commission and its proceedings?

Answer. If, hypothetically, the Postal Rate Commission were eliminated from the ratemaking process, it should still be possible to protect the interests of postal customers. It should be recognized that the Governors of the Postal Service are appointed to serve the public interest generally, and are not to be representatives of any specific interests using the Postal Service. As their compensation is set by statute, they have no financial incentive to pursue any interests other than the one they were appointed to serve. The Postal Service is unaware of any other reason why they would fail to fulfill their duty. It is therefore unclear why there is any perceived need to protect postal customers beyond the oversight of the Governors.

If, however, some other form of institutional protection were desired, it need not involve the anomaly of having one executive branch body regulate another. In its 1968 report, to cite one example, the Kappel Commission recommended that rate proposals be evaluated by an internal body of technical examiners responsible only to the directors of the postal corporation. The postal directors would then have acted on the recommendations of the technical panel, subject to disapproval by a concurrent resolution of Congress. I am sure that other, even more creative ways might be found to safeguard the interests of postal customers in a restructured ratemaking process.

Question 21. How far along are you in developing the electronic postmark? What is your estimated cost for this development and will such a postmark eliminate some of the legal and privacy ramifications which will develop as e-mail becomes more sophisticated?

Answer. We have been Alpha testing (phase I) the Electronic Postmark for a period of six months. We will begin Beta testing (phase II) the Electronic Postmark with the FM and Dow Chemical in early April. This service will complete the initial Beta testing in July 1995.

The Electronic Postmark is only one of the many services provided by Postal Service's Electronic Commerce Services and we estimate it will take $25.5 million in R&D costs to bring the full package of services to full deployment.

The Electronic Postmark adds value in several ways that address many of the legal and privacy issues associated with e-mail. First, it proves the existence of a message at a particular point in time. Second, it provides for the non-repudiation of content since a trusted third party (i.e., the USPS) can attest that the message was not altered since that point in time. Finally, it provides for non-repudiation of the time of correspondence.

Question 22. Five years ago, the Rate Commission adopted rules requested by the Postal Service to allow changes in Express Mail in 90 days. Why have you not used this flexibility? What is the status of these rules?

Answer. It must be recognized that the rules that now exist fall far short of the original request of the Postal Service, which embodied much more flexibility and expedition. During their promulgation, the Postal Service identified the problems with the rule ultimately adopted, problems which the Commission declined to correct. It is also important to note that these rules may be used only in particular limited circumstances, such as when changes in competitor behavior necessitate a more speedy market response by the Postal Service than can be accomplished under the normal rules governing rate changes. Even in these circumstances, the special Express Mail rules may not be invoked during the pendency of a normal rate proceeding.

Even with these limitations, however, the Postal Service supports the continued existence of these rules. First, the rules create the possibility of a credible market response by the Postal Service, a potential that can be expected to inject a greater degree of competitive pressure into the market for expedited delivery, even if that potential has not yet been realized. Second, having worked hard to establish some sort of expedited rule for Express Mail, the Postal Service was reluctant to let it simply expire under its sunset provisions. Finally, the Postal Service has been carefully monitoring recent trends in marketing behavior by its competitors to determine if application of the special rules may provide some relief to the Postal Service, however marginal. The Commission recently extended the effective date of the Express Mail rules, an extension which was requested by the Postal Service.

Question 23. In recognition of the privatization debate, the Postal Service developed a Competitive Services Task Force in 1992 to recommend ways to service customers more efficiently and to be more competitive in today's marketplace. One hundred and eighty-three recommendations were made such as 1) revising the Mail Manual and simplifying regulations; 2) improving delivery performance, standard, measures; 3) controlling costs; 4) offering discounts and other pricing strategies; and 5) becoming more customer-oriented. How many of the 183 recommendations are

fully implemented? Have they made any difference in your competitive ability? If so, which ones have made a difference?

Answer. Of the 183 original recommendations, 155 were accepted, although about one-third were somewhat modified or accepted partially. Seven items are still being considered and 21 were rejected—either because the intent was not clear or the ideas did not make good business sense.

It is virtually impossible to quantify the impact of implementing these recommendations. The only meaningful measures of competitive fitness are revenue growth, delivery performance, and customer satisfaction. Nevertheless, if the major themes of the recommendations are valid attributes of competitive fitness, then significant progress has been made. The five major themes are:

1. Simplify regulations—both in language and content.
2. Improve delivery performance, service standards, and measurement systems.
3. Commit to cost control for rates stability.
4. Develop pricing strategies that are more customer-oriented (not necessarily lower rates).
5. Become more customer oriented and easier to do business with.

To identify the "Big Five." These five recommendations arguably have the greatest impact on competitive fitness:

1. Revise the Domestic Mail Manual and simplify regulations.
2. Restructure the organization to be more customer-focused.
3. Deploy more external measurement systems.
4. Introduce more contemporary postage payment systems.
5. Promote the value of advertising mail to advertisers.

The report has helped move the entire organizational culture of the Postal Service closer to the satisfaction of mailers' needs and has made a positive impact felt throughout the entire organization.

Question 24A. In August 1991, GAO recommended that the Postal Service systematically develop data on the use and advantages and disadvantages of its more flexible procurement procedures (e.g., pre-qualification and large dollar commercial item purchases). What is the status of this effort?

Answer. Postal Service Purchasing and Materials has developed a plan for Internal Contracting Controls (ICC) which includes tools to more effectively review contracting activities. One of these tools is a review guide that will focus on output measures of performance, policies and procedures.

The ICC will be used to obtain feedback in order to identify areas of success relative to our "more flexible" policies and procedures. We will also identify "best practices"—including the use of contracting officer discretion—to be shared among all purchasing activities in the Postal Service.

In specific areas such as pre-qualification, our buyers continue to use this contracting procedure when, among other things, we own a building and require new construction, or when we purchase design/build services.

As to commercial products: we raised our simplified purchasing ceiling from $50,000 to $100,000 in late 1992 so that we could take further advantage of the supplies and services available on the open market.

Question 24B. What happened to an April 1991 contract the Postal Service awarded to study implementation of the procurement manual by the Procurement and Supply Department?

Answer. This study was commissioned by the (then) Procurement and Supply Department to study many of the areas GAO was also investigating. Generally, the study agreed with the results of the GAO effort, and encouraged the Postal Service to take greater advantage of its flexible procurement policies and procedures. Specific recommendations were under consideration by the Procurement and Supply Department when the 1992 Postal Service reorganization was announced, and the Department was reconstituted as the current Purchasing and Materials organization. Many of the study's recommendations are being actively pursued by Purchasing and Materials.

Question 24C. What training has been conducted for the procurement workforce?

Answer. The Postal Service has one of the Federal Government's most extensive purchasing and material management training and professional development programs. During Fiscal Year 1994, the curriculum's 18 courses were accredited by the American Council on Education (ACE). Also during the past fiscal year, nearly 1,100 employees attended classes in the two disciplines.

Question 25A. The Postal Service recently implemented a debit/credit card acceptance policy. What are your expectations for level of use and total revenue from such transactions? What has been the level of use and revenue to-date?

Answer. The policy to accept debit/credit cards at Postal Service retail facilities was approved to facilitate customer satisfaction and offer alternative payment options to our customers. While we included some basic assumptions in our decision analysis, actual usage may vary significantly once we advertise and promote card acceptance on a national level. It is important to note that an activity-based cost study conducted for the Postal Service determined that it is potentially less expensive per dollar processed to accept credit/debit cards in lieu of cash or checks for retail transactions.

We conducted a pilot study in 550 locations in three major market areas. Even with limited advertising in those locations, the number of card transactions grew steadily to over 50,000 per month. From June 1993 through February 1995, we processed in the test area over 1 million card transactions with a value of $51 million. Assuming these results would apply to 33,000 locations, it is estimated we would process approximately $1 billion in card activity annually once fully implemented.

Question 25B. Did procurement of the integrated retail terminals required by this change proceed smoothly? Please provide information on how many of these terminals are in place and how many more are needed.

Answer. The terminals required for the NationsBank contract (which are not the integrated retail terminals used in our post office lobbies) are slightly modified commercial items. Our efforts to competitively contract for these items proceeded on schedule, and we awarded this contract in February. However, no terminals are yet in place. It is estimated that the Postal Service will deploy 50,000 terminals.

Question 25C. A February 17 Associated Press wire story said the Postal Service awarded a $45.8 million contract to NationsBank to set up a national system for post offices to process credit and debit cards. The contract call for installation of 50,000 terminals in 33,000 locations over the next three years. Is this the largest contract the Postal Service has ever offered?

Answer. No. In 1986, the Postal Service awarded its largest contract to date. The contract was for development and manufacture of the Postal Service's long life vehicle (LLV) and was valued at $1.8 billion.

Question 25D. I understand the request for proposal (RFP) had a 30 day turn around time. Is this 30 day time standard for a contract of this size? How many bidders submitted proposals? How many bidders asked for extensions? Was a bidder's conference conducted? If so, was enough time allowed between the conference and contract due date for bidders to receive clarification on technical issues in a timely manner?

Answer. The 30 day proposal preparation period is standard when we are contracting for a commercially available service, as we were in this case. Seven companies submitted offers in response to the solicitation; we received one written and one oral request for extensions. The solicitation was issued on November 1, 1994, with responses due November 30, 1994. A pre-proposal conference was held on November 14, 1994.

Clarifications and answers to questions which arose at the conference, but were not then answered, were mailed to the interested parties on November 18. This should have provided all potential offerors enough time to prepare their proposals.

Question 25E. How many bids were received? How did these bids rate on a technical evaluation in comparison to the winning bid?

Answer. As noted above, seven proposals were received in response to the solicitation. One of the proposals was ranked technically higher than the eventual awardee; all others were ranked technically lower.

Question 25F. Who was the contractor in the pilot project?

Answer. National Data Corporation was the contractor for the pilot project.

Question 25G. Is NationsBank under any duty to competitively bids its contracts to subcontractors? Could such a process cut the contract costs for the Postal Service? Shouldn't the subcontractors be determined prior to submission of the bid?

Answer. NationsBank had full discretion in deciding with which companies it would subcontract. However, the solicitation specifically stated that the offered price would play an important (although not the most important) role in determining contract award, and all offerors for the prime contract were therefore encouraged to do their best to lower potential subcontract costs. In this case, we believe that the subcontractor (NaBANCO) offered NationsBank the lowest cost for the services they offered to perform. In addition, the solicitation required the offerors to provide a subcontracting plan showing the companies with which they planned to work during the term of this contract.

Question 26. I understand that most federal agencies utilize a "competition advocate" to ensure open and fair competition for procurement as required by the Competition and Contracting Act of 1976. The "competition advocate" has authority over

program and contracting personnel and can delay, halt, or extend procurement time lines. Does the Postal Service utilize this program? If not, why?

Answer. Because the Postal Service is expected to operate in as business-like manner as possible, Congress, when it passed the Postal Reorganization Act, specifically exempted the Postal Service from a number of laws that apply to other agencies of the Executive Branch. Operating under this same philosophy, Congress exempted the Postal Service from the Competition in Contracting Act (CICA). Therefore, the Postal Service does not have a competition advocate. We do however, have in-house protest procedures and our own Board of Contract Appeals. Dissatisfied offerors and contractors may also seek relief from the Federal courts. Lastly, we also run one of the Federal agencies' most aggressive and effective outreach programs to the nation's small, minority and woman-owned businesses. While we operate under a standard of "adequate competition," rather than the "full and open" competition standard mandated by CICA, the vast majority of our contracts are awarded competitively.

Question 27. A major automation contract in 1992 to ElectroCom (for an imaging process subsystem) was not invalidated despite ethics violations of officials accepting meals and travel. What is the status of the Postmaster General's efforts to: 1) better ensure Postal Service compliance with the prohibition of accepting items of value from Service vendors; and 2) direct the Designated Agency Ethics Official to take action against those who committed ethics violations in this case?

Answer. In addition to the ethics-related activities mandated by Executive Order 12731, the Postal Service developed a 1 1/2 day training course for all purchasing-related employees who have been designated as financial disclosure filers. The course is entitled "Ethics and Standards of Conduct for USPS Employees." In addition, all purchasing-related employees who are not financial disclosure filers were required to view a one hour training video entitled "Ethics and You"; 496 purchasing-related employees attended the 1 1/2 day training; 457 employees took the one hour video training.

The Executive Order also requires that ethics update training be given annually. A 2 1/2 hour training course was developed and provided to all financial disclosure filers at 25 training sessions conducted nationwide.

Question 28. Although only one site was needed, the Postal Service purchased two properties in Queens, New York, for $80 million in 1992. One property, the Phelps Dodge site, was contaminated with hazardous materials. Subsequently, the Postal Service attempted to sell it. The Postal Service is still in litigation over clean-up of the site. The Postal Inspection Service identified numerous problems with this contract. For example, the contract was changed at the last minute to remove any recourse for the Postal Service to force the seller to clean-up the site. No one can determine who changed the contract. What efforts are underway to resolve this contract? When do you expect to resolve this situation and how?

Answer. Various parts of this question are inaccurate or incomplete. The properties were purchased in 1986 (the Phelps Dodge site) and 1987, not 1992. Of the combined purchase prices, less than $15 million was for the Phelps Dodge site. We negotiated for two years with Phelps Dodge. At some point, we scrapped the draft and started over. The later version evolved into the sales contract. The contract was not changed at the last minute. It was amended by mutual agreement, to our advantage, at the closing. The amendment required Phelps Dodge to clean the site: it did not remove any recourse against it.

The current litigation against Phelps Dodge is the best avenue available to us to resolve this dispute. The Postal Service and Phelps Dodge have long-standing and fundamental differences concerning Phelps Dodge's clean-up responsibilities under the sales contract. Excavation of the hazardous wastes ceased years ago, and Phelps Dodge has been attempting to placate the New York State Department of Environmental Conservation (NYSDEC), the state agency overseeing the clean-up, since then. We have been in litigation for three years. The Postal Service is seeking rescission of the contract, damages, and a court-ordered clean-up, alternatively. The judge has indicated that the case will go to trial in the next few months. The best conclusion would be for the litigation to resolve the matter in our favor. If it does not, future litigation against Phelps Dodge, and perhaps with NYSDEC, is likely. We are also working with NYSDEC to require it to enforce its consent order with Phelps Dodge, so that the site will be cleaned up sufficiently to allow profitable resale. We believe that we are protected both under the contract and through the consent order with NYSDEC. It is our view that the long delays and problems associated with the site are caused solely by the polluter, and that we are utilizing all available legal mechanisms to ensure that the financial responsibility rests solely with Phelps Dodge.

Question 29. In 1991, GAO found that the private sector can be a lower cost optional source than the Bureau of Engraving and Printing for postage stamp production; in fact, at that time, the Postal Service was continuing to seek lower stamp costs while maintaining quality. However, I understand that in the downsizing, the Postal Service lost some of the personnel needed to oversee and monitor these private contracts. Thus, the Service may have been forced to rely more heavily upon the Bureau for stamps. For example, stamps are being produced by four private sector contractors compared to the eight who were producing postage stamps under active contracts as of June 1992. Could you clarify you current staffing levels in this area and how this affects your ability to seek lower cost stamps? Is this a possible cause of the initial shortage of G-stamps?

Answer. Staffing levels for the oversight and monitoring of private sector stamp contracts are adequate. In fact, it was the current staff that prepared the specifications and requirements which resulted in the December 1993 award of the "Multi-print" contracts to four private sector stamp suppliers. We consider the "Multi-print" to be the most comprehensive, cost-efficient stamp production contract ever awarded by the USPS, with anticipated negotiated cost savings of up to $50 million over their five-year life. Having four private sector stamp printers instead of the previous eight has proven to be more manageable and cost effective.

Because of the added cost savings and high standards of quality, the Postal Service has been turning to private sector printers more than ever. In FY 1995, the private sector is scheduled to produce approximately 40 percent of the Postal Service's stamp requirements, as opposed to 30 percent in previous years. This percentage is expected to increase even further as public demand for self-adhesive stamps continues to climb, as the Bureau of Engraving and Printing (BEP) currently does not produce self-adhesive stamps. In FY 1996, for example, we anticipate that the production ratio for stamp production will be 55 percent of total volume being assigned to the BEP, with the remainder being assigned to private sector sources.

There were no real shortages of G stamps. Unfortunately, unpredictable customer demand and media exploitation played a major role in the problems experienced during the recent rate change. Sufficient supplies were prepared and placed in storage well in advance of the rate implementation date. However, the initial demand for makeup rate stamps far exceeded historical customer demand for these items. Some offices experienced demand that was five times greater than the last rate change in 1991, with the majority of that demand occurring on January 3–4, 1995. Consequently, some offices did not order initial supplies sufficient to accommodate this unprecedented demand. Normally, rate change purchases are spread out over a period of weeks prior to and after the date the rate change goes into effect. With the prior sale period and implementation date taking place during the holiday season, it appears that many customers were so involved with holiday preparations that they did not think of buying postage for the rate change until it was time to mail their bills on January 3, 1995.

As soon as post offices started reporting the unprecedented demand, the wheels were set in motion to get additional stamps deployed where needed. Additional quantities of 3-cent makeup stamps were rushed to areas experiencing shortages (with some offices receiving supplies within hours and most offices receiving additional supplies on January 4th and 5th), and the problem was generally eliminated before the end of that week.

It is important to note that the only item reported to be in short supply during the first few days of the rate change was the 3-cent makeup stamp. With the exception of this one item, our post offices reported that, from a stamp availability standpoint, this was the smoothest rate implementation ever with sufficient backup supplies readily available.

Question 30. In 1994, the Postal Service awarded a "Multi-print" contract for the production of offset, gravure, and water activated offset-intaglio stamps. Although the "Multi-print" contract was awarded last year, one awardee has yet to produce offset-intaglio stamps. Why has this awardee not produced offset-intaglio stamps despite the requirement in the contract to do so? Why did the Postal Service select this contractor when it could not perform under the terms of the contract at the time of selection?

Answer. The December 31, 1993, contracts require awardees to print and begin delivery of offset-intaglio stamps 150 calendar days after the "activation date on the delivery order." All contractors were told that our stamp requirements through June 1994 would be satisfied by placing delivery orders under the old stamp production contracts. This means that, at the very earliest under the "Multi-print" contracts, if a delivery order had been issued for a particular stamp issue, a contractor would not be required to deliver stamps until the second half of 1994.

At the time of contract award, Ashton-Potter, USA, had proposed using Northern Bank Note as a subcontractor; therefore, they had offset-intaglio capability immediately (not with a combination press, but with separate offset and intaglio capabilities.) A few months after contract award, Ashton-Potter, USA, notified the USPS that they dropped Northern Bank Note as a subcontractor as the two were unable to reach final pricing agreements, nor were they able to agree to a timely delivery date for a new offset-intaglio printing press. As a result, Ashton-Potter, USA, submitted alternative production plans to the Postal Service for acceptance, and asked whether they should pick up an intaglio subcontractor to use in conjunction with their offset printing capabilities. We told them that we didn't project any offset-intaglio work for them until 1995, that this intaglio capability was not necessary at that time. This was based on Stamp Service's allocations which had been prepared even before Northern Bank Note backed out of the Ashton-Potter contract picture in April 1994.

Ashton-Potter, USA, has been allocated offset-intaglio stamps for production in 1995. Their first offset-intaglio stamp issue is scheduled to go on sale in June 1995.

Question 31A. By consolidating mail processing locations, Area Mail Processing Centers were to save mail processing costs and maintain the same or better delivery service. As GAO pointed out in a May 1991 review of a West Virginia Center, the Centers make sense conceptually. However, due to problems in South Dakota and Waterloo, Iowa, the Area Mail Processing Center concept was suspended and no guidelines exist for post-implementation reviews of service and effectiveness. The Postal Service planned to issue revised guidelines at the end of 1994 which should have contained post-implementation guidelines. A review of the Dakota Central Center was due for completion in January 1995. As of early February, the program was still in suspension, and the guidelines were reportedly delayed until March due to the time required for review by the unions. A Postal Service office in California supposedly gave the guidelines a "live run," but it is not clear when the Dakota Central review will be complete. When will the guidelines be issued? When will the Dakota Central review be finished? When, if at all, will the Area Mail Processing Center concept be continued?

Answer. The revised Area Mail Processing Guidelines are complete and have been distributed to all districts and processing and distribution centers responsible for developing AMP studies. Attachment V is a copy of the Guidelines. The Guidelines include a post-implementation review and are focused on customer satisfaction, efficiency and employee impacts. The Dakota Central AMP is still under review.

The Area Mail Processing Center concept was never interrupted, only the proposal and implementation of any "new" AMP proposals was abated pending revision of the new guidelines and AMP process.

Question 31B. Did Waterloo, Iowa, and South Dakota Mail consolidations achieve their operational goals? On what basis did you make this determination? What corrective actions, if any, were necessary for improving these consolidations?

Answer. The Waterloo, Iowa, AMP achieved its operational goals and Dakota Central is still under review.

Effectiveness of the Waterloo, Iowa, AMP was based on the original proposal as will be Dakota Central. The revised AMP Guidelines will provide for specific post implementation evaluations on all future AMP proposals.

Question 32. In September 1993, the Postal Service chose a contractor to help with background checks. The contract called for a 1 year deal with three 1 year renewal options. What is the status of this contract? Has it helped the service improve background checks?

Answer. The contract for background checks was renewed for another year in November 1994. The contract has improved compliance with the requirement to initiate background check requests. We have experienced some problems with the timeliness and completeness of the information provided by the contractor, but are constantly working to improve both. We are using the one year contract extension to asses whether other changes in our employment screening process would improve the overall quality of hires.

Question 33. To help Congress make more informed judgments about Postal Service oversight, rate requests, and performance, GAO recommended in 1992 that the Postal Service provide a note to the financial statements which, at a minimum, describe: 1) the post-retirement benefits plan; 2) the estimated amounts of post-retirement health care benefits earned by employees and retirees since July 1, 1971, to the date of the statements less the amounts of benefits used; 3) the estimated amounts of benefits attributable to the period(s) covered by the statements; and 4) the assumptions under which the estimates were derived. After reviewing your recent financial statements, it does not appear that the Service has implemented this

recommendation. Why not? When does the Service plan to implement this recommendation?

Answer. The Postal Service does not plan to implement this recommendation. A lengthy review of the Postal Service participation in the Federal Employees Health Benefit Plan (FEHBP) by outside actuarial consultants and our independent external auditors confirmed that the Postal Service is a participant in a multiemployer plan. As such, the Postal Service's pay-as-you-go accounting procedures utilize generally accepted accounting principles (GAAP), according to FAS 106.

The Postal Service fully addressed the issue of postretirement health care costs in Mr. Coughlin's July 6, 1992, letter to Congressman Conyers, provided as Attachment VI. The Postal Service's financial statements for the year ending September 30, 1994, (and prior years) fully discloses the law, policy and obligations of the Postal Service as required by GAAP with regard to postretirement health benefit programs, retirement programs, and various OBRA legislation.

The Postal Service does not routinely prepare the information that would be required to implement GAO's recommendation. The supplementary information would have to be calculated through actuarial analysis. Postal ratepayers would ultimately have to pay the bill for an independent actuary to perform such a calculation.

Since postal employees participate in the FEHBP, we believe that providing separate information for the Postal Service is redundant to what should be available for the FEHBP as a whole. As we indicated in our letter, we believe that the cost of implementing this recommendation would exceed the benefits and would be misleading by implying that the Postal Service has more control over health benefit costs than it actually does

Question 34A. I note from the Postal Service annual financial reports submitted to Congress that the service's long-term debt has increased from about $3 billion in 1986 to almost $7.7 billion in 1994. The Act of 1970 currently limits such debt to $15 billion. The service's revenue has not kept pace with its operating costs, and the net capital deficiency (the cumulative net losses after all expenses) grew from $2.7 billion in 1992 to about $6 billion in 1994. At the same time, the service is increasingly constrained financially by requirements to fully finance its employee costs (including retirement, health care, etc.). Fortunately, the growth in the economy, particularly in the last several years, and the related mail volume growth have allowed the service to control somewhat its operating deficit and hence its postage rate increases. What accounts for this growth in long-term debt? Are you concerned that the Service is increasingly using deficit financing, rather than a pay-as-you-go approach through adequate rate changes, to finance its operations and capital improvements?

Answer. The increase in the Postal Service's long-term debt since 1986 is primarily due to the massive investment it has been making in automated mail-processing technology, along with the necessary modernization of an aging facility infrastructure. From 1986 to 1994 the Postal Service's land, buildings and equipment increased by $9.1 billion. These investments in our operations will ultimately save us billions of dollars. All of the borrowing which occurred from 1986 to 1994 was used to finance capital additions and new technologies.

The Postal Service is not relying on deficit financing to fund its operations. We are committed to achieving break-even over time. However, the cost burdens on the Postal Service have increased dramatically in recent years, largely as a result of OBRA cost transfers. It has been extremely difficult for the Postal Service to absorb these costs, which have resulted in operating deficits. It is no coincidence that since 1987, the year OBRA payments first began, the Postal Service has earned a net income only once. Indirectly then, these OBRA costs have reduced the Postal Service's financial flexibility and forced us to borrow more to finance our capital investments.

Question 34B. What would have been the impact on postage rates today if the service has experienced a zero mail volume growth in fiscal years 1994 and 1995? Specifically, what would be the price to mail a less than one ounce First-Class letter today?

Answer. Our estimates indicate that an additional one-cent increase would have been necessary for the basic First-Class letter rate along with similar percentage increases for other mail classes. This means that a 33-cent rate is the likely result. In other words, instead of a below-inflation 10.3 percent rate increase, the First-Class rate would have been 13.8 percent, or above the rate of inflation.

Question 35. On page 3 of your statements you discuss running the Postal Service "like a business" and the fact that you were able to hold rates steady for 4 years which is certainly an achievement; however, some would argue you achieved this by debt financing in that, like the federal government, you have been carrying some serious deficits at the end of your fiscal years that will have to be made up by postal customers through the recovery of prior year losses in future rate cases. Considering

this argument, how serious do you believe the Postal Service should take the mandate in the Postal Reorganization Act to break-even in its finances? How best could this consistently be accomplished?

Answer. The Postal Service is required by law to break-even over time and takes that requirement very seriously. However, break-even cannot be precisely met every year due to various factors. Some of these factors are imposed from outside and some of these factors are the result of pragmatic business decisions with a long-term focus.

First, it is helpful to understand the costs imposed upon the Postal Service. As the subcommittee is aware, two of the major postal legislative issues over the past several years have been retiree-related costs and revenue forgone. It is important to note that in drafting these laws, a primary goal of the previous subcommittee was to mitigate the impact of the rate increases on mailers by using the prior years' loss mechanism. The designed outcome is larger annual net losses and a larger prior years' loss recovery for future rate payers.

Some of the operating losses were due to decisions focusing on the long-term viability of the Postal Service. Our decision to refinance our debt in 1993 cost $537 million that year but will save over $2 billion in the long-term. Also, our restructuring that year cost an additional $1.2 billion but is estimated to save $1.4 billion this year and will save similar amount annually for years to come. Restructuring was a good business decision, and many Federal and agencies are now undergoing similar efforts.

Mail volume is growing and at least part of that can be attributed to a relatively healthy economy. However, that was not the case when Mr. Runyon was appointed Postmaster General in 1992. The Postal Service had recently implemented its second consecutive rate increase greater than inflation over the previous three years and mail volume growth was stagnant. The Postal Service has substantial fixed costs and is subject to inflationary pressures. Thus, it relies upon volume and the subsequent revenue growth to maintain the fixed network and pay for pay increases. Consequently, it was decided to delay the implementation of the next rate increase and mitigate its impact. Mail volume has increased 6.4 percent over the past two years after remaining virtually unchanged for the two previous years. Moreover, early indications are that our moderate rate increase is paying dividends as mail volume continues to grow.

Question 36. You say that the Postal Service will have contributed $14 billion to reduce the federal deficit through 1998. Aren't these payments for expenses and costs the Postal Service should have shouldered in the first place? Please provide a detailed breakdown of this $14 billion figure.

Answer. The Postal Reorganization Act (PRA) specifically mandated the protection of the retirement benefits of postal employees through continued participation in the CSRS and FEHBP. Further, it was clearly intended in the PRA that the Postal Service pay for retirement and health benefits at the same level as all other Government agencies. The OBRAs of 1985, 1987, 1989, 1990 and 1993 have completely eradicated this concept by imposing new costs on the Postal Service first prospectively, then retroactively. The Postal Service now funds considerably more of its retirement costs than other agencies. The Postal Service has no objection to paying the full cost of benefits related to postal employment. However, the retroactive manner in which many of these obligations were imposed (including the imposition of retroactive interest in OBRA 1993) has seriously damaged the financial position of the Postal Service, which ultimately must pass these costs on to its ratepayers.

An analysis of the $14 billion estimated OBRA costs through 1998 follows:

[dollars in billions]

Fiscal Year	OBRA 1985	OBRA 1987	OBRA 1989	OBRA 90 Current	OBRA 90 Retro	OBRA 1993	Total
1987	0.010	.....	.....	.....	.....	.....	0.010
1988	0.053	0.510	.....	.....	.....	.....	0.563
1989	0.100	0.270	.....	.....	.....	.....	0.370
1990	0.166	.....	0.074	.....	.....	.....	0.240
1991	.....	.....	.....	0.749	1.901	.....	2.650
1992	.....	.....	.....	0.871	0.081	.....	0.952
1993	.....	.....	.....	1.061	0.070	0.857	1.988
1994	.....	.....	.....	1.139	0.054	0.043	1.236
1995	.....	.....	.....	1.249	0.034	0.045	1.328

[dollars in billions]

Fiscal Year	OBRA 1985	OBRA 1987	OBRA 1989	OBRA 90 Current	OBRA 90 Retro	OBRA 1993	Total
1996	.....	.....	.....	1.365	.....	0.047	1.412
1997	.....	.....	.....	1.483	.....	0.032	1.515
1998	.....	.....	.....	1.614	.....	0.017	1.631
Total	0.329	0.780	0.074	9.531	.....	1.041	13.895

Question 37. It was reported in the media and by the former Chairman of the old Committee on Post Office and Civil Service that somehow you were "cooking the books" on your year-end loss of $914 million and it should have been a loss of $1.3 billion except for some maneuvering of your workers' compensation account. Would you set the record straight on that concern? What changes to your accounting practices were adopted that may lead individuals to believe your bottom line for last year was not accurate?

Answer. There was no change to Postal Service "accounting practices" in regard to workers' compensation expense adopted in FY 1994. There was a year-end change to the accrual for workers' compensation liability—the estimate for future workers' compensation payments that the Postal Service carries on its books in accordance with Generally Accepted Accounting Principles (GAAP). This liability is estimated at fiscal year-end by the Workers' Compensation Estimation Model based on stratified payment data. At the beginning of fiscal year 1994, the Postal Service anticipated, and subsequently accrued for, another large increase in this liability based on a long-term historic trend towards constantly escalating workers' compensation payments. However, when we received the year-end tape from the Department of Labor (DOL), the model estimated a slight decrease in the year-end workers' compensation liability. This reduction is attributed to a number of cost reduction actions undertaken in FY 1993 and FY 1994 by both postal management and the DOL (primarily, the postal Workers' Compensation Task Force and the DOL's Periodic Roll Review Task Force). The adjustment from the expense that the Postal Service had accrued to the actual results based on these year-end data from DOL resulted in a large adjustment to reduce workers' compensation expense and liability. This was a straight-forward adjustment that was reviewed and approved by the Postal Service's outside auditors, Ernst & Young (E&Y), as being in accordance with GAAP. In fact, E&Y and their actuaries spent a significant portion of their time during the year-end audit validating these data and ensuring that the numbers were reasonable and the methodology used was actuarially sound and consistent with prior years' methodologies. Simply stated, our bottom line was accurately presented.

Question 38. In the U.S. Postal Service Fiscal Year 1996 Budget Congressional Submission, page II–8 (Statement of Revenue and Expense), "servicewide expenses" for fiscal year 1995 are estimated to decrease about 25 percent from 1994—to about $285 million. However, servicewide expenses are estimated to increase to nearly 1994 levels in fiscal year 1996.

Answer. What specific expenses are included in "servicewide expenses"? What accounts for the 25 percent decrease in these costs in fiscal year 1995? Similarly, what accounts for the estimated increase in these costs from fiscal year 1995 to fiscal year 1996?

Answer. The Postal Service's fiscal year budget submission includes the following expense categories: domestic and international mail indemnities; insurance claims; uncollectable receivables and other write-offs; embossed stamped envelopes; advertising; unemployment compensation; reimbursements; gain or loss on disposal of capital assets; and miscellaneous other operating expenses.

The annual changes in the servicewide expense totals are explained as follows:

[Dollars in millions]

	FY 1995	FY 1996
Total expense level—prior year	376	285
Changes in current year:		
Insurance claims and indemnities	−30	4
Unemployment compensation	−28	4

[Dollars in millions]

	FY 1995	FY 1996
Gain or loss on asset dispositions	−7	−15
Advertising	−6	71
Gain or loss on foreign currency fluctuations	−15	4
Misc. supplies, materials and services	−5	4
Total expense level—current year	285	357

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. ROBERT L. EHRLICH, JR., TO MARVIN RUNYON

Question 1. As you have stated, the mail service is very complex system. There will always be mechanical and human error in your operations. Unfortunately, our citizens remember the one letter that was late, instead of the hundreds that are on time. The last report showed an on-time-performance rate of 84 percent. What specific actions have you taken to reach the Postal Service's goal of a 95 Percent on-time-performance rate?

Answer. Many efforts are underway and planned for the future that focus on service improvement, specifically in the areas of collections, processing and distribution, delivery, and transportation and logistics.

External First-Class Measurement System (EXFC) diagnostic information identified service problems as a result of no pick-ups, or premature pick-ups of mail from collection boxes. The Collection Management System (CMS), a program aimed at ensuring timely pick-up of collection mail is in the process of being implemented. Memory buttons are installed in collection boxes at critical collection points and through use of wand scanners data is collected from these collection points. The data is then analyzed to ensure all collection points were collected in the correct sequence and times.

In our processing and distribution function we have placed renewed emphasis on automation to maximize up-the-ladder distribution and to enhance the quality of the distribution process. Software enhancement to increase the amount of barcodes applied internally and to improve the depth of sort are being explored. Similarly, special attention is being provided to gain high quality addressing from our customers. Through partnership efforts with the private sector we are exploring technologies to improve deficient addresses in mailers' files, especially for those addressed in high-rise buildings.

In delivery operations we are continuing to implement delivery point sequencing (DPS). DPS allows, through the use of automation, the sequencing of an individual carriers route to delivery point sequence thereby reducing the amount of mail a carrier must case manually.

In the area of logistics and transportation, we are currently pilot testing Electronic Data Interchange (EDI) with air transport providers. EDI will provide real-time information on the status of air transportation and the ability to react to meet service commitments. Through the use of EDI we can minimize the possibility of assigning mail to flights with insufficient lift. In addition, mail overflow at congested transfer hubs will be reduced thereby increasing air carrier ability to meet our service commitments.

To assist in monitoring the effectiveness of our system as a whole, mail conditions at bulk mail centers, processing and distribution centers and delivery units are monitored on a daily basis. Monitoring mail conditions enables us to identify opportunities to improve service by placing emphasis in problem areas. We have established a National Operations Management System (NOMS) that monitors field operating conditions. This allows us to identify significant trends, project workload volume shifts and maintain past performance in order to help the field prepare to meet volume shifts and maintain service levels. We are currently exploring expanding the NOMS capability to our ten area offices.

Because of their size, major metropolitan areas have a significant impact on our national service performance. We have identified specific metropolitan areas where service has been below expectations and focused improvement efforts there. For example, teams of specialists from Headquarters have been available to support and will continue to support service improvement in these areas. These improvement

teams provide on-site identification of the sources and causes of incorrectly distributed mail and develop action items for initiating corrective action.

Question 2. You testified that you want to "free your employees from burdensome rules and bureaucratic red tape." Please give specific rules and red tape that can be reformed or eliminated?

Answer. There are rules regarding assignment of work which restrict both employees and managers from providing the best possible service. A distribution clerk can't pitch in and help deliver mail; certain specific and limited criteria must be met before employees can work outside their job classifications. Likewise, a mail handler can't just sit down at a distribution case and sort letter mail, even if that's the job which needs the most attention right then. And supervisors in major facilities are even more restricted from touching mail at all. These "jurisdictional" issues have become sore spots between all major unions, with ever-increasing amounts of time spent attempting to resolve the problems—on the workroom floor and in the grievance-arbitration process. Our inability to move employees interchangeably from task to task is inefficient and costly and our customers suffer the consequences.

Question 3. Now that rates have increased, how do you plan to compensate for a negative equity of six (6) billion dollars?

Answer. The Postal Service had a positive equity position as recently as 1987. Since that time, a number of OBRAs have imposed additional, unanticipated costs on the Postal Service. These OBRA costs totaled $8 billion through 1994 and are expected to increase to almost $14 billion by 1998. The $6.3 billion in net losses which have occurred since 1986 can largely be attributed to the Postal Service's inability to absorb these huge, unexpected increases in its costs. In addition, management has made investments in the Postal Service's future, such as the restructuring and debt refinancing, which have had considerable short-term costs, but which will reap long-term dividends. We believe that the restructuring is beginning to pay off as indicated in our recent financial and service results.

We are very concerned about the negative equity position. We are working with the Board of Governors to develop an action plan to restore equity. The 10.3 percent postage rate increase implemented in January represented a positive start in this direction. By keeping the average rate increase below inflation, we were able to increase revenues without adversely affecting mail volume. Maintaining our revenue base is key to the Postal Service's future, because ultimately, the only way to improve the Postal Service's equity position is by generating annual net incomes consistently. We believe that we can significantly improve the Postal Service's financial standing as long as we are not mandated to absorb additional costs. It will take time, though, to restore our equity position. The postal ratemaking process generally allows nine years to recover prior years' losses.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. BARBARA-ROSE COLLINS TO MARVIN RUNYON

Question 1. There has been a tremendous increase in the proportion of postal service mail processing activities associated with nonproductive time over the last decade and more. Can you explain why this time has increased to where it is now 22 percent of the total processing time?

Answer. First of all, "nonproductive" is a misnomer that has been incorrectly applied to the very necessary time required for employee breaks, clocking in and out, and moving empty equipment. We no longer use the term and we provided testimony in previous rate cases explaining why it is inappropriate. The correct terminology is overhead. We do not agree that there has been a tremendous increase in the proportion of postal service mail processing activities associated with overhead. For example, if we look at mail processing overhead costs as a percentage of direct costs from fiscal years 1986 through 1992, overhead averaged 23 percent of direct costs. In fiscal year 1992 mail processing overhead costs were 23 percent of direct costs the same as the average for the seven year period. Although there may be an upward trend in overhead over certain periods of time, some of this trend may simply be due to changes in data collection.

Question 2. What was the change in total factor productivity for the Postal Service for each quarter in FY 94 and the first quarter of FY 95? What was the change in productivity for all of FY 94?

Answer.

Total Factor Productivity

Period	TFP
FY 1994:	
Q1	−0.2
Q2	−1.7
Q3	−1.1
Q4	0.4
Annual	−0.4 *
FY 1995:	
Q1	0.4

* The four quarterly numbers do not sum to the annual change because resource usage is different in each quarter. For example, Quarter IV has 112 days versus 84 in the other quarters. Moreover, mail volumes are seasonal, therefore, more resources are utilized in Quarter I than in the other quarters.

Question 3. In the last Congress, the postal service testified that it was no longer using paid confidential informants in internal narcotics investigations. Is the moratorium still in effect? Are there any plans to lift it?

Answer. The moratorium on the use of paid confidential informants from outside the Postal Service to investigate internal narcotics cases is still in effect. The efforts we undertook to revamp this program have been completed. We have identified a number of facilities where managers and employees have expressed concern over the prevalence of drugs in the workplace. Results of the Postal Service Employee Opinion Survey show that there are concerns among employees regarding drugs in our Processing and Distribution Plants. We are formulating a strategy to address this problem.

Question 4. Provide a detailed status and update on the postal employees fired last year as a result of the postal inspectors' drug sting. Include the number fired, current (or not) employment status, location of employment and title and position. What is the current status of the postal inspectors involved in the sting?

Answer. On March 10, 1995, the Merit Systems Protection Board declined to review the administrative judge's October 1994 decision affirming the removals of former Postal Inspectors Tim Marshall and Daniel Kuack. Both men had been removed in 1993. Attachment VII details the current status of Postal Service employees involved in the Cleveland drug sting.

Question 5. In the last EOS, employees expressed concern over drug and substance abuse by their coworkers. Specifically, how are you addressing their concerns?

Answer. The Postal Service has a wide range of responses to the substance abuse problems identified by our employees in the Employee Opinion Survey (EOS). First, we conduct pre-employment drug screening for applications for all of our positions, both career and non-career. Second, we have a comprehensive Employee Assistance Program. This program is covered in new employee orientation and provides a continuing program of employee education on substance abuse issues as well as substance abuse counseling and referral to those in need of such services. Third, the Inspection Service is very active in identifying and documenting illegal substance-related activity in the workplace.

While we believe we have a comprehensive response to this problem, we have encouraged our managers to conduct focus groups with employees to further understand this and other EOS results so that we can adjust our strategies to meet employee needs.

Question 6. I understand that the Diversity Department covers more than affirmative action. What other areas are covered by this department?

Answer. Diversity Development has primary responsibility for monitoring affirmative action compliance by developing agency plans that are submitted to the Equal Employment Opportunity Commission and the Office of Personnel Management. It promotes diversity awareness within the organization; interfaces with the Quality department; helps field management with diversity issues; and helps recruit diverse individuals for postal employment. The best way to highlight other areas covered by Diversity Development is to describe the five major functions within the department.

1. Policies and Planning helps other functions ensure that diversity is considered in postal policy and serves as external liaison with other government agencies and private industry. This unit is also responsible for developing and implementing national policy of specific diversity related issues (e.g., sexual harassment) that affect all postal employees.

2. Customer Interface helps identify business needs to serve diverse domestic and international customers through retail and lobby programs, and through the development of programs and revision of signs, brochures, and handbooks. It serves as a liaison with operations, marketing, and sales to identify diverse markets, and it supports unique customer needs through community outreach programs.

3. Supplier Diversity is an essential part of the Postal Service's long-term corporate strategy to remain competitive and profitable in a dynamic marketplace. The Postal Service recognizes that a diverse supplier base is one of the most effective resources any business can have. This unit also partners with Purchasing and Materials to manage program activities in Supplier Diversity. Through this unit, Diversity Development is charged with developing and monitoring the overall program and performs in an independent advocacy and reporting role in compliance with the intent of Public Law 95–507.

4. Strategic Programs and Education and Research oversees the coordination between Headquarters and the field on strategic programs and initiatives related to Diversity Development. It is responsible for recommending programs to ensure that field-based corporate initiatives related to Diversity Development are achieved. This unit oversees the development, modification, and implementation of these programs. This unit also develops diversity education and orientation models, programs, and processes, and conducts research, evaluation, and profile trend analysis of the workforce as it relates to diversity issues. The units also assist in analyzing the Employee Opinion Survey.

5. Diversity Development has a consulting role to identify, design and develop tools and techniques that instill in the consciousness of every employee and customer that we treat everyone with dignity. That role includes raising the awareness of individual and group attitudes about various cultures that may inhibit the way we treat one another and do business. Diversity has the responsibility to keep the issues of diversity in the forefront so that over time, managers and craft employees understand the importance of diversity issues to postal success.

Question 7. We see postal advertising all over town and in newspapers telling us what a great job the service is doing. How much money is the Postal Service spending on advertising? How does this help the Postal Service perform its responsibility for delivering the mail in a timely manner to our constituents?

Answer. The amount the Postal Service spends on advertising varies from year to year, based on market conditions and other needs. The budget for fiscal year 1995 is $73 million. The advertising that flows from this spending contributes to our mission in two respects—1) it enables us to get information into the hands of our customers so they can use our products and services to best serve their needs and 2) advertising builds awareness and generates additional revenue which contributes to our ability to keep down the cost of postage for all postal customers.

Question 8. You have initiated a "performance cluster" concept at the operating level to get managers in different functions to voluntarily coordinate their efforts and work together effectively. How well is the cluster concept working? Do you plan to reestablish local manager positions to oversee both customer service and mail processing operations in other metropolitan areas?

Answer. The cluster concept is generally working well, as evidenced by the significant improvements in service and financial indicators. We will continue the open dialogue with Field Management about the need to expand the Metro Manager concept used in Washington, D.C., (or other alternatives) to other Districts or large complex Metropolitan locations.

Question 9. In 1989, the Postal Service lowered service standards for a significant portion of first-class mail. Do you have any plans for further revise service standards?

Answer. We have no plans to systematically review and revise the current First-Class Mail service commitments.

Question 10. Major parts of the Joint Task Force addressed flexibility. How many of the recommendations made in the report have been implemented? If so, which ones? If not, why not? What efforts are currently underway to address those recommendations? Please provide for the record.

Answer. The Postal Service has petitioned the Commission to initiate a rulemaking to consider draft rules presented by the Postal Service to implement a broad array of Joint Task Force recommendations. A copy of the petition is provided as Attachment IV.

Question 11. How many postal employees who took buyouts were later employed as consultants or as principals of small corporations which received contracts from USPS?

Answer. Attachment III is a list of former employees who have as of March 1995, contracted directly with the Postal Service since the buyouts began in August 1992.

This list does not reflect principals of small corporations which have received contracts from us; nor does it reflect former postal employees who may now be employed by a Postal Service contractor. This is because our contractual data base tracks the contractor with whom we contract, not the employees working for the contractor (whether they are former postal employees or not). To determine the principals of small corporations which have contracts would require research into the articles of incorporation of each of the corporate contractors. This sort of data is also not captured or tracked by our contractual data base.

Question 12. I understand that several former City Bank employees have been hired as consultants to the Postal Service. How many such consultants have been hired?

Answer. There have not been any former Citibank employees hired as consultants to the Postal Service. Five individuals/firms with whom Mr. Smith has had professional relationships in the past are presently under consulting contract with the Postal Service for varying business needs.

Question 13. I understand you have a contract with the Gallup organization to collect data on commercial mailers' opinions of postal service performance. Please supply a copy of the contract for the record. How much money have you spent on this contract so far? What are the results of the Gallup survey or surveys? Please provide.

Answer. The Business Customer Satisfaction Index (BCSI) is an ongoing process of measuring the satisfaction level of our business customers. The BCSI system has gathered data since Quarter IV, FY 1994. At this point, three quarters of data are available (Quarter IV, FY 1994; Quarter I, FY 1995; Quarter II, FY 1995). The BCSI looks at customers in a very specific way. The marketplace is segmented into national accounts (very large mailers); premier accounts (mailers spending over $250,000 or more in postage but not national accounts); business accounts (mailers spending less than $250,000 in postage); and small businesses (mailers spending less than $100,000 on postage). Therefore, there is not an overall rating for business customers, nor are the results of the individual categories rolled up into a national rating. A review of our performance BCSI indicators is currently being conducted by an action planning team focused on the Baldrige criteria—7.4 Customer Satisfaction Determination. Upon completion of this review, a determination will be made regarding the release of BCSI survey data.

The Postal Service signed a four year fixed price contract with the Gallup Organization on April 8, 1993 for $8.3 million to develop and implement the BCSI process. Since the contract signing, several modifications have been made including additional sampling of large business accounts and an improved process for identifying the appropriate customer contacts to be surveyed. These improvements increased the net fixed price of the BCSI contract to $11.9 million, which will be expended over the life of the contract. The Postal Service has expended $4.2 million to date, for research and development, pilot testing, and quarterly data collection. A copy of the BCSI contract is provided as Attachment I.

Question 14. Why are the external first-class measurement system and the external Consumer Service Index being transferred out of the Consumer Advocate's office?

Answer. Management of the External First-Class Measurement System (EXFC) and the external Customer Satisfaction Index (CSI) are not being transferred out of the Consumer Advocate's office.

Question 15. You have testified that the Postal Service has a negative equity of about $6 billion. Why has the negative equity situation occurred? Should it be a cause for concern and what can or should be done about it?

Answer. The Postal Service had a positive equity position as recently as 1987. Since that time, a number of OBRAs have imposed additional, unanticipated costs on the Postal Service. These OBRA costs totaled $8 billion through 1994 and are expected to increase to almost $14 billion by 1998. The $6.3 billion in net losses which have occurred since 1986 can largely be attributed to the Postal Service's inability to absorb these huge, unexpected increases in its costs. In addition, management has made investments in the Postal Service's future, such as the restructuring and debt refinancing, which have had considerable short-term costs, but which will reap long-term dividends. We believe that the restructuring is beginning to pay off as indicated in our recent financial and service results.

We are very concerned about the negative equity position. We are working with the Board of Governors to develop an action plan to restore equity. The 10.3 percent postage rate increase implemented in January represented a positive start in this direction. By keeping the average rate increase below inflation, we were able to increase revenues without adversely affecting mail volume. Maintaining our revenue base is key to the Postal Service's future, because ultimately, the only way to im-

prove the Postal Service's equity position is by generating annual net incomes consistently. We believe that we can significantly improve the Postal Service's financial standing as long as we are not mandated to absorb additional costs.

Question 16. Does the Postal Service have any plans for an expanded role in the international mail area? If so, what are those plans?

Answer. The Postal Service, like other postal administrations around the world provides international mail services in an environment increasingly influenced by commercial and technical developments, and by mailer demands for more and better services. Although the Postal Service has faced growing competition since the 1970's, it opened the door to competitive developments even further in 1986 when it suspended the application of the Private Express Statues to outbound international letters. In order to better serve mailer interests and to assure an adequate base of revenues for the services it provides in such an environment, the Postal Service is seeking to improve the quality of its standard, treaty based services and to offer innovative new services as well. It has recently announced the start of two new services, International Package Consignment Services for mail order companies sending merchandise packages to other countries, and a WORLDPOST Priority Letter service for correspondence and documents. The Postal Service is also considering a realignment and strengthening of its international mail functions to better support all of its international services and to keep up with similar innovations and developments in other postal administrations.

Question 17. Board of Governor member, Susan Alvarado, testified before the Subcommittee on March 18, 1995, that there is a Chicago Task Force Plan which addresses the Chicago service improvement effort. Please provide for the record. Also, please provide for the record detailed steps the postal service has taken and plans to take to support the Chicago service improvement effort.

Answer. Immediately upon arrival of the Chicago Task Force it was identified that a formal operational review plan needed to be developed that identified both areas of concern that needed attention and included a road map for recovery. The plan, known as the "Chicago Service Improvement Task Force Strategic Plan", is provided as Attachment VIII. The Chicago Service Improvement Task Force consisted of experts from delivery operations, clerical distribution operations and retail operations. The team members, on a daily basis, reviewed operations, identified deficiencies and provided detailed written instructions to local management to ensure proper procedures were put into place to correct all inefficient procedures which would result in improved service to the customer. In addition to conducting daily operational reviews, extensive "Back to Basics" training was given to all delivery supervisors and managers where the Task Force was conducting reviews. Additionally, updated training was also given to window clerks to ensure that they provided proper and consistent service to the customers. In conjunction with the daily operational reviews, the Task Force also redesigned workroom floor layouts to increase efficiency, conducted an extensive route management (street) review, increased automation utilization and created an operations model that aggressively reviews lost time management, time avoidance and segmentation as a means of improving service. Prior to the departure of the Chicago Service Improvement Task Force, Area Vice President William Good agreed to develop a Great Lakes Area Task Force consisting of fourteen members from the local area that continued reviews and assisted the local Chicago management team. The Area team would also be available for intervention in other Great Lakes Area District offices.

Question 18. What has the postal service learned from the Chicago service improvement effort, which started much earlier than the local Washington, D.C., area effort and included an intensive examination by a 27 member task force, that has been or can be applied to solving the problems in the DC area? What outside assistance has the service used and is using now to help management and employees in local facilities to become more committed in improving teamwork and customer service?

Answer. One of the more successful aspects of the Chicago Service Improvement effort was the results generated from the use of the Strategic Plan developed by the Task Force. All management members found it to be a valuable tool to assist them in correcting their operations. Further, there was a clear shortfall in ongoing management training that needed to be addressed. All training that was conducted while in Chicago was well received and found to be valuable by local management. Ongoing training efforts by local Area and District management needs to become a continuous part of our ongoing effort to increase operational efficiency and knowledge resulting in increased customer satisfaction. A monitoring system was developed to review operations and ensure that identified problems do not become a service issue. During the formation of the Chicago Service Improvement Task Force, there were no outside resources utilized to help increase teamwork and customer

service. All interface with craft and management organizations was initially done by task force members. Approximately sixty days after the start of the Task Force, a retired USPS Division Manager was retained to help the Task Force interface with local political representatives and customers when the need arose.

Question 19. Last year, a District postal employee was arrested after it was discovered that he had undelivered first class soiled and contaminated mail stashed in his apartment. What happened to the mail? How many pieces of mail were found? Was any of the mail delivered?

Answer. The Washington, D.C., Post Office has officially closed its investigation of the mail found in the apartment of a former letter carrier. Approximately 22,800 pieces of mail were recovered from Mr. Bogg's apartment in October of 1994. Less than one percent of mail was deliverable or salvageable. Most of the mail was dated from November 1991 to October 1994 and included First-Class Mail and bulk business mail. All claims for loss and rifling have been submitted and processed. Despite this unfortunate incident, service is improving in the Washington, D.C., Post Office and throughout the Capital District.

Question 20. Would you please provide for the record a chart showing for each year since 1990, the number of full-time, part-time and transitional employees working for the Postal Service at the beginning of each fiscal year. Please include a brief explanation of how or when a transitional employee becomes a full-time employee? Are transitional employees aware of the procedure to follow in becoming a full-time employee? If yes, at what point are they made aware and provide a copy of any personnel document or notice provided the transitional employee. Where are the largest number of transitional employees concentrated? Please rank according to number and location.

Answer. It is not possible from national statistics to determine whether individual employees were hired due to mail volume and population growth, or as replacement hiring.

Attachment II is a report which shows the NALC and APWU employment figures for full-time, part-time and transitional employees for each union as of accounting period 1 each fiscal year. It does not include EAS, rural carriers, mail handlers, etc. in our counts since there is no transitional category of employment for those groups. The report shows the number of transitional employees currently on the rolls in each of our Performance Clusters in order of highest to lowest.

With regard to how a transitional employee becomes career, we signed a Memorandum of Understanding (MOU) for enhanced career opportunities with the National Association of Letter Carriers (NALC) on July 30, 1993, that gave NALC transitional employees an opportunity to take the examination for career appointment. A minimum of 180 days employment in a transitional assignment is required for a transitional employee to take the examination. On September 24, 1993, we signed a similar MOU with the American Postal Workers Union which gave their transitional employees two opportunities to take an examination.

Concerning transitional employees understanding of our employment procedures, we recently introduced a new battery examination which replaced four of our older examinations. Because of this change, Districts posted instructions in work places with transitional employees for them to sign up to take the new examination. In the case of both NALC and APWU transitional employees, they are represented by their unions, which policies the appropriate application of the respective MOU's with regard to career opportunities.

Once transitional employees qualify on the examination, their names are placed on the competitive hiring register in regular rank and score order along with other applicants. This includes veteran preference points when claimed. Transitional employees are given consideration for conversion to career status if their scores come within competitive reach on the register.

Question 21. The most recent GAO report on automation stated that financial savings from automation have been relatively small. Will overall savings from the automation program continue to be small? Has performance improved? If so, by how much? What steps is or should the Postal Service take to improve the performance of your billion dollar automation program?

Answer. Since 1989, the automation program has avoided labor costs estimated at $5 billion for the Postal Service and its customers in direct distribution operations that are affected by automation (including accounting for $215 million Remote Barcoding System keying contract costs). This is greater than the projected cost avoidance of $3.2 billion that was included as justification for the automation equipment in the Decision Analysis Reports approved by the Board of Governors. Translated into potential costs to postal customers, the $5 billion cost avoidance to date is roughly the equivalent of three cents in postage avoided per First-Class let-

ter. Without automation, the cost of a First-Class stamp could now be about 35 cents.

Workhours spent manually distributing mail represent 26.2 percent of the total hours used in FY 1994 and 25 percent of overall labor costs (salary and benefits). The automation plan has always been targeted at certain activities within these distribution costs which can be automated, i.e., casing letters and flats. It is not targeted, however, at every activity within distribution. Casing non-automatable letter and flats, carrier flats casing and other non-distribution time recorded in those labor distribution codes (LDCs) are examples of activities not included. Therefore, the savings from automation may appear small when compared to overall labor costs.

The overall savings/cost avoidance as projected by the justification for the automation investment is expected to approximate $14 to $15 billion over the next ten years. The attainment of this projected cost avoidance will be assisted by delivery point sequencing, still in the early deployment stage, and remote computer readers and carrier sequence barcode sorters, in the pre-deployment stages.

The estimated $5 billion in direct distribution labor costs that have been avoided/saved is equivalent to 132,000 workyears through 1994. When allied labor costs are factored into the equation, savings/cost avoidance is reduced to a conservative $2.5 billion, which is equivalent to 69,000 workyears 'saved' or avoided since 1989.

GAO has stated that workyears in manual letter sorting increased 5.3 percent in 1993; and 2.9 percent in 1994. This included only one mail processing activity known as LDC 14, and should have included LDCs 43 and 44 to present a complete picture of manual distribution. The complete comparison shows much smaller increases of 4.5 percent in 1993 and 2.6 percent in 1994 against a volume growth of 2.9 percent in 1993 and 3.4 percent in 1994. However, over the more valid, longer-term period of 1989–1994, workhours in these LDCs declined by 3.6 percent yearly. Pure manual letter sorting (excluding flats) workhours declined 2.7 percent annually, on average, against an annual volume growth of 1.9 percent over the same period.

Based on the above, the Postal Service has made positive achievements in implementing its automation program.

Mr. MCHUGH. Thank you, Mr. Runyon. I appreciate that.

If I could just begin with a few questions and then go down the line on the subcommittee.

Obviously, as you noted in your testimony and as you have said in other forums, the environment within which the Postal Service operates has changed dramatically over the past 15 years. Yet the Reorganization Act of 1970 has not kept pace or at least has not changed along with those developments in your environment.

In the interests of trying to help the subcommittee think about specifics, are you prepared or do you have any suggestions as to what kinds of amendments to the Reorganization Act might be helpful to you in achieving goals that you outline in your testimony?

Mr. RUNYON. Mr. Chairman, we don't have specific written law that we would like to propose to you, but we think that what it should contain is help for us to control our costs better. We need to look at all the areas of cost control that we have and look at the areas where we could control better if we didn't have the regulations that we have.

We need to be able to operate more competitively, and in general we just need to run like a business; and there are several areas that we would like to discuss with the committee and with other people in government to determine how we can get those things changed. Some of it may take legislation, some of it may not, it may just take a reduction of regulations.

Mr. MCHUGH. Well, obviously we would be very interested in exploring those with you. The principles and the objectives that you outline, at least it seems to me—and I can't speak for the subcommittee members as a whole—are reasonable. On paper they

certainly would seem to represent something that would be a desirable objective for us to be of assistance to you, but we would also need your guidance and your input. We would be anxious, very anxious, at the earliest possible moment to try to begin to look at those, and whether they are regulatory wherein we can put some sort of pressure or give a sense of the subcommittee as to those needed changes or whether it would be legislative. We are prepared to work with you in that regard.

To say that the Postal Service needs to operate like a business certainly makes sense, but there are some unique factors, such as express statutes, that insulate it from outside competition. Thinking for a moment about the process of effecting a change in your rate structure, I have met with a few of the members of the Rate Commission. They felt that given the very clear and complex charge that they are given, that is, protecting the interests of all mailers and providing the people who are most affected, your ratepayers, with the opportunity to participate in the process. They feel that going through the hearings is an important component of the entire mechanism.

How do you think we might restructure the ratemaking process so that it reaches a balance of responding to the interests of the postal customers while at the same time providing you with some kind of flexibility so you can react in a more market-oriented way?

Mr. RUNYON. Well, I think there are several ways that could happen. I have been talking with the chairman of the Postal Rate Commission, Ed Gleiman, about this. There are things such as us having a product that we want to deliver, and we could do that on an experimental basis with their agreement and go out and start to do that rather rapidly, and we are working on how we would set about to do that. If we could do that, that would be a big help to us.

There are things that come to mind, and that is, if we didn't raise rates above the rate of inflation, that might be another way to do that. In the past our rates have been above the rate of inflation. This past rate increase, that we gave after 4 years, was 2 points below the rate of inflation, and we intend to keep our increases below the rate of inflation.

So I think there are several ways that we could agree together to do that, and I am going to be meeting with the chairman of the Postal Rate Commission. He is anxious to meet, and I am anxious to meet, so we can discuss those things and find out how far we can go without legislation, because that would be the best way to do it.

Mr. MCHUGH. So in other words, what you are at least discussing now would be a system wherein, if the proposed rate increase were below the determined rate of inflation, there would be no hearing process at all?

Mr. RUNYON. I am saying that is one approach that we could take. I don't know that the Postal Rate Commission would like that, but that's an approach that I think that we might be able to look at; and I think that there are others that we need to look at, but we need to meet with the Postal Rate Commission and have those discussions and then come back with you and tell you where we are.

Mr. MCHUGH. Well, we would await that input as well, and there again, where you have the opportunity to negotiate with the Rate Commission is certainly of interest to the subcommittee, but that is at least at the first instance between you and the commission. But I am concerned with legislative inhibitors that we could make changes to accommodate that balance because I believe that the people of this Nation and the postal customers, should, in particular, have some opportunity to respond to your proposals of rate adjustments. Providing that flexibility would be important.

I have any number of other questions, but I know the other Members do as well, and I would at this time yield to the ranking minority member, the gentlelady from Michigan, Miss Collins.

Miss COLLINS OF MICHIGAN. Thank you, Mr. Chairman.

I have about three questions I want to ask you.

In your statement you said with the right changes in the laws and regulations we can continue to provide the communications, safety net, and you have spoken about the need for legislation quite often publicly, and just be more specific. What do you want in legislation?

Mr. RUNYON. Well, what we want is to accomplish the things that I think we need to do. We need flexibility in our operation. We need to be free to operate like a business. We need to be free to make financial investments that are appropriate for a $55 billion company to make.

Miss COLLINS OF MICHIGAN. So to this point you cannot make investments? At this point?

Mr. RUNYON. No. The Treasury Department oversees us in that regard.

Miss COLLINS OF MICHIGAN. Do you get the results of it?

Mr. RUNYON. Well, let me let Mike Coughlin mention that. He knows more about that subject.

Mr. COUGHLIN. The Treasury does control basically all aspects of our investments of excess funds in the postal fund itself, and right now we are limited to investment in nonmarketable Treasury securities at a market rate that is tied to things on the market, and we do retain the earnings off of that.

I think part of what Mr. Runyon is referring to is the flexibility and some of the opportunities that exist beyond that very narrow opportunity to use those funds. I think there are a lot of opportunities out there, particularly in today's marketplace, that are safe but at the same time have the potential to pay off for the Postal Service.

Miss COLLINS OF MICHIGAN. You would have lost your shirt last year if you had that flexibility, along with the rest of us.

Mr. COUGHLIN. This isn't Orange County.

Miss COLLINS OF MICHIGAN. GAO has found that black males in the Postal Service were four times more likely to be investigated by the Postal Inspection Service for narcotics violations than white males. We had a hearing on that, I believe. Have you investigated this disparate treatment?

Mr. RUNYON. Yes, we have, and, as you are familiar, since the Cleveland sting operation, we have changed the way we do those investigations. We don't have people that we hire, paid informants, any more. I don't think that our investigations are racially biased.

We do have reports from the Inspector General to the board on a recurring basis to make sure that we have accomplished what we need to accomplish in that regard.

Miss COLLINS OF MICHIGAN. So it is not racial, it is just happenstance that they investigate more blacks than whites?

Mr. RUNYON. Yes. We have investigated—of the investigations that we have had, 91 percent of the cases that we have presented to the Attorney General, they have accepted. And 93 percent of the ones accepted have had favorable rulings against the people who were guilty of drugs. So I think they are doing a fairly good job of how they go about it.

Miss COLLINS OF MICHIGAN. I understand that the Diversity Department covers more than affirmative action. What other areas are covered by this department?

Mr. RUNYON. Well, they are responsible for helping all of our operations in the field set up programs to make sure that we have diversity in the total area. We have diversity in our purchasing, in our facilities arena, and they are responsible to make sure that we have got programs set up and follow that.

I might say that the Postal Service is probably the most diverse organization in Government and perhaps in the country.

Miss COLLINS OF MICHIGAN. Do they have enough resources in the field to do their job?

Mr. RUNYON. Yes, they have enough resources, and as a matter of fact we are adding some resources in the field.

Mike, will you tell us how many?

Mr. COUGHLIN. Right now, Miss Collins, we are in the process of adding 25 additional diversity development specialists so that we have at least one in every one of our districts around the country. We will have a total of 85 at that point.

Miss COLLINS OF MICHIGAN. What does the diversity vice president have in terms of making changes or implementing—what level of authority does the vice president have in terms of making changes, especially where the people might not accept change?

Mr. RUNYON. He has the authority at this time to set programs up, to recommend actions to people. He has the authority of course to come to me, since he reports directly to me, if he is not getting the right cooperation that he needs. He does not have the authority to override all of the operating managers in the company.

Mr. HENDERSON. I might add to that that the real responsibility for diversity rests with the line managers who make those selections. This is in reality not a staff function all of the burden does not lie on our diversity vice president, it really is on the shoulders of people that report to me all the way down through the Postal Service to keep diversity in mind, and Bob really acts as a very close advisor to us in accepting that responsibility.

Miss COLLINS OF MICHIGAN. Thank you, Mr. Henderson.

I'll save the rest of my questions.

Mr. MCHUGH. Thank you, Miss Collins.

I yield to the vice chairman, the gentleman from South Carolina, Mr. Sanford.

Mr. SANFORD. Mr. Runyon, we touched on this during our last visit, and I want to revisit it. After listening to your testimony, and that is, as I heard you go through the different friction points in

terms of running the post office effectively, what I heard was a real desire for flexibility, the need to be able to shift as different situations came along, a real desire to be free to make your own financial investments as you saw fit, a desire to be free of the red tape and rules that have burdened you in terms of collective bargaining, a need to do price setting on your own. Right now the mechanism is so slow and so inflexible.

Many would argue, well, if these are the things that you need, why not privatize the post office? Wouldn't that be an effective vehicle for allowing you the freedom that you need? What is wrong with that argument? And, again, I am not speaking on behalf of any of my fellow subcommittee members but just in terms of following that rationale out.

Mr. RUNYON. Well, if you mean by privatizing the post office to put a "for sale" sign in the window of every post office and sell it to the highest bidder, I would be very much against it. I don't think that there is an organization or company in this country that is supported by Wall Street that is capable of doing what we do, giving a universal service, a universal price to every citizen in the United States and territories also.

If you mean though by that term that you would like to commercialize the Postal Service so that we could operate more like a private corporation—which, by the way, the law stated in the beginning that is the way it should be. We should be a government agency but run like a private corporation—but we are not allowed to do that—then if that is what you mean, then I would be very much in favor of it. As a matter of fact, that is what we are asking for.

Mr. SANFORD. So in essence you are asking for partial privatization, so to speak, privatization of maybe different functions.

Mr. RUNYON. I don't like to call it privatization. I like to call it commercialization. Privatization has a bad connotation to employees in the Postal Service, and I don't like that term.

Mr. SANFORD. Sure.

Mr. RUNYON. You like it, but I don't.

Mr. SANFORD. No, I'm not saying that I necessarily like it at all. I just know the folks back home, one of the things they consistently get frustrated with is, they look at the consistent chains that anybody who works within Government has to work with, and they keep saying, "Mark, why don't you have this function or that function or a post office free of those constraints that government always entails?"

Mr. RUNYON. Well, that's what we are asking for, free us of those restraints, and we will operate it much better.

Mr. SANFORD. I have got other questions, but, again, let me defer to my fellow members.

Mr. MCHUGH. The gentleman from New York, Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman.

I thank the Postmaster General and Mr. Henderson and Mr. Coughlin for coming in and giving us the best of your thinking.

I want to commend the Postal Service, first of all, for coming out in black instead of the red, and one of the things that I have been concerned about over the years is the reserve that the Postal Service has. Can you tell us a little bit about where you are on the reserve right now? And I think your equity has declined to $6 bil-

lion—declined some $6 billion since 1986, and a lot of that happened during the past couple of years. Can you tell us what your thoughts are about that reduction in equity?

Mr. RUNYON. Yes. We think that we need to get rid of the negative equity. We are setting in place programs to do that. It won't be done overnight. To do it overnight would mean we would have to go for a very large rate increase to write that off. But we are dedicated to not running a negative profit, or a loss.

The way that the rates have been set in the Postal Service is normally on a 3-year cycle. You figure it on a case year, you figure that year out. You take the economics of that year, and so that is what the postage stamps come out to be. That means that the first year that new rate is in effect, you are profitable; the second year you break even; and the third year you run a loss. Well, that loss, you know, goes to the negative equity.

Mr. GILMAN. What can we do to correct that?

Mr. RUNYON. Well, what we intend to do is not run a loss. I think we need to do what we have to do to never run a loss again. We just made a change in rates on January first of this year. At the present time we are $500 million ahead of that, and we think we are going to do better than that. Our indications are that next year we will also have a profit.

Mr. GILMAN. Providing we don't skim out that amount for prepayment.

Mr. RUNYON. Well, if you take $11.6 billion out, you will raise the equity by $11.6 billion. So that is one way to keep that equity down, is to not take the $11.6 billion because it will go right to our bottom line.

Mr. GILMAN. It will reduce the equity, not raise it—the deficit. I think you misspoke.

Mr. RUNYON. Well, it will be more negative equity.

Mr. GILMAN. Yes.

Mr. RUNYON. It will go from 6 to 11.

Mr. GILMAN. Yes.

Mr. RUNYON. And $11.6 would be $17.6 that negative equity would become. So naturally we are going to have to go and raise rates in that event.

Mr. GILMAN. What can we do about cutting back on the time of raising rates in the consideration by the Postal——

Mr. RUNYON. Well, what we are doing now is that we raised our rates. We think that this rate increase will last for 2 years before we would have to take a loss. If we do a better job of improving our productivity and things of that nature, we might go 3 years without a loss, but we need to look at that and make sure that if we are going to have a loss then we have to go—oh, we have to make that decision probably 10 months for the Commission and probably 4 months for us. So about 14 months ahead we have to make a decision, are we going to make a profit the third year or not? If we are not, we are going to have to go in for a rate increase.

Mr. GILMAN. And that is pretty difficult to predict at that length of time, is it not?

Mr. RUNYON. Well, a lot of things can happen in 14 months.

Mr. GILMAN. What can we do to shorten the time consideration of rates by the Postal Rate Commission? You talk about, it needs

to be simplified. What are your thoughts about how to go about that?

Mr. RUNYON. Well, I think that the amount of time that is put into that should be cut back; and there are a lot of ways to do that, and they would be, you know, perhaps have less time for intervention, have people prepared and do a faster job. I think the Postal Rate Commission would be in a better position to explain how they could cut times.

Now they did a good job for us and with us on this last rate increase. They cut the time to 9 months, and that was very, very helpful to us, and we are very appreciative to them for doing that. So we need to work together to figure out how best to do that, and then when we figure that out we will get back with you.

Mr. GILMAN. You talk, Postmaster General, about reexamining the Postal Reorganization Act to try to make it more businesslike. Any specific recommendations with regard to the act itself?

Mr. RUNYON. Well, I'm not prepared to give specifics now, but the thing that we need to address is how we are affected by various other agencies in the U.S. Government. For example, Office of Personnel Management sort of controls how we deal with people to a certain degree. Merit System Protection Board is an appeal process that we go through. We can't go to the Merit System Protection Board ourselves as management of the Postal Service, we have to go through OPM. If OPM agrees with us, then they carry it forward. If they don't, it doesn't go forward. So if we could get more control over what we do, if we weren't under the office of OPM for example, that would be very good. Now the person, the head of the Office of Personnel Management, I think agrees with me on that.

Mr. GILMAN. I would hope you might send some of these recommendations to our subcommittee, and we would welcome considering them. I'm sure the chairman would welcome having those.

Mr. RUNYON. OK.

Mr. GILMAN. Just one other thought, and I know my time is running. Some of our postmasters whom we met with during this past week have said they need a little more flexibility, they are getting too many regulations that hamper their efficient operations, and have you looked at that at all? They feel that the amount of regulations being imposed on them restricts their efficiency.

Mr. RUNYON. We certainly do look at that. We need to look at it more. A lot of those regulations they are talking about we inflict on them, not Congress or anybody else, it's us, and we are improving that. We have done better, but we need to do more. We are certainly not through.

Mr. GILMAN. I would hope you might meet with a group of postmasters just to review some of those. I think it could be helpful to them and to the Postal Service.

Again, we thank you for appearing, and we hope together we can help make our process more efficient and make it more financially solvent.

Thank you.

Thank you, Mr. Chairman.

Mr. MCHUGH. Thank you.

The gentleman from Connecticut, Mr. Shays.

Mr. SHAYS. Thank you, and thank you, Mr. Postmaster, again for being here.

I am going to ask you a number of questions. They may not require too long an answer.

First, to make a point to you, I believe the prefunding of the health care benefits is a dead issue. I serve on the Budget Committee, where I headed that task force overseeing the health care issue, and we would strongly oppose it. It really is a gimmick that the Congressional Budget Office has suggested, and I think they have retracted their recommendations, so I don't think it has support, and I don't think it would pass.

Mr. RUNYON. I am glad to hear that.

Mr. SHAYS. With regard to mail being delivered, quite often in my area, in New England, the carriers don't get out until 9:30 to 10:30, and I have just often wondered why we couldn't get them out at 8:30 a.m. Is that a goal? What is the goal of when you get the carriers out delivering mail?

Mr. RUNYON. I would like to ask Bill Henderson to respond to that since he is responsible for that part of the operation.

Mr. HENDERSON. The carriers have basically two roles during the day. The first is to sort their mail in the order of delivery; and depending on the arrival time of that mail, that is the time that they are allowed to sort their mail and then go to the street. With the advent of automation, we are opening greater processing windows within the plants, and the carriers are leaving later for the street.

Mr. SHAYS. What is the goal of getting them out, by what time?

Mr. HENDERSON. Generally by about 11 o'clock.

Mr. SHAYS. Yes. Why so late?

Mr. HENDERSON. Because we need the processing window to sequence the mail for them.

Mr. SHAYS. Well, why not just tell them to start earlier? My sense is, if the post office were truly competing with another post office you would have your people out by 9 o'clock, you would restructure the system, and you would get your workers there sooner, and you would get the mail flowing sooner to get them out. So I guess I'm just curious, why you wouldn't have an earlier goal.

Mr. HENDERSON. It is a function of the processing window that you have to sort the mail. You collect it—it begins at the collection point—you collect it at the conclusion of business in America, which is sometime after 5 o'clock, and then you have from that point on to get it to its destination, and then to get it in delivery sequence.

It is possible to restructure routes. For example, in many areas of the country—we are looking at that—to get business mail earlier in the day to businesses—and I think that is the driving force for earlier delivery. But residential mail, for people who are at work, for example, we have extended that delivery time to try to reconstruct those routes and provide—they will be provided later delivery.

Mr. SHAYS. The GAO, I guess today, is talking about the whole issue of your automation system that was to presort the letters so the carriers could spend 2 hours less sorting out the mail. Are you in agreement with this report? We will be hearing later from them.

Mr. HENDERSON. Well, to a degree, and I haven't spent a great deal of time yet studying that report, but to the degree that they talk about the complexity of implementing automation, we are in agreement. But we think in terms of the gains for the Postal Service. If you go back, for example, and take automation out of the system, we know what mail volumes and what work load we had; if you go back to 1988 and you take automation out of the system, we would have spent in excess of $5 billion more money.

Mr. SHAYS. Let me ask you then more specifically because time will run out, are we behind schedule in this process?

Mr. HENDERSON. Yes.

Mr. SHAYS. OK. Do you have special plans to bring us back in line, or have you readjusted your timeframes?

Mr. HENDERSON. We have readjusted the timeframes.

Mr. SHAYS. What has been the biggest cause of the delay?

Mr. HENDERSON. Two causes. The first cause is the multiline optical character reader actually not performing as we thought it would, along with some bypassing of GMF's by mailers because of some logistics changes; and the second reason is, the remote encoding was delayed. It was involved in a major labor dispute and a major review by the board.

Mr. SHAYS. Am I right in assuming though that if you could get the system to work in your post office systems, that you will have the carriers spending more time delivering and getting out sooner?

Mr. HENDERSON. That is correct.

Mr. SHAYS. If I could have just a few more seconds here, just some very simple things that maybe you get asked often. Does first class cover subsidized third class, as my constituents assume?

Mr. HENDERSON. No.

Mr. SHAYS. OK. So basically every pricing mechanism carries its own weight?

Mr. HENDERSON. That is the requirement of the rate process, yes.

Mr. SHAYS. I have other questions, but I will yield back my time, and thank you very much.

Could I just ask one?

Mr. MCHUGH. Certainly.

Mr. SHAYS. There was a report last year by the GAO critical of the postal system. Mr. Runyon, how have you responded to that? Am I accurate on that issue?

Mr. RUNYON. Are you talking about the labor-management relations report?

I think the report was pretty well on target. We need to improve our labor-management relations, and we are setting about to do that. As a matter of fact, in a hearing that we had with the Senate last year, I asked that a summit meeting be held between all of the labor unions and the management associations in the Postal Service, and we still would like to have that summit. At the present time we have got three labor unions that don't wish to enter into that summit, and they would like to wait until the negotiations are over, which are not over. I am very anxious to get into that and to sit down with all concerned and try to figure out a better way to operate than what we have been operating with for many, many years.

Mr. SHAYS. Thank you very much.

Mr. MCHUGH. Thank you.

As a follow-up to that, as I recall, the GAO recommended that you seek outside help. Perhaps this is what you were just referring to. Have you requested help from anyone like the Federal Mediation and Conciliation Service to assist in your forging a long-term agreement?

Mr. RUNYON. Yes, we have. As a matter of fact, we would have desired to have some people from the Federal Mediation Board to sit in on negotiations, but that wasn't possible. We couldn't reach agreement with our unions to have that happen. I think that would be a very good way for us to work on that.

At the present time, we are meeting with the Federal Mediation Board and one of our unions to try to reach agreement without having to go to arbitration. So, yes, we are very much in favor of having the mediation board involved in any discussions that we have along this nature. We think that would be very constructive.

Mr. MCHUGH. How is your current mediation progressing?

Mr. RUNYON. Slowly.

Mr. MCHUGH. Slowly.

You mentioned the arduous process, in your view, of obtaining a rate increase and how you have to prospectively look down the road and because of the length of time it takes, 14 months I believe you said, you have to contemplate rate increases very early on. Are you contemplating a rate increase at this time for the future?

Mr. RUNYON. No, we are not contemplating a rate increase right now. The $11.6 billion would force us into an immediate rate increase, but hopefully we won't have to do that.

Mr. MCHUGH. I certainly take the gentleman from Connecticut's word on that, but let's think about it for the moment. You have expressed a very understandable concern about what that prefunding requirement would do to the price of a stamp. Dream with me a nightmare, if you will, from your view and many others if indeed the prefunding had a clause in it that prohibited you from passing any of that along to stamp and you would have to take that out of operating. What kinds of steps would that require you to take? Have you even had a thought about that?

Mr. RUNYON. I haven't had that nightmare yet, but I tell you, it would be very bad for service for customers. Regardless of how we did it, it is going to affect service. I haven't really tried to figure out the many different ways that we—or steps we would have to take to do that, but it would be tremendous to reduce a $55 billion budget by 20 percent in 1 year. That would be very hard to do. It would be very hard for any private company to do. Private companies have a little more leeway in what they can do. For example, they might lay off 20 percent of their operations; a private company might close down 20 percent of their plants; we can't do that. So it would be a little more disastrous for us than it would be for a private company.

Mr. COUGHLIN. I might add to that, Mr. Chairman, I was here in 1987 when the OBRA that year was passed, and one of the provisions of this limited the Postal Service; and I think it hit us for about $700 million, $700 million as opposed to $11.6 billion. It forced us into some operating actions that really had a devastating effect on the system. We were forced to hold off, for example, en-

tirely on our capital building program, and to this day there are post offices out there that have not been built that are badly needed because of an action that took place in 1987 that involved over $700 million.

So I think you can see what the magnitude of the kind of impact that might have if you multiplied that by some 15 times and put it up in the $11 or $12 billion range. It would be devastating to the system.

Mr. MCHUGH. Fine. Thank you.

Mr. Runyon, you are a member of the 11-member Board of Governors that oversees Postal Service operations. That structure was established, again, like most of what you do today, back in 1970. How well do you feel that Board of Governors structure, particularly as it interfaces with the charge that you have before you in running the day-to-day operations of the Postal Service, works in today's world?

Mr. RUNYON. I think it works very well. It works like a board of directors in any company. At Ford Motor Co., where I worked for a long time, we had a board of directors. Some were outside members, and some were inside members. We have two inside members on that board, and we have nine outside members. The membership doesn't change rapidly, as you know, because each member is appointed to a 9-year term, and so there is one new member appointed every year. So there is no rapid change on that board that would cause it to come in and change all the policies that have been established by a future board—or a past board. So I think it works very well. It works like any private organization would work.

Mr. MCHUGH. So with respect to that portion of the 1970 Act, you wouldn't contemplate any kinds of changes to the statute?

Mr. RUNYON. No, I don't think that that is necessary at all.

Mr. MCHUGH. OK. Good.

Again, I have other questions, but I would yield to Miss Collins.

Miss COLLINS OF MICHIGAN. Mr. Chairman, with your approval I would rather deal with the rest of mine in writing because we still have Mr. Motley to testify.

Mr. MCHUGH. Yes, we do.

Miss COLLINS OF MICHIGAN. If it is all right with you?

Mr. MCHUGH. Without objection, certainly.

Mr. Sanford.

Mr. SANFORD. Two quick questions. One: Many have argued that what you are really in is not the postal business but the information business and that, as such, there is increasing competition in the information business, whether it is e-mail or cost of phone rate coming down, and that therefore, given the constraints under which you operate and your rising price relative to their falling price—I am not saying your price is rising, but relatively speaking—that the post office may go the way of the buggy whip if we don't do radical surgery to the way that you all operate. Do you buy into that theory, or no?

Mr. RUNYON. Well, that's a theory that has been around for a lot of years. You know, for example, when telegraph was invented people said the Postal Service is going out of business; telephone came in, the same thing. Computers came in 20 years ago, and they said

that is the end of the Postal Service. We have continued to increase. Our volume right now is increasing. We increased over the last 2 years a little over 6 percent, something like 6.5 percent. This year our volume has increased 5.3 percent.

Now having said that, we are losing portions of our mail. On our financial and transaction mail, we have lost 35 percent of that in the last 5 years, and we expect to lose another 35 percent in the next 4 or 5 years. That is business-to-business mail. And we expect to continue to lose that, but we are increasing mail in customer-to-business and business-to-customer. That mail is increasing, and it is increasing a lot more than what we are losing. I think that there will be more of that going on. I think we will probably be in a part of that business.

For example, several agencies in the Federal Government have come up to us and said we would like to work with you and set up a way to communicate through the post office, and we have designed some kiosks. And we are in the process of putting about a hundred of those out in various post offices and see how they operate so people can deal with Social Security, deal with the Veterans' Administration through that kiosk in the post office, arranging so they can actually get checks through there. So with a smart card, they can put the smart card in there and get their check, and so a check doesn't have to be written. So some of that business is going to go away. But then, on the other hand, that kiosk provides revenue for the Postal Service.

So there are things like that that we are looking at because we are in the communications business. We are having companies come to us, large communication companies, and say we need some help because we can communicate with ourselves and do it in a coded way, but when we want to communicate with another company it has to go over the open wires and anybody can reach out and grab it. Well, we can put a postmark on there, electronic postmark, and then they can't reach out and do that. If they do, they have violated a Federal law. And so we are working with people now and hope soon to have more to say about that.

Mr. SANFORD. Mr. Chairman, would I have time for one other question?

Mr. MCHUGH. Certainly.

Mr. SANFORD. Not to be on the commercialization kick, as you say, or privatization kick, I understand Australia privatizes—or requires that they privatize their post office. If so, how is that working? Is it working all right? What have you all heard?

Mr. RUNYON. I have heard some. I think Bill knows more about that subject than I do.

Mr. HENDERSON. There are several foreign administrations that are in one stage or another of privatization. Most of those are being proposed by postal management. Graham John is the Director General there, and they are very happy with their structure. New Zealand is doing the same thing; the United Kingdom is attempting to do it; the Netherlands; Sweden; there are various phases of that going on, and they range in changes. I think only one has given up the monopoly; the rest of them keep the monopoly, and it varies in being able to be more businesslike, to have more freedoms. Most

of those foreign postal administrations have more freedoms, more business freedoms, than the U.S. Postal Service has.

Mr. COUGHLIN. Can I add one other thing there too on the subject of privatization versus corporatization? Bill has described what is going on in some foreign postal administrations, and, frankly, the term "privatization" usually implies a change in ownership for a public institution. In most foreign postal systems they have, rather than privatized, gone to corporatization, which is a more business-free, a more liberalized type of environment in which they can operate, but they are still owned, at least on a majority basis if not entirely, by the government of their country. There is a distinction in those terms, and sometimes when we use the term around here it gets kind of fuzzy about exactly what we are talking about.

Mr. RUNYON. Some of them have also given stock ownership to their employees, which I think is a pretty good solution because it makes the employees owners, and owners have a stronger look at how money is spent and so forth.

Mr. SANFORD. Thank you.

Mr. MCHUGH. Mr. Shays.

Mr. SHAYS. I am just going to reiterate a question and put it more in a request. I hope that it will be the goal of the post office to try to get the mail out before 11:30 and continue to move it closer to that 9 o'clock figure so that all Americans are getting their mail a little sooner. And then I just want to follow up with a few other questions as they relate to, first, labor issues.

I am struck by the fact you are very labor intense. I have met some very happy postal employees, most of them very dedicated, I have met some very angry postal employees, and they have extraordinary work rules in some cases through the collective bargaining process that preceded you, and they are almost captives of their own system. My sense is that you have about 800 employees right now, in that range.

Mr. RUNYON. 800,000.

Mr. SHAYS. 800,000, and that ultimately you are going to have to get that number down to 500,000. I mean with automation and so on, that is an effort. Is that an effort?

Mr. RUNYON. Well, the number will drop with automation, but how far it drops depends on how much more mail we get. You see, we have gotten 9 billion more pieces of mail, and we have had to establish 3 million new delivery points, which means we have to have new post offices, and so as long as we are growing there will be people increased.

Mr. SHAYS. Which raises for me the whole question of facilities. In our area the post office sometimes rents or leases facilities rather than owns them, and I am struck by the fact that you really back yourself into a very untenable situation. Take a suburban community where you don't have a lot of commercial space. Once your lease runs out, you don't have many options of places to go, and it seems to me it becomes the seller's market and not the buyer's market. Did we waste a wonderful opportunity during the last few years when we went through a crunch with real estate not to buy into some properties, and is that one of the unfortunate aspects of the 700,000 that we will pay dearly for in the years—700 million, rather?

Mr. COUGHLIN. Only on a very limited basis, Congressman. As I said, there are still facilities that we have not built, particularly in smaller communities, as a result of that.

But the answer to your question basically is no, I don't think we have missed those opportunities. We are not generally in the practice of buying land or buying up buildings on speculation—on a speculative basis that we might need them; but if we know there is a need there or if we know a lease is going to expire, then we are on it right away.

Mr. SHAYS. You have a unique challenge though in suburban communities. I mean you need your trucks out there, you need that kind of space, yet you need your facilities in an accessible place. Is it conceivable that, say, for suburban communities where you have post offices in each, that you will combine with automation and so on—that you will combine the sorting into one town and just have so-called stores? Is that the trend?

Mr. COUGHLIN. That is very much the basic operating concept of the Postal Service and has been for the last 20 years.

Mr. SHAYS. If that is the trend, I hope that the stores—it is very frustrating for people in suburban communities to get those yellow slips because they weren't there during the day, and they have got to go pick up their mail, and they have got to do it at hours that aren't convenient for them.

Mr. COUGHLIN. Yes, that is a real challenge.

Mr. SHAYS. Pardon me?

Mr. COUGHLIN. Yes. I think very much that is a challenge, and we have extended, for example, our window hours and the availability of some of our retail facilities, but there is still more to be done in that area so that the hours are more convenient for exactly the kind of people you are talking about.

Mr. SHAYS. I could talk to you guys all day, but——

Mr. MCHUGH. Does that mean you are through?

Mr. SHAYS. Thank you.

Mr. MCHUGH. Thank you.

We all could talk to you all day. Of course we have a great deal to discuss, but the hour is getting a bit late in terms of the legislative schedule, so, with that, we will call this portion of the subcommittee meeting to a close.

Mr. Runyon, thank you so much, and Mr. Coughlin and Mr. Henderson, for being here this morning. We will be returning after our series of hearings for a response, and I am sure at that time we will have other questions.

The question, as Mr. Sanford said, quite often of privatization—and whether it means corporatization or privatization depends on whom you are talking to at the moment—is one that all of us hear about when we go home. I have said repeatedly that, in my opinion, the burden of proof is upon the shoulders of those who believe that we should put those "for sale" signs up in the windows of every post office in America, and I believe that. But, having said that, I do think that those who feel the current structure is a meritorious one, feel that it should continue to have a burden of proof as well, and that is to try to establish the best possible system. This is why the subcommittee is here to respond to your needs inasmuch as we can, and we have, I think, some very laudable ideas

on paper. What we need to do is work together to try to bring them off the paper and into hard proposals, and we are at your disposal to do that. I think it is critically important that this process begin as soon as possible. So we are looking forward to seeing this done.

Again, gentlemen, thank you for being here.

Mr. RUNYON. Thank you, Mr. Chairman.

Miss COLLINS OF MICHIGAN. Mr. Chairman.

Mr. MCHUGH. Yes, Miss Collins.

Miss COLLINS OF MICHIGAN. At this point I would like to ask if the opening statement for the ranking minority member, Cardiss Collins, could be entered for the record.

Mr. MCHUGH. Certainly, without objection.

Miss COLLINS OF MICHIGAN. Thank you.

[The prepared statement of Hon. Cardiss Collins follows:]

PREPARED STATEMENT OF HON. CARDISS COLLINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Chairman, today the Subcommittee on the Postal Service begins a series of hearings designed to explore and examine the overall operation and organization of the U.S. Postal Service. As part of an agency review we will also focus on the tools needed to ensure that the Postal Service is better able to be competitive and financially stable in the next century.

Frankly, I remain concerned about the future of the U.S. Postal Service. We continue to experience delays in first class mail delivery. Two weeks ago a member of my staff mailed a letter from the Hill to an office in downtown DC. The letter was mailed out on Thursday and received downtown the following Wednesday. We still have a long way to go. Last September I mailed out first class official government notices regarding a townhall meeting scheduled three weeks from the date the mailings were sent out. My first class official notices were received on the near North Side of Chicago after CHRISTMAS! No small wonder that in the latest Customer Satisfaction Index survey just released, Chicago residents gave their mail service a 57% rating! And that's the good news!

In Chicago we have been subjected to mail being set ablaze, found in trash bins, marked return to sender and stashed in apartment buildings and homes—all on the heels of over a decade of poor delivery service. Getting back to the basics of solid and dependable mail delivery must be the rule, not the exception.

Mail volume and overtime is up. There are more employees now than when downsizing began three years ago. We just saw the price of a postage stamp go from 29 cents to 32 cents and yet the agency continues to lose millions. We have yet to realize any return on our investment in the automation area. In the midst of such a dreary picture, the Postmaster General is calling for the deregulation of the U.S. Postal Service. In a nutshell, he wants to be able to shorten and simplify the rate setting process, provide volume discounts, introduce new products in a more timely manner and replace the collective bargaining and grievance arbitration process.

I want to ensure that any solutions to the current and ongoing problems facing the Postal Service are well thought out and workable. We need viable and constructive solutions. In this new era we cannot afford another restructuring debacle where we witnessed a total breakdown of mail delivery, an increase in violence in the workplace, inspection stings of innocent postal workers and in general, chaos. Solutions must work!

I have met with Postmaster General Runyon and wish to work with him to achieve the best we have to offer by way of the Postal Service. And I look forward to working with my colleagues in crafting the tools necessary to ensure the mail moves in an efficient and timely manner. Thank you.

Mr. MCHUGH. For the benefit of the subcommittee members, without objection, we will be submitting questions to the Postmaster and his staff in writing, and we will anticipate their responses. So if you would forward those to us, we will add them to the list and do our best to see that some information is provided in return.

The next portion of our panel is Mr. Michael Motley, who is Associate Director of the Government Business Operations Issues, General Government Division of the U.S. General Accounting Office, and he is joined by Mr. Campbell, whom I will defer to Mr. Motley for introductions.

Mr. Motley, if you were here at the beginning of the previous panel, you know that it is full committee policy to swear in all witnesses. So if you two gentlemen would rise and raise your right hand.

[Witnesses sworn.]

Miss COLLINS OF MICHIGAN. Mr. Chairman.

Mr. MCHUGH. Yes, Miss Collins.

Miss COLLINS OF MICHIGAN. I would like to state for the record that Congressmen Major Owens and Gene Green are in welfare reform committee markups and that is why they are not here, and if, without objection, their statements can be entered for the record.

Mr. MCHUGH. Certainly, without objection.

We understand that the new rules of the House, doing away with proxy voting, have put enormous pressure on the Members, and we understand their not being here in person, and we would be happy to accommodate them.

Thank you.

[The prepared statement of Hon. Gene Green follows:]

PREPARED STATEMENT OF HON. GENE GREEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Thank you, Mr. Chairman, for calling this important hearing. The Postal Service is the arm of government that the public comes into contact with the most. The Post Office's policy of universal service is something the American people have taken for granted for generations. Therefore, combining familiarity with high expectations, the Post Office often comes up short in the estimation of its customers. This impression is not always merited, but there are too many instances of Post Office SNAFU's to be accepted as just poor public relations.

Some are arguing for full privitization of the Postal Service. The attractiveness of the proposal originates with the American preference for efficient, profit-driven enterprises. That, indeed, has merit. But we have to answer whether rural customers will have to pay more for first-class mail just because it is inconvenient to reach them and whether, philosophically, that is the direction in which we want the Postal Service to move. Do we want anyone other than the Postal Service to have access to our mailboxes? These simple questions will have to be addressed in any discussion on privitization.

There are several other issues to be addressed as well, including further automation, labor negotiations, and cutting unnecessary regulations. I look forward to hearing the thoughts of the Postmaster General on these issues and I welcome him to this hearing.

Mr. MCHUGH. With that, we will turn the floor over to Mr. Motley for his opening statement.

Welcome.

STATEMENT OF MICHAEL E. MOTLEY, ASSOCIATE DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY JAMES T. CAMPBELL, ASSISTANT DIRECTOR, GENERAL GOVERNMENT DIVISION

Mr. MOTLEY. Thank you, Mr. Chairman.

Mr. Chairman, Miss Collins, we are pleased to be here, other members of the subcommittee, to participate in the subcommittee's oversight hearings on the U.S. Postal Service. First let me intro-

duce Jim Campbell to my right who is an Assistant Director in the General Accounting Office and responsible for our audit activities at the post office.

Our testimony today will focus on an overview of the key characteristics of the Postal Service of today and challenges that will face the Service and Congress as they consider how mail service will be provided in the future.

I would like to ask, Mr. Chairman, that my full statement be provided in the record, and I will certainly summarize.

Mr. MCHUGH. Without objection.

Mr. MOTLEY. OK. I think it is important, Mr. Chairman, that we recognize very briefly, even though Mr. Runyon covered some of these things, that we are talking about an organization that has 850,000-plus people; we are talking about one that has changed substantially since the 1970 Act when it was turned into the U.S. Postal Service; we are talking about one that processes about 177 billion pieces of mail a year, as contrasted to 87 billion pieces of mail in 1971, and has a revenue of approximately $50 billion a year; in 1971 we were talking about $6.3 billion. We are talking about a very, very large organization.

There is much discussion and speculation about the inroads into the Postal Service's business caused by electronic communication alternatives such as fax and e-mail. However, Postal Service data show that mail volume is still growing. Volume was up 4.7 percent in the first quarter of 1995 compared with the year before. Less than 5 percent of the mail today is personal correspondence between households. The rest is either between households and businesses or between businesses themselves.

Mr. Chairman, before I begin to discuss the challenges facing the Postal Services and some of our related work, I believe it is important to remind ourselves that the 1970 Act required the Postal Service to provide universal mail service at uniform prices that are fair and reasonable. To help accomplish this, the Service was given the exclusive right to deliver letter mail and exclusive access to mail boxes. The right to deliver letter mail was given in a set of laws originally enacted in 1792 called the Private Express Statutes. However, advances in communication technology, competition from the private sector, and the possible enactment of legislation affecting the Service's monopoly over letter mail could affect the size, structure, and overall mission envisioned by the 1970 Act, many of the things that you all have been talking about today.

Increasingly, the private sector companies and new technology are supplanting traditional mail services. We have reported on how the Postal Service lost most of the markets in overnight delivery and parcels to the private sector several years ago. Major losses of Postal Service business could trigger more frequent and larger postage increases and could lead to further reductions in the Service's business. Most of our work in recent years has relevance to current postal issues and significance to the Service, the public, and the Congress. I will briefly mention a few of those issues.

The first is postal labor-management relations. Last year we reported that poor labor-management relations persist because of an autocratic management style, adversarial employee and union attitudes, inadequate performance management systems, and the na-

ture of the work. Four of the six contract negotiations since 1978 have required that a third party intervene to settle major differences. Current talks have been stalled by disputes and impasses since November 1994, and, as Mr. Runyon indicated, things are still going slow.

In our report we recommended that the parties develop—and those parties would be the leadership in the Postal Service as well as the unions and management associations—a long-term agreement on approaches to remedy this labor-management climate. In November 1994, as Mr. Runyon indicated, he called for the principal parties to participate in a summit to address the issues in the report. Management associations agreed, but the major unions declined to participate until the current contract talks have been completed. In view of these difficulties, this subcommittee could help by monitoring the progress of the parties and requesting periodic progress reports on developing and implementing a framework agreement.

Regarding customer service, the Postal Service knows it is below postal standards and falls short of customer expectations. Altogether, our work in the customer service area indicates that the Service faces a difficult and lengthy task in changing its processes and improving service to expected levels.

Now, Mr. Chairman, I would like, if you could just turn very briefly to the chart that is the last chart in the testimony under the figures—it is figure 5—and basically this shows that nationally service and customer satisfaction have remained about the same during the last several years. The results are published quarterly. In the first quarter of 1995, 85 percent of households across the Nation rated overall services good to excellent, and 84 percent of the first-class letters arrived on time. This is the same rating reported for overall service 3 years earlier and 1 percent point increase on on-time delivery from 3 years ago. The Service's goal for on-time performance is 95 percent. There is no specific numerical for customer service.

I bring this up because the Postal Service has a long way to go, Mr. Chairman, in trying to reach the goals that it is trying to set out not only for customer service but some of the things that I believe have been addressed by the subcommittee members already in on-time delivery.

In an increasingly competitive environment, customer service has become more critical to the survival and success of both public and private entities. Therefore, this subcommittee may wish to more fully understand how well the Postal Service is meeting the needs of its customers by requesting information about both residential and business customer satisfaction levels.

I would like to make a few comments about automation. Automation has been a key Postal Service strategy for reducing cost growth and maintaining reasonable postage rates. The Service is continuing a $5 billion, 16-year effort to bar code virtually all letters and sort them automatically into deliver sequence. This week we reported that automating mail processing and achieving savings has been more difficult to accomplish than anticipated. The Service has not been able to achieve the personnel reductions that were once projected, and financial savings have been small relative to

total operating costs. We believe it is important for the oversight committees to fully understand the total cost and benefits of major postal initiatives such as automation in terms of savings efficiency and service, and they may want to request specific data on parts of the automation program as it progresses.

Finally, Mr. Chairman, the growing pressure of competition for the Postal Service. Service delivery problems together with persistent labor-management relations problems and other challenges have increased the calls for basic reforms of the Postal Service. Recent developments include proposed legislation to turn the Postal Service into a publicly owned corporation, and a coalition recently asked the Postmaster General to initiate action to suspend letter mail monopoly over the third-class advertising mail. I understand he has just declined to consider that proposal.

The PMG just testified that the Postal Service should be given more operational flexibility in several areas to improve the postal system. Fundamental issues that surround the emerging debate on the future of the Postal Service include how competition will affect the Postal Service, revenue costs and rates, and ultimately the Federal Government's role in mail and merchandising delivery; the private sector's capacity to effectively assume responsibility for mail service in this country; and three, the impact on the economy and the people of this country of such a change.

In summary, Mr. Chairman, the Postal Service affects virtually every person and business in this country. Major changes to the Postal Service could have an impact on the quality, price, and availability of mail service and could also affect the work of more than 850,000 employees. In that context, the Congress needs comprehensive and accurate information on postal operations in order to be able to carefully consider what changes should be made to improve this important service.

This concludes my prepared statement, Mr. Chairman, and we look forward to our continued working relationship with the subcommittee, and Mr. Campbell and I would be happy to take any questions that you may have.

[The prepared statement of Mr. Motley follows:]

PREPARED STATEMENT OF MICHAEL E. MOTLEY, ASSOCIATE DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE

SUMMARY OF THE STATEMENT

GAO's testimony highlights key characteristics of the Postal Service of today and the challenges that will face both the Service and the Congress as they consider how mail service will be provided in the future.

In 1994 GAO reported that poor labor-management relations persist. Four of the six contract negotiations since 1978 have required that a third party intervene to settle major differences. If this climate does not improve, Congress may need to reconsider any provisions of the 1970 act that may inhibit the parties' reaching agreement.

Nationally, service and customer satisfaction indicators have remained about the same during the past several years. The Postal Service has fallen below postal standards and short of customer expectations. GAO's work suggests that the Postal Service faces a difficult and lengthy task of changing Postal processes and improving service to expected levels.

Similarly, the Service is facing additional challenges in revenue protection, automation, and competition. In 1994 GAO reported that postage meter revenue, which comprised almost half of the total service revenues, was at a high risk for fraud be-

cause of weaknesses in program controls. Many of the weaknesses identified by the Postal Inspection Service had continued for many years. Also, this week GAO reported that the Postal Service's automation program, now a $5 billion 16 year program, is having problems achieving savings and producing less than expected. In addition, while overall mail volume is continuing to increase, private sector companies and new technology are supplanting some traditional mail services.

Service delivery problems and other challenges have increased the calls for basic reforms of the Postal Service. Recent developments include legislation to turn the Postal Service into a publicly-owned corporation, and a coalition request to the Postmaster General to suspend the letter mail monopoly over third class advertising mail. The Postal Service has suggested that it be given more operational flexibility in several areas. Fundamental issues about the future of the Postal Service include (1) how competition will affect Postal revenue, cost, and rates and the federal government's role in mail delivery; (2) the private sector's capacity to effectively assume responsibility for mail service in this country; and (3) the impact on the economy and the people of this country of such a change.

Mr. Chairman and Members of the Subcommittee: We are pleased to be here today to participate in the Subcommittee's oversight hearings on the U.S. Postal Service. My testimony will focus on (1) an overview of the key characteristics of the Postal Service of today, and (2) challenges that will face the Service and Congress as they consider how mail service will be provided in the United States in the future. My testimony is based on work we have completed or have underway on Postal labor management relation, customer service, postal revenues, automation, and competition.

THE POSTAL SERVICE OF TODAY

Under the reforms instituted by the Postal Reorganization Act of 1970, the Postal Service is to provide mail service to people and organizations using revenue generated from postage. Postage rates are adjusted periodically to keep the Service on a break-even basis financially. The size and scope of Postal Service operations are massive—nearly 40,000 post offices, stations, and branches; over $16 billion invested in buildings, equipment, and land; the nation's largest civilian employer with over 850,000 employees; a payroll of over $100 million a day; and 177 billion pieces of mail delivered in 1994 with revenues of $50.3 billion. In 1971 the Postal Service had revenues of $6.3 billion, delivered 87 billion pieces of mail, and had 729,000 employees. The Service currently delivers in about a week the same number of pieces that United Parcel Service and Federal Express combined delivered in all of 1994.

The majority of the Postal workforce is composed of four crafts—postal clerks, city carriers, rural carriers, and mail handlers—whose working conditions and pay and benefits are determined through collective bargaining. (See fig. 1.) The average annual pay of bargaining employees is about $36,000, including overtime.

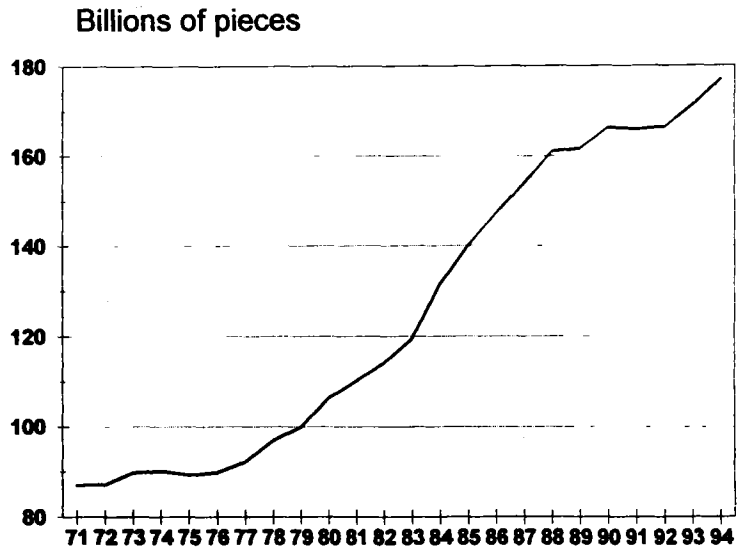
Figure 1. Number of Postal Employees by Type, January 1995

Type	Number
Special delivery messengers	1,519
Vehicle operations and maintenance	12,252
Maintenance	36,526
Rural carriers	44,171
Mail handlers	55,039
Non-bargaining	83,696
Non-career	112,547
City carriers	232,464
Clerks	263,402

Source. Postal Service's On-Rolls and Paid Statistics Report

There is much discussion and speculation today about the inroads into the Postal Service's business caused by electronic communication alternatives such as fax and e-mail. While these are a growing phenomena, Postal Service data show that mail volume is also still growing. (See fig. 2.) Volume was up 4.7 percent in the first quarter of 1995 compared with the year before. Less than 5 percent of the mail today is personal correspondence between households. The rest is either between households and businesses (65 percent) or between businesses themselves (30 percent). (See fig. 3.) Most of the business mail received by households is generated by the government, the financial services sector, and retail sales. The Postal Service

FIGURE 2: Total Mail Volume, 1971 to 1994



Source: Postal Service Annual Reports

determined that in 1992 the average household received about 21 pieces of mail a week, and over half of this volume was advertising. (See fig. 4.)

Figure 3. Origin and Destination of Mail, 1992

	Percentage
Federal Government to home	1.2
Home to home	4.2
Home to business	6.3
Business to business	30.2
Business to home	58.1

Source: Postal Service Household Diary study, May 1994

Figure 4. Content of Household Mail, 1992

	Percentage
Federal Government	1.9
Newspapers	2.1
Magazines	4.8
Statements	4.5
Nonprofit	6.1
Personal	6.4
Bills	14.0
Other	14.9
Advertising	51.7

Totals more than 100 percent because First-Class mail with advertising enclosures are counted twice.
Source: Postal Service Household Diary Study, May 1994.

CHALLENGES FACING THE POSTAL SERVICE AND OUR RELATED WORK

The 1970 Act required the Postal Service to provide universal mail service at uniform prices that are fair and reasonable, as well as to provide its employees with wages, benefits, and working conditions comparable to those of the private sector. To help accomplish this, the Service was given the exclusive right to deliver letter mail and exclusive access to mail boxes.

The Postal Service expects that during the next few years overall mail volume will continue to grow. However, advances in communication technology, competition from the private sector and the possible enactment of legislation affecting the Service's monopoly over letter mail could affect the size, structure, and overall mission envisioned by the Postal Reorganization Act of 1970. Increasingly, private sector companies and new technology are supplanting traditional mail services. We have reported [1] on how the Postal Service lost most of the markets in overnight delivery and parcels to the private sector several years ago. The statutory monopoly on letter mail. provided for in the Private Express Statutes, has not stopped the development of alternative means of communications and delivery, and many mailers are actively seeking out these sources. Major losses of Postal Service business could trigger more frequent and larger postage increases, and could lead to further reductions in the Service's business.

Most of our work in recent years can be divided into five broad categories, each having relevance to current postal issues and significance to the Service, the public, or the Congress: (1) labor/management relations, (2) customer service, (3) protecting postal revenues, (4) automation, and (5) the Service's future role and competition. I will briefly mention our major findings as well as some of our ongoing work on these issues.

LABOR MANAGEMENT RELATIONS

The 1970 Act responded to the controversy in the 1960s over a Post Office Department that was hampered by deteriorating facilities, poor working conditions, and worker walkouts over wages. Last year we reported [2] that poor labor-management

[1] U.S. Postal Service: Pricing Postal Services in a Competitive Environment (GAO/GGD–92–49, Mar. 25, 1992).
[2] U.S. Postal Service: Labor-Management Problems Persist on the Workroom Floor (GAO/GGD–94–201A & 201B, Sept. 29, 1994).

relations persist because of an autocratic management style, adversarial employee and union attitudes, inadequate performance management systems, and the nature of the work. Postal management, the four major unions, and the three management associations have been unable to resolve their differences effectively. Four of the six contract negotiations since 1978 have required that a third party intervene to settle major differences.

In our September 1994 report, we recommended that the parties develop a long-term agreement on approaches to remedy this labor-management climate. We also recommended that the parties report to Congress in 1 year on their progress in reaching a basic framework agreement. In a November 1994 response, the Postmaster General called for the principal parties to participate in a summit to address the issues in the report. Management associations agreed, but the major unions declined to participate at least until after current contract talks are completed. Current talks have been stalled by disputes and impasses since November 1994.

In view of these difficulties, this Subcommittee could help by monitoring the progress of the parties in developing and implementing a framework agreement and requesting periodic progress reports from all parties. Further, if the parties involved cannot reach a framework agreement, within a reasonable time, Congress may want to reexamine whether there are any aspects of the employee and management relationships with the Postal Service that are prescribed in the 1970 act but constitute barriers to reaching a framework agreement.

CUSTOMER SERVICE

The Postal Service knows that its service to customers is below postal standards and falls short of customer expectations. Our work in this area has covered a variety of topics including the consolidation of mail processing in rural areas that had adversely affected service, the acceptance of credit cards in post offices for greater customer convenience, the need to upgrade postal retail stores to make them more attractive to customers, and the Service's inability to deliver priority mail in 2 days. We will soon be issuing reports on the use of the Service's periodic residential customer satisfaction surveys and the causes of last year's deterioration in delivery service in the Washington D.C., metropolitan area. Altogether, our work in the customer service area indicates that the Service faces a difficult, and lengthy task in changing its processes and improving service to expected levels.

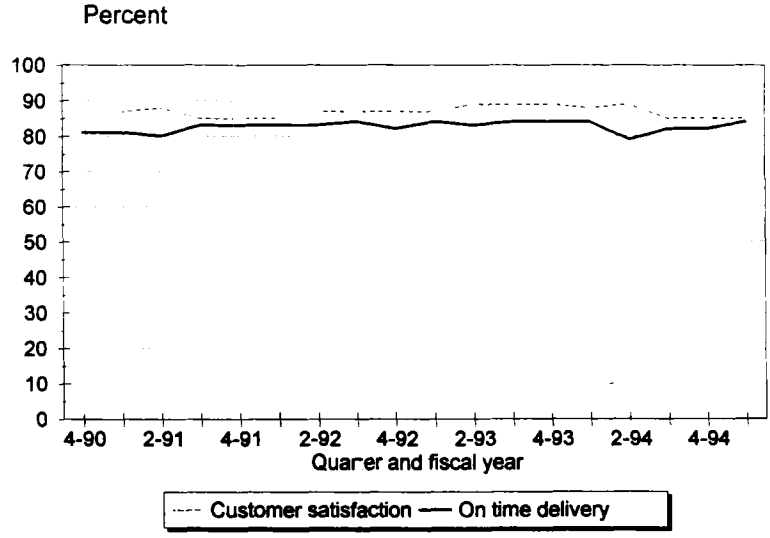
Nationally, service and customer satisfaction have remained about the same during the past several years. (See fig. 5.) The Service hires contractors to determine the time it takes for First-Class letters to move from a collection box to the point of delivery, and solicits opinions from households on various aspects of residential service. The results are published quarterly. In the first quarter of 1995, 85 percent of households across the nation rated overall service as good to excellent, and 84 percent of the First-Class letters arrived on time. This is the same rating reported for overall service 3 years earlier, and 1 percentage point increase in on time delivery from 3 years ago. The Service's goal for on-time performance is 95 percent. There is no specific numeric goal for customer service.

In an increasingly competitive environment, customer service has become more critical to the survival and success of both public and private entities. Therefore, this Subcommittee may wish to more fully understand how well the Postal Service is meeting the needs of its customers. To do so, it could request additional information about both residential and business customer's satisfaction levels on both a national basis as well as different areas of the country. Data are available on residential customers, but not much of it is routinely shared with Congress. Data on business customer satisfaction has been collected by the Postal Service contractor since spring 1994, but the results have not yet been made available.

PROTECTING POSTAL REVENUES

Because of a complex rate structure and huge volumes of mail, the Service faces a difficult challenge in making sure that the correct amount of postage is paid by customers. In 1993, postage meters accounted for about $21 billion, or 46 percent, of postage revenue. Because of weaknesses in the controls over metered mail, the Postal Inspection Service has documented fraud in the mail industry since 1985, which has involved substantial revenue losses to the Service. In 1994, we reported that many of the same problems the Inspection Service found had continued over

FIGURE 5: Percent of Customers Rating Overall Service as Good to Excellent and Percent of Overnight Mail Delivered on Time



Source: Postal Service's External First-Class Measurement System (EXFC) and Customer Satisfaction Index (CSI).

many years, and that the Postal Service had initiated actions to correct many long-standing deficiencies to reduce the risk of fraud in the future.

Currently we are reviewing the controls over revenue at business mail acceptance units. Nationally, there are about 500 such units that accept mail from the largest mailers and are responsible for ensuring that postage paid, totaling about $20 billion in 1994 from these units is the correct amount.

While the Postal Service has initiated several actions to address meter problems, it has historically focused limited attention on controls over revenue. With costs and rates increasing, the Subcommittee may wish to focus attention on the adequacy of the Postal Service's efforts to reduce the risk of meter fraud as well as maintain effective internal controls over other revenues.

AUTOMATION

A key Postal Service strategy for reducing cost growth and maintaining reasonable postage rates has been its reliance on automation to process mail more efficiently. The Service is continuing a $5 billion, 16 year effort to barcode virtually all letters and sort them automatically into delivery sequence. This week we reported that automating mail processing and achieving savings have been more difficult to accomplish than anticipated. The obstacles range from equipment not having as much capability as expected to management being unable to gain employee cooperation in changing work methods affected by automation. The Service has not been able to achieve the personnel reductions that were once projected, and any financial savings have been small relative to total operating costs.

Our latest work on automation showed that limited data are available to specifically show the benefits being achieved for the investment in automation. We believe it is important for the oversight committees to fully understand the total cost and benefits of major postal initiatives such as automation in terms of savings, efficiency, and service. The Postal Service is expanding its use of remote barcoding systems and is replacing contract employees with postal employees. It would be useful for future comparisons and decisionmaking for the Postal Service to report to the Subcommittee cost and productivity data on the sites that have been operated by private contractors so such data can be compared with similar data for those sites operated with postal employees.

THE GROWING PRESSURE OF COMPETITION

Service delivery problems, together with persistent labor management relations problems and other challenges, have increased the calls for basic reforms of the Postal Service. Recent developments include the following:

Legislation has been introduced to turn the Postal Service into a publicly-owned corporation and suspend the Private Express Statutes 5 years later.

A coalition of advertising mailers and private mail carrier competitors have asked the Postmaster General to initiate action to suspend the letter mail monopoly over third class advertising mail.

The Postal Service has suggested that it be given more operational flexibility in several areas to improve the postal system. These areas include collective bargaining, cross crafting, grievances, pay for performance, workforce management, rate setting, and new products.

The Postal Service is also actively engaged in research to offer nontraditional services, particularly electronic communications. Some efforts that are being tested or considered are participation in the Time Warner Cable interactive television test project in Orlando, Florida; development of an electronic postmark capability to safeguard the privacy of electronic mail; and combination electronic/hard copy delivery. The Service has tried similar types of initiatives in the past with varying degrees of success.

Fundamental issues that surround the emerging debate on the future of the Postal Service include (1) how competition will affect the Postal Service's revenue, cost, and rates and ultimately the federal government's role in mail and merchandise delivery; (2) the private sector's capacity to effectively assume responsibility for mail service in this country; and (3) the impact on the economy and the people of this country of such a change. Because of the interest in postal reform, we are currently examining aspects of these issues and expect to finished around the end of 1995.

In summary, Mr. Chairman, the Postal Service affects virtually every person and business in this country. And, as I pointed out early in my statement, major changes to the Postal Service could have an impact on the quality, price, and availability of mail service, and could also affect the work of more than 850,000 employees. In that context, Congress needs comprehensive and accurate information on

postal operations in order to be able to carefully consider what changes should be made to improve this important service.

This concludes my prepared statement. I have attached a list of our Postal Service products issued since 1990. I would be happy to respond to any of your questions.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. BOB EHRLICH TO MICHAEL E. MOTLEY

Question 1. In your testimony, you raise the issue of postal sites with contracted employees. When will the data concerning these sites be released, and what is the general attitude of these sites compared to those sites employing postal workers?

Answer. The use of contracted employees as discussed in my testimony refers to remote barcoding of mail. This entails making an electronic image of letters that optical character readers cannot read. The images are electronically transmitted to data entry clerks who enter enough address information to provide the appropriate delivery point code. The Postal Service initially planned that remote bardode keying would be contracted out. However, in November 1993, the Postal Service and the American Postal Workers Union agreed that the work would be done by postal employees. Because postal employees are paid more than contract workers, the agreement could reduce the savings anticipated from remote barcoding. We are in the process of gathering data to compare the cost of contracting out verses the cost of doing this work with postal employees. This work is being done at the request of the Chairman of the House Appropriations Subcommittee on Treasury, Postal Service and General Government. We will provide the Government Reform and Oversight Subcommittee on the Postal Service a copy of the results of our work when it is available. Currently, we do not have any data about the attitudes of the employees at either the contracted out or postal service locations.

Question 2. What are the reasons that the expectations on automation are not being realized? What can this committee do to fulfill these expectations?

Answer. The reasons behind the Postal Service's inability to fully realize its expectations for automation are numerous. Many of the reasons are described in GAO's report issued on February 22, 1995 entitled *Postal Service: Automation Is Taking Longer and Producing Less Than Expected* (GAO/GGD–95–89BR). Some of the reasons include the following.

postage rates are out of sync with the Postal Service's automation plans because incentives offered to mailers give preference to presorting over prebarcoding.

the Service's optical character readers (OCR) did not read and barcode as much mail as expected because of the wide variation in the physical characteristics of envelopes and addresses.

the delayed deployment of the Remote Barcoding System (RBCS) that occurred when plans to use contract employees for remote barcoding were thwarted by a union-management contract dispute.

the Service has not reduced carrier in-office workhours or adjusted routes as intended because there has not been a sufficient quantity of delivery sequenced letters, and

a 1989 goal of an outright reduction of over 40,000 workyears to result from automation has not happened because of the barcoding and sorting problems mentioned above and the Service's inability to change work methods and reduce employee workhours after automation equipment was deployed.

This Committee can help in fulfilling these expectations through its oversight role of the Postal Service. Continued oversight of major postal initiatives such as automation should encourage more consistent postal management attention to such critically important issues and hopefully result in more consistent fulfillment of its stated goals.

Question 3. Does the Postal Rate Commission need to be reformed? If so, can it work in a more expeditious manner?

Answer. We believe that the postal ratemaking process is in need of reform to reflect the changing competitive environment in which the Postal Service operates. We will be providing under separate correspondence our views on the postal ratemaking process. This correspondence is being prepared in response to the Subcommittee's March 7, 1995 inquiry about recommendations contained in our March 1992 report to the Congress on postal pricing. (U.S. Postal Service: Pricing Postal Services in a Competitive Environment, GAO/GGD–92–49, March 25, 1992.)

Mr. MCHUGH. Thank you very much, Mr. Motley.

You have heard in the testimony and the questioning today from some of the subcommittee members, and I'm sure privatization is a topic of great discussion virtually anywhere the issue of the Postal Service comes up. For the purposes of this question we are talking about total divestiture of public involvement, Government involvement in the Postal Service, and turning it over to a private firm.

I know that GAO has been doing some evaluation of an entire range of those kinds of proposed changes and looking as well at the experiences of other countries such as mentioned by Mr. Sanford. Can you share with us some of your preliminary observations on those analyses?

Mr. MOTLEY. Well, the analysis that we are doing with regard to what you would term the privatization or the competition type issue, Mr. Chairman, is currently under way, and we are looking at various segments of it. Some of the results of that have not been solidified at this point in time. However, we do hope to have that information available by the end of this year.

As you have suggested, and as many others have suggested here, this is a very complex area, but I might suggest that all the talk that we have had here with regard to the 1970 Act, one of the things that we need to keep in mind is that that act was set up to ensure fair and equitable service to everybody, and that should be the bottom line starting point for many, not just those on this subcommittee, but the people at the Postal Service and around the country to consider when we are suggesting making changes.

I hope our work will be able to demonstrate to some extent the kind of changes that might impact on the Postal Service if certain segments of the Postal Service were to go away as a result of competition or as a result of either commercialization or privatization.

With regard to the information regarding countries, we are just in the process of visiting some of the countries to more fully understand the details of how they have gone about privatizing or commercializing or, as Mr. Coughlin suggested, more corporation type organization. As we understand it, most of those countries also had a mail monopoly and most of them have held on to it to some extent, and so I think that might be very important in our analysis as well and we would be happy to share those results, when they are available, with the subcommittee.

Mr. MCHUGH. I assume the studies will also look at, if it exists, where changes and a diminution of postal involvement in certain areas might be of benefit. However, I am not saying it would be.

Mr. MOTLEY. We are hoping, but some of these things aren't absolute, Mr. Chairman, as you might suspect. Some of these will have to be run on the scenarios that could take place. I believe the information that will be developed probably wouldn't have a bottom line that would say, you ought to do this, but would certainly lend information to the debate to consider when changes are being made.

Mr. MCHUGH. All right. Thank you.

I know Miss Collins, as many of us do, has another appointment, so I would like to yield to her at this time.

Miss COLLINS OF MICHIGAN. Thank you, Mr. Chairman.

I find it interesting that you are visiting other countries to see if they are going into privatization or retaining a monopoly. I wonder, do you also visit other countries to see what kind of cooperation we could have in mail delivery, especially Third World countries, where it takes 3 to 4 weeks for mail delivery?

Mr. MOTLEY. Some recent work that we have been doing, Miss Collins, deals with the international marketplace, if you will, and we have had numerous discussions with the Postal Service. And some of our work will include the kind of agreements that the Postal Service is attempting to work out with a whole variety of countries that are involved in coordinating mail systems to ensure both proper accounting for that mail and revenues and expenses and whatever, and to ensure that there is proper communication among those countries.

Miss COLLINS OF MICHIGAN. Do we have to pay other countries to deliver our mail? Our stamps, that is our revenue, but what is the cost to them? Could that be a consideration in why they are so slow delivering our mail?

Mr. MOTLEY. It gets to be a very complex thing, Miss Collins. Maybe Mr. Campbell could address it.

Mr. CAMPBELL. The short answer is yes, we do pay other countries for the delivery of U.S. mail in country, and they in turn reimburse the U.S. Postal Service for incoming delivery. The rates and so on are worked out through the Universal Postal Union, which includes about 180-plus member nations, as well as through bilateral agreements that have been made by the U.S. Postal Service and certain other countries such as Canada, but there's reimbursements on both ends for in-country delivery, yes.

Miss COLLINS OF MICHIGAN. Thank you.

Mr. Motley, please explain the results of your investigation into the racial agenda investigations of the Postal Inspection Service narcotics information investigations.

Mr. MOTLEY. Well, as you know, Miss Collins, we issued that report a while back, and it showed a distribution of the racial mix, as you well know, of the investigations that were done by the Postal Inspection Service. Many of these things were highlighted, I guess, as Mr. Runyon alluded to, by the sting that went awry. As a result, I believe, of our work and as a result of some of the failed things that have taken place there, the Postal Service has made a fair number of changes with regard to their investigations with regard to paid informants. That work also suggested that these investigations were across a very broad range of locations throughout the country. It was more factual in nature in providing the kind of data that the Postal Service had with regard to the investigations that were done into illicit drugs, use of drugs in the Postal Service.

Miss COLLINS OF MICHIGAN. And finally, GAO has consistently found that Postal Service automation is not producing the savings originally projected. Is that still true today? Has that performance improved? Do you know what steps the U.S. Postal Service is taking to improve the performance of its multi-billion dollar automation program?

Mr. MOTLEY. As you well know, Miss Collins, we have reported on that on numerous occasions and I think testified before you and

said they didn't meet their goal this year, and they didn't meet the goal last year even though they have made some little pieces of progress over time.

The report that we released yesterday to you and the chairman and to the Senate Governmental Affairs Subcommittee on Post Office and Civil Service highlights a variety of the problems that the Postal Service has been having in not only bar coding the mail, but being able to read it through the optical character readers. I think it was Mr. Henderson who said that this has been a big problem area, they haven't had the technological advances there, and, in addition, the savings, especially with regard to the work force, have been very difficult to recognize. The Postal Service may meet additional challenges in this area because of some of the changes they have recently made with regard to hiring more permanent employees and less transitional employees whom they could move out of certain areas of the Postal Service as automation started to take over.

Miss COLLINS OF MICHIGAN. Also, we are losing so much money in the metered mail fraud. I spoke with Mr. Runyon, I think last week or the week before last, and he says that they are really getting up to speed on the new machines coming in, but have you seen that?

Mr. MOTLEY. Well, we are hearing those kinds of things, and it is our intention to revisit that work.

As you know, last year we issued a report dealing with meter mail fraud. Part of that report basically highlighted some of the problems that existed for years and years at the Postal Service that the Postal Inspection Service had identified. One of the things that got us involved in that issue was Mr. Runyon's statement that he felt as though maybe the Postal Service was losing about $100 million a year.

We are talking about 1.4 million meters out there, and if I recall the numbers correctly, about 600,000 of those were subject to some kind of tampering that could defraud the Postal Service from revenues. We understand that some of the major meter manufacturers have taken some major strides since that report was issued to try and make improvements in their meters, and there are plans as well to cancel out some of those meters that were currently active. I don't believe all of that has taken place at this point in time.

Miss COLLINS OF MICHIGAN. Thank you.

Mr. MOTLEY. Certainly.

Thank you, Miss Collins.

Mr. MCHUGH. Thank you, Miss Collins.

Mr. Sanford.

Mr. SANFORD. I think I am going to lose all credibility here with this next question in that I had some questions here relating actually to the letter mail monopoly, but I just stepped out for 2 seconds to meet a constituent from Myrtle Beach, from my home district, who—small world—works for UPS, and he said he had been listening to the testimony and said, "Well, you know, we have got 303,000 employees. We had revenues of $19.5 billion last year. We are one of the largest employers of Teamsters in the world in terms of union constraints, and yet we made $800 million last year."

Again, and I don't mean to be on this privatization kick, but what would be your response to somebody like that that says we worked under similar—many similar constraints and yet we ended up making $800 million? How did they do it?

Mr. CAMPBELL. Let me just, if I may, take one quick answer to that, give you one quick answer, and I'm sure Mike can add something as well.

I recently calculated the revenue per piece of mail for the UPS as well as the U.S. Postal Service, and it came to about $6 for UPS per piece of mail and it was 28 cents per piece of mail for the USPS—Postal Service. Now what that indicated to me is that they are in a very different kind of business. They are certainly charging very different prices per piece of mail. So that when you talk about the total revenue received, it is—for the UPS—very substantial.

Mr. SANFORD. You are in the information business.

Mr. CAMPBELL. Yes, in terms of revenue. But they are not delivering anywhere near the numbers of pieces of mail. I mean it is a very different kind of business.

Mr. SANFORD. What do you think though about—again, I stepped out—about the letter mail? Necessary or unnecessary?

Mr. MOTLEY. Well, I think it would be a little bit difficult to say, gee, it's not necessary, let's do something. I think we are talking about something that was started back in 1792, and it was created for a reason, and one of those reasons that I think we need to keep in mind is, it was to keep the Postal Service as a viable financial entity. In other words, it recognized that the carriage of mail was going to be costlier in some locations than it was going to be in others, and one was going to balance the other off, and I think in terms of looking at the 1970 Act, looking at the mail monopoly, you have to consider those things.

There have been some inroads to the mail monopoly, as suggested in my testimony, in some areas. One was overnight express mail. In 1971 the Postal Service had 100 percent of the market, today in the express mail area they have about 12 percent of the market, and so we have to be careful with things as we consider change. As suggested in my testimony as well, Mr. Runyon turned down the coalition suggestion for some inroads into the main monopoly. I think those things have to be considered very carefully. Some may be very appropriate and be good; others I think we need to be careful with in order that we don't erode the kind of balance that was initially intended, and if the Congress wants to keep that kind of balance then that is one of the things they need to consider.

Mr. SANFORD. I have no further questions, Mr. Chairman.

Mr. MCHUGH. Thank you, Mr. Sanford.

Revisiting the issue that Miss Collins brought up on automation, I don't think there is any question, when the Postmaster General made his statement, he and the other members suggested they have some technical problems for which they would assume responsibility. However, in one of the direct questions I believe posed by Mr. Shays, the Postmaster seemed to suggest that the reason they haven't seen a greater drawdown in the number of personnel is because of what we characterized as the enormously substantial increase in the volume of mail. Therefore, this could suggest that the automation program isn't quite as behind the curve as may at first

appear. What is your perspective on that? Is that part of the mix, or do we have a real problem on the automation side of the equation?

Mr. MOTLEY. I think it is part of the mix. I think the volume of mail has created some of the problems. However, some of the problems, again, alluded to by Mr. Henderson, were the remote bar coding sites. There is a significant problem there. There were over—and maybe Jim can help me out here—I believe 186 of those locations that were supposed to be in place to process approximately 30 billion pieces of mail, and we ended up with 25 of those locations in place that process significantly less than that, I think about 6 billion pieces of mail.

The technology that was available to read the mail created a problem as well. While I think some of the problem was attributed to volume, we need to keep in mind that the optical character readers today are only reading about half of the mail that goes through those optical character readers. That means it has to be processed some other way, and that other way is a more expensive way.

With regard to the work force—and I alluded to it very shortly, but in 1989 we made a definite move to hire transitional employees who could be replaced by automation actually and the Postal Service could let them go. In other words, we could have had a reduction in the total work force of the Postal Service. There has been a change in that philosophy in the last year or so where transitional employees now, some are being moved into permanent positions, but more permanent employees are being hired.

So while we saw a dip in the early nineties in the total work force, we are basically back up to the total work force where we were when some of the greater emphasis was put on automation in 1988.

Mr. MCHUGH. Is the automation a question of too high expectations, and just when you get to put it on the ground and operating it we learn that, beyond anyone's reasonable ability to project, it didn't function as we had hoped, or is it a problem of not pursuing it in the correct way?

Mr. MOTLEY. I think it is a combination of all three. I think it is a combination of having greater expectations than we ended up with. One part of that is technology.

Mr. MCHUGH. Excuse me, but were those expectations reasonable at the time?

Mr. MOTLEY. It would be difficult for me to suggest that they were reasonable. Maybe Mr. Campbell has a different view on that.

Mr. CAMPBELL. I think they probably were considered by the Postal Service to be reasonable at the time, and we didn't make any determination at that time.

Our report basically looked at what was claimed to have been and would be the results of the automation program versus what has actually occurred, and there is quite a gap there, as we pointed out.

I think we should emphasize that we are not opposed to automation. We don't think there is anything inherently wrong with automation, and it surely has made a difference in the processing of the 177 billion pieces of mail. There are numerous problems in the pro-

gram, including management of the program, lots of obstacles, and they still have a long way to go, years left to go.

In terms of why it has not reduced the work force, the work force, as we point out, has not been impacted; it has grown with volume, and the real difficulty is that no one knows what impact automation has had on productivity.

A lot of the gains that have been made could be related to presorting of mail. The mail comes in already to be delivered in effect, so it is hard to isolate the impact of automation on the work force or productivity or efficiency.

Mr. MCHUGH. Yes. I want to make it clear for the record, I am not opposed to or have objections to automation either. What I am trying to help myself understand, as I talk to various parties of interest in this whole question, is that those who are claiming this has been a total failure of management and, on the other hand, those who are saying that the failure to see a drawdown in personnel levels—and in fact we have seen that we have come back up to pre-downsizing levels—suggest that the Postal Service, from a management perspective, lost an enormously opportune moment to effect that, and that was the intent, and they blew it. I don't know what the answer is, but this is really the line of reasoning or questioning that I have.

I would like to interrupt my questions right now and acknowledge the arrival of the gentleman from Maryland, Mr. Ehrlich.

I don't know if you would like to make a statement for the record.

Mr. EHRLICH. I will submit a statement for the record, Mr. Chairman, but I am catching up with my aide right now.

Mr. MCHUGH. I understand, you can submit it, without objection.

Mr. EHRLICH. Thank you, Mr. Chairman.

Mr. MCHUGH. We will come back to you.

Mr. Motley.

Mr. MOTLEY. Mr. Chairman, if I could just summarize, I see three things. We talked about expectations; that's one. They were probably a little high. We talked about management. In 1992 management was changed significantly, and a lot of the emphasis in the automation area changed. As was inferred by Mr. Runyon, they are trying to get that back up to speed again. I agree with you, we lost some momentum there. We lost an opportunity to keep that ball rolling. And I think the other thing is the employees themselves.

So we have—when I say the employees, what I am saying is, I won't say there is a resistance to this automation, but it is something new and we are having difficulty getting them into it. There's a lot of people, according to the Postal Service Employee Opinion Survey, that don't think this management—or that the management of the automation program has been run very well. A lot of times there is not much buy-in.

Mr. MCHUGH. Yes. Thank you for that clarification.

In 1990 there was a big brouhaha about the allocation of costs for the rate increase, the 29 cent stamp, and at that time GAO, as I recall, suggested that there be some changes to the 9-point rate-setting criteria. For example, it was recommended that demand pricing, which considers the value of service to the sender, be given

greater weight in these criteria. However, there was virtually no action taken at that time. Does the GAO still feel that this is a problem of concern, and are those recommendations made still valid, or would they rather change those today?

Mr. MOTLEY. I think in light of a lot of the comments that have been made here today about the kind of things that the Rate Commission could do or should do, we need to revisit some of those matters. Whether demand pricing should be at the top of that list today or not is in question in my mind, and while we made those recommendations back then, I think we might be dealing with some different situations today. I think we need to look at that criteria but we need to look at it very carefully.

Mr. MCHUGH. Could we make a request on behalf of the subcommittee that perhaps that revisitation occur? Obviously that would be enormously helpful.

Mr. MOTLEY. We would be happy to do that, Mr. Chairman, absolutely.

Mr. MCHUGH. Thank you very much.

Let me ask you a question about the future and the intent of automation, on which we are having a great deal of discussion. The PMG spoke about it—with respect to e-mail and faxes and the potential erosion of postal customers through those new technologies. I think I have the sense that the postmaster and the Postal Service in general sees itself having a role in those future technologies. Has GAO had an opportunity to think about that? Do you even believe that this is something the Postal Service should involve itself in, or should it confine itself to the more traditional delivery of the mail?

Mr. MOTLEY. A difficult question, Mr. Chairman, I mean to make at this point in time. Last year we testified before the House Post Office and Civil Service Committee regarding technology in the Postal Service. We suggested that there is a possibility of a large erosion in the mail stream as a result of changes in technology, and Mr. Runyon suggested that over the past 5 years there has been approximately a 35 percent erosion of the mail volume as a result of technology changes and more will take place in the future. I think it is really one of the things that not only this subcommittee but the Postal Service should sit down and discuss very thoroughly before decisions are made to have the Postal Service go off on different routes.

Mr. MCHUGH. Well, we certainly will be looking at that because it is obviously a very vital question as to what the future of the Postal Service might be, and if you get into that area it again puts into question the issues involving privatization and the Postal Service competing, et cetera. So we will be looking to work with you on that as well.

We do have a vote that has been called on a rule for the regulatory moratorium bill. I would be happy to come back if Mr. Ehrlich has a desire to submit questions. Otherwise, due to the hour we could submit questions in writing for the record, and I assume that Mr. Motley and GAO would graciously respond.

Mr. MOTLEY. We would be happy to, Mr. Chairman.

Mr. EHRLICH. I appreciate that, Mr. Chairman, particularly in view of my involvement with H.R. 450.

Mr. MCHUGH. Yes. Well, you have business on the floor. Then I am going to make an executive decision that we will end this and go vote, and to both of you gentlemen, thank you for being here today. We will submit those written questions, and, with that, I will adjourn the subcommittee until Thursday, March 2, when we will hear from the members of the Postal Rate Commission.

Thank you all.

[Whereupon, at 12:08 p.m., the subcommittee was adjourned.]

GENERAL OVERSIGHT OF THE U.S. POSTAL SERVICE

THURSDAY, MARCH 2, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE POSTAL SERVICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2247, Rayburn House Office Building, Hon. John M. McHugh (chairman of the subcommittee) presiding.

Present: Representatives Sanford, Gilman, McIntosh, Clinger, Owens, Green, Collins, and Meek.

Staff present: Dan Blair, staff director; Robert Taub, Steve Williams, Heea Fales, and Jane Hatcherson, professional staff members; Meryl Cooper, clerk; and Denise Wilson, minority professional staff.

Mr. MCHUGH. We'll call the meeting to order and bid everyone good morning. Let me begin by saying that the number of empty seats here at the dais in no way reflects on the importance of this particular hearing, nor does it, I think, diminish the critical nature of the issues before us.

Let me begin by welcoming our panel members here today. We do appreciate your joining with us. This is the second oversight hearing to be held by the Subcommittee on the Postal Service. And our panel today will be comprised, as you and the audience can see, of five members of the Postal Rate Commission.

I want to extend to Chairman Gleiman and the other members of the commission our welcome and appreciation for their attendance here this morning.

Last week, the subcommittee began its series of hearings when the Postmaster General and the General Accounting Office appeared in a two-part session. In his testimony at that time, Postmaster General Runyon called for increased flexibility in the ratemaking process.

In an earlier speech before the National Press Club in January, Mr. Runyon observed that it takes less time to bring a child into the world than it does to proceed with a new rate case. Of particular interest was the suggestion by Mr. Runyon to permit expedited consideration of any proposed rate increase, should such an action fall under the current rate of inflation.

Mr. Runyon stated that preliminary discussions had begun with the Postal Rate Commission over this issue. And I hope the chairman might be in a position today to elaborate on those discussions further.

This past December, the Postal Rate Commission completed a significant rate case in which first class rates were increased by almost 9 percent, while second, third, and fourth-class rates were increased by an average of 14 percent.

And certainly, the subcommittee would be interested in learning from Mr. Gleiman and the other commissioners the rationale, the basis of that increase, and their views on whether this amount will be sufficient to cover postal costs into the future and, if so, for how long.

In addition, the subcommittee is most interested today in your views concerning any proposed reclassification case. As the administrative body charged with hearing such proposals, the commission would attract certainly considerable attention, should any reclassification case arise during the upcoming year.

And I look forward to Chairman Gleiman explaining the commission's roles in the reclassification process and report to us the effect any reclassification might subsequently have on postal rates. In light of the recent rate increase, Mr. Chairman, I know you share my and the other members of the subcommittee's concerns regarding the maintenance of affordable rates for all postal customers, while at the same time attempting to balance the statutory directive that revenues cover costs in the Postal Service.

As all of you gentlemen know full well, these are challenging times for the Federal Government and for the Postal Service. It is, at least in my opinion, our collective obligation to work together in an attempt to pursue our mutual goal of developing and effectively implementing those policies that will provide the citizens of this Nation and the patrons of the Postal Service the most efficient and productive system possible.

And toward that end, it is the intent of this subcommittee to work with you and all other interested parties. And again, I want to thank you and the other members of the commission for being here today. I look forward to your testimony.

With that, let me now yield to the gentleman from New York, Major Owens, a member of the subcommittee representing the minority here today.

Mr. OWENS. Thank you, Mr. Chairman. I, too, consider these to be very important hearings. And I certainly plan to stay for the entirety of the hearing. But there has been a change in the schedule of the subcommittee on which I serve as a ranking member, and there's a markup at 10:30.

Unfortunately, I'll have to leave, but I will try to return, because I think this is a very important subject. And I yield the balance of my time so that we can commence with the hearing.

Mr. MCHUGH. I thank the gentleman for that. And, as I trust everyone understands and recognizes, the problem of scheduling is affecting all Members. We're confident that regardless of who is with us today at any particular moment, we'll have a productive meeting and opportunity to put some good comments on to the record.

We have been joined by the chairman of the full committee, the gentleman from Pennsylvania, Mr. Clinger. If he would like to make any remarks before we begin.

Mr. CLINGER. Thank you, Mr. Chairman. I have no remarks. I'm just delighted you're holding this hearing and look forward to hearing the testimony.

Mr. MCHUGH. I appreciate the chairman being here very much. We're honored by his presence.

As has been directed to all of the subcommittees of the full committee, it is the normal practice to have witnesses who will present testimony in set sessions to take an oath. So if you gentlemen would please rise with me, I'll administer that oath.

[Witnesses sworn.]

Mr. MCHUGH. Thank you. Before we begin with Chairman Gleiman's testimony, I would like to recognize one of the more experienced and senior members of this subcommittee who was an outstanding Representative during the full committee era, the gentleman from New York, Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman. First of all, I would like to thank you for calling this second meeting in a series of our hearings to address the issues that the Postal Service is going to have to confront in the coming months.

And I want to welcome the Honorable Edward Gleiman, chairman of the Postal Rate Commission, as well as our other commissioners who are with him here today. And I am pleased that our chairman of our committee, Mr. Clinger, is here with us today.

Last week, we had what I consider to be an extremely productive exchange, an exchange of ideas with the Postmaster General, Mr. Runyon. And I trust that this hearing will be equally constructive in terms of trying to improve the efficiency and the customer service provided by the Postal Service, as well as the entire rate structure that goes with it.

To this end, I'm encouraged by the efforts that Chairman Gleiman has undertaken with Postmaster General Runyon to try to streamline the rate-setting process, while protecting the interests of postal customers.

Mr. Chairman, I look forward to hearing the testimony of our panel. And we thank you, again, Mr. Chairman, for doing this in a timely manner.

Mr. MCHUGH. I thank the gentleman for his presence and his contributions to the effort.

I would also like to recognize the vice chairman of the subcommittee, the gentleman from South Carolina, the Honorable Mark Sanford.

Mr. SANFORD. I have no opening statement and look forward to their testimony.

Mr. MCHUGH. Thank you very much. With that, Mr. Chairman, the time is yours. We look forward to your comments.

STATEMENTS OF EDWARD J. GLEIMAN, CHAIRMAN, POSTAL RATE COMMISSION, ACCOMPANIED BY W.H. "TREY" LeBLANC, VICE CHAIRMAN, POSTAL RATE COMMISSION; GEORGE W. HALEY, COMMISSIONER, POSTAL RATE COMMISSION; EDWARD QUICK, JR., COMMISSIONER, POSTAL RATE COMMISSION; WAYNE A. SCHLEY, COMMISSIONER, POSTAL RATE COMMISSION

Mr. GLEIMAN. Mr. Chairman, members of the committee, I feel kind of awkward sitting in this chair today. As it turns out, I spent some of the best 10 years of my life sitting in the seat that is currently occupied by Cary Brick this morning. If he turns it over, he'll find my initials under there.

I spent a good number of years doing postal oversight hearings in this very room as a staffer on your predecessor committee, the Government Operations Committee. It is indeed a pleasure to be here this morning.

I'm Ed Gleiman. With me today are my vice chairman at the commission, Trey LeBlanc, and Commissioners George Haley, Ed Quick, and Wayne Schley. Together, the 5 of us compromise one-tenth of the 50 people who work at the Postal Rate Commission. While we are small, we play a very important role in postal affairs.

The commission was created by a Congress that by 1970 had grown weary of the political brawls involved in setting postal rates. The commission was charged to ensure equitable, reasonable, and sufficient rates and to prevent unfair exploitation of the monopoly afforded the Postal Service under the Private Express Statutes.

Our primary responsibility is recommending postal rates. By law, a rate case should be decided within 10 months. I'm proud to report that the commission issued its recommended decision in the last case, R94–1, 5 weeks ahead of the 10-month statutory deadline, enabling a financially strapped Postal Service to implement new rates much earlier than had been planned and to realize an additional $500 million in much-needed revenue.

On Tuesday last, the Postmaster General reported to the Treasury-Postal Service-General Government Subcommittee preliminary net income of $531 million through the first 5 months of the current fiscal year. Mr. Runyon's good news is due in large part to the commission's early decision in the last rate case.

We have responsibilities other than rate cases. Among them are mail classification proceedings, which determine the groupings and classes or subclasses to which rates are assigned. We expect shortly to have the Postal Service submit a substantial overhaul of the mail classification system. Postal officials have been promising, perhaps threatening, to do so for more than a few years now.

Additionally, persons who believe that postal rates or services do not meet the requirements of the Postal Reorganization Act may file complaints with the commission. Complaints can result in a general rulemaking inquiry, as was the case in 1992, when a number of major mailers petitioned the commission to investigate why about one-quarter of mail processing costs were classified by the Postal Service as nonproductive time.

Unfortunately, the Postal Service refused to participate in that inquiry, which was initiated on behalf of some of its largest customers and the effort was terminated.

Similarly, the Postal Reorganization Act gives the commission an advisory responsibility with respect to proposed nationwide or substantially nationwide changes in postal services. If the Postal Service proposes to make such a change, it must submit the proposal to the commission.

The most recent advisory effort took place in 1989 and pertained to the Postal Service's lowering of delivery standards. Some previously 1-day delivery areas became 2-day delivery areas, some 2-day delivery areas became 3-day delivery areas, and so on.

Senator David Pryor, then chairman of the Senate Postal Subcommittee, likened this action to the Postal Service cutting the top off the flagpole when the flag got stuck part way up, so that people will think the flag is really flying at the top of the pole.

I think we all need to remember that current reports on service, both the good and the bad, are measured against these new, lower standards that have been in effect since 1989.

Another of our responsibilities is review of post office closings when we are requested to do so by affected townspeople. Approximately 10 percent of post office closings, about 250, have been appealed to the Postal Rate Commission.

And finally, from time to time, Congress requests the commission to conduct studies on particular subjects. The most recent request resulted in a report on incentives for mailers to use recycled materials.

Another recent study of the adequacy of international rates, requested by the Senate subcommittee, both the chairman and the ranking member, is in limbo because the Postal Service yet again refused to cooperate with the study.

Now, if I may turn to the rate-setting process. Only the Postal Service may initiate a rate case. It decides when to file a request, and it decides for how much additional revenue. The law requires that "each class of mail or type of mail service shall bear the direct and indirect postal cost attributable to that class or type, plus that portion of all other costs of the Postal Service reasonably assignable."

Much of our time is devoted to analyzing postal operations and data to assure that we identify those costs which can fairly be said to have been caused by a particular class of mail or type of mail service. About two-thirds of the cost of the Postal Service can causally be related to classes and services. Those costs which cannot be attributed, the remaining one-third, are assigned pursuant to statutory guidance.

The rate-setting process is heavily dependent on information collected and provided by the Postal Service. This information is essential to establish fair and equitable rates.

Unfortunately, both intervenors and the commission have become increasingly concerned about the quality and quantity of information presented by the Postal Service. Deficiencies in the R94–1 proceedings ranged from a virtual absence of special studies to reflect changes in postal operations to serious overstatements of cost.

The stakes in an Omnibus Rate Case are enormous, and a rate case is a zero sum gain. Each subclass must provide enough revenue to cover its attributable cost and to make a reasonable contribution to overhead. There is a great deal of money at stake, cur-

rently, about $54 million, and parties perceive themselves as winners and losers. In this regard, the commission faces a situation and criticism which is much akin to what the Congress faces when it attempts to balance the budget.

Some have argued that the rate-setting process takes too long and is too cumbersome, but the procedures for developing rate recommendations are designed to maximize meaningful public participation. The Postal Service must provide evidence in support of any changes it requests, interested parties may intervene, question the Postal Service, and provide whatever evidence they consider relevant to the commission's responsibilities.

Written discovery of underlying facts is allowed. Evidence is presented under oath and is subject to cross examination by interested participants. Time is allowed for the Postal Service to present rebuttal testimony, and both the Postal Service and interested parties prepare detailed, written briefs and oral arguments.

Yes, the process is technical and detailed in a fashion that some could call cumbersome. But it is open, and it affords an opportunity for all parties to protect their interests and their pocketbooks in dealing with a large government monopoly.

We are particularly interested in streamlining and expediting procedures and in providing the Postal Service with an opportunity to experiment. As you mentioned, Mr. Chairman, I have had some discussions with the Postmaster General on these matters. And also, immediately after the rate case decision was issued in November, we invited public comments on improving the process.

We also reissued rules giving the Postal Service the authority to expedite changes in Express Mail rates to meet market pressures. These rules, I should note, were previously in effect, and although designed to give the Postal Service flexibility in its most competitive area, went unused by the Postal Service for 5 years.

I have also suggested to the Postmaster General and other senior postal officials that as a starting point, a point for departure for further discussions, postal officials should dust off the joint Postal Rate Commissioner/Postal Governor Blue Ribbon Task Force Report, which was shelved by the Postmaster General during his 1992 reorganization and downsizing.

Let me note, however, that whatever its warts, the current process does uncover deficiencies in the Postal Service's proposals, and it does result in fairer rates.

There were three examples from the last rate case that I listed in my prepared text. I only want to mention one of them today in the interest of time, and that involved the National Newspaper Association. The National Newspaper Association challenged the Postal Service's proposed 34 percent increase for in-county second-class rates. Those are the rates that are paid by the relatively small but tremendously important community newspapers.

In response to discovery and in response to several inquiries and interrogatories, the Postal Service reexamined its in-county proposal, found an error, and revised its proposal. What had been a 34 percent increase became a 1.5 percent decrease.

This change and others mentioned in my prepared statement, plus others that were not mentioned in my prepared statement

would not have occurred were it not for the procedural safeguards of the current rate-setting process.

As I mentioned in my prepared statement, even the Postal Service has perhaps unintentionally touted changes the commission made in its most recent recommended rates, advising mailers in the January edition of its Memos to Mailers to "take advantage of our various services by making smart mailing decisions."

The smart mailing decisions involved the extra ounce rate for first class mail, Priority Mail rates, and Express Mail rates. Each of those "smart decisions" involved rates recommended by the commission. They involved rates which were lower than what I guess are the not-so-smart rates originally proposed by the Postal Service.

I've tried to describe who we are and what we do. Now, the question is, where do we go from here? With respect to the cries for wholesale change to provide speed and flexibility, I urge you to remember, under current law, these proceedings are designed to ensure fairness and allow all interested parties an opportunity to participate in a meaningful way.

We are dealing here with a government-granted monopoly, a $54 billion gorilla whose activities, if not monitored closely and controlled in a reasonable manner by someone, could cause serious economic consequences for friend and foe alike. Private companies could easily be put out of business, and private citizens could easily wind up paying much more to mail a letter.

Several corporations spend literally tens of millions of dollars on postage annually. And, of course, the general public spends billions. It is and will always be important that postal customers have an adequate opportunity to critically review the Postal Service proposals in a public forum and present their concerns to an independent decisionmaker before rates are changed.

Now, as for the Postal Service, it is at a crossroads with no signpost. As it did 25 years ago, Congress should provide direction. A major public policy question needs to be answered. And unless Congress acts, I fear that by default, it will be answered by Postal Service managers. The question is both simple and complicated. It is this, what do we want, and what can we reasonably expect from our Postal Service? Do we want the Postal Service to limit its focus to its historical mission, the reliable, prompt delivery of hard copy mail, or do we want it to attempt to compete in new technologies and enter fields heretofore foreign to it?

There are a host of issues which must be considered if it is to compete and embark on new ventures. How will its nonmonopoly and monopoly activities interrelate? Do we want first class monopoly revenues to subsidize entry into new and risky ventures?

Can a labor-intensive organization operate in an entrepreneurial, capital-intensive arena? And, since it takes $1 billion in profit to reduce the cost of a first class stamp by a single penny, are the new ventures really going to be worth it?

I apologize for ending with such weighty questions, but I want to thank you for the opportunity to unburden myself and share them with you.

Shortly, we will hunker down in our offices at 1333 H Street, raise our ex parte walls, and begin hearings on the Postal Service's

reclassification proposal. But I want to say publicly what I have said to many of you privately: Please do not hesitate to ask for our assistance as you proceed on your important examination of our Nation's postal system.

Thank you, sir, and if you have any questions, we would be happy to try to answer them.

[The prepared statement of Mr. Gleiman follows:]

PREPARED STATEMENT OF EDWARD J. GLEIMAN, CHAIRMAN, POSTAL RATE COMMISSION

Mr. Chairman and Members of the Subcommittee: I am Edward J. Gleiman, Chairman of the Postal Rate Commission. With me today are Vice Chairman W. H. "Trey" LeBlanc, and Commissioners George W. Haley, H. Edward Quick, Jr., and Wayne A Schley.

This, of course, is our first appearance before this Subcommittee, and we look forward to getting to know you better and working with you. I have had the opportunity to visit personally with many of you. I appreciate the time you are devoting to postal matters, particularly given the Oversight and Reform Committee's extensive role in other aspects of the House's legislating program this year.

THE POSTAL RATE COMMISSION

Together the five of us comprise one-tenth of the 50 people who work at the Postal Rate Commission. Last week you heard from the head of the Postal Service, Postmaster General Marvin Runyon. He employs more than 800,000. I might add that while the Postal Service has its ups and downs, it is now as large as before its 1992 downsizing. The Commission has become smaller and intends to stay small.

While we are small, we play a very important role in postal affairs. We are a creature of a Congress that by 1970 had tired of managing a Post Office Department, which required larger and larger taxpayer subsidies to stay afloat. The Congress also had grown weary of the political brawls involved in setting postal rates. Born of a legislative compromise between the House and the Senate, the Commission was charged with overseeing the statutory requirement that "[p]ostal rates and fees shall be reasonable and equitable and sufficient to enable the Postal Service under honest, efficient, and economical management to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States."[1]

The Commission was created to prevent the unfair exploitation of the monopoly afforded the Postal Service under the Private Express Statutes;[2] a monopoly which applies to more than 80 percent of domestic mail volume and generates about $42 billion of the Postal Service's annual revenues of about $54 billion. In the view of the National Newspaper Association, whose members publish those relatively small but tremendously important community newspapers, one of the benefits of the Postal Rate Commission is the fact that it serves as a check on the Postal Service and its data systems.[3] The Commission is the only check on the Postal Service in this regard.

Under the Postal Reorganization Act,[4] the Commission is an "independent establishment of the executive branch."[5] We are similar to a public utility commission, but we recommend rates for only one body, the Postal Service. We also house the Office of the Consumer Advocate (OCA) which, by law, is required "to represent the interests of the general public" in rate and classification cases.[6] The OCA is charged with assisting the Commission in developing a complete and accurate record and arguing for equity on behalf of the general public (principally those segments which are not otherwise represented in rate or classification proceedings).[7]

We employ 6 attorneys, 18 analysts, and 11 administrative and support personnel (including 9 staff of the Office of the Consumer Advocate). Our staffing is at an historical low, having reached a high point of 78 in 1978. Our budget for fiscal year 1995 is $5.925 million—a decrease of almost 2 percent from fiscal year 1994. Our

[1] 39 U.S.C. § 3621.
[2] 18 U.S.C. §§ 1693–1699, 39 U.S.C. §§ 601–606.
[3] *PRC Recommends Slight Increase in In-County Rates*, Publishers Auxilliary, p. 2, (December 5, 1994)
[4] Public Law 91–375, 84 Stat. 719, 39 U.S.C. §§ 101 et seq.
[5] 39 U S.C. § 3601(a).
[6] 39 U S.C. § 3624(a)
[7] Statement of Policy, Postal Rate Commission (June 14, 1982).

budget, like our staffing, has been shrinking. The cut for fiscal year 1995 was our second consecutive decrease. We receive no appropriated funds and therefore no tax dollars. We are funded by the users of the mails through postage. Each year we submit our budget to the Governors of the Postal Service for their review and, we hope, approval.

Our primary responsibility, is recommending postal rates. Since its creation the Commission has issued recommended decisions in nine omnibus rate cases, i.e., cases which affect all classes of mail. Rate cases are designated by the letter "R," followed by the year of the Postal Service's request and the case number. For example, R94–1 is the most recent decision issued last November.[8] By law, a rate case should be decided in 10 months. A typical case will involve 75 to 100 parties, 100 to 150 witnesses, tens of thousands of pages of testimony, and many, many days of public hearings.[9] I am proud to report that the Commission issued its Recommended Decision in the last case (R94–1), five weeks ahead of the 10-month statutory deadline, enabling a financially strapped Postal Service to implement new rates that much earlier and to realize an additional $500 million in much-needed revenue.

We have responsibilities other than to rate cases. We hear mail classification proceedings. These are proceedings which determine the groupings or classes and subclasses to which rates are assigned. Since postal reorganization there have been 42 separate mail classification proceedings. We expect the Postal Service shortly to request a substantial overhaul of the mail classification system—postal officials have been promising to do so for several years now.

Additionally, persons who believe that postal rates or services provided do not meet the requirements of the Postal Reorganization Act may file complaints with the Commission. The Commission can hold public hearings to evaluate complaints with nationwide ramifications. Complaints may concern a wide range of topics. For example, the Commission has heard assertions that the rates for third-class carrier route catalogs are too high, as well as objections to a change of less than two hours in the time the Farmers State Bank of Huntley, Minnesota receives its mail.

Similarly, the Postal Reorganization Act gives the Commission an advisory responsibility with respect to proposed nationwide or substantially nationwide changes in postal service.[10] If the Postal Service proposes to make such a change it must submit the proposal to the Commission which then must hold public hearings on the proposal.[11]

In 1976, Congress amended the Postal Reorganization Act to provide for Commission review of post office closings or consolidations.[12] Since then the law has specified the factors the Postal Service must take into consideration before closing or consolidating a post office.[13] The Commission has completed 250 of these appeals and 2 are now pending. Finally, from time-to-time the Congress requests the Commission to conduct studies of particular subjects. The most recent request resulted in a report on incentives for mailers to use recycled materials.[14] Attachment I summarizes the Commission's workload during the interval between the last two omnibus rate cases and includes a list of other studies undertaken for the Congress.

THE RATESETTING PROCESS

Prior to 1971, postal rates were set by the Congress through the legislative process. From 1900 to 1970, postal rates were changed six times. Also prior to 1971, the Post Office Department was heavily subsidized by the taxpayer.[15] This enabled

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[8] The 9 rate decisions are: R71–1, R74–1, R76–1, R77–1, R80–1, R84–1, R87–1, R90–1, and R94–1.

[9] In R90–1, 78 parties entered appearances and 130 witnesses presented testimony.

[10] 39 U.S.C. § 3661(b).

[11] 39 U.S.C. § 3661(c).

[12] The Postal Reorganization Act Amendments of 1976, Public Law 94–421, 90 Stat. 1303, § 9.

[13] 39 U.S.C. § 404(b)(2) provides the Postal Service shall consider the following: "(A) the effect of such closing or consolidation on the community served by such post office; (B) the effect of such closing or consolidation on employees of the Postal Service employed at such office; (C) whether such closing or consolidation is consistent with the policy of the Government, as stated in section 101(b) of this title, that the Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self sustaining; (D) the economic savings to the Postal Service resulting from such closing or consolidation; and (E) such other factors as the Postal Service determines are necessary."

[14] Postal Rate Commission, *Inquiry Into Incentive for Recycled Mail* (August 1993).

[15] In his May 17, 1969 "Message Relative to Reform of the Nation's Postal System" President Richard M. Nixon pointed out that "[d]uring all but seventeen years since 1838 when deficit financing became a way of life for the Post Office, the postal system has cost more than it has

Continued

the Congress to maintain low postal rates. Today, the Postal Service receives almost no taxpayer funding.

Because the Postal Service is intended to be self-sufficient, the Postal Reorganization Act directs that rates be set to allow it to operate at "break even." Since Postal Service revenues from all sources should equal its expenses, rates must be established which preserve this equilibrium. The Commission must recommend rates which provide sufficient revenues to equal total estimated costs for the Service, including operating expenses, depreciation, and debt service. The statute also requires that postal rates be set high enough to provide a reasonable amount for unexpected contingencies.[16]

Only the Postal Service may initiate a rate case. On occasion it has failed to request rate adjustments until it has sustained substantial losses, and as a result, the equity position of the Postal Service has deteriorated. At the close of fiscal year 1994, the Postal Service had a negative equity position of about $6 billion. The rate increases recommended by the Commission include amounts designed to recover these prior years' losses in manageable annual increments. Current rates include the annual recovery of 1/9 of accumulated Postal Service losses each year. Unfortunately, in recent years postal management has been using this revenue to meet operating expenses rather than to retire debt.

The law requires that "each class of mail or type of mail service [shall] bear the direct and indirect Postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable . . ."[17] These "direct and indirect costs" are commonly referred to as "attributable costs," and much of our time is devoted to analyzing postal operations to assure that we identify those costs which can fairly be said to have been caused by a particular class of mail or type of mail service. About two-thirds of the costs of the Postal Service can be causally related to classes and services, and therefore attributed. Those costs which cannot be attributed, the remaining one-third, are considered institutional or overhead costs and assigned pursuant to statutory guidance as explained below.

The determination of attributable costs requires an evaluation of often sophisticated quantitative evidence presented by the Postal Service and the parties. Costs fully attributed include in-office sorting operations performed by clerks, mailhandlers, and carriers. Purchased transportation costs, such as sending mail between cities on commercial airlines, are about 84 percent attributable. However, only about 39 percent of city carrier street activity costs can be causally related to classes at this time; remaining carrier street costs are considered institutional.

Other examples of institutional (overhead) costs include executive salaries and research and development. In the Postal Reorganization Act, Congress provided general and specific factors which the Commission must consider in assigning institutional (overhead) costs.

First, the Commission must be aware of the numerous public policies incorporated throughout the Postal Reorganization Act, such as the need for tying the nation together through the business and personal correspondence of the people.[18] Rates are to be fair and equitable and recognize the value of service actually provided to both senders and recipients.[19]

The Commission must consider the effect of increases on the general public, mail users, and the services of competitors, keeping in mind whether alternative means of sending and receiving both letters and other mail at reasonable costs are available.[20] The degree of mail preparation performed by the mailer, and the importance of a simple rate structure with identifiable relationships between rates for the various classes of mail must also be considered.[21]

Several years after enacting the Postal Reorganization Act, Congress added an additional rate setting consideration.[22] That consideration requires us to evaluate the importance of the educational, cultural, scientific, and informational value to the re-

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earned." The legislative report accompanying H.R. 17070, the bill which was to become the Postal Reorganization Act, noted that in the year prior to reorganization the Post Office received a taxpayer subsidy of $1.4 billion. H. Rept. No. 91–1104, 91st Cong., 2d Sess. 5 (1970). The Post Office's total budget for that year was $9.1 billion. H. Rept. 100–656, Part 1, 100th Cong., 2d Sess. 4 (1988).

[16] 39 U.S.C. § 3621.

[17] 39 U.S.C. § 3622(b)(3).

[18] 39 U.S.C. § 101(a).

[19] 39 U.S.C. §§ 3622(b)(1) and (2).

[20] 39 U.S.C. §§ 3622(b)(4) and (5).

[21] 39 U.S.C. §§ 3622(b)(6) and (7).

[22] The Postal Reorganization Act Amendments of 1976, Public Law 94–421, 90 Stat. 1303, § 10.

cipient of mail matter.[23] Finally, the Commission may consider other factors it has identified as important.[24] Over the years interested parties and the Postal Service have provided significant amounts of evidence concerning the above factors, and this reservoir of information has provided the basis for fair and reasonable allocations of institutional costs among postal customers.

The ratesetting process is heavily dependent on information collected and provided by the Postal Service. Only the Postal Service is in a position to gather data concerning the various functions and activities performed by the Service in the course of its operations so that the costs, revenues, and volumes for the different mail categories can be estimated. This involves ongoing systems, such as the In-Office-Cost-System for in-office labor, the Carrier Cost System for city carrier out-of-office activities and the Transportation Cost System for purchased transportation costs. The Service also performs studies to support proposals for special rate categories, such as customer discounts for mailer worksharing efforts including presorting and pre-barcoding the mail. This information is essential to establish rates and classifications for an entity like the Postal Service that accounts for $54 billion in annual revenue and touches the lives of all Americans.

As a result of the just-completed rate proceeding, intervenors and the Commission have become concerned about the quality and quantity of information presented by the Service. In the first section of the R94–1 Opinion, we stated "[t]he Commission is concerned that data deficiencies in the Postal Service filing reflect a reduced commitment to the task of developing and providing reliable data for parties in Commission proceedings.[25] We noted that these deficiencies ". . . have been emphasized by many of the parties to this proceeding."[26] Deficiencies ranged from the virtual absence of special studies to reflect changes in operations since the last proceeding four years ago, to serious overstatement of the costs of second class in-county (used primarily by small newspapers) and business reply service. Questions were also raised by the parties regarding the adequacy of current cost systems in light of the significant changes in Postal Service operations in recent years and the reduction of resources devoted to data collection and analysis efforts.

The stakes in an omnibus rate case are enormous, probably involving more money than any other regulatory proceeding, federal, state, or local. And, a rate case is a zero sum game—each subclass must provide enough revenue to cover its attributable costs and make a reasonable contribution to overhead. The pie charts on attachment II demonstrate how the postal pie is divided by volume and by revenues. For example, First Class accounts for 53.9 percent of postal volume; but generates 64.6 percent of postal revenue. Compare this with third-class mail which accounts for 38.9 percent of volume but only 21.4 percent of revenue.

Another way to look at how the postal pie is sliced is demonstrated by the bar chart on attachment III. It compares the relative contributions to attributable costs and institutional costs of First,- second,- and third-class mail. Remember, it shows how about $54 billion are allocated. An average First-Class letter costs 19.8 cents to collect, sort, and deliver and contributes 14.7 cents to institutional costs, or overhead. Thus, its percentage contribution to overhead is about 42.6 percent. Compare this with the average third-class piece which costs 11.7 cents and contributes 6.0 cents to overhead. Its percentage contribution to overhead is about 33.9 percent.

Overall, First-Class mail pays nearly 70 percent of the overhead of the Postal Service. One cent on the First-Class stamp is worth about $1 billion in revenues. So, a 1-cent change in the First-Class stamp, given the zero-sum nature of ratemaking, will have significant affects on other classes of mail.

Today, there are 17 subclasses of mail, which means the postal pie must be divided into 17 pieces. In addition, there are more than 100 worksharing discounts, which affect the postage paid by different mailers.

The procedures for developing rate recommendations are designed to maximize meaningful public participation. The Postal Reorganization Act requires the Commission to provide the opportunity for public hearings and to base its decision on an evidentiary record developed pursuant to the Administrative Procedure Act.

The Postal Service must provide evidence in support of any request for rate changes. Interested parties may intervene, question the Postal Service, and provide whatever evidence they consider relevant to the Commission's responsibilities. Written discovery of underlying facts is allowed. Evidence is presented under oath and is subject to cross-examination by interested participants. Time is allowed for the

[23] 39 U.S.C. § 3622(b)(8)
[24] 39 U.S.C. § 3622(b)(9)
[25] PRC Op. R94–1, para. 1028.
[26] PRC Op. R94–1. para. 1029.

Postal Service to present rebuttal testimony, and for both the Postal Service and interested parties to prepare detailed written briefs and oral arguments.

CRITICISMS OF THE CURRENT SYSTEM

Some have argued that the ratesetting process takes too long ("setting rates takes longer than having a baby!") and is too cumbersome. In a recent speech, the Postmaster General described the process as "trench warfare."[27] The law provides 10 months for consideration of an omnibus rate case, and with the exception of R94–1, cases consume almost every allowable day. In fact, prior to the enactment of the 10-month time limit in 1976, one rate case dragged on for almost two years. And the process is technical and detailed in a fashion that some could call cumbersome. Vast amounts of information are introduced by the Postal Service and interested parties to support their views as to what rates are appropriate.

We are certainly interested in streamlining and expediting proceedings. To this end I have initiated several meetings with the Postmaster General and immediately after our rate decision last November, we invited public comments on improving the process. We also reissued rules giving the Postal Service the authority to expedite changes in Express Mail rates to meet market pressures. (These rules, I should note, were previously in effect and went unused for five years.) But remember, under current law these proceedings are designed to ensure fairness and allow all interested parties the opportunity to participate in a meaningful way.

Before my appointment to the Commission, I considered 10 months a substantial period of time. Now, having served as the presiding officer in a rate case, I have the perspective to realize how much time it takes to effectively marshall facts and prepare technical arguments. Several corporations spend literally tens of millions of dollars on postage annually, and of course the general public spends billions. It is important that postal customers have an adequate opportunity to critically review Postal Service proposals and present their concerns to an independent decision maker before rates are changed.

The primary advocate for streamlining the procedures has been the Postal Service (Although, frankly, the Postal Service has objected on occasion when the Commission proposed compressing time frames in proceedings.) Of course, any streamlining of the ratesetting process should inure to the benefit of the Postal Service which has unlimited time to prepare its testimony, massage its data, and refine its arguments before filing its case. Other interested parties do not have this luxury, and any reduction in their time to respond to the Postal Service's case may reduce their ability to respond adequately.[28] This view, I might add, is shared by nearly everyone of the parties who commented in response to our recent inquiry on streamlining. I can make those comments available to the Subcommittee if you would like.

Whatever its warts, the current process does uncover deficiencies in the Postal Service's proposals and result in fairer rates. Three examples from the R94–1 case come to mind.

Originally the Postal Service proposed to triple the fee for Automated Business Reply (BRMAS) from 2 cents to 6 cents. BRMAS automates the accounting for business reply mail—mail whose postage is paid by the recipient such as magazine subscription cards inserted in a magazine. A party to the case probed the Service's proposal through written discovery and later oral cross-examination. Significant errors in the Postal Service's underlying study were thus discovered leading the Commission to conclude it was unreliable. The Commission recommended leaving the rate at 2 cents.

The National Newspaper Association challenged the Postal Service's proposed 34 percent increase for in-county second-class rates. In response to several interrogatories, the Postal Service reexamined its in-county proposal, found an error and revised its proposal. The Commission reduced the requested 34 percent increase to just 2 percent.

Priority mail is another example. The Postal Service proposed a 10 percent increase in these rates. Parties pointed out to the Commission that Priority mail, which already made the largest percentage contribution to institutional costs of all classes, would be required to make an even larger contribution under the Service's proposal. The parties also pointed out that the record contained no demand or other

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[27] "The postal ratesetting process is little short of trench warfare. It pits product against product . . . We can streamline and simplify the ratesetting process." Remarks of Postmaster General Runyon before the National Press Club, Washington, D.C. (January 31, 1995).

[28] The 10-month time limit does not begin to run until the Postal Service requests a rate change. 39 U.S.C. §3624(c)(1). The Postal Service refuses to release relevant information prior to submitting a request, so the parties cannot begin to analyze the Service's filing until it is formally filed.

factor which could justify this increase. The Commission agreed and reduced the Priority mail increase to 5 percent.

None of these changes would have occurred were it not for the procedural safeguards the ratesetting process provides. And, I should point, none would have occurred had the Commission accepted the settlement agreement proposed by the Postal Service and several mailing interests.

Even the Postal Service has, perhaps unintentionally, touted changes the Commission made in its most recent recommended rates advising mailers to:

> [T]ake advantage of our varied services by making *smart* mailing decisions . . . For example, our Express Mail service, which provides overnight delivery is still $10.75. And what some customers call our best deal, Priority Mail, went up just 10 cents. It is now only $3 for up to 2 pounds anywhere in the country. For letter mail, the additional ounce remains at 23 cents.[29]

Each of these "smart" rates were rates recommended by the Commission which differed from those which the Postal Service had proposed and argued for.[30]

THE FUTURE

I have tried to describe who we are and what we do. Now, the question is: "Where do we go?".

I applaud the Subcommittee for beginning this series of hearings which I understand will explore in great depth the Postal Service and issues surrounding it. This congressional examination is much needed.

The Postal Service is at a cross road with no sign post. As it did 25 years ago, Congress should provide direction.

A major public policy question needs to be answered, and unless Congress acts I fear that by default it will be answered by Postal Service managers. The question is both simple and complicated. It is this: "What do we want and what can we reasonably expect from our Postal Service?"

The Postal Service's historical mission is the collection, processing, transportation, and delivery of hard copy messages. It has done that fairly well under the protection of the postal monopoly umbrella. But today hard-copy messaging faces growing competition from FAX, E-Mail, and other forms of electronic transfer. This competition is making inroads on the Postal Service's business. In his recent National Press Club address, Postmaster General Runyon indicated the Postal Service has lost up to 35 percent of financial mail volume. And other types of business to business communication, as well as business to household and household to business mail, could similarly be lost to high-tech competition—especially if the Postal Service does not deliver as promised. I suspect it will not take more than a few "late charges" due to delayed or non-delivered mortgage payments before John Q. Public switches to direct debit or computer payment of his bills.

So, do we want the Postal Service to limit its focus to its historical mission—the delivery of hard-copy mail? Do we want it to become a lean, mean collection, processing, and delivery machine which probably means little growth and perhaps eventual downsizing? Or, do we want it to attempt to compete with the new technology and enter fields heretofore foreign to it? If it pursues new, competitive markets, will it be more or less likely to perform successfully?

There are a host of issues which must be considered if it is to compete and embark on new ventures. How will its non-monopoly and monopoly activities interrelate? Can a labor intensive organization operate in an entrepreneurial, capital intensive arena? And, since it takes $1 billion dollars in profit to reduce the cost of a First-Class stamp by a penny, are new ventures really worth the effort?

I know a "privatization" debate is likely. Setting aside my concern as to what is meant by "privatization" (it means many different things to many different people), I urge you to consider and address the basic public policy issue I have posed before attempting to make decisions on "privatization."

Thank you for the opportunity to share these thoughts. Shortly, we will hunker down in our offices, raise our ex parte walls, and begin hearing the Postal Service's reclassification proposal. But, I want to say publicly what I have said privately to many of you. Please do not hesitate to ask for our assistance as you proceed on your examination of the postal community.

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[29] United States Postal Service, *Memo to Mailers*, January 1995, at 2 (emphasis added).

[30] The Postal Service proposed the following: Express Mail (8 ounce letter rate), $10.95; Priority Mail (2 pounds and under), $3.20; additional ounce (First-Class letter), 25 cents. PRC Op. R94–1 at iv.

ATTACHMENT I—COMMISSION WORKLOAD BETWEEN DOCKETS R90–1 AND R94–1

I. Major Cases
A. R90–1 Continuing Matters
1. Reconsideration
2. Court Case (MOAA)
3. Remand
B. Classification Cases
II. Special Studies/Task Forces
A. Congressional Reports
B. Other Studies
C. Joint Task Force on Postal Ratemaking
III. Rulemakings
IV. Complaint Cases
V. Appeals of Post Office Closings and Consolidations
VI. Research and Information Support
A. Professional Papers
B. Research Assistance
VII. Administrative Matters

COMMISSION WORKLOAD BETWEEN DOCKETS R90–1 AND R94–1

SENTENCE OUTLINE

I. Major Cases Since Docket No. R90–1

A. R90–1 CONTINUING MATTERS

The R90 decision was extended by reconsiderations and generated two additional major areas of work for the Commission: a court case and a remand involving additional proceedings at the Commission. Attachment A summarizes the activity.

1. Reconsideration

Although the Governors of the Postal Service put into effect most of the R90 rate changes recommended by the Commission, they twice requested further reconsideration of portions of the original decision. R90 was almost continually before the Commission for another 10 months after the initial decision was issued. The Commission, after giving interested parties an opportunity to be heard, issued two additional opinions.

2. The court case

As with previous omnibus rate decisions, a number of parties exercised their statutory right to appeal the outcome to a federal court. Commission work on the ensuing court case (popularly referred to as "MOAA") entailed coordinating litigation strategy with the Department of Justice; writing a comprehensive legal brief, as well as contributing to Justice's brief; and delivering an oral argument before the court.

3. The R90 remand

As a result of the MOAA case, two aspects of the R90 decision were remanded to the Commission for additional reconsideration. One was the carrier street time costing issue; the other was the Public's Automation Rate category of First-Class Mail, popularly referred to as "PAR."

Like an omnibus rate case, a remand triggers procedural requirements for public notice, an opportunity to intervene, and a hearing on the record prior to issuance of a Commission decision.

In this instance, the Postal Service and other interested parties sought additional hearings on the city carrier issue, but not on PAR. Accordingly, the Commission contracted with an expert witness, represented by Commission counsel, who prepared testimony on the city carrier issue, answered numerous written interrogatories and appeared for cross-examination. As no parties expressed interest in additional hearings on PAR, the Commission proceeded with this aspect of the remand by seeking legal briefs from the parties.

B. CLASSIFICATION CASES

Mail classification, which involves the grouping of mail matter or services for purposes of developing postal rates and fees, is governed by legal criteria set out in the Postal Reorganization Act. Although some reclassification usually occurs in tandem

with omnibus rate cases, the Commission also handles many independent cases. Since Docket R90, there have been six of these. They have included two types of discounts for prebarcoding; a discount for "palletizing"; and a discount for walk sequence sorting. They also included a proposed new bulk small parcel service and modification of longstanding second-class mail format requirements to accommodate new publishing advances, especially electronic media.

While narrower than omnibus rate cases in terms of issues, classification cases generate active participation in Commission hearings on the part of major trade associations, coalitions of mailers, and individual mail users. They also involve discounts or rate changes worth a considerable amount of money to the Service and to mailers. Attachment B lists these cases.

II. Special Studies/Task Forces

A major Commission responsibility developed in the past decade is to provide the Congress with expert reports on specialized topics related to postal rates and classification. Since R90, the Commission has responded to three congressional requests for reports or studies. The Commission and senior staff also have participated in the only joint Postal Service/Commission task force since Reorganization.

A. CONGRESSIONAL REPORTS

1. Third-Class Nonprofit Mail Study

The Subcommittee on Treasury, Postal Service and General Government of the Committee on Appropriations of the U.S. Senate requested that the Commission study the use of this type of mail and develop options for reducing federal appropriations. One aspect of the study included a major research survey conducted by a nationally recognized market research firm. The Commission's recommendations served as the basis for legislative reform of the appropriations formula.

2. International Mail Study

Members of the Senate Committee on Governmental Affairs requested the Commission to review international rates and reach conclusions on three points: 1) whether international rates cover variable costs; 2) whether nonvariable costs exist which would be attributed if associated with domestic mail; and 3) whether international rates make an appropriate contribution to the Service's fixed costs. The Postal Service has refused to provide the Commission with requested data that is necessary to complete this study. Until the Commission receives further instructions from the requesters, the study is in abeyance.

3. Recycled Mail Incentives

In response to a request from several members of Congress, the Commission reviewed the potential for a rate incentive for environmentally-sound mailing practices. The Commission's two-volume report offers a comprehensive look at commenters' positions on this issue.

B. OTHER STUDIES

The Office of the Consumer Advocate has prepared a Study of the Postal Service's First-Class Mail Presort Worksharing Program.

C. JOINT TASK FORCE ON POSTAL RATEMAKING

The eight-member Joint Task Force included two former Governors of the Postal Service, the Vice-Chairman of the Postal Rate Commission, a former Postal Rate Commissioner and senior staff from both agencies. The Task Force's report, Postal Ratemaking in a Time of Change, contained several major recommendations for improvements in the ratemaking process that could be implemented within the framework of existing legislation.

III. Rulemakings

Like other federal agencies the Commission conducts a considerable amount of official business through rulemakings. These generally entail either an adjudicative-type hearing with party participation and full procedural protections or notice-and-comment proceedings published in the Federal Register. Since Docket No. R90, the Commission has docketed five rulemaking proceedings independent of any mail classification case. There were four additional rulemakings instituted either to amend the Domestic Mail Classification Schedule or to clarify the Commission's rules of practice. Attachment C lists these cases.

IV. Complaint Cases

By statute complaints handled by the Commission must raise issues of nationwide applicability concerning the policies of the Postal Reorganization Act, not simply issues about particular practices that affect an individual mail user or locality. Although this standard forecloses consideration of many of the general public's complaints about mail service and rates, the Commission nevertheless has docketed three complaints since R90. These cover subsidies in second-class mail, competition in parcel post, and administration of post office boxes. See Attachment D.

V. Appeals of Post Office Closings and Consolidations

By law patrons of post offices the Service intends to close or consolidate are entitled to appeal to the Postal Rate Commission. In these cases the Commission functions as a reviewing body, much like an appeals court. Accordingly, it evaluates the legal sufficiency of the Postal Service's treatment of specific issues. This involves determining 1) whether the Postal Service has made, on the record, the requisite statutory findings, and 2) whether these findings are supported by substantial evidence.

Since R90, 53 post office appeals have been filed. See Attachment E for a list of the post offices and the Commission's disposition of the appeal.

VI. Research and Information Support

A. PROFESSIONAL PAPERS

1. An Exploratory Quantitative Comparison of Postal Administrations in Industrial Countries (a Commission staff paper delivered at a conference on Postal and Delivery Economics, May, 1994, Stockholm, Sweden).
2. Regulation of Unregulated Firms: The Postal Service and UPS (an Office of the Consumer Advocate staff paper delivered at a workshop in Postal and Delivery Economics, June, 1994, Hakone, Japan).
3. Rural Delivery and the Universal Service Obligation: A Quantitative Investigation (a Commission staff paper delivered at the Economics of Universal Service Workshop, April, 1993, Konigswinter, Germany).

B. RESEARCH ASSISTANCE

1. Congressional Committees and Executive Agencies

The Commission often is asked informally by Congressional appropriations and oversight committees for its perspective on key postal issues. Assistance to the General Accounting Office and the Office of Management and Budget also is provided frequently upon request.

2. Public Information

a. Through its Office of the Consumer Advocate (OCA), which employs seven of the Commission's 53 permanent employees, the Commission fulfills its legal mandate to represent the public interest in postal matters. OCA participates as an intervenor in all rate and classification cases. It also conducts its own economic analysis of postal issues. Its staff also prepares academic papers and participates in technical conferences.

b. The Commission responds to numerous telephone calls and letters from the general public about postal matters. It also maintains a Commenter file to record the public's position on issues in docketed proceedings.

VII. Administrative Matters

A. COMPLIANCE WITH LAWS OF GENERAL APPLICABILITY

Although mainly involved in matters directly related to postal rates and classification, the Commission staff also works on issues related to the Freedom of Information Act, the Government in the Sunshine Act, the Ethics in Government Act, and government contracting.

B. DOCKET ROOM IMAGING PROJECT

The Commission has been updating its Docket Room capability by converting to an imaging process. This will facilitate research, file maintenance and reduce storage space needs.

C. PARTICIPATION IN THE SMALL AGENCY COUNCIL

The Commission is an active participant in the Small Agency Council, which fosters cooperation and support in providing support and training for small agency staffs and solutions for special issues and problems these agencies face.

ATTACHMENT A—SUMMARY OF R90–1 ACTIVITIES

January 4, 1991—Commission issues its Opinion and Recommended Decision in Docket R90–1.

May 24, 1991—Commission issues its Opinion and Further Recommended Decision in Docket R90–1.

October 4, 1991—Commission issues its Opinion and Recommended Decision Upon Further Consideration.

November 9, 1992—Justice Department files Brief for Respondent United States Postal Service, assisted by the Commission, in *MOAA, et al., USPS,* U.S. Court of Appeals, D.C. Circuit.

November 9, 1992—Postal Rate Commission files brief as Respondent on issues raised in *Governors of the USPS* v. *Postal Rate Commission,* which was consolidated into the MOAA case.

February 18, 1994—The commission institutes remand proceedings by reopening the record in Docket No. R90–1.

ATTACHMENT B—MAIL CLASSIFICATION CASES

Docket No. MC91–1—Prebarcoded Flats Discounts: The Commission recommended, with modifications, Postal Service proposed discounts for prebarcoded, flat-shaped mail in First, second and third class.

Docket No. MC91–2—125-Piece Walk-Sequence Discount: The Commission recommended Postal Service proposed discounts for third-class flats which are presented in the walk sequence of the carrier—with 125 pieces per route.

Docket No. MC91–3—Second-Class Pallet Discount: The Commission recommended, with modifications, Postal Service proposed discounts for second class presented on pallets.

Docket No. MC92–3—Second-Class Eligibility: The Commission opened a docket to consider whether publications printed on diskettes rather than paper should be allowed to use second-class rates.

Docket No. MC93–1—Bulk Small Parcel Service: The Commission recommended, with modifications, a Postal Service proposal for discounts for small parcels entered in bulk.

Docket No. MC93–2—Definition of Prebarcoded Mail: The Commission recommended a Postal Service proposal for discounts for letter-size mail carrying eleven-digit barcodes in First, second and third class.

ATTACHMENT C—RULEMAKINGS

Docket No. RM91–1—The Commission began a proceeding to offer interested parties an opportunity to offer suggestions on improving the practices and procedures used in considering proposals that come before the Commission.

***Docket No. RM92–1**—Amendment to the Domestic Mail Classification Schedule pursuant to decisions in Docket Nos. R90–1 and MC91–2.

Docket No. RM92–2—In response to a petition from several major mailers, the Commission initiated a rulemaking procedure to consider the treatment of automation-related mail processing costs.

Docket No. RM93–1—The Complexity in Rates Inquiry was begun to allow interested parties to comment on the appropriate level of complexity in Postal Service rates and classifications.

***Docket No. RM93–2**—Amendment to Domestic Mail Classification Schedule pursuant to Decision in Docket No. MC91–1.

Docket No. RM93–3—Order Adopting Final Rule correcting the Commission's Rules of Practice as published in the CFR.

Docket No. RM93–4—The Commission changed its personnel regulations in accordance with recent ethics legislation.

***Docket No. RM94–1**—Amendment to Domestic Mail Classification Schedule pursuant to the Decision in Docket No. MC93–2.

Docket RM94–2—The Commission has opened a rulemaking docket to consider a proposal to amend rules governing rate filings.

* Complementary to a mail classification proceeding.

ATTACHMENT D—COMPLAINT CASES

Docket No. C91–1—The Commission obtained a settlement of the complaint about the Postal Service's plan to re-number post office boxes in San Francisco.

Docket No. C93–1—The Citizens for a Sound Economy Legal Alliance filed a complaint concerning the rates paid by publishers using second class.

Docket No. C93–2—United Parcel Service filed a complaint arguing that parcel post rates were not in compliance with the law.

ATTACHMENT E—APPEALS OF POST OFFICE CLOSINGS AND CONSOLIDATIONS DECIDED SINCE JANUARY 1991

Docket No. and Name of City	Decision
A91–1 Rock Point, MD	Withdrawn
A91–2 Northboro, IA	Affirmed
A91–3 Seneca, MI	Remanded
A91–4 San Francisco, CA	Dismissed; lack of jurisdiction
A91–5 Elsmere, NE	Affirmed
A91–6 Pardeesville, PA	Untimely
A91–7 Weston, MI	Withdrawn
A91–8 Angus, MN	Affirmed
A91–9 Extension, LA	Remanded
A91–10 Mount Clemens, MI	Dismissed; lack of jurisdiction
A91–11 Jenkins Bridge, VA	Withdrawn
A91–12 Liberty, NE	Affirmed
A91–13 Wiley, GA	Withdrawn
A91–14 Union Level, VA	Affirmed
A92–1 Sample, KY	Affirmed
A92–2 Vernon, OK	Untimely
A92–3 Susank, KS	Affirmed
A92–4 Carrothers, OH	Affirmed
A92–5 Skene, MS	Affirmed
A92–6 Village, VA	Withdrawn
A92–7 Nooksack, WA	Affirmed
A92–8 Maskell, NE	Affirmed
A92–9 Fabyan, CT	Affirmed
A92–10 Ben Arnold, TX	Affirmed
A92–11 Buckeye, LA	Affirmed
A92–12 Summit, KY	Affirmed
A92–13 Milfay, OK	Withdrawn
A93–1 West Rushville, OH	Remanded
A93–2 Bavon, VA	Affirmed
A93–3 Wolf Run, OH	Withdrawn
A93–4 Hertel, WI	Withdrawn
A93–5 Pershing, IA	Affirmed
A93–6 Schroeder, MN	Withdrawn
A93–7 Frontenac, MN	Remanded
A93–8 Wolf Lake, MN	Affirmed
A93–9 Segundo, CO	Affirmed
A93–10 Beaverlett, VA	Affirmed
A93–11 Colfax,ND	Withdrawn
A93–12 McAdams, MS	Affirmed
A93–13 Ithaca, NY	Dismissed; lack of jurisdiction
A93–14 Winchester, TX	Untimely
A93–15 Lodi, TX	Withdrawn
A93–16 Lille, ME	Untimely
A93–17 Morrison, IA	Remanded
A93–18 Gray, IA	Remanded
A93–19 Cataract, WI	Affirmed
A94–1 Waka, TX	Affirmed
A94–2 Extension, LA	Affirmed
A94–3 Inavale, NE	Affirmed
A94–4 Boone, NE	Untimely
A94–5 Moriah, NY	Withdrawn
A94–6 Poland, ME	Affirmed
A94–7 Holden, UT	Withdrawn

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY THE SUBCOMMITTEE ON THE POSTAL SERVICE TO THE POSTAL RATE COMMISSION

Question 1. In prior testimony to the Congress, the Commission suggested a need for subpoena authority due to the great difficulty it experienced in getting requested documentation from the Postal Service. Has that problem subsided or is it something about which the Commission remains concerned?

Answer. The Commission remains concerned that in certain situations it is unable to obtain, or unable to obtain in a timely fashion, information or data it needs from the Postal Service. A recent example involves a Commission request for data concerning international mail costs that the Postal Service has steadfastly refused to provide.

Question A. The Commission can delay a rate decision while it awaits requested documents from the Postal Service. Has the Postal Rate Commission ever instituted its statutory enforcement provision by extending the 10-month review period by one day for each day of unreasonable delay by the Postal Service in responding to a lawful commission order? If so, when and what was the outcome?

Answer. Occasionally parties have raised the possibility of delaying a decision until the Postal Service complies with Commission rulings. This potential sanction generally has been effective in encouraging cooperation from the Postal Service. Only once has the Commission found it necessary to invoke a day-for-day extension as allowed by 39 U.S.C. §3624(c)(2). That case, Docket No. MC78–1, was extended by 151 days because the Postal Service withdrew and changed significant portions of its evidence, and refused to comply with many Commission orders directing it to provide essential information. When the evidentiary record was finally developed, it revealed major flaws in the proposed rate and classification changes, and they were not recommended.

Question. Can the Commission estimate the loss in revenue due to the later implementation of that rate increase? Is that loss recoverable in the calculations for Prior Year Losses?

Answer. The Commission can consider significant events that occur after a case is filed. If new rates are delayed significantly because the Postal Service unreasonably fails to comply with lawful Commission orders, the Commission can recognize the impact the delay will have on Postal Service finances.

Prior years' losses reflect the cumulative total operating experience of the Postal Service. Losses due to management's decision to delay a request for rate increases have been treated no differently than other losses.

Question B. The rate-setting process is initiated by the filing of the rate increase by the Postal Service. The Postal Rate Commission then bases its rate determination on the data submitted to it by interested parties. When considering a rate case based on data provided by the Postal Service, how has the Commission found the quality of data provided to you? Did Postal Service downsizing affect the quality of data provided the Commission during the recent rate case?

Answer. In previous cases the quality of the data has been generally acceptable (the Bulk Small Parcel Case, MC93–1, was an exception), although the Commission has always pointed out areas where improved data or studies were needed. In the most recent case, R94–1, the Commission and the parties were hampered by an apparent lapse in the quality of Postal Service review of its filing before presentation to the Commission. This problem occurred in cost presentations addressing within county second class and business reply mail (BRMAS) rates. In both instances the Service revised its proposed rates after probing by the parties brought to light significant overstatement of underlying costs. For within county (mostly small newspapers) the Service revised a proposed 34 percent increase to a minus 1 percent increase and for BRMAS it proposed 200 percent increase which it later revised to a 100 percent. In addition, Commission investigation caused the Service to concede that it had overstated nonmachinable parcel post volume by a factor of three, an error that could have had serious implications regarding parcel post rates. Moreover, the lack of studies concerning mailer worksharing cost savings also constrained the Commission and the parties in considering changes in intra-subclass relationships. Finally, the primary cost system for identifying responsibility for in-facility labor costs, the In-Office-Cost-System (IOCS), was seriously challenged by parties in the R94–1 proceeding. Those intervenors raised troubling issues that the Service needs to address.

It is impossible for us to say how many of the above data deficiencies were due to the Postal Service downsizing. However, the R94–1 record showed that the Service had drastically reduced the number of sample observations for many of its ongoing data systems. For example, the number of IOCS observations was reduced by nearly 40 percent. The Commission is concerned that these reductions in sample ob-

servations, along with the noted lack of review before filing and the lack of appropriate studies, show a reduced commitment to providing the information necessary to develop rational, cost-based rates for a $55 billion public enterprise whose actions affect all Americans.

Question 2A. In Chairman Gleiman's written testimony, the Commission is compared to a public utility commission in terms of the ratemaking process. However, in recognition of the increasing competition in the electric power industry, state public utility commissions are introducing flexibility and streamlining their ratemaking process. What has the Commission done to streamline the rate setting process?

Answer. A major function of the Postal Rate Commission is to provide an open public forum where mailers and interested members of the public can obtain information about the justification for rate increases, and offer evidence and arguments in support of modifying rate changes proposed by the Postal Service. Since Congress established the current system of changing postal rates, the process has become far more efficient. These efficiencies have largely been directed toward increasing the public's ability to participate in a meaningful way during the 10-month period allowed for rate decisions.

The Commission has expanded the use of written, as opposed to oral questioning; developed a procedure for informal off the record technical conferences; eliminated the need for administrative law judges issuing tentative decisions; used prehearing conferences to identify issues and potential evidentiary and procedural problems; improved hearing procedures to reduce the costs of participation by intervenors, and shortened the time for Commission preparation of its written opinions.

The Commission conducts a rule-making docket after every major case to elicit suggestions for further improving its procedures. The Postal Service and mailers have offered suggestions in these proceedings that have been incorporated into the Commission rules of practice and procedure.

Question B. Should the Postal Service be allowed to experiment with new rates and classifications?

Answer. The Postal Service should be allowed to experiment with new rates and classifications, and such experiments are completely consistent with the existing statute and applicable Commission procedural rules.

A recurring criticism of the Postal Service has been its failure to develop and test new rate designs and services. Experiments should help management to develop rational prices, and to test new products intelligently and efficiently. Experiments designed to be unlikely to do serious harm either to the Postal Service or to segments of the public are consistent with postal policy.

Question C. What statutory changes, if any, would make rate cases less expensive and complicated while ensuring that the Commission can do its job?

Answer. In recent Congresses several legislative proposals have surfaced which might make rate cases less expensive and complicated without impeding the Commission. For example, during the 102d Congress the Chairman and Ranking Republican Member of the Senate postal oversight subcommittee introduced a series of bills: S. 946, to reduce the time involved in a rate case by one and one-half months through the elimination of some preliminary paperwork; S. 947, to give the Commission the authority to represent itself in court; S. 948, to give the Commission subpoena authority; and S. 949, to give the Commission final ratemaking authority.

The single proposal most likely to achieve the goals mentioned in the question would be to eliminate the extensive proceedings that flow from the lack of Commission final decision authority. Currently 39 U.S.C. § 3625 allows multiple requests for reconsideration from the Governors of the Postal Service when they question a Commission decision. For example, in March of 1990, the Postal Service submitted an omnibus rate request that was decided by the Commission within 10 months. However, the Governors of the Postal Service requested two additional recommended decisions from the Commission based on the same record, and this reconsideration process was not complete until January 1992, more than 12 months after the initial Commission opinion. This process is time consuming and expensive for public participants.

Another potential improvement would have required the Postal Service to give advance notice to the public before it submits a request for rate changes. That proposed legislation contemplated that the Postal Service would make relevant data public before filing its actual request, so that mailers and the Commission could review this material and begin to evaluate the need for rate changes before seeing the actual Postal Service proposals. Having relevant information available in advance would shorten the time required to evaluate Postal Service requests.

Question 3A. Following the 1990 dispute over allocation of institutional costs among mail classes with the 29-cent stamp, the GAO suggested that Congress con-

sider amending the nine ratemaking criteria used for allocating overhead costs and setting postal rates. In particular, GAO recommended that demand pricing, which considers the "value-of-service" to the sender, be given greater weight in these criteria. Although demand pricing is not the only way to address postal competition, does the Commission believe that increased emphasis on demand factors is a necessary component of a ratemaking strategy to protect the long-run viability of the Postal Service? Why or why not?

Answer. The Commission believes that section 3622(b)(2) requires it to consider elasticities of demand among other characteristics of the mail when setting rates and it has always given serious consideration to demand factors when setting rates. The Postal Service provides and the Commission has relied on extensive econometric testimony concerning volumes and own-price elasticities of demand for each of the subclasses of mail. The Commission was given the opportunity to comment on a draft of the GAO study. The Commission identified serious technical deficiencies in the draft, which undermined many of its conclusions. In particular, there was a complete absence of reliable estimates of the elasticity of existing categories of mail. Although the Commission's comments were included as an appendix to the study, GAO did not refute those criticisms in the final report.

The Commission recognizes that the Postal Service has significant competition for many of its subclasses. Largely because of this, parcel post, for example, has traditionally had one of the smallest allocations of institutional costs and the allocation to Express Mail has dropped substantially over the years. As a result of this policy, both categories combined make very little contribution to overhead (eight-tenths of one percent of the total). While the practice of lowering the contribution of competitive classes tends to preserve Postal Service market shares, it indirectly places a larger overhead burden on the monopoly class (primarily First Class). The saturation portion of carrier route bulk rate regular is an important exception. It make a significant overhead contribution, about four percent of institutional costs.

The long-run viability of the Postal Service depends primarily on the viability of its bread and butter classes: First Class (including Priority) and third-class bulk regular. The former contributes 76 percent of institutional cost and the latter 17 percent. The competitive categories are important gauges of how the Service's cost and quality of service compare to the private sector. But, with the possible exception of saturation bulk rate regular and Priority Mail, it is hard to foresee a time when the competitive categories will make more than a minor contribution to institutional costs. Obviously all sources of institutional cost contributions, including the saturation category, are important and the Postal Service and the Rate Commission both should attempt to preserve their contributions.

Recognizing competitive subgroups of mail in the classification schedule as subclasses or rate categories is an important way to deal with competition. This was done, for example, in the R90–1 rate case when the Postal Service proposed and the Commission recommended a new saturation rate category within bulk rate regular third class.

Question B. GAO suggested that Congress determine whether volume discounts proposed by the Postal Service would result, as the PRC has ruled, in undue or unreasonable discrimination among mailers. GAO's report noted that private carriers widely use volume discounting as a pricing strategy, and the inability to offer volume discounts prevents the Postal Service from competing head-to-head with Federal Express and United Parcel Service in the business-to-business market. Given this practice's wide use in the private sector, why should volume discounting not be used by the Postal Service? Would utilization of volume discounting represent undue discrimination against Service competitors?

Answer. In the past, the Commission has rejected volume discount proposals by the Postal Service as discriminatory when evidence showed that the discounts were unrelated to cost savings and would require a small volume user to pay a higher price for the first unit purchased than a large volume user would pay for the first unit purchased. The joint task force report (Postal Ratemaking in a Time of Change (June 2, 1991)) (hereinafter "Joint Task Force Report") suggested that these problems could be avoided by declining block discounts (i.e., a user would pay the base price for each unit purchased until his volume exceeded a threshold and then he would pay a lower price for each unit and so on).

A major problem with volume discounts in the competitive subclasses of mail is that by and large these subclasses make a very small contribution to institutional costs. For example, the average revenue per piece for parcel post is $3.65 and the average institutional cost contribution per piece is just 25 cents. The Postal Reorganization Act prohibits rates which are below cost for any subclass of mail. Thus, for the most part, there is little leeway to provide volume discounts in the competitive classes unless cost savings can be shown.

The issue of whether the Postal Service (which derives about 83 percent of its revenue from categories of mail reserved to it by the monopoly) should offer different rates for the same service to mailers whose cost characteristics are similar is an important one. Another issue is whether it is fair for the Postal Service to have the preponderance of its overhead paid by monopoly classes of mail and at the same time offer services in competition with the private sector which make virtually no contribution to institutional costs.

Question C. Chairman Gleiman's written testimony, on page 8, notes that when setting postal rates, the Commission may consider factors other than those listed in the law. Has the Commission developed other factors to consider? If so, please identify those factors for the Subcommittee. If other factors have not been developed, please list the rational for this action for the Subcommittee.

Answer. Section 3622(b)(9) allows the Commission to consider "such other factors as the Commission deems appropriate" in developing recommended rates. This provision enables the Commission to consider relevant, innovative issues and arguments raised by the Postal Service, mailers, and other participants concerned with postal rates. This factor also enables the Commission to recognize recently expressed national policies. For example, in the 1990 omnibus rate case, R90–1, the Commission found that (b)(9) allowed it to consider evidence on the environmental impact of varying postal rates.

Question 4. During oral questions, Chairman Gleiman indicated the information provided by the Postal Service during the recent rate setting case was deficient in several instances. Please describe for the Subcommittee the type and nature of this deficient data. How was the deficiency uncovered?

Answer. Please see response to 1.B. above. The deficiencies were uncovered by the scrutiny given Postal Service proposals during the ratesetting process. This normally includes parties' discovery, Commission information requests, technical conferences, oral cross-examination, and Commission questioning from the bench.

Question. Had the Commission relied on this deficient data, what would have been the effect on rates?

Answer. Rates for within county second class and BRMAS would have been significantly higher, rates for parcel post would have been too low resulting in a revenue shortage.

Question. Does the Commission have any recourse against the Service should the Service provide deficient or inaccurate information?

Answer. The nature of the process dictates that almost all operational data presented in Commission proceedings have to be developed by the Postal Service. It is the Postal Service that performs the processing, transportation, and delivery of the mail. The Service also collects data on its operations, such as volume and revenue information, for management and control purposes. If the Service does not support its proposals with adequate information the Commission must reject those proposals. In those circumstances, the Commission can recommend maintenance of the status quo, or recommend a modification of the proposal based on the record of the case. Unlike a public utility situation, the Commission may not withhold rate increases to "punish" the Postal Service for failure to develop sound data because the law provides that rates should be high enough to allow the Postal Service to break even.

Question 5A. The Postal Service annual financial reports submitted to Congress show that the Service's long-term debt has increased from about $3 billion in 1986 to almost $7.7 billion in 1994. The Act of 1970, as amended, currently limits such debt to $15 billion. The Service's revenue has not kept pace with its operating costs, and the net capital deficiency (the cumulative net losses after all expenses) has grown from $2.7 billion in 1992 to about $6 billion in 1994. At the same time, the Service is increasingly constrained financially by requirements to fully finance its employee costs (including retirement, health care, etc.) Fortunately, economic growth and the related mail volume growth have allowed the Service to control somewhat its operating deficits and hence its postage rate increases. What accounts for this growth in long-term debt? Is the Commission concerned that the Service is increasingly using deficit financing, rather than a pay-as-you-go approach through adequate rate changes, to finance its operations and capital improvements?

Answer. The Commission addressed this subject in its R94–1 Opinion and Recommended Decision (pp. II–24 II–34). The pages are attached to these answers as Attachment A.

Question B. What would have been the impact on current postage rates today if the Service had experienced a zero mail volume growth in fiscal years 1994 and 1995? What would be the price to mail a less than one ounce First-Class letter today?

Answer. Total mail volume grew 3.4 percent and First-Class grew 2.5 percent in FY 1994, and were estimated (by the Postal service in testimony before the Commission) to grow by .9 percent and 1.2 percent, respectively, in FY 1995. Since increasing volume spreads the fixed institutional cost of the Postal Service over more pieces, it lowers the average rate. If the Service experienced no volume growth, the average rate would be higher, all other factors being held constant. If the Commission had assumed that First-Class letter volume failed to increase in FY 1994 and FY 1995, the average revenue per piece for First-Class Mail would have had to be about six-tenths of one cent higher than the 34.5 cents the Commission recommended, all other factors being held constant. This may not have affected the rate for the first ounce (32 cents), but it could have resulted in a higher post card rate or an increase in the rate for additional ounces.

Question 6A. In a past rate case the Commission explored the possibility of a "Public Automation Rate" that would be a small discount from the First-Class rate. This new rate could be utilized by mailers when they utilize a machineable envelope of the type provided with most of our everyday household bills. This would appear to allow the regular household consumer to share in the discount process and encourage the use of these types of pre-addressed envelopes. What is the current status of the "Public Automation Rate"?

Answer. There is no Public Automation Rate, as discussed below. Since the Governors have not made such a proposal, none is currently before the Commission.

Question. Please explain how such a rate would work. Does the Commission believe it worthy of implementation?

Answer. The Public Automation Rate recommended by the Commission in Docket No. R90–1 would have worked as follows: To qualify, properly prepared First-Class barcoded letters would have had to be either (1) tendered in quantities of 250 pieces or (2) contain a FIM mark. PRC Op. R90–1, V–51 para. 5116 (Footnote omitted). The Commission does believe it worthy of implementation so that individual mailers may benefit from automation.

Question. Has the Postal Service postponed its consideration because of any potential for revenue loss?

Answer. The Governors initially accepted Public Automation Rate under protest and sought judicial review arguing that the Public Automation Rate was not supported by the record of the R90–1 proceeding. Governors Decision, January 22, 1991 at 7–8. The Governors then deleted the classification relating to PAR. Governors Decision, February 21, 1995 at 6. 1990 was not the first time that the Commission recommended a rate designed to allow individual mailers to benefit from automation. A similar "shell classification" was recommended in its R87–1 decision. This shell classification was rejected by the Governors, (Governors Decision at 4. May 2, 1988) and therefore, was not included in their subsequent 1990 rate request.

Question 7A. According to Commission staff, there has been a tremendous increase in the proportion of Postal Service mail processing activities associated with nonproductive time over the last decade and more. This time reportedly has increased to where it is now 22 percent of total processing time. Can you explain how "nonproductive" time is defined?

Answer. Nonproductive time is the total time associated with three clerk and mailhandler activities: (1) break time; (2) moving empty equipment, and (3) clocking in and clocking out.

Question. How is it used in the rate-setting process?

Answer. It is used in the ratesetting process as a part of the overall revenue requirement of the Postal Service that has to be recovered through rates.

Question. Why is nonproductive time increasing?

Answer. We do not know why nonproductive time has been increasing. This was a subject of much debate in R90–1. The Postal Service provided special testimony addressing this which set forth numerous hypotheses behind the increase in nonproductive time.

Question. What is the effect of this increase on both rates and service?

Answer. The increase in nonproductive time has resulted in rates higher than they would have been without the increase. We do not know what effect it has had on service.

Question B. Postal Service customers expressed concern about the issue of nonproductive time before the Commission in the last rate case. However, the Postal Service failed to cooperate with its customers in providing information on this subject during that rule making. What, if anything, can be done to force the Postal Service to comply with an information request such as this one from customers during a rate case?

Answer. Current law provides the Commission with only one mechanism for responding to Postal Service refusals to disclose information as directed: authority

during the course of rate proceedings to extend the 10-month statutory deadline "by one day for each day of such delay." 39 U.S.C. §3624(c)(2). Moreover, the (c)(2) mechanism is only available during a rate case, not in classification, rulemaking or other Commission proceedings. It would appear that legislation granting the Commission authority to exercise additional sanctions would help to avoid a recurrence of this problem.

Question 8A. The Postmaster General has stated that the Postal Service needs greater authority in introducing and marketing new products. The Postal Service has a number of market research efforts underway that could result in new product offerings. For example, in some areas of the country, the Postal Service will be offering what it calls "Fastnet", which is next-day delivery of parcels ordered over interactive television (the home shopping network). As advocated by the Postmaster General, should the Postal Service have greater authority in introducing and pricing the new products and services? What role does the Postal Rate Commission play in this area, including Fastnet?

Answer. The Commission review of classification and rate proposals for new products was established by Congress in the Postal Reorganization Act. Presumably Congress provided for public proceedings before the Rate Commission: (1) because the Postal Service has no investor provided capital, meaning virtually all the risk in any new postal service venture is borne by monopoly ratepayers; and (2) because it is important that the Service's new products do not compete unfairly in the marketplace by having rates below cost.

The Commission is willing to consider new procedures to make it easier for the Postal Service to introduce and price new services. A proposal for this was included in the Joint Task Force Report. The Commission's role would be to assure that tests of new products, are reasonably designed to develop information without competing unfairly.

Question B. What experimental features does the current law permit regarding rate-setting or reclassification? Have these features ever been used?

Answer. The current law does not explicitly address the concept of "market experiments." Any classification or rule which "sunsets" on a date certain could be viewed as experimental. If a proposed classification were to expire at some time in the near future, it would seem that the potential untoward consequences would be far less than if the classification were permanent and the number of issues which would have to be addressed should be fewer. The Commission has adopted rules for experimental classifications. They provide for Commission proceedings to take no more than five months when considering an experimental classification.

The Postal Service requested that these rules be applied only once, in Docket No. MC86–1, where the Service proposed significant decreases in some parcel post rates. The Commission rejected the Service's proposal because it found the rates to be below cost and, hence, illegal.

The Joint Task Force Report addressed the subject of market experiments and recommended the development of procedures for Commission review within 60 days of the filing of the Postal Service's request.

Question 9A. Page 3 of Chairman Gleiman's written testimony states that staffing levels at the Commission are at an historic low. Yet, the last rate case was completed in record time. Is the staffing level at the Commission relevant to the time it takes to process a rate case?

Answer. The overall number of staff may not be directly related to the time it takes to process a rate case, but having the correct mix of staff in terms of expertise, skills, and training is terribly important. It is also important to be able to obtain, on an as needed basis, experts or consultants to help with particular aspects of a case. The last rate case, R94–1, was unusual in that the number of issues involved were limited, thereby reducing somewhat the staff demands.

Question B. Does the Commission hire temporary employees or contract out work during a rate case?

Answer. Yes. During R94–1, the Commission procured the services of six consultants (including one procured by the Office of the Consumer Advocate). Five were private sector experts. One was an employee of the Bureau of the Census whose services were used on a reimbursable basis. The total cost for these services was $103,979.

Question 10. Page 4 of Chairman Gleiman's written testimony mentions the broad jurisdiction the Commission exercises with regards to rate cases, reclassification proceedings, and the ability of rates to meet costs to changes in service time. Is the Commission's jurisdiction too broad? Should Congress consider restricting the jurisdiction of the Commission?

Answer. Congress has, under the Postal Reorganization Act, assigned many responsibilities to the Commission. In assigning these responsibilities, however, it has

been careful to assign a role to the Commission only in matters for which independent oversight of the Postal Service seems important, e.g., rate setting, mail classification, service changes or complaints, and small post office closings. In essence, the Commission's jurisdiction provides a check against arbitrary actions by the Postal Service in certain related areas. Of course, as Chairman Gleiman pointed out during his appearance before the Subcommittee, while there is a postal monopoly oversight responsibility is critical. Generally, the Commission's jurisdiction is limited to overseeing matters related to the monopoly powers, and those matters related to ensuring compliance with national postal policy as set forth in 39 U.S.C. § 101, and thus is not too broad.

Question 11. Page 10 of Chairman Gleiman's prepared testimony states that "today, there are seventeen (17) subclasses of mail." Does the number of subclasses fluctuate? If so, how recently has this number changed?

Answer. Yes. The most recent change was the elimination of the E–COM subclass in September 1985. Transient mail was eliminated in February 1985. In May 1976 the Airmail subclass was eliminated.

Question 12. Can the Postal Rate Commission institute a reclassification case of its own volition? Has the Commission ever exercised its authority in this area? Why or why not?

Answer. Yes it can and yes it has. The Postal Reorganization Act, 39 U.S.C. § 3622, gives the Commission that authority. Dockets No. MC79–1 and MC79–3 were initiated by the Commission. MC79–1 was initiated because of legislative changes. MC79–3 was initiated because of complaints by non red-tag mailers concerning the level of service they received from the Postal Service.

Question 13. Page 15 of Chairman Gleiman's prepared testimony poses an excellent question regarding what we, as a country, want and can reasonably expect from our Postal Service. Chairman Gleiman queried whether we want to limit the focus of the Postal Service to its traditional historical mission, whether we expect it to compete with new technology, and whether it could perform successfully in new, competitive markets. These are good questions—how would the Commission answer them?

Answer. Our goal should be, as it was in 1970, to have a postal system that "shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in *all* areas and shall render postal services to *all* communities. 39 U.S.C. § 101(a) (emphasis added). We believe this means universal service at uniform reasonable rates. The appropriateness of any entry into new fields by the Postal Service should be measured against whether that effort will further the ability of the Service to meet the goals set forth in 39 U.S.C. § 101(a).

Question 14. The Commission is in a unique position to hear, during a rate case, from practically everyone involved with the Postal Service, customers and competitors. During the last rate case did any particular testimony strike the Commission as especially poignant or pertinent to today's business atmosphere?

Answer. The Commission heard a great deal of relevant testimony during the last omnibus rate case. Identifying a few pieces of testimony in response to your question should not be viewed as any indication that other testimony was less helpful.

Testimony that comes to mind as especially pertinent to today's business atmosphere includes the testimony of witness Halstein Stralberg, for Time Warner, who questioned the ability of the Postal Service's primary data system to accurately record the costs of its new processing systems, and the testimony of witness William I. Henderson, for the Postal Service, describing management's business plan.

An example of poignant testimony would be that of witness Richard C. Bentley, for Brooklyn Union Gas Company, expressing frustration with a flawed and misleading study relied on by the Postal Service to propose a 200 percent rate increase in the business reply rate paid by Brooklyn Union Gas Company.

Question 15. When a party wants to judicially appeal a rate case, what is the procedure? Who defends the rate case in court?

Answer. If a mailer or a competitor wants to appeal a rate case, it must appeal the decision of the Governors accepting the Commission's decision to a U.S. circuit court of appeals. Because the respondent, i.e., the Governors, is an establishment of the Federal Government, the Department of Justice is responsible for defending the respondent. The Department of Justice may authorize the Postal Service to provide its own court defense, and it frequently issues such an authorization. A recent court decision, *Mail Order Association of America* v. *USPS,* 986 F.2d 509 (D.C. Cir. 1993), held that when the Postal Service does not agree with an aspect of a rate decision being defended by the Department of Justice, it has the right to present its separate position to the court. If the Postal Service wishes it also may file a di-

rect appeal of a Commission decision. Here again, the Department of Justice is responsible for defending the case.

The Commission, thus, has no formal role in the court review process. Although it is the Commission's Recommended Decision that typically is subject to challenge, the Governors, usually represented by Postal Service attorneys, defend it. The Commission may attempt to prevail upon the Governors' representative to argue its position, or to persuade the Department of Justice to allow it to submit an amicus curiae to the court.

Question 16A. Among the Commission's responsibilities is the hearing of appeals regarding the closing or consolidations of Post Offices. By law a community so impacted can file an appeal with the Postal Rate Commission and, in some cases, have a hearing before it. What is the process for hearing appeals of proposals to close or consolidate postal facilities? What are the procedures that must be taken?

Answer. Statutory guidance for the Postal Rate Commission and the U.S. Postal Service concerning the closing or consolidation of post offices is found in 39 U.S.C. §404. In 1976, Congress amended the Postal Reorganization Act as a consequence of its concern about the Postal Service's meeting the universal service obligation with report to "regular and effective service" to rural areas. The Commission's process for reviewing and deciding appeals is publicly available through the Commission's Rules of Practice and Procedure, 39 C.F.R. §3001.110 et. seq. In addition, guidance materials are sent to each individual who files an appeal. In June of 1994, the Postal Service began publishing its closing and consolidation guidelines in the Code of Federal Regulations 39 C.F.R. Part 241.

Only after the Postal Service issues a final determination to close or consolidate a postal facility, does the action become appealable to the Commission.

Upon receipt of an appeal, the Commission's administrative office contacts the Postal Service to confirm that indeed a particular post office is the subject of a final determination. If it is a "live" appeal, the Commission issues a notice requesting the Postal Service to file the administrative record which was the basis of its decision. Upon receipt of the record, the Commission issues a procedural schedule. Relevant dates in the procedural schedule include: the deadline for a petitioner's statement (if any); the deadline for the Comments of the Postal Service; the deadline for requesting oral argument; the date the record will close and the date by which the Commission will issue its decision (which is no more than 120 days after filing of the appeal).

Question B. What criteria does the Rate Commission utilize to determine these appeals and to base its decisions upon?

Answer. When considering an appealed Final Determination, the Commission first reviews the Record to ascertain if the Postal Service met its obligations under the previously mentioned statutes and regulations. The Commission sets aside any decision found to be arbitrary, capricious, an abuse of discretion, procedurally deficient, or unsupported by substantial evidence.

Question C. What are the time requirements and the percentage of time the Commission spends with these considerations?

Answer. In FY 1994, the Commission received 14 appeals from customers affected by Post Office Closings and Final Determinations. As of April 12, 1995, the Commission has docketed six of these cases in FY 95. Of the FY 1994 cases, the Commission approved or "Affirmed" eight closings, "Remanded" two, and "Dismissed" four (three when the Postal Service withdrew its Final Determination and one in which the appellant did not file the appeal in time). These cases generally require approximately one percent to 2.5 percent of the Commission's Technical and Legal staff time. As part of its ongoing review of opportunities to increase efficiency and quality, the Commission devoted substantial energy in January 1995 to streamlining its internal procedures for handling appeals.

Question D. Please provide the Subcommittee with a listing of the facilities the Postal Service has proposed to close in the past year.

Answer. The Postal Service does not report its proposed closings to the Commission. The only time the Commission formally becomes aware of a closing or consolidation is when it is appealed. The National League of Postmasters and the National Association of Postmasters of the United States have previously requested this information from the Commission, which suggests that the Postal Service has not made the information available to those organizations either.

Attachment B lists those post office closings and consolidations which have been appealed to the Commission over the years. Although proposed closings are not reported, a list of post offices actually closed or consolidated is typically included in the National 5-Digit ZIP Code and Post Office Directory (Publication 65).

Question 17A. While the Commission has jurisdiction to hear appeals of proposals to close or consolidate Post Offices, do procedures exist for communities to appeal

when the Service decides to convert a Post Office to a Contract Post Office? These Contract Post Offices are administered by citizens under a contract with the Postal Service. Do communities possess a right of appeal should the Service decide to close a Contract Post Office?

Answer. Section 404(b)(1) of title 39, United States Code, provides for the appeal of "the closing or consolidation of any post office." The conversion of an independent post office to a contract post office is considered a consolidation, as the CPO becomes an administrative unit of a different post office. Such a conversion is, thus, appealable.

The Commission has repeatedly held that citizens affected by a closing of a contract post office also have the right to appeal to the Commission when that action closes the last facility serving a community. The Postal Service, disagrees, arguing that only decisions to close administrative units denominated as offices (this does not include CPOs) can be appealed. It has ignored Commission decisions which were inconsistent with its view.

Question B. Does the Commission keep track of the conversions of regular Post Offices to Contract Post Offices?

Answer. No. The Commission becomes involved in closings and consolidations only when citizens appeal.

Question 18. The Subcommittee has received numerous complaints about misconceptions involving the Priority Mail service requirements. Please describe for the Subcommittee the differences between the advertised two-day priority mail and parcels sent priority or first-class?

Answer. There were at least two questions about this Priority Mail advertising campaign. First, there was a question about whether the USPS's own service standards called for delivery of all Priority Mail in two days. Priority is really just "heavy," i.e., more than 11 ounces, First Class Mail, and First Class delivery standards call for three-day delivery in some instances. Second, did the USPS meet the two-day standard? In other words, was two-day delivery reliable enough to support the advertising claims? Postal management ended the advertising campaign after concluding that service did not support the advertising claims.

Question. What warrants the premium customers are charged on these different services?

Answer. Priority Mail and First Class Mail were established to meet the statutory requirement that the "Postal Service shall maintain one or more classes of mail for the transmission of letters sealed against inspection. The rate for each such class shall be uniform throughout the United States, its territories, and possessions." 39 U.S.C. §3623(d). The "premium" charged for this mail should reflect better and more consistent service accorded to this mail.

Question 19. Does the Commission believe the postal customer has the right to expect the Postal Service meet its service requirement, especially in those circumstances where a customer is paying a premium for improvements in mail handling? Should a postal customer have a right to a refund when the Postal Service fails to deliver the service for which the customer has paid?

Answer. Mailers have the right to expect the Postal Service to meet its service standards with a high degree of reliability. One of the criteria the Commission considers when establishing the "mark-ups" or the contribution a class of mail will make to the overhead expenses of the Postal Service is the "value of service to the sender and the receiver." The timeliness of delivery is certainly a very important component of the Commission's decisions on these mark-ups.

The issue of refunds is complex. Administering such a program would be costly, and might increase the price of service to all mailers. Although there have been occasional individual cases in which refunds have been granted, Express Mail is the only service that currently includes a refund if there is a failure to make timely delivery.

Question 20. On February 28, 1995, the House Treasury-Postal Appropriations Subcommittee recently heard testimony from the Postmaster General and the General Accounting Office regarding delivery and service problems in the Washington, D.C. metropolitan area. Does the Rate Commission play any role in enhancing service and delivery?

Answer. No, except to the extent that classification changes enhance service or delivery and rate increase recommendations provide the revenue needed to provide promised service.

Question 21A. The Postal Service has agreements with foreign countries for the exchange of delivery services within their respective jurisdictions and for reimbursement of associated cost. In addition, the Service competes with private delivery firms for the delivery internationally of non-regulated services, such as parcels and overnight mail. These latter services represent a growth opportunity for the Service

and private sector firms. What is the Postal Rate Commission's current role and past experience in regulating the Postal Service's international mail rates?

Answer. While international mail may represent a growth opportunity for the Postal Service, over the past 10 years its growth in volume, revenue and contribution to institutional costs has been far less than domestic mail. In fact, since the R84–1 rate case, international mail's contribution to institutional costs has declined by 8 percent in absolute terms, its contribution to institutional cost per piece has declined by 17 percent, and its share of total institutional costs contribution has declined by 55 percent. These statistics can be seen in the table below. Thus, when singled out as a separate product line, it can hardly be said that international mail has been very successful for the Postal Service.

	International Mail			Domestic Mail % Change
	R84–1	R94–1	% Change	
Volume (000)	899,965	990,865	10.10	27.51
Revenue ($000)	1,009,200	1,670,598	65.54	91.68
Revenue Per Piece ($)	1.12	1.69	50.35	50 33
Contribution to Institutional Costs ($000)	326,200	298,620	-8.45	103.89
Contribution to Institutional Cost Per Piece ($)	0.36	0.30	-16.85	59.0
Share of Institutional Cost Contribution	3.33%	1.52%	-54.55	1 24

While the Rate Commission does not set international mail rates, international mail cost, volume and revenue data are of significance to the Commission in omnibus rate proceedings Domestic mail revenue plus international revenues plus any other income must equal total Postal Service costs as nearly as practicable. Thus, if international attributable costs or revenues are underestimated, then domestic mail rates will be set higher by the Commission than they should be. In previous omnibus rate filings, the Postal Service has provided some data concerning international costs, volumes and revenues as part of its filings and has responded to questions concerning them. In fact, the cost of international mail was an issue litigated in both R84–1 and R90–1.

In its R94–1 filing, the Postal Service eliminated virtually all of the data that it formerly provided supporting its test year forecasts of the costs, volumes and revenues generated by international mail. In its response to discovery requests, the Postal Service took the position that any supporting information for its forecast of total international mail costs, volumes and revenues is irrelevant and qualifies for trade secret privilege. The Commission rejected the Postal Service's position that it could take upon itself the inherently judicial function of determining the conditions under which discovery would be available in Commission proceedings, a function reserved to the Commission by 39 U.S.C. §3624(b)(3). The Postal Service, however, insisted on reserving that function to itself, and terminated its participation in discovery.

The Commission's decision in the R94–1 docket provides a full description of the matter and pages I–25–I–33 are included here as Attachment C.

Question B. The attachment to Chairman Gleiman's prepared statement notes that the Postal Service has refused to provide the Commission with the data needed to determine how Service costs are distributed between international mail and domestic mail service. How can the Commission and Congress be assured that the Service's customers in the United States do not subsidize its overseas customers?

Answer. The attachment to Chairman Gleiman's prepared statement referred to a letter from the Chairman and Ranking Republican Member of the Senate postal oversight subcommittee. The letter requested the Commission to review international rates and reach conclusions on three points: (1) whether international rates cover variable costs; (2) whether nonvariable costs exist which would be attributed if associated with domestic mail; and (3) whether international rates make an appropriate contribution to the Service's fixed costs.

The Postal Service refused to provide the Commission with data necessary to address these questions.

It appears that in the past, international mail rates covered attributable costs. We used to have reasonable assurance of this because the Postal Service provided significant amounts of cost, volume and revenue data. Recently the Service stopped furnishing this data. As a result, the Commission and the public must now accept on faith that international mail is covering its attributable cost.

Question 22A. Current law allows the Postal Rate Commission the authority to hear and promulgate reclassification proposals. How does a reclassification case differ from a rate case?

Answer. As a practical matter, they may be very similar. Reclassification cases generally involve rate changes. However, the Commission's reclassification authority is limited to recommending "shell" classifications. It is necessary for the Postal Service to request rate changes before any such "shell" classification can have new rates.

Question. When was the last time the Postal Rate Commission heard a comprehensive reclassification case?

Answer. Dockets MC76–1 through MC76–5 were the last comprehensive reclassification proceedings. They were completed in the early 1980's.

Question B. What effect would reclassification have on postal revenues? Would such a decision be revenue neutral or would postal rate payers see postal rates increase as a result of any reclassification?

Answer. Classification cases can change net revenues although the Postal Service says the current reclassification request is revenue neutral However, the Postal Service proposes to increase some rates and reduce others.

Question 23A. In the first general oversight hearing, the Postmaster General told the subcommittee the Postal Service needs flexibility in the ratemaking process. He said preliminary discussions have begun with the Commission to permit expedited consideration of any proposed rate increase should such an increase fall under the rate of inflation. Please describe for the Subcommittee the exact nature and scope of any "preliminary discussions."

Answer. Besides the December meeting with the Postmaster General referred to in Chairman Gleiman's testimony, the Chairman also met informally on April 3, 1995, with several Governors. Discussions at these meetings have been very general in nature with both sides expressing concerns about the relations and relationships between the two agencies, and reviewing some ideas contained in the 1992 Joint Task Force Report.

Question. Would any such proposals require legislative attention or could it be done administratively?

Answer. The Commission does not believe legislation is necessary, unless the Congress wishes to radically change the nature of the postal monopoly and the ratemaking process. As discussed above, we expect the Postal Service to request a rulemaking proceeding to address some issues administratively.

Question B. What is meant by Mr. Runyon's statement that the increase to be expedited "would have to fall under the rate of inflation?" What is the expedited procedure to be, i.e., would an expedited hearing be held or no hearing at all?

Answer. The Commission does not wish to second guess what Mr. Runyon has in mind. One form of expedited procedure was outlined in some detail in the Joint Task Force Report (June 1, 1992) (pp. 10–39).

Question C. Mr. Runyon also mentioned reducing the number of intervenors in such rate cases. What effect would this have?

Answer. It is difficult, if not impossible, to construct a process to limit intervenors that would not be open to charges of arbitrariness. Clearly, if we have a monopoly (which we do), it should be subject to a regulatory process (which it is), and the Administrative Procedure Act process is the tested and true means of ensuring fairness in that process. If affected parties (potential intervenors) are denied the ability to participate in the process, the fairness of the process would be seriously impaired.

Question 24. Chairman Gleiman's prepared statement discusses the $6 billion negative equity of the Postal Service at the close of Fiscal 1994 and the ability of the Commission to provide the annual recovery of one-ninth of accumulated Postal Service losses each year. Please explain how that $6 billion will be apportioned among the postal rate classes.

Answer. The purpose of including prior year loss recovery in the Postal Service revenue requirement is to allow the Postal Service to restore its equity (i.e., earn surpluses equal to its net cumulative loss since 1971). The concept has been that the total net cumulative loss should be made up over the reasonable period of nine years. Hence, one-ninth of the net cumulative loss is included in the revenue requirement for this purpose. Prior year loss recovery is part of the institutional costs of the Postal Service and so it is apportioned to the classes of mail in proportion to their institutional cost contribution. Listed below are the subclasses of mail and their share of institutional costs assigned by the Commission in R94–1.

Contribution to Institutional Cost

	Percent
First-Class Mail:	
Letters	68.2

Contribution to Institutional Cost—Continued

	Percent
Cards	1.2
Total First Class	69.9
Priority Mail	6.9
Express Mail	0.6
Mailgrams	*
Second-Class Mail:	
Within County	*
Nonprofit	0.1
Classroom	*
Regular Rate	1.1
Total Second Class	1.2
Third-Class Mail:	
Single Piece	0.1
Bulk Rate Regular	17.0
Bulk Rate Nonprofit	0.6
Total Third Class	17.7
Fourth-Class Mail:	
Parcel Post	0.2
Bound Printed Matter	0.5
Special Rate	0.1
Library Rate	*
Total Fourth Class	0.8
Free-for-the-Blind Mail	-0.2
International Mail	1.5
Special Services	2.0
Total Mail & Services	100.0

*Less than 0.05 percent.

Question 25. How quickly would the Postal Service have to request a rate increase in the event Congress were to pass or enact the "prefund" revenue option? Would all types of mail be affected?

Answer. This is a difficult question which turns on how the Postal Service manages its cash position which is, of course, affected by both costs and revenues. The responsibility for deciding when to request a rate increase rests with the Postal Service Governors. Costs such as the "prefund" option charged to the Postal Service would eventually have to be recovered through rates, and those rates would be higher as a result of the charged costs. We would expect that enactment of a "prefund" revenue option would accelerate the next request for a rate increase, and, would affect all classes of mail and types of services.

Question 26. Postmaster General Runyon, in testifying before this subcommittee last month stated, "we can simplify the rate-setting process while maintaining appropriate oversight, and make it faster and much less expensive." What is your reaction to that statement? How would the rate setting process change in order to accommodate Mr. Runyon's wishes?

Answer. We would again refer the Subcommittee to the Joint Task Force Report (June 1, 1992) which sets forth several proposals for simplifying the rate-setting process.

Question 27. The Postmaster General argues that without the cumbersome and inflexible ratemaking process, he could respond to market forces and be more competitive. Identify all areas where the Postal Service already has that freedom? How is the Postal Service doing in those areas?

Answer. International Mail is the only category for which the Postal service can set its rates unilaterally, i.e., without having to follow the ratemaking procedures prescribed in chapter 36, of title 39, United States Code. Please see the response to question 21 for a discussion of the Service's experience with international mail.

Question 28. Is there any way to make rate cases less expensive and less complicated?

Answer. Please see the response to question 2.C., above. Also, the Joint Task Force Report (June 1, 1992) sets forth several proposals for making certain aspects

of rate cases less expensive and less complicated. The challenge is to balance the need to allow interested parties to effectively present their views while reducing expense and complexity. As Chairman Gleiman pointed during in his testimony, while any existing process can be improved, the current process does work very well.

Question 29. On page six of your testimony, you mentioned that the Postal Service does not use postal rate increases to retire debt, instead management applies the money to meet operating expenses. What should be done about this practice?

Answer. The Commission has included a prior year loss (PYL) recovery in the revenue requirement for each omnibus rate proceeding since R76–1. These funds have been requested by the Postal Service each time for the purpose of making up for its cumulative losses since 1971. Technically their purpose is to restore Postal Service equity which now stands at about negative $6 billion. When the Commission first included prior year losses in R76–1, the Postal Service's equity was about negative $1 billion. Thus, Postal Service equity has deteriorated substantially in spite of receiving prior year loss recovery revenues regularly, and in spite of a one-time $1 billion congressional contribution under Public Law 94–421.

Failure to restore equity comes about because the Service fails to request enough revenue in its filings with the Commission, or because the Postal Service waits too long to file a new rate case allowing its net income to become negative. When Postal Service management receives funds to restore equity, judicial precedent gives it sole discretion with respect to how, in fact, those funds are used. When Postal Service management fails to use prior year loss funds to repay past losses, ratepayers wind up paying for the same losses over and over again. Ratepayers wind up paying for the same losses over and over again. Because First-Class Mail users pay a disproportionate share of prior year loss recovery revenues and because management uses these PYL for normal operations, First-Class Mail users wind up paying more than they would have, had the Service requested ordinary operating funds. The Commission has repeatedly expressed its concern in this regard. See e.g., PRC Op. 90–1 (Joint Concurring Opinion), attached as Attachment D.

The issues of the Service's substantial negative equity and the untoward effects it is having on the Postal Service and the Postal Reorganization Act are addressed in the Commission's R94–1 decision and included here as Attachment A.

The way to ensure the use of prior year loss recovery for its intended purpose is for postal management to resolve to use those funds for their intended purpose.

Question 30. On page nine of your testimony, you discussed your dissatisfaction with the quality and quantity of information presented by the Postal Service. In your opinion, has the reduction of resources devoted to data collection and analysis been most attributable to the 1992 reorganization? If not, to what do you attribute the decline?

Answer. Please see response to question 1.B. above.

Question. What specifically should the Postal Service and or Congress do to improve the quality of data?

Answer. We believe the both Postal Service and the ratemaking process will benefit if the Postal Service devotes more resources to developing operational and costing data. This information is critical to the ratemaking process. It is also valuable to postal officials in their efforts to manage the Postal Service. We understand the Subcommittee, in exercising its oversight authority, has asked the General Accounting Office to look into the data situation. We welcome this inquiry, and applaud the Subcommittee for initiating it.

Question 31. The Chairman of the Board of Governors recently testified that, "our negative equity is due, in very large part, to the failure of the Congress to fully fund revenue foregone and imposing the OBRAs on us." Do you agree with his statement? If not, why not and should the Postal Service be concerned about their negative equity of $6 billion?

Answer. First, losses can be mitigated, or even avoided, by holding down costs.

Prior to the 1986 OBRA (which was the first to affect the Postal Service), the Postal Service had net cumulative losses of more than $2.5 billion. Consequently, virtually all of its $3 billion in equity had been dissipated by that time. Unquestionably, OBRAs and congressional failure to fund revenue forgone placed an additional financial burden on the Postal Service. We do not agree, however, that this has been the cause of the current $6 billion in negative equity. The Postal Reorganization Act calls on the Postal Service Governors to establish rates and fees "so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service." 39 U.S.C. §3621. Thus, it is the responsibility of the Governors and the management they supervise to break even. The statute also provides that only the Board of Governors can authorize a rate filing. When expenses increase and income decreases, it is the Board of Gov-

ernors' responsibility to request rate increases so that the Postal Service breaks even.

OBRAs cause expenses to increase as do new labor contracts, CPI increases and fuel cost increases. Failure to appropriate revenue forgone causes income to decline just as falling parcel post volumes do. Expenses and revenues from all sources must be considered by the Board of Governors in carrying out its obligations under the Postal Reorganization Act.

The decrease in Postal Service equity came about because the Board did not ask for new revenues in a timely manner. For example, the Postal Service maintained its R90–1 rates for an unprecedented four years in spite of losses every year in which the rates were in effect. An additional problem was that the Service underestimated its expenses when it did file for increased revenue.

ATTACHMENT A—DOCKET NO. R94–1

D. LONG-TERM IMPORTANCE OF POSTAL SERVICE EQUITY

1. Current Equity of the U.S. Postal Service

[2072] The equity of the U.S. Postal Service represents the amount by which its assets exceed its liabilities and consists of two component elements—contributed capital and net operating results. Since the Service is in a deficit condition, the net operating results reflect a net cumulative loss. Table II–2 summarizes operations since inception and the impact thereof on equity.

[2073] CONTRIBUTED CAPITAL. The Postal Service began its operations as an independent agency on July 1, 1971, with an equity of $1.686 billion representing the book value of assets transferred from the Federal Government. Public Law No. 94–421 transferred $1 billion of additional cash capital during the two-year period ending September 30, 1977. Miscellaneous additions reflecting property transfers brought the contributed capital up to a total of $3.034 billion as of September 30, 1993.

[2074] NET LOSS. During 17 years of operations for the period of FY 1972 through FY 1994, the Postal Service has sustained losses totaling $11.811 billion, reflecting the amounts by which expenses exceeded revenues for the indicated periods.

[2075] RECOVERED PYL. RPYL represents net income earned during the transition quarter and for the FYs 1979, 1982, 1983, 1984, 1986 and 1989. The reported net incomes resulted from the fact that revenue for the indicated periods exceeded expenses by a total of $2.386 billion as of September 30, 1993. This net income reduces the net cumulative losses to $9.425 billion for the 23 years since September 30, 1994. Cumulative net losses are displayed in Figure II–1.

Figure II-1

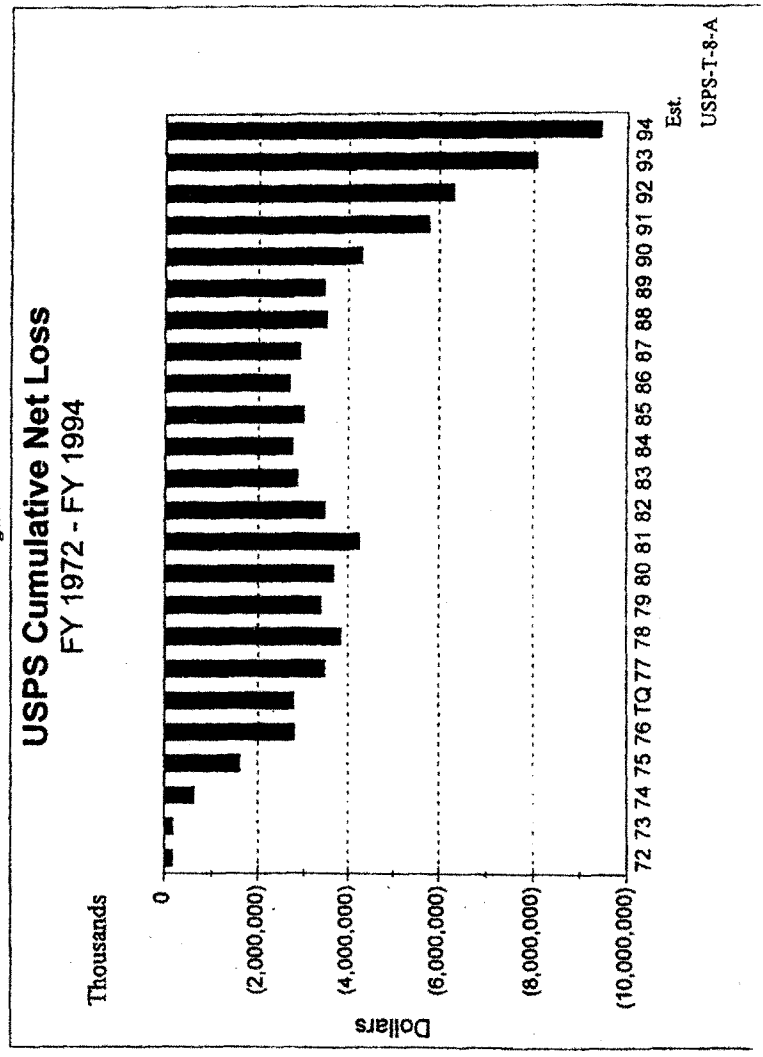

USPS Cumulative Net Loss
FY 1972 - FY 1994
Thousands
0
(2,000,000)
(4,000,000)
(6,000,000)
(8,000,000)
(10,000,000)
Dollars
72 73 74 75 76 TQ 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 Est.
USPS-T-8-A

Table II–2—COMPONENT ELEMENTS OF USPS EQUITY FY 1972–FY 1995

($ In Thousands)

Fiscal Year	Net Loss	Recovered PYL	Net Cumulative Loss	Contributed Capital	Equity [1]
Beginning Balance:				1,685,717	1,685,717
1972	(175,435)		(175,435)	1,723,741	1,548,306
1973	(12,964)		(188,399)	1,753,951	1,565,552
1974	(438,359)		(626,758)	1,773,540	1,146,782
1975	(988,758)		(1,615,516)	1,805,783	190,267
1976	(1,175,802)		(2,791,318)	1,835,960	(955,358)
TQ		15,170	(2,776,148)	2,347,318	(428,830)
1977	(687,849)		(3,463,997)	2,876,463	(587,534)
1978	(379,428)		(3,843,425)	2,898,203	(945,222)
1979		469,836	(3,373,589)	2,929,897	(443,692)
1980	(306,392)		(3,679,981)	2,961,050	(718,931)
1981	(587,739)		(4,267,720)	2,961,020	(1,306,700)
1982		801,576	(3,466,144)	2,960,998	(505,146)
1983		616,326	(2,849,818)	2,961,588	111,770
1984		117,352	(2,732,466)	3,043,205	310,739
1985	(251,480)		(2,983,946)	3,042,310	58,364
1986		304,608	(2,679,338)	3,041,206	361,868
1987	(222,686)		(2,902,024)	3,041 251	139,227
1988	(596,910)		(3,498,934)	3,038 500	(460,434)
1989		60,719	(3,438,215)	3,036 586	(401,629)
1990	(873,578)		(4,311,793)	3,034 127	(1,277,666)
1991	(1,468,614)		(5,780,407)	3,033,471	(2,746,936)
1992	(536,462)		(6,316,869)	3,033,753	(3,283,116)
1993	(1,764,915)		(8,081,784)	3,034,052	(5,047,732)
Actual Total Through FY 93	(10,467,371)	2,385,587	(8,081,784)		(5,047,732)
1994 [2]	(1,343,700)		(9,425,484)	3,034,052	(6,391,432)
Total	(11,811,071)	2,385,587	(9,425,484)		(6,391,432)

[1] Equity = Net Cumulative Loss + Contributed Capital.
[2] According to USPS 8A witness Ward.

[2076] EQUITY. The initial positive equity of $1.686 billion has eroded to a negative balance of $6.391 billion as of September 30, 1994, as projected in witness Ward's testimony. USPS–T–8 Exhibit 8A. During the test year, it will improve by the anticipated RPYL of $935,400 million to a balance of $5.456 billion as of September 30, 1995, if the new rates are implemented October 1, 1994. See Tr. 5/1551–52.

[2077] However, witness Ward stated that the anticipated implementation date of February 1, 1995 instead of October 1, 1994 would reduce the TYAR revenue by $1.592 billion. Id. at 1549. This revenue reduction will place the $936 million RPYL in jeopardy for FY 1995.

[2078] The net cumulative loss of $9.425 billion through FY 1994, and the resulting $6.391 billion in negative Postal Service equity, is caused by a combination of inadequate revenues and excessive and/or unanticipated costs. The most severe drop in the Postal Service's equity occurred between FY 1991–FY 1993 when the extraordinary costs related to the Omnibus Budget Reconciliation Acts (OBRAs) of 1991 and 1993, restructuring, and debt refinancing were incurred. The cumulative net loss over this period was $3.8 billion. During oral cross-examination witness Porras addressed the impact of these three extraordinary events. He states that in 1991 the Postal Service had expected to make $400 million in net income but instead incurred a loss of $1.5 billion because of OBRA. In 1992, it anticipated a net income of over $400 million, but the decision to restructure its workforce resulted in a loss of $536 million. In 1993, the Postal Service anticipated breaking even, but because of revenue forgone shortfalls, OBRA interest expense, and management's decision to refinance debt, it ended with a $1.8 billion loss. Tr. 24/11299–301.

[2079] Extraordinary items of these magnitudes do indeed contribute to net losses and subsequent erosion of equity. However, the effect of the 1991 OBRA was somewhat mitigated by the additional $234 million a year built into the rates when the Postal Rate Commission (PRC) raised the RPYL requested in Docket No. R90–1 from $236 million to $470 million, specifically because of OBRA. The restructuring and the debt refinancing in 1992 and 1993 were both management decisions, which

may or may not prove to be cost effective in the long run. However, the Postal Service's decision not to file a request for new rates in 1993 resulted in the estimated $1.3 billion loss in FY 1994. An earlier filing could have alleviated the Postal Service's financial stress by providing a cash infusion through increased revenue. In the period between September 30, 1990 and September 30, 1993, the Postal Service increased its long-term debt by almost $3 billion from $6.971 billion to $9.748 billion. Had it increased rates sooner, borrowing for capital investments could have been smaller, because more cash from operations would have been available. Whether the benefits of maintaining rate stability for an additional year outweigh the consequences of increased debt and the erosion of equity in FY 1994 is a matter of conjecture.

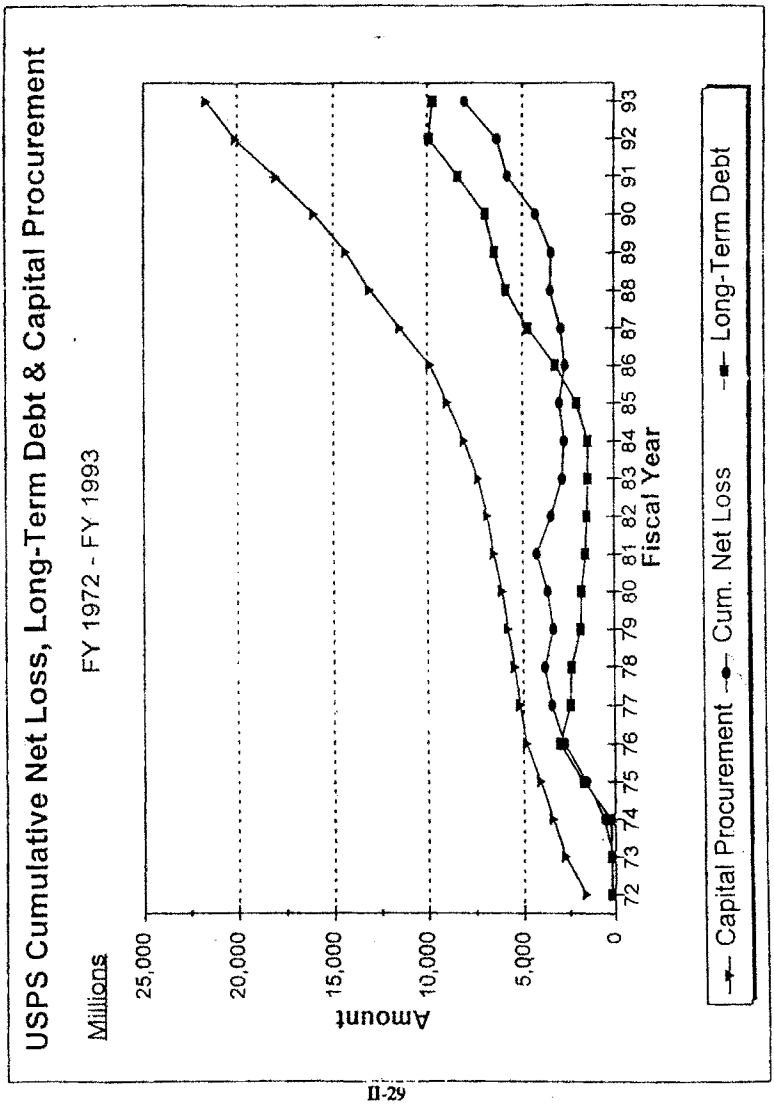
2. The Relationship of Long Term Debt and Equity

[2080] According to UPS witness Geddes "the indebtedness of the Postal Service must inevitably increase as its negative equity position grows worse." Tr. 14A/6733. He contends that because the Postal Service no longer has an equity cushion to fund losses, it must be funding them with long-term debt.[23] Witness Geddes demonstrates a strong relationship between the Postal Service's cumulative losses and its debt. As he states, the correlation of long-term debt and cumulative losses is surprisingly high. He also shows that in the past 10 years the Postal Service's debt to asset ratio has increased from 12 percent to 43 percent. During this period, he states, "the level of debt has increased almost eight-fold and the net capital deficiency has skyrocketed." Id. at 6737–38.

[2081] The Postal Service claims that over the last 17 years it has been able to avoid borrowing to fund losses. Tr. 24/11252. Instead, the Service claims that it has borrowed to fund capital investments. Id. at 11260. Figure II–2 has been developed by the Commission to show cumulative losses, capital procurement, and long-term debt. It can be seen that debt and operating losses are closely associated, and that operating losses are indeed an important reason for the Postal Service's accumulation of long-term debt. Sustained operating losses, and consequent prolonged deterioration of equity, reduces the cash available from operations that could be used to fund capital investments. This creates the need to increase long-term debt.

[23] In a presentation by the Postal Service's Chief Financial Officer Michael Riley at the September, 1994 Board of Governors' meeting, Riley stated that short-term debt is also an important component of the Postal Service's cash-management policy. While short-term debt can be continuously rolled-forward to become, in effect, long-term debt, there is no evidence that the Postal Service is currently doing this.

Figure II-2


USPS Cumulative Net Loss, Long-Term Debt & Capital Procurement
FY 1972 - FY 1993
Millions
Amount
25,000
20,000
15,000
10,000
5,000
0
72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93
Fiscal Year
Capital Procurement
Cum. Net Loss
Long-Term Debt

3. Expectations of Break-Even Operations

[2082] From the outset, the newly independent Postal Service was expected to operate on a business-like basis. This implied many changes from the way the old Post Office Department operated. From a financial standpoint, it meant that the Service was to be operated on a break-even basis. A major complaint about the old Post Office Department was that it ran perpetual deficits which were funded by taxpayers. The Report of the President's Commission on Postal Organization (known as the Kappel Commission) in June 1968, made a series of recommendations which ultimately led to the Postal Reorganization Act of 1970. Its first recommendation was, "[w]e recommend that a postal corporation owned entirely by the Federal Government be chartered by Congress to operate the Postal Service of the United States on a self-supporting basis." *Toward Postal Excellence, The Report of the President's Commission on Postal Organization, June 1968* at 55. The Postal Reform and Salary Adjustment Act of 1970 explicitly stated that:

> The Postal Service Authority is to become self-sustaining—eliminating the postal deficit—by January 1, 1978. Rates are to be set so that . . . revenue . . . as a whole meet its expenses, taking into account appropriations that the Congress may choose to make to cover the loss of revenues on free or reduced rate mail. (H.R. Rep. No. 988, 91st Cong., 2d Sess. at 6 (1970).

[2083] Clearly, Congress did not intend for the Postal Service, 24 years later, to have cumulative net losses of more than $9.425 billion and negative equity of more than $6.391 billion. It intended the Postal Service to operate on a break-even basis: "To meet the costs of maintaining a nationwide mail system we need . . . rates which appropriately cover the costs of the system". 116 Cong. Rec. 22,050 (1970) (remarks of Sen. Bellmon). A decade later the Court of Appeals for the District of Columbia stated:

> Operating deficits have plagued the Postal Service for decades. The Act was passed to solve this problem, but unfortunately the Act's goals have failed to reach fruition. The Postal Service has continued to incur operating losses. It has attempted to offset these losses by drawing down working capital, incurring debt, reducing services, and increasing rates. (Footnotes omitted)

National Association of Greeting Card Publishers v. *U.S. Postal Service,* 607 F.2d 392, 426 (D.C. Cir. 1979), cert. denied, 444 U.S. 1025 (1980).

[2084] Section 3621 of the Postal Reorganization Act calls on the Postal Service to file rate increases with this Commission that will allow revenues to match total estimated expenses as nearly as practicable. In the narrow sense of this section, the estimates of costs furnished by the Service for a test year must be matched by Commission estimates of revenue for that test year. In the broader sense, however, it is clear that Congress expected the Service to breakeven over time. This it has failed to do. Instead, it has had operating deficits in 17 of its 24 years.

4. Consequences of Chronic Deficits

[2085] Because of the chronic stream of operating losses and the consequent erosion of its equity, the Service has failed to meet the financial goals expected of it. Instead of operating like a business, it is dependent on its ability to borrow in order to fund $9.425 billion of cumulative losses. In the world of private industry cumulative losses and the negative equity of the magnitude the Postal Service has incurred would spell financial disaster. It would result in the inability to borrow, the loss of suppliers, who would fear a company in such financial straits would not be able to make payments, the loss of business contracts due to the inability, real or perceived, to complete jobs, and the severe restriction of capital projects. Severe equity erosion would eventually lead to a state of bankruptcy. According to the Postal Service's own witness Ward, if the Postal Service were a conventional business operation, it would be bankrupt. Tr. 5/2396. The Service would not have been able to survive without the $15 billion line of credit afforded it by statute. It is only because the U.S. taxpayers ultimately stand responsible for its debt, that the Postal Service, with its large negative equity, is able to borrow at all.

[2086] This unique borrowing capability is one of the reasons the Postal Service is able to continue as a "going concern" despite the dismal state of its balance sheet. The other reason is the huge cash-generating account balances, such as depreciation and workers' compensation. These accounts are accrued in the current period for expenses, which require no cash outlays until subsequent periods. This, in effect, lowers the Postal Service's bottom line without lowering its cash balance until the disbursements are actually made.

[2087] This method of operation cannot continue indefinitely. Postal Service rebuttal witness Richard Porras indicates that over time, the accrued "non-cash" expenses on which the Postal Service has been relying for operating cash may be insufficient to meet the liabilities that will finally become due. Tr. 24/11346. In an

organization such as the Postal Service, in which the biweekly payroll exceeds $1 billion, this situation would be disastrous. The Postal Service would need an immediate and substantial infusion of cash. Presumably, it would need to borrow the necessary funds. While the Postal Service is allowed under the Postal Reorganization Act of 1970 to borrow up to $1 billion for operating purposes annually, that amount would not even cover one payroll. The Postal Service could find itself in serious financial trouble. As witness Porras states, "we need to address this negative equity and we need to look at the future of the organization and I'm very concerned. When those liabilities become due, we need to have the cash resources to pay for that or the assets to pay for those." Id. at 11347.

[2088] Postal Service management is under great pressure from current postal users to hold rates down. If management responds by holding rates below costs, then current users fail to pay the full costs of operating the Postal Service. Debt is incurred to fund operating losses. This debt must eventually be paid off, which means that future users of the Postal Service will subsidize current users by paying first the interest on the debt, and then the principal. If the Service winds up in a position where it cannot reasonably repay its debt, then future taxpaying citizens of the United States will wind up subsidizing current users of the Postal Service.

[2089] Chronic operating losses also mean that the Postal Service is charging rates which are lower than cost. The Postal Service is competing with firms in the private sector, which cannot afford to run continued operating losses. Consequently, the Postal Service appears to have an unfair advantage over these firms. As pointed out by UPS, "[t]he act also requires the Postal Service to compete fairly." UPS Brief at 6–7. Charging rates which do not cover costs is inconsistent with this requirement.

[2090] Another reason for avoiding chronic operating deficits is their tendency to lead to inefficient operations. The need to avoid exacerbating an already poor financial situation may cause the underfunding of needed activities such as maintenance, new programs, and capital expenditures. Chronic deficits tend to eliminate the operating flexibility that a well-run business must have. As the Report of the President's Commission on Postal Reorganization stated, "[t]he [Postal] corporation should be self-supporting because: subjecting a business activity to deficit financing stifles management initiatives and practically guarantees inefficient operation . . ." Toward Postal Excellence at 57. In the event that volume growth stops or slows precipitously, large negative equity may mean that the Service lacks the financial resources necessary to adjust to its changed circumstances.

[2091] Frequent reference has been made to the Postal Service's intent to build equity. Witness Bjorn states, "[t]here has [sic] to be some other actions that are taken on behalf of the Postal Service in developing a plan as to what are they specifically going to do in the future to build that equity." Tr. 6/2724. Witness Porras testifies that, "Mr. Bjorn's recommendation that the postal service conduct this review has been accepted by postal management and we have contracted with Price Waterhouse to advise us in this effort as it proceeds." Tr. 24/11250. An essential ingredient of any such plan must be the determination by the Postal Service to respond to the Act's stipulation that rates and fees shall provide revenues sufficient to equal the cost of operations under honest, efficient, and economical management. In order for the Postal Service to breakeven, its revenues must cover its costs. As witness Geddes contends, "If the break-even requirement is to perform its function, the Postal Service must face the economic consequences of raising rates to reflect its costs." Tr. 14A/6731. If costs continue to exceed revenues, equity will continue to erode.

[2092] As a matter of fact, revenue must exceed costs if the RPYL is to be accomplished. It is this excess of revenue over costs that, for the Postal Service, would become RPYL. When the total RPYL reaches the goal targeted by the Postal Service, it would no longer be necessary to include such a provision in the revenue requirement.

[2093] In 1968 the President's Commission on Postal Organization expressed concern because, "[i]f present cost trends continue . . . the cumulative deficit over the next decade will approach $15 billion." Toward Postal Excellence at 24. Twenty-three years after the Postal Reform Act, which was designed to avoid this consequence, the Service is again running chronic deficits with a cumulative deficit of $9.4 billion. While reorganization led to improvements in the cumulative deficit trend, it has not lived up to the expectations of break-even operations. This Commission has provided the Service with the rates sufficient to cover expenses as estimated by the Postal Service, as well as rates sufficient to recover PYL in order to restore its equity. It is not responsible for the management of the Service. Only Postal Service management can assure that the Service operates on a break-even basis and restores its equity position.

ATTACHMENT B

Post Office Closings and Consolidations Table

Docket No. and Name of City	Decision
A78–1 Gresham, SC	Dismissed; jurisdiction
A79–1 Lone Grove, TX	Remanded; close
A79–2 Westville, PA	Remanded; close
A79–3 Graves Mill, VA	Remanded; close
A79–4 Tippo, MS	Remanded; consolidate (CPO)
A79–5 Bay Center, WA	Remanded; consolidate (CPO)
A79–6 Gulf, NC	Remanded; close
A79–7 Craigsville, PA	Remanded; close
A79–8 Overly, ND	Remanded; close
A79–9 Suplee, PA	Remanded; close
A79–10 La Jose, PA	Remanded; close
A79–11 Normanna, T. X	Remanded; consolidate (CPO)
A79–12 Clune, PA	Remanded; close
A79–13 Southfield, MA	Remanded; consolidate (CPO)
A79–14 Fitler, MS	Remanded; close
A79–15 Keyapaha, SD	Remanded; consolidate (CPO)
A79–16 New Geneva, PA	Remanded; close
A79–17 Reed, OK	Remanded; close
A79–18 McElhattan, PA	Remanded; close
A79–19 Sugar Run, PA	Remanded; close
A79–20 Balsam Grove, NC	Remanded; close
A79–21 Prairie, AL	Remanded; close
A79–22 Bill, WY	Remanded; close
A79–23 Clinchport, VA	Affirmed; close
A80–1 Glenwood Landing,NY	Dismissed; Postal Service; consolidation
A80–2 Alexander, WV	Affirmed; close
A80–3 Palm City, FL	Remanded; consolidate
A80–4 Mt. Een, CA	Affirmed; consolidate (station)
A80–5 Leckrone, PA	Dismissed; Postal Service; close
A80–6 Carlisle, MS	Dismissed; Petitioners; consolidate
A80–7 Condon, MT	Remanded; consolidate (CPO)
A80–8 Painton, MO	Dismissed; Postal Service; close
A80–9 Huggins, MO	Remanded; close
A80–10 Saratoga, CA	Dismissed; Postal Service
A81–1 Dalton, AR	Affirmed; close
A81–2 Mayfield, GA	Dismissed; jurisdiction; close; relief
A81–3 Oswego, SC	Affirmed; close
A81–4 Seapines Stat., VA	Dismissed; premature
A82–1 Arcadia, TX	Affirmed; consolidate (station)
A82–2 Station B, NY	Withdrawn; relief given by Postal Service
A82–3 West Barnet, VT	Affirmed; close
A82–4 Donnan, IA	Affirmed; close
A82–5 Webb City, OK	Remanded; close
A82–6 Stonewall, AR	Affirmed; consolidate (CPO)
A82–7 Woolsey, GA	Affirmed; close
A82–8 Snydertown, PA	Affirmed; consolidate (CPO)
A82–9 Sessums, MS	Affirmed; consolidate (CPO)
A82–10 Oceana Station, VA	Dismissed; jurisdiction
A82–11 Siberia, IN	Affirmed; close
A82–12 Holy City, CA	Affirmed; close
A82–13 Mayfield, OK	Remanded; close
A82–14 Glenwood, UT	Affirmed; consolidate (CPO)
A82–15 Montrose, MS	Affirmed; close
A82–16 Tomnolen, MS	Affirmed; consolidate (CPO)
A83–1 Ravalli, MT	Affirmed; consolidate (CPO)
A83–2 Ruby Valley, NV	Affirmed; consolidate (CPO)
A83–3 Mountville, GA	Affirmed; consolidate (CPO)
A83–4 Ferdig, MT	Affirmed; close
A83–5 Clark, OH	Affirmed; close
A83–6 Nipton, CA	Affirmed; close
A83–7 Beowawe, NV	Affirmed; consolidate (CPO)
A83–8 Sigurd, UT	Dismissed; untimely

Post Office Closings and Consolidations Table—Continued

Docket No. and Name of City	Decision
A83–9 Colon, NC	Affirmed; close
A83–10 Liberty Farms, CA	Dismissed; petitioners; closed
A83–11 DeBorgia, MT	Affirmed; consolidate (CPO)
A83–12 Bladon Springs, AL	Affirmed; close
A83–13 Reed, OK	Affirmed; consolidate (CPO)
A83–14 Sublime, TX	Dismiss; untimely; consolidate (CPO)
A83–15 Burr Oak, IN	Affirmed; close
A83–16 Cantil, CA	Affirmed; consolidate (CPO)
A83–17 Grand Pass, MO	Affirmed; close
A83–18 Madras, GA	Affirmed; consolidate (CPO)
A83–19 Griswoldville, MA	Affirmed; close
A83–20 Windsorville, CT	Affirmed; close
A83–21 Cropper, KY	Affirmed; close
A83–22 Baxter, CA	Affirmed; consolidate (CPO)
A83–23 Marietta, WA	Affirmed; close
A83–24 Lone Grove, TX	Affirmed; close
A83–25 Coalmont, CO	Dismissed; untimely; close
A83–26 Mechanicsville, CT	Dismissed; untimely; close
A83–27 Winston, MT	Affirmed; consolidate (CPO)
A83–28 Uler, WV	Affirmed; close
A83–29 Wendell, NH	Affirmed; close
A83–30 Knob Fork, WV	Remanded; close (CPO)
A84–1 Oakley, SC	Affirmed; close
A84–2 Dorchester, TX	Affirmed; close
A84–3 So. Bloomingville, OH	Affirmed; consolidate (CPO)
A84–4 Silver Bell, AZ	Affirmed; close
AR4–5 Foraker, IN	Remanded; close (CPO)
A84–6 Benoit, WI	Affirmed; consolidate (CPO)
A84–7 Cotter, IA	Dismissed; Postal Service; close
A84–8 Atlanta, OH	Affirmed; close
A84–9 Mitchell, LA	Affirmed; close
A84–10 Elm Grove, OH	Dismissed; untimely; close
A84–11 Hustler, WI	Affirmed; consolidate (CPO)
A84–12 Bloom City, WI	Affirmed; consolidate (CPO)
A84–13 Dodgeville, MI	Dismissed; untimely; close
A84–14 Milford, MO	Dismiss; untimely; consolidate
A84–15 East Orwell, OH	Affirmed; close
A84–16 Hanover, WI	Dismissed; untimely; close
A85–1 Ames, NE	Affirmed; consolidate (CPO)
A85–2 Buskirk, NY	Dismissed; Postal Service; close
A85–3 Maud, KY	Affirmed; close
A85–4 Dahlen, ND	Affirmed; close
A85–5 West Coxsackie, NY	Affirmed; consolidate (CPO)
A85–6 Durbin, ND	Affirmed; close
A85–7 Rock Glen, NY	Affirmed; close
A85–8 Job, WV	Affirmed; close
A85–9 Wadsworth, NY	Affirmed; close
A85–10 West Townsend, MA	Affirmed; close
A85–11 Roanoke, WV	Remanded; close
A85–12 Williams Mtn, WV	Affirmed; close
A85–13 Philomath, GA	Affirmed; close
A85–14 Range, AL	Affirmed; consolidate (CPO)
A85–15 Chester Depot, VT	Affirmed; consolidate (CPO)
A85–16 Boyds, WA	Affirmed; close
A85–17 Ranchita, CA	Remanded; close (CPO)
A85–18 Guatay, CA	Affirmed; consolidate (CPO)
A85–19 East Nicolaus, CA	Affirmed; consolidate (CPO)
A85–20 Little Norway, CA	Affirmed; consolidate (CPO)
A85–21 Yorkville, CA	Remanded; close
A85–22 Louvale, GA	Remanded; close
A85–23 Pacific House, CA	Dismissed; untimely; consolidate
A85–24 Whitestone, GA	Affirmed; close
A85–25 Grady, OK	Affirmed; close
A85–26 North Scituate, MA	Affirmed; consolidate (station)

Post Office Closings and Consolidations Table—Continued

Docket No. and Name of City	Decision
A85–27 Wishon, CA	Affirmed; close
A85–28 Ferndale, FL	Dismissed; Postal Service, consolidate (CPO)
A85–29 St. Charles, SC	Affirmed; close
A85–30 Moreno, CA	Affirmed; consolidate (branch)
A85–31 Croydon, UT	Dismissed; Postal service; close
A86–1 Leach, TN	Affirmed; close
A86–2 Centerfield, UT	Remanded; close
A86–3 Chatham, MS	Affirmed; consolidate (CPO)
A86–4 Sanitaria Springs, NY	Affirmed; close
A86–5 Perry, SC	Affirmed; consolidate (CPO)
A86–6 Fitzhugh,OK	Remanded; close
A86–7 Longstreet, LA	Affirmed; consolidate (CPO)
A86–8 Quaker Street, NY	Premature
A86–9 Tie Plant, MS	Affirmed; consolidate (CPO)
A86–10 South Grafton, MA	Remanded; consolidate (CPO)
A86–11 Greene, RI	Dismissed; untimely; close
A86–12 Oakland, RI	Affirmed; close
A86–13 Wellfleet, MA	Dismissed; jurisdiction
A86–14 Croydon, UT	Affirmed; close
A86–15 Palo Verde, AZ	Affirmed; consolidate (CPO)
A86–16 Academy, SD	Affirmed; close
A86–17 Wallpack Center, NJ	Dismissed; Postal Service; close
A86–18 Owanka, SD	Affirmed; close
A86–19 Given, WV	Remanded; close
A86–20 Arenas Valley, NM	Affirmed; close
A86–21 No. Westchester, CT	Affirmed; close
A87–1 Pinero, VA	Affirmed; close
A87–2 Vanna, GA	Affirmed; close
A87–3 Wallpack Center, NJ	Dismissed; Postal Service; close
A87–4 Centerfield, UT	Affirmed; close
A87–5 Burkville, AL	Affirmed; close
A87–6 Palms, MI	Affirmed; close
A87–7 Pearl Beach, MI	Affirmed; consolidate (branch)
A87–8 Vernon, AZ	Dismissed; Postal serv.; consol.
A87–9 Fackler, AL	Affirmed; consolidate (CPO)
A87–10 Rogers, NE	Affirmed; consolidate (CPO)
A87–11 Fabius, AL	Affirmed; close
A88–1 Bern, ID	Affirmed; close
A88–2 Rago, KS	Remanded; close
A88–3 Willow Island, WV	Dismissed; Postal Service; close
A88–4 Powder Springs, TN	Remanded; consolidate (CPO)
A88–5 Forksville, VA	Affirmed; close
A88–6 Laird, CO	Dismissed; untimely; close
A88–7 Vanadium, NM	Affirmed; close
A88–8 Honey Creek, IA	Remanded; close
A88–9 Banco, VA	Affirmed; consolidate (CPO)
A88–10 Brownlee, NE	Affirmed; close
A89–1 North Egremont, MA	Dismissed; Postal Service (CPO)
A89–2 Dallas, IA	Affirmed; consolidate (station)
A89–3 Kurtz, IN	Affirmed; consolidate (CPO)
A89–4 McClelland, IA	Affirmed; consolidate (CPO)
A89–5 Crawford, WV	Dismissed; untimely; close
A89–6 Hoyt, CO	Dismissed; Postal Service; close
A89–7 New Site, MS	Affirmed; consolidate (CPO)
A89–8 Lafontaine, KS	Premature; suspension
A89–9 Elsmere, NE	Remanded; close
A89–10 Fineview, NY	Premature; suspension
A89–11 Montpelier, MS	Affirmed; consolidate (CPO)
A89–12 Hoxeyville, MS	Affirmed; close
A89–13 Swan Lake, MS	Affirmed; consolidate (CPO)
A90–1 Powder Springs, TN	Affirmed; consolidate (CPO)
A90–2 Hanover, AR	Affirmed; close
A90–3 Dunn, LA	Dismissed; untimely; close
A90–4 Wolf Run, OH	Remanded; close

Post Office Closings and Consolidations Table—Continued

Docket No. and Name of City	Decision
A91–1 Rock Point, MD	Dismissed; Postal Service; close
A91–2 Northboro, IA	Affirmed; consolidate (CPO)
A91–3 Seneca, MI	Remanded; close
A91–4 San Fran. Main, CA	Dismissed; jurisdiction
A91–5 Elsmere, NE	Affirmed; close
A91–6 Pardeesville, PA	Dismissed; untimely; close
A91–7 Weston, MI	Dismissed; Postal Service; close
A91–8 Angus, MN	Affirmed; consolidate (CPO)
A91–9 Extension, LA	Remanded; close
A91–10 Mount Clemens, MI	Dismissed; jurisdiction
A91–11 Jenkins Bridge, VA	Dismissed; Postal Service; close
A91–12 Liberty, NE	Affirmed; consolidate (CPO)
A91–13 Wiley, GA	Dismissed; Postal Service; close
A91–14 Union Level, VA	Affirmed; close
A92–1 Sample, KY	Affirmed; close
A92–2 Vernon, OK	Dismissed; untimely; close
A92–3 Susank, KS	Affirmed; close
A92–4 Carrothers, OH	Affirmed; close
A92–5 Skene, MS	Affirmed; close
A92–6 Village, VA	Dismissed; Postal Service; close
A92–7 Nooksack, WA	Affirmed; consolidate (station)
A92–8 Maskell, NE	Affirmed; close
A92–9 Fabyan, CT	Affirmed; close
A92–10 Ben Arnold, TX	Affirmed; close
A92–11 Buckeye, LA	Affirmed; close
A92–12 Summit, KY	Affirmed; consolidate (CPO)
A92–13 Milfay, OK	Dismiss; Postal Service; consolidate (CPO)
A93–1 West Rushville, OH	Remanded; close
A93–2 Bavon, VA	Affirmed; close
A93–3 Wolf Run, OH	Dismiss; Postal Service; close
A93–4 Hertel, WI	Dismiss; Postal Service; close
A93–5 Pershing, IA	Affirmed; close
A93–6 Schroeder, MN	Dismiss; Postal Service; consolidate (CPO)
A93–7 Frontenac, MN	Remanded; consolidate (CPO)
A93–8 Wolf Lake, MN	Affirmed; consolidate (CPO)
A93–9 Segundo, CO	Affirmed; close
A93–10 Beaverlett, VA	Affirmed; close
A93–11 Colfax, ND	Dismissed; Postal Service; consolidate
A93–12 McAdams, MS	Affirmed; consolidate (CPO)
A93–13 Ithaca, NY	Dismissed; jurisdiction; consolidate
A93–14 Winchester, TX	Dismissed; untimely; close
A93–15 Lodi, TX	Dismissed; Postal Service; close
A93–16 Lille, ME	Dismissed; untimely; close
A93–17 Morrison, Iowa	Remanded; consolidate (CPO)
A93–18 Gray, Iowa	Remanded; close
A93–19 Cataract, WI	Affirmed; consolidate (CPO)
A94–1 Waka, TX	Affirmed; consolidate (CPO)
A94–2 Extension, LA	Affirmed; close
A94–3 Inavale, NE	Affirmed; consolidate (CPO)
A94–4 Boone, NE	Dismissed; untimely; close
A94–5 Moriah, NY	Dismissed; Postal Service, consolidate
A94–6 Poland, ME	Affirmed; close
A94–7 Holden, UT	Dismissed; Postal Service; consolidate (CPO)
A94–8 Benedict, MN	Remanded; consolidate (CPO)
A94–9 Green Mountain, IA	Affirmed; consolidate (CPO)
A94–10 Fairfield, NY	Affirmed; close
A94–11 E. Greenwich, NY	Affirmed; close
A94–12 Petroleum, WV	Dismissed; Postal Service; close
A94–13 Strang, NE	Remanded; consolidate (CPO)
A94–14 Otisco, MN	Affirmed; close
A95–1 Rodman, IA	Affirmed; close
A95–2 Valley Home, CA	Dismissed, Postal Service, close
A95–3 Filer City, MI	Remanded; close
A95–4 Numa, IA	close

Post Office Closings and Consolidations Table—Continued

Docket No. and Name of City	Decision
A95–5 Oak, NE	consolidate (CPO)
A95–6 DeGraff, MN	close
A95–7 Toronto, IA	close
A95–8 Benedict, MN	consolidate (CPO)
A95–9 Clarkia, ID	consolidate (CPO)
A95–10 Cotesfield, NE	close

ATTACHMENT C

DOCKET NO. R94–1

[1081] INTERNATIONAL MAIL. In its filing in this docket, the Postal Service eliminated virtually all of the data that it formerly provided supporting its test year forecasts of the costs, volumes, and revenues generated by international mail. In motion practice, the Postal Service defended this change by asserting that supporting detail for its international mail forecasts are relevant only to setting international mail rates, and that the Commission has no jurisdiction over these rates. Federal Express Corporation (FEC) attempted to fill the resulting gap in the record through discovery, largely without success. On brief, it and the Air Courier Conference of America (ACCA) ask the Commission to reaffirm their right to a hearing on the issue of the impact of financial forecasts for international mail on domestic mail costs and revenues.

[1082] In order to avoid the procedural impasse that prevented a meaningful hearing on those issues in this proceeding, they ask the Commission to conduct a rulemaking prior to the next omnibus rate case to establish minimum standard documentation requirements for international mail forecasts. In this docket, they propose that the Commission attribute to international mail some of the administrative costs that they say it incurs. They also propose that the Commission adjust the relative institutional cost contribution of international and domestic mail to ensure that the former is fair and reasonable. Their proposals are addressed in the costing section, at para. 3193.

[1083] There are two sources of Commission jurisdiction granting the right to examine the basis of the Postal Service's financial forecasts for international mail. The first is 39 U.S.C. §3621, which requires that hearings on requests for changes in domestic mail rates consider all of the sources of Postal Service revenue in determining what share of its total revenue needs must be provided by domestic mail. Under section 3621, the costs and revenues of international mail must be estimated and deducted from the total costs of the postal system in order to determine the amount of revenue that must be raised from domestic mail. In this proceeding, the Commission reaffirmed that intervenors have a right to a hearing on the issue of the accuracy and reliability of the Postal Service's estimate of the domestic mail share of the total revenue requirement. Since that depends, in part, on whether its international mail cost and revenue estimates are accurate and reliable, intervenors have a right to know the basis of those estimates. See Order No. 1025 (August 17, 1994) at 4–13.

[1084] The second source of Commission jurisdiction to examine the basis of the Postal Service's financial forecasts is 39 U.S.C. §3622(b)(3). Section 3622(b)(3) requires that no class of mail bear costs that can be reliably attributed to another mail class. Under it, intervenors have a right to a hearing on the question of whether the Postal Service's attributable costs have been accurately divided between international and domestic mail. If costs could be reliably attributed to international mail but are not, they are either misattributed to domestic mail, or assigned primarily to domestic mail as institutional costs.[11] Neither result is consistent with section 3622(b)(3). Id. at 9–13.

[1085] BACKGOUND. In prior omnibus rate proceedings the Postal Service provided partial documentation of its financial forecasts for international mail. It acknowledged that the costs and revenues generated by international mail must be estimated in order to determine the revenue required from domestic mail. See, e.g., Docket No. R87–1, Response of Postal Service Witness Ashley Lyons to Interrog-

[11] Because more than 98 percent of any dollar of institutional costs has been borne by domestic mail in recent years, any underattribution of costs to international mail will devolve almost entirely on domestic mailers.

atory FCG–T–17–2. The Postal Service also demonstrated that the effect of errors in financial forecasts for international mail on the domestic mail revenue requirement can be substantial. In Docket No. R90–1 the Postal Service argued that the test year revenue requirement that the Commission recommended for domestic mail should be increased, in part, to offset the Postal Service's apparent overestimate of test year revenues from international mail of between $114 and $320 million.[12]

[1086] The supporting detail that the Postal Service formerly provided in its rate filings, supplemented by its responses to discovery, permitted some independent analysis and verification of its estimates. The Postal Service provided the results of IOCS sampling of the domestic processing costs of international mail; compilations of that data for 22 categories of outbound, and nine categories of inbound international mail in its LIOCATT reports; transportation cost data for eight categories of outbound and seven merged categories of inbound mail; and other cost segment and component data for seven categories of outbound and inbound international mail in its Cost Segment and Components Reports. In the past it also explained its methods for forecasting international mail volumes and revenues. See Order No. 1025 at 22–23.

[1087] In its filing in this docket, however, the Postal Service purged most of the information relating to international mail from its reports developed from general cost sampling and reporting systems. For example, it eliminated IOCS sample data relating to international mail. It also eliminated the IOCS codes from its LIOCATT report that allow the domestic mail processing costs incurred by the international services to be distinguished from those incurred by domestic mail. In addition, it eliminated from its domestic purchased transportation cost report (TRACS) information that distinguishes domestic transportation costs incurred by international mail from those incurred by domestic mail.

[1088] The Postal Service denies that section 3621 makes international and domestic mail financially interdependent, or that section 3622(b)(3) gives rise to any need to examine how international mail costs are identified and distinguished from the costs of domestic mail. In response to discovery requests, the Postal Service took the position that any supporting information for its forecast of total international mail costs, volumes, and revenues is irrelevant, unduly burdensome to provide, and qualifies for the trade secret privilege. It said that this applied as much to the supporting information that it had provided in past proceedings as to supporting information requested for the first time in this proceeding. Response of U.S. Postal Service to Motion of Federal Express Corporation to Compel Responses to Interrogatories and Document Production Requests FEC/USPS–2(c) to 24 and FEC/USPS–T4–2 to 15 (Postal Service Response) (June 13, 1994) at 21. It asserted that it, rather than the Commission, would ultimately decide whether to allow discovery of such information. USPS Motion for Protective Order and Comments Concerning Information to be Provided Pursuant to Protective Order In Response to Commission Order No. 1025 (August 29, 1994) at 9 and Statement of the USPS Concerning Order No. 1034 (November 3, 1994) at 9–10.

[1089] In order to justify its new policy of non-disclosure, the Postal Service steadfastly refused to acknowledge that information supporting its cost and revenue forecasts for international mail can be used for any purpose other than helping it to determine what rates to charge for international mail. It is clear, however, that such supporting information can also be used to estimate the impact that international mail will have on the domestic mail revenue requirement, to verify that costs have not been underattributed to international mail, and to verify that costs have not been misattributed to domestic mail. See P.O. Ruling R87–1/78 at 2.

[1090] Order No. 1025. The Commission issued Order No. 1025 in response to motions to compel information supporting the Postal Service's forecasts of the total cost, volume, and revenue of international mail. It concluded that because of the substantial uncertainty that surrounds the Postal Service's international mail forecasts, there is a need for some disaggregation of the data on which those forecasts are based, and some explanation of the method by which such data are projected to the test year. Order 1025 at 6–13. It therefore ordered the Postal Service to provide costs, volumes, and revenues for international mail, disaggregated to an intermediate level designed to avoid the disclosure of information likely to cause competitive harm.

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[12] See Docket No. R90–1, Statement and Declaration of Ashley Lyons on Behalf of the USPS, submitted with Comments of the USPS Regarding Presiding Officer's Notice Concerning FY 1990 Billing Determinant Information, September 25, 1991; Further Statement and Declaration of Ashley Lyons on Behalf of the United States Postal Service, submitted with Postal Service Response to Presiding Officer Information Request No. 2 on Reconsideration, September 27, 1991.

[1091] The Postal Service has acknowledged that its international mail forecasts can be uncertain, and that this uncertainty engenders corresponding uncertainty in its forecasts of the revenue that will be required from domestic mail. In Docket No. R90–1, it cited the inaccuracy of its forecast of test year international mail revenue as a major reason for changing the domestic mail revenue requirement recommended by the Commission. It noted that its initial forecast of international revenues appeared likely to have been substantially overestimated. Subsequent events have shown that its concern was well-founded.

[1092] FY 1992 figures show that the Postal Service's Docket No. R90–1 forecast of test year costs for international mail were underestimated by 19 percent. The Docket No. R90–1 test year cost coverage for international mail was 113 percent, rather than the 139 percent that the Postal Service had forecast. Consequently, the Postal Service overestimated the contribution to institutional costs from international mail in the Docket No. R90–1 test year by $217 million, or 244 percent. See FEC Brief at 7.

[1093] There are substantial reasons in this proceeding, as well, for regarding the Postal Service's international mail forecasts as uncertain. In contrast to the rapid, unexplained escalation of international mail costs during the years FY 1989–92, international mail costs apparently changed little in FY 1993 (increasing only 1.7 percent). This is particularly remarkable since volume surged 15 percent in that year. Id. at 8. The record contains no information concerning the causes of this abrupt reversal of recent trends and no basis for determining whether it is likely to continue.

[1094] The Postal Service's Docket No. R94–1 test year forecast of the international mail contribution to institutional costs is based on the FY 1993 base year figures. If the unaccountably positive FY 1993 results turn out to be an anomaly, the institutional cost contribution from international mail in the test year could fall well below the Postal Service's projections again in Docket No. R94–1. Indeed, its institutional cost contribution might even be negative. The Postal Service projects that the cost coverage for international mail will decline to 122 percent for the Docket No. R94–1 test year. If this cost coverage were overestimated by 26 percentage points, as it was in Docket No. R90–1, international mail revenue would fall below its attributable costs, thus violating section 3622(b)(3). This risk illustrates the need for intervenors and the Commission to know the basis of the Postal Service's test year forecasts of the costs, volumes, and revenues of international mail.

[1095] Order No. 1025 addressed the Postal Service's contention that the intervenors and the Commission have no need to know the basis of its international mail cost and revenue forecasts. As the Order notes, the Postal Service simply asserts, without analysis, that verifying the domestic mail revenue requirement does not depend on verifying international mail revenues. USPS Motion for Protective Order at 4. As to the division of costs between domestic and international mail, the Postal Service asserts, again without analysis, that domestic cost information is sufficiently detailed to reveal any errors.[13]

[1096] Order No. 1025 found the Postal Service provided no basis for these assertions. For reasons explained above, the dependence of the domestic revenue requirement on international costs and revenues is undeniable. See Order No. 1025 at 4–9. With respect to international mail costs, Order No. 1025 notes that most of them are incurred while undergoing the same operations that domestic mail undergoes.[14] Therefore, the only way to know that such a cost appearing in the Postal Service's spreadsheets belongs to international mail is by the IOCS activity code indicating that it was incurred by international mail. By deleting those codes from its submissions, the Postal Service removed the only means of identifying which domestic costs

[13] Postal Service Response at 3. Several witnesses have raised doubts whether the detail the Postal Service provides for the domestic costs that mail incurs is always sufficient to identify reliably the classes of mail that cause them. Time-Warner witness Stralberg, for example, asserts that the proportion of the costs of domestic operations incurred by "mixed mail" have grown rapidly in recent years, while the Postal Service's ability to associate them with mail classes has grown increasingly suspect. This is due, in part, to the Postal Service's elimination of more than half of the cost detail that it formerly gathered concerning such "mixed mail" costs. Tr. 15/7133–34. In addition, in Docket No. R90–1, OCA witness Ramage has raised substantial doubts about the reliability of the distribution of these costs to mail classes. See Docket No. R90–1, OCA–T–100 at 24–32. Domestic "mixed mail" processing costs are distributed to both domestic and international mail.

[14] International and domestic mail are often commingled for domestic processing according to shape, e.g., letters, flats, etc. The only way to verify whether such costs were incurred by international rather than domestic mail is by the identifying codes that the Postal Service has withheld. See, e.g., the distribution of the costs associated with mixed mail code 5610 for letter-shaped mail to the categories of domestic and international mail according to activity codes 1000 to 1950. USPS–LR–G–1, App. B–2 at 2 and 9, and App. E.

were incurred by international mail, and which were incurred by domestic mail. Order No. 1025 also rejects the Postal Service's contention that an underattribution of costs to international mail does not increase the costs borne by domestic mail as unexplained and unsupported. Postal Service Response at 6.

[1097] In Order No. 1025, the Commission also rejects the Postal Service's claim that any and all supporting information underlying its forecast of cost, volume, and revenue for international mail qualifies as a trade secret. The Commission observed that this blanket claim is speculative and conclusory, and therefore inadequate to support a trade secret claim under applicable legal standards. It noted that those standards require the Postal Service to make a much more concrete showing of likely competitive harm than it attempted.[15] The Postal Service does not dispute that this is the standard that the law has established for invoking the trade secret privilege. However, it makes clear that it does not intend to comply with that standard. The Postal Service states, repeatedly, that speculative showings of competitive harm should be sufficient. See, e.g., Statement of the USPS Concerning Order No. 1034 at 8, where it states

> . . . much Postal Service international pricing information is publicly available, and it is very difficult to identify specifically what individual pieces of commercially sensitive information could be combined with information already available to damage the Postal Service's competitive position.

See also Postal Service Response at 16–17.

[1098] The Postal Service offered to provide some of the information compelled by Order No. 1025 if unusually restrictive protective conditions were established under Rule 31a. At the same time it refused to provide some of the information ordered, regardless of the protective conditions that were made available. USPS Motion for Protective Order at 9. Among the restrictions proposed by the Postal Service was a procedure in which it would decide what international mail data would be protected during discovery.

[1099] To revive the discovery process, the Commission authorized the requested procedure. The discovery process had stalled when the Postal Service objected to having public disclosure of international mail data determined by the criteria of the Commission's discovery rules. These rules authorize discovery of any information that is likely to lead to the discovery of admissible evidence. Its main complaint was that FEC did not actually intend to use those data in this proceeding. The Commission therefore agreed to let the Postal Service control public disclosure of international mail data during the discovery process. The Commission allowed public disclosure after the discovery process to be determined under the stricter standards of its rules of evidence, which require that evidence must be shown to be material to a relevant issue in order to be made part of the public record. The Postal Service, however, insisted in determining for itself the need for public disclosure of international mail data at all stages of the proceeding. Further Comments of USPS in Support of its Motion for Protective Order Pursuant to P.O. Ruling R94–1/76, (September 15, 1994) at 8–9.

[1100] The Commission preserved the right of intervenors to ask the Commission to determine if the trade secret privilege actually applies to particular international mail data. The Commission rejected the Postal Service's position that it could take upon itself the inherently judicial function of determining the conditions under which discovery would be available in Commission proceedings, a function reserved to the Commission by 39 U.S.C. § 3624(b)(3). Order No. 1034 (October 24, 1994) at 3. The Postal Service, however, insisted on reserving that function to itself, and terminated its participation in discovery. Statement of the USPS Concerning Order No. 1034 at 9–10.

[1101] FUTURE PROCEDURAL REFORM. FEC contends that its right to a hearing on the impact of international mail's finances on domestic mailers was largely denied in this proceeding by the Postal Service's unlawful refusal to comply with the Commission's discovery orders. It and ACCA urge that the Commission take steps to ensure that the Postal Service's defiance of lawful Commission orders does not recur in subsequent rate cases. FEC Brief at 26–27 and ACCA Reply Brief at 11. The Commission agrees that the Postal Service has failed to identify any legal principle that would support its refusal to comply with discovery orders regarding international mail. It also agrees that the procedural impasse that has prevented a

[15] To satisfy applicable legal standards, the Postal Service would have to demonstrate that disclosing specific international mail data is likely to cause substantial competitive harm of a specific kind, to a specific international service, in a specific international market. Such a showing would require the Postal Service to demonstrate, for example, if a service has close substitutes, if participants in that market are many or few, if the Postal Service is a dominant or minor player, if entry is free or restricted by international agreement, etc. Order No. 1025 at 18–19.

meaningful hearing on these issues is likely to recur in subsequent rate cases unless a rulemaking is undertaken to identify minimum documentation requirements for the Postal Service's financial forecasts for international mail that should accompany each omnibus Postal Service rate filing.

[1102] The Postal Service asserts, without analysis, that such a rulemaking "would be useful only for regulating international rates, which is beyond the Commission's jurisdiction." Postal Service Reply Brief at VII–8. A rulemaking specifying the minimum level of documentation required for the Postal Service's forecasts of costs, volumes, and revenues for international mail would be tailored to the purpose of verifying the impact that international mail's costs and revenues are projected to have on domestic mail. Requiring the Postal Service to restore certain documentation formerly provided for its international mail cost and revenue forecasts, and requiring an intermediate level of cost detail for basic groups of international services, would not impinge on the prerogatives of the Postal Service or the Governors. In examining the basis of those forecasts, the Commission would take the international rates proposed by the Postal Service as a given. Any corrections the Commission might make to those forecasts would be made solely for the purpose of evaluating the impact that the international rates proposed by the Postal Service are likely to have on the revenues and costs of domestic mail.

ATTACHMENT D

JOINT CONCURRING OPINION OF CHAIRMAN HALEY, VICE-CHAIRMAN FOLSOM, AND COMMISSIONERS CRUTCHER, LEBLANC, AND TYSON

In the principal Opinion, after making the analysis the Act requires of us, we have acceded to the Postal Service's request for the now-customary treatment of prior years' losses (PYL). A revenue requirement item, here totalling $40 million,[1] has been included for this purpose. We have declined to follow a suggestion by Readers' Digest Association, et al. (RDA et al.) that we eliminate PYL recovery.

No one should infer from this fact that we are satisfied with the present state of the PYL revenue mechanism.[2] Indeed, the first aim of the joint concurring opinion is to convey formally to the Governors our dissatisfaction, which we think they ought to share, with the way it is now administered. It appears, and indeed has been acknowledged,[3] to be a revenue increment requested and provided by us for a particular purpose, but not necessarily used for that purpose. It would not be surprising, in view of this, for future Commissions to be most reluctant to include it on such a basis.

We believe the original PYL concept is still useful. Our analysis of it in Docket R76–1, judicially approved following Docket R77–1[4], remains satisfactory so far as theory is concerned. That theory, which still commands lip service in rate proceedings, is that PYL recovery enables the Postal Service to break even (as § 3621 re-

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[1] About 50 percent of this stems from the FY 1991 liability imposed by the Omnibus Budget Reconciliation Act of 1990.

[2] In principle, this mechanism sums the net losses since Reorganization, and amortizes them over a set period (nine years) by including an extra line item in the revenue requirement.

[3] The following colloquy took place at oral argument in this docket:

Vice Chairman FOLSOM. Is it your position that once we have given the revenue—and usually, your revenue is earmarked for certain purposes. Right?

Mr. FOUCHEAUX [for Postal Service]. Yes, sir. In the cost estimates, I think you could probably say that. But with regard to the contingency or the prior years losses.

Vice Chairman FOLSOM. Well, why not prior losses? That is to retire or to return your equity. But you say that that's just another contingency.

That's what you're saying. Right?

Mr. FOUCHEAUX. No, sir. That's not what I'm saying. That's what the parties challenging our revenue requirement have said, and that may be even what the Commission implied in its last opinion. I am not saying that.

I am saying that that prior years losses component of the revenue requirement is a reasonable mechanism which enables the Postal Service to retire prior years losses, which are probably associated with particular components of our cost segments. But it's very difficult, in retrospect, to go back and track the losses back to any specific cost segment or component.

Vice Chairman FOLSOM. But you do say—did you not say recently, just here during this dissertation, that you—the Governors have the right to take the contingency and the prior years losses and use it to extend the rate case [cycle], if they wish to?

Mr. FOUCHEAUX. Postal Service revenues are accessible to the Postal Service under the direction of the Board of Governors to use as they see fit. That's what Congress intended, and that's well within the limits of the law.

Tr. 47/24769–70.

[4] *National Association of Greeting Card Publishers* v. *Postal Service*, 607 F.2d 392 (D.C. Cir. 1979), cert. denied. 444 U.S. 1025 (1980).

quires) over time. Like any theory, however, it becomes subject to skepticism if the results it predicts never come about. The Service must recognize, as well, that other important circumstances have so changed as to make its present, and regrettably indefinite, way of treating PYL a serious risk for it and those who depend on it.

The Postal Service stated on brief in this case:

> It was reported shortly before passage of the O[mnibus] B[udget] R[econciliation] A[ct] of 1990 that although it met the federal deficit-reduction target for FY 1991, the five-year deficit-reduction package will fall $10 billion short of the target for the period FY 1991 through 1995. As another year goes by and pressures to reduce the deficit in FY 1992 and later years mount, it is certainly possible that the Postal Service will be looked to for contributions beyond that imposed by the 1990 law.

Postal Service Initial Brief at I–9, fn. 9. Perhaps; but we suggest that, rather than merely lamenting this prospect and exploiting it as an argument against intervenor witnesses, the Postal Service take its own prediction seriously and reconsider its habitual treatment of PYL.

It is undeniable that, after 14 years in place, this mechanism has not (as RDA et al. witness Eden observed) restored the Service's original equity, nor indeed made any lasting contribution to the Service's financial strength. While we do not wish these observations to be taken as prescribing financial or accounting practices for the Postal Service, a duty the Act does not place on us, it is simply a fact that the existence of substantial resources, essentially unaccounted for, has, up to now, been a matter of concern to the postal community and no one else. Mail users have been able to assume that money not needed for the stated purpose will be used to postpone the next rate increase.[5] But another view of these resources is not only possible but plausible that they are simply extra cash. Postal management, as its representatives frequently emphasize, has a broad statutory discretion to file rate requests when it chooses. 39 U.S.C. § 3622(a); and see Postal Service Brief at I–5.

PYL recovery 16 the clearest example of a stream of income from rates and fees, formally designated for a particular institutional purpose which is nevertheless as far as ever from accomplishment, and therefore in danger of being regarded as no more than surplus cash. One possible answer is obvious: establish a schedule for the actual retirement of the cumulative losses; give it priority over other applications of the portion of income attributable to PYL recovery; and when the schedule has been met, drop the PYL item from rate-case revenue requests. If the officially-acknowledged purpose of prolonging the rate cycle is to influence revenue requests, perhaps it too should be subject to public discussion—particularly as it seems not to meet with the approval of all mailer groups. This is particularly so if rate-cycle extension is not the declared purpose of the request. While we have concentrated on PYL recovery, it would be unrealistic not to recognize that the same critical view might be taken of balances generated by the contingency provision, even though by definition this cannot be earmarked ahead of time for predetermined objects. Of course, the idea that the contingency too might and perhaps should be a separate fund, separately accounted for to the Board, has been frequently discussed.[6] The existing openended treatment of these funds is, in short, not inevitable.

Such questions as these say arise wherever the Service is seen as having substantial discretionary resources collected from mailers, for which it has no definite plan of future use and whose past uses it cannot, or at least does not, give more than the most generalized account. Some may suggest that mechanism which make this state of affairs possible comport neither with the breakeven theory underlying PYL recovery nor with the statutory mandate for postal revenues adequate under honest, efficient, and economical management.

GEORGE HALEY,
HENRY R. FOLSOM,
JOHN W. CRUTCHER,
W.H. TREY LEBLANC III,
PATTI BIRGE TYSON.

Mr. MCHUGH. Thank you, Mr. Gleiman. I appreciate those comments.

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[5] Indeed, with respect to the contingency, they have been expressly told this. PRC Op. R87–1 at para. 2056, citing Postal Service testimony. This issue is of course separate from the question whether the availability of essentially nonaccountable funds also leads to present technical inefficiency benefiting no one.

[6] It was discussed in the hearings in this proceeding.

Just as an informal rulemaking process right here, we do not have the normal 5-minute light series to help us confine ourselves to reasonable amounts of questions and answers.

So I would ask the Members, as we rotate down through, to please hold their original questions to somewhere in the 5 minute range. And I'm sure we'll have an opportunity to go through a number of questioning rounds, so that everyone has as much time as they would like.

So with that, let me just——

Mr. GLEIMAN. Mr. Chairman?

Mr. MCHUGH. Yes, Mr. Gleiman.

Mr. GLEIMAN. Before you start with your questions, if I could respectfully request that my entire prepared statement be placed in the record. The statement that I gave was somewhat summary in nature.

Mr. MCHUGH. Without objection, so ordered. Let me also acknowledge gratefully the presence of two Members who have joined us. On my left, and on your right, the gentleman from Indiana, Mr. David McIntosh. Welcome, sir. Thank you for being here.

And also, on my right, and on your left, the gentleman from Texas, Mr. Gene Green. Thank you, sir.

You described, I think very accurately, the intent of the entire ratemaking process, to somehow instill an oversight function, particularly in those areas where the Postal Service has been granted a monopoly to ensure fairness and openness to all of those involved in Postal Service matters.

It has, however, been 15 years since those broad outlines were established in the 1970 Reorganization Act—15—that's actually 25 years, isn't it, now that I redo my math? That's why I'm in politics.

Would you have any thoughts on how that act might now be amended, either to facilitate the Postal Service in the job that it has been charged to do or, probably more appropriately, allow you to more effectively and efficiently carry out the mandate with which you've been charged?

Mr. GLEIMAN. A lot of what one might do in the way of statutory changes depends on the future nature of the Postal Service, that public policy question that I posed in my statement. And really, I think, until the Congress deals with that question, there are a lot of other issues that won't fall into place in a very logical manner.

Having said that, I can tell you that I firmly believe that a great deal of the criticism associated with the nature of the rate-setting process, with price flexibility, and with introduction of new products can be dealt with within the existing law. And I have set about to work with the Postmaster General and other postal officials and would like to work with the committee in achieving some of those ends. If someone were going to change the current law to address certain issues that the commission was concerned about, perhaps there ought to be some requirement for more ready access to Postal Service information by the Postal Rate Commission, a requirement for a higher degree of cooperation by the Postal Service with the Postal Rate Commission.

And perhaps we ought to be given standing to go to court on our own to defend lawsuits against rates which we propose but which

the Postal Service implements and which the Postal Service ultimately gets sued for and has to defend against.

Mr. MCHUGH. I take it from your testimony that you have deep concerns about the quality and the veracity of the information that you're often provided in these matters. Would that be a fair judgment on my part?

Mr. GLEIMAN. That is a very fair statement, Mr. McHugh. And I'll tell you that one of the really frightening aspects of this all is that in the last rate case, a goodly number of major mailers who were supportive of the Postal Service's postal rate request participated in the rate case solely to establish the problems and concerns that they had about data deficiencies in the Postal Service.

And let me say that frequently, people talk about how much time and effort and money go into collecting this data for rate cases. Again, you know, we are dealing with a huge government monopoly and a lot of other people's money. But the data that you need to collect for a rate case is the same exact data that you need to collect to manage the Postal Service. You've got to know who's doing what, how long it takes to do it, and where the people are.

If the Postal Rate Commission didn't exist, it seems to me to be a well-managed organization, the Postal Service would have to collect all that data itself and would have to know what its costs were, so that even if it had the flexibility to set rates on its own, it could ensure that those rates were set above costs and not below costs in a predatory manner.

Mr. MCHUGH. So you're assuming that a large part of this frustration and the lack of the Postal Service being forthcoming is because they just don't compile the data in a professional, responsible manner on a regular basis? Or do you think there is a more nefarious factor afoot here? Do they supply, in your opinion, bad information in an attempt to skew your deliberative process?

Mr. GLEIMAN. I don't think that there's anything nefarious underlying the Postal Service's data practices. What has happened over the past few years—and there was testimony under oath in our proceedings by Postal Service witnesses that there has been roughly a—I'm going to get the numbers backwards, and I'll correct them for the record if I do. But the staff associated with collecting data and compiling and analyzing that data for rate purposes was cut by about 30 percent during the downsizing. And we suspect the amount of data that's collected was reduced by about 40 percent. When you're dealing with statistical data, you can run into problems sometimes when you don't collect enough data to get a true picture of what's going on in your little universe.

Also, as was pointed out by a number of the participants, the nature of postal operations changed significantly in recent years. I promise to finish my answer in time for you to be able to vote. But the nature of postal operations itself has changed with automation and with other changes; for example, pallatization of flats and the like and drop shipping. The people who used to be collecting mail, moving mail in certain ways, no longer collect and move that mail in those certain ways, because you have new types of equipment and new kinds of systems.

If the Postal Service doesn't update studies so that it knows how many people it has got doing what, it's not good for us, it's not good

for the mailers, large and small, and it's not good for Postal Service management.

But I don't think there's anything nefarious. I just think that they don't view it as a particularly high priority.

Mr. MCHUGH. Which you would suggest reflects on their ability to manage it well day by day?

Mr. GLEIMAN. You bet. I bet you if you're building cars, you know what your dynamic inventory is, and you know how many people you've got on the assembly line at any one time, and you know where your cost centers are.

Mr. MCHUGH. I've used up the time. We have been asked to vote on a rule—for the Members' information, H.R. 925. I learned we can get over there easily by the time the second set of bells ring.

I would like to yield to the chairman of the full Committee, Mr. Clinger, if he has any questions.

Mr. CLINGER. No. I'm here to learn.

Mr. MCHUGH. All right. Mr. Green.

Mr. GREEN. Mr. Chairman, thank you. I'll try and be brief. I guess because I have a lot of questions—and if we could submit questions later that we may not get to ask.

We heard last week from the postmaster, and I know that we talked individually with both the postmaster and members of the Postal Rate Commission. And as a new member on the committee—and I know seeing what's called "regulatory lag," if you're a public utility in an individual state, I would be interested in seeing how we can shorten that.

I know in your testimony, you talk about some reasons that are built into the system, the 10 months. But if there's any suggestions on how we can do that, maybe some flexibility in allowing the Postal Service to put into use competitive structures that's already out there by the private business and in looking at it later—the Postal Rate Commission looking at it later, so they may be able to respond.

There's a lot of questions I would like to ask, but I really didn't want to take up the time of the committee because of the vote coming up, too.

Mr. GLEIMAN. If I can just mention, I think there probably is some room. We found a way to shave a little bit of time out of the last rate proceeding. There are some people who don't feel you have to have oral arguments. I found them of some value to sharpen my focus on the issues.

But you mentioned other regulatory arenas. And let me tell you that the Postal Service is somewhat different in a sense. It's different because—you know, if PEPCO or VEPCO or Washington Gas or one of the local utilities allows a rates to go into effect before the end of the proceeding and then they disallow some costs, they have got good customer records, and they can go back, and they can give you a refund.

In the Postal Service, there may be some decent customer records for the largest mailers. But for your constituents, for me, there's no way once we plunk down that money for a stamp at the counter that we're ever going to get it back later on if the process is——

Mr. GREEN. I understand, but I'm talking about may be some functions of the Postal Service that may be in competition—they may have privatization issues already that they could respond to the market. I don't want you to think that I talked about the 32 cent stamp, letting them go and put it into effect before, but other products that they may be able to sell and to utilize to help support the Postal Service.

Mr. GLEIMAN. Let me just say, this is an interesting question. And I understand you're throwing out some ideas. And let me throw some thoughts back to you.

There's a lot of talk about the Postal Service being able to price products, having the flexibility to price products which are in competition and that in some way, this is going to help the Postal Service overall. If the Postal Service is in competition with somebody on product *X*—let's take Express Mail, for example—and they get to adjust the prices downward to meet what they view as the market pressures, if they get down to the point where they're at or below cost in an attempt to meet the market, they don't make any contribution to the Postal Service. All they do is cover the cost, if that, of that particular service.

The law as established requires each type of mail and each service to cover its cost and make a contribution toward the overhead of the Postal Service. The overhead of the Postal Service is big, $18 billion. And if the Postal Service can decide that a significant number of its products are in competition and, therefore, adjust rates lower than cost to meet the competition and not make a contribution, somebody else is going to have to pick up that part of the $18 billion.

Let me put it to you this way. First class mail is 50 percent of the volume, a little bit more than that, about 65 percent of the revenue, and covers about 75 percent of the overhead cost of the Postal Service.

If you take all those products that the Postal Service thinks are in competition and you tell the Postal Service, "You can go out there and lower their price to cost or below to meet competition," that overhead that is paid by first-class mailers, the letter you mailed to me, Mr. Chairman, inviting me to the hearing, which cost the Congress of the United States 32 cents, is going to cost more, because they're going to have to make up the money that they lose by having cost or below-cost competitive products.

Plus, you're talking about a Government monopoly competing with private companies.

Mr. GREEN. Mr. Chairman, I know we have to go vote. In response, we have private companies who want to compete with the government monopoly. And that road goes both ways. And so with that, I know we have to run and vote.

Mr. MCHUGH. Thank you. I thank the gentleman. The gentleman from New York has said he has one quick question before we run off.

Mr. GILMAN. Thank you, Mr. Chairman. I have one quick question. I would ask Mr. Gleiman to be brief, if he would, too.

Mr. GLEIMAN. I'll try.

Mr. GILMAN. The Postmaster General has been calling for flexibility. Can you tell us why you couldn't simply index rates to infla-

tion? Why does your process take so long? And what have you done to try to streamline the process? If you could try to give me a quick answer on that.

Mr. MCHUGH. That lets you know why New York's a complex State.

Mr. GLEIMAN. Let me have about 2 seconds to collect my thoughts. Why can't you just index rates to inflation? Different products have different costs associated with them. The cost of handling different types of mail and providing different types of mail service do not move in lock step. Some increase more than others.

If your indexed rate increases to general inflation, you would wind up having some rates that would perhaps be below costs before it was all over. And, as a matter of fact, in the last rate case, if the Postal Service had had its way, it would have shifted 78 percent of the overhead costs to first-class mail. They had an across-the-board, below inflation proposal. It would have shifted more costs to first class——

Mr. GILMAN. And can we streamline the process and make it move quicker?

Mr. GLEIMAN. If the Postmaster General can give us some specifics about what he's interested in, I'm sure we can work with him in a public forum, so that all of the other people who are going to be affected by this can have a say, also. We can find ways to streamline.

Mr. GILMAN. And do you have any recommendations that we should consider?

Mr. GLEIMAN. I don't off the top of my head, but I would love to have some discussions with you.

Mr. GILMAN. Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman. We're going to streamline ourselves over to the floor. And we will reconvene. I hope other Members will be able to join us again, but if not, I have a number of questions that I would like to pose to the panel. So I appreciate your forbearance, and we'll be back as soon as we can.

[Recess.]

Mr. MCHUGH. We can come out of recess and get back to work, because the schedule throughout the day is not likely to get any more accommodating or easier. I think it's important that we recognize your gentlemen's valuable time and proceed as quickly as we can.

I know that Mr. Sanford has a very important event that he has to take part in in the near future, so I would yield to him for any questions he may have.

Mr. SANFORD. I've got two quick questions, I guess one is following up on Mr. Green's question on regulatory lag. If you look at the Postal Service—and as I understand, there's a negative net worth or equity—I guess it was in last week's hearings, we kept hearing about, "We need to be freer to do a lot of things that we need to do, because without that, it impedes our ability to compete in the marketplace."

I want to touch again on why shouldn't they be free to set their own rates. One of the things we consistently heard about was, whether it's with Fed Ex or other competitors that did go into a product area, by the time they could get their rate structure ap-

proved, a year would have passed, and that they were really behind the learning curve and the competitive curve.

Mr. GLEIMAN. Well, let me mention again that since you mentioned Fed Ex, that Fed Ex is a private company. The U.S. Postal Service is a Government-granted monopoly. It has got some areas that are literally outside of the competitive arena. Roughly 85 percent of its revenue is monopoly revenue. And there is a basic question here about how much flexibility you want to give a government monopoly to compete with private business. That's one issue, I think, that people have to think about.

As far as the alleged 1-year lag—and you mentioned the equity issue, also—let me just tell you that I have been prepared since the day I walked in there to make the regular rate-setting process shorter and less cumbersome and to find ways to let the Postal Service roll out experimental products in a reasonable manner and experimental rates in a reasonable manner. By reasonable, I mean protecting everybody's rights in this process.

I understand that a number of Members asked for specifics last week when the Postmaster General was up here. And I, too, have asked for some specifics. It's very difficult to deal with this area when you're talking in vague generalities. But there is no year lag on competitive products.

The Postal Service decides when to ask for a rate increase, when to ask for a classification change. We have had rules at the Postal Rate Commission for experimental services for a number of years now on the books that provide for a proceeding that can last no longer than—it can be less than, but no longer than 5 months.

For 5 years, the Postal Service had a rule which we issued in their most competitive area, which is Express Mail, which allowed them market response flexibility in no more than 90 days. They never, ever used that flexibility that they had on the books. The rules sunset last August, but we reissued it immediately upon completion of a notice of proposed rulemaking after the big rate case was over.

And I think it's fascinating that an entity that has had these shortcut rules available to it has not made use of them and is in here talking in vague generalities about the need for more flexibility.

But again, I want to go back to point one, which was the underlying issue of how much you want a government monopoly to be able to have flexibility to change rates to compete with private companies, perhaps doing damage to them, and perhaps causing its monopoly customers who can't go anywhere else to pay higher rates.

Mr. SANFORD. One other question——

Mr. GLEIMAN. One minute. I apologize for the length of the answers, but I'm kind of thinking through this as I'm talking.

You mentioned the equity position of the Postal Service. The Postal Service's equity position is in its control. It decides when rate cases are filed.

The Postmaster General has made a big deal out of the fact that he spread the rate cycle out for 4 years. It usually is somewhere in the vicinity of 3 years or it has been, historically. And he claims to have saved rate payers $14.2 billion dollars. I've scratched my

head ever since I first heard him say that a year ago, trying to figure out where that $14 billion is. As best I can tell, delaying a rate case for 1 year saved mailers whatever the revenue was at issue in the rate case, which was $4.7 billion, not 14 point something.

But, in the process of delaying the rate case, the Postal Service went deeper into the red. Its equity position deteriorated. You can't have it both ways. You can't say, "Gee, we want more flexibility. We want to do things when we want to do them, so that we can have a better equity position and a better bottom line," and then spread the rate cycle out for an extra year, go in the red, and claim that you did something wonderful for people and for the Postal Service. It doesn't wash.

Mr. LEBLANC. Mr. Sanford, if I could comment just 1 second, please, sir.

Back in June 1992, we issued Postal Ratemaking in a Time of Change, which was a joint study that was done by some sitting commissioners at that time, some of our staff, and a number of Postal Service people themselves who worked many hours on it.

And I just want to touch on one thing or two things, very quickly here, to give you an idea. You talk about flexibility and so forth. It may be even helpful if this could be made part of this record today. I could provide this copy. I believe it's a clean copy.

Mr. MCHUGH. Without objection, so ordered.

[The information referred to follows:]

POSTAL RATEMAKING IN A TIME OF CHANGE

A Report by the

Joint Task Force on Postal Ratemaking

submitted to the

Board of Governors of the United States Postal Service

and the

Postal Rate Commission

JUNE 1, 1992

June 1, 1992

The Honorable Norma Pace
Chairman, Board of Governors
United States Postal Service
Washington, D.C. 20260

The Honorable George W. Haley
Chairman, Postal Rate Commission
Washington, D.C. 20268

The Joint Task Force on Postal Ratemaking transmits herewith the report you have requested on potential improvements in the postal ratemaking process. We are pleased to be able to say that the recommendations in the report represent a consensus, and come to you with our unanimous endorsement. We trust they will be helpful to the Postal Service and the Postal Rate Commission in meeting the challenges of the future.

ROBERT COHEN
FRED EGGLESTON
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EXECUTIVE SUMMARY

The Joint Task Force on Postal Ratemaking was created to recommend to the Postal Rate Commission and the Board of Governors opportunities to improve the effectiveness of the postal ratemaking process which the two agencies should jointly pursue. Norma Pace, Chairman of the Board of Governors, suggested to George Haley, Chairman of the Postal Rate Commission, that each of them name four members to represent their respective institutions.

Beginning work in January, the Task Force met in Washington, D.C., six times in informal but intensive two-day working sessions and in several other briefer meetings. The panel agreed to focus on consensus recommendations which can be implemented without legislation, and which encourage the USPS-PRC partnership envisioned by Congress in adopting the Postal Reorganization Act of 1970.

Because of the nature and speed of change in the current day marketplace in which the Postal Service operates and competes, the Task Force found a need for more flexibility in pricing by the Postal Service, a need for greater predictability of prices, and a continuing need for full accountability in postal financial performance. The Task Force thus recommends that postal ratemaking henceforth be based on a four-year rate cycle, with estimates for the entire period presented to the Commission in the initial rate filing. The Commission's recommended decision would provide legally implementable rates for the first two years of the cycle and project expected rate levels for the remaining two years. A midcycle case, with only limited matters at issue, would adjust rates for actual experience and ensure that the Service break even over the whole cycle. The four-year process, as described in Chapter III, is designed to provide better matching of rates to marketplace realities, to provide more predictable rate increases in smaller increments, to reduce the costs of the ratemaking process, and to improve accountability in many ways. Among the expected advantages of the new procedure is a reduction of the scope for the contingency allowance and the recovery of prior years' losses.

The Task Force acknowledged the legitimate need of the Postal Service to respond in a timely fashion to changing market conditions and therefore recommends in Chapter IV that the Postal Service have more latitude in pricing the "competitive classes" of mail — Express Mail, parcel post, and heavy weight Priority Mail. The Task Force suggests that for these classes the Postal Rate Commission present in its rate recommendation *bands* of rates constructed from the highest and lowest appropriate markups, leaving flexibility to the Postal Service to determine the actual rates for each subclass.

The Task Force also recommends consideration of a system of "declining block rates" to create incentives to postal customers to increase usage. All pieces in the initial block would pay the same rate, but as volume increases a rate benefit would be provided.

Innovation in the development of new postal products is encouraged by the Task Force report in Chapter V. The panel recommends the following new procedures: (1) accelerated procedures for market tests; (2) multi-year cost recovery for new service introduction; (3) fast-track, yes-or-no review for provisional services; (4) expedited review of service agreements; and (5) expedited minor classification cases.

In Chapter VI, the Task Force report emphasizes the need for improved communications between the Postal Service and the Postal Rate Commission. The group found that strained relationships have resulted more from failures to communicate than for any other reasons and suggests a number of ways the two agencies can engage in creative consultation. The Task Force recommends that explanatory materials concerning the ex parte rules be developed in order to avoid misunderstanding and overapplication of the rules. The Task Force also outlines ways in which greater understanding and electronic accessibility of postal data can

be achieved, including publication of Postal Service data in formats adopted by the PRC in the previous rate case and crosswalks for postal data.

In Chapter VII the Task Force lists suggestions and recommendations it feels are best left to the Postal Service or the Postal Rate Commission to implement.

The Task Force strongly recommends immediate action to adopt the four year, two-step rate cycle, and provision for rates in competitive classes, as a basis for the next omnibus rate case. The report outlines a feasible schedule in Chapter VIII, which proposes that rulemaking activity commence in June and conclude by August 15, 1992. Other initiatives would be taken up in a second 1992 phase. Following the next rate case, the Task Force suggest the Postal Rate Commission hold a conference to explore the benefits of rulemaking on established costing methodologies.

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Appendix — Background of the Joint Task Force

I
INTRODUCTION

Twenty-four years ago the President's Commission on Postal Organization called for the conversion of the Post Office Department into a government corporation to operate the nation's postal system on an efficient, self-supporting basis. Serious breakdowns in mail service, despite huge taxpayer subsidies, had convinced the Kappel Commission, and ultimately persuaded the Congress, that the nation's mail system had to be fundamentally changed. From the intense national postal debate of 1968-71 emerged not simply the Postal Service, but also a separate, independent ratemaking agency, the Postal Rate Commission (PRC).

In the 21 years since postal reform, massive postal breakdowns have been avoided, the taxpayer subsidy to the Postal Service has been eliminated, and double the mail volume is being handled by a workforce smaller than that employed in 1971. Employment conditions have improved significantly for the nation's postal employees. A professional, non-political management cadre has been developed to address what the Kappel Commission called "a management challenge as great as any in our economy."

Despite singular success in some areas, however, the nation's postal system today grapples not only with the problems of other large enterprises at a time of economic uncertainty and changing customer needs, but with unique financial challenges, some of which derive from the process used for setting postal rates. While the management of the mail system itself is the responsibility of the Postal Service, the Postal Reorganization Act divides authority for setting rates between the Postal Service itself, which establishes its "revenue requirement" and the Postal Rate Commission, which determines, after a full hearing on the record, the appropriate rate to be charged to each class of mail. Unless the Postal Service Governors find, by unanimous vote and on the basis of the record, that the rates recommended by the PRC will not provide sufficient revenue to operate the mail service, the Commission's recommendation may not be altered.

That the Governors, as a body, are given the final decision on the revenue requirement reflects the essentiality of the national mail system and the importance of assuring its financial health. Provision of prompt, reliable and efficient postal service has been a federal responsibility for over 200 years, and indeed is one of the enumerated powers given to the Congress by the Constitution. The 1970 reform act shifted to the mail user the full cost of what was to become a self-supporting postal service, but reiterated the mandate for universal delivery and continued the historic monopoly on carriage of letters. The letter mail monopoly remains an important, even critical, component of postal financing. The American people, as taxpayers and ratepayers, furthermore, have made an enormous investment in the facilities, staff and other assets of the postal system, and it is through maximizing the productive use of that investment and gaining revenue from non-monopoly services that rates for all users can be kept as low as possible, and the system upgraded to meet tomorrow's needs. The Postal Service, accordingly, offers many services not protected by its monopoly. The proper pricing of those "competitive" services raises difficult policy and technical issues, but need not, in our judgment, be as rigidly circumscribed as at present.

The process for establishing postal rates gives all parties a full opportunity to examine and challenge the costs attributed to each class and subclass of mail, the methodology used to establish those costs, the techniques employed to project future mail volumes, the share of institutional costs each type of mail should bear, and related matters. The process has some of the features of public utility regulation practiced at the state and federal level, but is unique in that only one entity is being regulated. It also imposes a significant degree of rigidity on the types of service offerings provided by the Postal Service, since the way postal services are defined, as well as their prices, are subject to Commission review and regulation.

At a time when most institutions offering services to the public are learning to respond more quickly to changes in market conditions, twenty-one years of administrative and judicial precedent have added to the complexity, and

inflexibility, of defining and pricing postal services. Today, the defining and pricing of postal services are more removed from the control of postal managers than is usual even in regulated industries, and, perhaps, more removed than the statute strictly requires.

The PRC was envisioned by Congress to be (in the words of the Senate Report accompanying S3843) "an integral part of the postal service, . . . a true partner of the Board of Governors in every aspect of postal operations." For a variety of reasons the relationship between the Board of Governors and the PRC cannot be characterized as a successful partnership; indeed, for most of the last two decades the relationship has been adversarial. Recent signs of cooperation, however, including the establishment of this joint Task Force, give rise to the hope that a new partnership of policy can achieve the vision of the architects of postal reform.

The recommendations presented herein are intended to encourage that partnership. While Congress may at some future date choose to revisit the fundamental ground rules governing postal rate setting, with the advantage of over two decades of experience, we are not proposing specific legislative changes at this time. They are not needed, in our judgment, for the improvements we propose. The Postal Reorganization Act gives wide latitude to the PRC to establish fair and effective procedures for administering the rate setting provisions of the Act. It is within this latitude that the proposals we recommend can be adopted.

What *is* needed for these changes to work is a recognition by both the PRC and the Postal Service that continued communication between them, and a cooperative approach to resolving issues, serves the public better than excessive concern for individual agency prerogatives. Their independent authority, like that of the three branches of the federal government, is well established: the conscious separation of powers built into the system need not preclude effective cooperation toward a common objective. If in implementing any of our recommendations, the

two agencies should encounter any adverse interpretation of their authority, we consider that these recommendations are each important enough for both agencies to seek legislation to confirm the authority to complete the suggested reforms.

The members of the Joint Task Force on Postal Ratemaking are unanimous in recommending to the Postal Rate Commission and the Board of Governors the recommendations set forth in this report.

A Note on the Task Force's Procedure

Although the schedule of the Task Force did not allow time for public hearings or the solicitation of public comment, we have been aided greatly in our work by the 297 pages of comments made by mailers and others in response to the Commission's invitation in Docket No. RM91-1 and, in particular to the October 1991 report of the Institute for Public Administration. We have not believed it appropriate, moreover, to solicit public comment on our specific recommendations prior to presenting them to the Commission and the Board of Governors. We recognize that the proposals could have been improved by the process of public scrutiny and comment, but leave that essential step of the process to the two agencies who sponsored our efforts.

II
INTEGRATED POSTAL SERVICE FRAMEWORK

The Task Force has consciously striven to relate the proposals made in this report to the broader context of the postal system as a whole. In evaluating a possible reform, we asked not just whether it made sense in isolation but also how it would fit into the overall goal structure of our Nation's postal system.

In this connection, it is useful to look at the Postal Service from three different aspects: (i) as a provider of mail services; (ii) as the institution that is the employer, the owner of assets, the vendor of services, and the like; and (iii) as a financial entity with revenue, expenses, assets, liabilities, and cash flow.

Each of these three aspects suggests a different set of objectives. The key objective of the Postal Service as a provider of mail services is to provide prompt, reliable, efficient services. They key objective of the institutional Postal Service should be to become and remain a world-class postal service. The key objective from a financial integrity perspective must be reasonable, predictable prices and sound financial health. Integrating these points of view, we can formulate the comprehensive goal framework as: **prompt, reliable, efficient services from a world-class quality postal service with reasonable, predicable prices, and sound financial results.**[1]

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[1] Cutting across this structure of goals is the Postal Service's array of constitutencies:

- Customers — who mail or receive over 500 million items each day;
- United States Senate and House of Representatives — which oversee certain postal matters;
- President of the United States — who appoints, with the advice and consent of the Senate, Governors of the Postal Service and Commissioners of the Postal Rate Commission;

The role of the Task Force's recommendations. We believe that our recommendations will help accomplish three instrumental goals:

- **greater flexibility** - offering customers services at reasonable, justifiable prices;
- **more predictability** - giving customers a better idea of prices over a time - horizon of several years;
- **greater accountability** - providing full disclosure of multi-year projections of balanced revenues and costs and restoring the equity position.

To relate these instrumental goals to the overall goal structure described above, we must recognize that there are several major components of each aspect of that framework. Some of the key components of **prompt, reliable, efficient services** are:

- comprehensive customer-based project coverage;
- prompt customer-based delivery standards;
- reliable delivery performance against a published standard;
- high customer satisfaction and, where applicable, appropriate and increasing market share.

- Postal Service employees — who perform the Postal Service's many duties and, in many cases, seek career opportunities with the Service; and
- Competitors — who have a vested interest in Postal Service services, prices, and fair cost apportionment methodology.

The Task Force represented no one of these constituencies, but rather the United States postal system as a whole.

Key components of a **world-class quality postal service** are:

- quality processes for continuous improvement;
- empowered employees;
- comparably compensated career opportunities;
- an accountability framework for financial results;
- high quality results;
- robust investment efficiency (linking automation equipment, real estate, human resource, and other investment productivity measures).

The components of **reasonable, predictable prices, and sound financial results** include:

- price increases less than inflation;
- predictable prices;
- fair cost apportionment among and between classes of mail product
- planned financial results, ultimately based on a twelve-month module, with full asset apportionment and recovery of past deficits;
- a financially sound equity account.

The preeminent challenge for the United States postal system is to develop consensus among its constituents upon the mutually shared vision and to gain concurrence on the steps needed to achieve these results.

The Postal Service has begun important initiatives in many of these categories. Its strategic plan for 1991-95 includes explicit objectives such as price increases at two percent less than inflation, the institution of customer input into delivery standards and geographic boundaries, the use of an independent measurement in determining delivery performance, the institution and expansion of customer satisfaction documentation, increased attention (where appropriate) to market share, the beginning of a quality program, the automation effort, ongoing

efforts between the Postal Service and the Postal Rate Commission to insure fair cost apportionment among various mail categories, and other related activity.

The Task Force believes that its recommendations will assist in the achievement of many of these objectives. In particular, the Task Force addresses the need for an accountability framework for financial results and a structural method to insure that price increases will be predictable (and hopefully less than the rate of general inflation). It still remains a challenge, however, to seek and gain consensus of the key constituents in our postal system towards a "shared vision." Each constituency may be expected to press for the implementation of certain component parts of this total integrated framework. The problem is that sporadic high priority attention on certain items may advance their attainment at the expense of others. This can motivate proponents of the other items to press with renewed purpose for their agenda, resulting in a seesaw oscillation without overall system improvement. The Task Force hopes that its discussion of these issues will, in some small way, help stimulate the concept of a "shared vision."

There already exists a great deal of information about many of the separate objectives listed herein, but one item about which we wish to elaborate relates to "sound financial results." We believe the Postal Service, with annual revenue exceeding $45 billion, would benefit greatly from implementing a sound discipline based on a financial plan, appropriately designed to secure the Service's financial soundness and covering *both* operating expenses and the recovery of past deficits. Such a plan would take twelve months as its basic module, but would also be appropriately keyed to the system's need for either annual or somewhat less frequent rate changes, as allowed for by the four-year strategic rate cycle. Inherent in our proposal is the development and publication of a four-year plan with total revenue at least covering all costs. The current system, by contrast, has three phases: in phase 1, immediately after new rates go into effect, revenue normally exceeds expenses; during phase 2, the Service "breaks even;" and in phase 3, the Service loses money. The proposed system would facilitate more standard financial practices of scrutinizing the relationship between the statement

of revenue and expense, the balance sheet, and the statement of cash flow. In particular, the Postal Service must bring some soundness and stability to its equity account which is currently negative. Success in this area will require both a systematic change in the way rates are set, as well as, the discipline to implement practices which maintain a healthy equity account.

In summary, our key objectives from a financial point of view are that the Postal Service have reasonable, predictable prices which increase at less than the rate of inflation, that its price structure includes full recovery of its costs, including financial obligations to current and past employees, that the equity account be brought to a healthy, positive position; that Postal Service costs and expenses be contained so that the Service achieves its planned financial goals every year; and that the Postal Service management publicly disclose its longer term financial objectives, including annual benchmarks, and establish financial targets for which it is held accountable.

III
A NEW MODEL FOR RATE CASES

A. The Problem; Outline of a Solution

Overview. The Task Force was asked to assess, and look for ways to improve, the overall effectiveness of the ratemaking process. Among the most often mentioned alternatives is a pattern of relatively infrequent *omnibus* rate cases, filed on a predictable schedule, with intermediate *updates* designed simply to keep Postal Service costs and revenues in balance. Recent proposals of this kind are found in IPA's *The Ratemaking Process*[2] and in the outline of possible changes prepared by the Postal Service's legislative working group. Similar ideas were suggested as long ago as 1988, by PRC Chairman Janet D. Steiger and Postal Service Governor Ira D. Hall.[3] The Task Force concluded that it would recommend a variation of these proposals as a way to deal with some of the serious problems addressed.

Our recommendation is for a four-year rate cycle, with estimates for the entire period presented to the Commission, and a recommended decision providing rates for the first two years of the cycle and projecting (but not formally recommending) rates for the remaining two years. The Postal Service's initial request would indicate the desired frequency (annual, biennial, or quadrennial) of changes in rates for the different categories of mail, and would commit the Board of Governors to implementing these changes "not earlier

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[2] Institute of Public Administration, *The Ratemaking Process for the United States Postal Service* (October 1991) at 9-10.

[3] Speech of Janet D. Steiger, Chairman, Postal Rate Commission before 84th National Convention of National Association of Postmasters of the United States, Virginia Beach, Virginia, October 19, 1988 at 8-10; Remarks of Governor Ira D. Hall to the Board of Governors, Springfield, Missouri, June 8, 1988.

than" a given date in each year for which a change is scheduled. A midcycle case would validate or adjust the earlier-projected rates for the remaining years of the four-year cycle, and with issues limited to experienced cost, volume, and revenue levels and rate adjustments appropriate to reflect them. The midcycle case would thus allow no revisiting of cost attribution or attribution methods, volume estimating methods, pricing policies or other factors affecting assignment of institutional costs, and no classification changes would be litigated or recommended.

This change in rate-case treatment — which we believe can be carried out, if the Board and the PRC decide it should be, with no need for new legislation — promises a number of improvements over present practice. Before describing in detail how it would work, we review some current problems and show how it could alleviate them.

Postal ratemaking in an environment of change. From the standpoint of rate-case practice[4], one of the main determinants of the issues and the results reached is the use of the *representative test year*. As our study of the problems of present-day postal ratemaking progressed, we saw increasingly clearly that the test-year model may be less advantageous today than when the system was set up twenty years ago.

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[4] By this phrase we mean the decisionmaking structure of general rate cases as prescribed by PRC rules of practice and as reflected in Postal Service requests and the testimony and legal arguments of the Service and other participants. It *excludes* (i) the substantive law of ratemaking (e.g., the requirement that each class cover attributable cost, or the instruction to consider economic, social, cultural, and informational value to the recipient in assigning institutional costs), and (ii) the distribution of authority (or "jurisdiction") between the PRC and the Governors. "Rate-case practice" thus has an important role in determining what issues are properly before the tribunal for decision in a general rate proceeding.

Use of a test year is widespread in utility regulation. Its theoretical basis is that for practical ratemaking purposes costs[5] and revenues can be balanced adequately by examining a segment of time *representative of the longer period during which, it is anticipated, the rates in question will be effective.*

It is easy to see the practical advantages of this procedure. It limits the sheer volume of data the parties, and the ratemaking agency, must handle. By determining, in advance, what the test year will be under any given set of circumstances of filing, the agency's rules eliminate a great deal of litigation over what data must (or must not) be considered in fixing rates. A prospective test year technique like the PRC's helps assure that in times of significantly changing costs the rates will not be obsolete, in terms of cost recovery, by the time they are implemented.[6]

The question is therefore not whether a prospective test year system is a "good" one, but whether it is well-adapted to the historical situation of the industry concerned. The answer to this question may change over time, and in the postal case there is reason to think it has.

Changes in cost of service can take more than one form. Costs can rise (or decline) more or less steadily over an extended period of years, without major planned or foreseeable changes in the scope or direction of the change:

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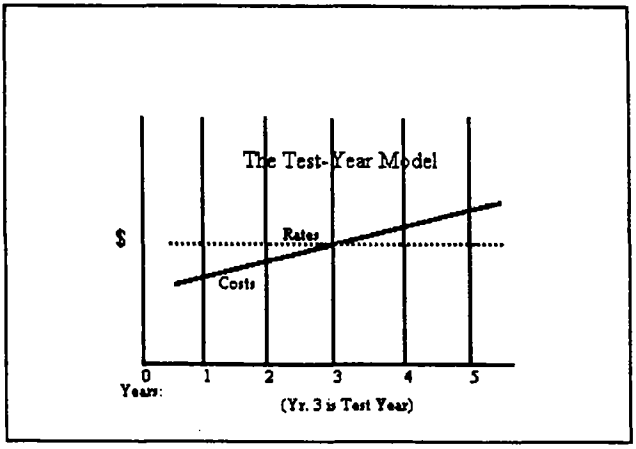
[5] Including, in the case of a for-profit firm, a reasonable return for its owners.

[6] See *American Public Power Association* v. *FPC*, 522 F.2d 142, 146 (D.C. Cir. 1975):

> . . . Thus, while historical test year ratemaking may have produced "just and reasonable" results in times of relative price stability, it may not produce such rates under rapid inflation. . . .

The case involved the Federal Power Commission's first future test year rule for electric utilities, promulgated in 1973.



In this situation, which appears to have been the one anticipated in the early 1970s when current rate-case practice was in its formative stage[7], a prospective test year system can be expected to work well. But this is not the only possible pattern of change, and we have reason to think it is not the one that applies to today's Postal Service. We cannot always expect costs to change monotonically, or in constant proportions, or even in the same direction. A number of forces can make cost changes more "disorderly": introduction of important new technologies, drastic shifts in the customers' need for the different services offered, and increases

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> . . . The first step in regulating utility rates is usually the determination of the "cost of service" for a recent twelve-month period. While some allowance may be made for anticipated changes in cost, *it is usually assumed that the relationship between accounted-for cost and revenue sales for a particular past year will be characteristic of the near future and will provide an adequate test of whether rates are too high or too low.*

President's Commission on Postal Organization, *Towards Postal Excellence*, Annex II, "Rates and Rate-Making" (Foster Associates), § 3.41 (emphasis added).

or changes in the source of competitive challenge are three that come immediately to mind. If change is driven by factors like these, rather than by "general inflation" or gradually increasing demand for an unchanging service supplied using established methods, ratemaking on a representative test year model — even if the test year is prospective — may give less than ideal results, simply because it is much less probable that any given year will be truly representative of a longer period within which it falls.

It is likely that a historical setting in which costs behave in the "disorderly" fashion just outlined will also be one in which managements devote extra attention to planning and forecasting. To the extent that rapid changes in costs will result from actions (such as the widespread installation of new technologies) initiated by the firm itself, extensive planning activity is almost self-evidently necessary. The activities of competitors, while in themselves more difficult to forecast, can still be intelligently guessed at, and plans made to counteract or adjust to them. More generally, increased intensity and complexity of change in a business environment can be expected to elicit greater efforts to influence, or foretell and provide against, the effects of the change: that is, more planning activity.

Combining these two notions — the lesser likelihood of a test year's truly representing an extended future period when cost changes are rapid and complex, and the likely availability of more comprehensive planning work by the regulated firm — suggests that *better ratemaking may result from using an explicit multiyear "test period" conterminous with the projected lifespan of the rates being proposed.* This is one of the main features of the Task Force recommendation, and from the structural standpoint of rate-case practice is the biggest single change we propose.

Regularization of rate changes under revised rate case procedures. The theory of the representative test year also can be thought of as entailing an intertemporal averaging of costs, volumes, etc., as a step in reaching a suitable rate schedule. In the archetypal test year situation (i.e., steady, uneventful growth) it is acceptable to spread aggregate cost recovery over a period greater than the test

period. Perhaps costs will be somewhat over-recovered early, and under-recovered later; but in a "steady-state" enterprise it is easy to dismiss this as relatively unimportant so long as the rate schedule meets legal and financial requirements over its life as a whole.

Where each year in the rate-case cycle can present a substantively different picture, this model may cease to be acceptable. Costs "over-recovered" from a customer group at time T may never be "given back" at T', simply because those customers have in the meantime shifted to a competitor. Rates set on a generalized expectation of increasing costs may turn out to be unsuitable for a class of service in which the firm introduces, at a later (post-test-year) point in the cycle, radical cost-saving technology. When inside-the-cycle changes like this are probable, a complete cycle becomes the more appealing interval over which to try to match rates to costs.

The corollary is, of course, that *even if the general rate case satisfactorily determines what all the relevant costs and volumes will be for the rest of the cycle, establishing one set of rates to last the whole cycle "wastes" much of the information so developed.* If it is clear that the cost of one service category will rise in line with total costs, while that of another will rise in that way initially but then, when a new technology becomes operative, decline sharply, economic intuition suggests trying to make the rate for the second category — at least — reflect that circumstance.[8]

There are other reasons for wishing to make rate changes more frequent than omnibus rate decisions, though still governed by those decisions. First, and

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[8] This flexibility in dealing with differential change during the rate-case cycle is one reason that we do not recommend an indexing mechanism. Bridging the gap between omnibus rate cases by mechanically adjusting rates in accordance with the Consumer Price Index or some similar standard has the merit of simplicity, but fails to reflect the complexities which are a principal reason for departing from the representative test year model in the first place.

evidently of much significance from the customer viewpoint[9], the increases will individually be smaller. Since most mail is an input to other economic activity[10], it is easy to see the force of the proposition that smaller variations in its price would cause less economic disruption.

Complaints about the present system focus not just on the size of the increases but on their comparative unpredictability. While it is generally assumed that a rate cycle will last approximately three years[11], this time span is not an explicit part of the Postal Service request. Accordingly, mail users (especially business users attempting to formulate operating budgets in which postage is important) face two obstacles: (i) the timing of increases cannot be relied on with any precision, and (ii) increases because they are infrequent, tend to be relatively large so that an error in forecasting their timing or size can be particularly disruptive.

Relationship to the contingency provision. The indeterminate length of the rate cycle under current practice does, on the other hand, allow for postponement

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[9] See PRC Docket No. RM91-1, Comments of Council of Public Utility Mailers at 2; Comments of Dr. John Haldi at 3-50.

[10] According to the Postal Service's 1987 *Household Diary Study* at IV-2, Table 4-1, for example, 41 percent of First-Class Mail is sent by businesses to households, and 36 percent by business to other businesses.

[11] This has not always been true. The intervals between requests for general rate changes, since postal reorganization have been:

Between	and	Interval (months)
R71-1	R74-1	32
R74-1	R76-1	24
R76-1	R77-1	22
R77-1	R80-1	33
R80-1	R84-1	43
R84-1	R87-1	42
R87-1	R90-1	34

of increases if funds are available to finance the postponement. The Postal Service has stated that revenues earned by virtue of the contingency provision authorized by § 3621, to the extent not required by unforeseen adverse events, can be and are used to delay the next rate filing.[12] Over a period of years, this practice presumably does reduce the customer's total postage bill. It does not alleviate either the customer's planning problem or the difficulties created by the sheer size of the increase when it does occur.

A substantially predetermined schedule of rate increases should also have the effect of reducing the absolute amount of the contingency provision. With a predetermined rate change timetable, Postal Service financial planners would find themselves able (and no doubt would be under some pressure) to reduce the level of the contingency provision. If this came about, the somewhat indeterminate benefit mailers now receive from the Service's ability to stretch the cycle would not be lost, or entirely lost; it would simply reappear in the form of a reduced total revenue requirement.[13]

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[12] See, e.g., testimony of Postal Service witness Stephen P. Dargusch, Docket R87-1, USPS-RT-1 at 13; PRC Op. R87-1, para. 2056; PRC Op. R90-1, Joint Concurring Opinion, *passim*. It might seem that the provision for recovery of prior year losses (PYL) would be subject to the same treatment. Theoretically, it should not be, since unlike the contingency it is designed to recover a specific amount over a known period of years. It has been argued, however, that since the accumulated past losses have not in fact been offset on this schedule, there is no practical difference between the PYL item and the contingency provision. See PRC Op. R90-1, paras. 2046-51 (discussing arguments advanced by Reader's Digest Association et al.).

[13] A slightly different problem is presented by the PYL recovery item. Unlike the contingency provision, this is not an explicit statutory (§ 3621) "cost," but a method for restoring financial stability by amortization of accumulated deficits. It has been argued that in fact it is failing to do so and should therefore be eliminated. In the last rate case, the Commission rejected this argument, but expressed concern over the facts underlying it. PRC Op. R90-1, Joint Concurring Opinion. It should be possible, given an explicit financial plan for the rate cycle and a predetermined rate change schedule, actually to retire the accumulated deficits.

Transaction costs. It is commonly said that the current process is too costly. While few figures are available as to the cost of participation (and those have been subject to debate), it is clearly in the public interest to reduce the overhead represented by rate litigation. One way to restrain litigation costs, without sacrificing procedural protections built into the Postal Reorganization Act is to structure ratemaking so that issues are not raised and litigated more often than necessary. The present system treats each rate case as a fresh controversy — to be influenced and often governed by precedent (provided the precedents are not overborne by the challenges participants often make), but fundamentally based on the evidentiary record *of that case* — and tends to promote such repetitive litigation.

The main purpose of adjusting rates, of course, is to enable the Postal Service to break even over a reasonable span of time.[14] If rate cycles are made to correspond to the Service's financial planning cycle it should be sufficient to establish the basic structure of volume estimation, cost attributions, and pricing determinations at the outset, and limit most other intracycle litigation to maintenance of the basic financial balance. The midcycle case can thus be relatively short and simple. While certain strictly revenue requirement issues have been litigated in recent rate cases, they have not proved unmanageable. Moreover, much of the dispute has arisen from the present indefiniteness of the rate cycle and the financial devices that interact with it. As suggested above, much of this indefiniteness would be eliminated under the Task Force recommendation.

Summary. The Task Force is recommending adoption of a four-year rate cycle with an abbreviated midcycle case for adjustment purposes:

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[14] *National Association of Greeting Card Publishers* v. *U.S. Postal Service*, 607 F.2d 392, 425 (D.C. Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980).

1. The Postal Service finds itself in a more rapidly changing environment — in terms of technology, customer demand, and competition — than prevailed when the present system was created in the 1970s.

2. In particular, cost changes are likely to be "disorderly" rather than steady and uniform; costs of one class may be lowered (by installation of new technology, for example), while others rise (perhaps because of changes in mail mix).

3. The Postal Service can be expected to respond to these changes through more intense planning and forecasting efforts — which can be usefully employed not only by its management but also by the ratemaking process.

4. Postal customers stand to benefit from a ratemaking system which replaces the current indefinite cycle and relatively large, if infrequent, increases, with a substantially predetermined timetable of rate changes occurring in smaller, more frequent, steps.

5. An explicit rate cycle could enable the Service to reduce the resources that appear in rate cases as large nonaccrued cost items: the contingency provision and the provision for recovery of prior year's losses.

6. With an omnibus rate case only every four years, rather than approximately three years, a saving in transaction costs is possible. The midcycle case would be limited in scope, with the most contentious ratemaking issues excluded and even the revenue issues likely to be somewhat simpler than at present.

B. How It Would Work

The Task Force is recommending a new format for rate cases, in which an explicit four-year period is treated as an entirety, with data and estimates for the whole period. A midcycle case, strictly limited in scope, would enable the Service to stay on the financial course charted in the initial, omnibus, case. Rate changes would be scheduled in advance and occur, in smaller steps than are now taken, more than once during the rate-case cycle. The pattern of rates and interclass rate relationships established in the initiating case would be expected to govern throughout the cycle. This pattern, however, may have changes designed into it. A demonstration in the initial case that cost configurations or other determining factors should be expected to change in the course of the cycle should be reflected in the pattern of rates recommended.

In what follows, we discuss details of how such a system might be put into effect. We also describe some other solutions we considered but decided not to recommend.

An *explicit* four-year cycle is the cornerstone of the recommendation. Earlier, we drew a contrast between this cycle and the present representative test year mechanism, and outlined the possible benefits from making the change. But besides eliminating the indeterminateness of the "inter-test-year" periods, characteristic of the present system, our proposal also contemplates a more explicit showing of what longer-run policies (operational as well as financial) the filing is designed to further and how it would do so.

Presenting the policy background. Accordingly, we believe one integral part of a Postal Service rate request under the four-year cycle plan must be a **presentation by a senior policymaking officer of the Postal Service — appearing as a "policy witness" — to make clear the policies to which the filing responds**

and, in general terms, the reasons the Service believes the filing will advance them.

This witness, who would be an officer having the position and information to speak authoritatively (possibly even the Postmaster General), would not have the same function as the witnesses who testify to aspects of the asserted facts of the case. A "policy witness" at this level would combine the roles of a witness presenting facts and a recognized policymaker authoritatively describing the policies of the organization. We see the emphasis as falling on the latter function — one for which the ordinary trial-type hearing, including discovery and cross-examination, is not generally appropriate.[15]

It should therefore be possible, without losing the benefits of an authoritative explanation by such a witness, to limit the questioning to a level suited to his or her role. The Commission, while it must make comprehensive findings of fact supporting its own rate recommendations, need not make parallel findings concerning the precise contours of Postal Service filing policy if these are authoritatively expounded by a qualified spokesman. One model for the appearance of such a witness might be the procedure adopted in some fact-based legislative rulemakings: participants may submit questions to the officer presiding, who winnows them to eliminate irrelevant or duplicative inquiries and conducts the actual questioning.[16] We believe there is a significant difference between the

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[15] The Administrative Procedure Act requires the Commission to allow "such cross-examination as may be required for a full and true disclosure of the facts." 5 U.S.C. § 556(d). This general objective can be served by questions that either (i) shed light on a witness's inconsistencies, false or unjustified assumptions, or methodological errors or (ii) clarify statements that once more fully understood are not challenged by the cross-examiner. In the case of a policy witness testifying at a high level of generality, it seems likely that only the second function would have much importance.

[16] A practical example appears in *International Harvester Co.* v. *Ruckelshaus*, 478 F.2d 615, 630-31 (D.C. Cir. 1973). Concededly, this case did not involve a statute requiring a hearing "on the record." But that requirement, present in § 3624(a), does not mean that issues on which the Commission is not expected to

Commission's reception of evidence looking to dispositive factfinding on cost attribution or the level of worksharing savings (where an APA-type trial is necessary), and the exposition of an authoritatively-described policy background to the Service's request (where the Commission does little factfinding in the normal sense, but where a clear understanding of the policies is crucial). We believe the Commission can express this difference, and its procedural consequences, in its rules of practice.

The structure of rate changes. Because the filing would comprise projected data for the entire four-year cycle — rather than a representative test year of data, as under present practice — the rates in effect at any given point in the cycle would be explicitly based on data in the record of the rate case.[17] This naturally raises the question: Should these data be intertemporally "averaged" to yield one set of rates lasting the entire cycle, or should they be made the basis of specific rate changes occurring at predetermined points within the cycle?

A digression on indexing. Before discussing the question just posed, however, it will be convenient to address a further option: indexed rates. An example would be automatic annual rate adjustments keyed to the Consumer Price Index (or the CPI less a predetermined amount, say one percent). Indexing does not satisfy — in fact, it deliberately sets aside — the general proposition, stated immediately above, that the rates at all times would be based on data tested on

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make adjudicative findings must individually be the subject of trial-type hearings.

[17] Precise congruence between a year of projected data and a year of rates cannot be expected, since there may be good reasons for the Board of Governors to delay somewhat the implementation of a particular year's new rates. See page 32. But as a general principle the assertion made in the text will hold true.

the rate case record.[18] It is, however, a widely-discussed ratemaking option both for postal services[19] and for other utility industries.

The advantages claimed for indexing are, fundamentally, three: (i) once set in motion, it is simple and cheap to administer; (ii) it avoids long periods of decline in real prices followed by a large increase with associated "sticker shock"; and (iii) where profit is part of the industry structure, it provides incentives for technical efficiency, in that cost growth held below the growth in the predetermined index leads to increased dividends. (Under a breakeven rule like that of § 3621, the third argument has little force.)

Indexing purchases simplicity at the expense of accuracy in cost tracking. The conflict has been described thus:

> . . . there is no reason to believe that the costs of any specific regulated firm, or postal authority, will increase in lock-step with the overall rate of national inflation. If one attempts to calibrate the adjustment formula so as to try to ensure that changes in the allowed prices will track the regulated entity's specific cost cha[n]ges, the adjustment formula quickly becomes very complex, and the simplicity benefit of indexed regulation disappears. Also, in such a situation, indexed regulation becomes a guaranteed cost-plus pricing system, and the efficiency incentives inherent in the fixed rate feature of the public utility model are lost.[20]

In some regulatory schemes, the simplicity purchased by loosening the tie between cost and price may represent a net gain; more particularly, it may do no

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[18] This is so not because the rates are not based on current data — they are — but because (i) the data themselves are not, or are not entirely, cost data from the regulated enterprise, and (ii) they are not evaluated on a hearing record.

[19] IPA, *The Ratemaking Process* at 9-10; PRC Docket No. RM91-1, Comments of McGraw-Hill, Inc., at 6; Advertising Mail Marketing Association at 9ff.

[20] George R. Hall, *Regulatory Systems for Postal Rates*, Paper presented at the Conference on Postal Economics and Policy, La Londe les Maures (March 1992) at 7-8.

violence to the regulatory statute and the policies behind it.[21] It is far from clear that such a tradeoff would satisfy the language, or the underlying policy, of the Postal Reorganization Act. Both the breakeven requirement of § 3621 and the attributable-cost recovery mandate of § 36 2(b)(3) could be violated if the Postal Service's experienced costs diverged too far from the "expected" revenues from rates generated by an extrinsic index.

Separating rate changes from rate cases. If, putting aside the option of rate indexing, we focus on cost-based systems incorporating cost estimates for a full prospective rate cycle in place of the supposedly representative test year, the next question is the proper relationship between the rate case where these data are tested and interpreted and the actual changes in rates which they imply.

At page 15 we outlined the reasons for effectuating the total revenue change implied by a rate cycle's worth of estimates in smaller but more frequent steps than is now the practice. In line with that view, we concluded that there were very persuasive reasons for spreading the total change over a number of steps.

This logic, however, does not fully determine how the rate cycle should be administered. A threshold question is whether there should be an opportunity to adjust the anticipated profile of rate changes partway through the cycle.

The "maximum simplicity" model would call for the adoption, at the outset, of a set of predetermined rate changes not thereafter subject to alteration. This would effectively reduce the administration and litigation burden to a single omnibus case every four years. The series of changes would, of course, reflect the

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[21] There may be a historical analogy in the decision of the Federal Power Commission to abandon individual company cost of service regulation and set natural gas field prices on an areawide basis. This initiative was upheld in *Permian Basin Area Rate Cases*, 390 U.S. 747, 768 ff., 775-77 (1968) — partly on the basis that the Natural Gas Act lays down highly generalized ratemaking requirements.

pattern of expected cost-incurrence changes and other relevant factors over the entire cycle. Simply adding up the separate annual revenue increases, dividing the cycle total into four approximately equal parts, and designing rates to recover each annual revenue requirement would waste much of the information assembled for the omnibus case, needlessly sacrificing our opportunity to improve cost tracking.

Even as just qualified, however, this "one-step" model imposes penalties in terms of accuracy and management flexibility which the Task Force expects would be unacceptable to the Postal Service, to mail users and other rate case participants, and to the Commission.

The accuracy problem stems from the common-sense perception that predicting the future revenue needs of an enterprise as large and complex as the Postal Service is difficult enough a year or two in the future, even with the discipline imposed by a trial-type hearing process. To expect either the Service's in-house forecasters, in the first instance, or the Commission, aided by the criticism and additional information brought to light on a hearing record, to produce consistent breakeven or near breakeven results as much as four years in advance seems unduly optimistic. The one-step model, however, makes it axiomatic that such forecasts, as embodied in the initial rate change plan, must be substantially on target.

If they are not, however, the one-step model provides no mechanism for upward correction other than the present prior-year-loss recovery mechanism[22], and no explicit mechanism at all for downward correction. Having to resort to *unplanned* PYL recovery on any large scale would be a disappointing outcome to the process, given that a rate-cycle plan normally should include a targeted level of reduction in the Service's accumulated deficits. The Task Force, therefore,

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[22] Many of the complaints about the PYL mechanism expressed in the most recent rate case, and reflected in the joint concurrence signed by all five Commissioners, would be alleviated by the adoption of a known rate cycle.

favors steps that would prevent as far as possible the incurrence of additional cumulative losses during the rate cycle itself.

The flexibility problem is not unrelated. Under present law, it is the Service that initiates the rate process, when it "determines that such changes would be in the public interest." 39 U.S.C. § 3622(a). Some relinquishment of that flexibility in timing is implicit in the Service's committing itself to a four-year cycle and to a set of explicit cost, volume, and revenue predictions covering the whole four years. If it is to make that commitment, it presumably must be confident that the ratemaking mechanism will not, even on those terms, force it to miss its statutory breakeven target.

Thus the one-step model shares one of the main faults of indexing — the likelihood of departing substantially from the actual pattern of cost incurrence — without providing whatever benefits to technical efficiency might be thought to derive from an extrinsic cost index.

The two-step model. The Task Force accordingly recommends a system in which rates (i.e., rate changes) for the whole cycle are laid out in advance, but —

1. The Commission formally *recommends* — in the § 3624 sense — only the first two years' rates; and

2. In the middle of the cycle there is an abbreviated case, essentially limited to breakeven-oriented adjustments, which results in the Commission either validating or changing the *projected* rates for the second two years of the cycle, and recommending them under § 3624.

In our opinion, this mechanism best combines (i) procedural streamlining and reduction of litigation, (ii) opportunity for public participation in ratemaking, (iii) recognition and use of Postal Service planning efforts in pricing postal services, and (iv) assurance of breakeven as required by the Act.

The midcycle case. It will be important to insure that the midcycle case avoids two pitfalls:

1. It cannot be allowed to grow into an additional omnibus rate case where all or most of the issues thrashed out in the basic case are reopened; and

2. It cannot be simplified so drastically that it fails, in practice, to enable the Service to complete the four-year cycle in as nearly as possible the position aimed at when the cycle began.

Given that there will have been a full opportunity to litigate them in the cycle-initiating omnibus case, a number of issues can be generically excluded, by Commission rule, from the midcycle proceeding. Since the fundamental purpose of the midcycle case is to help achieve the goals of the entire cycle, there would be no need to revisit —

1. Pricing questions (i.e., the relative contribution to institutional costs of the various classes and services);

2. Attribution methods;

3. Volume estimation methods;

4. Rate design; or

5. Classification issues.

It seems equally clear that actually-experienced volumes, cost levels, and billing determinants[23] must be used in the midcycle case to arrive at improved forecasts for the last two years of the cycle. It is these parameters that determine the breakeven target and thus govern the calculation of new rates for those years. Naturally, it is to be hoped that the projected rates for the later years will turn out to have been close to those indicated by forecasts derived from the later actual data: one benefit to users from the four-year cycle is predictability of increases. But the point of the two-step cycle is that most issues other than financial breakeven will be tried and decided once, and that the midcycle case is fundamentally a response to the inherent uncertainty of predictions.

Such limiting of midcycle case issues, in turn, would reduce drastically the time needed to try the case. For example, in the most recent omnibus proceeding the Postal Service's direct evidentiary case (the prepared testimony filed along with the request) comprised the statements of 23 witnesses. Their subject areas, by general category, broke down as:

[23] In a class with various options that affect the postage paid, the relative prevalence of different presort levels, destination-entry levels, and the like will help determine total class revenue. Thus, for example, in a pound-rated category an unforeseen change downward in the weights of pieces mailed would reduce revenue below predicted levels even if the volume projections were absolutely accurate.

GENERAL CATEGORY	NUMBER OF WITNESSES
Revenue Issues (Financial)	2
Volume Forecasting	2
Base Year Costs	1
Rollforward of Costs to Test Year	1
Cost Attribution Issues	4
Pricing Issues	1
Rate Design/Classification Changes	4
Data Systems	1
Worksharing Discounts	6
Market Research	1
TOTAL	23

In a midcycle case, limited as described above, we would expect testimony on actual volume experience (as distinct from forecasting methodology); actual cost experience and cost projections for the out years; and associated financial questions. Rate design issues of the more ministerial sort (e.g., questions of rounding) might occur as well, but should not approach the complexity — or contentiousness — of rate design issues now present in an omnibus case. Because the profile of rates and the classifications to which they apply would not be open for changes, the Service would not be supporting, nor other parties opposing or offering alternatives to, new discount or rate categories.

Consequently, even if we do no more than excise the no-longer-relevant lines from the table above, we see the Service's case perhaps reduced to four witnesses. In fact, it is quite likely that, since the individual issues should be simpler, presentations could be combined. In a suitably uncomplicated case even two or three witnesses might be able to do the whole job.[24]

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[24] There is, concededly, one new feature not present in the present scheme. Since the midcycle case will be in large measure a comparison with previous predictions, it will probably be useful for the Postal Service to demonstrate the reasons for any substantial departures. Without such a showing, a great part of the gain in accountability which the rate cycle mechanism promises would be lost; the midcycle case would then tend to become a mechanical "flow-through" device

Spacing of increases and choice of implementation dates. One question to which the Task Force gave considerable attention is the spacing of increases for the different classes and special services. The four-year, two-step model does not necessarily require changes in all rates every year. It does, however, require that the pattern of changes within the cycle be known at the beginning — i.e., in the omnibus case — and adhered to throughout the cycle.

Under the Act, the Postal Service has the responsibility for deciding when to file a request for rate changes. 39 U.S.C. § 3622(a). At present, this responsibility can be exercised in two ways: by determining to file an omnibus rate case; or by determining to file for a localized change in a rate, or (most commonly) for a classification change that creates a new rate or discount. In recommending the four-year rate-cycle model, however, the Task Force has had to face the question whether it is the Service, under § 3622(a), or the Commission, under the ratemaking provisions of chapter 36, that should decide the class-by-class spacing of increases within the cycle. By "spacing" we mean the pattern presented and recommended in the cycle-initiating omnibus case whereby some classes might be scheduled for increases annually, some biennially, and others, perhaps, only once during the cycle. The Task Force believes the four-year rate cycle will be more successful if the designation of these timetables is left to the Postal Service — subject, of course, to the basic ratemaking commands that control both the Service and the Commission.[25]

Two of the purposes of the reform are to improve the Service's breakeven performance and to simplify and make more predictable the process of changing

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if costs increased more than predicted.

[25] Thus the Service, as well as the PRC, must refrain from undue or unreasonable discrimination or preferences [§ 403(c)], and the Governors must establish "reasonable and equitable rates of postage and fees for postal services" [§ 3621].

rates. Under existing law the Board of Governors has the ultimate responsibility for insuring breakeven, and thus for overall financial and business management of the Service. It seems to us , for example, that the Service could propose to change most First-, second,- and third-class rates a second time during the cycle, following the midcycle case; to change parcel and other competitive rates annually so as to align them more currently with costs; and perhaps to change some minor categories (including many special services) only once in the cycle.[26] We would emphasize that these timing categories must be broad ones, so as not to raise questions under the more specific ratemaking mandates of the Act. The timing of changes should be such as to avoid discrimination and anticompetitive pricing issues and should be regular so that the predictability benefits of the system are maximized.

The Task Force therefore recommends that Commission rules on the four-year cycle make it clear that the Service's choice of a timetable for changing broad categories of rates, expressed in the omnibus filing and maintained thereafter during the cycle, would normally be controlling.

As a corollary, we also recommend positive steps to insure that the timetable is adhered to throughout the cycle. Under existing law, the Board of Governors determines the implementation date of any change in rates. 39 U.S.C. § 3625(f). Our proposal calls for the PRC to make a second-year[27] recommendation in the format "Not earlier than [date] . . . . " (the date being one year after the first change in that part of the cycle). By accepting the recommended decision, the Governors would be undertaking to make the recommended increases effective

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[26] While employed here as an example, this profile of changes was discussed favorably in the Task Force's deliberations. Rates after the fourth year would depend on the decision in the next omnibus rate case.

[27] That is: in the omnibus case, the second year of the cycle; in the midcycle case, the fourth year.

no earlier than the date given. This would assure mailers that additional revenue would not be collected earlier than the rate case presentations had assumed.

A somewhat different problem arises from the possibility that implementation of the second set of changes might be unduly delayed. The Task Force is not recommending what might appear the simplest solution: a single date certain, expressed in the recommended decision, for the rate change. We recognize that transient conditions, unforeseeable at the time the recommended decision is issued, make it appropriate to leave some, even though not unlimited, flexibility for the exercise of § 3625(f) discretion at the time the second set of changes is to be implemented.

On the other hand, it would clearly be inconsistent with the theory and purpose of the four-year rate cycle to delay implementation excessively, or on a selective basis. Delaying implementation for more than a limited time would produce an imbalance between costs and revenues that would frustrate a major goal of the rate-cycle proposal.[28] In addition, of course, the Commission's recommended decision, in calculating the rates that will produce the required breakeven result, necessarily assumes at least an approximate implementation date.[29] The necessary reconciliation between the Board's power to choose the date and the requirement that the Commission produce a breakeven result can be brought about by the Board's exercising its discretion in advance, and making the expected implementation date a factor in the rate filing.

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[28] We pointed out above (page 17) that one of the advantages of the explicit rate cycle is the opportunity it provides for actual retirement of accumulated deficits and restriction of the contingency provision to its expressed statutory purpose.

[29] In Docket No. R90-1, the Postal Service helped simplify this question by making such a date explicit in its own calculations and suggesting that it be used as the reference point in the Commission's.

The Task Force views this aspect of the rate-cycle procedure as an appropriate one for commitment by the Board of Governors as well as the PRC to the exercise of their respective powers in consonance with the plan. If the Board and the Commission agree that the four-year rate cycle is a desirable improvement, it follows from the fact of shared responsibility that their implementing rules and policies must be consistent and complementary. A proper balance must be achieved between implementation-date flexibility sufficient to accommodate circumstances not factored into the rate decision, and the preservation of the accountability and predictability gains the four-year cycle is designed to produce.

Rounding the First-Class letter rate. One practical problem of implementation which the Task Force examined is that of the integer First-Class letter rate. The Commission and the Service have consistently assumed that this rate, to be administrable, must be expressed in whole cents.

At current (1992) volume levels, one cent on the First-Class letter rate equates to approximately $800 million. Rounding up or down to a whole cent, therefore, involves a maximum of some $400 million (about 0.8 percent of the total revenue requirement). The average rounding amount over a number of cases would approximate $200 million.

The Task Force recommends, so far as the rates formally recommended for the first two years of the cycle are concerned, that the Commission round up or down as the numbers require, just as it does today. The Commission, of course, will not initially be recommending rates for the third and fourth years of the cycle, but only furnishing a forecast of what, on current data, those rates would probably be. The forecast of the First-Class letter rate should not be expressed as a whole cent; its function is to give users a *general* notion of what rates they can expect to pay in future years, and to serve as the base for scaling rates to match the revenue requirement finalized in the midcycle case.

A more difficult problem arises in the midcycle case, where the rate pattern determined in the omnibus case is to be scaled to the then currently projected revenue requirement. Only by chance will this scaling exercise imply an integer First-Class rate, and the nature of the case is such as to exclude accommodation of the needed rounding by adjustments elsewhere in the rate schedule. In this situation, we believe the best solution is, again, to round up or down as the underlying numbers dictate. The resulting slight imprecision in the balance between revenue and costs over the rate cycle should be considered as within the practical tolerances of the process, given the value to the public of the integer constraint.

Implementing the four-year rate cycle system. We pointed out above (page 11) that the four-year rate cycle can be implemented without legislation. The Commission has broad authority to make rules "necessary and proper to carry out [its] functions and obligations" (39 U.S.C. § 3603), and the substantive provisions of chapter 36 do not prescribe specific methods of conducting rate cases (apart from the hearing requirements of § 3624). Similarly, the Board of Governors, in the exercise of its responsibility to authorize the filing of requests and to place rates in effect, can adopt the necessary procedures by rule or other appropriate mode of official action.

The problem of implementation is thus a question not of jurisdiction or authority but of time pressure. The last omnibus rate case was filed with the PRC in March 1990; and, while there were complex remand proceedings during most of 1991, the actual collection of increased revenues began in January of that year. On the analogy of past rate cycles, it is reasonable to assume for planning purposes that another omnibus case may be filed in the early months of 1993. If that case is to follow the four-year rate cycle pattern — and the Task Force strongly believes it should — the PRC and the Board must make the necessary decisions

and commitments and enact the appropriate regulations, as quickly as proper public participation and adequate analysis of the issues will permit.[39]

The Postal Service's experience with preparation of rate cases indicates that, for filing in the early months of a calendar year, the rules the filing must follow should be known and certain by the previous September. Ideally, therefore, the PRC would need to issue final rules by mid-August 1992. (Timing questions are discussed in Chapter VIII.) This is a demanding schedule, but it seems feasible in light of two facts: (i) many of those likely to be interested are familiar with the general question from debate over it elsewhere, and (ii) the Commission already has pending a general procedural reform docket (RM91-1) which has elicited comments expressing some parties' views on it, and which can easily accommodate the four-year rate cycle rules. Thus neither the Commission's startup time nor the parties' need for time to formulate comments is likely to make the above timetable unrealistic.

Conclusion. The Task Force recommends, as a basic reform of the current omnibus rate case process, the joint adoption of the explicit four-year cycle with a stringently limited midcycle proceeding focused on assessing that the cycle's breakeven target is met. This new model would:

1. Benefit mail users by increasing the predictability of rate changes and moderating their size;

2. Improve the accountability of the system by substituting a known cycle of rate filings for the present indeterminate cycle;

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[39] This is true also of the special rate structure provisions needed, under the proposal discussed at 40, for certain competitive categories of mail. The Postal Service will presumably wish to suggest rate levels for them in its filing, and therefore will need to know that rates designed in the way contemplated by the Task Force proposal will be permissible.

3. Improve the efficacy, and permit a decrease in the size, of the contingency provision, as well as facilitating orderly recovery of accumulated past losses;

4. Reduce transaction costs by increasing the interval between full-scale cases to four years; and

5. Introduce and use a cost-tracking model using a set of explicit projections for the full rate cycle — a system much better adapted to sound ratemaking in an environment of rapid, widespread, and diverse change.

C. Ancillary Procedures

Our recommendation for a two-step, four-year rate cycle would put pressure on both the omnibus case and the midcycle case. The midcycle case would require tight control of the issues open for litigation. If the limits were to break down, even under the force of changing circumstances, the process might lose its acceptability. The Task Force does not think that the parties would tolerate increasing the incidence of full-scale litigation over rates from roughly every three years, as at present, to every two years. In the omnibus cases, the strategic focus added by our recommendation, with no relaxation of the 10-month time limit, could place additional strain on an already crowded litigation schedule.

The Task Force recommends two measures to deal with some of these pressures. These involve limited scope rate cases and the careful use of rulemaking procedures to settle some repetitive costing issues.

Limited scope rate cases. In the two-step rate process we have recommended, the first rate case fixes the pattern of interclass rate relationships throughout the cycle. We think that postal customers will benefit from more predictability and regularity in ratemaking. But four years is a long time in today's economy.

Many kinds of changes could conceivably undermine the pattern set in the omnibus case. For example, a year or more of experience with a new mail preparation discount might reveal it to be much more or less attractive than expected. Operational developments might dramatically change cost patterns. Market shifts might drastically alter the balance between service alternatives. A responsive rate process needs to be flexible enough to adapt.

If change severely undermines the revenue and cost balance assumed in the pattern for the four-year cycle, then the Postal Service conceivably might have to file early to start the process over, before the full cycle is complete. For the two-step process to work as we have designed it, resort to early filings should be rare.

If change during the four-year cycle suggests the need to alter only limited pieces of the underlying pattern, a process should be available to consider making an adjustment. The Task Force recommends that rules be established for processing separate and narrowly tailored rate cases, filed during a four-year rate cycle (but outside the midcycle case), for the purpose of adjusting the pattern set in the omnibus case without reopening other issues. The Commission should administer this process so as not to get bogged down by the injection of independent or only marginally related matters.

Rulemaking for repetitive costing issues. Some of the issues occupying considerable attention and resources in rate cases have tended to come up again and again, from case to case, in one form or another. Notice-and-comment rulemaking has been suggested as a possible means of taking such issues outside the ratemaking procedure itself.

In considering this matter, the Task Force was sensitive to the need to protect the right of interested parties to a hearing on changes in rates as prescribed by law. We do not propose the use of rulemaking for breaking new ground on costing matters.

Our recommendation is that the Commission consider promulgating costing principles on a particular issue by rule when the issue has been well ventilated in hearings over several cases but the rate procedure seems unable to put it to rest. We suggest starting with a conference to clarify what is at stake and assess whether further hearings would improve understanding on it or not. Unless the conference reveals legitimate areas for further development in future cases, the Commission would then proceed to issue a proposed rule for comment. If adopted, the rule would *settle* the issue for future cases until someone could bring sufficient new light to bear on the subject to make waiver or modification of the rule appropriate.

IV
COMPETITIVE MARKETS

The Task Force considered the role of the Postal Service as a governmental entity competing with firms in the private sector. We concluded that its universal service obligation, its monopoly in letter mail, and the need to use postal resources in the most productive manner makes it appropriate for the Postal Service to provide some products also offered by the private sector:

- the Postal Service's letter mail monopoly gives rise to large economies of scale and scope which may give it a comparative advantage in some sectors of the marketplace. The economy should be allowed the benefits of any such comparative advantages.
- because of its structural differences from competitors, the Postal Service is in a better position to service some segments of the market.
- competition helps the Postal Service and its customers gauge the quality of its service and its comparative cost structure.
- competitive products make a welcome contribution to the fixed institutional costs of the Postal Service, offsetting a part of the contribution which would otherwise have to be made by the non-competitive products.

The Task Force believes that modification can be made in the ratemaking process to allow the Postal Service to compete more efficiently in markets where its products are subject to direct competition.

A. Determining which Postal Products are Competitive

While the Private Express Statutes provide broad protection for most of the revenue of the Postal Service, there are some postal products which are clearly subject to direct, in-kind competition. The Task Force takes the concept of direct competition to include products offered by private firms substantially similar to Postal Service offerings. Some postal products technically covered by the monopoly, furthermore, may have substitutes which are arguably in direct competition with them.

The markets in which the Postal Service provides services are changing and so the determination of which postal products are competitive must also be continually reviewed. The Task Force recommends that the Postal Rate Commission use its rulemaking authority to establish criteria for determining competitive postal products and at the same time designate those current postal products it deems to be competitive. From time to time, the Commission should revisit the subject as changes develop in the market for postal products. The Task Force believes that Express Mail, parcel post and heavy weight Priority Mail are currently subject to significant direct competition. But we have not made an exhaustive investigation to determine which products are competitive. That is a task for the Commission (as part of its rulemaking) with the active participation of the Postal Service and the interested parties. The following discussion is limited to providing flexible rates for Express Mail, parcel post and heavy weight Priority Mail.

B. Price Flexibility for Competitive Classes

The institutional cost contribution prescribed by the Commission for a competitive subclass may in practice be difficult to achieve because of changing market conditions. A given rate for a competitive product could in effect become

obsolete if, for example, the general price level in a competitive market drops substantially. Using this example, a responsive ratemaking mechanism for competitive products should allow the rate to fall or to be increased so that a chosen aggregate institutional cost contribution may be maintained.

It is important to note that there may be a difference between a selected institutional cost contribution (based, as such choices must be, on record evidence) and what subsequently turns out to be achievable under changing market circumstances. In some circumstances, the best that can be accomplished may be to change rates so as to minimize the loss in aggregate institutional contribution. The Task Force therefore concludes that flexibility is an essential characteristic for setting rates for competitive products.

The Service's competitive products are handicapped by the current ratesetting procedures which were established when markets for these products changed much more slowly or, in some cases, were less developed or important than they now are. The Commission's recommendations in an omnibus rate case are frequently based on record data which may be up to a year and a half out of date. Even the expedited procedure now in effect for Express Mail allows three months for the Commission to act. In addition, the Service must spend at least two months preparing its filing with the Commission and about a month to respond to the Commission's recommended decision. In six months' time, the market may well have changed substantially, rendering even the new rate obsolete.

The Task Force recommends that in order to introduce more flexibility into setting rates for competitive products, the Commission adopt a "rate band" approach. We start with the statutory constraint against cross-subsidy and undue discrimination. We recognize that at any given time a range of markups for a competitive product would be consistent with the several factors prescribed in § 3622. Further, in order for the Postal Service to meet its breakeven mandate, markups must be established for all the subclasses which collectively will recover all the institutional costs of the Service. The exact markup selected for each

subclass must fall within the range, and yield an aggregate revenue, when combined with the revenue from the other classes, to allow the Service to break even.

Thus, for each competitive category, the Commission would set an upper and lower markup and an aggregate institutional cost contribution. The contribution from each competitive category would be used in the Commission's breakeven analysis. The rates recommended by the Commission would establish upper and lower bands for each rate element within the category's rate structure. The lower rate band would protect against the possibility of cross-subsidy and insure a minimum acceptable markup. The upper band would prevent the Service from exploiting relatively captive customers.

The Service would select specific prices within the bands, giving proper notice to its customers. It would be free to make changes as often as it felt market circumstance required. In making these adjustments, the Service would be free to select whatever price it deemed appropriate for each rate element so long as the price selected fell within the band for that rate element.[31] In so doing, the Service would, to the extent feasible, try to maintain the aggregate institutional cost contribution set by the Rate Commission. At any point in time, the prices in effect would be available to all users of the category, thus avoiding any undue discrimination.

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[31] The Postal Service should consider what impact, if any, the selected price would have on its "double postage" rule. The Postal Service's suspension of the operation of the Private Express Statutes for extremely urgent letters includes a conclusive presumption of urgency if the amount paid for *private* carriage is at least three dollars or double the applicable USPS postage, whichever is greater. 39 C.F.R. § 320.6(c).

C. Rates for Large Volume Users

Competitors of the Postal Service provide discounts for large volume users of overnight mail and they discount in other small parcel markets. The Task Force believes that it would be advantageous for the Postal Service similarly to be able to offer discount rates for large volume shippers provided the rates charged include a reasonable contribution to institutional costs. The Service may thereby gain additional business and earn additional contribution to its fixed institutional cost. A major issue with discounting rates for large volume customers has been discrimination. Under most discounting schemes, a single piece customer pays more than a large volume customer, even though there is no showing that it costs the Postal Service less on a per-piece basis to serve the large user. Where rate differentials as between customers are not based on cost differences, they must have some other adequate justification.

As a solution to the problem, the Task Force believes that the Postal Service and the Postal Rate Commission should consider the use of declining block rates for competitive services to improve the price competitiveness of these services for high volume shippers who frequently have more alternatives available than lower volume shippers. Under such a rate structure, the rates for any weight and distance cell in the rate structure would be of the general form:

Customer's Volume	Rate per piece
1 - 100 pcs/period	10
101 - 200 pcs/period	8
201 - 500 pcs/period	5
etc.	

The principles underlying this type of rate structure relate to differential recovery of fixed service costs and institutional cost contribution across the rate structure based in part on market considerations. There is precedent for this type of rate structure within past utility regulatory practice. The advantage of declining block rates is that the small volume user is not charged more than the large volume user for pieces falling in the initial block. It thus "rewards" the high-volume user *specifically* for its higher usage level without discriminating against low volume users.

Rates recommended by the Commission within this structure should conform to the Task Force's rate bands recommendation which should provide the Postal Service significant flexibility to adjust to changing market conditions quickly. Prices charged would be the same for all users of a rate category at any time.

D. Classification for Competitive Products

Changing markets also require that the Postal Service be able to make rapid adjustments in the terms of service (or product features) for competitive products. Chapter V of this report recommends that the Commission adopt new procedures to expedite minor classification cases. These procedures are meant to apply to all postal classifications (both competitive and noncompetitive) and we think they adequately address the problem of making rapid classification changes for competitive services.

V
INNOVATION AND MARKET RESPONSIVENESS

A. Introduction

Explicitly, the rate and classification procedures are mechanisms for accommodating change in the Nation's postal system. Underlying much of the work of the Task Force has been a shared sense that these administrative mechanisms for change need to be reexamined and, as appropriate, re-calibrated to what is a noticeably accelerating pace of change in the world of the 1990s.

The Postal Service remains a vital factor in the Nation's commerce and its personal lines of communication, delivering services now valued at nearly $50 billion per year. Its customers expect it both to restrain its costs and to improve, not degrade, its responsiveness to their diverse and changing needs. Many commercial users see the Postal Service as a critical supplier whose services can make the difference in their struggle to stay competitive within their own dynamic markets. Despite the partial monopoly provided by the Private Express Statutes, users of most postal services are able, to various degrees, to consider competing services, indirect substitutes, or lower levels of usage if postal services do not meet their needs. In several areas competitive alternatives are reported to be growing. As a break-even network, the Postal Service must spread a substantial overhead burden among its users. Successful participation in its most clearly competitive markets will help the Postal Service minimize rate increases to all its customers. Growth in its *noncompetitive* markets, moreover, may lessen the burden of institutional costs on all users.

At this stage it is apparent that neither the public, nor commercial mailers, nor the Postal Service itself is satisfied with what has been achieved to date in reorienting the Postal Service into a fully responsive, dynamic service institution. Since postal reorganization important strides have been made by introducing a

range of work-sharing programs, with rate discounts, which have provided cost savings for the users of the particular services and volume and revenue growth for the postal system as a whole. Service innovations of similar impact may well be possible in other areas.

The Task Force has understood its job as one of examining administrative procedures to see if they can be made more conducive to responsive innovation. The pace of change in the marketplace and the complexity of the markets served by the Postal Service put a premium on timeliness and flexibility in adjusting rates and services. By law, postal rate and classification proposals are independently evaluated by the Postal Rate Commission through formal evidentiary procedures intended to serve important values such as fairness and openness. Within those procedures, the Postal Service cannot expect to match the degree of flexibility and immediacy that most private businesses, or even its principal competitors, have in changing prices and services. The Task Force has found that opportunities do exist, nonetheless, for improving the receptivity of the existing postal rate and classification processes to efforts by the Postal Service to be more responsive and more appropriately innovative within the markets it serves.

We are not looking for ease of change *per se*, but for mechanisms which both assure needed review and timely participation of all viewpoints and still are simple and prompt enough to keep transaction costs from discouraging change. The measures we recommend are designed to bring more relevant information to the decisional process, assure the right of all to be heard, and produce an end product that is genuinely attuned to market needs and serves the public interest.

In general our approach is to recommend new procedural rules for a number of specialized proceedings, more specifically and narrowly suited to the consideration of proposals for innovations of various types. Our recommendation is that the Postal Rate Commission develop detailed rules for these procedures with full participation by interested parties. We also urge that the Postal Service

take the steps required, in close cooperation with its customers, to make prompt and effective use of these procedures once they are in place.

The Task Force recommends the following new procedures:

1. accelerated procedures for market tests
2. multi-year cost coverage for new service introduction
3. fast-track, yes-or-no review for provisional services
4. expedited review of service agreements
5. expedited minor classification cases.

These recommendations are described in more detail in the remainder of this chapter.

B. Specific Recommendations

1. Accelerated Procedures for Market Tests

A broadly recognized deficiency is the lack of a "well-worn path" for obtaining information on potential service innovations through limited trials with actual postal customers. The current statute does not deal explicitly with service experiments, apart from the standard procedures for establishing rates and classifications; an attempt by the Postal Service to offer an experimental service unilaterally was enjoined in 1978, for lack of statutory authorization.[32] While the Postal Rate Commission has adjusted rules for mail classification proposals

[32] *United Parcel Service* v. *U.S. Postal Service*, 455 F. Supp. 857 (E.D. Pa. 1978), *affirmed*, 604 F.2d 1370 (3d Cir. 1979), *cert. denied*, 446 U.S. 957 (1980).

involving experimental changes, the level of preparation and justification required can involve the delay of an experimental offering by as much as a year. Extensive use of these rules for testing of potential new services has not, in fact, occurred.

The Task Force recommends an adaptation of rules for the consideration of mail classification proposals to allow market data to be obtained from limited tests to improve the information base for evaluating a proposed change. In many situations the data obtainable from limited market trials will be far superior to market surveys or other research. In such cases, building in a testing opportunity as an integral part of the mail classification procedure will enhance the quality of the record and the opportunity for all interested parties to evaluate the proposed change. Our recommendation involves a carefully limited testing procedure requiring advance review by the Commission within a record proceeding under rules to be established pursuant to its general rulemaking authority under section 3603 of title 39. The rules should establish reasonable limits concerning the scope, scale, and duration appropriate for testing. The procedure would work as follows.

a. **Preparation and filing.** When the Postal Service finds that a service innovation is worth exploring, but needs the actual experience of a market test (in one or several variations) to fully support a proposal for a permanent classification change, it would file with the Commission a general description of the proposed change along with a market testing plan. The Postal Service would also stipulate that the proposed testing period would extend the time for considering any temporary classification change under its authority based on the filing.

b. **Initial action of Commission.** The Commission would take jurisdiction of the case under a mail classification docket. It would then conduct a preliminary inquiry on the record, with interested parties invited to participate, to validate the proposed market testing plan. The inquiry would lead to a declaratory order accepting or not accepting the proposed test.

c. **Matters reviewed.** The Commission would limit its inquiry on the testing plan along the lines of the following issues —

- Does it describe a genuine test, so that advance review is properly limited?
- Is it likely to provide the data needed in the proceeding?
- Does it involve undue discrimination, unlawful pricing, or other legal defects?
- Is it structured in a way which unnecessarily or unreasonably harms competitors or other postal customers?

The Task Force has in mind that the shaping of the test should be the responsibility of postal management. The public interest in encouraging the testing of new ideas and adaptations is served if the Commission extends considerable leeway to the Postal Service, while protecting against abuse.

d. **Expedition.** The regulations should provide for the Commission to complete the testing inquiry and order within 60 days.

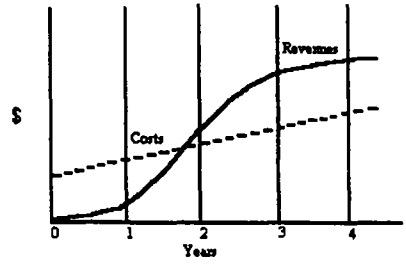
e. **Procedures.** The Commission's hearing procedures would apply to the testing inquiry phase. The Commission would have to enforce the discipline necessary to limit the inquiry to issues properly relevant to the test, if the process is not to break down. (The parties would retain their opportunity to address issues relating to a permanent classification change later in the proceeding, as discussed in paragraph g below.)

f. **Suspension of classification proceeding.** If the Commission approves a market testing plan, further proceedings under the docket would be suspended while the test is conducted, except for the receipt of periodic reports for the proceeding record.

g. **Resumption of proceeding.** At the end of the testing period — or once the test has provided sufficient data — the Postal Service could elect to continue, revise, or withdraw its classification proposal based on its evaluation of the data obtained. If the proceeding is resumed, the hearing would lead to the usual recommended decision to the Governors. The test should be permitted to continue (but not expand) until a final decision is reached so that the participating customers will not face an interval of withdrawn service.

2. Multi-Year Cost Coverage for New Service Introduction

In practice, opportunities for new service innovation are restricted by the single-year test period which has typically been used in establishing postage rates. Sometimes a new service can entail substantial initial expenditures for equipment, marketing, or other introductory investments. It cannot generate sufficient volumes to cover those expenditures in its first year or two as customers first are made aware of the service and begin to react to it. If the service is successful, volume growth should increase cost coverage. But development of a mature service may take several years.



New Product - Costs vs Revenues Over Time

If the ratemaking process tries to set prices to break even over relatively short periods, an otherwise promising new offering could be priced too high from the start to succeed, so that the net contribution it might have earned later is lost to the system.

The Task Force recommends that the Postal Rate Commission adopt rules providing for a multi-year break-even period of at least four or five years for proceedings involving new service offerings, which would be expected to cover costs for the period as a whole. We view the process as involving the following elements.

a. The Postal Service should select the introduction period it finds appropriate for each new service and should present and explain in its filing a multi-year plan for achieving appropriate cost coverage over the period as a whole.

b. The Commission should establish its timetable for considering the case based on a target of 90 to 150 days for issuing a recommended decision, depending on the issues involved.

c. The process should recognize the fact that new ventures involve risk. A flourishing program of service innovation, which fills needs and helps to hold down rates for other services, will probably involve some false starts, in addition to successful new services.

d. The Postal Service should recognize its responsibility to minimize its losses by requesting changes or terminations when it sees expectations unfulfilled. It should anticipate that the general receptivity of the Commission and other participants to new service proposals will be affected by its record in limiting its losses as well as in building successes.

3. Fast Track, Yes-or-No Review for Provisional Services

In some situations the Postal Service may see an opportunity to introduce a new service offering more quickly than would be possible through the market testing or new service introduction procedures recommended in this report. **To accommodate these situations, the Task Force has concluded that an expedited procedure should be available, under more restrictive terms, for use in appropriate circumstances. The Postal Rate Commission should establish rules to accommodate the following fast-track process for provisional introduction of new services.**

a. The only types of innovations covered would be those which supplement existing rates and classifications without altering any of them, so that customers could either try the new service or stick with the existing service menu, or both.

b. In order to qualify for the fast-track process, the Postal Service should request that it be recommended as a provisional service and should specify an ending date in its filing. The ending date should be set far enough in the future, perhaps 5 or 6 years, to allow sufficient time for completion of the further review outlined in step h below, including any reconsideration by the Commission, final action by the Governors, and court appeals.

c. In general the Commission should limit its initial consideration to issues involving whether the proposal would have a material adverse effect overall on revenue or costs or pose unnecessary or unreasonable harm for competitors.

d. The proposed new service should stand alone for rate purposes, regardless of its relationship to other classes or subclasses. Gains or losses in contribution from a provisional service could affect future overall revenue requirements but should not be tied to the rates for any particular existing class or category.

e. The Commission's recommended decision should provide a yes or no recommendation on the mail classification aspects of the Postal Service's submission, with explanation and comments.

f. The Commission should recommend rates for the provisional service period toward the lower end of the feasible range.[33]

g. The Commission ordinarily should complete its recommended decision on the provisional service within 90 days.

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[33] Since customers would remain free to use the other services they already had and a full reexamination of the rates and classification would be assured before the ending date, consideration might also be given to a system of recommending a rate floor, with the Service having latitude to vary the rate upward.

h. After some experience with the service, the Postal Service should return to the Commission by filing a proposal to continue, revise, or allow it to terminate, in time for completing action in a regular mail classification proceeding, including any court appeals, before the previously established ending date for the provisional phase of the service.

4. Expedited Review of Service Agreements

The Task Force believes that the rate and classification process should have a means to accommodate service agreements with postal customers, varying from the general rate and classification schedules in ways which add value both for the customer and for the postal system as a whole. In specific situations involving one customer or a limited group of customers, negotiated agreements tailored to the particular circumstances might be more effective than the broad schedules in meeting what the particular facts require, so that the benefits can be shared between the participating customer and the postal system.

The Task Force recommends that the Postal Service and the Postal Rate Commission make a start toward addressing this need. **The Commission should first establish by rule procedures for reviewing such agreements, with a set of requirements defining the conditions under which approval of agreements could be recommended. The rules should provide an opportunity for interested parties to participate in a hearing on the proposals. The process should work in the following manner.**

a. A tentative service agreement between the Postal Service and one or more customers involving terms and conditions describing a service differing from those in the existing Domestic Mail Classification Schedule would be covered by this procedure.

b. The Postal Service would request a recommended decision from the Commission.

c. The Commission would proceed on an expedited schedule which should be completed within 60 days.

d. The filing would show estimated costs and revenues under the service agreement.

e. The analysis should establish that net contribution toward covering institutional costs of the postal system would be increased by implementing the agreement.

f. In its recommended decision the Commission should either approve or not approve the agreement as submitted.

g. If adopted by the Governors, the terms of the agreement should become available to any other customer in position to add as much value to the postal system in the same way.

5. Expedited Minor Classification Cases

Currently a classification case focusing on one narrow proposal may take as long to complete as an omnibus rate case does. The data and other requirements for the initial filing are the same whether a classification case is relatively complex or relatively simple, although waivers of particular requirements are sometimes requested and granted. **The Task Force recommends that the Commission provide a streamlined version of its rules for a separate, expedited classification track for handling appropriately limited proposals.** These rules should target the case for a 90-150 day proceeding and dispense with filing requirements not needed for a narrowly focused, limited change. The types of proposals for which an expedited procedure is appropriate might include changes in mailing requirements, eligibility standards, and categories of service with low aggregate costs and revenues.

VI
OPPORTUNITIES FOR IMPROVED COMMUNICATION

Overview. Policy differences over certain aspects of the recent omnibus rate case have created an impression of severely strained relations between the Governors and the Commissioners.[34] The issue in danger of being obscured, in our opinion, is that ongoing interaction between the two bodies — apart from major rate and classification proceedings — has, in reality, been minimal in the years since reorganization. Various pronouncements that have captured the public's attention, therefore, may be less symptomatic of strain than of the virtual absence of interagency communication.

There are several reasons for this. It is understandable, for example, that the effort each agency had to expend on starting up in the seventies siphoned energy from the type of mutual undertakings we now think are possible. Litigation-focused proceedings at the Commission, furthermore, tended to foster competition rather than cooperation throughout the eighties. In their early stages new regulatory statutes tend to present problems in the distribution of responsibilities which must be ironed out before communication can be as open as is desirable. The maturation of the postal system today, however, provides an important opportunity for the Postal Service and the Rate Commission to cooperate on matters of mutual concern in the 1990s.

The key to improved relations between the two bodies charged with responsibility over postal matters rests in the assumption by the Governors and the Commissioners of direct responsibility for establishing and fostering new lines

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[34] See, for example, letter of January 10, 1992 from Chairman Clay transmitting questions to the Commission (following the Commission's appearance at an oversight hearing before the Committee on Post Office and Civil Service of the U.S. House of Representatives).

of communication fully within the letter and spirit of the ex parte restrictions. With this objective in mind, we recommend that the Governors and the Commissioners take three initial steps toward developing the true "partnership" contemplated by the Postal Reorganization Act.

The first step — which we consider essential to the success of the others — entails a clearer exposition of the scope and application of the ex parte rules. Their scope, indeed, has often been seen as broader than it really is — to the detriment of useful communication. The second involves joint participation in an annual meeting and sponsorship of symposiums tailored to ratemaking concerns. The third entails continuing Postal Service/Postal Rate Commission staff cooperation on projects of mutual long-term concern to the agencies.

Support for the position that cooperative undertakings can co-exist without abandoning the ex parte rules can be found among commenters in the Commission rulemaking docket on the ratemaking process.[35] The Council of Public Utility Mailers (CPUM) suggests, for example, that "Outside of formal cases, conferences between the Postal Rate Commission and its staff and the Postal Service should be encouraged . . . ." At the same time, CPUM suggests it would be appropriate for the Commission to maintain a public log recording all such conferences or meetings and the general subject matter addressed. January 14, 1992 Supplemental Comments at 2-3. Similarly, McGraw-Hill, noting it is "leery" of the Postal Service being given any special access to the Commission on matters pending before the Commission, nevertheless says periodic discussions of general policies and procedures would appear to be both useful and legitimate. Preliminary Comments of McGraw-Hill, December 30, 1992.

[35] Docket No. RM91-1, Rules of Practice and Procedure.

The ex parte rules. As indicated above, our review convinces us that the ex parte rules have not outlived their usefulness, but continue to play a key statutory[36] role in maintaining confidence in the ratemaking process. We believe furthermore that judicial proper review of Commission decisions, fair treatment of participants, and public confidence in the ratemaking process require on-the-record decisionmaking.

Notwithstanding our support for continuation of the ex parte rules, we believe that uncertainty over their scope may have unduly hindered legitimate discussion in the past. In the absence of practical guidelines on permissible discussions, it appears that an institutional reluctance to risk possible error may have developed. In our estimation, such "overapplication" of the ex parte rules does not serve the ratemaking process well because needless silence on legitimate issues of mutual concern fosters misunderstanding and suspicion.

We suggest that the members of the Board of Governors and the Commissioners cooperate at the earliest opportunity on developing additional explanatory materials on the scope of the ex parte rules. These materials should also be made available for broader distribution to the staffs of the agencies and to the postal community. We encourage special sessions for new Commissioners and Governors and periodic reviews for all interested parties. At the same time, we suggest the Governors and the Commissioners jointly develop a list of topics on which discussions could begin immediately within the existing understanding of the ex parte rules.

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[36] The Administrative Procedure Act (5 U.S.C. § 557(d)) and Executive Order No. 11570, 35 Fed. Reg. 18183 (November 24, 1970) as amended by Executive Order No. 12107, 44 Fed. Reg. 1055 (December 28, 1978). Section 3624 of the Postal Reorganization Act requires compliance with the due process provisions of the APA, thereby making agency decisionmaking on the basis of the public record before it.

Joint participation in an annual meeting. We also recommend that the Governors and the Commission hold joint annual meetings. In particular, we suggest that they set aside at least two days a year for substantive working sessions on topical postal issues of mutual interest and concern. The format should include working sessions devoted to briefings by Postal Service and Commission staff on strategic ratemaking concerns, such as volume and cost trends, and on a broader range of issues such as automation plans, environmental matters, and international postal affairs.

We believe that exposure to opinions from outside the two agencies would be particularly useful. We therefore recommend that the annual meeting also include sessions at which special invitees would discuss matters such as congressional actions affecting the Postal Service, alternate delivery, and changing demographics.

Joint sponsorship of ratemaking symposiums. In recognition of their leadership role in postal policy, we recommend that the Governors and the Commissioners jointly sponsor symposiums for the broader postal community on topical postal ratemaking issues. We envision these sessions filling a gap between the offerings of the large-scale "think tank" seminars and trade or industry gatherings. They would (i) focus on issues directly related to ratemaking and (ii) provide a structured atmosphere for discussion and debate, but one relatively free of the constraints imposed by the litigation-style orientation of practice before the Commission. We make no specific recommendations on topics, but suggest that omnibus rate cases provide a rich source of possible issues.[37] We also suggest the Governors and the Commissioners consider publication of selected reports.

Staff communications. We extend our recommendation for improved communications to the agency staff level as well. Our suggestions take three main

[37] One example would be an assessment of the impact of third-class mail destination entry discounts on mailer behavior.

forms at this time, but we encourage development of additional ideas for workable programs from all sources, including intervenors in Commission proceedings.

We suggest periodic staff discussions on current concerns and briefings on future directions. Although these sessions, at times, may mirror concerns addressed at annual joint Governors/Commissioners meetings, we urge attention to "nuts and bolts" practice issues, particularly those that could lay the groundwork for later rulemaking proceedings. An important area for discussion includes cooperation on developing a mutually acceptable process for understanding and replicating methodologies underlying various agency filings. In our view, the case-related aspect of this undertaking entails ex parte considerations which should be included in the broader review mentioned above. On a more informal basis, we also suggest joint seminars where the two staffs could hear from knowledgeable sources both inside and outside the Postal Service.

We recommend as well expanded opportunities for Commission staff attendance at joint Postal Service/industry exchanges, such as meetings of the Mailers Technical Advisory Committee (MTAC). In particular, we suggest that MTAC extend an invitation to the Commission to send a PRC staff representative to its meetings in an "observer" capacity. This would allow the Commission to be kept informally apprised of the general direction of mailer interests. We further suggest that the Commission consider assigning this responsibility to its Office of the Consumer Advocate. We also urge consideration of other areas for staff exchange and cooperation, such as opportunities for the Commission to view Postal Service training materials.

It also occurs to us that there may be a legitimate need for a mechanism permitting the Postal Service and the Commission to address case-specific questions related to methodologies during pendency of consideration by the Governors. The relatively short tenure of our Task Force has not allowed us to explore this matter in sufficient detail to make a specific recommendation, but we support general discussion of options that would effectively allow clarification of

issues that may warrant further explanation and allow speedier resolution of minor substantive issues. One device that warrants study is a letter from the Governors identifying major concerns. Any such mechanism, of course, would have to preserve the open, on-the-record character of the decisional process.

Several Docket No. RM91-1 commenters, including Dr. John Haldi and the PRC Consumer Advocate, have urged that testimony and other case materials be made available on magnetic or electronic media. We strongly endorse this proposal as a means of providing rapid, wide access to data used in postal ratemaking. We believe the Postal Service should make available in electronic form the *Cost and Revenue Analysis* report and its other published data used in preparing its rate case submissions.

As noted above, the presentation of case data by the Postal Service in the format approved by the Commission in the prior rate case — along with any revised format the Service wishes to urge upon the Commission — would make case-to-case trends in volumes, costs and other series much more readily understandable to the growing number of firms and intervenors relying upon such information.

IPA Recommendations
For Governors' Action

- Redefine Classes of Mail/Type of Service
- Redesign USPS Budgeting and Financial Planning Systems
- Higher retirement benefit costs/related rate impact
- Replace contingency and prior years loss with capital maintenance reserve fund
- Disconnect collective bargaining and rate cycles
- Add to Governors' resources
- Governors to regard PRC as resource for review of complex policy decisions
- Establish "stand-alone" core costs

B. Mailer Recommendations for PRC Follow-up

In Docket No. RM91-1, Rules of Practice and Procedure, the Postal Rate Commission asked for comments and suggestions on how its Rules could be amended to simplify the ratemaking process. Many of the suggestions have been addressed by the Task Force, but those on the following list, it was concluded, were best left to PRC follow-up.

The Task Force believes the items listed can best be considered for adoption by the PRC, the Postal Service, and parties in conferences. We recommend the PRC initiate such conferences as a part of Docket No. RM91-1.

VII
PROPOSALS NOT ADDRESSED

The Task Force has made an independent study of the problems confronting the postal system, and so we have not necessarily addressed all the suggestions offered by others for alleviating these problems. In particular, there are certain recommendations and suggestions made in the IPA report, or submitted by mailers and other commenters in Docket No. RM91-1, which the Task Force believes can best be evaluated and adopted or rejected either by the Postal Service or by the Postal Rate Commission. In order to place our own work in context, we have tabulated them in this chapter.

The Task Force also concluded that there were four proposals, originating outside of our own study, that required legislation to implement; these are also listed in this chapter.

A. IPA Recommendations for Governors' Action

The Task Force did *not* develop concrete proposals for the IPA recommendations shown below.

Except for the last one, all of the listed recommendations are within the province of the Board of Governors to decide or delegate for decision to their top management. We assume that the Board will take under consideration the adoption and implementation of these recommendations if it finds them in the best interest of the Service.

The last recommendation would require joint Postal Service and PRC action.

The number in brackets indicates the number of times that suggestion was made by different parties.

Another repeated suggestion is that the Postal Service file a "Commission version" of the *Cost and Revenue Analysis Report* and the *Cost Segments and Components Report*. In other words, these reports would be filed in a rate case on the basis of costing methods approved by the Commission in the immediately preceding general rate case. This suggestion has been included in the Task Force's four-year strategic rate process proposal.

Mailer Recommendations
For PRC Follow-up

- PRC limit its inquiry in rate cases to specific designated issues
- Limit number of interrogatory responses admitted to record (3)
- Eliminate reply briefs (2)
- Clarify rights and obligations of different categories of participants
- Shorten time for intervention and discovery (3)
- Eliminate affidavits for interrogatories (3)
- Expedited procedure for correcting errors in decisions
- PRC publish list of issues that will *not* be considered
- Discourage non-substantive transcript corrections

- Testimony and other documents (including PRC decisions) available in magnetic media
- Filing date on first page of all motions, interrogatories, etc.
- Only responses to discovery be served on all parties
- PRC indicate issues to be addressed in oral arguments
- Cut motion practice through good faith effort to solve discovery disputes
- USPS place evidence for preparation of case in public file while preparing testimony
- Studies requested become minimum requirements for next case filing unless USPS could "show cause"
- Advance notice of departures from approved ratemaking principles
- All data to be used in a general rate case should be filed two months prior to filing case
- Technical conferences prior to case on data from studies to be used in case
- PRC have and exercise power to take official notice after close of evidentiary record
- As an outgrowth of commenter suggestions, a PRC "practice manual" to codify existing procedures and facilitate discussion of improvements

C. Recommendations Requiring Legislation

The Task Force concentrated on recommendations requiring *no* legislation. This reflects our overall conclusion that a great deal can be achieved by using the inherent flexibility of the existing law. Only four out of the principal suggested changes the Task Force considered would require legislation to implement. These are:

IPA Suggestions

- Redefine role of competitors in ratemaking process
- Redefine breakeven
- Eliminate second round of rate case reconsideration

Mailers' Suggestions

- PRC to have subpoena and final decision powers

The Task Force takes no position either for or against these four proposals but if experience demonstrates legislative change is needed then the Task Force urges all parties to agree and approach Congress unified.

VIII
RULEMAKING IMPLEMENTATION

While it is not known when the next omnibus rate case will be filed it is necessary to make some assumptions in order to schedule implementation of the Task Force recommendations if these recommendations are adopted by the Postal Service and the Rate Commission. If the four year - two step rate cycle recommendation is adopted it is essential that the next rate case be based on it as time will erode the impetus for change not only for this recommendation but for all others.

Accordingly the Task Force suggests the proposed rules for the **four year - two step Rate Cycle** and the **Competitive Services** be issued by June 30, 1992 and finalized by August 15, 1992. This schedule should provide all parties with adequate advance notice of the procedures to be used in the next omnibus rate case.

Rulemaking to implement recommendations covering **Innovative and New Service Offerings** and **Responsiveness to Market Needs** should be scheduled to start around August 15 in order to be completed by the end of 1992.

Commencement of rulemakings to institutionalize **select Costing Methodologies** may be deferred until after the next omnibus rate case.

Mr. LEBLANC. But it says in the executive summary on page 2, "The task force acknowledged a legitimate need for the Postal Service to respond in a timely fashion to changing market conditions and, therefore, recommends certain things" in certain competitive classes. That's out of context.

We talked about Express Mail, Parcel Post, and heavyweight Priority Mail. We recommended a band of rates that would be put into effect that would allow the Postal Service to adjust up or down. We came up with other suggestions, such as accelerated procedures for market tests—they have got a new market product they want to throw out on the market—multi-year cost recovery of new service introductions. We talked about a lot of expedited classification cases.

We put this out for comment. The Postal Service, in effect, said they did not want to comment on it. So, in my way of looking at this, we have done a lot to at least get the door open. Now, if we want to come up with some further comments, it's at least out there for somebody to take up.

Mr. SANFORD. Thank you for the thoroughness of your answer. One other quick question, if I may, Mr. Chairman?

Mr. MCHUGH. By all means.

Mr. SANFORD. And that is, it was brought to my attention that the remote bar code system has been tried, in essence, sort of on an experimental basis with private contractors. And now, it's going to be changed so that it will be taken over by Postal Service employees. My guess is that having private contractors do this would have been less expensive—why are we shifting over to have Postal Service employees take over that function?

Mr. GLEIMAN. That's a decision made by postal management. We have nothing to do with the actual operation of the Postal Service on a day-to-day basis. And let me say, taking off my hat as a Rate Commissioner and putting on my hat as a former congressional staffer, that I had occasion to look at a remote video encoding a number of years ago. And there were some serious questions raised at that time both on the Hill and by the General Accounting Office and, I think, in the Postal Service records about the extent to which there would be a positive return on investment for that project even in its experimental stages when it was contracted out.

I understand that the GAO issued a report last week which raises questions about whether there's going to be any positive return on the investment, given the PMG's unilateral decision which was not required by any rules or regulations and certainly wasn't required by the Postal Rate Commission.

Mr. SANFORD. Were you going to say something, Mr. Haley?

Mr. HALEY. No, sir. I was answering. The chairman has done very well on that.

Mr. SANFORD. Thank you.

Mr. MCHUGH. I thank the gentleman. I would acknowledge and welcome the presence of the gentlelady from Florida, Mrs. Carrie Meek. Welcome. And I would happily yield to her for any questions or statements she might like to make.

Mrs. MEEK. I do have a question, Mr. Chairman. I sit on the Budget Committee, and a lot of talk has been going on in that committee regarding privatization. And it certainly has lots of implica-

tions for the Postal Service and, of course, your commission, as well.

I understand your purview does not reach to that particular category in terms of privatizing; is that right? Privatization. You do not get into that realm.

Mr. GLEIMAN. That's correct.

Mrs. MEEK. My next question has to do with—your job, as I see it, is to set postal rates based on all the data and everything that you can put together; is that correct?

Mr. GLEIMAN. That's correct. If I could go back to your first question. You know, the word "privatization" is a funny word. It means a lot of different things to a lot of different people. I'm not sure when people throw it around what they mean.

In fact, if by "privatization," you mean contracting out work that was previously done in-house in the Postal Service, while the Rate Commission is not the direct moving party, it does get involved in contracting out in the sense that we consider and approve discount rates when work is shared with mailers. In other words, mailers might presort or prebarcode mail instead of having it come in raw to the Postal Service, where it would be handled by clerks. So, in that sense, we're minor participants in the contracting out arena. But I honestly don't know what privatization means. I always ask people, "What do you mean by that?"

Mrs. MEEK. Well, I won't go into that, since it's not within your purview. They gave us so many definitions as to what it means. But in terms of your capacity as a commission, how much impact studies do you make before you go into consideration of raising fees?

Mr. GLEIMAN. The Postal Service submits a proposal to us. That's the beginning of the process. And their proposal more often than not contains detailed studies and cost information, perhaps not as many studies as we would like, and perhaps not information that's as good or as current as we would like. But it is the Postal Service that provides the bulk of the information.

And then, we have kind of a back-and-forth between the participants, the Postal Service, and the Rate Commission, where we all delve into one another's positions and try to develop more information on the public record that is then used. But the bulk of the data collection is in the hands of the Postal Service. They're the ones who know what's going on.

Mrs. MEEK. Thank you. Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentlelady.

Let me return to the comments, the observation on the report from Mr. LeBlanc. Am I correct in assuming that those recommendations would not have required statutory authority, that those things were in their entirety able to be implemented by rule or reg?

Mr. LEBLANC. That's correct. They're not statutory by any means.

Mr. MCHUGH. And—I'm sorry, Mr. Haley, did you want to——

Mr. HALEY. I think, Mr. Chairman, that perhaps some of the recommendations may have required some statutory possibilities, but there are certainly many of them that did not.

Mr. MCHUGH. There were at least some that didn't require statutory——

Mr. HALEY. Very much. Yes, sir.

Mr. MCHUGH. Let's deal with——

Mr. GLEIMAN. Let me referee and say that the bulk of the recommendations did not require a statutory change.

And, as a matter of fact, on the most major of the recommendations, one which, by the way, would have given the Postal Service the ability to make periodic interim adjustments reflecting inflation, something the PMG talked about, there was actually a notice of proposed rulemaking issued by the Rate Commission. It was before my time, but I think it was either in the summer or the fall of 1992. The Postal Service summarily rejected the offer to establish these new rules. It was called a "two-by-four," where there would be a big rate case every 4 years, full-blown, with all the data and everything. And in the intervening period, there would be an adjustment—the "two" part of the "two-by-four"—an adjustment to reflect inflationary factors.

The Postal Service, I mentioned, shelved the whole task force report. And with respect to the most major recommendations, the two-by-four, the Postal Service dismissed it, saying it was, "inconsistent with the direction in which postal management was moving," whatever that means.

Mr. MCHUGH. So whether they required statutory authority or not, it's fair to say that across the board, the Postal Service failed to act on any of these initiatives?

Mr. GLEIMAN. Not only did they fail to act on any of these initiatives, but I have been surprised in my discussions with senior postal officials over the last few months to learn that most of them do not even know of the existence of this very fine task force report which their Board of Governors and some of my colleagues who were there before I came participated in.

I've asked them to take it off the shelf, dust it off, and let's use it to get on with the business of doing business.

Mr. MCHUGH. Commissioner LeBlanc, did I see you wishing to add to the discussion?

Mr. LEBLANC. I guess as a point of clarification, it was my understanding—and I want to make sure that I'm right. I don't want to mislead the committee or subcommittee. But the task force was put out initially so that no statutory requirement would be needed; in effect, this could be done by communication between us and the Postal Service.

It was my understanding, also, some of the things that were on there might have been extended or broadened, if you will, to make some statutory changes. But I just want to make sure I clear the air there.

Mr. MCHUGH. I appreciate that distinction. I think the salient point, for the purposes of this discussion, is that whether they required statutory authority or not, the recommendations would, I believe, in your collective opinion—certainly my opinion at first blush—and I want to underscore it as only first blush—would have greatly enhanced and, indeed, pursued the objectives that the Postal Service has outlined as desirable before this subcommittee.

And yet, they failed to act either through the regulatory channels or failed to act in requesting legislation to implement those that may have required it.

And it seems at least interesting to me that in your testimony, Chairman Gleiman, beyond this example, you talked about on a number of occasions the provision of expedited process for Express Mail that I believe you said the Postal Service failed to act on within 5 years and cited a number of other examples where in spite of all the talk about the need for increased flexibility, the Postal Service has repeatedly rejected overtures to pursue that. Is that a fair observation on my part?

Mr. GLEIMAN. That's a pretty fair observation. Could I just add one more little bit of information?

Mr. MCHUGH. Please.

Mr. GLEIMAN. We have this big reclassification case that we understand is going to be coming to us. We read about it in the trade press all the time, although we have not had any direct dealings with the Postal Service.

Mr. MCHUGH. I'll tell you sometime how I learned I was going to be chairman of this subcommittee. [Laughter.]

Mr. GLEIMAN. The Governors of the Postal Service, according to Federal Register notice, are going to make a decision on what to file with us next week, I guess it is, on the 5th or 6th of March. The die will be cast at that point. We won't have a case before us, but the decision to file it will have been made.

Well, I got a bootleg copy yesterday of a memo dated February 28, "Memorandum for Reclassification Committee." The Reclassification Committee encompasses—probably a bunch of people sitting behind me who are mailers on the Reclassification Committee. I wouldn't be so presumptuous as to suggest that the commission should have been on the Reclassification Committee, because we have to sit in judgment, ultimately, and we should not have been involved on the front end.

But here you have a meeting that the Postal Service is going to hold where it has invited people. The meeting is so large that the Postal Service has had to rent the Arlington Ballroom of the Crystal Gateway Marriott Hotel. There will be no ex parte walls at that point.

If we really wanted to cooperate and we really wanted to share information and they really wanted us to understand so that we could expedite this case, perhaps—it may only be a week or 2 weeks involved here; but still, a couple of weeks is a couple of weeks—they could have extended an invitation to the Postal Rate Commission staff; and if not the Postal Rate Commission staff because of concerns about ex parte rules, certainly to the Office of the Consumer Advocate, which becomes a participant in the case, along with all the folks who are on the Reclassification Committee.

I think it's a shame that we can't develop a higher level of cooperation. And again, I think it has got to be a two-way street here.

Mr. MCHUGH. Thank you.

Mr. GLEIMAN. Maybe some of our people will get invited now. I don't know.

Mr. MCHUGH. Well, I'm sure your comments will be made known to them in one fashion or another. I obviously have other questions

I would like to pursue, but I would like to yield to the gentleman from Texas, Mr. Green, who has rejoined us.

Mr. GREEN. Thank you, Mr. Chairman. I didn't realize I was going to get back to some questions. Let me continue to follow up. And I guess this is a—some of us who are new on the committee and our second term in Congress, even, are learning the structure and the procedure of the Postal Service and the Postal Rate Commission and Board of Governors.

And in visiting with a number of people, I understand the frustration. And I was just reading your study or your recommendation that you talked about from November. Is that the study you mentioned in your testimony earlier, November 30? That's not the recommendation? It was in your statement at the Postal Rate Commission on November 30, some of the recommendations that——

Mr. GLEIMAN. I believe you're looking at a summary of the rate case decision, if it's November 30.

Mr. GREEN. Yes. That's correct.

Mr. GLEIMAN. The study that has been referred to a couple of times during the questions is Postal Ratemaking in a Time of Change. It was a June 1992 report that dealt with efforts to streamline the rate-setting process.

Mr. GREEN. And I guess we're still learning, and that's why I ask questions about if there was a way that you could—you know, there is no flexibility now in providing for, at least as far as I know—and you may correct me—that if there was competition, and I know the concern you have about competing to match private business, because they may have lower costs, in some cases.

And we don't want to have first class stamps providing any more support than what it's already doing, but allowing the post office maybe to compete and see just how it works. Are there any examples now that they have that ability to have that flexibility that the Postmaster General has said?

Mr. GLEIMAN. It's interesting that you should ask. First, let me just say as a precursor that they do have flexibility now. It doesn't take 10 months or 1 year or 14 months. Every time I hear it in a speech from someone, it seems to get a little bit longer. Pretty soon, we're going to take longer for a rate case than it takes to deliver a baby elephant, I guess.

But there are rules now. Express Mail, they can change those rates in 90 days. We have a 90-day procedure—no more than 90 days. And for experimental efforts, there's an expedited 5-month proceeding, no more than 5 months. So there are some rules on the record now.

But there is an area where the Postal Service gets to compete. It's the international arena. The Postal Service has the rate-setting authority in the international arena. And it's kind of interesting. They haven't fared that well. Their volume and their contribution to Postal Service overhead has not increased, and they're in a virtually unfettered free market situation there.

And as far as experimental services go, there's one experimental service that they tried in the international arena that I'm familiar with. I looked at it years ago when I was a staffer on the Government Operations Committee. It was something called Intelpost. It

was their way of getting into the high-tech area. It was an international facsimile transmission service.

It was an experiment. It ran for 5 years before we took a look at it. In those 5 years, the Postal Service invested $6 million—which doesn't sound like a lot of money in the overall scheme of things—and they grossed $60,000 in revenue on this experiment.

And until the Congress started to beat on them about it, they had no intention and no interest whatsoever of making any changes that would make it more cost effective.

After the Government Operations Committee issued a report—and I can provide a copy of that report to the subcommittee—until that report was issued and the Postal Service was embarrassed into doing something with this wonderful experiment of theirs, they were happy to run it forever and not make any money. Six million dollar investment, $60,000 gross revenue.

Mr. GREEN. It sounds like some of the property I bought in Texas.

Mr. LEBLANC. Congressman, I would just like to just expound on that 1 second. First of all, you may or may not be familiar, but they borrow money at the Fed rates, good or bad; they do not license their vehicles; they do not pay property tax on 40,000 retail outlets; and that alone is a sizable amount of money. So I just wanted to put that into the record.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. MCHUGH. Thank you. I would just say to Members now here, those who may come in, if we can relay that information, if they would at any time ask for time, I would certainly be happy to share that with them, rather than just turning every 5 minutes or so and asking.

Let me return to the topic that we were discussing earlier whereby the Postal Service has not, in the opinion of some, in any way accessed the flexibility that they currently have available to them or that has been offered to them. I'll pose a simple question. Why do you think they have failed to act in those areas, the 1992 report, the Express Mail flexibility? What might be the reason, in your opinion?

Mr. GLEIMAN. I can only guess. And I think that perhaps as it was indicated in comments that they made in response to the rulemaking on the joint task force report, that they had other priorities and other ways that they wanted to try and do things. But I don't know.

Listen. You know, I understand the Postal Service. If I were in charge of the Postal Service, not only would I do a worse job than the Postmaster General does now or any other Postmaster General has ever done, but I also would want to be out from under any control whatsoever. I mean, that's just natural for people not to want to be controlled by someone else or to be held accountable by anyone else.

I don't know whether it has been the feeling all along that they could cut a better deal on their own or not. I just don't know. I don't want to attribute those kinds of motives. Let's just say they had other fish to fry.

Mr. MCHUGH. Well, leaving the past, then, let's return to the present. You mentioned in your testimony that you are, indeed, en-

gaged in discussions currently with the PMG to develop new initiatives on flexibility. Are you optimistic that these discussions will prove more productive and more utilized than those in the past? How is it going?

Mr. GLEIMAN. I'm optimistic, depending on which day of the week you catch me.

Mr. MCHUGH. Today is Thursday. [Laughter.]

Mr. GLEIMAN. Well, I think if we can get the rhetoric out of the way and cut to the chase that yes, we can do some things. But again, we can't do things in isolation in a back room somewhere. There are other people who have an interest. Interestingly enough, not everybody has the same view of the world as the Postal Service. Even the large mailers who sometimes agree with them on rates and issues don't always agree with the Postal Service in terms of the flexibility it affords.

But if we can get down to some specifics, then we can deal with them. But we're going to have to deal with them in the public rulemaking venue, so that everybody who is affected or could be affected is going to have a chance to take a shot and make a statement about the good and bad of what we're proposing.

We can't under the law—and we shouldn't whether there's a law or not—go into the back room and cut deals that are going to work to the advantage or disadvantage of one party or another without giving everybody a shot. There's too much at stake here. Our postal system is really important to this country. It is intertwined with our lives, business and personal, every day of the week. As much as I grouse about the Postal Service, I have a lot of respect for it, and I think it's really important. And I would like to do things that will improve the lot of the Postal Service, make it better, and make it better for all of us. And that includes finding ways to make the process less adversarial, not as lengthy, not as cumbersome. And I certainly don't want to get to the point where we're having rate cases that go so long that we deliver babies before we deliver rate cases.

Mr. MCHUGH. Let's talk about that for a moment. The law provides for 10 months, as I understand it, for you to do your job. That in the past has pretty much been the standard until your first rate case, where you came in and chopped off 1 full month, brought it down to 9 months. First time in the history of the process.

Do you think that you totally stretched, totally compressed that process to the greatest extent possible, given your charge under the law? We hear so much and from so many about how that seems to be an unreasonable amount of time, until they look at or till the internals of that process are considered.

We want to protect the fairness and the openness, but is there anything we can do to achieve that end and still make it quicker by law? How can this committee help?

Mr. GLEIMAN. Let me mention that the standard until 1976 was no standard at all. The 10-month provision, as I recall, was put into the law in 1976. I think I'm right on the date, and if I'm not, I'll correct it for the record. But before then, rate cases could go on interminably. And, in fact, there was one rate case that dragged on for a couple of years.

The rate case that we had this last time out was unique in a lot of ways. Some of the uniqueness made it more difficult to deal with, and some made it easier to deal with. Some of the issues were more complicated, but there were fewer parties who were acting participants in this rate case. And the staff will probably hiss and boo. I think maybe we could have shaved a little bit more out, but not much more. And I don't know how much we can shave out in the future. The question is, who wants to give up what?

I'll give you an example, the discovery part of the process. The Postal Service was required in this last rate case to respond to questions that were put to it about its rate case that it filed with us. They were required to respond in 14 days. In previous rate cases, the Postal Service was given 21 days to respond.

The Postal Service was very unhappy about giving up that extra 7 days, but requiring them to give up that extra 7 days bought us 1 week of those 5 weeks. If nobody wants to give anything up, then it's hard as the dickens to chop time out.

Mr. MCHUGH. Do you think the loss of that week in any way compromised the quality of the process and the fairness of the outcome?

Mr. GLEIMAN. Well, the Postal Service complained that it didn't have enough time to respond to interrogatories and filed a number of requests to respond late, all of which we approved. I don't think you can go any shorter than 14 days. I don't want to make an absolute statement, but to cut the Postal Service or other parties in terms of their response time to less than 14 days could impact on the quality of the responses you get. And you are dealing with analytical data here, complicated data here. There are a lot of interrogatories.

I don't remember the number that the Postal Service got, but there were a heck of a lot of them. And it's tough for them to respond to all of these interrogatories in 14 days. So I don't know whether we could go any lower. Maybe we can try 14 again if they're willing to.

There are some other ways that you could probably improve the process. For example, I spoke before somewhat tongue-in-cheek about this—well, maybe not so tongue-in-cheek—about this meeting that's going to be held over at this ballroom in the hotel in Virginia. And it might be that we couldn't participate unless it was open to the general public. I don't know. But I'm not sure that's all that bad.

But if our staff at this juncture could gain some insights, could start to look at material, if they could hear the questions that other interested parties are asking about what the Postal Service is planning to file with us, it might help us at the front end in terms of analyzing the details of the Postal Service case. Maybe we could shave a little bit of time out at the front end. I don't know.

Mr. MCHUGH. Let me pose a possibility. And I'm not necessarily advocating this, but we're here today to ask questions and discuss the issues. You expressed a concern earlier in your testimony that you had grave problems with the quality of the data being supplied by the Postal Service. That data is absolutely essential to the process of making a rate determination. I would suspect, although I

don't know, the failure to be able to provide that data in a timely fashion adds measurably to the process.

How would you respond to a requirement that in those areas where there is a monopoly provided for the Postal Service—in other words, not in those areas where they're in direct competition with the private sector, but in the areas that are covered by the Express Mail statutes—if the data and all the proprietary information that the Postal Service has available is open to the public under Freedom of Information 365 days a year, might that not in the first instance encourage the Postal Service to do a better job of compiling that data as a management tool? Because I believe you suggested that it seemed to be largely absent.

And might it not also greatly facilitate future requests during rate proceedings for that, without substantially compromising their position because of their monopoly position?

Mr. GLEIMAN. Well, it would be helpful to us if the Postal Service filed the information that our current rules require them to file in a timely manner. It would be helpful when the Postal Service changes a data collection system to inform us that they are changing a data collection system, as our rules currently require, so that we could keep abreast of things.

I'm kind of a Freedom of Information junkie. I believe all government information should be open to the public, unless it meets one of the criteria for withholding that the law provides. I think the Postal Service would be aghast at the idea of making all of its information available generally to the public or to the Postal Rate Commission on a daily basis 365 days a year.

But I think that if they would deliver their data in a more timely way and consistent with our rules, that certainly would make our jobs easier. By the way, let me tell you something that happened in the last rate case. I've been thinking about this a lot lately, and it has me upset.

The Postal Service has an outside auditor that comes in and every year audits their balance sheet. You see that in the back end of the Postmaster General's Annual Report. And there was a—I don't have it with me. I don't remember which footnote it was. But there's a footnote in there. There's an adjustment in their balance sheet that they just sent up for this past year. And it has to do with their accrued worker's compensation liability.

Almost all last year while we were doing the rate case, the Postal Service was looking at its accrued worker's comp liability. Somewhere along during the course of the year, the Postal Service determined that its accrued liability in this area was overstated by $850 million. It is a long-term liability. It's spread out over a number of years.

But one of those years that it's spread out over and impacts on is the current year. If the Postal Service had been more forthcoming, more willing to have that data audited at an earlier time and made that information available to the Rate Commission before rather than a couple of weeks after our evidentiary record closed, it is conceivable that we could have had lower rate increases.

Back of the envelope calculation—and I'm not real good at this yet, but I'm learning—said that there was about $200 million involved in the current fiscal year. That $200 million is about 2.5

percent on third-class and second-class mail. We could have had lower rates, possibly, if the Postal Service had been more forthcoming.

Mr. MCHUGH. Well, clearly, the better the data, the better the process. I think we all would agree on that.

You mentioned the Postal Service would be aghast if we required the opening up of their propriety information in monopoly protected areas. Would you be aghast?

Mr. GLEIMAN. I'm having a definitional problem here. I think in monopoly areas, there's no such thing—I'm shooting from the hip, now. And, as I said, I'm having a definitional problem. I think that in a monopoly area, there is no proprietary information, per se.

"Proprietary information" implies sensitive business information and the like. And I think in a monopoly area, there is no information that's that sensitive, or there shouldn't be. And the answer is, I wouldn't be aghast if they opened it up.

As a matter of fact, it would be great if we could develop a relationship with them where we could get their information on an ongoing basis. We do get some information periodically which we analyze, and it would be useful to get more.

Mr. MCHUGH. We'll return to this, because I have a——

Mr. LEBLANC. Mr. Chairman, may I make a comment, please?

Mr. MCHUGH. Yes, Mr. LeBlanc.

Mr. LEBLANC. If anybody was aghast, there is another alternative, which would be to provide the Postal Rate Commission with subpoena power during rate cases for sure and possibly at any other time during the years, however, you would want to structure that.

But that would be a way of keeping possibly both the proprietary information proprietary, as well as allowing us to get certain information that we need at a given point in time. So it was just a thought that I had there, as far as that is concerned.

Mr. GLEIMAN. I'm afraid I would have to take exception to my colleague's position. I would much prefer to have a better relationship with the Postal Service and get the data that way than having the threat of subpoena hang over.

My experience over the years has been that when you have subpoena power, people sometimes expect and push you to use it, and I'm not sure if you can get things in a cooperative spirit that it's best to have that kind of power. I would rather try and work it out first, maybe hold that one in abeyance for a while.

Mr. LEBLANC. We're independent, as you can tell.

Mr. MCHUGH. I'm delighted with that turn of events. All I can remember is how my Dad always liked to get me to do things in a friendly fashion, but I always knew the belt was in the closet, too. [Laughter.]

But, with that, I have reflected my——

Mr. GLEIMAN. If you insist.

Mr. MCHUGH. Well, I know that was a recommendation a number of years back by the commission itself. And it will bear further examination.

I've been remiss in my duties, if I may, to gratefully acknowledge the gentlelady from Michigan, the Honorable Barbara-Rose Collins,

who also serves as a ranking member of this subcommittee. And we thank you for being here.

Miss COLLINS. Thank you very much, Mr. Chairman. I apologize for being late to this hearing. However, I have three hearings at the same time, and another one was very urgent. And I'm familiar with the Postal Rate Commission.

So I'm not going to take up much time with questions. I would like to ask if my opening statement can be introduced for the record.

[The prepared statement of Hon. Barbara-Rose Collins follows:]

PREPARED STATEMENT OF HON. BARBARA-ROSE COLLINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

I am very pleased to join you, Mr. Chairman in participating in this oversight hearing on the Postal Rate Commission. I would like to welcome Chairman Edward Gleiman and the Commissioners before the new Postal Service Subcommittee.

As you know, last week this subcommittee heard testimony from Postmaster General Runyon and the GAO. Mr. Runyon specifically called upon Congress to reexamine the Postal Reorganization Act of 1970 in order to facilitate needed changes. Mr. Runyon indicated his desire to deregulate the U.S. Postal Service by shortening and simplifying the rate setting process, providing volume discounts and freedom to introduce new products in a more timely manner. He called his proposal commercialization not privatization of the Postal Service.

We are very interested to hear your views today and your concerns regarding postal rate flexibility, competitive product offerings and the financial stability of the Postal Service.

Similarly, we expect to learn how reform of the rate setting process would impact the Postal Service's historical mission to collect and deliver the mail in an efficient and timely manner and how any such reform would strengthen the Postal Service's position in an increasingly competitive environment.

Again, welcome. I look forward to your testimony.

Mr. MCHUGH. Without objection.

Miss COLLINS. Thank you. I'm interested in knowing, what are your thoughts on the privatization of the United States Postal Service, and how would that affect the Postal Rate Commission, or have I missed your statement to that effect?

Mr. GLEIMAN. I don't think we really spoke to privatization, per se. I did say in response to a question earlier from Congresswoman Meeks that I have great difficulty with that term. I don't know what it means. I hear it thrown around a lot, and I hear a lot of people give different kinds of definitions.

And I have problems responding to questions about privatization unless people tell me exactly what they mean. And I know that's not a word that you throw around or that you are suggesting——

Miss COLLINS. I don't know what it means, either. And Postmaster General Runyon coined another one, "commercialization." So I don't know what the difference is between that, either. But I just wondered what you thought.

Mr. GLEIMAN. I'm not sure of all that fancy stuff. But let me tell you, I think that the Postal Service is real, real important to this country. It fascinates me that the Postal Service operates as well as it does. I know that we're all quick to criticize the Postal Service.

When you think about 125 million addresses in this country from which and to which mail of various sizes, shapes, and forms can go 6 days a week, 500 million-plus pieces a day, it is fascinating that the system gets anything anywhere ever.

I kind of put mail when I think about it in the same context as telephones and televisions and computers; I know they work most of the time, but I don't know how they work. So I think that we have to keep in mind that we have got this enormously valuable system that's intertwined with our everyday life, our business life and our personal lives.

And I think that my personal view—I don't know how my colleagues feel about this, but my personal view is that whatever they talk about with privatization, if they mean splitting it up and selling it in bits and pieces or taking the whole thing in bits and pieces and giving it to some private party, I'm not in favor of it.

I don't think that the country would be well-served. I don't think that we would have universal service. And I don't think we would have uniform rates. And let me say about uniform rates, I remember reading some time ago in the Roll Call that there's a Member of Congress who found somebody who would deliver letters here on the Hill to his colleagues for 5 cents a pop. And he thought that was great, and it is. But I dare say that whoever's delivering those letters for 5 cents a pop in these three House office buildings is not going to carry that Member's letters back to his district for 5 cents a pop. I'll bet you that carrier won't even do it for 32 cents a pop. And I'll bet you that that Member's constituents who will want to write him about something and ask for him to intercede in a problem that they're having with the Federal Government or with someone else can't find anybody private to carry those letters to Washington to him for 32 cents.

I'm very concerned about what would happen if we split this thing up and gave it away or if we gave it away lock, stock, and barrel. It's too darn important. And if anybody decides that we need to chop it up or give it away, I hope that they'll think about all the pieces being in place before they do it, because I would hate to think of all the creditors I have not being able to send me their bills.

Miss COLLINS. Thank you very much, that's a very detailed answer.

Mr. MCHUGH. Thank you. Mr. Green.

Mr. GREEN. Mr. Chairman, I don't have any more questions. I would just like to also insert a statement into the record.

[The prepared statement of Hon. Gene Green follows:]

PREPARED STATEMENT OF HON. GENE GREEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Thank you, Mr. Chairman. Today we have the second installment of the oversight of the Postal Service. Last week we heard the testimony of the Postmaster General in which he described the opportunities and problems facing the Postal Service. This week we will discuss the Postal Service with the body that considers postal service requests for rate increases and makes recommendations based on those requests.

It is clear the Postal Service faces enormous challenges in reducing costs and improving service. As members of the commission that oversees the Post Office, I would like to hear your views on the areas where the Post Office has made progress in recent years and where it has fallen short. Particularly, I would like you to describe in your view on what is driving up the costs of the Post Office and whether automation would help.

Mr. MCHUGH. Without objection, so ordered. Ms. Meek.

Mrs. MEEK. I just wanted to amplify a little bit what my colleague, Barbara-Rose Collins, just asked you about privatization.

There are any number of things that the Budget Committee is looking at. Nothing has been decided upon, as far as the Postal Service is concerned.

But all these various authorities they have brought before us have issued any number of techniques for doing this. One is selling off the assets which you presently have, a one-time selling of all of the assets, retaining the money from that and using it, certainly, for a deficit reduction.

Another one is to sell out franchises to the postal workers, the people who work in the Postal Service. Let them take over the post office, just as another Burger King, I guess, and to franchise it and let them run the post office service and see if that will serve the job.

The other one is contracting out, which I'm sure you're very familiar with that process. And the other one that they recommended was vouchers. Any number of things they have recommended as to how the Postal Service can save money and how it can be certainly modernized better than it is and served with much more dispatch than it's presently serving.

They had experts from other countries come in, certainly much smaller than the United States, so that didn't serve as a very good model. But I was interested in your comments in that I assume by this time you are not very favorable to any kind of privatization as it currently exists.

Mr. GLEIMAN. Again, I have problems with the word "privatization." It depends what people mean. I think that there's room for some contracting out, maybe. But you have to look carefully at those areas to make sure that there's really a cost savings. But generally, I'm troubled by the idea of privatization of the Postal Service.

But you have to put that against the backdrop that I'm always fighting with my wife whenever she wants to redecorate the house. I get comfortable in that one easy chair, and I don't ever want it to change.

Mr. MCHUGH. I thank the gentlelady. Let me just expand very briefly on her question. The subcommittee can assume, then, that in general terms, you're supportive of the Private Express Statutes and would not favor them being repealed?

Mr. GLEIMAN. I would say that generally, we're supportive of the Private Express Statutes. Maybe I should say generally, I'm supportive of the Private Express Statutes. I've not had in-depth discussion with my colleagues, and they may have different views, I'm sure.

Mr. MCHUGH. Is that an agreed-upon statement Mr. Quick? Exercising the independence of the commission.

Mr. QUICK. Mr. Chairman, I think that it's difficult to consider the Private Express Statutes separate from the so-called suggestions that the Postal Service be commercialized. We have heard this term from the Postmaster General. And I assume that this concept includes retaining the Private Express Statutes, which I think is fine.

But if in addition to that, commercialization concept means retaining those statutes, retaining the monopoly, but giving the Postal Service more freedom to set rates, I think that's very trouble-

some, because that's an enormous power that they would have, without the public review they currently get through our process.

I would say that I would be for retaining the Private Express Statutes, but not necessarily for the notion of commercialization, if it means giving the Postal Service the ability to set its own rates.

If there were no review to mailers for the rates that they are asked to pay—we have examples that the chairman cited in his testimony from our last case where they just flat-out made mistakes which would have been of great consequence to many people, particularly small newspaper publishers and businesses that use business reply mail.

In addition, if they had the ability to set rates without any public review and retain their monopoly, they have a tremendous power to affect the competition that goes on in this country among different kinds of media for advertising dollars.

The total advertising dollars spent estimated by a man from McCann-Erikson for this year is about $165 billion. That's television, radio, magazines, newspapers, direct mail, and other kinds of promotions competing for that amount of money.

The third-class direct mail has been growing as a percentage of the overall proportion of that total amount of money. And probably this year, the estimates are that about 20 percent of that amount, about $32 billion, will be in the direct mail area.

Now, if the Postal Service has the power to effect the rates that might give an advantage to direct mailers, somebody else in that competitive area is going to be hurt. It could be newspapers, it could be magazines, it could be other kinds of media.

So I think that the commercialization notion, as I said, if it means setting rates by the Postal Service and enabling them to shift costs to mailers who have no alternative, small businesses, individuals, people like that, I think that's a notion that requires a lot of critical scrutiny, because you're really not dealing with just Federal Express and UPS and other kinds of competitors. You're dealing with how major segments of the economy competes for this huge amount of advertising dollars. And they have different functions in our society. Your newspapers in Watertown or your small newspapers have a different role than the people who send direct mail, as do magazines.

So I think Private Express Statutes, I would be for keeping. This other notion I think, as I said, requires a good deal of thought and scrutiny.

Mr. MCHUGH. Thank you, Mr. Quick.

Mr. GLEIMAN. Mr. Chairman.

Mr. MCHUGH. Mr. Chairman.

Mr. GLEIMAN. Less we appear to be trying to protect ourselves or give answers that would perpetuate our existence, let me answer a question that you have not asked. You may plan to ask it. I don't know. And I apologize if I'm going to preempt you.

Mr. MCHUGH. I was about to ask, if I can guess where you're going, particularly given Mr. Quick's comments.

Mr. GLEIMAN. It's your hearing, sir.

Mr. MCHUGH. Are you an irreplaceable part of this system?

Mr. GLEIMAN. No, in a word.

Mr. MCHUGH. Do you care to expand upon that?

Mr. GLEIMAN. Yes, sir. We don't need a Postal Rate Commission. But as long as there is a Government-granted monopoly Postal Service, you need some entity somewhere which is the functional equivalent of the Rate Commission, which has staff who can take the time and expend the energy to understand the numbers in the process and which is independent of the Postal Service.

You don't need to have a free-standing Postal Rate Commission, necessarily, in my personal opinion. I may not be able to go back to the office this afternoon. I may have a bunch of angry staffers and angry fellow commissioners, but that is my opinion. You just need to have the function, and it has to be independent, so long as you have a Government-granted monopoly.

Mr. MCHUGH. Well, I hope you can return to the office this afternoon.

That seems to be a point at which perhaps logically we can call an end to the proceedings. I have to tell you that prior to November 8, this was a recurring dream of mine, where I would be sitting here as a chairman, no one to question my authority. [Laughter.]

But, as all good dreams do, this one shall come to an end, as well. Let me sincerely thank you all for again being so generous with your time.

I have said on previous occasions that while I understand the road to hell is paved with such things as good intentions, it is the good intention of this subcommittee to try to be a facilitator in this very, very complex process of providing mail service to the people of the great Nation that we all have the honor of living in.

We're going to continue to hopefully work with you and other interested parties to be a positive force in that. In that regard, we certainly look at this as the first step in our continuing dialog. And we appreciate and thank you for your role and for your efforts in that regard.

We will be submitting some written questions for the record that we hope you will consider and respond to, and we will make that availability open to other members of the subcommittee and be forwarding those to you. The subcommittee will be continuing this process with our next series of hearings next Wednesday.

So with that and the appreciation of the members and the staff of the subcommittee, thank you again. The hearing is adjourned.

Mr. GLEIMAN. Mr. Chairman.

Mr. MCHUGH. Mr. Gleiman.

Mr. GLEIMAN. If I may, I want you to know that I think I can speak not only for the Rate Commission, but for a good part of—if not all of—the postal community to let you know that it is reassuring to know that you are taking the time and making the effort to look at what is a very important entity to all of us.

And as far as your dream goes, knowing how your schedule is, I'm afraid it's going to be a recurring dream over the years. I hope that you can get more Members out. But thank you for giving us the opportunity today.

Mr. MCHUGH. Thank you all very much.

[Whereupon, at 12:05 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

[Additional information submitted for the hearing record follows:]

PREPARED STATEMENT OF HON. CARDISS COLLINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Chairman, this is the second oversight hearing on the postal service. I am pleased to join my colleagues in welcoming the Postal Rate Commission and look forward to your testimony.

In testimony before this subcommittee last week, Postmaster General Runyon expressed an interest in deregulation of the 1970 Postal Reorganization Act and commercialization of the postal service.

He wants to simplify and shorten the rate making process and be able to offer volume discounts to business mailers and in general move quickly to bring new products to the marketplace.

Since the commission monitors postal finances and mail volume, I am interested in hearing reactions from the chairman and commissioners on Mr. Runyon's request for flexibility in the ratemaking process and on deregulation of the 1970 postal reorganization set.

I am also interested in your views on the ability of the Postal Service to remain competitive in the face of questionable finances. GAO testified last week that despite billions spent on new facilities and new automation, postal costs are still not under control.

I look forward to your thoughts on these pressing matters. Thank you.

GENERAL OVERSIGHT OF THE U.S. POSTAL SERVICE

WEDNESDAY, MARCH 8, 1995

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE POSTAL SERVICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2247, Rayburn House Office Building, Hon. John M. McHugh (chairman of the subcommittee) presiding.

Present: Representatives McHugh, Sanford, Gilman, Ehrlich, Green, and Collins of Illinois.

Staff present: Dan Blair, staff director; Jane Hatcherson, Robert Taub, Heea Vazirani-Fales, and Steve Williams, professional staff members; Meryl Cooper, clerk; and Denise Wilson, minority professional staff.

Mr. MCHUGH. I would like to call this meeting of the subcommittee to order.

As a preface to my opening statement, I want to comment, as we have grappled with in prior sessions, as is happening throughout this Capitol, on both sides of the Congress, Members are greatly stressed with any number of meetings, and I am sure people will be drifting in and out today. I want to assure, particularly, our honored guests here this morning, it in no way reflects anything but the highest opinion of your presence here today. We beg your understanding and appreciate that as well.

Today I am pleased to welcome the Postal Service's Board of Governors before this subcommittee. At the outset, I want to extend my best wishes and greetings to Chairman Sam Winters and the other Governors present with us today. We appreciate your appearance.

For the record, I would like to have inserted a letter from Vice Chairman Tirso Del Junco stating his absence from today's hearing due to a previously scheduled meeting.

[The letter from Tirso Del Junco follows:]

BOARD OF GOVERNORS,
WASHINGTON, DC,
February 15, 1995.

Honorable John McHugh, Chairman,
House Government Reform and Oversight,
Subcommittee on the Postal Service,
U.S. House of Representatives,
Washington, DC 20515-3224.

DEAR MR. CHAIRMAN: It was a pleasure to meet with you last week and have our initial discussions on the Postal Service. I have confidence that this new Congress

will reach objective decisions on those matters which may impact on the Postal Service's goals of providing consistent, timely mail service while also holding mail rates for all of our customers to the lowest responsible level.

While I will attend the regularly scheduled meeting of the Board of Governors on March 6–7, I will, unfortunately, not be able to appear at your scheduled oversight hearing for the Governors on March 8. I will be out of the country for a meeting of another board that had previously scheduled its meeting on March 8.

Thank you again for the meeting last week.

Sincerely,

TIRSO DEL JUNCO, M.D.,
Vice Chairman.

Mr. MCHUGH. As the board of directors for what would be one of the Nation's largest corporations, the Board of Governors serves a pivotal role as the sole source for political accountability in the operation of the U.S. Postal Service.

History shows that some past boards have taken this role as a mandate to micromanage the day-to-day operations of the Service; others have, sadly, failed to perform their fiduciary duty in performing legitimate oversight functions. I look forward to today's testimony and to Chairman Winters helping the subcommittee to better understand this current board's role and view of the substantial oversight duties placed upon them by the Congress.

The subcommittee is also most interested in having the Governors describe their views on the current state of postal finances. Last year some criticized the Postal Service for failing to request a timely rate increase. New rates took effect this past January. The subcommittee is interested in hearing the Governors' views on the adequacy of the revenue expected to be generated and the increase's effect on long-term postal finances.

As I am sure you are aware, some in Congress have targeted the Postal Service as a source of deficit reduction, by way of requiring it to prefund its retirees' health benefits. And there, too, we would appreciate hearing the Governors' view on this proposal and the effect that such an action would have on both short-term and long-term postal finances.

On Tuesday, February 18, the Postmaster General and the General Accounting Office appeared before the House Appropriations Treasury and Postal Subcommittee to discuss the continuing service and delivery problems experienced by businesses and residents of Washington, DC, and the metropolitan area. Of concern to me was GAO's findings that attributed the source of such problems to long-standing labor-management disputes which adversely affect employee morale and contribute to higher than average substance abuse problems and utilization of sick leave.

I am sure the Governors share my concern, and the other members of the subcommittee, that these problems, not only evident here in Washington but a problem nationwide, to a certain degree, as well, need to be addressed. The subcommittee looks forward to Chairman Winters' testimony in this regard and any proposals to help solve these long-standing problems.

In the past, some legislators have expressed concern that the Governors have not been fully apprised of postal operations and problems, and the quality of information provided the Governors by postal management has at times been less than adequate. This subcommittee's members are interested in hearing the Governors' view on these claims and whether we can facilitate and improve

the exchange of information between the Governors and postal management.

I raise this issue because of the tremendous responsibilities current postal statutory structure places on the Governors, who operate with only one formal staffer.

As you know, both the Postmaster General and the Postal Rate Commission preceded you ladies and gentlemen before this subcommittee as witnesses. I want to restate an observation that I made during those earlier sessions, that simply these are extraordinary times of change for both the Postal Service and the Federal Government at large.

This subcommittee has both a duty and an obligation to the citizens of this Nation to work with all interested parties in pursuing and implementing those policies that will provide the citizens of this Nation and the patrons of the Postal Service with the most efficient and productive system possible.

With that, again, I want to thank the Governors for their appearance here today, and I certainly look forward to their testimony.

I take this opportunity to yield to the vice chairman of the subcommittee, the Honorable Mark Sanford.

Mr. SANFORD. Thank you. I have no opening statement.

Mr. MCHUGH. No opening statement. I thank the gentleman.

Joining us from the minority side, the gentleman from Texas, Mr. Green.

Mr. GREEN. Mr. Chairman, I have an opening statement I would like to place in the record, but I couldn't pass without welcoming the chairman, Mr. Winters. For the record, Mr. Winters and I have had this relationship for many years. Twenty-two years ago I served my first term in the Texas House, and Sam Winters was a friend and testified before our House Insurance Committee many times. I welcome him back. Both of us are wearing different hats today.

Mr. WINTERS. But you're always up there, and I'm always down here.

Mr. GREEN. That's the way it's supposed to be, Sam. [Laughter.]

Mr. MCHUGH. The gentleman from Texas' comments are so noted. Without objection, his written opening statement will be placed in the record.

[The prepared statement of Hon. Gene Green follows:]

PREPARED STATEMENT OF HON. GENE GREEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Thank you, Mr. Chairman. With the goal of making the U.S. Postal Service more efficient, less costly, and more service-oriented, we continue our series of oversight hearings on postal operations. The Postal Service's Board of Governors plays a significant role in this process by providing guidance and establishing the overall direction in which the Post Office moves.

Postmaster General Marvin Runyon has come under criticism from many quarters for his inability to control postal costs and improve service, despite investments in automation. The Board of Governors has signalled its displeasure of his performance by establishing a panel to consider and make recommendations on salaries, incentive plans, and other compensation of senior postal officials. By restricting the Postmaster General's authority in this area, the Board intended to send a signal. I am very interested in learning today about the Board's motivation for this action and their plans for the Postal Service in the future.

Mr. MCHUGH. Two ground rules: The first is, to the Members—and this has not been necessary, but in case there is a problem—we try to adhere to the 5-minute rule, although we do not have a formal clock, and rotate through the Members as often and as many times as possible. We appreciate Members' understanding and working within those guidelines.

The second is a standing rule of the full Committee on Government Reform and Oversight, whereby all witnesses will be sworn in formally. This is not a reflection on the caliber of the present witnesses here this morning, I assure you. But if the ladies and gentlemen would rise, I will administer the oath.

[Witnesses sworn.]

Mr. MCHUGH. With the formalities and swearing in aside, it is now my honor to yield the floor to the chairman of the Governors, Mr. Winters, for any opening comments he may choose to make.

STATEMENT OF SAM WINTERS, CHAIRMAN, BOARD OF GOVERNORS, U.S. POSTAL SERVICE

Mr. WINTERS. Thank you very much, sir.

I am Sam Winters from Austin, TX, and I am chairman of the Board of Governors, U.S. Postal Service. Sitting here with me today are all of the existing Governors, except Governor Del Junco, that you mentioned, who could not be with us today.

We have Governor LeGree Daniels, from Harrisburg, PA; Norma Pace, from North Palm Beach, and formerly of New York City; Susan Alvarado, from Alexandria, VA; Governor Einar Dyhrkopp of Shawneetown, IL; and Governor Bert Mackie of Enid, OK. We are sorry that Governor Del Junco couldn't be here today. He is our vice chairman.

As you have indicated, Mr. Chairman, I have provided a complete copy of my statement to the committee for the record, and this morning I would like to just offer the highlights from it.

Each Governor of the Postal Service is nominated by the President of the United States and is confirmed by the Senate for a 9-year term. Bipartisanship on the board is assured by the limitation that no more than five members of one political party may serve among the nine Governors.

All of the Governors appreciate the opportunity to appear here today and talk with you about our stewardship of the U.S. Postal Service.

When it comes down to the fundamental act of delivering mail to an American home or business, our Postal Service is one of the most up-close and personal of all of our national institutions. It directly touches the lives of every American every day.

So like yours, our constituents keep us up to date on how they think the Postal Service is doing. Most of our constituents believe we're doing fine. Many believe we can do better. As Governors we feel the same. Our employees are doing a great job, but we have to do even better if we're going to keep up with our customers' needs in the future.

Each Governor is aware of the responsibilities of public service. I think that we have each come to our places and our posts as accomplished people in our chosen fields who want to serve their country in some way. By law, we serve as the American people's

representatives in the process of guiding and managing this businesslike public service.

The statute provides that we represent the public generally and that we should not be representatives of specific interests using the Postal Service. We function with many, but not all, of the disciplines of a corporate board of directors.

A Governor's compensation is modest. It is embedded in the statute and has not been increased in 25 years. Each Governor puts aside many hours of time each month to remain current on the affairs of the Postal Service. This includes work associated with the board's three committees—for audit, compensation, and strategic planning. It includes visiting postal facilities and mailer plants to observe operations firsthand, and it includes preparing for board meetings as well as studying materials pertaining to all aspects of operating the Postal Service.

The board has regular meetings in Washington, DC, or in an area of the country that allows us to see new technologies or systems that are being implemented by the Postal Service, mailers, or even our competitors. We usually meet on the first Monday and Tuesday of each month, but there can also be special meetings.

We appoint the Postmaster General and, with the Postmaster General, appoint the Deputy Postmaster General. By statute, the board directs the overall policy of the Postal Service. It approves all major capital expenditures of $10 million or more, reviews management actions of significance; and reserves the approval of officer compensation. The Governors ultimately determine the amount of mail rate increases after the full board has determined that such is necessary. And the board determines when and if a mail classification case should be filed with the Rate Commission.

I believe that in conducting all of our board activities, we are quite faithful in following the mandates of the Postal Reorganization Act that the Congress passed some 25 years ago. The act conveys a specific obligation to the Postal Service:

> To provide postal services, to bind the Nation together through personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to customers in all areas and shall render postal services to all communities.

We are meeting this obligation. In the most recent quarter, 84 percent of the local, first-class mail was delivered on time—promptly and reliably—against our self-imposed time limits. Our automation program is working. I know that the GAO has recently reported that we're not achieving planned savings and that the program was slowed somewhat while management and the board took a careful look at the whole program.

A review of our automation investments was prudent. We are saving money, about $5 billion to date and $14 billion in the longer run, as a result of the revised program. If we didn't have the machines we do, our costs would be higher today.

Automation has been a sound business investment. This is clearly in keeping with the mandates of our customers who tell us that they want the Postal Service to operate more like a business. Operating like a business, however, is very difficult to do under the many constraints written into the act and other laws that affect us.

For example, we handle about $300 million in cash a day, but our ability to get a maximum return on that cash is limited by the Treasury Department. Our banking and borrowing authority are also subject to Treasury controls. The Labor Department sets rules on workers' compensation. The Transportation Department regulates what we pay for international air service.

The Office of Personnel Management oversees and enforces personnel rules. The Merit Systems Protection Board, MSPB, adds an additional layer of appeals to the already cumbersome process. These latter two entities, OPM and MSPB don't always agree.

There are additional barriers to being businesslike. We are mandated to prepare a business type budget that projects current and future year performance. This serves, essentially, as our operating plan. It is virtually impossible to make that plan when the Congress does not meet its obligation to fully fund subsidies to mailers that it has mandated and that we included in our original plan. This has happened in the past.

Also, 25 years ago, at the time of postal reorganization, Congress and the administration enacted a firewall between the Postal Service and the old Post Office Department. The Postal Service was to start fresh and eventually become self-sufficient. It was established at that time that all liabilities of the Post Office Department became liabilities of the Federal Government.

However, in the mid–1980's, the Congress and the administration imposed some of these obligations on the Postal Service to support Federal deficit reductions. By 1998, various Omnibus Budget Reconciliation Acts, OBRA's, will have taken $14 billion from us. It is ironic, Mr. Chairman, that in 1983, ahead of schedule, the Postal Service weaned itself from subsidies from the Treasury only to see the process reversed, to the detriment of our ratepayers. The proposed prefunding of retiree health benefits in the amount of $11.6 billion would hurt our ratepayers even more.

Another restraint on our ability to be competitive is the current state of collective bargaining in the Postal Service. This is an important issue, because salaries and benefits represent about 80 cents of every $1 we spend. Yet largely because of the economic issues, we are headed today for the fourth binding arbitration over the course of the last six negotiations with our largest unions. Something is broken here.

Because of that arbitration, I will be guarded in my comments here today, but I will say that we need pay for performance in the Postal Service. Our ability to compete requires cost constraints. To attract new business and even to hold onto existing business, we must have labor costs that are fair to our customers.

We also need the Postal Rate Commission to do its part to keep postal services competitive. The Postal Service is soon to file a reclassification case as a first step toward market-based pricing reform. It will give the Postal Rate Commission a fresh opportunity to recognize the value of automation and the marketplace pressures we are experiencing. In short, the Rate Commission has a genuine opportunity here to help the Postal Service adopt a business strategy that points to future growth.

Pricing mail at market prices meets the reality of competition. The present system does not. It is too time-consuming. It is too con-

straining in the face of competition. It is too costly; it simply isn't representing the interests of our customers.

Now, we recognize that there are some who say that if the Postal Service wants to compete, just privatize it, sell it off, or open it up to competition to anyone who wants to deliver the mail. That won't work. We don't need a cream-skimming free-for-all that erodes universal service.

Universal service is important to our Nation's economic health. And the law is clear on that. The Congress and the administration intended that we should provide "a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining." We need to stay faithful to this principle and to work to strengthen, not dismember, our postal system.

We need more "commercialization" to make the Postal Service more competitive. It is time to operate the Postal Service as it was intended to be operated: as a modern government enterprise in control of the complexities of public service delivered in a businesslike manner.

The Governors are committed to working with the Congress, the administration, and the other stakeholders in the Postal Service to do whatever it takes to meet the mandate that our friends and neighbors and business acquaintances gave us, which is to "just run the place like a business."

Thank you, Mr. Chairman. That concludes my statement.

[The prepared statement of Mr. Winters follows:]

PREPARED STATEMENT OF SAM WINTERS, CHAIRMAN, BOARD OF GOVERNORS, U.S. POSTAL SERVICE

INTRODUCTION OF THE GOVERNORS

Thank you, Mr. Chairman. I am Sam Winters, Chairman of the Board of Governors. I am from Austin, Texas. With me today are the following Governors:

Governor Norma Pace lives in North Palm Beach, Florida, and formerly lived in New York City.

Governor Susan Alvarado is from Alexandria, Virginia.

Governor Bert Mackie is from Enid, Oklahoma.

Governor LeGree Daniels lives in Harrisburg, Pennsylvania.

Governor Einar Dyhrkopp is from Shawneetown, Illinois.

Governor Tirso del Junco, who lives in Los Angeles, California, and who is the Vice Chairman of the Board, could not be with us today.

Four of the Governors are Republicans, and three are Democrats. However, party affiliation is not recognizable when it comes to exercising our duties. We share a common interest in the success of the Postal Service.

President Clinton has nominated Philadelphia attorney David Fineman to the Board. If confirmed by the Senate, he will assume the seat of Governor Pace, whose term expired last December. There currently are two other vacancies on the Board.

Each Governor is nominated by the President of the United States and is confirmed by the Senate. Our terms of office are for nine years and are staggered. A Governor serves up to one additional year after the expiration of his or her term or until a successor is confirmed. Bipartisanship on the Board is assured by the limitation that no more than five members of one political party can serve among the nine Governors.

STEWARDSHIP OF THE POSTAL SERVICE

All of the Governors appreciate the opportunity to appear today and to talk with you about our stewardship of the United States Postal Service. We have found that the Postal Service is one of the most complex of all our nation's enterprises, with a budget of $54 billion and more than 800,000 employees. Perhaps the Subcommittee has already discovered that complexity, too.

When it comes down to the fundamental act of delivering mail to an American home or business, our Postal Service is one of the most close and personal of all of our national institutions. It directly touches the lives of every American every day. So, like yours, our constituents keep us up to date on how they think the Postal Service is doing.

Most of our constituents believe we are doing fine; many believe we can do better. As Governors, we feel the same way—the employees are doing a great job, but we have to do even better to keep up with our customers' needs in the future.

Most Americans use the mail as a fundamental part of their communications, bill paying, and shopping. So, their expectations for prompt, courteous, and reliable service are high. Mr. Chairman, the Governors' expectations are just as high.

Each of us uses and depends on the Postal Service in our own business and personal correspondence in the same ways all U.S. citizens do. And, we do not take lightly the responsibility of sitting as the policy board of a $54 billion enterprise.

Each Governor is aware of the responsibilities of public service. I believe that we have come to our posts as accomplished people in our chosen fields who want to serve our country in some way. By law, we serve as the American people's representatives in the process of guiding and managing this businesslike public service. The statute provides that we represent the public generally and that we should not be representatives of specific interests using the Postal Service.

We function with many—but not all—of the disciplines of a corporate board of directors. A Governor's compensation is modest. It is imbedded in the statute and has not been increased in 25 years.

Each Governor puts aside many hours of time each month to remain current on the affairs of the Postal Service. This includes work associated with the Board's three committees—for audit, for compensation, and for strategic planning. It includes visiting postal and mailer plants to observe operations first hand.

And, it includes preparing for Board meetings, as well as studying material pertaining to all aspects of operating the Postal Service. The Board has regular meetings in Washington, D.C., or in an area of the country that allows us to review an area's operations and see new technologies or systems that are being implemented by the Postal Service, mailers, and even our competitors. We usually meet on the first Monday and Tuesday of each month. If a Governor does not live within commuting distance of a meeting, we travel on Sunday. There may also be special meetings.

In the exercise of our statutory duties, we appoint the other two members of the Board, including the Postmaster General—who becomes the Chief Executive Officer and who serves at our pleasure. With the Postmaster General, we also appoint the Deputy Postmaster General.

By statute, the Board directs the overall policy of the Postal Service. It approves all major capital expenditures of $10 million or more, reviews all management actions of significance, and reserves the approval of officer compensation. The nine Governors ultimately determine the amount of mail rate increases, after the full Board has determined that they are necessary. And, the Board determines when and if a mail reclassification case should be filed with the Rate Commission.

When we last raised rates in January, it was the first increase in four years, and the amount of the increase in a First-Class stamp was about two points below inflation for those four years. This is an accomplishment we're proud of.

FAITHFUL TO THE POSTAL REORGANIZATION ACT

I believe that in conducting all of our Board activities we are quite faithfully following the mandates of the Postal Reorganization Act that was made law some 25 years ago. The Act conveys a specific obligation to the Postal Service: "to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable and efficient services to patrons in all areas and shall render postal services to all communities."

We are meeting this obligation. In the most recent quarter, 84 percent of local First-Class Mail was delivered on time—promptly and reliably—against our self-imposed time limits. Our efficiency is improving, too. I know that the GAO has recently reported that we're not achieving planned savings from automation and that its deployment was slowed somewhat while management and the Board took a careful look at the whole program. Our review confirmed the value of automation, and we are going full speed ahead.

The review of our automation investments was prudent. We are saving money—about $5 billion to date and $14 billion in the longer term as a result of the revised program. If we didn't have the machines we do, our costs would be higher today.

The economics are pretty simple here. Automated sorting is ten times faster than manual sorting and about five times faster than mechanized sorting.

Automation has been a sound business investment. That is clearly in keeping with the mandates of our customers who tell us that they want the Postal Service to operate more like a business.

Operating like a business, however, is very difficult to do under the many constraints written into the Act and other laws that affect us.

For example, we handle about $300 million in cash a day, but our ability to get a maximum return on that cash is limited by the Treasury Department. Our banking and borrowing authority also are subject to Treasury controls. The Labor Department sets rules on workers compensation. The Transportation Department regulates what we pay for international air service. The Office of Personnel Management oversees and enforces personnel rules, while the Merit Systems Protection Board adds an additional layer of appeals to the already cumbersome process. And, these latter two entities don't always agree. That was certainly proven last year when MSPB ruled that the 1992–93 restructuring was a Reduction in Force—even though not one person lost any pay or grade. This was despite the fact that OPM had intervened in the case, arguing that the Postal Service had not conducted a RIF.

In the private sector, this would have been considered the most humane downsizing ever. The MSPB didn't agree, saying that some people lost "status." Worse, we weren't allowed to appeal—even though OPM had agreed that MSPB was wrong. In the end, the Justice Department—our lawyer because the law won't let us represent ourselves—would not represent us in court. Frankly, if I did that to one of my clients, they'd get another lawyer. But we can't do that.

There are additional barriers to being businesslike. We are mandated to prepare a business-type budget that projects current and future year performance. This serves, essentially, as our operating plan. It is virtually impossible to make that plan when the Congress does not meet its obligations to fully fund subsidies to mailers that it has mandated and that we included in our original plan. This has happened in the past.

Also, 25 years ago at the time of postal reorganization, Congress and the Administration erected a firewall between the Postal Service and the old Post Office Department. The Postal Service was to start fresh and eventually become self-sufficient. It was established at that time that all liabilities of the Post Office Department became liabilities of the federal government. However, in the mid-1980s the Congress and the Administration imposed some of these obligations on the Postal Service to support federal deficit reduction. By 1998, various omnibus budget reconciliation acts will have taken $14 billion from us. It is ironic, Mr. Chairman, that in 1983—ahead of schedule—the Postal Service weaned itself from subsidies from the Treasury only to see the process reversed to the detriment of our ratepayers.

And, the proposed prefunding of retiree health benefits—in the amount of $11.6 billion over five years—would hurt our ratepayers more.

Another restraint on our ability to be competitive is the current state of collective bargaining in the Postal Service. This is an important issue because salaries and benefits represent 80 cents of every dollar we spend. Yet, largely because of the economic issues, we are headed today for the fourth binding arbitration over the course of the last six negotiations with our largest unions. Something is broken here.

Because of that arbitration, I will be guarded in my comments here today. But I will say that we need pay for performance in the Postal Service. Our ability to compete requires cost constraints. To attract new business, and even to hold onto existing business, we must have labor costs that are fair to our customers. Our workers are well paid, as they should be. They enjoy career security—as the Postal Reorganization Act envisioned they would. We need to maintain a balance between wage policies in the Postal Service and those in the nation as a whole.

We also need the Postal Rate Commission to do its part to keep postal services competitive. The Postal Service's soon-to-be-filed reclassification case is a first step toward market-based pricing reform. It will give the Postal Rate Commission a fresh opportunity to recognize the value of automation and the marketplace pressures we're experiencing. In short, the Rate Commission has an opportunity to help the Postal Service adopt a business strategy that points to future growth.

Pricing mail at market rates meets the reality of competition. The present system does not. It is too time consuming. It is too constraining in the face of competition. It is too costly. And, it simply isn't representing the interests of our customers.

Why? Well, it hasn't allowed us to offer discounts to encourage high-volume mailers the way our competitors can. In addition, we just went through the equivalent of a 10-month "trial" to prove that we should raise our rates by 10 3 percent across the board. What was finally recommended by the Postal Rate Commission, of

course, wasn't 10.3 percent across the board. Among the witnesses were some of our competitors. One of them, for example, has 85 percent of a segment of the market where we have about 5 percent. And they can adjust their rates at will.

On a level playing field, we believe we can compete. We need to level that field.

Now, we recognize that there are some who say that if the Postal Service wants to compete, just privatize it—sell it off, or open it up to competition to anyone who wants to deliver the mail. That won't work. We don't need a cream-skimming free-for-all that erodes universal service.

Universal service is important to our nation's economic health. And the law is clear on that—the Congress and Administration intended that we should provide "a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining."

We need to strengthen—not dismember—our postal system.

And, we need more "commercialization" to make the Postal Service more competitive. It is time to operate the Postal Service as it was intended to be operated—as a modern government enterprise, in control of the complexities of public service delivered in a businesslike manner. The Governors are committed to working with the Conqress and the Administration and with the other stakeholders in the Postal Service to do whatever it takes to meet the mandate that our friends, and neighbors, and business acquaintances gave us—which is, to "just run the place like a business." Thank you, Mr. Chairman. That concludes my statement.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. JOHN J. MCHUGH TO THE BOARD OF GOVERNORS

Question 1. Chairman Winters stated in his testimony that the automation program has saved the Postal Service about $5 billion to date and $14 billion in the longer term. Few would argue against the benefits of automation when compared to manual methods of sorting mail. However, the U.S. General Accounting Offce found that because of the Service's inability to control the work force, automation is producing far less than expected and is taking longer to implement than the Service anticipated. Therefore, please provide to the Subcommittee a detailed accounting of the $5 billion and $14 billion savings from automation.

Answer. While we agree with the U.S. General Accounting Office that the challenges we face are difficult and numerous, we are on target to achieve the savings/cost avoidances which were projected in the justification and Decision Analysis Reports (DARs) for the automation equipment approved by the Board of Governors. Through FY 1994, this target was approximately $3 billion. We estimate that we have saved/avoided $5 billion in *direct distribution labor operations.* Expanding the analysis to include non-direct labor, a conservative estimate is $2.5 billion. This savings/cost avoidance was accomplished while simultaneously holding our rates steady for four years—the longest period in our history—and then proceeding with a rate filing below the average rate of inflation for the period. The automation program was a factor in that achievement. A detailed explanation of the $5 billion and the $14 billion savings/cost avoidance from the automation program is provided as attachment I.

First, however, we would like to point out that there is a difference in the respective views of GAO and the Postal Service concerning the success of the automation program. The difference involves four issues:

• The Corporate Automation Plan (CAP) is a guideline, not a financial document. GAO measures our performance against the CAP. However, measurement of the progress made in reaching our automation goals should be against the specific objectives and projections stated in the several Decision Analysis Reports (DARs) through which the Board of Governors approved funding for the automation program. These DARs are the corporate financial plan for automation. The CAP, on the other hand, was, and remains, a statement of our strategy to reach those goals, an informational and communications tool to elicit the coordinated efforts of all functional areas of the Postal Service toward a common end.

• The automation program is a long-term effort. To make a good assessment of progress, one needs to look back to the beginning—where we were when we started the program. Most of the comparisons in the GAO report look back no further than 1992, several years after the program had begun. As with any long-term cost avoidance strategy, as the program savings are realized, they become part of the baseline operation and will not show up as new savings again each year. In order to understand what has been accomplished, one has to go back to the beginning and model what would have happened without the change, then compare that to what actually did happen.

• The automation program is dynamic, changing with events and technology. It was surprising to see that the GAO report made much of the fact that certain assumptions in our planning of five or six years ago did not hold true. Our planning is careful, but we cannot foretell the future. We could not have predicted in 1989 that our Remote Bar Coding System would become so contentious that it would be held up for almost two years. Nor could we have avoided the Hempstead Arbitration with our carrier union and its impact on our city delivery operations. We did not know, at the time the Corporate Automation Plans were assembled, whether some pieces of equipment could be developed (such as the Carrier Sequencing Bar Code Sorter) or what their operating parameters would be until they were. We made assumptions, events occurred, and we have adjusted strategies as each challenge has come along.

The automation program has already significantly impacted the USPS and its customers. It is surprising to read that $14 billion or $15 billion in cost avoidance is "insignificant." The Postal Service has made very positive achievements and, when it meets the $14 billion–$15 billion, it will have implemented the largest, longest-term cost avoidance program in its history. Translated into potential costs to postal customers, the estimated $5 billion cost avoidance to date is roughly equivalent to three cents in postage avoided for a First-Class letter. Without automation, the cost of a First-Class stamp could now be 35 cents.

Question A. Are these amounts actual savings from automation or are they theoretical estimates? What portion of these savings directly result from automation versus other factors?

Answer. For any given year, the net savings/cost avoidance is the result of the combination of multiple projects and the timeframe of those programs (this is described in detail in attachment I, which responds to question number 1). Except for the few years that a project will yield operational savings, the bottom line impact is the result of avoiding costs that would have resulted if the program had not been implemented. We are currently on target to achieve the labor savings/cost avoidance of approximately $3 billion through 1994, which was projected in the justification and Decision Analysis Report (DAR) for the automation equipment approved by the Board of Governors. We have estimated that, since 1989, the automation program has saved/avoided $5 billion in direct distribution labor operations. Although these are not actual savings, they are not theoretical estimates either. The $5 billion represents actual savings and cost avoidance in direct operations affected by automation. The model that was used to calculate the $5 billion mirrors the methodology that was used to forecast projected savings/cost avoidance in the DAR for the automation program.

Our automation program spans a 12 to 15 year period. Automation equipment for Delivery Point Sequencing is still in the early deployment stage; in addition to other programs that are in the pre-deployment stages, such as, Remote Computer Readers and Carrier Sequencing Bar Code Sorters. Before we can attribute the $5 billion savings/cost avoidance directly to automation and not to other factors, a detailed national after cost study needs to be conducted for the automation program. These studies will attempt to segregate the impact that each automation program had on the bottom line performance. However, due to concurrent deployment of automation programs, precise attribution of program savings/cost avoidance to a specific program cannot always be ascertained. In addition, these studies cannot be conducted until a program has been fully deployed for an extended period to ensure the synergy of the total program is captured.

Question B. In its recent report, GAO did not determine the extent to which automation has improved postal productivity because Postal Service data did not permit GAO to isolate the effects of automation versus other factors. Does the Postal Service have any actual data on the effect of automation on postal productivity? If so, please provide the data to the Subcommittee.

Answer. As indicated in the response to question 1A, after cost studies will be conducted on automation equipment programs as deployment is completed and full operations are ongoing. These studies will be the final determinant of productivity savings accomplished, and will provide a comparison with the cost avoidances/savings projected by the DARs. We have completed three such cost studies, which indicate that actual returns are close to projected results. These studies have been audited by the Postal Inspection Service and found to be reasonable. We note that our cost studies examine all costs, not just those involving labor.

While no definitive data is available at present, there are certain indicators of change that can be utilized to track the progress of the automation program. One of these indicators is the proportion of letter mail volume handled in each type of operation—automated, mechanized & manual—over time. The pie charts below look at Total Pieces Handled (TPH) at the beginning of the automation program analysis

period, 1989, and compare the relative proportions at that point in time with the most current snapshot, in 1994. It is obvious that a much larger portion of our letter mail is processed in automated operations now than was the case 5 years ago, and that the proportions handled in both manual and mechanized operations have declined.

[Percent]

Year	Manual	Mechanized	Automated
1989	17	42	41
1994	11	22	67

Further, the effects of automation on postal productivity become apparent when data on processing cost per 1000 pieces of letter mail is analyzed:

	1989	1990	1991	1992	1993	1994
Automated	$3.07	$3.11	$3.21	$3.11	$3.49	$3.70
Mechanized	13.44	15.01	17.45	17.76	20.76	21.53
Manual	29.92	33.02	33.73	35.46	40.85	40.35

If the Postal Service had no automation program, all letter mail would have to be processed either by mechanized equipment or manually. Assuming the former, then in 1994 alone, a cost avoidance of over $600 million would have resulted from using automated equipment. This was calculated by taking the difference between cost per 1000 pieces for automated and mechanized mail, and multiplying it by the TPH volume of letter mail processed by the multiline optical character readers in 1994. For the entire period analyzed, 1989-1994, the equivalent cost avoidance amounted to almost $3 billion. The actual cost avoidance would probably be much higher because some of the mail would have to be processed manually.

Question C. As GAO also reported, the cost-saving impact of automation has been relatively insignificant. For example, the Service estimated that the total amount of budget savings and cost avoidance from automation, beginning in 1987 when the Service began investing in advanced optical character readers, through 2005, would be $14.4 billion. This is about 1.3 percent of estimated total operating expenses for the same period—about $1.1 trillion. Given that the automation program was the Service's principal strategy for controlling the growth of labor costs, what is the Board's current strategy for controlling these costs (which have accounted for about 82 percent of total operating expenses since 1970)?

Answer. Currently, labor costs run about 80 percent of the Postal Service's total costs. We believe that the cost savings achieved by the automation program have helped keep the costs from rising even higher. The $14.4 billion in labor cost savings and avoidance is, by anybody's standards, a significant reduction, even though it is 1.3% of our total expenses since 1987. The Postal Service continues to aggressively pursue cost savings programs and strategies for controlling labor costs. Automation continues to be a major strategy in controlling labor costs with the continued deployment of automation programs and sites to capture these savings. Automation deployment continues in:

- additional Multiline Optical Character Readers (MLOCR) sites
- additional Carrier Sequence Bar Code Sorter (CSBCS) sites
- additional Remote Bar Coding System (RBCS) sites
- additional Small Parcel 8 Bundle Sorter (SPBS) sites
- additional Integrated Mail Handling System (IMHS) sites

We continue to improve and provide training to managers so they can manage labor resources more effectively. Employee Development and Training has prioritized training for managers that move the mail. Through improved training, our managers will be able to better optimize labor resources to handle the workload. Also, we continue to deploy computer equipment, systems and programs to improve managers' ability to anticipate volumes and adjust work hours. With these reporting systems in place, managers have current information to make intelligent staffing decisions to control overtime costs and fully realize the benefits of automation.

Another strategy of the Postal Service concerns wage restraint. The Postal Service is constrained in its cost control efforts as a result of binding arbitration, which limits its ability to effectively control labor costs and achieve labor savings. Despite this constraint, our labor negotiators continue pressing for wage restraint and work rule flexibility in labor contracts.

The Postal Service continues the use of lower cost noncareer (transitional and casual) employees to give flexibility in the workplace and to reduce overtime. This flexi-

bility will enable the Postal Service to respond to reduced resource needs due to automation and workload fluctuation.

It must be pointed out that a number of OBRAs have imposed additional, unanticipated labor costs totaling $9.3 billion through 1995 which have increased our salary and benefits expenses. For 1994, our annuitants' COLA and health benefits expenses, which are components of total compensation expenses, were increased by $1.1 billion. This represents just over 2% of our total expenses. These uncontrollable additional assessments have significantly raised our total benefits expense.

Question 2. Mr. Winters, the Rate Commission estimated in the recent rate case that about 82 percent of the Service's volume and revenue comes from the monopoly services—first class, third class, etc. In the recent rate case, the Postal Service projected revenue of about $55 billion in fiscal year 1995; 82 percent of that figure is $45 billion. Why should the Postal Service be given the freedom on pricing that you request if 82 percent of its revenue and volume is already provided monopoly protection? How does additional freedom to set prices help the Postal Service improve its service performance?

Question A. Using the above figures as a basis, only about 18 percent of your volume and revenue comes in from competitive mail classes. If the Service is given freedom in the competitive classes on pricing, what does the Board expect to do to improve service for those classes that are under the monopoly?

Answer. The statutory exclusions created by the Private Express statute (PES) extend to "letters," rather than to any specific classes or subclasses of mail. This makes it difficult to make an exact determination of what portion of Postal Service volume and revenue comes from mail that is protected. For example, while some portion of third class mail is covered by the PES, other portions clearly are not. Since the 82 percent figure cited in the question apparently includes all of thirdclass mail, it would appear to be somewhat overstated.

Much more importantly, while the PES may in most instances preclude mailers from using a private delivery service to deliver letters, they do not preclude potential mailers from finding some other means of transmitting the information that might otherwise be conveyed in a letter. For any purpose to which a letter can be put, nonpostal alternatives exist. Personal and business communication can be conducted by telephone, by fax, or by computer networks such as e-mail or electronic fund transfers. Advertising messages can be conveyed by a variety of alternative media, including newspapers, magazines, television, radio, billboards, or appearances at trade shows. In short, while the PES may inhibit certain types of direct competition, they by no means render the Postal Service's letter mail business immune from competition. Furthermore, as the electronic age blossoms and the information highway moves towards reality, competitive pressure will increase dramatically.

In the face of rising competition, therefore, it becomes critical for the Postal Service to be able in its pricing process to distinguish between those services that are particularly vulnerable to diversion from the postal system induced by postal rate increases, and those services which are not so vulnerable. For the users left in the postal system who still have to cover a fixed pool of overhead costs, it makes no difference whether a contribution is lost from a parcel mail category not covered by the PES when mail pieces move directly to a private shipper, or from a letter category that is covered by the PES when mail pieces convert to an alternative medium such as broadcast advertising. As the GAO recognized in its 1992 report on this subject, the Postal Service needs additional freedom to be able to respond of all types of competition, whether it involves mail covered by the PES, or mail that is not.

Such additional freedom to set prices, however, will not directly help the Postal Service to improve service performance, which is an entirely separate matter. Improved service performance comes essentially from two sources. The first source is improved managerial effectiveness, or using the existing resources more efficiently. When that is ultimately exhausted, however, the only other source of improved service performance is to bring more resources to bear, at additional cost. The additional freedom to set prices that the Postal Service seeks will only insure that, at any given level of service performance, the total costs of the Postal Service can be allocated to produce the lowest cumulative rate burden on mailers. While that certainly will not solve all of the Postal Service's problems, it is nonetheless an ambitious and worthwhile objective.

Question 3. Past Budget Reconciliation Acts have placed a significant financial burden on the Postal Service and its customers. In order to recoup some of the funds, the Govemors have an opportunity to recoup any prior years losses during each rate case. In this last rate case, prior year losses totaled $936 million. One concern with the ability to recoup this amount is that such an ability serves as a safety net for bad decisions. In addition, any profit incentive is compromised because of

the ability to recoup any prior year's loss. Have the Governors considered the effect of this ability to recoup prior year's losses? How does it affect the financial condition of the Postal Service? Is this ability to recoup prior years' losses a natural outgrowth of the break-even requirement of the Postal Service?

Answer. The prior years' loss recovery mechanism which is included in the postal ratemaking process is indeed a natural outgrowth of the break-even requirement for the Postal Service. It is a necessary means to ensure the organization's financial well-being. In the private sector, when an organization suffers a financial loss, it is free to raise its prices in order to restore its financial position. Because the Postal Service's ability to set its prices is subject to review by the Postal Rate Commission, a systematic means has been developed to incorporate recovery of prior years' losses into postage rates. The prior years' loss recovery mechanism is not unlike systems used in regulated utilities.

The ability to recover prior years' losses through postage rates is not a "safety net" for bad decisions. Rather, it places additional upward pressure on postage rates by forcing losses to be methodically added to postal rates. Unchecked, reliance on prior years' loss recovery as a substitute for breaking-even would only serve to make postal products less competitive. This is, of course, an element of the Governors' decision-making process when evaluating the timing and amount of postal rate increases.

Finally, it is only fair to point out that many of the Budget Reconciliation Acts which have imposed significant financial burdens on the Postal Service have been structured to minimize the impact on current ratepayers. This has been accomplished by timing the Acts' passage so that they would be included in prior years' losses, rather than a rate case test year. This, of course, has increased the magnitude of the Postal Service's losses.

Question 4. During the past two and one-half years of Mr. Runyon's stewardship of the Postal Service, there have been quite a few changes at the corporate offcer level. Sixteen of the current 21 Vice Presidents have served less time than the Postmaster General in their respective positions. Some key leadership positions are now vacant such as Consumer Advocate. What has been the reason for this turnover at the corporate officer level?

Answer. There are several reasons for the changes we made at the corporate level; these included personal reasons, performance reasons, and organizational redesign reasons when we saw our original structure needed some adjustments.

Question 5. The Governors have indicated that they will be taking a more active role in the setting of executive compensation for Postal management. Would the Governors please describe for the Subcommittee the situation surrounding the recent retirement of the Postal Service's Consumer Advocate, Ann Robinson. As part of the Governors new emphasis on the accountability of postal officers, do the governors intend to include a review of removals and transfers of postal officers?

Answer. Postmaster General Runyon advised the Governors that Mrs. Robinson was retiring from the Postal Service, just as he advises the Governors each time an offficer retires or is reassigned. It is our understanding that after nearly twenty-nine years with the Postal Service, ten years as the Consumer Advocate, Mrs. Robinson made her decision that it was time to retire.

It is not the intent of the Governors to review the removal or transfer of a postal officer. The law is clear, as are the Bylaws of the Board, that officers are appointed by and serve at the pleasure of the Postmaster General (39 U.S.C. section 204 and 29 C.F.R. section 4.5). There is one exception, however, the Bylaws provide that the Chief Postal Inspector may not be removed or transferred without "the concurrence of the Governors". The Bylaws also require, in the event the Chief Postal Inspector is removed or transferred, that the Postmaster General is to "promptly notify both Houses of the Congress in writing of the reasons" for the action (39 C.F.R. section 4.6).

Question 6. The Postmaster General recently appointed the former Vice President for Marketing Systems as the new Vice President for Human Resources. While the individual chosen may be ably qualified for the position, a cursory review of the two positions shows that the two jobs have little in common. Do the Governors review appointments to these positions to insure qualified individuals are appointed to postal management jobs?

Answer. In February 1995 the Board established a Compensation Committee to, among other charges, "review management's proposed new hires into positions at the PCES–II [officer] level." (BOG Resolution No. 95-3). Also, pursuant to the Resolution, management is to provide the Board, in advance of appointment, the resumes of new hires. However, by law, the Postmaster General is vested with the authority to make officer appointments. The Governors were informed before the

fact, by the Postmaster General, that the Vice President for Marketing Systems was being laterally transferred to the position of Vice President for Human Resources.

ATTACHMENT I—DETAILED ACCOUNTING OF THE $5 BILLION AND $14 BILLION SAVINGS FROM AUTOMATION

Automation Is a Long Term Program:

The projected cost avoidance from automation of $14 billion was based on assumptions developed as early as 1986 for the capital expenditure to convert single line optical character readers to multiline capability. Since that time, many technological changes have occurred, and certain assumptions in our planning did not materialize, such as, deployment schedules, volumes and workhour rates. We adjusted our course responsibly as each challenge developed to make the most of each opportunity.

Projected Results Compared to a Baseline or Business As Usual Approach:

To provide a detailed accounting of the projected $14 billion cost avoidance, one needs to understand the methodology utilized in our DAR to project net savings or cost avoidances over the 12 to 15 years on which our economic returns are based. All of our automation programs start with a business-as-usual approach. That is, if no new programs or initiatives are implemented, costs for the particular function will increase over time, simply due to inflation. For example, a typical baseline cost could be mechanized distribution of "x" number of pieces per hour of "y" dollars an hour. As labor costs rise, so would the cost of that operation. As volume grows, the cost of mechanized distribution throughout the Postal Service would grow. A typical investment would be targeted at reducing the amount of growth in that function. The implementation of automated sorting moves mail out of mechanized distribution to more productive operations, and results in lower costs than would have occurred otherwise. However, in a typical automation investment, the costs go up before they come down.

Three Phases of Financial Impacts:

In all automation investments, there are three different financial impacts. The first is the implementation costs of deployment, site preparation, training, initial supplies, and interest. These costs occur before any savings are realized. The second phase reflects the budgetary savings of the investment. As the savings occur, the operating budgets in the field are adjusted for the savings resulting from the investment. Using our previous example, if an OCR is installed to replace mechanized distribution, the workhours and costs for the mechanized distribution are removed from the office's budget following deployment and start-up, usually four to six months after deployment. The final phase represents cost avoidance. Once the budget has been adjusted and the mechanized workhours have been eliminated, there are no further budget adjustments. From that point on, costs of processing at that office are "x" hours or "y" dollars lower than they would otherwise have been if the OCR had not been installed. Thus, while we avoid, for example, 100 workyears per year for ten years after deployment, the budgetary savings occur only in the year or so when the hours are being replaced. At that point, the hours saved are now in the baseline budget. This is an important point to remember because automation investments do not result in new savings each and every year.

Cost Benefit Analysis in DAR:

The Board of Governors who approve all capital automation investments, base their decision on the undiscounted cash flow and net present value analysis of all projected costs and savings presented in the assumptions of the Decision Analysis Reports which justify the capital investments. The $14 billion savings/cost avoidance represents the accumulated financial impact (as described above) of all assumptions, in addition to the interest expense and depreciation effects of all automation programs that have been approved through FY 1994 by the Board of Governors. Some specific expense costs analyzed in automation programs are driven by growth in volume, deliveries, the cost of labor and benefits and nonpersonnel expenses. Within these totals are expense costs for facility and infrastructure support, service initiatives, service measurement, compliance with federal safety, architectural barriers, environmental regulations, and transportation cost increases.

In any given year, the budgetary impacts on the bottom line are composed of costs and savings from multiple projects. Some programs are in the start-up phase, others are yielding operating savings, and the earliest programs are avoiding additional costs. The estimated net savings/cost avoidance of all programs is currently projected to be in the 14+ billion range through 2005. The following page illustrates

the model that was used to calculate the $5 billion savings/cost avoidance for direct labor operations affected by automation.

The computations of $5 Billion estimated savings/avoidance in direct labor operations to date:

The methodology used to arrive at the projected savings/avoidance is based on the concept utilized in the DARs. It compares current costs (after implementation) to the costs prior to automation implementation. The analysis assumes if automation had not been implemented and the volume of mail to process increased, then the work hours needed to process the increased volume would parallel this growth.

In this analysis

- The base year is assumed to be 1989.
- Each subsequent year is compared to the previous year, adjusted for workload changes.
- For explanation purposes, we will look at FY 1992, where actual workhour usage is compared to workhour usage over time based on volume changes. Simply stated, if FY 1991 hours are equal to "X" and FY 1992 volume grew B%, we compute the adjusted hours for FY 1992 as X times 1+B%.
- The comparison between the actual usage and the adjusted workhours, shown below, is the avoided cost (positive) or inversely the lost opportunity (negative, bracketed).
- The 1991 workhours that include hours for direct distribution of mail are equal to 292.8 million hours. The corresponding weighted mail volume (WMV) for 1991 is equal to 1 2983 (WMV is the growth in mail volume compared to the base year 1972).
- The 1992 WMV is 1.3057 which equals a growth of .6%. The workhours in the previous year times the 6% increase is equal to the adjusted workhours of 294.5 million workhours at the same productivity. The FY 1992 actual workhours used in mail distribution, were 282 1 million or a savings/avoidance of 12.4 million hours. The workhour rate for the corresponding activities was $23.07 per hour or a savings/avoidance for that year alone of 285.4 million dollars. The additional savings/cost avoidance from the base year, FY 1991 savings of 10.2 million hours plus FY 1990 savings of 31.2 million hours times the 1992 hourly rate of $23.07 brings the total savings/avoidance for that year to $1,240.8 Million. This table shows net effect of each year's impact, as opposed to each year's savings to the base year.

Determining Estimated Total Costs Avoided Due to Automation Program

(Millions)

	1989	1990	1991	1992	1993	1994	Inc Carrier in Office	
							1993	1994
Workhours	323.6	303.9	292.8	282.1	293 6	301.8	489.6	503.7
Cost per hour	N/A	$20.97	$22.23	$23.07	$23.26	$23.58	$24.87	$25.39
Weighted Mail Volume (WMV)	1.2574	1.302	1.2983	1.3057	1.3419	1.3876	1.3524	1.3913
WMV Change	N/A	3.5%	-0.3%	0.6%	2.8%	3.4%	2.4%	2.9%
Revised Workhours	N/A	335.1	303.0	294.5	289.9	303.6	479.7	503.7
Workhour Savings	N/A	31.2	10.2	12.4	-3.7	1.8	0.9	0.0
Dollar Cost Avoidance:	1990	$653.6					$653.6	$20.97
	1991	693.1	227.6				920.6	22.23
	1992	719.3	236.2	285.4			1,240.8	23.07
	1993	725.2	238.1	287.7	(85.6)		1,165.4	23.26
	1994	735.2	241.4	291.7	(86.7)	(0.4)	1,181.0	23.58
	1995							
Total	3,526.4	943.2	864.7	(172.3)	(0.4)	5,161.5		
Less RBCS Contract Costs					92.8	122.1	4,946.6	

Note: Baseline = 1989.

The FY 1994 computations include the effect of automation inclusive of carrier in office hours. This coincides with the DAR projected savings/avoidance of carrier in office hours, based on projected delivery sequenced mail, which as previously mentioned had some implementation delays. The shaded calculation in the 1994 "Dollar Cost Avoidance" is based on the shaded combination of hours/cost per hour and total volume growth for 1994, when carrier in office hours are induded in the comparison. The final adjustment to the savings/cost avoidance is the contract costs for Remote

Bar Coding System (RBCS) (the first sites were contracted out). The net total savings/cost avoidance from direct labor operations is $5.0 Billion.

If we expand the analysis to include indirect labor, the savings/cost avoidance would be $2.5 billion.

Mr. MCHUGH. Thank you, Mr. Chairman. I appreciate that.

Without objection, the full written statement of the chairman will be submitted for the record.

I would extend—although I assume it's not necessary—the floor to any of the other Members who may wish to make a statement at this time.

[No response.]

Mr. MCHUGH. Then let me take over. You have raised some interesting points in your testimony that I think deserve discussion, and we intend to do that, or I intend to do it here sometime this morning. But, as they say, all I know is what I read in the newspapers. Let me go to an article that did appear this morning. We will touch on current events for the moment.

A news release that was carried, I assume, in other newspapers—I saw it in the Washington Post—addressed the actions that you took yesterday at your regular meeting to put into motion the process necessary to increase the current cost for services of international mail. I would assume that this is going to be something that will gain the attention of the patrons of the Postal Service, those who use these kinds of products.

I was wondering, if you could share with the subcommittee this morning, your reasoning behind that price increase and how you think it would affect the Postal Service's ability to compete in the international mail market?

Mr. WINTERS. Well, of course, we do think it is going to help us compete, and it has plenty of cost coverage in it. It will not be subsidized by any other products that we have. We think the changes are going to help us tremendously and will help the bottom line of the Postal Service, in general, by increasing the international rate and redistributing it some to make it more equitable.

I don't know if anybody else here wants to comment on that any further.

Mr. MCHUGH. How much will it affect the bottom line? What do you think the——

Mr. WINTERS. Oh, gosh. Do you remember that?

Ms. PACE. We don't have any real estimates of the effect on the bottom line. But when we price our international products, you have to remember that we don't only price in relation to what it costs us to deliver to our airports but also what it costs them to deliver in their country. So these are the factors that influenced the pricing decisions that we made.

Mr. MCHUGH. Are these mailings protected under the private express statute?

Ms. PACE. No.

Mr. WINTERS. They are not.

Mr. MCHUGH. They are not. So you're in a competitive market; people have a choice.

Ms. PACE. An exception was granted in 1986, and so others participate in this market, and we compete in this market.

Mr. WINTERS. We will be glad to give you the information on what we expect the effect on our bottom line to be.

Mr. MCHUGH. The bottom line, and also, I suppose, the other salient question is, where does this position you in terms of your competitive abilities against others who are—I assume you feel that it's a comfortable fit?

Mr. WINTERS. Yes.

Mr. MCHUGH. But I would be interested——

Mr. WINTERS. We will see that you get that information.

Mr. MCHUGH. Thank you.

[The information referred to follows:]

With respect to the proposed changes in international mail rates which were published in the Federal Register on March 20, 1995, salient financials have been estimated as follows:

After rates revenue: $1,541,842,000
Before rates revenue: 1,406,447,000
Net change in revenue: 135,395,000
The percent change in revenue: 9.6%
Cost coverage: 148.0%

These figures are calculated using FY 1995 as the test year. They also include the anticipated results from new services such as Worldpost Priority Letter, and International Package Consignment Service. Each category of mail service recovers its direct and indirect cost and makes a contribution to institutional cost.

With respect to competitive standing, international rates have been set recognizing that outbound traffic is subject to open competition from a variety of service providers. This does not suggest that the Postal Service is primarily focused on price competition in the market place, although it would be appropriate to note that international rates have been moving in the direction of market-based pricing.

While this approach has, since 1968, helped reverse earlier trends in declining traffic, the annual rate of growth for international mail has been less than the market as a whole. It is difficult to thoroughly document the pricing practices of other service providers, but it is known that commercial transactions are generally consummated using customer-specific unpublished tariffs.

Ms. PACE. Congressman, we're very interested in what we call "demand pricing," and that is pricing our product to get increased volume. We have given a great deal of attention to what this will do to volume growth and the ability it will give us to accomplish that.

Mr. MCHUGH. I assume that question is going to be part of your rate reclassification request that goes forward in a few weeks, or a week or so.

Mr. WINTERS. We expect it will be over there around the end of this month, to the Postal Rate Commission.

Mr. MCHUGH. Yes. Returning to the Post article, it also suggested that the Postmaster General indicated at that meeting he was ready to move forward with some specifics of new laws to revise Postal Service operations. That, obviously, is of great interest to this subcommittee. It's a topic we discussed with the PMG when he appeared before us.

Are you in a position to share some of those specifics with us here this morning?

Mr. WINTERS. Not any specifics, only some generalities. This is a very complicated area that affects an awful lot of people, a lot of entities and a lot of organizations, not just people living in their homes. It affects a lot of businesses, a lot of mailers, and we are working on that and have been working on that diligently. We have staff working on it, and we expect to have some discussion papers that we can discuss with you in the reasonably near future.

Mr. MCHUGH. Great.

Mr. WINTERS. And we want to get that done, too.

Mr. MCHUGH. Great. Well, I appreciate that. We have not had an open forum such as this, an opportunity to discuss this issue with you good people, but it is an area of concern and it is one that we tried to emphasize to the Postmaster General when he was here. We are very anxious to look at the specifics of whatever changes you feel are appropriate to assist you in the very important and very complex work that you have before you.

Mr. WINTERS. We are very anxious to get that done, too, Mr. Chairman.

Mr. MCHUGH. I will return with other questions, but I want to yield to my colleague, the gentleman from Texas, for any questions he might have at this time.

Mr. GREEN. Thank you, Mr. Chairman. I have a couple of questions.

These hearings are part of, I guess, a learning curve some of us have been going through, and the chairman has been good about putting it together for us. Last week we heard from Mr. Gleiman with the Postal Rate Commission, and he criticized the Postal Service's poor data collection capabilities and said that it prevented the Postal Service from making proper recommendations on the increases.

And I know, as a monthly board, you oversee it, and I wanted to ask, do you believe this is a real problem, and what steps can the board take to remedy the problem that was brought up by the Postal Rate Commission?

Mr. WINTERS. Congressman, I don't think that's a real problem. I know what those errors were. I know an awful lot of paper and statistics goes over there to the Commission. There were tens of thousands of bits of information, maybe millions. It's almost impossible, since they are being handled by humans, that there wouldn't be some errors.

We provide them with copious information, statistics and data. We give them information and data continuously all year long. I'll have to say there is some proprietary information that we do not think that our competitors ought to have access to, and we are very reluctant to release that information.

For example, one of Mr. Gleiman's complaints had to do with in-county newspapers, that there was an error in the data. What happened was that the in-county newspaper came to management and said, "We think something is wrong here." So we got our rate people on it, and they looked at it and found out something was wrong, and we went to the PRC and changed the testimony and got it corrected.

There was one other complaint by the Brooklyn Gas Co., I think, on business reply mail. That was discovered on cross-examination, and we corrected that, too.

So, when you have this complicated an area and you have human beings working it, there may be some errors. But I think it's easy to exaggerate those errors compared to the overall picture of what our statistical gathering is.

Mr. Gleiman also complained—I don't know if you referred to it or not—something about a reduction in workers' compensation re-

serve and what we did to that. We did make an adjustment in November. Which we have been reviewing each November since 1987. There wasn't anything new or different about it. It was different than what our test year model was, that they were acting upon, but there was no intention on our part to try to mislead anybody. It is in November when we close our books and when our outside auditors certify whether the reserves are appropriate.

Mr. GREEN. When you say "proprietary information," you're talking about not necessarily it has the protection but actually where you have competition.

Mr. WINTERS. Yes.

Mr. GREEN. There's no proprietary information dealing with, for example, first class?

Mr. WINTERS. No. Nothing like that. Things that are appropriate for ratemaking.

Mr. GREEN. OK. A few weeks ago the Board of Governors made a decision on reducing the authority for the Postmaster on personnel decisions and executive compensation. Would you want to elaborate on that or mention it?

Mr. WINTERS. Well, I think our bylaws have provided for a good while—I don't know just how long—but the bylaws have provided for a good while that the Board of Governors are the ones who fix the salaries. The statute provides that the Postmaster General will do the hiring of the officers, but the bylaws provide that we fix the salary. And it has always been that way. We have had a rather ad hoc procedure for that happening in the Board of Governors. During the reorganization in 1992, when there was some switching around, the Postmaster General asked if he could make some of those adjustments within certain ranges without coming to the Board of Governors. We said, "That's fine." Now that that is in the past, we thought it was time for us to get back and reassume that responsibility, and I appointed a Compensation Committee, a formal Compensation Committee to take care of that. Mr. Dyhrkopp here is the chairman of that committee.

I think it's our proper function, and it wasn't a complaint about the Postmaster General. It is something that has been in our bylaws for many years, and we just formalized it by having a committee.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. MCHUGH. Thank you.

Mr. WINTERS. I might say, that the committee can only make recommendations to the Board of Governors. They don't have the authority to fix those salaries. The Postmaster General makes recommendations, and the committee discusses it with him, then they make recommendations back to the board. He just did that. We approved everything that he submitted.

Mr. MCHUGH. Mr. Chairman, returning to the gentleman from Texas' comments on the collection of data. I assume you have been briefed. The response to the gentleman's comments seems to suggest you are aware of what Mr. Gleiman said.

But in case you're not, certainly what is disturbing to me and, I know, the other Members, is that Mr. Gleiman just didn't criticize what he felt was an inadequate compilation of data; he believed very strongly and seemed to indicate to us that the way in which

the Postal Service collects and compiles and, in fact, does not collect its data is totally inconducive to good management.

That is a statement that I think is very troublesome to us. You responded to the gentleman's comments very adequately, but I just wanted to put that before you. I think, not that I'm criticizing Mr. Gleiman; I appreciated his candor—that kind of statement really should be restated before you, in case you wanted to expand on your earlier comment.

Mr. WINTERS. Well, let me say that I met Mr. Gleiman before I met anybody in the Postal Service, when I was being considered for this appointment. He was with the committee in the Senate that did the confirmations, and I wanted to talk to him about the Postal Service. I have the highest regard for Mr. Gleiman and the other members of the Postal Rate Commission, and I hope they do for us. I think they do.

But sometimes we do run into some jurisdictional questions. Sometimes they do have some suggestions about management, and sometimes we may think that's our prerogative, about management.

Ms. PACE. May I supplement that, Mr. Chairman?

Mr. WINTERS. Yes.

Ms. PACE. The amount of information that is needed to manage this very complex organization is absolutely overwhelming. An ordinary corporation would just set up its data so it could manage its business efficiently, and that in itself is a challenge. But what we have here is an added requirement that we maintain a lot of data simply to justify our pricing actions, because we must appear before the Postal Rate Commission in order to defend the actions that we are proposing on price adjustments.

So we have layers upon layers of information that are required to satisfy not only the management of the business but also what we need for justifying the processes by which we get our prices changed. And there is so much that has to be done that it's not surprising that occasionally an error creeps in. They have had errors, as well, and nobody has been critical of that, because that's just the way life is.

But I have found our information to be very businesslike, very useful. It comes to us in a timely manner. Every time I have asked for additional information, it certainly has been given to me. And from what I know, the only time any information is withheld is when it really would affect the interests of our customers or our competitive position, and that is a very natural position to take.

Mr. MCHUGH. I appreciate those additional comments. I think I would be accurate in reflecting Mr. Gleiman's comments that it wasn't just the accuracy of data that he was concerned with, although he was, but it was also what, in his opinion, was a lack of the formation of reasonable data before the fact by the Postal Service; that it wasn't compiled in ways which are conducive to good management practices.

So when a request was made during the course of a rate proceeding, the data didn't come in a timely fashion, not because there were questions of propriety, not because there were other questions of accuracy, but that it was simply unavailable in the way that he felt—and I think it's fair to say, the other members of the Rate

Commission with him that day felt, as well, it should have been available. It should not, in his opinion, have been a tough task.

Mr. WINTERS. It may have been, at that time, Mr. Chairman. I'm not positive about this, but I can find out and let you know. But if you recall, at that time, we made an application for a 10.3 percent across the board increase. Rather than just saying the "average" rate increase of all these is going to be 10.3, what we actually made application for was a flat "across the board" 10.3. That is not what the commission approved.

There were a great number of mailers that joined with us in the Postal Service and said to the Postal Rate Commission:

> Please let's do this. It's 2 points under what inflation would be. Let's go with this 10.3 so the board can then do the reclassification, and then if we later have to come back for a full-fledged rate hearing, we'll do it.

That's the way that the proceeding was anticipated to be, and that may have lent to the lack of some of the current detail on some classes that the commission would like to have had. It was a different type of a filing than the Postal Service had ever made before. It was across the board, not just on average, and except with very minor exceptions, an across the board increase for everybody.

Mr. MCHUGH. I appreciate that. Obviously, we are concerned about any situation that affects the management efficiencies of the Postal Service, but—and I know you are as well——

Mr. WINTERS. Well, let me——

Mr. MCHUGH. Sorry. Go ahead, Mr. Winters.

Mr. WINTERS. Excuse me. No, I was just going to say, it's equally important to us that it be accurate, because we've got to tolerate the bottom line at the end.

Mr. MCHUGH. No, I understand that. Accurate, and hopefully that those kinds of activities are done in a way that enhances management efficiencies.

But there was another reason that we entered into that discussion at all with Mr. Gleiman, and that was simply the concern that you expressed here today, and others have expressed, as to the timeframe of a rate increase, the PRC's process in general, 10 months, although 9 months on the last.

We are exploring the possibility that if data were compiled and maintained in a certain fashion that the Rate Commission felt was useful and could be provided in a short timeframe, perhaps we could compress those rate hearings into less time. I don't know if there is an opportunity there to get the two sides together to have that done, or if, in fact, it would be just a marginal few hours increase.

But we are interested in that issue for the additional reason that perhaps there are some opportunities there to compress the Rate Commission activities in the next rate increase.

Mr. WINTERS. Well, I appreciate your suggestion on that, and we certainly will review it. We do have meetings with them when we can do it ethically and appropriately, trying to improve things. I'll give you an example: In Mr. Gleiman's testimony he talked about an additional $400 million that we're showing for this year and taking credit for. I don't care who gets the credit, as long as we have it.

But, remember, we had—I believe we filed that in about March, seems to me like it was March. It took several months for us to prepare that filing. We couldn't just do it overnight. We had to prepare it. Then we got it filed. Then it took—they did it in 9 months, and we greatly appreciate that.

Our fiscal year started approximately October 1, 1994. They acted around Thanksgiving, as I recall, in 1994, and we put the rate into effect January 1, 1995. If we had had a compressed—if we had a shorter period for them to act after our filing, and if we could have gotten it done to correspond with our fiscal year, which was also our test year, we would have had that much more benefit of the higher rate, and our financial position would be much better.

So if they could have acted earlier, we would have had that much more positive bottom line in the Postal Service.

Mr. MCHUGH. You just answered a question at some point I wanted to get to today, in that there seemed to have been—although I wasn't as interested in those issues as I perhaps am now—an intent, on October 1, to implement the new rate increase, and yet it wasn't until January. The timeframe involved in the Rate Commission's review is what you would suggest the reason for that delay was?

Mr. WINTERS. That's right. Yes.

Mr. MCHUGH. What did that 3-month delay cost the Service?

Mr. WINTERS. I don't know, but I'll find that out.

Mr. MCHUGH. I'd be interested in that, as well.

Let me get back to my questioning, because, as I mentioned before, Members are coming in and out, and I appreciate their making an effort to be here.

I would like to recognize the gentleman from Maryland, Mr. Ehrlich, for any comments or questions he might have at this time.

Mr. EHRLICH. Nothing at this point, Mr. Chairman.

Mr. MCHUGH. OK. I thank the gentleman for being here.

Returning to the other issue of rate hearings, you mentioned that you feel the process is too protracted, too spread out. Can you give the subcommittee any suggestions as to how that process might be changed without eroding the protections that are inherent in it and I think are important, so that we could consider changing that system in a way that serves all parties?

Mr. WINTERS. Well, as I indicated earlier, we want to bring some ideas to you for discussion to see what we think will work. But there are some areas that we do need to consider, that ought to be on the table. Anything, as you suggest, that would streamline the procedure and allow us to make adjustments quickly.

I think there ought to be some consideration of volume discounts; being able to offer discounts based on volume, and do it quickly, and do it in a manner that our competitors don't know what price we're going to offer in competitive bid.

There is a procedure, and Mr. Gleiman mentioned it, a 90-day procedure on Express Mail. That's a very cumbersome procedure that takes 90 days for a completed hearing, in that case, and in it you have your competitors intervening in the case. It doesn't give you very much benefit to go to a proceeding to get a reduced rate for volume, if you're going to bid against somebody that's in there protesting what you're trying to do. And he doesn't have to go to

anybody. So that present procedure, the present rule that the commission reactivated, doesn't give us any help.

I think we ought to consider being able to make rate adjustments without going to the PRC, so long as they are below the rate of inflation. I'm not saying that's what we must do; I just think that's something we ought to consider and see what the ramifications would be.

I think there ought to be some consideration of pricing based on the speed of delivery rather than on the content of the mail.

Those are some of the general things that I think we ought to consider, insofar as the Postal Rate Commission is concerned. I want to be sure, in appropriate cases, that due process is allowed.

It is an unusual situation in which our competitors come and appear as parties in our hearings, and offer evidence, and do cross-examination, and get discovery on us and on others, and yet, in their own business, in their own product they generally don't file rate changes with anybody. They can change them almost at will, when they want to. And a competitor, in one segment of the market, has 85 percent of the business, I'm told, and we have about 5 percent.

So I think those are some of the things that we need to look at to see if they will fly.

Mr. MCHUGH. Have you had an opportunity to discuss those with the PRC, with Mr. Gleiman?

Mr. WINTERS. No.

Mr. MCHUGH. Do you have a schedule where that might——

Mr. WINTERS. No, but we do want to. I've met with Commissioner Gleiman. The Postmaster General has met with Mr. Gleiman. We met with him together, and we all expressed the idea that we want to do some things. Some of those things can be done probably without statutory change. Some of them cannot be done without statutory change.

There was a joint-task force on ratemaking. Norma Pace was chairman of the Board of Governors at the time. She was the driving force behind having the task force made up of representatives of the Board of Governors and representatives of the Postal Rate Commission. They reported in 1992, about the time I came on the Board of Governors.

She can elaborate on that a lot more than I can, but there were several recommendations they made. One was a "two-by-four," where you would have a 4-year rate period, but you could adjust it in 2 years without a full rate hearing. That sounded pretty good. And a proceeding was started on that by the PRC, but we determined that it didn't give us enough flexibility; we would be hung with that. We couldn't act if there was something else that needed to be done, and therefore we opposed it, and it died.

I understand that on the competitive services, how to handle that, there never was really agreement in the task force.

Norma, would you like to elaborate on it.

Ms. PACE. Yes. I can give you a brief summary of that.

Mr. MCHUGH. Please do.

Ms. PACE. When I became chairman, I was disturbed over the adversarial relationship between the two parties, so I commissioned—with the approval of the board and certainly the involve-

ment of the board—an outside consultant to look at this in an objective way. The only thing we said to the consultant was, "You speak to everybody: our customers, us, the Postal Rate Commission. Determine just what is the problem with the process we now have."

They produced an excellent report that, even 3 years later, I think still applies. It indicated that the present system we have was very detrimental to the Postal Service. The first thing that should be done is for the managements of the Postal Service and the Postal Rate Committee to get together and set up a task force to look into ways to solve the problem.

So we did that. It was an excellent task force. They worked very hard on the problem. And they were supposed to look at two areas which the report indicated were problems for the service. The first was the speed, the flexibility that we needed to get our rate increases, because we were always behind the cost curve. The second was the need to price competitively. At just about that time, the GAO report came out, which indicated that that also was a problem for the Service.

They could barely get agreement on what Mr. Winters called the "two-by-four," which meant that you'd get an automatic increase every 2 years with a very minor review, and then every 4 years a very complete review, similar to the Omnibus Price Cases, as we refer to them, that really go on now every time the Service asks for a price change.

We reviewed that, and we felt that the major thing we needed, namely, the ability to compete in the marketplace, was just not given to us. The two-by-four, though it was an improvement, was only marginal, and we thought we would have to go back to the drawing board and rethink this whole process.

But that challenge is still there, and we really ought to be doing it again.

Mr. MCHUGH. So there were recommendations that were agreed upon?

Ms. PACE. That the task force presented?

Mr. MCHUGH. Right.

Ms. PACE. For approval by both groups.

Mr. MCHUGH. And were they approved by both groups? The "two-by-four" was approved by both groups?

Ms. PACE. We accepted the "two-by-four" as reasonable, but we couldn't get any concurrence on what we were going to do in the competitive areas. We needed to have both, according to the report that had been issued. So we simply did not accept the "two-by-four." We were also in the process of reclassification, and we thought maybe that would help solve some of our problem. So we just sat back and waited.

But I think it is time now to review that process again and get on with it. But, you see, we need to have a philosophical acceptance that the Postal Service has part of its business in a competitive climate and must therefore operate in a competitive way or it will not succeed. Now, if we don't get that concurrence, there's no sense in sitting down with a task force and trying to solve that problem.

Mr. MCHUGH. My grandmother always used to say, a little knowledge is a dangerous thing. I'm very dangerous on these issues, because what I have is a little knowledge, at best.

An observation: It seems to me, in talking to various patrons and parties who are interested in your work and the work of the Postal Service, and in addition to the comments that have been made before this subcommittee, the situation whereby you had a task force in 1992, and if you look at it, at first blush, it seemed to have some positive suggestions, and yet they were never implemented.

If you look at other efforts at flexibility, such as the overnight mail, the 90-day process that, for all of its faults, is nevertheless an expedited one, it is used by the critics of the Postal Service, very effectively, to suggest that you really don't want to work to improve. And I'm not suggesting that's true. With my little knowledge brings a whole new attitude, as well. I'm interested in progress and product and output.

But I think it is in all of our interests to work to try to rid ourselves of that notion and rid ourselves of the opportunity of some to put it forward. Because, as I said, I think it's a very effective tool.

I appreciate Governor Pace's comments about trying to work together now, and I think we very much need to do that.

Ms. PACE. If I may.

Mr. MCHUGH. Certainly.

Ms. PACE. I think that illustrates exactly what the problem is here. Yes, they gave us this 90-day rule, but if you understand the way the contracting process works, that is meaningless. Because when you go in and bid on something, in the first place, the bid is a secret. Nobody tells anybody else what they are bidding. That's what a contract bid is all about. But we would have to reveal everything over a 90-day period in order to be able to make the bid, and that just doesn't make sense in a competitive situation.

So we need to understand what we're talking about here when we're saying what the Service needs to do in order to operate in a competitive climate. That's the kind of thinking that is essential, fundamental, and we ought to really start right there.

Mr. MCHUGH. Was there talk when that authority was granted—and I understand it was for a 5-year period—and did the Postal Service make its discontent known? To be very frank, I can't find anything that, when that authority was granted, you see headlines, "Postal Service calls this a sham. This is meaningless," et cetera. Rather, what it looks like is an opportunity missed.

And I appreciate your explanation, but was there some concern expressed at the time of its authorization?

Ms. PACE. Except we never implemented it, because it didn't make sense. I guess that's the only way I can say it.

Mr. MCHUGH. Well, that's fine.

Mr. WINTERS. If there's anything further on that, Mr. Chairman, we'll get it for you. I will ask the staff to do that.

Mr. MCHUGH. I appreciate it.

Your Express Mail, all of that is done by bid?

Mr. WINTERS. Sir?

Mr. MCHUGH. All your Express Mail——

Ms. PACE. Not ours, no. Ours is price fixed by the Postal Rate Commission.

Mr. MCHUGH. Excuse me. I'm not making myself clear. You indicated that the 90-day rate-setting process authorized by the PRC on Express Mail was meaningless because you have to enter a bid situation.

Ms. PACE. Well, if you wanted to get volume out of it, yes. I think that's really what the purpose—that's what we mean. If the government can get its services from Fed Ex because it gets a good price, that shows you we can't be competitive on volume business, and this is what we're talking about.

Mr. MCHUGH. OK. All right. Thank you.

Mr. WINTERS. Mr. Chairman.

Mr. MCHUGH. Yes.

Mr. WINTERS. We'll write you some information about that and what the requirements were, which involved—to be able to trigger the 90-day, I understand that there had to be a change in the published rate of a competitor. And there's one of those competitors, Fed Ex, that I don't think has a published rate. I'm not sure about that. But I'd like to get that information to you.

Mr. MCHUGH. That's fine.

[The information referred to follows:]

The history of the Commission's special expedited Express Mail rules, and the reasons why those rules have not yet been tested, merit some further elaboration. First of all, it must be understood that when the Postal Service proposed rules which would allow the Postal Service to respond quickly to competitive challenges in the market for overnight delivery, it was seeking for more flexibility than that ultimately incorporated in the Commission's rules. For example, the Postal Service proposed that hearings on the proposed market response be held only when merited, and that issues be limited narrowly in any such hearing. The Commission rejected these proposals, and substituted proposed data and hearing requirements that rivalled a major rate case. Throughout the long ratemaking process, which lasted from April of 1988 to August of 1989, the Postal Service repeatedly identified problems with these rules, problems that the Commission, for the most part, declined to correct. The result was the creation of rules that do not allow the Postal Service to respond competively to the efforts of our competitors to expand their shares of the market by negotiating special rates with customers.

Given the significant limitations of the Commission's rules, it is not surprising that circumstances have not yet arisen in which the Postal Service could use those rules to any advantage. Nevertheless, having worked hard to establish some kind of special rule for Express Mail market responses, the Postal Service was reluctant simply to let the rules vanish uder the sunset provisions. In addition, we have reason to believe that the existence of the rules has had some restraining, competitive impact on the published rates of our competitors. The Postal Service favored their extension for these reasons, not because we find the rules to be satisfactory to our needs. Despite the problems with the rules, however, the Postal Service continually monitors developments in the market for overnight delivery to determine if our circumstances in that market could be improved, however marginally, by usage of the rules.

Mr. WINTERS. We're not able, under the existing things, to really effectively compete for even the Federal Government's expedited mail.

Mr. MCHUGH. I appreciate that. And, as I mentioned, the real interest that I hold, and I'm sure the subcommittee holds, as well, is trying to do some things that are meaningful. If these aren't, what can we do? And I guess that's going to take a little cooperation.

Mr. WINTERS. I have one other thing you asked for. I was handed a note by our General Counsel that says the rates from October

1994 to January 1995 would have been about $400 million a month, or in the $1.2 billion range, if our rate adjustment had been effective on October 1.

Mr. MCHUGH. I appreciate that. So we've got $400 million that somehow, at some point, is going to have to be made up in the next rate increase.

Mr. WINTERS. That's per month. Yes.

Mr. MCHUGH. Per month. $1.2 billion. OK. Thank you very much.

Let's talk a bit about the reclassification submission you have coming up. This is the first since 1970, yes?

Mr. WINTERS. Yes, sir, I think that's right.

Mr. MCHUGH. Obviously, the intent, I would assume, is to allow the Postal Service to compete more effectively; correct?

Mr. WINTERS. Yes, sir.

Mr. MCHUGH. And it's probably not a fair question, because all of you good people have not been in your roles for that long, but why is this the first? Has there not been a need to enhance the competitive position of the Postal Service prior to this?

Mr. WINTERS. I've only been here 3 years, so it's hard for me to say.

Mr. MCHUGH. I understand. I've only been here two.

Mr. WINTERS. I talk about hearsay, but—I think there have been some efforts and some false starts in the past. It should have been done. It hasn't been done. There's been talk about it for years. It's a big job. It's an enormous job to do. It's an enormous job, not only to put it together, but it's an enormous job to satisfy everybody. And I'm sure this is not going to satisfy everybody.

It's to modernize and make us competitive, yes, but also to modernize the subclasses to make the rate more responsive to what that subclass does and what it costs to produce that subclass. In other words, to more equitably distribute the cost among the various class of mail. That's my view of it.

Somebody might get a little stung on it a little bit, and somebody else may get a benefit out of it. That's what happens when you readjust. I suspect that there's been some walking away from that in the past. This time we stepped up to the trough and we paid our dues, and here we go.

Mr. MCHUGH. OK.

Governor Pace, did you want to comment?

Ms. PACE. Yes. We have made changes all along the line in our products. For example, we gave discounts for presorting. But now with automation, all of our processes have changed so much that it seemed a good time to take a hard look at what it actually costs to get a letter from here to there and who is helping us.

With the pre-barcoding, that has saved the Postal Service a lot of money, and we wanted to be sure that we had all of these costs allocated properly. So, for the first time, we did a major study on the cost by subclasses, and on that basis we were able to, we think, price much fairer, based upon what it actually costs us to deliver the mail.

So it isn't that we were slow in it; it's just that the processes have now changed so much that it became essential to do that.

Mr. MCHUGH. Let me clarify. I wasn't necessarily suggesting you were slow. I was curious as to what some of the factors were that precluded or inhibited one prior to this, and you have filled in that. I appreciate that.

Let's talk about automation a little bit. Obviously, this is an issue of continuing concern for everyone involved with the Postal Service, not the least of whom are the employees. And I understand the troubles that they have.

Mr. Chairman, you noted in your comments that you are contemplating some modifications to your automation system to try to help it reach its yet unrealized potential. You noted some of the savings that have come about. I would assume that you would agree, and the Postmaster General has said that there are much more savings that need to be accrued out of that process.

Can you help us in sharing with us some of the changes, modifications you're contemplating on your automation program?

Mr. WINTERS. Well, I'm not sure what he's thinking about, but this automation process is really a cost-avoidance process. One of the things we've been slower than I wish we were getting implemented is a remote barcode sorter system. We were going to do that by contract and got into a labor dispute about it. It went to arbitration. The arbitrator said, "You've got to offer the job to labor union people first."

The Postmaster General then negotiated with and entered into an agreement with the labor union that 70 percent of those persons working in the remote barcode would be transitional workers, who would not be receiving union wages, and 30 percent would be union workers. All of that proceedings slowed us down considerably in getting the remote barcode sorter system in operation.

There have been several—I don't know how many offhand—but I know there have been a lot of decisions made for the installation of remote barcode sorters all over the United States. I don't know right now how many that will be. I think that is going to greatly enhance our efficiency in sorting the mail.

As you know, the remote barcode sorters are at remote locations from a mail facility. An image comes to them on an envelope that is difficult or maybe impossible to read on the multiline optical character readers that put on the barcodes. So when they come there, they switch to the remote; the remote puts it on, then it goes back and in some magical way the barcode gets on there.

We have an enormous amount of that type of mail, and a lot of that is person-to-person mail. We have also authorized expenditures for further enhancements to that system that we think is going to make it operate even faster. So I think that's one of the significant additions we're making to our automation program.

When we get that operation going full tilt, I think that's going to make our delivery point sequence sorters work more efficiently. When we get more mail in what we call DPS, delivery point sequence, when we get more of that, it's going to make it much easier for our carriers to get on the street early. That's a concern of ours. I think that was a particular concern of Mr. Shays in one of the early hearings, and still is.

Carriers will not have to, to that extent, do the manual sorting that some of them are having to do now. And we think that is

going to greatly enhance our productivity. So those are the main things.

One of the things that the Postmaster General found when he came was that some of our equipment, our delivery point sequence equipment, was a long piece of equipment that our buildings couldn't accommodate it. We were going to have to build more buildings to accommodate these big systems, and that was not a happy idea. So he came up with a different design. He calls it a carrier sequencer—or something that starts with "carrier." Anyway, it's smaller. It doesn't have quite the capacity, but it can work in smaller units, and I think that is going to help us increase the number of delivery point sequence sortings that we can have, and it will enhance our carriers taking the mail directly from the sorting machines to the street and save a lot of time. That's what we're looking for.

Mr. MCHUGH. Governor Mackie, did I see you——

Mr. MACKIE. Yes, sir, Mr. McHugh.

I'm a banker from Oklahoma, and it's kind of interesting to compare the Post Office to the banking industry that I entered 30 years ago, where we had the old universal checks and no transit routing number. Our overall goal is to make those letters go through the postal system like checks go through the checking system.

I know, even in my small bank, making automation work in some departments is difficult. You can imagine taking 40,000 Post Offices and trying to automate them while sending 180 billion pieces of mail through them. And sometimes we get reports that it's not working as thoroughly as it should, but it is working, sometimes not as well as we think. It's paying off.

I think, from this point forward, we're going to start seeing a multiplying effect as we get more and more automation pieces out into our offices. And I hope someday the lady may call me, like I got a call at the bank last week, who said, "There's no way that check could have gotten there that fast, before I made my deposit."

Mr. MCHUGH. I've had that happen. I appreciate your comments.

We have been joined by the gentleman from New York, a long time member of the previous full Committee on Post Office and Civil Service and thankfully, from my perspective and I know yours, still a member of this subcommittee, Mr. Ben Gilman.

Mr. GILMAN. Thank you, Mr. Chairman.

I want to welcome Chairman Sam Winters and our other Postal Governors to our subcommittee. I look forward to reviewing their testimony. I regret that I have some intervening committee meetings that have prevented me from being here earlier and may take me away at an early time.

It's the goal of this panel to try to help make the Postal Service the most competitive and efficient agency it can be. We've been proud of some of the accomplishments, many of the accomplishments that have been made to date. In that effort, I want to stress that we are concerned that we keep the commitments we have made to our dedicated postal workers.

Each of the Governors has come to serve their term on the board from different fields, and we welcome that diversity. As the board members are appointed to 9-year terms, the position lends itself to

continuity and extensive experience with postal issues. We will be drawing on the experience from time to time.

I want to commend you, Mr. Chairman, for continuing this series of oversight hearings. I know that it has not been easy, in light of all the other responsibilities facing us, particularly with the Contract With America. A hundred days are not so bad; it's the hundred nights that we're all having trouble with.

I would like to take just a moment. I do have a group of postal workers waiting to give me their thoughts in another room. But let me ask one question that has troubled some of us. That new logo that was adopted, did that come before the Board of Governors? Did you folks approve that, inserting a new logo? The newspapers said it cost about $7 million. Was the board made aware of the changeover cost that would incur?

Mr. WINTERS. Yes, sir, that was done, I think, a couple of years ago. It was a presentation made to the board by the Postmaster General and his people, after it had been run by all sorts of our employees' organizations, and so forth, for opinions about it, in an effort to change the image of the Post Office and the Postal Service as being something that's onward and upward, and aggressive and positive.

I don't remember exactly the figure. The $7 million sounds about right to me, but that's to be phased in over several years. When new equipment is purchased, we put the new logo on it. You don't take the old logo off and put the new one on. You put the new logo on it instead of the old logo. When equipment is painted, the new logo would be put on instead of the old logo.

It's not an overnight process; it's spread out over a long period of time.

Mr. GILMAN. Our committee staff informs me that some 200,000 vehicles that had two eagle decals, that cost $26 million, and then they tell me, with labor added to all of that, it came to another $10 million. They say the total cost ranged around $43 million, not including emblems on the outside of buildings, and murals, and stationery, et cetera. So it came close to about $50 million.

Do you feel that that was an appropriate investment at a time when we were stressed out in some of the other areas?

Mr. WINTERS. I'm surprised that it would cost that much, and I would like for—if it would be OK with you—to have one of our people contact your staff people and see if we can——

Mr. GILMAN. Well, we would welcome what it did cost. But most important, I would hope that the board is taking a good, hard look at all of these various expenditures that are out there.

[The information referred to follows:]

The cost of implementing the new corporate logo has been minimized because it is being implemented on a "replace as depleted" basis. Phasing-in the program takes longer, five to seven years, but it holds the cost to $6.6 million. This includes the cost to speed-up the process in the top twenty major metro markets where street collection boxes, vehicles and some signs will have the new logo within an eighteen to twenty-four month time frame, instead of the program's five to seven year phasing. Of course, newly purchased replacement vehicles, collection boxes, and signs, as well as new or renovated facilities, will have the new look.

Mr. WINTERS. Mr. Gilman, let me say, in that regard, I believe it was last year or the year before, I was chairman of a committee, a special ad hoc committee of the Postal Service to revise our by-

laws. We did not want things to be happening without the Board of Governors having an opportunity—things of significance happening without the Board of Governors having an opportunity to express an opinion on it.

Our bylaws do now provide for such a process, so that matters of significant change will be submitted to us, and we can act on it, if we please.

Mr. GILMAN. I appreciate your thoughts, Mr. Winters, in response to the last question.

We talked to the Postmaster General about timely transportation being one of the main problems today with postal service, and Mr. Runyon blamed RVE and multiline for delaying automation. What are your thoughts about how we can improve timely delivery? I assume you folks have looked that over.

Mr. WINTERS. Yes, sir. That is a continuous problem with us. We talk about it incessantly, at every one of our meetings. Where there have been known pockets of problems, such as Chicago and the Washington area, we have had the vice presidents in charge of those areas come and talk to us repeatedly.

Remote barcode facilities are being installed all over the United States, and we have appropriated the money for the equipment for those. I think that they are going to greatly improve our delivery process when they go on-line, because they will enhance our delivery point sequence equipment so that it can get mail to the carrier faster and get it to the street faster.

Mr. GILMAN. Is the board engaged in reviewing the rewriting of the Postal Reorganization Act?

Mr. WINTERS. Sir, say that again?

Mr. GILMAN. Is the board involved at all in reviewing the rewriting of the Postal Reorganization Act? Have you been reviewing?

Mr. WINTERS. Well, yes, sir, we are concerned about it. We don't have a committee that's doing that, but we have people in the Postal Service that are reviewing that. We have a committee on strategic planning, and that includes in its jurisdiction, matters of that nature. This has come on us pretty fast, faster than I expected it would. We don't have specifics at this time, but we're going to be coming to you with specifics.

Mr. GILMAN. What are your thoughts about the proposal to dissolve the Postal Rate Commission, for example?

Mr. WINTERS. I think the Postal Rate Commission serves a very important function. I think it needs to be streamlined. I think we need to review what their jurisdiction is, particularly with competitive services. I think the streamlining could include several things, such as time for hearing, the extent of discovery, perhaps, whether or not we could adjust rates as long as the increase is below the rate of inflation, without or with some sort of a limited hearing.

All of those are things that I think we should be able to explore. If we can do it by agreement with them, fine. If it cannot be accommodated by rule, then it might have to be embedded in statute.

Mr. GILMAN. Mr. Winters, one last question: How does the board feel about privatization?

Mr. WINTERS. Well, I think that most of the board is concerned about privatization. I think you first have to say what you mean

by "privatization." Do you mean just selling it off, or do you mean to let others do the same things we do?

I think you're going to have an awful lot of trouble finding anybody else that would be willing—any other organization that would be willing to do what we do, under the restrictions, governmental restrictions, that we operate under. We operate with a situation that is anomalous, in that our public has commercial expectations of us, and yet we're shackled with governmental regulations and limitations.

And I don't think any other business—I don't think a private enterprise could come in and operate under the same shackles that we have and do any better than we do.

If you're talking about "commercialization," and let us compete in competitive lines, I think that's fine. In my opinion, universal service is imperative. I think it's extremely important that we continue doing what we're doing now, delivering to 125 million addresses, 6 days a week, 177 billion pieces of mail a year, 500 million pieces a day.

I think you're not going to get that without universal service. I think universal service and the private express statute should be preserved, for the best interest of our people.

Mr. GILMAN. Thank you. I just had one other thought. You've got two vacancies on the board, have you not?

Mr. WINTERS. Yes, sir. Three.

Mr. GILMAN. Three. How long have they been vacant?

Mr. WINTERS. Well, I'm sorry to say that Norma Pace's term expired in December. She can serve for a year until her successor has been appointed, and her successor has been nominated but has not yet been confirmed, Mr. David Fineman of Philadelphia. We hate to lose Norma. She is an economist. She is on the boards of several corporations. She is a great asset to the Postal Service, and I'm sick that that's happening.

Mr. Setrakian's term expired a year ago last December. He served out the additional year; now that has expired as of last December, so that seat is open.

John Greisemer's vacated term expires in December 1995. He died in 1993, around July 4. He was out burning wood, or doing something, clearing some land for a July 4 party, and had a heart attack and died.

Mr. GILMAN. So you've got three vacant seats, some of them for quite a while, some brand new. Is there any reason the administration has delayed in filling these?

Mr. WINTERS. I've gone over there to the White House a couple of times and asked him if they would—we wish they would get on it. But Einar Dyhrkopp can tell you more about that, I think, than I can.

Mr. DYHRKOPP. I'll give you an example of why I think they haven't been filled. They have talked to some people about it. The White House referred two of them to me to tell them about some experience that I suffered through on the appointment process and the confirmation process, then also about what our duties are as a Governor.

I had a young lady, an attorney out of Little Rock, call me, and she wanted to know all about it. And I explained it all to her. I

told her that in my case it took 8 months to go through the confirmation process, and nothing was left that wasn't totally exposed to everybody: your health records, your financial records, you name it.

After you get done with that, then you have quite a bit more. You have to give a record of all your political contributions. You have to give your IRS filings for the last 3 years to everybody. That alone is a discouragement, when you go through all of that.

But then there's the compensation. Like our chairman said, it started in 1971 at a rate of $10,000 plus $300 per meeting day, which back in those days, compared to Congress, the Supreme Court, the Federal employees, you name it, wasn't bad for a part-time situation. But now—it has never been raised—and everybody else has had a 200 percent increase since those days.

Now, I don't know if the pay purposely hasn't been raised or why, but something is wrong about it. Because if you do this job—you can't do this job and come into Washington, or wherever, for a day and a half and do it in that time. It's just impossible. If you do the job and really want to be an effective member, you have to read at least—at least—3 or 4 hours a day or a night, every day, in order to keep up.

And then to give the oversight, you've got to attend different types of meetings. You've got to go visit facilities. You've got to talk to employees. And that's the only way you can do it. And the Governors are now doing that. And your mail delivery is better, and it's going to get better, but that's because your Governors are in there fighting and working hard to do it.

But that's the reason that you haven't had anybody else come on.

Mr. GILMAN. Thank you, Mr. Chairman and Mr. Dyhrkopp.

Mr. Chairman, I think we ought to take a look at the vacancies and what we could do to be of assistance. Thank you for conducting this hearing.

Mr. WINTERS. Thank you, sir.

Mr. MCHUGH. I thank the gentleman for his comments.

We are honored to have been joined by the ranking minority member of the full committee, the gentlelady from Illinois, Cardiss Collins. I yield to the gentlelady for any questions, comments, or statements she would like to make.

Mrs. COLLINS OF ILLINOIS. I thank you very much. I have submitted a statement that I would like to have made a part of the record, Mr. Chairman.

Mr. MCHUGH. Without objection.

[The prepared statement of Hon. Cardiss Collins follows:]

PREPARED STATEMENT OF HON. CARDISS COLLINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Good morning and welcome. Today marks the third oversight hearing on the U.S. Postal Service. With Postmaster General Marvin Runyon calling for the deregulation of the Postal Reorganization Act of 1970 and requesting authority to "run the Postal Service more like a business", I would say that we all have our work cut out for us, you perhaps more so than others.

The Postal Rate Commission (PRC) testified at last week's subcommittee oversight hearing that Postmaster General Marvin Runyon, inspite of his pleas for authority to shorten and simplify the rate setting process, does not need additional authority. Mr. Gleiman expressed shock that senior postal officials were unaware of the ratemaking recommendations contained in a joint PRC/Postal Service Task

Force Report. Chairman Gleiman also took issue with the PMG's rosy description of postal finances, highlighting instead the Postal Services' negative equity of $6 billion. He went on to share GAO's assessment that despite billions spent on new facilities and new automation, postal costs are still not under control. Finally, Chairman Gleiman expressed deep concern over the quality and quantity of accurate rate information.

In a nutshell, PRC Chairman Ed Gleiman and PMG Marvin Runyon fundamentally disagree over the status of the Postal Service. These discrepancies must be resolved by this Subcommittee and the Board of Governors. I look forward to working with you to see that our citizens receive the best postal service available. I also urge you to use the powers Congress and the President have vested in you to ensure that the Postal Service fulfills its mandate. Thank you.

Mrs. COLLINS OF ILLINOIS. Last week the Postal Rate Commission appeared before the subcommittee, and Chairman Gleiman differed from Postmaster General Runyon on many different areas of the Postal Service: negative equity of $6 billion, automation benefits yet to be realized, accurate rate information, and so forth.

I'm wondering, what do you think about the difference between the Postal Rate Commission's and the Postmaster General's assessment of the Postal Service?

Mr. WINTERS. Well, I know that the chairman of the Postal Rate Commission had some criticisms to make, but I think he thinks highly of the Postal Service. That's what he has said to me.

I think that there are some differences in some of those figures. Say our negative equity, our negative equity is due, in very large part, to the failure of the Congress to fully fund revenue foregone and imposing the OBRAs on us. I will be glad to furnish information to you, if you would like, in that regard.

Mrs. COLLINS OF ILLINOIS. Yes, I would.

Mr. WINTERS. I think what you will find is, that the negative equity is largely because of that. The $4.7 billion, I think, that the chairman of the Postal Rate Commission referred to, as opposed to some $14 billion that the Postmaster General referred to, has to do with savings. We're talking about savings with the restructuring.

Before the time that the Postmaster General came in, it was anticipated that the rate increase would have to be filed a year earlier than it was filed and it would have to be at 35 cents. The money saved from the restructuring is included in the Postmaster General's calculations and not included by the chairman of the Postal Rate Commission. And, again, we're operating in something that somebody else did and not me. I would be glad to have someone furnish that to you.

Mrs. COLLINS OF ILLINOIS. If you would, that would be very helpful.

Mr. WINTERS. Yes.

[The information referred to follows:]

The Postal Service and the Postal Rate Commission do not have any disagreement about the size or seriousness of the Postal Service's negative equity position. We agree that the Postal Service must improve its equity position or face serious financial difficulties in the future. Any differences of opinion between the Postal Service and the Commission pertain to the effectiveness of the prior years' loss recovery mechanism included in postal rates. Although one of the Commissioners issued a dissenting opinion, the Commission as a whole ultimately endorsed the concept, albeit with reservations. We plan to prove the effectiveness of the prior years' loss recovery mechanism through progress in restoring equity.

To a large extent, the Postal Service's negative equity is due to factors outside its control. OBRA costs have had a tremendous impact on the Postal Service's equity situation, reducing equity by about $2.6 billion through the end of FY 1994. In addi-

tion, the Postal Service has realized an additional negative impact on equity of $647 million due to revenue forgone funding shortfalls in fiscal years 1991, 1992, 1993 and 1994.

The following table reflects the OBRA costs incurred by the Postal Service and the amounts which have been recovered through postage rates as of the end of FY 1994 along with the impact of the unfunded revenue forgone appropriations ($ in millions):

Fiscal Year	OBRA Costs Incurred	Recovered via Rates	Unrecovered (Cumulative)	Unfunded Revenue Forgone	Cumulative Total
1987	10	0	10	0	10
1988	563	51	52	0	52
1989	370	102	790	0	790
1990	240	102	928	0	928
1991	2,650	1,010	2,568	0	2,568
1992	952	1,384	2,136	0	2,136
1993	1,988	1,384	2,740	318	3,058
1994	1,236	1,384	2,592	329	3,239

I do not see a real disagreement between the Postal Rate Commission and the Postal Service regarding the ultimate savings from restructuring. The $4.7 billion figure cited by Chairman Gleiman is the size of the rate increase sought by the Postal Service and approved by the Postal Rate Commission. The $14 billion figure should be placed in its proper context. If Marvin Runyon had not led the Postal Service through a sweeping restructuring, cut overhead and reduced the size of its interest expense, the Postal Service would have had to implement a 35 cent First-Class rate in late 1993. The outstanding efforts of our postal employees in implementing these changes enabled us to hold rates steady for an unprecedented fourth year and keep the increase below the rate of inflation. The result of this smaller, delayed rate increase was to save our customers $14 billion in postage costs.

Mrs. COLLINS OF ILLINOIS. Well, do you need or want any statutory authority to ensure that the Postal Service is better able to operate like a business?

Mr. WINTERS. Yes, ma'am, we sure do.

Mrs. COLLINS OF ILLINOIS. Do you need it or you want it, which one?

Mr. WINTERS. Well, I think we need it, and we want it too. There has been a lot of study done on this inside the Postal Service, with competent people, and we expect to make some suggestions to this subcommittee in the very near future on specifics.

Mrs. COLLINS OF ILLINOIS. I have some very serious concerns about labor. In my district in Chicago, I have the main post office, and I have talked to the postmaster there. But more important than that, I always get these calls and letters from postal workers, and they are not always happy. So I need to ask you what changes should be made in the area of collective bargaining and labor-management relations?

Mr. WINTERS. That is really something we would like to know, too. We'd like to really improve that. The Postal Service is not any better than its people. Every time I hear that, that our people are unhappy, it makes me unhappy, because we don't want it to be that way.

I think they are well paid. They do have good security. I do think that many of our workers think that our appeal process is too cumbersome, takes too much time.

Mrs. COLLINS OF ILLINOIS. Is there any way to streamline the process?

Mr. WINTERS. Well, it's going to take—some of that is internal and, I think, is in the labor contracts. I don't know how that can

be changed. Some of it is statutory. Maybe some of that, with the Merit Systems Protection Board in particular, maybe some of that can be changed to some extent. Some of it goes through OPM, I understand.

But that is a part of the things that we want to look at. We do not want those kinds of problems. We want our people to be operating at maximum capacity.

Mrs. COLLINS OF ILLINOIS. Let me say that I have some concerns about the fact that Robert Harris' position was changed from that of vice president for Legislative Affairs to the Diversity Department, and I would like to know the genesis of that change and why that happened, please?

Mr. WINTERS. Well, there was a vacancy in Diversity. The statute provides that the Postmaster General makes those decisions, that he is the one who selects the officers of the Postal Service, and he did that. My understanding—I worked with Bob Harris, and my understanding of his background is that he was very much in the forefront of diversity legislation, and that sort of thing, in the Senate side, as a staff person.

Mrs. COLLINS OF ILLINOIS. Was the postmaster overruled in that decision?

Mr. WINTERS. Overruled? No, he's in the position now.

Mrs. COLLINS OF ILLINOIS. No, by that I mean, Postmaster Marvin T. Runyon. Wasn't there a new structure set up which would not allow him to just appoint or bring aboard whoever he wanted to, as a result of that particular case?

Mr. WINTERS. No.

Mrs. COLLINS OF ILLINOIS. Well, explain it to me.

Mr. WINTERS. Oh, you're going—are you talking about the Committee on Compensation?

Mrs. COLLINS OF ILLINOIS. Compensation Committee, yes.

Mr. WINTERS. The bylaws of the Board of Governors for many years, I don't know how long, but for many years have provided that the salaries of officers will be determined by the Board of Governors. The selection of the officers is by the Postmaster General.

My understanding is it had been more informal, perhaps on an ad hoc basis, that the salaries would be approved that way by the Board of Governors. When the Postmaster General came in, about July 1992, he asked if he could have that authority because he was making substantial changes, and he wanted to be able to do that, adjust compensation, within certain limits. And we gave it to him, not forever, but we gave him that.

Mrs. COLLINS OF ILLINOIS. Did he understand that this was not in perpetuity?

Mr. WINTERS. Oh, I think so. I don't remember that we said that, but there never was any—by appointing a formal committee, that I did the first of the year for that purpose, there was no intention to reduce his status or demonstrate a dissatisfaction. It's nothing more than setting up formally what we had long had in our bylaws.

Mrs. COLLINS OF ILLINOIS. My understanding is that the timing of the Compensation Committee came on the heels of this transfer of Mr. Harris. Did the board have any thoughts on that action?

Mr. WINTERS. There never was any action taken on it. There may have been some individual feeling of some board members, but

there was never any discussion of it in a board meeting, which I recall.

Mrs. COLLINS OF ILLINOIS. I have no further questions. Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the distinguished ranking member for her questions and for being here today.

Let me give you an opportunity to grade the current Postmaster General. Can you tell us how you feel he's meeting his charge and how your relationship is?

Mr. WINTERS. Mr. Chairman, I think—I was there during interviews of people to hire, after Tony Frank had resigned as Postmaster General. Marvin Runyon was far and away shoulders above anybody else we interviewed, a man with his experience of having been with Ford Motor Co., involved in automation, I'm not sure exactly what his title was, but I think he was vice president in charge of manufacturing for Ford Motor Co., a big job.

He left that and built from ground up the Nissan plant in Tennessee, which a friend of mine in Austin who is an automobile dealer, who had been a Lincoln dealer, said was the best product that Nissan made anywhere. And then Mr. Runyon went to TVA and he touched that up, considerably reducing expenses and increasing efficiency.

So he was obviously the type of man who was active and somebody who had courage and would do things. And we hired him. He did shake up a lot of things. I can't say, personally, that everything that he did was perfect. Second-guessing, I can say some things I wish he had done maybe a little bit differently. But I think, overall, in my judgment, he has done a fine job and that things are going to get better under his administration.

As far as I am able to determine, he is open with the Board of Governors. He doesn't have a thin skin, insofar as we are concerned. Information we want, he gets for us. I have not worked with other Postmaster Generals, so I can't compare. I did, just a very short time, a space of 2 or 3 months, with Tony Frank. So I'm not in a position to compare.

But there were things that were obvious that needed to be done to modernize the Postal Service and get it in a competitive state, and he undertook to do it. Therefore, I support him.

Mr. MCHUGH. Governor Alvarado.

Ms. ALVARADO. Mr. Chairman, if I may. Thank you.

I just wanted to say, as the only member of the board from this particular area, that I am personally very satisfied with the latest improvements in service in my particular neck of the woods. Although I may be satisfied, I'm still watching the system, as is the rest of the board, at this particular area, as it improves.

I know that Congresswoman Collins perhaps is probably not as happy about the Chicago situation, but I think and hope she might concede that it is improving, slowly but surely.

So, on that score, I think the Postmaster General should be given an improving mark. I guess the important question is, what kind of a grade will we give him after, you know, the change and tumult that occurs as a result of this year and the next coming year.

Mrs. COLLINS OF ILLINOIS. Mr. Chairman, if I may.

Mr. MCHUGH. I yield to the gentlelady.

Mrs. COLLINS OF ILLINOIS. Governor Alvarado, are you aware of how long these problems have gone on in Chicago and other cities?

Ms. ALVARADO. I'm afraid we have all become intimately involved in how long the service diminution has occurred. I think what we've tried to do is take a different approach than past boards. First of all, we are keeping ourselves abreast of all the proposed actions that are going to be taken to reverse negative service and put service back into the positive column. More importantly, we are monitoring it on a regular basis.

We have been getting reports, for example, from Mr. Pankey on this area, in particular, and then also on Chicago, on a regular basis, thanks to Governor Dyhrkopp and the rest of the board's interest in making sure that just because we have an action plan that we're not, you know, forgetting about the action plan, but continuing to monitor it as it continues to improve.

Mrs. COLLINS OF ILLINOIS. Can you tell me what your action plan is, so that we can expect, in some reasonable amount of time, that people are going to get their mail delivered on time, that it's not going to be hidden in closets, that it's not going to be stuck up under viaducts, that it's not going to be burned in fires in people's homes?

Ms. ALVARADO. It's a shame that all those things occurred, but I think it's important to note that a lot of changes have occurred in personnel there. While, as you said, these problems haven't developed of late, they have developed, unfortunately, over a number of years, it's going to take a little while, perhaps—and I can understand your impatience——

Mrs. COLLINS OF ILLINOIS. Do you have a time certain when you hope, or have a goal toward which you're acting that these will not be the case anymore?

Ms. ALVARADO. Well, we certainly expect, with each passing quarter, for service to improve, and I think it has so far.

Mrs. COLLINS OF ILLINOIS. But you mentioned your plan, do you have an overall plan for 5 years, for 10 years, for 2 years, for 6 months, or for what length period of time?

Ms. ALVARADO. Well, we're monitoring it short-term by having these reports to us on a monthly basis.

Mrs. COLLINS OF ILLINOIS. What will you be doing in the long term?

Ms. ALVARADO. In the long term, we're going to stay on it until we feel that it's moving——

Mrs. COLLINS OF ILLINOIS. Same plan.

Ms. ALVARADO. Well, with changes as needed. But, yes, we think we've been getting results.

Mrs. COLLINS OF ILLINOIS. You haven't identified those changes as yet?

Ms. ALVARADO. Have we identified the changes, per se? Yes. I think that if you take a look at the Chicago area and all the things that have developed as a result of the change in management, I think we're taking steps in the right direction. We'd be happy to share the plan that we have and that we've been getting on a regular basis, as the board, with you.

Mrs. COLLINS OF ILLINOIS. Mr. Chairman, if she can provide that for me, I would appreciate it.

Mr. MCHUGH. The entire subcommittee would appreciate reviewing the information asked for by the gentlelady. I thank her for her comments.

Mrs. COLLINS OF ILLINOIS. Thank you very much.

[The information referred to follows:]

Chicago Performance Cluster—Service Improvement Plan FY 94–95

Action	Responsibility	Milestone
Ensure Daily Collection of the 5,167 Collection Points:		
Implement Red and Green Collection Card Program	Operations Programs	11/94
Establish Collection Management System	Operations Programs	12/94–3/95
Postmaster Test Collection Program	Post Office Operations	2/95–Ongoing
Maintain Internal EXFC/Shadow Program	Operations Programs; Post Office Operations.	6/94–Ongoing
Establishment of Standard Operating Procedures:		
Establish Proper Workload Management	Post Office Operations	6/94
Winter Action Plan	Post Office Operations	Ongoing
Delivery Unit Operating Procedures	Post Office Operations	Ongoing
Executive Accident Review Board	Human Resources	Ongoing
Customer Service/Plant Agreement	Core Managers	1/95–Quarterly
Create Diversity Action Plan	Human Resources	7/94–Ongoing
Enhance Operational Performance:		
Sustain Function 4 (Clerk) Review Schedule	Operations Programs	Ongoing
Perform Distribution Concept Review (Sort Plan Systems).	In-Plant Support	9/94–9/95
Conduct Unit Reviews	Operations Programs	Annually
Perform Formal Route Inspections	Operations Programs	Ongoing
Conduct Continuous Review of Operating Plan With Processing and Distribution.	Operations Programs	Ongoing
Improve Physical Condition of Plants, Stations and Branches Work Environment.	Core Managers	Ongoing
Develop Plant/Station Contract	Core Managers	1/95–Quarterly
Utilize Service Improvement Task Force	Core Managers	6/94–6/95
Retail Enhancement:		
Establish Lobby Director for Each Station	Post Office Operations	9/94–2/95
Maintain Postal Vending Machines for Each Station	Post Office Operations	9/94–Ongoing
Improve Lobby Appearance at All Stations	Post Office Operations	9/94–Ongoing
Enhance Ability To Wait on Customers in Five Minutes or Less.	Post Office Operations	5/94–Ongoing
Proactive Community Involvement:		
Establish 50 Chicago Postal Customer Advisory Councils (CPAC).	Customer Service Support	9/94–Ongoing
Enhance Communications With Local Political Constituents.	Core Managers	6/94
Maintain and Expand Local Call Center	Customer Service Support	1/95–Quarterly
Proactive Communications:		
Round Table/Focus Meetings for All Employees	Core Managers; Union Reps	6/94–Prescribed Intervals
Conduct Quarterly Employees Recognition Program	Core Managers	Quarterly
Employee Recognition:		
Mentoring Program Established for All Employees	Core Managers	11/94–Ongoing
Annual Employee Appreciation Day	Core Managers	Annually
Establish Annual Employee Unity Day	Core Managers	9/94–Annually
Training:		
Initiate Craft Specific Training Teams	Post Office Operations	6/94–Ongoing
Establish Cluster Computer Training	Information Systems	6/94–Ongoing
Initiate "Violence in the Workplace" Training	Information Systems	6/94–Ongoing
Develop Comprehensive Delivery Development Program	Human Resources	1/95–4/95
Provide Expectations Training for All District Employees.	Core Managers	3/94–7/94
Conduct Mail Processing Back to Basic Training	Human Resources	5/94–Prescribed Intervals
Conduct Leadership Training; Team Building; Increasing Human Effectiveness; Total Quality Management; Seven Habits of Highly Effective People.	Human Resources	5/94–Prescribed Intervals

Chicago Performance Cluster—Service Improvement Plan FY 94–95—Continued

Action	Responsibility	Milestone
Complement Review and Reconciliation:		
Overtime Reduction Plan; Maximize Career Coverage at Critical Stations; Attendance Control Program; Seasonal Accident Prevention Program.	Human Resources	9/94–Ongoing
Increase Daily Street Management	Post Office Operations	1/95–Ongoing
Manage Growth and Expansion:		
Prepare Preliminary 10 Year Growth Management Plan	Core Managers	3/95–Ongoing
Integrated Phase-in Plan for New Facilities	In-Plant Support	Ongoing

Mr. MCHUGH. I opened up that line of questioning because I think, obviously, it's important and instructive that the relationship between the PMG and the Governors is known, that hopefully there is a sense of confidence there.

But there was another reason as well. It seems to me that while you work cooperatively with the PMG and the deputy, as the Board of Governors, there has to be a certain dynamic tension between the PMG and the Governors, yourselves. Obviously, you are the oversight body, the board of directors, if you will.

I understand, in past years, it was posed to your predecessors that you require expanded staff capabilities to do your functions, where it's necessary, independently from the PMG. It's also my understanding those past requests were rejected.

Has this board, particularly, as I mentioned during my opening statement, having one staff person, and the interrelationship with the PMG—and I think some of the Governors here today very accurately recounted the tremendous workload that is placed upon you for what is, in theory, a part-time job, in theory only—do you think that perhaps you would need that kind of staff capability now?

Mr. WINTERS. We're open to that. There has been a reluctance on the boards in the past to undertake to duplicate the expertise that we have in the Postal Service itself or to build a second inspection service. An inspection service, as you know, has an auditing feature to it, in which they audit the Postal Service. There are the internal auditors. They audit the contracts that we make with people to perform services and sell us products.

So it's difficult to know where to move in that regard. We also get the benefit of GAO reports, such as the one that was done on automation, more than one done on automation. So there has been some debate within the Board of Governors as to what to do.

But to bring it up to date, we did decide that we needed to add at least another person. And I didn't think we would be able to find the right person. We need to have somebody who has a broad, intimate knowledge of the Postal Service and how it works and the people involved, and there are not many of those out there, and someone who would have total loyalty to the Board of Governors.

Fortunately, we did find one. We found a man who has just retired as what I call the Chief Auditor in the Inspection Service. He was head of the Internal Audit and has retired. He's tired of playing golf all the time, and he wants to come back to work. And we get him at a pretty good price, because it's just in addition to his retirement. So he's coming on board.

His name is Tom Koerber, and he's an excellent golfer, I understand. He'll be coming on board the latter part of this month. He

was around the office the last couple of days. He will be our staff for now. We also will add other staff as we feel it is appropriate, if we get the right kind of people that we want, and we have another person or two in mind for that.

We also think that on special matters, if we want to get an independent opinion or a judgment on a matter, that we can hire some outside consultants on it. There has been at least one, and maybe more, people who have contacted me, telling me they have expertise in those areas. So it's something we might utilize.

What we have done in other things, with lawyers, we have gone outside of our own lawyers to get legal opinions on certain matters. So we have done that. But that's where we are on staff.

Mr. MCHUGH. The sound you hear, the fluttering sound, is the preparation of resumes behind me over here. I was glad to hear you'd filled that post. That's interesting news.

Governor Dyhrkopp.

Mr. DYHRKOPP. Mr. Chairman, along that line, and just like Mrs. Collins was talking about, the service is improving. It's improving in Chicago, because I'm in Chicago frequently. And I know it on a personal basis, not only do we read the reports, and we know what's going on. And it's going to get better. It's not where it ought to be, but it's going to get better, and it's going to get better all over the whole country. I can assure you, when this board comes here next year, we're going to have a better report than what we have now.

A couple of things that you need to help us with are in strengthening the Governors, some statute changes as to what they can do, and how many meetings they can attend, and that sort of thing. The other thing, we need some help, definitely, on the regulations that we're under, the Postal Rate Commission regulations. You need to do that.

If you really want to level the playing field where we can all be competitive, put our competitors under the Postal Rate Commission also and let them have to go through that.

Mr. MCHUGH. We'll write that down. I did promise we'll listen to all ideas.

We could go on forever, but I truly understand the value of all of your time. Seeing as how I won't be challenged on the motion I'm about to make, I will make it.

First of all, let me say a couple of things. Governor Dyhrkopp mentioned the status of pay. It was also in your opening remarks. Let me first say how much I appreciate, and I feel very confident I speak for this entire subcommittee when I say we all appreciate the effort that you make. You're similar to school board members, whom I always marvel at, because they take all the responsibility, get all the grief, and very few, if any, rewards.

Certainly, your reward, it must be internal and in your hearts and your souls, because it's not in your pocketbook.

Mr. WINTERS. I hope it's in heaven.

Mr. MCHUGH. I appreciate that. It's a very difficult task and one on which you obviously spend an enormous amount of time, and we appreciate that. This subcommittee would be interested in looking at those parts of the statute that affect your ability to operate, from

top to bottom. We are willing, and even anxious, to discuss those with you.

Let me also underscore what you've heard, not just from me, but from other Members as they have come in, the overriding interest in the subcommittee to work on specific suggestions in all of those areas.

I can assure you, as we get later into the hearing process, those folks who you, Governor, would like to see operating under the PRC are going to have very specific ideas of how the statutes may be changed that you may not feel so supportive toward. So, in fairness, we want to have all of these kinds of initiatives on the table, just to underscore that point.

Let me again thank you for your time. Thank you for your service, particularly, and let me wish you all the very best as you go forward. We're looking foward to working to with you toward our common goal, and I do feel it is that.

Let me note, for the record, that all Members will be allowed to enter written statements and comments to the formal entry. Also, we will be preparing some written questions—and we will invite the other Members to join us in doing so—that we will be submitting for your review, consideration, and response. We would appreciate it.

With that, I wish you all the best and adjourn this committee hearing until next week when we'll do it again. Thank you.

Mr. WINTERS. Thank you very much.

[Whereupon, at 11:45 a.m., the subcommittee was adjourned, subject to the call of the Chair.]

GENERAL OVERSIGHT OF THE U.S. POSTAL SERVICE

TUESDAY, MAY 23, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE POSTAL SERVICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:14 a.m., in room 311, Cannon House Office Building, Hon. John M. McHugh (chairman of the subcommittee) presiding.

Present: Representatives McHugh, Owens, and Meek.

Staff present: Dan Blair, staff director; Jane Hatcherson, Robert Taub, Heea Vazirani-Fales, and Steve Williams, professional staff members; Meryl Cooper, clerk; and Denise Wilson, minority professional staff.

Mr. MCHUGH. Good morning.

Let me welcome you all here today to this, which represents the fourth of a scheduled series of seven general oversight hearings. The purpose behind this seemingly lengthy process is to acquaint the members of the subcommittee with the strengths and weaknesses of our current postal system so that we might be able to better evaluate any proposed changes in a fair and well-informed manner.

So this morning the subcommittee will receive testimony from a very important group of postal consumers. Commercial mailers, publishers and nonprofit mailers generate some 88 percent of the Postal Service mail volume. And, in return, these important customers must rely on the Postal Service to deliver their products in a safe and a cost-effective and consistent manner. Inadequate service or delivery problems directly affect these customers' bottom lines, costing dollars, efficiency and market positions.

And no less important is the impact these businesses have on the Nation's economy as a whole. By providing jobs for millions of Americans, many of whom are located in our small towns and rural areas, these enterprises are a vital thread in America's important economic fabric.

The subcommittee is interested in how business mailers assess the current postal structure. We would particularly appreciate hearing your views on how improvements could be made to the current structure and in what ways quality and service could be enhanced.

During the current year, the Postal Service reports increased efficiencies in service. This past week in Nashville, before the National Postal Forum, the Postmaster General touted solid financial

performance and top notch service as evidence the system has emerged from service debacles of last year. The subcommittee would appreciate your views as to whether you concur with this picture as painted by Mr. Runyon, or whether you believe additional steps are needed to meet the demands of the commercial mailers.

Mr. Runyon also told participants at that same forum that changes are needed in the Postal Reorganization Act. One area he specifically mentioned was the need to restructure the pricing mechanism, thereby enabling the Postal Service to "plug into market-based prices." The subcommittee is also interested, therefore, in hearing your views concerning the nature and scope of such changes and the impact the proposal might have on the mailing industry.

Last, the subcommittee would welcome your views concerning both the recent reclassification filing and the rulemaking initiated in April. The Postal Service proposes to reform the current mail classification structure by providing discounts for automation-compatible and prebarcoded mail. This reclassification has drawn the attention of the entire mailing community, and this subcommittee will be monitoring its progress, obviously.

The proposed rulemaking seeks to improve ratemaking and classification procedures, including procedures for market tests and negotiated service agreements. The subcommittee notes that this rulemaking follows closely specific recommendations for reform made by the Joint Task Force on Postal Ratemaking and was a subject of this subcommittee's attention during its oversight hearings earlier this year.

The subcommittee recognizes the vital stake today's witnesses have in the operations of the Postal Service and the important role commercial mailers play in sustaining postal finances. Frankly, it is continued growth in these classes of mail which supports a healthy bottom line for the Postal Service. Accordingly, we welcome you here today and look forward to hearing your views on how the Service can best improve to further meet the needs of its customer and how Congress can facilitate these improvements.

With that, I'd like to yield to the gentlelady from Florida, Mrs. Meek, for any comment she might make at this time.

Mrs. MEEK. I don't have any, Mr. Chairman.

[The prepared statement of Hon. Barbara-Rose Collins follows:]

PREPARED STATEMENT OF HON. BARBARA-ROSE COLLINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

I join the Chairman in welcoming all of you to the fourth in a series of subcommittee oversight hearings. Much has changed since our last meeting.

Deregulation, privatization and commercialization are now the new buzz words. However, the core concern remains the quality and consistency of mail service. Consequently, I am very interested in knowing if the major mailers are satisfied with the quality of service provided by the U.S. Postal Service and if not, what is needed to improve the service.

I also want to know if the major mailers feel that the Postal Service is committed to working with you to address with, your special needs and concerns. I want to know your views on how well the Postal Service is faring relative to technology advancement and what impact that advancement will have on current and future postal operations—and your operations.

And for the nonprofit community, I wish to learn what impact the cries for privatization and deregulation will have on revenue foregone. Will it continue to receive

special treatment and continued government support in this new Congress, under such austere budget clouds? Or not?

I look forward to hearing your testimony and exploring these issues. Thank you.

Mr. MCHUGH. Thank you.

The first of the three panels that we have before us today is comprised of Mr. Arthur Sackler, representing, as managing director, the Mailers Council; Ian Volner, who is general counsel, who is also accompanied by Gene Del Polito, representing the Advertising Mail Marketing Association; Mr. Richard Barton, senior vice president, congressional relations, for the Direct Marketing Association; Mr. David Todd, counsel of Patton, Boggs & Blow, representing the Mail Order Association of America; and Mr. Timothy May, also general counsel, Patton, Boggs & Blow, representing the Parcel Shippers Association.

Gentlemen, as I've said earlier, welcome. We appreciate your being here. Just two procedural matters. We have received all of your testimony. I have read all of your testimony, and I found it excellent, I should say. But we are under somewhat of a time constraint here today, and as we proceed, I would ask you to please try to limit your comments and summarize your statements to somewhere in the neighborhood of 5 minutes.

Also, as required under the rules of the committee, every person who testifies before the committee is required to take an oath. If you would rise with me, please, and raise your right hands, I'll administer the oath at this time.

[Witnesses sworn.]

Mr. MCHUGH. Thank you.

The order as it appears in my notebook—and I have no other reason for doing it in that fashion than that's the way it appears; and as a politician, I try not to go out of natural order—is Mr. Arthur Sackler. So——

STATEMENTS OF ARTHUR B. SACKLER, MANAGING DIRECTOR, THE MAILERS COUNCIL; IAN D. VOLNER, ESQ., GENERAL COUNSEL, ADVERTISING MAIL MARKETING ASSOCIATION, ACCOMPANIED BY GENE DEL POLITO, EXECUTIVE DIRECTOR; RICHARD BARTON, SENIOR VICE PRESIDENT, CONGRESSIONAL RELATIONS, DIRECT MARKETING ASSOCIATION; DAVID C. TODD, ESQ., PATTON, BOGGS & BLOW, AND COUNSEL, MAIL ORDER ASSOCIATION OF AMERICA; AND TIMOTHY MAY, PATTON, BOGGS & BLOW, AND GENERAL COUNSEL, PARCEL SHIPPERS ASSOCIATION

Mr. SACKLER. Thank you, Mr. Chairman, and good morning. The Mailers Council is very pleased to have the opportunity to appear before the subcommittee today. We appreciate your taking our statement into the record and I will summarize, hopefully within the 5-minute time.

We applaud your educational approach to these hearings. In this connection, we also applaud what we understand is your decision to conduct hearings this fall on postal reform. After 25 years and an enormously changed, competitive, substantive and political landscape, the time has come to seriously review whether change is necessary, how fundamental it should be, and whether what is

politically achievable fills the needs and the expectations for that change.

Permit me to give you a bit of history about the Mailers Council first. Since its inception, the Council has been viewed as the place where the mailing community comes together to discuss issues of mutual interest. Those are usually defined as issues most particularly predicated on cost that confront the entire postal system. Based on that coming-together of views from across the mailing spectrum, the Council has become not only a forum for exchange of ideas, but an advocacy center concerning issues of generalized impact on the postal system.

Recently, for example, the Council was instrumental in advocating the 10.3 percent across-the-board rate increase and in precipitating the campaign against still another enormous financial hit on the postal system and its customers under the guise of deficit reduction earlier this year. And we appreciate your reaction to that particular issue, Mr. Chairman.

Now let's turn to how we see USPS standing and what we believe we all should be looking to for the future. We believe the Postal Service is performing relatively well at this time. The Service is both in the black to the tune of more than $1 billion, and its service is running at record levels; although the head count is up, overtime is down, and the increase in costs is below projections and trending down. A $2 billion surplus at year-end is quite feasible. This result appears to show USPS following a fairly traditional pattern in restructuring: an initial bounce, followed by significant difficulties, subsequent adjustment and steady improvement. It has significant parallels to the experiences of restructuring in the American private sector.

But that's not all of the story. The head count is up beyond the number that existed prior to restructuring. Not all areas of the mailstream are experiencing improved service. The financial improvement perhaps can be largely attributed to an improved economy and last January's rate increase. Also, the postal system is not completely out of the woods on the $11.6 billion prefunding of the retiree health care issue until budget reconciliation is completed.

In addition, the postal system suffers from a variety of structural problems. We share the PMG's concerns about the constraints imposed in the postal ratesetting process, in the implementation of labor-management relations policies, in the exposure to financial jeopardy from Capitol Hill, and more.

On the other hand, the Council is troubled by recent statements of the PMG to the effect that he intends that USPS not run a deficit again. This implies rate increases, perhaps annually. So long as the Postal Service must break even, this intention is problematic. Given a choice not to run a deficit, mailers could face both potentially frequent rate increases and the likelihood that they would skew toward surplus, costing all mailers significantly more money. However, should the intention be to maintain an intense focus on cost containment in order to prevent deficits, the Council would be prepared to work as cooperatively as possible with USPS.

Moreover, should the system be placed in a more fully competitive environment, then the restraints of the market, we believe,

should come into play and we would be much more comfortable with the PMG's vow.

Looming over all, though, is competition. Despite the bullish volume and financial results of the moment, competition continues to grow. Looking ahead, the path is uncertain. In a digitized, interactive world populated by a generation unintimidated by the technology, the competition for the Postal Service's bread-and-butter segments in first and third class mail will be more intense than ever. And this will compound the competition from what by that time will certainly be considered "conventional" technology, such as e-mail and faxes. The telephone, home shopping channels, cable TV more generally, and alternative hard copy delivery services already offer the Postal Service stiff competition.

So there are three different facets of reform that the Council would like to address today. First, as I mentioned, the Council does share the PMG's concerns about limitations on USPS's ability to function like a business and respond effectively to changing market environments, and the competition. We believe the elements he has singled out for change are worth serious study. Whoever proposes the legislative changes—this subcommittee, your colleagues in the other body, or the Postal Service itself—we will be eagerly awaiting its arrival and will provide reaction for your benefit and that of the Postal Service.

Conceptually, we agree with the PMG that the collective bargaining process does not appear to be working as well as it should at this time, but we would like to know what would be proposed to replace it. For instance—and this is a question that's been raised with you before—would the postal system, the U.S. Government, postal customers and the public be prepared to grant postal unions the right to strike or to undertake other job actions in return for elimination of binding arbitration? Just for the record, the Council itself has no opinion on that yet.

On price setting, again, we would agree that it's too constraining, too lengthy, too costly, too inflexible. However, we once again would want to know what the alternative might be. Obviously, we share the Postal Service's concern about the impact of financial liability passed along from the Hill. We hope that this subcommittee can help us educate your colleagues around the Hill about the impact of defraying the deficit, unrelated to any real costs imposed upon taxpayers by the postal system. That does amount, in fact, to a stamp tax.

Finally, in general we would endorse modernizing and expanding the list of available postal products and services, but USPS should move especially carefully, deliberately and consultatively on any venture into electronic distribution or noncommunications functions. Our members wish to ensure that USPS not lose any of its focus on its core businesses.

The second area that we wish to address briefly is fundamental reform of the system. We're not yet ready to make any educated judgments there. That's why, starting tomorrow, the Council is sponsoring a conference on postal reform up to and including privatization. The intent of this conference is to begin to lay some informational groundwork for the debate to come. We hope the con-

ference will be illuminating and ultimately helpful to you, Mr. Chairman, and your colleagues, as you chart this course.

We also have a short list of modest reforms that we believe may be worth considering. Very briefly, one would be to contract out postal money orders in the "back office" function.

A second would be to fund postal law enforcement functions publicly: those that are not related to strictly postal issues such as protecting the security of the mail.

Third, we would urge that real assets be exploited in an appropriate way.

And fourth, we would propose that arbitrary pay caps for top managers be abolished to facilitate the Postal Service's hunt for the best talent available.

This concludes the Council's testimony, Mr. Chairman. I certainly would be pleased to respond to any questions you and your colleagues might have.

Mr. MCHUGH. Thank you very much, Mr. Sackler.

[The prepared statement of Mr. Sackler follows:]

PREPARED STATEMENT OF ARTHUR B. SACKLER, MANAGING DIRECTOR, THE MAILERS COUNCIL

Good morning, Mr. Chairman, the Mailers Council is very pleased to have this opportunity to appear before you at this next in a series of oversight hearings. We applaud your approach to these hearings: that they are a means for educating the Members of the Subcommittee about the postal system and its strengths and weaknesses, who works in it, who uses it and what does—or should—its future look like. In this connection, we also applaud what we understand is your decision to conduct hearings this fall concerning reform of the postal system, up to and including privatization. After 25 years and an enormously changed competitive, substantive and political landscape, the time has come to seriously review whether change is necessary, how fundamental it should be and whether what is politically achievable fills the needs and the expectations for that change.

The Mailers Council is a coalition of 59 organizations deeply concerned about postal affairs. Its member companies and trade associations, with a range of interests that includes every postal class and subclass, estimate they collectively account for as much as 75% of the mailstream. The organizations together employ more than 2 million people and represent more than 25,000 companies, large and small, and nonprofit organizations. Council members have an enormous stake in the system for delivery of products, publications, business correspondence, payments and receipts, promotions and more. The Council strongly supports a robust, healthy, and efficient postal system.

Permit me to give you a bit of history about the Mailers Council. The Council was founded in 1988, largely out of widespread dismay in the mailing community about the rate increases that took effect in April of that year. They were more than 50% beyond the rate of inflation. Since its inception, the Council has been viewed as the place where the mailing community comes together to discuss issues of mutual interest. Those are usually defined as issues, most particularly predicated on cost, that confront the entire postal system. You won't find us involved in issues that affect one class or another of mail For example, we are not participants in any way in the current reclassification proceeding before the Postal Rate Commission because of its many asymmetrical effects on various classes and subclasses. We have members on both sides of many questions in that proceeding.

Based on that coming together of views from across the mailing spectrum, the Council has become not only a forum for exchange of ideas but a full-fledged advocacy center concerning issues of generalized impact in the postal system. For example, in the fall of 1988, we began with a retreat attended by top business executives and top officials of the postal system to discuss efforts at cost containment and models for doing so that might be imported from the private sector.

Since then, we have regularly appeared on Capitol Hill, both at hearings and at meetings with Members and staff, intervened in proceedings before the Postal Rate Commission of an appropriate nature, staged a highly successful conference in 1992 concerning the future of the postal system and featuring Harvard professors Arthur Miller and William Porter and regularly engaged with senior postal managers, pri-

marily on issues of cost containment. More recently, the Council was instrumental in advocating the proposal and acceptance—to the degree it was—of the 10.3% across-the-board rate increase, and in precipitating the very strong and effective campaign against still another enormous financial hit on the postal system and its customers under the guise of deficit reduction earlier this year. I have attached a current list of the Council's members.

Having given you some background on the Council, let us now turn to the postal system, how we think it stands now and what should we be looking to for the future.

USPS IS PERFORMING RELATIVELY WELL

We believe the Postal Service is performing relatively well at this time. Taken on face value, the Service is both in the black to the tune of more than $1 billion this year and its service, by external measurement, is running at record levels. Although head-count overall is up, overtime is down and costs are increasing this year at approximately 3.7% and, most encouragingly, are trending down in recent months. Moreover, this increase barely exceeds inflation and is less than half the increase in revenues (8.4%)

The Postal Service appears to be following a fairly traditional pattern in restructuring. That is, an initial "bounce" from the changes made (i.e., the downsizing and other actions undertaken in 1992 and early 1993), followed by a period of significant difficulty, of subsequent adjustment, and then steady improvement. It has significant parallels to the experiences of restructuring in the American private sector, such as at GM or IBM. Thus, overall, we believe USPS is in good shape.

But that's not all of the story. The head count is up, beyond the number that existed prior to the restructuring. Not all areas of the mailstream are experiencing improved service. The Postal Service financial improvement perhaps can be largely attributed to an improved economy and last January's rate increase. Also, while in considerably safer shape, the postal system is not completely out of the woods on the $11.6 billion prefunding of retiree health care issue until budget reconciliation is completed. The Council and its many direct and indirect (through trade association) members will remain vigilant, along with our friends on Capitol Hill and at L'Enfant Plaza, for any renewed interest in this issue during reconciliation. If it should resurface, we intend to respond most vigorously, as we did earlier this year.

In addition, the postal system suffers from a variety of structural problems that the Postmaster General has identified in previous testimony to this Subcommittee. We share his concerns about the constraints imposed in the postal ratesetting process, in the implementation of labor-management policies, in the exposure to financial jeopardy from Capitol Hill, and more.

On the other hand, the Council is troubled by recent statements of the PMG to the effect that he intends that USPS not run a deficit again. This implies rate increases, perhaps as frequently as annually. So long as the Postal Service remains subject to a break even requirement (39 USC Sec. 3621), this intention is problematic on that basis alone since it would be extraordinarily difficult to break even precisely year in and year out. Given a choice not to run a deficit, this easily could mean that a surplus would be generated more often than not. Mailers would be concerned, then, about both the prospect of potentially frequent rate increases and, more importantly, the likelihood that they would skew to surplus, inconsistent with breaking even and quite probably costing all mailers significantly more money than would be the case otherwise. However, should the intention be to maintain an intense focus on cost containment in order to prevent deficits, the Council would be both supportive and prepared to work as cooperatively with USPS as possible.

Moreover, should the Postal Service be placed in a more fully competitive environment, with more freedom on ratesetting, then the restraints of the market should come into play and we would be much more comfortable with the PMG's vow.

And, looming over all in impelling the need to at least consider reform is: competition. Despite the bullish volume and financial results of the moment, the competition continues to grow. And, looking ahead, the path is uncertain for USPS. In a digitized, interactive world populated by a generation unintimidated by the technology, and given continued technological evolution, the Postal Service will be facing an environment where the competition for its bread and butter segments in first and third class will be much more intense than ever before. And this will compound the competition from what by that time will certainly be considered "conventional" technology—it almost is now—such as e-mail and faxes. Certainly the telephone (with telemarketing now approximately a $400 billion business), home shopping channels, cable television more generally, and alternative hard copy delivery services already offer stiff competition to some postal services.

PRELIMINARY COUNCIL VIEWS ON THE FUTURE OF USPS AND REFORM

There are three different facets of reform that the Council would like to address in this statement today. First are the structural reforms proposed by the Postmaster General. Second is the more fundamental type of reform, whether termed commercialization, corporatization, degovernmentalization or, even, privatization. Third is a short list of what the Council believes are modest elements of reform that we will suggest to you.

As I mentioned above, the Council does share the Postmaster General's concerns about the number and variety of limitations on his ability to function like a business and respond effectively to changing market environments and the competition. We believe the elements he has singled out for change are worth very serious and intensive study However, we are constrained to acknowledge that the Postmaster General's largely conceptual statement was not a program, yet. Whether the Postal Service itself proposes a specific set of legislative changes, or whether that proposal comes from this Subcommittee or your colleagues in the Other Body based on the Postal Service's recommendations, we will be eagerly awaiting its arrival. At that time we would expect to examine it closely and provide reaction for your benefit and that of the Postal Service.

Conceptually, we agree with the PMG that the collective bargaining process does not appear to be working well at this time. But what we would like to know is what would be proposed to replace it? Would it be last-best offer, as in baseball—it doesn't seem to be working very well there? Would the postal system, the U.S. Government, postal customers and the public be prepared to grant postal unions the right to strike or other job actions in return for elimination of binding arbitration? Just for the record, the right to strike is an issue with which we have not grappled, and on which the Council has no opinion at this time.

On price setting, again we would agree that it is too constraining, too lengthy and too costly. And it may be too inflexible, as the PMG says, as well. However, we once again want to know what the alternative proposal might be. The Council itself has members with a variety of different opinions on how to adjust or streamline, if at all, the ratesetting process. For now, we would have to leave those opinions to our various members, a number of whom are testifying before you today.

Obviously, we share the Postal Service's concern in the price setting area with the impact of financial liability passed along from Capitol Hill. We hope that this Subcommittee can help us in educating your colleagues around the Hill about the Postal Service's long time non-reliance on the Federal Treasury, and the impact of responsibility for paying into the Treasury simply to help defray the deficit and unrelated to any real cost imposed upon taxpayers by the postal system. That does amount, in fact, to a "stamp tax."

Finally, in general, we would endorse modernizing and expanding the list of available postal products and services. We have no specifics to offer here; rather, that expansion should be worked out between the Postal Service and all manner of its customers. We would caution, however, that USPS move especially carefully, deliberately and consultatively on any effort to transcend basic (i.e., hard copy) postal functions and venture into electronic distribution or non-communications functions. Our members wish to ensure that USPS not lose any of its focus on its core businesses. Let me also reiterate that we neither support nor oppose the current reclassification case pending before the Postal Rate Commission. The Council, as noted, is not a party.

The second area that we wish to address briefly is fundamental reform of the system. As indicated above, we are quite supportive of your intent to hold hearings beginning in the Fall on the question of reform. Our knowledge base, and consequently our opinions, are not yet sufficiently formed to make any educated judgments here. That is why starting tomorrow, the Mailers Council is sponsoring a conference on postal reform, up to and including privatization, entitled "Delivering the Mail: Should America Have a Choice?" The intent of this seminal conference is to begin to lay some informational groundwork for the debate to come. We have a variety, as you know, of first rate participants from the public and private sectors, from the legislative and executive branches, from foreign and domestic postal administrations, who will bring together experiences and expertises that we hope will be illuminating and, ultimately, helpful to you, Mr. Chairman, and your colleagues as you chart this course. I am attaching a copy of the conference's program, for the record.

The third area we will touch upon is a short list of modest reforms that we believe may be worth considering from both financial and operational standpoints. They are not meant to be more than that, and certainly nc substitute for reflection on structural or fundamental reforms. Following is our list.

Contract out postal money orders.

Our proposal is that the "back office" operation of money orders be contracted out to any of a number of private vendors. Only a relative handful of postal jobs would appear to be at stake; this would affect processing, not window functions. This change should result in a substantial upgrading in the electronic component of processing these orders, enhancing efficiency.

Fund postal law enforcement functions publicly.

We realize this one is difficult in a tough budgetary period. However, there are pure law enforcement activities of the Postal Inspection Service, such as investigations of a variety of crimes where the mails are used incidentally, and that are not directly related either to the security of the mail or the protection of postal property. For example, we understand that the Inspection Service might be called in on kidnappings if, say ransom demands are sent through the mail. These are much more akin to conventional law enforcement activities. They should be funded like other federal law enforcement activities—e.g., the FBI, the BATF, etc.—through the Treasury, and not from postal ratepayers.

Exploit real assets.

We suggest that the Postal Service conduct an inventory of its non- or underutilized facilities for the purpose of generating, ultimately, additional revenues. Those facilities could be examined for their possibility for sale, for being converted to higher and better uses that are profitable, or for the profitable swapping of properties between, say, an urban and a suburban setting.

Abolish arbitrary pay caps.

To the extent that the Postal Service is hindered in its search for outstanding senior managers, the current arbitrary pay caps should be lifted. While we certainly mean this suggestion not to be critical of any current or former managers of the system, many of whom have been both exceptional and dedicated, it is also clear that the Postal Service cannot compete for many top managers in the private sector. The compensation simply is far too low.

This concludes the Council's testimony, Mr. Chairman. I would be pleased to respond to any questions you and your colleagues might have.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO ARTHUR B. SACKLER

The Council believes that it would be unfortunate if the transitional payments to the Postal Service for worker's compensation liabilities incurred by the Old Post Office Department prior to reorganization were eliminated. This funding is not a subsidy. Rather, it is a legitimate and important expense of the federal government that should be borne out of the Treasury, because it covers liabilities of workers employed in the conventional way by the federal government prior to reform of the system and the treatment of its employees, including the allocation of liabilities.

We recognize that the amount of money involved is small, but the principle is large. This would be the clearest imposition yet of an expense on the postal system and its rate payers entirely unrelated to the current postal system and sheerly for the benefit of reducing the deficit. Once the barrier of unconnectedness is shattered, as it would be by requiring such a payment, the way would lay open to assign "plugged numbers" to USPS for deficit reduction. This is a result that would be wrong on policy, on equity, and on finance.

As we stated in our testimony, the Council believes that the postal arbitration system has become dysfunctional. It must be repaired, if not replaced. And that would be worth some real inquiry and study by the Subcommittee. Experts on labor management relations in both the public and private sectors should be consulted, if not asked to testify. A variety of options to consider are out there: "baseball" arbitration, a system akin to that under the Railway Labor Act and so forth. Much may revolve on the willingness of all interested parties—USPS, the unions, mailers, and the public—to grant a right to strike to postal employees.

Having said that, Congress and the executive branch can contribute to improving labor-management relations at USPS through "jawboning," of course, encouraging more open, collaborative, trusting interactions and relationship generally. More effective, perhaps, would be the kind of review I adverted to above. Once an expert body of information is assembled, appropriate legislative reform can be developed. Finally, and most effectively, were the Postal Service more subject to competition, it might focus the parties' attention even more on working together and responding

to the challenge. To the extent that that fosters a "we're all in this together" attitude, any adversarial friction should be reduced.

The Council's members, certainly, can be affected by the state of labor management relations. However, our members, by and large, feel well treated and respected by both postal management and its workforce. Volume is at record levels overall, and many of our members are running at record levels, also. Thus, the current state of labor management relations is not dampening enthusiasm for use of the system. Nonetheless, it is inescapable that some 80% of USPS expenses are attributable to its labor force. The easy fall back to an arbitrator is a disincentive to hard bargaining and creative wage and other solutions that would benefit the bargaining parties and USPS' customers. So, if arbitration results in an unsatisfactory settlement, there can be obvious and adverse consequences for rates and the efficiency of the system. Just when the system appears to be turning the corner, this would be a disappointing outcome with potentially strong consequences. For example, mailers might well lose their recently recovered level of comfort about the system and renew their drive to find alternatives.

The Conference sponsored by the Mailers Council with the entire roster of senior postal executives in 1988 was a breakthrough effort that we think made some real progress in identifying concepts for cost containment. The conference involved equal numbers of postal and private sector executives. The group was addressed by senior executives from Chrysler, IBM, Amtrak and what was then Time Inc. Each gave the perspective of his organization, and break out sessions followed. There was no formal set of "recommendations." The discussion overall stayed at the thematic level, since none of the participants from the private sector believed it appropriate to offer, in effect, "micromanaging" solutions. The themes included: restructuring, decentralization, reduced layers of management, reforming corporate "culture" and management receptivity to change, better customer response and interchange on new services as well as pricing, and in general finding ways to rethink and retool accepted structures and modes of conducting business. The retreat appeared to stimulate a great deal of thought and effort on the matter from then-Postmaster General Tony Frank and his senior advisors, and through them to the Governors. Specific approaches such as accelerated automation and a five-year strategic plan eventuated, at least in part, from these discussions. Perhaps more importantly, the Governors carried over these notions into the process of hiring Mr. Frank's successor and in encouraging Marvin Runyon to undertake a wide-ranging cost containment program. And the results from that, so far, are quite clear and quite good.

Mr. MCHUGH. What we intend to do is move from right to left—physically not politically necessarily. So we would like to take all of the testimony and then return to general questions after those have been rendered.

Mr. Volner is next on the list, and the floor is yours, sir.

Mr. VOLNER. Thank you, Mr. Chairman, and thank you for accepting our record into the—our statement into the record. I'm going to try to briefly summarize our theme, and I will confess to you right off the bat that our theme is a little more pressing than themes that you will hear from others in the postal community today.

We think that there's a crisis looming before the Postal Service. It is an insidious crisis, but is a crisis nonetheless. Mr. Sackler has alluded to it. It's competition.

Twenty-five years ago when the Postal Reorganization Act was created and preserved a monopoly to the Postal Service, there was no competition. Twenty-five years ago, home shopping television did not exist. Telemarketing was in its infancy; on-line services were unheard of. There is a crisis facing the Postal Service.

We also see what the Postal Service can become, a market-driven, flexible, cost-effective provider of timely delivery service. It is none of those things today; and we ask, why not? We ask that this subcommittee ask, why not? Because we find that a large part of the answer lies in the Postal Reorganization Act.

I am old enough to remember its passage, Mr. Chairman. It was a good act for its time. But its time has come, and I am afraid it is going.

What we seek today is to begin a process of orderly and careful change to what the postal delivery system can become through a removal of statutory and regulatory obstacles. Our view is not a "Chicken Little, the sky is falling" view. When we speak of a crisis, we believe we know that there will be a Postal Service in the future. We believe we know that the Postal Service can do well in an electronic age. The crisis exists because the Postal Service is literally incapable of responding to the competitive challenges it meets because it has a statement of mission that bears no relevance 25 years after it was written, and it has a statute that arbitrarily and falsely protects it from competition, while at the same time stifling, punishing innovation, creativity and responsiveness.

We recognize—and I want to stress this—the Postal Service cannot be transformed overnight. There is a need for transition. There's a need for mechanisms to make transition orderly and rational. Your colleagues on the House Telecommunications Subcommittee will tell you how difficult the task is of orderly transition. But it is possible, and we need to do it.

It is certainly possible, even at this early stage, to identify the critical obstacles to the Postal Service as a market-driven, competitive, effective delivery mechanism. The first problem is in terms of rates and services, the Postal Service neither competes nor is it competitive. What does that mean? The ratemaking mechanism needs to be changed, as the PMG has suggested. It also means that the Postal Service must be able to tailor service to meet the needs of its customers. That means negotiated service contracts or what we call, in telecommunications, "customized tariffs."

There's nothing terribly revolutionary about that; it's been in existence for 10 years. It means they must be able to do market tests. It also means—and this is probably the hottest of the hot buttons that I'm going to hit this morning—that the Postal Service must actually be opened to competition. The private express statute doesn't work because the core of the competition, as Mr. Sackler has pointed out and I have stressed, is coming from the electronic media, and it doesn't apply to the electronic media. What it succeeds in doing, and the only thing it succeeds in doing, is stifling innovation, creativity, responsiveness.

The private express statute has to be reexamined, and that's something the Postal Service studiously—studiously refuses to do.

When we talk about the infrastructure or the governance of the Postal Service, we do so with a great deal of diffidence. In an ordinary marketplace, it is not my responsibility as a representative of purchasers of service to tell an organization how to organize itself. Its successes in organizing itself are paid—are rewarded in the marketplace, and its failures are paid for in the marketplace. Unfortunately, we do not—the AMMA membership does not have a choice, and so the organizational structure of the Postal Service becomes of concern to us because the ultimate truth is that we pay for it.

The Governors have done an excellent job of reconciling what is becoming an increasingly impossible task, a statute that was writ-

ten for another time. The change in direction the Postal Service needs to take, it seems to us, requires consideration of the change in the legal structure under which it operates.

I don't like words like "privatization" or "commercialization." They're empty, they need to be given content. But we are talking about increasing or urging you to talk and think about increasing the extent to which this institution is accountable to those who pay for its services, which means—you will forgive me—less governmental oversight.

There's also a need for incentives at all levels of the Postal Service, because the absence of incentives to excel is paid for by the public, by mailers. We pay for it in service failures, we pay for it in the failures of automation to produce the savings it's supposed to produce. We pay for it in all ways.

The entire personnel legal structure needs to be examined with one view in mind: Does this particular statute, rule or policy enable employees to succeed because they are given the incentive and the rewards of success? And I realize that our proposals, our requests, our plea for legislative and regulatory reform will be too modest for some and too radical for others. There are those who will say that we've exaggerated the crisis. We ask only that the subcommittee and the Postal Service look at the facts that we have looked at.

There are those who will say that our cures are worse than the disease. We ask only that the Postal Service and the subcommittee look at what has happened and is happening in telecommunications, look at what is happening to postal administrations throughout the world and ask, why are we doing nothing?

We understand that there are no cut-and-dried answers to the issues we've raised. But first and foremost to AMMA, reform means that the time has come for a search, a public debate, to find those answers.

We look forward to joining you, Mr. Chairman, and the subcommittee and our colleagues in the postal community and, most especially, the Postal Service in a search for those answers.

Thank you.

Mr. MCHUGH. Thank you.

[The prepared statement of Mr. Volner follows:]

PREPARED STATEMENT OF IAN D. VOLNER, ESQ., GENERAL COUNSEL, ADVERTISING MAIL MARKETING ASSOCIATION

INTRODUCTION

The Advertising Mail Marketing Association (AMMA) appreciates this opportunity to share with the Subcommittee our views on the Nation's postal system. We continue to maintain that the U.S. Postal Service faces a problematic future. Although efforts are being made to address the many challenges facing the Postal Service, more is needed. A crisis is impending. Moreover, we cannot deal with these problems alone. Many of the critical threats to the postal system have their genesis in the Postal Reorganization Act of 1970. The American public needs the help of this Subcommittee, so that today's problems are overcome and the challenges of tomorrow are met.

The purpose of this testimony is to urge, as strongly as we can, that the Congress promptly begin and quickly conclude a complete and thorough overhaul of the now 25 year old statute that governs the Postal Service. Our call for legislative and regulatory reform proceeds from a simple premise. This nation needs and will continue to need a universal mail delivery system. To satisfy that need, the postal system must become a market-driven, flexible, cost-effective provider of timely mail delivery services.

We have used the words "must become" deliberately. The Postal Service of today is not market-driven; it is not flexible; it is not cost-effective; and it is, all too often, not timely. We believe the Postal Service can become all of the things that the public deserves. However, that will require changes in the legislative and regulatory structure under which the Postal Service operates and transitional devices to enable the Postal Service to get smoothly and orderly to what it can become.

Our assessment will be too modest for some and not modest enough for others. It is not our purpose to offer cut and dried solutions to a complex set of issues. It is our purpose to bring the debate about the Postal Service and its future into the open so that rational solutions to today's problems and the Postal Service's uncertain future can be identified and shaped. The precise solutions will emerge in the public debate the Subcommittee has initiated through this and related hearings.

EXECUTIVE SUMMARY

The public and the Postal Service face an impending crisis. Across all of its modern core businesses—business-to-consumer and consumer-to-business mail—the Postal Service faces competition from direct competitors and alternative, electronic, information delivery systems. Deregulation and technological advance in the telecommunications field have promoted services which are market-driven, cost-effective and flexible. The Postal Service cannot vie for business against these alternatives under a statute which, on the one hand, artificially protects it from competition and, on the other, stifles innovation, creativity, and responsiveness. The Postal Services faces loss of market shares and a downward spiral of relentlessly increasing rates and loss of business.

The Postal can meet the challenges it faces if it is enabled and impelled to do so. Other countries have unshackled their Postal systems to meet the challenges of competition. We must similarly remove the legal and regulatory obstacles and create a postal system which is truly responsive to the public.

AMMA wants legislative and regulatory reform. This means that:

• The Postal Service must be enabled to set rates that reflect the competitive market in which it operates. Pricing standards which ignore or underestimate demand considerations are a recipe for disaster in a competitive market. Yet, that is how the 1970 Act is applied. The rate standard must be replaced. Consideration should be given to adoption of price cap rates, which insist upon cost control but would allow the Postal Service to reflect differences in demand in its rates.

• The Postal Service must be allowed to customize its service offerings, to test new products and fine tune rates for changed products. No rational business can operate under constraints which permit the introduction of new services only if they are instantly profitable. This makes it very difficult to test new market opportunities, and virtually forces a feast-then-famine cycle of rate increases, surpluses, operating losses and yet more rate increases. While the Postal Service has not used the flexibility that the law now allows, it needs greater flexibility and must use it if it is to thrive, not merely survive.

• The Postal Service actually must compete. If the postal system is to become truly market driven, a close and careful examination of its monopoly is essential. Relaxation of the monopoly involves complex and interrelated issues, but they can be overcome. There are models and experience to help us do so. The real cost of the monopoly no longer can be ignored. It is not enough that the Postal Service act "as if" it had competition, it must be opened to competition.

• The legal structure of the Postal Service needs to be changed. The Governors have done exceptionally well in setting policy for the Postal Service within the 1970 framework set by Congress. But the challenges faced by the Postal Service today warrant examination of change in its legal structure. It needs to be made less accountable to Congress and more accountable to those who pay for its services.

• There is need for incentives for success at all levels within the Postal Service. The legal structure of the Postal Service's personnel policies is characterized, from top to bottom, by a lack of incentives consistent with an enterprise that must conduct its affairs in a competitive marketplace. It is impossible for the Postal Service to reward exceptional performance, and it has been unwilling or unable to sanction grossly inadequate performance. The absence of incentives is paid for by the public through service problems, automation difficulties, and modernization delays. The entire structure of labor relations must be examined with one question in mind: Is the statute, rule or policy conducive to an enterprise in which employees succeed because they are rewarded for success.

AMMA is aware that the postal system cannot be transformed overnight. Transitional matters must be addressed. We are convinced, however, that, in an orderly and rational fashion, the Postal Service can become what it must become—market-

driven, cost-effective, flexible and timely. We urge the Subcommittee to start that process today.

DEFINING THE CRISIS: THE CHANGING ROLE OF MAIL IN AMERICA

1. The 1970 Vision of The Postal Service Is Obsolete

The 1970 Act defines the mission of the Postal Service in the following words:

"The Postal Service shall have as its basic function the obligation to provide postal service to bind the Nation together through the personal, educational, literary, and business correspondence of the people."

This formulation of the Postal Service's mission as one that "binds the Nation together" goes back to the founding of the Republic. Whatever force it may have had in 1970, it needs to be reformulated to reflect the competitive environment in which the Postal Service lives. Across all of its modern core businesses, the Postal Service faces competition. It must meet that competition. It cannot possibly do so under a statute which, on the one side, artificially—and ineffectively—"protects" it from competition while, on the other, quite literally chokes off—indeed punishes—innovation, creativity and responsiveness. Many of the major industrial countries of the world—Canada, Germany, Australia, France—have unshackled their postal systems in recognition of the challenges of competition. We, who claim the largest and best system in the world, lumber along under a statute with a vision that does not work today and surely will not work tomorrow.

What the Postal Service actually delivers today bears little resemblance to the 1970 mission statement. Let us look at what has happened to "business correspondence." The Postal Service has estimated that, over the past 5 years, it has lost approximately 35% of the business-to-business transaction market. The telephone, facsimile, EFT, EDI and even electronic mail are increasingly providing functions formerly provided by mail alone. With the increased deployment of integrated services digital networks it is very likely that this trend will continue and accelerate. Indeed, the Postal Service estimates that it will lose an additional 35% of the business-to-business financial and transaction market over the next five years. Business-to-business mail is no longer the engine that drives the postal system.

Let us consider, then, "personal correspondence." The notion that the primary purpose of the Postal Service was to deliver personal correspondence—invitations, greeting cards, and personal notes—was, at best, uncertain 1970. It certainly is untenable today. According to Postal Service studies, only 6.3% of total mail volume in 1993 constituted personal correspondence. There is nothing astonishing in this. 98% of the American public receive telephone service. The introduction of competition in the 1970's and 1980's has made telephone service and equipment cheaper and far more easy to use—for personal as well as business purposes—than it was 25 years ago. Personal correspondence will remain a part of the Postal Service's role in the years ahead. Nonetheless, it can no longer be said that the function of the Postal Service is, first and foremost, to deliver personal letters and the like.

By contrast, let us examine the *bete noir* of those who are opposed to any reform of the 1970 Act—business-to-consumers and consumer-to-business mail. Business to household mail in the form of bills and invoices has also increased over the last decade. Households continue to pay their bills predominantly, although not exclusively, by mail. Further, the greatest proportion of mail received by households in this country consist of pieces containing advertising. In 1993, approximately 13% of First Class Mail either consisted exclusively of, or contained, an advertisement. In all, this form of mail accounts for more than one-half of total mail received.

In short, it is the American consumer who drives the postal system's modern business. The "core business" today is to deliver correspondence that invites and completes consumer transactions. It is the American consumer, and the companies serving them, that are threatened by the competitive crunch the Postal Service faces.

2. The Competition Crunch

There can be no guarantee that the Postal Service will be able to retain the strength that it possesses in its modern core business. Even with its monopoly, the Postal Service has lost revenues to direct competitors and other forms of information delivery. Unless steps are taken, that erosion of market share will continue. It will carry with it a spiral of increased rates and increased diversion. In the past decade, rates for advertising mail have increased by more than 80%. AMMA's members cannot endure future increases of this magnitude, and are unlikely to sit by passively as other—particularly electronic—means of delivering their messages become more readily available.

Twenty-five years ago, home shopping television did not exist because of federal regulatory constraints. Those policies were repealed in 1983–1984. Television home

shopping has since grown into a multibillion dollar a year business. We can learn from this. Deregulation does create new opportunities, and that can be as true for the postal system as it has been for television; conversely, the Postal Service can lose revenues to other information delivery services. It undoubtedly already has lost some to home shopping. It will lose more—and quickly—if its rates continue to escalate as they have over the past decade.

Parts of the Postal Service's core business are also threatened by telemarketing. By some estimates, as much as half of AT & T's total long distance revenues are attributable to 800 number telephone calls. Consumers find 800 service an easy, cost effective means of satisfying their needs and wants. It is perfectly plain that 800 number service is a close substitute for the Postal Service's business reply mail. In no small measure, the growth of telemarketing is due to the introduction of competition and the corresponding relaxation of regulation in the telephone field: in ways which are utterly impossible in the current postal environment, telephone marketers are able to negotiate with their telephone carriers to achieve economically efficient operations. We can learn from this, as well.

Online interactive services have been stimulated by the technological and regulatory changes that have occurred in the telecommunications field. These, too, are growing at remarkable rates. It is projected that 40 million households will have access to these services by 1998. That puts this delivery system in the same league as cable television. And consumer use of the direct marketing applications of interactive, online service will grow with it.

Further, the fact that consumers predominately use mails for payment of their bills today is not proof that they will do so tomorrow. Indeed, the evidence is to the contrary. Alternative, non-postal methods of payment abound. Automated teller machines ("ATM") have achieved true ubiquity. Bank-by-phone options are offered by all major financial institutions. The passage of the Electronic Funds Transfer Act and changes to the banking rules have also opened up methods of hard copy payment—automated check generation systems—to consumers that either cannot qualify for or do not wish to have credit or debit cards; these transactions typically bypass the Postal Service. The Postal Service faces serious competitive threats with respect to that part of its core business that involves consumer-to-business mail.

This, then, defines the impending crisis. It is an insidious one, but a crisis nonetheless. A delivery system which is, itself, not market-driven, not cost-effective, not flexible finds itself facing direct competitors and alternative information delivery services that are.

But, this is not an apocalyptic vision. We believe that the Postal Service can do well in the electronic age. Radio has not replaced the newspaper. Television has not supplanted radio. Cable television and its multichannel competitors have not obsoleted over-the-air television. Each one of these forms of information delivery, as well as plain old telephone service, have changed in the ways in which they define their missions and seek to serve their markets and they will further change and evolve as the result of the pending overhaul of the Communications Act.

The Postal Service must also change—redefine its mission, its pricing strategies and the way it operates. It cannot change because of an outmoded mission statement, leading to legal and regulatory barriers. Those obstacles must be removed in an orderly and rational fashion.

ENABLING THE POSTAL SERVICE TO FILL ITS MODERN MISSION: THE OBSTACLES AND THE OPTIONS

Matters of Rates and Services

There are three major obstacles to the realization of a market driven, flexible mail delivery service provider that derive directly from the rate making and service classification provisions of the Postal Reorganization Act.

1. The Postal Service must be permitted to set rates that reflect the competitive market in which it operates. There is a profound disjuncture between economically efficient rates and rates which Postal Rate Commission believes proper. The prevailing view of the Commission is that rates must be "fair and equitable" largely without regard to the ability of the Postal Service to compete in its modern core areas of business. Indeed, the Office of Consumer Advocate—appointed by the Commission under the statute to represent "the public"—has explicitly stated that it would be "sheer coincidence" if rates were "fair" and also reflective of mailer demand.

Pricing which ignores or underestimates marketplace realities in a competitive environment is a recipe for disaster. Mail for which the Postal Service could compete on price terms and which is, ironically, among the most "profitable" to the institution because of its contributions to overhead costs—is denied to the Postal Service on the apparent theory that to do otherwise would not be "fair and equitable" to

other users of the system. This pricing theory may also reflect wrong-headed "social policy" designed to redress or restore the "purity" of the Postal Service's mission as it stood in 1970.

The rate making standards must be changed. The notion that there is some free floating "fairness and equity" principle which has little, if any, reference to economic efficiency is uncomfortable enough. When that standard operates, as it does in the competitive environment confronting the Postal Service, to the detriment of those it is supposed to protect, the time has come for change.

One way of enabling the Postal Service to sensibly and fairly price its products is to replace cost-of-service rate making mandated by the statute with a form of rate regulation based upon "price caps" at least as an interim measure. Price cap regulation would end the debate over whether rates can be "fair and equitable" and also economically efficient. Price cap rates insist on cost control and at the same time are reflective of the differences in mailer demand for different postal services. This approach to rate regulation is widely, and largely successfully, used in the telecommunications field. It is being deployed by other postal administrations. It deserves serious consideration here.

2. The Postal Service must have the flexibility to create customized service offerings, to test new products and to fine tune rates. Another perverse quality of the Postal Reorganization Act is that it compels the feast-then-famine cycle of rate increases followed by periods of surplus, followed by operating losses and more omnibus rate cases that have characterized the past 25 years.

The statute denies the Postal Service the right to make a profit; and it is only to be expected that the "break even' requirement has never been, and cannot be, defined satisfactorily. This virtually compels accounting gimmicks in connection with regulated rates—including the contingency reserve and the recovery of prior year losses—which pad rates at the front and back end of the cycle.

Also, the introduction of new or altered services is exceedingly difficult under the "break-even" requirement, unless it can be shown that a new service will, from its inception, fully recover costs. No rational business can operate under this constraint. And, the Postal Service is either unable or unwilling (or both) to market test new or changed offerings.

In April of this year, the Postal Service filed a petition with the Postal Rate Commission seeking rules which would permit it to negotiate service contracts with mailers—the equivalent of the customized tariffs that have existed in the telephone industry for almost a decade. The Postal Service also seeks greater flexibility in the establishment of new and changed services, including the long claimed need to conduct market tests. The Postal Service is quite deservedly subject to criticism for taking so long to come forth with these proposals and for failing to take advantage of the little flexibility that is accorded it under existing rules. Nonetheless, the proposals finally advanced—although not without warts and problems—deserve consideration.

The Commission has initiated a proceeding to deal with the need for flexibility. But, the focus of those proceedings is a cause of concern. The Commission has asked whether there are "other recommendations" that should be considered, apparently in addition to, or in replacement of, the specific plans advanced by the Postal Service. It also has called upon the Postal Service to explain what, if any, legislative changes it will seek to "foster flexibility . . . if the Commission were to adopt the proposed rules." These kinds of questions would be perfectly appropriate—if they came from this Subcommittee or its counterpart in the Senate. We believe that the Commission's proper—indeed only legitimate—role is to focus its effort on the merits of the proposal that the Postal Service has put before it. It should leave legislative issues to those with the power to legislate.

In any case, the need for greater flexibility in the introduction of new services, market testing and in the creation of customized service agreements is readily apparent. If the statute needs to be changed to create greater flexibility in rate adjustments and the introduction of new services, then the appropriate changes must be made.

3. The Postal Service Must Compete. The Postal Service enjoys a statutory monopoly—the Private Express statutes—over virtually all consumer-business mail and a very substantial portion of business-to-consumer mail, including more than 50% of advertising, marketing and fund raising solicitation correspondence. If the Postal Service is to become truly market-driven, a close and careful reexamination of the Private Express statutes is essential. This is something which the Postal Service has studiously refused to do in the 25 years since Postal Reorganization.

Reexamination of the Postal Service monopoly entails a set of interrelated questions. Because the Service has had a statutory monopoly over letter mail virtually since its founding, models for formulating a competitive system are hard to find.

However, some foreign postal administrations have modified or are studying modification of their monopolies, and there are lessons to be learned from them. Reference to experience in the telecommunications field also may help.

Further, the Postal Service is concerned that relaxation or repeal of the private express statute would invite "cream skimming", under which the Postal Service competitors would be able to successfully compete for the most "profitable" services, leaving the Postal Service with high cost volume as well as the cost of providing universal service. This may be a legitimate concern. On the other hand, although the Postal Service faces large and very powerful competitors in the parcel delivery and expedited mail markets, major competitors in other markets have not yet emerged. Neither UPS nor Federal Express sprung up overnight. Replacing the statutory monopoly with an unregulated de facto monopoly would accomplish nothing.

These problems can be overcome. For example, in the telecommunications field, competition was introduced over a period of time and in market increments; indeed, the process has not yet been concluded. The problem of reconciling competition with universal service has been dealt with through creation of an Universal Service Fund which reallocates some profits of competitors to insure that the carrier of last resort is not only able to carry out its universal service obligations but to continue to compete for profitable business from those enterprises that do not have public service obligations. Other ways of assuring fair competition and universal service are being explored by the House and Senate Telecommunications Subcommittee.

Those—within and outside the Postal Service—who believe that the private express statutes actually enable the Postal Service to perform its modern mission are deluding themselves. It affords no protection from electronic forms of delivery. And, it comes at a terrible price, ultimately paid by the American public. The FTC has said:

Managers and workers in monopolies often face very limited incentives to increase quality and decrease costs. They . . . share in little—if any—of the monetary gain from superior performance, and . . . suffer fewer consequences from poor performance.

The real cost of the monopoly to the Postal Service cannot be ignored. It is not enough in today's world that the Postal Service "act as if" it had competition. It must actually be opened to competition.

Matters of Governance

We address this issue with more than a little diffidence. Customarily, the internal affairs of a service provider—how it chooses to organize itself, what it compensates its executives, how it interacts with its workforce—are not matters of concern to users. But, that is true because users have a choice. A market-driven enterprise is rewarded for its successes in the marketplace and it pays for its organizational mistakes in the marketplace.

The Postal Service is not market driven. The provisions of the Postal Reorganization Act which define how the Board is to be selected, which restricts the compensation that may be paid to Postal Service senior executives, which impose civil service like restrictions on the relationship between the Postal Service and middle management, and spell out the do's and don'ts of the Postal Service dealings with its workforce were undoubtedly necessary at the time the Act was passed. But, the role of the Postal Service has changed. The inefficiencies and the costs associated with these strictures are borne the public—through rates, inadequate service, service failures and the like. Those obstacles in the present system of governance can be described in two phrases: inadequate accountability of the institution to users; and inadequate incentives for employees at all levels.

1. The Need for a Change in the Legal Structure

For the past two and one-half decades, the Governors have done a commendable job of trying to set policies which reflect somewhat inconsistent objectives. We have shown that the time has come to reshape the definition of the Postal Service's mission to make it a market-driven enterprise which has public service obligations. That change in focus may warrant a change in the legal structure of the Postal Service.

We recognize that the Postal Service must continue to carry out some of its current public service obligations and that, therefore, the government must have some supervisory role in overseeing its policy directions. At present, however, the government completely controls the Postal Service which dilutes accountability.

The purely governmental character of the Postal Service also has adverse practical consequences. The Postal Service is tied to the federal banking system in ways which are costly to it and therefore to those who use it. It has law enforcement obligations which duplicate those of other agencies. Its borrowing powers are limited.

It becomes enmeshed in the federal deficit reduction process and federal budgeting process in ways which are wholly inappropriate for an organization which is supposed to operate entirely on a user pay basis in a competitive marketplace.

With all due respect, less oversight by Congress and more direct accountability to users may be desirable. There are models for this sort of public sector enterprise approach. For example, Comsat and Fannie Mae are enterprises with significant public service obligations. Both have substantial—but non-controlling—governmental representation on their boards; both are controlled by users. The businesses of these companies are not the same as that of the Postal Service; the models can be adapted. In any event, reshaping the legal structure to make the Postal Service more accountable to those who pay for its services deserves careful consideration.

2. The Need for Incentives At All Levels of the Workforce

The inadequacies of the legal system governing Postal Service personnel cut across all segments of its workforce. The salary caps, commanded by law, operate from the top down. Both labor and management express dissatisfaction with the collective bargaining process and with the proliferation of grievance hearings that characterize day-to-day management. It is, as we have recently learned, virtually impossible for the Postal Service to adjust the size of its workforce through voluntary retirements. It is, more importantly, very difficult for the Postal Service to reward exceptional performance—at any level. As a corollary, the Postal Service has been unable or unwilling to sanction grossly inadequate performance except through measures—such as transfers—which are not solutions.

This absence of incentives to excel is paid for by the public—businesses and consumers alike. We have and will continue to pay for the decisions of the Merit System Protection Board, regarding the Postal Service's effort to right-size itself. We pay for the Postal Service's inability to capture all of the benefits of automation.

We pay for system failures. That there will be occasional system failures even in the best run enterprises must be accepted. That the Postal Service is too often slow to detect and respond to system failures is, at least in part, directly attributable to strictures of the legal system. That cannot be accepted.

It is necessary, then, that the entire legal structure of labor relations in the postal system be examined with a clear eye and one question in mind: is the particular statute (or policy that has developed underneath it) conducive to an enterprise that is market driven, cost effective, flexible and in which employees succeed because they are rewarded for their success?

TRANSITION

The legislative and regulatory obstacles to a truly effective Postal Service are interrelated. Inflexibility of the rate and classification structure and the economic distortion resulting from present day rate making standards are closely related to the monopoly. The absence of a meaningful system of incentives for employees at all levels is related to the purely governmental character of the Postal Service.

Clearly, the Postal Service cannot be transformed overnight. There are two basic issues with respect to transition: who decides; and under what standards. For so long as the Postal Service maintains a legal or de facto monopoly, complete deregulation of its rates and of its services would be unthinkable. Although the Postal Service has the power under existing law to suspend the monopoly in whole or in part, it has evidenced great reluctance to do. Transition cannot, therefore, be vested entirely in the Postal Service. Nor are we confident that the Postal Rate Commission is the appropriate organization to undertake the task of deciding when rates should be deregulated and what services should be entirely removed from regulation. The same question of "who decides" applies to the matters of changes in the form of governance and of the structures that bind the labor management relationships.

A parallel problem exists with respect to the establishment of standards for transition. The experience with the Cable Act of 1992 shows that the attempt to legislatively define the existence or non-existence of competition does not work. The evolution of FMNA from a purely governmental function into a public sector enterprise in which the government has only a minority position took place over time and by stages, under very flexible criteria.

As with the substantive questions themselves, there are options to deal with these matters of transitions. Relaxation of governmental control of the Postal Service and correspondingly the introduction of incentives and the removal of governmental-like strictures on personnel matters can be carried out in stages prescribed by legislation. Price caps for some or all services can be instituted even before the Postal Service opens itself up to competition; and the question of competition and complete or partial deregulation of rates can be remitted to a completely independent agency

which otherwise has no vested interest in postal matters. This is the approach being considered in the telecommunications field. The issues, then of transition can and must be resolved.

CONCLUSION

At bottom, our assessment of the postal system, as it stands today, leads us to only one conclusion: The Postal Service must change, and the law must be changed to permit it to do so. There is only one outcome of this debate that is utterly unacceptable to AMMA's members: the status quo.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO IAN D. VOLNER

Question 1. The Government Reform and Oversight Committee has been instructed by the Budget Committee to report reconciliation legislation involving mandatory spending programs within its jurisdiction. The Budget Committee suggested we look at eliminating the transitional payments to the Postal Service which cover workman's compensation liabilities incurred by the former Post Office Department prior to the 1970 Reorganization Act. The current appropriation is approximately $37 million per year and declining. What are your views concerning the elimination of this appropriation for former Post Office Department workers' compensation costs?

Answer. This is a matter that causes us great concern. The worker's compensation payments provided by Congress to the Postal Service are made to cover the liabilities of the former Post Office Department to the Federal Employees' Compensation Fund. This payment is not a "subsidy," and it is not a rightful obligation of the U.S. Postal Service (USPS) or its customers. Rather, it is the rightful obligation of the U.S. Government, and postal rate payers should not be asked to absorb this burden.

Repeal of these payments would evidence that Congress, yet again, is reneging on the promise it made to all postal users not to foist Post Office Department financial obligations on the Postal Service or its customers, and cannot contain its propensity to toy with USPS finances in a way that only exacerbates the difficult challenges the Postal Service already faces in today's increasingly competitive marketplace.

The Postal Reorganization Act of 1970 was supposed to represent a contract between the Government and its people on the design of a postal system that would be free from political influence and untoward congressional micro management. It has been a contract Congress has not been reluctant to breach, and is just one more reason why a comprehensive review of "postal reorganization" and fundamental reform of our nation's postal system is very much in order.

Question 2. Longstanding labor relations problems persist on the work room floor of the Postal Service. Literature on the subject suggests that unionized organizations can make little progress reinventing the organization or changing its culture if relations between management and labor leaders are adversarial. How can Congress and the executive branch encourage and assist postal management and unions to address the severe labor-management problems in the Postal Service?

Answer. First, we should note that we agree completely with characterization of the Postal Service's organizational culture by the General Accounting Office (GAO) as "dysfunctional." Indeed, we believe GAO's assessment lends great credence to the Postmaster General's declaration that collective bargaining—the main vehicle by which management and labor address those issues that are key to defining the Postal Service's organizational culture—is "as broken as it can be." Perhaps nothing speaks more directly to this than the acrimony that was so evident when labor appeared before you on on June 7.

Despite labor leaders' contentions to the contrary, the process is as dysfunctional as the culture. The present contractual impasse represents the second consecutive time the parties have defaulted to binding arbitration to settle their disputes. This is most regrettable.

Under the present system, neither party has much of an incentive to resolve disputed matters, since neither faces adverse consequences for their abstinence. In fact, both are "rewarded" for letting an arbitrator make all the tough calls, since neither then has to defend an agreement its respective constituency finds objectionable.

Labor leaders' contentions that the only thing wrong with collective bargaining is management ignores that who is "at fault" is irrelevant. It matters only that the process is not working to best suit the nation's needs.

We believe also that those who call for the right to strike are being disingenuous. We doubt they would be willing to live with a process that might exact a real price

from those who chose to exercise that right. We doubt, for instance, they would accept a right by management to hire replacement workers in the event of any stoppage, or a grant of authority to the Postmaster General to suspend the letter mail monopoly in the event of any strike to ensure the American people continued provision of universal mail service.

In our May 23, 1995 testimony, we asserted that the problems plaguing the Postal Service have their genesis in the agency's legislative charter. As we noted, there is a dearth of "incentives for success at all levels within the Postal Service" which is most peculiar for "an enterprise that: must conduct its affairs in a competitive marketplace."

The reason for this is that monopoly protected enterprises are sheltered from the accountabilities demanded of competitive enterprises. The "shelter" of this protection (in addition to the Postal Service's organization as an agency of government) has fostered the cultural "dysfunction" described by GAO and decried by the Postmaster General. There may be, in fact, no effective way of encouraging parties who are persistently at loggerheads to work things out more amicably short of fundamentally restructuring the institution in a way that changes the forces and incentives that shape its very character, e.g., remaking the Postal Service into a more market-driven, competitive, private sector-like form along the lines of other "government-sponsored" enterprises such as Fannie Mae.

There also may be other options worth exploring. For instance, in lieu of the present "interest" arbitration, Congress could require a form of "last best offer" arbitration—something that might cause both parties to bring to the table offers that more closely approximate an eventual resolution. Congress also might grant postal workers the "right to strike" along with a right by management to hire replacement workers. Similarly, Congress might grant the Postmaster General (or the Postal Service's governing board) the right to suspend the letter mail monopoly in the event of any walk-out to ensure the continued provision of nationwide mail service.

Question 2A. As usual, labor and postal management have been unable to reach agreement on a new collective bargaining contract. Does the current state of labor management relations in the Postal Service affect your organization's members as postal customers?

Answer. Very much so. Our members' postage—and the postage of all other mail users—provides the money that pays the cost of operating the Postal Service. Constant discord, worker disaffection, lack of worker or management accountability, and the general absence of performance-based incentives result in costs the entire nation bears in the form of higher postage, inefficiency, an inability to appreciate real savings from billions invested in modernization and automation, and mail-service problems.

Our postal system is an integral part of our nation's communications and economic infrastructure. It must be operated in a way that facilitates—not impedes—the transaction of business and communication.

Question 3. In your testimony you state that there is a profound disjuncture between economically efficient rates and rates which the Postal Rate Commission believes proper. Some have suggested that the Rate Commission be disbanded and replaced with a panel of administrative law judges designated to sit only when a rate or reclassification case is filed. What role you see for the Postal Rate Commission?

Answer. The Postal Rate Commission (PRC) is intended to provide external, third party regulation to serve as a proxy for the competition that is proscribed by the Private Express Statutes. If there were no letter mail monopoly, there would be no need for rate regulation. As long as that monopoly remains, however, some form of regulation is necessary.

Does this require a Postal Rate Commission? No, it doesn't. The Kappel Commission had envisioned regulated ratemaking through an "Office of Rates" within the Postal Service's organizational structure.

Could regulated ratemaking by provided through administrative law judges (ALJs)? Yes, it could. In the early days of reorganization, the PRC used an ALJ as its hearing officer. Despite some dissatisfaction with this early experience, there is no reason why the services of an ALJ could not be considered a viable option.

Alternatively, the Postal Rate Commission's functions could be delegated to another federal agency that already provides similar regulatory functions. Doing so would enable Congress to eliminate an entire federal agency, and commensurately reduce the cost of government.

In considering options to postal legislative reform, Congress also could change the role of the PRC. If, for instance, price caps were used as a means for "encouraging" postal efficiency and regulatory flexibility, the role of the Commission could be materially different than it is today, and be provided by a considerably smaller agency.

Question 4. In your prepared testimony you say that the Postal Service must become "less accountable to Congress and more accountable to those who pay for its services" and it must also become more competitive and business-like. Would these changes include the immediate restoration of a positive net equity and acceptance of all tax liabilities by a new Postal Service?

Answer. There are two questions here, i.e., whether "more competitive and business-like" means accepting tax liabilities, and whether the Postal Service should strive to eliminate what the Postmaster General has described as its "negative equity." If the Postal Service were recast in a truly competitive enterprise—that is, if it were structured as a stock corporation and was required to pay dividends to stockholders; if it enjoyed complete freedom over the structuring and pricing of its products and services; if it were free to innovate as it wished, to enter and exit markets, and introduce and withdraw products with relatively few constraints; if it no longer enjoyed a statutory monopoly over any facet of its business—then, yes, it should conduct its affairs in accordance with all laws and rules that govern other commercial enterprises.

Regarding the second matter, the Postal Service may be understating its true, present-day value, net equity position. The Postal Service's real estate holdings alone are enormous. Are these and other assets really represented on the Postal Service's books at present market values? The issue of the Postal Service's present net equity should be a matter of investigation before it becomes the subject of debate. We urge Congress to direct the General Accounting Office (GAO) to conduct a comprehensive review of the Postal Service's records and holdings to ascertain an accurate picture of its present equity position. Without such information in hand, endeavoring to restore "lost" equity through rate setting could impose enormous costs on all mail users and further endanger the Postal Service's already weakened competitive position in a changing communication and business transactional marketplace.

Question 5. Other witnesses expressed their concern that adoption of AMMA's proposals would leave the Postal Service inordinately dependent upon mailers such as AMMA's members. This dependency on one class of customers could hamstring a future Service should your members decide to move all your communications to television, telephone, or computers. Such a move would leave remaining postal customers with the daunting task of rebuilding a national mail system for those whom technology has left behind. Would you share your thoughts on these concerns?

Answer. Quite frankly, we're at a loss to discern which of our proposals could possibly leave the Postal Service "inordinately dependent" on any one group of mailers. This "concern" undoubtedly reflects our critics' general misappreciation of what we said in our testimony. Nonetheless, we will endeavor to clarify.

The competitive challenges confronting the Postal Service are formidable. Since postal reorganization, the Postal Service has lost practically its entire share of the parcel delivery and the overnight expedited mail delivery markets to private sector competitors who, for a variety of reasons, have enjoyed greater marketplace success.

The Postal Service's share of the predominantly business-to-business first class mail financial transactions market has eroded by some 352 over the past five years largely because of electronic communications alternatives. Postal management expects to lose another 35% market share over the next five years as businesses increase their use of electronic communication transactional alternatives in lieu of mail.

The power, the marketplace penetration, and the cost-efficiency of electronic communications will grow at an even quicker pace in the future. As we noted in our testimony, there already are ample signs that the changes technology has precipitated in the business-to-business sector are about to occur in the business-to-household and household-to-business markets as well. The only area in which mail volume growth has appeared robust is mail advertising and marketing—predominantly in the form of third class mail, but increasingly as first class mail advertising as well.

Financial transactions typically occur between parties that have an established business relationship. There is a lesser reluctance to adopt electronic alternatives once the parties are known to one another as alternatives are made readily and cost-efficiently available. In testimony submitted in the last postal rate case, Dr. Daniel Spulber of Northwestern University explained that this transformation occurs for a number of reasons other than a desire to avoid the cost of postage, e.g., improve the speed and accuracy of communication and transactions; eliminate costs related to printing, paper, materials handling and storage, labor, etc.

In contrast, much of the advertising and marketing that takes place by mail is between parties that do not have an established business relationship. The Postal Service's universal mail delivery network and the lack of alternatives that match

mail's reach, penetration, and selectivity are why mail historically has served as most businesses' primary medium for establishing a link with prospective customers.

Does this mean that advertising and marketing communications are immune to electronic diversion? Absolutely not. The general business and trade press is filled with reports on the quantum leaps in hardware and software technology that presage a significant mail-to-electronic transformation within the advertising communications arena over the next decade. We noted several such signs and trends within our testimony.

In short, no segment of the Postal Service's business is immune to change. This means the Postal Service must compete vigorously to retain a sufficient share of the communication, information, and transactional market—regardless of the class of mail service this business represents.

The plain and simple fact we all must face is that the law requires the Postal Service to fund its operations solely through the postage it charges its customers. The Postal Service—as we know it today—faces the very real prospect of losing an increasing share of its rapidly eroding market to electronic and other alternatives over the next several years for a variety of reasons.

1. The power, security, and market penetration of electronic communication will increase over the next decade as will its appeal as a suitable alternative to mail.

2. We've already witnessed over the past decade logarithmic increases in the available power of microprocessing technology on the desktop and a plummeting in its cost. There is simply no reason to expect this trend not to continue.

3. The Postal Service's cost experience, by comparison, is quite the opposite. With each passing year, the cost of operating the Postal Service increases.

4. The Postal Service's very labor intensive cost structure has remained relatively unchanged over the past quarter century, and there is nothing on the horizon—short of comprehensive postal legislative reform—that promises to change that reality. Hard-copy mail delivery is a relatively labor intensive endeavor.

5. With each succeeding postal rate increase (and the commensurate increase in power, availability, market penetration, and cost-efficiency of electronic alternatives), the appeal of mail as a communication, financial transactional, and advertising and marketing medium will decrease furthering the erosion of the Postal Service's market share, while the costs of postal operations continue to rise.

The crisis the Postal Service faces is not whether first or third class mail will predominate. Rather, it is whether the revenues the Postal Service can gain from a proportionately decreasing share of an intensely competitive communications market will be sufficient to sustain the costs of operating a highly labor-intensive enterprise intended to deliver mail "to everyone, everywhere, everyday." In the absence of sufficient postage based revenue, the only other possible source of funds will be tax dollars.

In the short-run, the Postal Service can hope to retard present, unfavorable, developmental trends only by "rationalizing" its business. Postal management has taken steps to do this through comprehensive mail classification reform, and GAO has recommended a greater focusing on demand-based pricing.

We are aware that those who compete with mail in the printed retail advertising distribution marketplace interpret this call for demand-based pricing as a give-away to third class mailers. They're dead wrong. As GAO amply noted in its report to Congress, demand-based pricing means nothing more than setting rates with a realistic eye on the effects pricing decisions have on the continued viability of the Postal Service and mail volumes, revenues. The sentiments expressed by the Postal Rate Commission's Office of the Consumer Advocate (noted in our testimony) are ample evidence that the ratemaking principles that in are play today are far from those recommended by GAO. Market-based pricing merely means ratesetting in a manner that comports with the way the world actually is—not the way some postal or public official would like it to be.

Finally, in our testimony we speak of the need to allow the Postal Service to "compete," to have greater "flexibility," and to innovate. As we've noted above, the marketplace in which the Postal Service finds itself is changing quickly and dramatically. If the Postal Service is to remain viable as the nation's chief steward of its universal mail delivery system, it must have the ability to operate in closer accord with "competitive" business principles including the ability to bring to market—without undue encumbrances—products and services that actualize fully its marketplace potential.

In other fora, the Postal Service has talked of plans to offer services through interactive kiosks in postal retail facilities, to offer an "electronic postmark" service for electronic messaging, to extend its remote video capability to business reply mail- and parcel-related services, and to introduce an electronic-hard copy hybrid

mail service similar to that already in place in other countries. Whether a sufficient market for these and other kinds of services exists can only be determined through market testing.

We have made plain our belief that the only viable long-term solution to today's postal dilemma is to recast the postal system in a more market driven, competitive form. We also have made plain our belief that transforming the postal system we have today to the one we will need tomorrow cannot be done overnight, but must be done in a manner and over a period of time that will ensure the nondisruption of universal mail service. During this transitional period, there are an array of alternatives Congress may employ to provide for a nondisruptive transformation. We look forward to the opportunity to discuss some ideas in whatever manner or forum you may desire.

Mr. MCHUGH. To testify, Mr. Richard Barton. Welcome.

Mr. BARTON. Mr. Chairman, Ms. Meek, it's a real pleasure to be here today. I have to say this about Mr. Volner's testimony. It worries me a little bit when he says that a 25-year-old statute is now terribly out of date and was made for a previous era. Because all four of us—four of us at this table helped write that act. I'm not ready to say I'm outdated yet, but we do think the statute is. In fact, we did a lot of that work in the room below us and up here later on. So it's a real pleasure to be back in this room.

I'm Richard Barton, senior vice president for congressional relations of the Direct Marketing Association, which is a 77-year-old trade association—the largest, indeed the only, national trade association representing the entire direct marketing field. We have about 3,000 domestic corporations who are members and some 700 to 800 foreign corporations. And as I said, we represent direct marketing in all of its forms.

Even though there are many forms of direct marketing used in many of the media—newspapers, magazines, 800 numbers on television, and the telephone—still, and we expect it to be far into the future, mail is our most important medium. Both direct marketing and direct mail have become one of the most significant driving factors of our economy.

For example, a little-known fact, with apologies to our newspaper friends and magazine friends who will be testifying, direct mail is now the largest advertising medium as far as expenditures are concerned. And in direct marketing, we estimate now very roughly—we'll be coming out with more specific figures sometime soon—that a half a trillion, a half a trillion dollars in goods and services are sold through direct marketing and a very large percentage of that half a trillion dollars is sold through the mail. The catalog industry alone sells $50 billion and more in merchandise and goods this year and are responsible for about 1.3 million jobs in the economy.

A word about the Direct Marketing Association. At least from the viewpoint of representing mailers, we have a very wide range of consumer services which I'm offering to the members of the committee to offer to their own constituents. We have a large number of pamphlets on how to shop by mail, how to shop by telephone, the pitfalls to look for in fraudulent mail advertisements and other kinds of fraudulent advertisements, too. We maintain a series of ethical guidelines for our business practices; and we enforce them, to the extent that you can enforce them under the antitrust laws, with committees that hear complaints and move after fraudulent members and people in the industry.

Also, probably our most prominent consumer program is our mail preference service, which we again offer to the members of the subcommittee and to their constituents, in which we provide a mechanism, free of charge, to your constituents and to all citizens to get off of national mailing lists, because we recognize principles of privacy and believe that people who don't want to be bothered shouldn't be bothered. We offer that opportunity, and again I offer that service to you.

But we're not here to talk about DMA and its consumer services. We are here to talk about our members and the Postal Service.

We have a very close working relationship with the Postal Service and generally it's a relationship of respect. But the situation, as Ian has described, and Art, before me, has become much more difficult. And for really the first time, seriously, our members are beginning to look at the Postal Service and wondering whether it will exist in the future, whether it should exist, frankly, as the costs spiral almost out of sight, at least as far as our businesses are concerned, threatening the viability of many of our businesses.

Three rate increases since 1990 have really been the wakeup call. The first one, in 1990, was around 25 percent overall for third class mail, up to 40 to 45 percent increases in some of our catalog rates. A rate increase that came 4—3 years later, I'm sorry—started in 1988, and 1990 was equally crippling, and then the last rate increase have combined to increase our rates by about an average of 60 percent; and in some cases, some catalog operations, almost 100 percent just in the last few years.

It was a wakeup call for us, because as I said, we began to wonder whether we were going to have a viable medium. So we began to work very closely with the Postal Service and with Congress in pressing the Postal Service to control its costs much more effectively.

But, essentially, we believe that there are three important reasons why our rates and everyone else's rates have climbed so high in the past few years. First is the consistent and continuing failure of the Postal Service to control its costs, some because of reasons beyond its control, but as a matter of fact, it is still a problem. And even though Mr. Sackler pointed out that they're running a surplus and we anticipate there will be a surplus this year; and even though we're very strongly supportive of Mr. Runyon's cost-cutting efforts and think they have been, on the whole, pretty successful, we're not out of the woods yet. It can happen again. And we need to really double our efforts to control costs.

The second reason is that we think that the ratemaking provisions of the Postal Reorganization Act and, in fact, the whole ratemaking procedure and structure no longer meet the needs of the modern competitive market in which the Postal Service finds itself. And we need to change, we think, those ratemaking principles and procedures in order to make the Postal Service more market driven.

And third, which is really between us and the Postal Rate Commission and doesn't involve Congress at this point at all, we disagree with some of the principles which the Postal Rate Commission has established to set third class rates, which we think are discriminatory against third class mail and business mail in gen-

eral, and in fact, are serving to drive people out of the mail at a time when the Postal Service needs all the customers it can get.

We, too, as has everybody at this table, have been carefully looking at proposals for changing the Postal Reorganization Act and the structure of the Postal Service. We, too, have not completed our efforts and we certainly intend to have a complete set of proposals, hopefully endorsed by many mailers, at the hearings that you'll hold later on this year.

But even though we haven't completed our recommendation for changes, there are several things that are beginning to become evident. One of them is that we must have universal service, and whatever new postal system we create and whoever is running it at the time, we have to have a guarantee for universal service, because that's the genius of the Postal Service now. It is what makes it unique, and it needs to remain that way for the Postal Service to continue to be a valuable force in American business.

The second one sounds a little simple, I guess, and self-evident, but we need reasonable rates. But it's not that self-evident, because in order to assure that we continue to get reasonable rates—or return, let's say, to reasonable rates, because we are concerned about them now—this implies we need to make changes in the rate-making process to enable the Postal Service to price its products competitively and to give the Postal Service the flexibility to respond in a timely manner to changing market situations, which the current process does not do.

The recent—and you mentioned this—the recent filing for changes in procedural matters at the Postal Rate Commission we think are a step in the right direction. We've not yet taken a position endorsing the entire package. I expect we'll come close to doing that, because they came out of a General Accounting Office report of some 4 years ago, which we endorsed at that time. But we think it's definitely a step in the right direction.

We also think that the classification case is a step in the right direction; and we support in general the third class parts of the classification case, which is what we're familiar with, but don't take any stand on first and second. We'll let them talk about that. But we think definitely that what the classification case is doing in third class mail is moving third class mail more and more into automation, which we think is beneficial for us, which we think is definitely beneficial in cost control to the Postal Service; and we think that the categories in general that they're creating are much more market driven and will be more advantageous to our mailers than the current system. Third, which is a very delicate area particularly for my friends who work at the Postal Service, we agree with the Postmaster General that we need to look carefully at changes in overly restrictive personnel practices which hamper at times the ability of people to manage the flow of the mail. And, in particular, we are coming to the conclusion, though I'm not sure what we're going to recommend, that we need a change in the collective bargaining process. Not an elimination of collective bargaining—and we are not down on the unions—but a change in the collective bargaining process that actually drives the parties toward a bilateral agreement, rather than toward what has happened in all, I believe, but two cases, toward third party arbitration. And the

only way we can do that really is to provide some mechanisms, such as the right to strike—though we're not endorsing that right now; that, as a matter of fact, will create pain when you don't reach an agreement for both sides.

We think it's important that the two sides agree by themselves and come out with agreements, and that third-party arbitration that we have in the act now actually militates against agreements and moves both management and labor toward a posture of being able to not bargain as seriously as they should, and then tossing it all in the lap of a third-party arbitrator, which they can point the finger at and say, it was his fault, it's not our fault, whatever that may be.

And you've also been presented a list of numerous changes in the Postal Reorganization Act that we think will help the Postal Service act more like a business. Some of them are fairly minor, but they're important in the whole—things like removing the salary cap, giving the Postal Service the right to represent itself in court, freeing up the Postal Service to enter the financial markets of the United States in the way a business would to invest in it, and contracting for air shipment of international mail, and several other restrictions which we think should be taken away from the Postal Service so it can act more like a business.

But you will notice something by now, with all these. We still haven't taken a position on what the Postal Service should be, should look like, how these changes should be made, and that's what we're studying right now. Should we have a privately owned company? Should we have privately owned companies? Some sort of government corporation? Or do we just keep the present structure with some of the changes that I've been mentioning?

We don't know at this point, and we're studying the issues carefully. We will come out with some recommendations. And I hope—and something that we think is very important—that we finally get a consensus about the changes needed with this subcommittee, with the Congress, with all the other mailers, and hopefully and preferably with the employees and the employee organizations and unions.

I couldn't complete this testimony, however, without doing a couple of things. One is to say that we believe very strongly that Congress in general in the past several years has harmed the Postal Service substantially by various hits—mounting up to $14-some-odd billion—to help balance the Federal budget. We think that most of those incursions in the postal treasury have been wrong and have been harmful. They certainly aren't very businesslike, and they, in fact, have caused the Postal Service to raise their rates substantially beyond what they would have had to do if it hadn't happened.

And we want to thank you for—all of you on the subcommittee—for helping us in the big lobbying effort that we had to stop the $11.6 billion hit on the Postal Service that was originally proposed, but now, we understand, has been removed from all the budget proposals.

We think that it's time to just say no to these actions and to allow the Postal Service to operate as a business without being hit by Congress to pay into the Federal Treasury to help reduce the

budget. We are looking forward to a more market-oriented, a more customer-service oriented Postal Service from these reforms that the Postmaster General is now going through in the post office and with Congress, too. And we certainly look forward to working with you to achieve those goals.

Thank you, Mr. Chairman.

Mr. MCHUGH. Thank you, Mr. Barton.

[The prepared statement of Mr. Barton follows:]

PREPARED STATEMENT OF RICHARD BARTON, SENIOR VICE PRESIDENT, CONGRESSIONAL RELATIONS, DIRECT MARKETING ASSOCIATION

Mr. Chairman; members of the Subcommittee on the Postal Service:

It is a pleasure to be here today to present the comments of the Direct Marketing Association on some of the key postal issues of the day. You, Mr. Chairman, and the members of the subcommittee are to be commended for the careful work you are doing to learn about the Postal Service and develop solutions to the many problems facing the Postal Service and its customers today and in the future.

The Direct Marketing Association is the principal national and international trade association representing the various companies that come under the umbrella of the many disciplines and techniques called direct marketing. We have more than 3,000 member companies in the United States and more than 3,600 worldwide.

The definition of direct marketing has always been the subject of considerable discussion within our membership. However, for the purposes of this hearing we can define it as the methods used to go directly to the consumer seeking a direct response to offers for the sale of goods and services and the solicitation of funds and donations. This definition, of course, applies to nonprofit and political solicitations as well as commercial uses of direct marketing techniques.

It is impossible to think of any segment of the economy that does not use direct marketing in one form or another. Literally hundreds of billions of dollars in goods and services are sold and funds raised through direct marketing. One segment of direct marketing alone, direct mail advertising, accounts for the largest expenditures of any advertising medium.

The catalog segment of direct marketing alone generated $57.4 billion in revenues in 1994 and we estimate that it will generate as much as $65.2 billion in 1996. Employment directly to catalog operations was 341,000 in 1994, which we expect to rise to 354,000 in 1996. Total catalog related employment in 1994 was almost 926,000. In 1996, we expect that figure will be about 1,370,000.

PROMOTION OF ETHICAL STANDARDS

The Direct Marketing Association has long been a leader in promoting the highest ethical standards in direct marketing and direct mail.

We may be the only association with not one, but two committees that deal with ethical practices among direct marketers. Our Ethics Policy Committee is responsible for developing and revising as necessary our Guidelines for Ethical Business Practice and our various guidelines for fair information practices, telemarketing, development and maintenance of mailing lists, acceptance of print and broadcast ads for direct marketing, and others.

Our Committee on Ethical Business Practice is charged with monitoring and enforcing the guidelines. The committee hears complaints of unethical business practices and, if it determines that a lapse has occurred, applies peer pressure to reach a resolution. In cases of outright violation of the law, the committee cooperates with the appropriate law enforcement agencies in attempting to stamp out fraud.

DMA CONSUMER PROGRAMS

We also sponsor many programs to benefit and educate the consumer.

Perhaps our flagship program is the Mail Preference Service and its sister, the Telephone Preference Service. These are nationwide programs to help people have their names removed from most national mailing and telephone solicitation lists. All a person need do is send us their name, address and, if appropriate, telephone number, and we take it from there for no charge to the consumer. To date, more than three million consumers have taken advantage of our Mail Preference Service and almost half a million have signed up for the Telephone Preference Service. Complete information about these services has been provided to the subcommittee, and we

certainly would be happy to provide the application forms for constituents who express an interest in having their names removed from mailing and telephone lists.

Closely related to these important programs is our drive to insure that all direct marketing companies that make their lists available to others for marketing purposes inform their customers and give them an opportunity to have their names removed from the lists. This has become the industry standard, followed by thousands of direct marketing companies.

DMA sponsors a Mail Order Action Line to help consumers resolve complaints about mail order transactions. We also publish a number of consumer publications providing advice on shopping by mail and telephone. These include: The Great Catalog Guide; Opening the Door to Opportunity: A Simple Guide to Understanding How Direct Marketers Use Information; Make Knowledge Your Guide in Mail Order Shopping (published jointly with the Federal Trade Commission); Sweepstakes Advertising: A Consumers Guide, and Tips for Telephone Shopping, available in English, Chinese, Japanese, Korean, Spanish, and Vietnamese.

DIRECT MARKETING AND THE POSTAL SERVICE

While direct marketers use all media—telephone, radio and television, magazines and newspapers, even the "new" interactive technologies and Internet—the mail is still, and will likely remain for a long time to come, our principal means of contacting the public. Thus, a viable, cost-effective Postal Service is essential to most of our members.

The 1990 postal rate case, implemented in 1991, was a watershed for direct marketers. Third class mailers had already been hit with an average 25% increase in 1988 (as a result of the 1987 rate case). That average, as bad as it was, masked even higher increases of up to 40% for many important customers of the Postal Service, particularly many catalogers. The 1990 case added another average 27% in rate increases on top of the already staggering 1988 increases.

These crushing back-to-back increases were largely the result of out-of control postal costs. On top of that, Postal Rate Commission decisions were decidedly inimical to third class mail, establishing and expanding upon ratemaking principles that had little to do with market realities. That trend continued in the last rate case where the Postal Service requested a 10.3% increase across-the-board, but the commission increased third class rates by 14%.

The 1991 increases brought, for a time, actual decreases in first and third class volumes. These were a wake-up call to mailers and postal officials alike. Spiraling rates and costs were threatening the very existence of the Postal Service. It was, and is with the last rate case, increasingly evident that major changes in the structure of the Postal Service are necessary if it is to survive.

DMA's Government Affairs Committee is working with a specially-formed Board of Directors Postal Strategies Working Group to flesh out proposals for significant postal reform. With this subcommittee hard at work on the same issues, we believe there is a unique window of opportunity to revise the Postal Reorganization Act of 1970 and help push the Postal Service into the twenty-first century. To the thousands of businesses throughout the country for which hard copy delivery will remain crucial to their operations for a long time to come, the reform of the Postal Service is a life-and-death issue.

However, as you well know, acknowledging that major reform is necessary and actually achieving consensus on what that reform might be are two different things. At our recent Government Affairs Conference, at which Chairman McHugh spoke, we heard recommendations for reform that ran the gamut from completely dismembering the Postal Service and selling it to private enterprise to suggestions that only minor tinkering is necessary. These extreme positions, and several in between, had their passionate defenders.

We cannot, at this time, be definitive about DMA's position on specific postal reform proposals. Our recommendations are still being worked out, and we expect to have them ready when this subcommittee holds postal reform hearings later this year.

However, the broad outline of reform is beginning to take shape.

The underlying principle of reform must be that the Postal Service be given the authority and flexibility to meet effectively the new competitive forces it faces in the communications market. The Postal Reorganization Act of 1970 was significant in its time. It can safely be said that the Postal Service would be in far worse shape if that legislation had not passed. However, as is the case in so many areas of our business life, what was good and effective in 1970 may actually be an impediment in 1995.

To achieve meaningful postal reform, we examine several areas of the Postal Reorganization Act of 1970. First, and perhaps most important to direct marketers, is the rate-making process. There is little question that the process under current law is superior to rate-setting by Congress. However, in trying to protect consumers from unreasonable pricing by a monopoly, Congress went too far. The process is cumbersome, time-consuming, and lacks the flexibility needed to allow the Postal Service to price its products to meet the often fast-breaking developments in a competitive market.

This was forcefully pointed out in two studies issued a few years ago by the National Academy of Public Administration and by the General Accounting Office. By and large, DMA agreed with the conclusions and recommendations of both reports, and we were disappointed when few, if any, of the recommendations were carried out.

Recently, the Postal Service filed a request for a rulemaking proceeding with the Postal Rate Commission to streamline the rate-setting process. These proposals came from a 1992 joint USPS/PRC task force, which in turn was created in response to the GAO report. The Postal Service is seeking:

- Greater flexibility to establish and modify experimental offerings to test new products.
- The ability to set rates within a preset range without prior approval by the Postal Rate Commission.
- The ability to contract postage rates with mailers; and
- The ability to increase postage rates to offset inflation between major rate cases.

While we have not taken a formal position on these proposals, conceptually they move in the right direction. However, rulemaking proceedings may not be able to do the whole job, and we need to look at the possibility of legislation to make major changes in the process.

The second area is the ability of the Postal Service to manage its work force, which accounts for about 80% of its costs. We are not suggesting here that we scrap collective bargaining or take steps that are directly inimical to the welfare of postal employees. However, partly because of law, partly because of results of bargaining with employees, and partly because of long years of tradition, the Postal Service is hampered by archaic, outdated, and cumbersome work rules and personnel practices that prevent efficient management. Many of these can be changed without legislation, after careful work with employees to develop fair but flexible work rules. But many, particularly the role of other federal agencies in the personnel management of the Postal Service (primarily the Office of Personnel Management and Merit Systems Protection Board) must be changed by law. It is past time that we examine that possibility carefully.

We must also consider major changes in the collective bargaining process. The process now actually drives both union and management toward third party arbitration rather than an agreement hammered out by both of the parties. Third-party binding arbitration, as it is now written into the Postal Reorganization Act, actually takes the pressure off both management and unions to hammer out an agreement. It is simply too easy to throw in the towel—or refuse to negotiate realistically—and let someone else do the job. That way, someone else is to blame if things don't work out.

For collective bargaining to work as it should, mechanisms must be built into the process that force a bilateral agreement. This means, essentially, that there must be some pain if an agreement is not reached. In private enterprise, that means, within some limits, the right to strike on the union side and the right to lock your doors on management's side. These decisions, while they may be invoked by one or the other parties in the dispute, inflict pain on both sides. It is unrealistic to expect these options to exist in a government setting, but a surrogate must be found, perhaps options similar to the Railway Labor Act.

Finally, there is a series of provisions in the Postal Reorganization Act that prevent the Postal Service from acting as a business acts. The Postal Service does not have the sole power to handle its own investment portfolio as it wishes nor can it represent itself in court without the (seldom granted) permission of the Department of Justice. The Postal Service cannot contract as it wishes for international air service. Unrealistic caps are placed on senior executive salaries and the compensation of members of the Board of Governors. There is a laundry list of other similar provisions that should be examined. Taken singly, they might not mean that much, but together they represent substantial restrictions on the Postal Service that hamper its ability to compete.

These suggestions, however, beg the bigger question. Are even greater structural changes needed? Does the Postal Service need to be privatized?

While there as many definitions of privatization as there are commentators on postal issues, we are referring to the numerous ways the Postal Service can be transferred to some form of private ownership. Representative Crane's bill, co-sponsored by Rep. Rohrabacher, is one approach whereby the Postal Service would be owned by its employees. However, there are many other models that could be used.

DMA has not yet reached a position on the more far-reaching privatization proposals. There are many questions that remain unanswered, and perhaps will always remain unanswered. For example, universal service is a hallmark of the present Postal Service and, for mailers, an essential ingredient of any new postal system. While proponents of privatization assure us that there would be universal service, it is not at all clear to us at the present time how it could be assured. Reasonable rates of postage is another essential. Proponents of privatization also assure us this would be the case under private ownership, but we see no convincing evidence of that.

One thing of which we are certain, however, is that major changes, if they are to come, must be done thoughtfully and carefully. We are dealing here with an institution that touches the lives of every American and is of critical importance to huge segments of American business. We cannot afford to experiment. We must get it right the first time. We need a universal, reliable, and reasonably priced service without interruption.

That is why we welcome the care and seriousness with which this subcommittee is approaching the issue. We look forward to working with you in developing effective postal reform proposals.

CONGRESS AND THE POSTAL SERVICE

No discussion of postal issues would be complete without discussing the role Congress has played in the last few years. Unfortunately, on the whole, the influence has been a negative one.

This is not to say that various congressional committees and subcommittees have not performed valuable and useful oversight roles. They have. But their work is overshadowed by the fact that Congress has been responsible for saddling the Postal Service with largely unjustified charges of more than $14 billion to help reduce the federal deficit. These actions in various omnibus budget reconciliation acts have added significantly to postal debt and been responsible for an important part of the stunning postal rate increases of the last few years.

The thought that Congress might add another $11.6 billion to this burden this year truly enraged the postal community. This is precisely what Congress should not be doing if it is at all interested in maintaining a viable, efficient, cost-effective, and business-like Postal Service.

A broad-based coalition of business, nonprofit mailers, postal unions, and postal management organizations joined together to head off yet another threat to the financial integrity of the Postal Service. So far, it appears that we have been successful. The $11.6 billion hit is not in any of the budget proposals now being considered.

However, the general issue just will not go away. We must make it clear that Congress must stop dipping into the postal treasury to help balance the federal budget. In the long run, such efforts are not effective. In the short run, the effect on the financial health and stability of the Postal Service can be devastating.

POSTAL FINANCE

The financial stability of the Postal Service is important to the direct marketing industry. Recent financial data appears promising with what looks to be a surplus in excess of $1 billion for FY 1995. However, some of that surplus was generated by unusually heavy volume in the first quarter of the fiscal year when mailers were desperately trying to beat the rate increase scheduled for January 1, 1995. We are now heading into the slow summer mailing season, and we remain hopeful that the financial strength of the Postal Service will remain strong during that period.

Unfortunately, there are some dark clouds on the horizon. First, productivity of postal workers declined last year and remains on a downward trend this year. This is particularly disturbing in light of the huge investment in automation by the Postal Service. Without improved productivity, the financial health of the Postal Service will always be precarious.

Another disturbing factor was revealed in the General Accounting Office testimony before this subcommittee in March. The GAO consistently has testified that automation was not attaining expected savings. However, this year GAO stated for the first time that employee resistance was a factor in the disappointing performance of postal automation. If true, this is very discouraging to all mailers. We hope that Postmaster General Runyon can change this culture. We must have everyone

involved—management, labor, and mailers—working together to improve and strength the Postal Service. If we do not, our collective well-being is threatened.

THE IMPORTANCE OF CUSTOMER SERVICE

Postmaster General Runyon has made great strides in making the Postal Service more customer oriented. However, there is much more to do along these lines. For example, companies whose mailings have drawn poor responses because of delays in delivery measured by in-house seeding programs should not be brushed aside by being told they need to improve their testing procedures. Companies do not measure mail delivery to tweak postal managers. They have a vital interest in the results, which must be taken seriously by postal managers. The Postal Service needs to do an even better job taking seriously and investigating delivery problems, and working with mailers to work out solutions.

Similarly, mailers have a great deal of experience (and have suffered some pain) with flaws in postal rate designs. The Postal Service needs to work much more closely with mailers, and if necessary the Postal Rate Commission, to resolve rate design problems before a rate case is filed. The response now is, more often than not, to wait for relief until the next rate case. Even then, cooperation with mailers in preparing rate cases still leaves much to be desired. And, the customer who may have been harmed by a flaw in rate design may not even be around for the next rate case.

We reiterate our desire—in fact, our pledge—to work with the Postmaster General and other postal officials to make the Postal Service more responsive to its customers at all levels of the organization. If we fail, customers will move elsewhere, and the financial stability of the Postal Service will be further weakened.

CONCLUSION

Again, we thank the subcommittee for inviting us to testify on matters that are crucial to the existence of many members of the Direct Marketing Association. We look forward to working with you in developing effective postal reform proposals.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO RICHARD BARTON

Question 1. The Government Reform and Oversight Committee has been instructed by the Budget Committee to report reconciliation legislation involving mandatory spending programs within its jurisdiction. The Budget Committee suggested we look at eliminating the transitional payments to the Postal Service which cover workman's compensation liabilities incurred by the former Post Office Department prior to the 1970 Reorganization Act. The current appropriation is approximately $37 million per year and declining. Last week the House passed its Budget Resolution which included this provision. What are your views concerning the elimination of this appropriation for former Post Office Department workers' compensation costs?

Answer. DMA opposes the reduction of the proposed cut in the FY 1996 budget of the $37 million for worker's compensation liabilities incurred by the former Post Office Department prior to 1970. This was a commitment made to the new Postal Service when the Postal Reorganization was passed and should not be rescinded.

Question 2. Longstanding labor relations problems persist on the work room floor of the Postal Service. Literature on the subject suggests that unionized organizations can make little progress reinventing the organization or changing its culture if relations between management and labor leaders are adversarial. How can Congress and the executive branch encourage and assist postal management and unions to address the severe labor management problems in the Postal Service?

As usual, labor and postal management have been unable to reach agreement on a new collective bargaining contract. Does the current state of labor management relations in the Postal Service affect your organization's members as postal customers?

Answer. The collective bargaining process needs to be redesigned to provide major incentives for the parties to reach agreement without having to resort to third party arbitration. This May include the right to strike, but even if it doesn't, a new system must be developed to drive the parties to reach a bilateral agreement. Beyond this, labor-management relations in the Postal Service are sour, and therefore detrimental to efficient operations, because neither labor nor management on the whole trust each other or are willing to work together in a non-confrontational way. This is

largely a matter of changing the culture of labor-management relations in the Postal Service, which cannot be influenced in any significant way by legislation.

Question 3. I have received some correspondence from postal customers who feel that current postal regulations concerning the encapsulation of perfumes and fragrances in the mail are inadequate. They believe that even when the seal does not break, perfume escapes into the air and contaminates other mail. This appears to be a serious problem for those with allergies and similar health problems. What is DMA doing, if anything, to address this problem of perfumed advertisements contained in magazines, catalogues, and other materials delivered by mail? Should delivery of fragrances by mail be further restricted?

Answer. DMA supported the regulations governing the mailing of samples of perfumes and other fragrances. As far as we know, those regulations have been largely successful in reducing substantially the irritation caused to a relatively small group of consumers. There may be a need to strengthen these regulations, but the real need has yet to be demonstrated to us.

Mr. MCHUGH. The Chair is pleased to acknowledge the presence of the gentleman from New York, Major Owens.

Thank you for joining us.

We have Mr. David Todd for his comments. The floor is yours, sir.

Mr. TODD. Thank you, Mr. Chairman. I'm David Todd, representing the Mail Order Association of America.

The members of MOAA make extensive use of first, third and fourth class mail and, I think, approach this from the perspective of ensuring that anything that happens will leave a viable Postal Service that serves the needs of all types of mailers equally well. You have asked for our comments on both the short- and long-term objectives that we have with the Postal Service. In many ways, we feel that those objectives are the same. An underlying premise that we would urge the committee to bring to this process is that the Postal Service should remain as a hard copy and parcel delivery service. We do not think that it should be in the Postal Service—part of the Postal Service's business to move into the electronic area.

It is quite obvious that electronic diversion is real and that it will continue. There has been much diversion of what would otherwise be first class mail into the electronic arena to date. This diversion is because of the instantaneous nature of the transmission with which a hard copy deliverer simply cannot compete; and second, the costs saved by the electronic alternatives are in many ways as much related to the savings of paper and filing, et cetera, as they are to the cost of postage. In short, we do not think the Postal Service can or should attempt to adjust prices or services to win back this volume because it is beyond doing.

Our second point is, we believe that the Postal Service will for the foreseeable future have sufficient hard copy and parcels to remain an economically viable operation. Although there is further threat of electronic diversion in first and some in third, nonetheless, we do not see a time when the Postal Service cannot have, will not have sufficient volumes to allow it to operate efficiently. In that regard, we also would urge the Postal Service to give more attention to the small parcel market, a market which has been characterized in terms of home delivery by all too little competition, and a market which is not going to go away and, in fact, will only increase. You cannot deliver merchandise electronically.

With respect to the whole debate on privatization and the proposals that may be coming up next fall and in the coming year as to

what should occur to the Postal Service, we would urge three fundamental principles that should guide this committee's consideration of the issues. We do not believe that there is a Postal Service crisis. We believe there are serious problems that should be addressed, but nevertheless the Postal Service is well serving the needs of America's businesses and America's mailers.

Second, if there is to be drastic change, there should be an assurance that this drastic change occurs without significant disruptions in any transition. It is clear that the mail service is of vital importance to large segments of American business and certainly all MOAA members. Any significant disruption of that service would be devastating and cannot be allowed to occur.

Finally, we also endorse the continuation of universal service. There should be the ability to mail from and to any place in the country without any disruption.

You've asked for our particular comments on how is the USPS doing right now. There are certainly signs that they're doing better. We don't think they're doing nearly as well as they should be. It has been mentioned this morning that in the automation area it doesn't appear to be proceeding as rapidly nor saving the kinds of costs that it should be saving. We think it is a serious problem. So we're encouraged, but remain very concerned that the Postal Service must increase its efficiency.

Second, we endorse the PMG's statement that he must be given greater flexibility in pricing. We are supportive of the rulemaking which is now under consideration by the Postal Rate Commission. It is possible that that rulemaking will address most of the problems which the Postal Service sees in terms of experimental services and some of the other pricing freedoms that they're seeking. We fear that in the end it will be necessary to make legislative changes to give the Postal Service the kind of flexibility that it needs to compete in this market.

Finally, we do support the classification proposals which have been put forward by the Postal Service. They're tardy, but better late than never. We certainly hope that this will bring about a classification in which there is a better match between costs and the market characteristics of mail than exists under the current system.

Thank you, Mr. Chairman. That completes my remarks.

Mr. MCHUGH. Thank you, Mr. Todd.

[The prepared statement of Mr. Todd follows:]

PREPARED STATEMENT OF DAVID C. TODD, ESQ., PATTON, BOGGS & BLOW, AND COUNSEL, MAIL ORDER ASSOCIATION OF AMERICA

I am David C. Todd, counsel for the Mail Order Association of America (MOAA). The members of MOAA make extensive use of first-, third-, and fourth-class mail and in common with thousands of businesses are heavily dependent upon the Postal Service to serve their customers. Reasonably-priced and reliable postal services are essential to meet the needs of those customers and all users of the mail.

Mr. Chairman, in the letter of invitation to the MOAA, you stated that the members of the Subcommittee would like to be informed of the short- and long-term objectives of the Association and the interaction of the members of the MOAA with the United States Postal Service. On one level, I do not think that there can be a significant distinction between the short- and long-term objectives of the members of MOAA. Both in the short- and the long-term. MOAA supports a well-run Postal Service, in its current or any future form, that provides reliable delivery of hard copy at reasonable rates.

MOAA believes that the USPS will for the foreseeable future have sufficient volumes of hard copy and parcels to permit it to function reliably and efficiently. If absolute volumes of mail begin to decline, which has not thus far occurred, the Postal Service will need to make necessary changes in its structure to adapt itself to such lower volumes so that it can continue to provide the service needed by the American public, including business users. It is, however, hard to foresee a time in which volumes will have shrunk to a level which would preclude an economic operation.

Further, if, as MOAA certainly hopes will be the case, the selling of merchandise through other than regular retail outlets continues to expand, there will always be a major need for the delivery of parcels. A shirt or a pair of shoes cannot be delivered electronically. Therefore MOAA has and will continue to urge the Postal Service to use its unique resource, a nationwide delivery network that reaches every address in this country six days a week, to compete more effectively for this parcel traffic. This would be beneficial to the Postal Service by increasing its revenues at a time when it is facing threats of loss of market share in other areas. Just as important, it would greatly enhance competition within the small parcel market which MOAA members feel has been characterized by all too little competition.

MOAA recognizes that electronic alternatives to the USPS have already had volume effects and that they probably will have even greater effects in the future. Nevertheless, we believe that the Postal Service's function should remain focused on the effective delivery of hard copy and parcels. Diversion to electronic media, certainly with respect to diversion of the transactions which would otherwise be carried out via first-class mail, are dictated by the instantaneous and low-cost nature of those transmissions. Further, much of the loss of the Postal Service's market share of financial transactions results from the fact that the use of electronic transmission avoids the creation of paper such as invoices, purchase orders, etc. so that the corollary savings from the use of electronic transmission are just, if not more, important than postage savings. Therefore, it is not possible for the Postal Service to seek to recapture this volume by lowering or manipulating first-class rates or service.

There also is a real potential of diverting what is now third-class mail from the USPS into electronic media of various kinds. Selling merchandise through television channels by the use of ordinary telephone lines and payment by credit card has become well-established and accounts for substantial sales. The further use of television or other media and the possibility of interactive television allowing greater customer control of products to be displayed and instantaneous ordering is already technologically feasible. What is not clear is how electronic selling, as a substitute for what is now marketed by mail, is going to develop in the marketplace. Again whatever develops, MOAA believes this is not a field which the Postal Service should seek to enter.

Recently, there has been a great deal of discussion about the "privatization" of the Postal Service. This has stemmed in part from a reexamination of functions which have been performed traditionally by government with a view to determining whether these functions could be better carried out within the private sector. A strong impetus has been the hope that transferring such functions to the private sector would reduce the federal government's burden and reduce the federal deficit. The Postal Service has been caught up in this movement, despite the fact that the USPS is self-supporting and not a drain upon the Treasury. In fact, because a major portion of the costs of nonprofit mail are paid for by the other users of the USPS, the USPS actually assumes charitable costs that would otherwise have to be met by appropriated funds.

Another impetus for "privatization" is that over a period of many years, postal costs and rates have risen at a rate far higher than the general rate of inflation. This has resulted in a great deal of dissatisfaction among mailers and a belief that something must be done to bring Postal Service costs into line with the general economy. Ironically, the current push towards privatization comes at a time when postal rates have been more stable and have increased more modestly than at almost any time in the history of the Postal Reorganization Act. MOAA members applaud recent rate trends, but remain concerned that evidence so far is at best mixed as to whether underlying postal costs have been brought under control.

In considering privatization, there are important propositions that should guide the process.

First, the USPS is not in crisis. There has been no breakdown of postal services. The mail is delivered. The speed and reliability of such delivery could and should be improved, but as a general proposition the USPS is well serving the needs of all of the American people, including business customers and MOAA members.

Second, the USPS is of vital importance to the economy of this country and any significant disruption of mail service would have devastating consequences. If there

are to be changes in the way the Postal Service functions, it is essential that this be carried out in a way that does not cause market disruptions for even brief periods.

Third, the provision of universal service is essential. Certainly, the American people should continue to be able to post a letter to anywhere in the country at a reasonable cost. Similarly, MOAA's members needs can only be met by the same universal service, i.e. the ability to have a catalog or other hard copy message delivered to any address in this country. Some have suggested that the ideal of universal service does not necessarily require that there be a single entity responsible for either the collection or delivery of mail to all parts of the country. Multiple providers may be feasible, although MOAA expresses considerable skepticism as to whether such a network would prove to be either feasible or economic. In any event, we need to proceed cautiously if a system other than a single carrier is to be developed.

There are numerous other issues which will need to be addressed by the Congress in determining what, if any, changes should be made to the Postal Service as we know it today. Certainly prime among those issues is whether the monopoly should be maintained for either or both first- and third-class mail, which will require a close examination of the potential consequences of removing the monopoly status. Another issue which has been discussed at length over many years is whether competitors of the Postal Service should have access to the mailbox. Again, this is a controversial issue in which the attitudes of the American public as well as the consequences of allowing unlimited access to the mail box need to be considered carefully prior to making changes.

Nevertheless, the Postal Service should continue to pursue new ways to become more efficient. Work sharing, under which mailers have performed tasks performed previously by the Service, has been a great success and those efforts should continue. The Postal Service should also continue to explore ways in which other functions can be performed by the private sector, if that will lead to more efficient operations.

There are other Postal Service changes that should be made particularly the manner in which it is regulated. It is possible that some of the regulatory difficulties of the Postal Service can be addressed without legislative changes. The Postal Rate Commission is now considering a rulemaking which would make it easier for the Postal Service to initiate new and experimental services quickly and without being subject to what have become stupefyingly minute and burdensome cost and market justifications for such services. The proposed rules would also allow the Postal Service considerably greater rate freedom for those services for which there are competitive alternatives and allow the Postal Service to tailor individual contracts with mailers when such contracts would serve both the interests of the Postal Service and the mailers, in much the manner in which other competitors of the Postal Service such as United Parcel Service are now free to do. MOAA supports the proposed changes and hopes that the Postal Rate Commission will expeditiously act to adopt them.

Further, currently pending before the Postal Rate Commission is a proposal made by the Postal Service for substantial reforms in the classifications for first-, second-, and third-class mail. Again, MOAA supports these changes which, if approved by the PRC, will do much to bring about classifications which will more rationally group by cost and market characteristics the various types of mail within each of the classes. The end result would be to permit a more efficient Postal Service to the benefit of all mailers.

If the PRC shows itself to be amenable to the rule and classification changes which are necessary in order to allow the Postal Service to function as it should, it would be possible to argue that further legislative changes are not necessary. MOAA, however, believes that we are now in a situation in which the long-term difficulties of the Postal Service can only be resolved by at least some legislative modifications.

The 1970 Senate report, leading to the adoption of the provisions of the Postal Reorganization Act creating the Postal Rate Commission, observed:

> If a bureaucratic struggle between the Board and the Commissioners develops, then the whole theory of independent ratemaking judgments will have failed and the Congress will probably be called upon to revise the system.

Unfortunately, the "bureaucratic struggle" between the USPS and the PRC feared by the Senate has in fact developed. Although MOAA is not prepared to endorse specific proposals at this time, we are sympathetic to the Postal Service's position that it needs to be given greater flexibility with respect to people, products, and services. MOAA would like to make it clear, however, that it does not believe that

the Postal Service can or should be given authority to unilaterally set its prices so long as it enjoys the protection of a monopoly. Nevertheless, an alternative to the Postal Rate Commission or to the scope of its authority is certainly one of the issues that should be examined.

In general summary, Mr. Chairman, MOAA urges this Committee to give thorough and careful consideration to all of the difficult issues that must be resolved before making changes in the Postal Service. MOAA is of the strong view that drastic changes should not be made until we are in a position to ensure that universal service that will fully meet the need of both business and non-business mailers will be continued without interruption.

Thank you for providing this opportunity for MOAA to express its views.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO DAVID C. TODD

Question 1. The Government Reform and Oversight Committee has been instructed by the Budget Committee to report reconciliation legislation involving mandatory spending programs within its jurisdiction. The Budget Committee suggested we look at eliminating the transitional payments to the Postal Service which cover workman's compensation liabilities incurred by the former Post Office Department prior to the 1970 Reorganization Act. The current appropriation is approximately $37 million per year and declining. Last week the House passed its Budget Resolution, which included this provision. What are your views concerning the elimination of this appropriation for former Post Office Department workers' compensation costs?

Answer. The Mail Order Association of America believes that it is only fair and equitable for pre-1970 workman's compensation liabilities to continue to be paid to the United States Postal Service. The issue should be addressed in the context of the situation at the time that the independent Postal Service was created. Specifically, Congress concluded that, after years of inefficient operations and pursuant to continuing public service obligations, the Service should not have to bear the cost of past liabilities. As noted in the question, the amount is declining and there would appear to be no reason for its elimination at this time.

Question 2. Longstanding labor relations problems persist on the work room floor of the Postal Service. Literature on the subject suggests that unionized organizations can make little progress reinventing, the organization or changing, its culture if relations between management and labor leaders are adversarial. How can Congress and the executive branch encourage and assist postal management and unions to address the severe labor-management problems in the Postal Service?

Answer. Clearly, the system of arbitration has resulted in nearly continuous resort to those procedures rather than negotiated collective bargaining agreements. MOAA believes that the Congress should explore the possibilities of some modification to the procedures which would encourage both labor and management to approach the bargaining process in a greater spirit of good faith. One possibility which has been suggested which MOAA believes may have merit is to proceed on the basis of a "last best offer" system pursuant to which the arbitrator would be free to choose one or the other but not modify labor's and management's last offers.

Question 2A. As usual, labor and postal management have been unable to reach agreement on a new collective bargaining contract. Does the current state of labor management relations in the Postal Service affect your organization's members as postal customers?

Answer. MOAA believes that the state of labor-management relations in the Postal Service undoubtedly affects MOAA members because anything that serves to lower employee morale and otherwise contribute to an adversary relationship between the Postal Service and its labor unions has the inevitable result of reducing efficiency. MOAA also believes that a concerted effort ought to be made to ensure that the Postal Service makes full use of its entire workforce including its non-collective bargaining supervisory work force to ensure the most efficient possible Postal Service.

Question 3. You mention the success of work-sharing between mailers and the Postal Service (e.g., performing initial sorting and mail preparation yourselves in return for a rate discount), and you encourage more effort in this area. However, even though mailers are being called upon to do more and more of the work of the Postal Service in mail preparation, the number of postal employees remains very high. Can you explain both the high number of employees and the increasing work requirements on mailers? Is work-sharing cost-effective for your members?

Answer. First, work-sharing has been cost-effective not only for mailers, but has also clearly been cost-effective for the Postal Service. An examination of Postal costs over a period of the last ten years reveals that in the absence of work-sharing, Postal costs and hence Postal rates would have been substantially higher then they are. That the number of Postal employees remains high is not a reflection of any failure of work-sharing efforts, but rather reflects a failure of the Postal Service to capture the full benefits of automation. It might possibly even be argued that automation has at times been pursued in a manner which has served to dilute the work-sharing efforts. Unlike automation, work-sharing has had virtually immediate positive effects upon the costs of the Postal Service as well as the rates of mailers.

Nevertheless, MOAA recognizes and supports the continuing effort to automate as much of the mail stream as is possible. MOAA's only caution is to ensure that the Postal Service pursues automation only in those circumstances in which it will prove to be a net benefit, i.e. that it proves to be consistent with the Postal Service's long-standing goal of structuring its operations so as to produce the "lowest combined cost" to the Postal Service and mailers. Every work-sharing program which has been proposed and ultimately approved by the PRC has proved to be exceedingly cost-effective and has, by every indication, produced the "lowest combined cost."

The current classification proceeding pending before the PRC marks, MOAA hopes, another significant step forward in the concept of work-sharing and the proper structuring of the overall Postal Service to ensure that its products and services reflect market conditions so as to ensure that the Postal Service remains healthy and viable which will benefit all classes of mail. This is a particular concern to MOAA because its members make extensive use of first-, third- and fourth-class mail and it is thus of vital importance to them that the classification structure and the ultimate rates for all of those classes of mail are set in a manner which reflect economic reality.

Question 4. You state that a "bureaucratic struggle" has developed between the Postal Service and the Postal Rate Commission. How should Congress address this problem? In what ways would you restrict the scope of the Rate Commission's authority?

Answer. MOAA has not yet developed a full position on possible legislative changes that could be made to address the bureaucratic struggle which has developed between the Postal Service and the Postal Rate Commission. One possible approach to alleviating this problem would be to give to the Postal Service the authority to change the classification structure and rates without review by the PRC, provided that rates cover the full attributable cost of each type of mail. This would have to be followed by a rate proceeding pursuant to which the PRC would examine the rates after a given period of time, i.e. one to two years. This system might well permit the Postal Service to move quickly to structure itself to meet market demands. It might also serve to eliminate what continue to be exceedingly costly proceedings involving the expenditure of huge sums of money particularly on the part of the Postal Service and also on the part of the mailers affected thereby. Mailers fear that proceedings before the PRC have all to often simply afforded competitors of the Postal Service an opportunity to present every possible roadblock to the Postal Service functioning efficiently.

Another change that could be considered is to change the rate setting criteria of the Postal Reorganization Act to explicitly state that the PRC should take into account economic efficiency and maximizing net consumer welfare in establishing rates. Although MOAA believes that this principle, which is widely supposed by regulatory economists, is one which the PRC is free to and should adopt at this time, there has nevertheless been a reluctance by the PRC to apply those principles.

Mr. MCHUGH. Lastly—obviously not "least-ly"—Mr. Timothy May.

Mr. MAY. Thank you, Mr. Chairman.

I am general counsel of the Parcel Shippers Association, and our members are some—or all of them belong to all of the other associations testifying today. All of our members are in the business of sending solicitations for people to buy things through the mail, getting orders back through the mail mostly, and delivering product, which is the peculiar focus of our organization, which is how do they get their merchandise delivered.

They have for far too long been largely captive to the most successful monopoly in the free world, United Parcel Service. It's kind of the mirror, reverse image of the Postal Service, where the Postal Service has a monopoly over the carriage of their sales messages, and UPS has for too long virtually had a monopoly over the delivery of the merchandise they sell. So we have a little bit of a different problem. But we share many of the same issues and concerns as the other associations.

I should say, just to begin with, I think there ought to be some reflection on the fact that 25 years ago the Postal Service was in crisis. I don't believe it is today. It was 25 years ago, and the Postal Reorganization Act was a truly revolutionary act for its time; it was the beginnings of the recognition that government agencies are not the best instruments to do a lot of jobs. And the Postal Service is not an ordinary government agency. Far—it's far different than that. It was the first time that Congress freed a large operating agency to do genuine collective bargaining with what—with what at that time was the largest work force in the world—genuine collective bargaining, devoid of only the right to strike.

Second, they set up an independent—and I emphasize, independent—expert body to fix the rates and approve the services of this giant agency. The thing that did characterize it at the time that is no longer the same is that they were largely invulnerable to competition, except for the delivery of parcels. At that time, they had about an equal share of the parcel market with United Parcel Service, but, otherwise, they did not have competition.

They were also freed from any dependence on revenues from the Congress. Since the Second World War, up until the time of postal reform, Congress appropriated 25 percent of the budget of the Postal Service. The users of the system paid the other 75 percent. In today's dollars, that would be the equivalent of you having to come up with $14 billion to give to the Postal Service as your share of its operations.

You're giving them nothing now. In fact, the Congress for the last few years has taken money from the post office, has taken money from our members, right out of their pockets, to help in this foolish effort to try to balance the budget. We hope that's at an end, and we think under your leadership and the new congressional leadership, we are going to get a different hearing and a different look at the post office than we've had in the past.

I should say, when I say I don't think that it's in crisis, to the extent that it is in crisis, it's one manufactured for third class mailers, and perhaps other mailers, by several things. One is the fact that the Postal Rate Commission, three times in a row now, has increased third class rates more than the post office requested. If you're a third class mailer, you're liable to think a crisis is either here or about to happen.

Second is, the Post Office has had to and been in the process of paying over this $14 billion to the Treasury. That has forced it to also raise rates, to try to cut service, to manage under this. So to the extent there is the appearance of a crisis, I believe it's largely manufactured by those events.

Does that mean the Postal Service is as efficient as it should be? No, and it's not possible for a monopoly to be totally efficient; and

it's not possible even for large, very large entities like General Motors, most of the time, to be efficient, even though they're not monopolies. But we do not want to see any drastic solutions proposed until we're sure that this can't be fixed by itself.

We're not convinced that the Postal Rate Commission has done the job it should have done in terms of issuing impartial and fair decisions. We don't think the post office has done everything it can to be efficient, to try to work with its labor force, to try to come up with better solutions to the problems they face. And we don't think that the Rate Commission and the post office together have been imaginative enough about trying to find solutions to the inflexibility the post office faces in trying to bring new products to market.

I will say that we have always taken the position that where there is adequate competition and where there is no monopoly, the Postal Rate Commission should have no say in the fixing of postal rates and services for those products, other than to be sure that they're not getting cross-subsidized by monopoly services and that they're freely available on equal terms. The obvious cases are parcel post and express mail. There is no reason in the world why the Postal Rate Commission should have for decades built an umbrella under the UPS rates by artificially hiking up parcel post rates and, in the process, almost destroying the parcel post service.

In the last 7 or 8 years, the Rate Commission has been very forward looking in reversing that trend and trying to preserve competition in this parcel market. On the other hand, they have not been very cooperative in terms of trying to define new kinds of parcel post products.

Just to try to wrap up, we hope that the post office, the commission, the mailers will all, first of all, try to see how they can improve everything within the present statutory framework, and then, only then come to this Congress and ask for changes in an act that has been rather revolutionary and, in fact, rather successful in terms of its objectives. And we certainly don't want to see the monopoly abolished until everyone understands the consequences of doing that.

Thank you, Mr. Chairman.

Mr. MCHUGH. Thank you.

[The prepared statement of Mr. May follows:]

PREPARED STATEMENT OF TIMOTHY MAY, PATTON, BOGGS & BLOW, AND GENERAL COUNSEL, PARCEL SHIPPERS ASSOCIATION

My name is Timothy J. May; I am General Counsel of The Parcel Shippers Association, a group of approximately 200 businesses which utilize the United States Postal Service and other carriers to ship parcels in interstate commerce. Our members are heavily reliant upon the Postal Service as the principal means for soliciting their customers through third class mailings; and these customers in turn use the Postal Service to place orders for merchandise, and to pay for that merchandise.

We are pleased to have this opportunity to present our views on the current state of affairs at the United States Postal Service, its immediate and long-term prospects, changes that may be necessary for its future survival, and PSA's short and long-term postal objectives.

INTRODUCTION

Now that we have had a quarter of a century of postal operations under the Postal Reorganization Act, and now that many are suggesting that the Act is badly in need of updating and repair, perhaps it would be useful to recall again just how rev-

olutionary Postal Reorganization was in its day. It was one of the earliest recognitions that the standard government agency was not necessarily the best way to accomplish a governmental mission. The Postal Reorganization Act was one of the first efforts to take a government operation and make it behave more like a business, recognizing that the functions of the Postal Service had far more to do with businesslike operations than they did with the setting of policy for the country the province of most government agencies and departments. Postal reform was an early recognition that government agencies, encumbered as they are by a host of laws, limitations, and regulations are not the most efficient way to run business-type operations. Consequently, the Postal Service was freed from a number of laws and regulations that obtained for all other government agencies so that it could perform like a business.

It was the first time the government fully recognized unions and granted true collective bargaining to government employees, although it did not go all the way and allow them the right to strike. Perhaps even more unusual, the Postal Reorganization Act granted to low level managers and supervisors the right to be represented through an organization which could participate in the establishment of the policies that determined their pay and working conditions.

Prior to postal reform, and since the Second World War, the Postal Service's budget had been subsidized by appropriations an average of 25% of total costs. In today's numbers that would be the equivalent of a subsidy to the Postal Service by the Congress of close to $14 billion a year. When this Act was passed the dependence upon Congressional appropriations was ended, and the Postal Service set out to become financially independent and live off the revenues it could generate from the services it performed for the American public. And that mandate has been largely fulfilled. The taxpayers pay nothing for this service.

Postal rates had been fixed by Congress in what resembled a not very pretty log rolling of special interests, largely devoid of any application of modern economics or pricing. In the place of the Congress, a Postal Rate Commission was established so that it could apply the kinds of economic and regulatory expertise needed to fashion fair, equitable, and efficient postal prices, after a full-blown proceeding in which every interested member of the public would be permitted to have a full hearing, and where the decisions of that expert Commission would have to be based upon the evidence compiled in those hearings. The Congress spelled out certain non-cost criteria that it hoped the Commission would follow in fixing those prices, but did give great leeway to the expert judgment of the Commissioners in applying those criteria. Suffice it to say, however, the Congress never intended to delegate its right to fix postal rates for political reasons.

One of the omissions in this system, however, was that neither the Postal Rate Commission nor any other independent body was given a mandate to make the Postal Service efficient. The PRC has no regulatory authority over the Postal Service's operations. It exists largely to decide which classes and subclasses of mail should pay whatever costs the Postal Service incurs. (In fact, it really would not be possible for some regulatory body to ensure an efficiently operating Postal Service.)

It may be that twenty-five years ago there was no need to ensure that there was a highly efficient Postal Service, since for most of what the Postal Service did there simply existed no competition. There seemed to be no reason at that time why one could not take a year to get new prices in place or new classes or subclasses established; or to bring a new postal product to market. The Postal Service did not have to meet the rigors of any competitive market so there was no great haste needed in getting any of these things done. That is no longer true.

Thus, whatever else may be said about the Postal Reorganization Act, the Postal Service it created was one established to deal with a marketplace that is quite different than today where the Postal Service faces increasing competition to deliver the essential communications that had long been the exclusive preserve of the Postal Service. That must be addressed. The Postal Service must be allowed to operate effectively in this new environment. If necessary, the Act must be changed to allow that to occur.

1. The Postal Service's Current Posture

A case can be made that the Postal Service is currently in good shape. Seven months into Fiscal Year 1995 the Postal Service has already recorded a $1 billion surplus, or "profit," or whatever name one wishes to give it. That would be a record if it holds. Revenues are already up $3 billion over the previous year and costs are almost $300 million below budget.

Service as well seems to have improved, at least according to the Postal Service's various measurement systems. 85% of local first class mail is being delivered overnight. Even in the troubled cities of Washington and New York service has im-

proved. And, despite all of the editorials that make fun of the Postal Service, and the various criticisms of it, Americans continue to regard it as among the most successful of government agencies. A recent consumer survey found that 87% of all Americans are satisfied with their mail service. This satisfaction seems to obtain even in bad times. A year ago, during Quarter II, and after one of the worst winters on record contributed to a very poor delivery performance, the independently-administered Consumer Satisfaction Index (CSI) found that 89% of surveyed households rated overall service as "good" to "excellent." It would seem that, while Americans like to complain about their Postal Service, in fact, they like their Service, they like their mailman, and they find in it one of the few human faces of government with which they can interact in a time of increasingly faceless bureaucracy.

Frankly, we think they ought to like it. It is one of the truly great bargains the American people get. They no longer pay a single cent of their tax monies to have the mailman come to their homes and business every day delivering all kinds of important personal communications, business communications, solicitations, information, and entertainment. In a time when Americans increasingly believe their government does little for them except take from them, here is a government agency that seems, on a daily basis, to be doing something for them.

2. PSA Postal Objectives

Our short-term objectives are to ensure that the Postal Service is able to deliver hard copy messages at an affordable cost and in a reliable manner, and that they are able to utilize their unique carrier delivery force to secure a significant share of the parcel delivery market, where most of our members are now too dependent on United Parcel Service for the delivery of their product to homes across the country. Long-term objectives are harder to define. Most of our members are in the business of mailing hard copy sales messages to businesses and to American households; receiving orders back, usually by mail, and arranging for the delivery of the products sold. Electronic marketing is now a mere shadow, the outlines of which are hard to discern. A survey conducted by the Direct Marketing Association reports that consumer products and services sold through interactive electronic media were estimated to be less than $3 billion in 1995. However, that same survey found that such sales were expected to reach over $28 billion in another ten years. Obviously, the more the public becomes accustomed to selling and buying through electronic media, the less important the ability to deliver hard copy messages becomes. At the same time, though, that means that many of the businesses that our members are today will not be the same in the future; in other words, those businesses, like the Postal Service, may find themselves sooner or later out of date. Our members will have to make that adjustment if they want to be around well into the next century.

There is no reason why the Postal Service should not try to identify a proper role for itself in an electronic communications future, so long as that is married to its core functions of delivering hard copy communications, and so long as they neither ask for nor are given a privileged position in what will, it appears, be a very competitive electronic communications market. Moreover, however products are sold in the long-term future, people are still going to be buying actual products, not simply electronic responses. That means that the product, the piece of merchandise, the book, the record, what have you, is going to have to be delivered by someone. We see enormous opportunities for the Postal Service to marry its unmatched capability to deliver to every home in America with partnerships with a variety of transportation companies that can bring products to delivery points. We hope the Postal Service is seriously exploring those options.

3. Classification Reform

The Postal Service has filed its long awaited classification reform proposals. These reforms are what we hope, and what the Postal Service says, are simply a beginning. We are pleased that they do seem much more closely to match classes and subclasses of mail with service needs of the customers and the cost variations of providing the service for those differing markets. The reforms are based on levels of service, and use of the highest and best technology available. Rates are more closely tied to costs and market factors, as they would be in a free market. Actually, our Association is formally most concerned with what happens to parcel post and fourth class subclasses and rates. The Postal Service has promised to file those classification reforms in the fall of this year.

The question is who would object to such a rational restructuring? The answer is those who are currently benefiting from the fact that the current mail classification structure creates numerous cross-subsidies whereby very costly-to-handle mail does not pay its way and has its costs picked up by mail that is much less costly for the Postal Service to handle. The threat to these reforms resides in the possibil-

ity that the Commission will disregard the evidence and make its decisions based on what it mistakenly believes will be popular with the public and consumer interests. The political and public relations problem is succinctly captured by two headlines run in The Washington Post reporting on the Postal Service's classification proposal:

"Postal Service Seeks To Cut Rates For Biggest Customers"

"Postal Service Plan Would Benefit Big Magazine Publishers, Bulk Ads"

This is obviously the way that enemies of reform want to position the proposals. There is an ongoing attempt to make the public and its representatives believe that this reform proposal is simply a bail out for the big and rich mailers at the expense of the small mailer, and the ordinary postal customer.

The whole reason there is an independent Postal Rate Commission is so that that Commission will decide these issues on the merits, and not on what is fashionable, nor what they think will appeal to the public, nor what appeals to the more strident special interest voices. If the Postal Rate Commissioners are going to employ such extraneous considerations in deciding these cases, then perhaps the PRC should be abolished and its functions restored to the Congress.

The Postal Rate Commissioners have not been asked to exercise their political judgment about classification reform. Rather, they have been asked to apply the law that the Congress enacted and gave to them to interpret so that these matters could be decided on a rational and objective basis, supported by testimony and evidence produced in open hearings where everyone has a chance to be heard.

4. The PMG's Proposals

While the Postal Service has yet to produce an agenda for legislative change, the PMG has broadly outlined the direction of that change. He has complained, with some justification that he has not been able to control the prices the Postal Service charges for its services. And he has rightly pointed out that the government itself has had too much to say in what the price of postage is, due to the fact that in the twelve years from 1987 through 1998, the government will have seized over $14 billion of the Postal Service's revenues, under various pretexts that the Postal Service somehow owed this money to the government, whereas in reality it was simply a naked effort to find money to help balance budgets. This piracy has been a bipartisan effort; both Democrats and Republicans have leaped into the melee and have been equally culpable in these fiscal predations. Unavoidably that pushes postal prices up and the very same Congress then complains about the Postal Service's inability to control its costs and to maintain reasonable postal rates.

a. Rate Reform

The Postal Service is not alone in believing that recent Commission decisions have seemed more like what a political body would produce than what an expert rate making body would produce. We think the PMG also has a valid complaint when he points out that it takes too long to introduce a new postal product. As he has pointed out, by the time the Postal Service gets to market its competitors have already beat them there and have the business. While the debate over the value of the postal monopoly will, we believe, go on for some time, the fact remains that for a very large portion of the Postal Service's product line, it enjoys no monopoly; it is subject to both direct and indirect competition in the communications and delivery market. An unwieldy, inordinately time-consuming process that prevents the Postal Service from quickly introducing new and competitive products will simply doom that part of the Postal Service's operation, thereby also seriously eroding support for the core business of the Postal Service, which is the delivery of hard copy letter mail, both first and third class. The Service must be able to react far more rapidly to market conditions than it is now. As the Parcel Shippers Association has previously testified, we see no reason why the Rate Commission should have any role in the approval of new products that are designed to meet existing competition and where the Postal Service enjoys no monopoly. In such cases the public is more than adequately protected by competition and does not need the heavy hand of PRC regulation preventing the Postal Service from a quick response to competitors, or, as is sometimes the case, refusing them any response at all by rejecting Postal Service innovations.

The Rate Commission's sole role should be to ensure that such new products are not cross-subsidized by monopoly services, and that those new products are made available to all customers under equal circumstances. That probably requires a change in the law. We would go further to say that we believe the Postal Service should also be able to establish on its own the rates and conditions of service for its products that are not subject to the postal monopoly and where there is adequate private competition to ensure that the Postal Service does not abuse the public. Par-

cel post and express mail are obvious cases. Parcel post competes with the most successful transportation company in the world, United Parcel Service. In fact, as we often point out, it is United Parcel Service that is the de facto monopoly carrier of small parcels for residential delivery. We have seen over the decades of the seventies and eighties the unwelcome spectacle of a government agency, the PRC, assisting the largest monopoly in the free world, United Parcel Service, in its efforts to destroy its only competitor, parcel post, by inflating the rates for parcel post in order to create a floor for United Parcel Service rates. While recent PRC rate actions on parcel post have recognized the need to preserve competition, the PRC has continued to reject the Postal Service's attempts to reform and modernize parcel post classifications and rates to be able more effectively to compete in that market.

Many of the improvements that should be made in the rate making and classification process may be able to be done without legislation. In the current rulemaking proceeding before the Postal Rate Commission (RM 95–4), the Commission is conducting a proceeding to determine whether to adopt some or all of the proposals for reform that emerged from the work of the Joint Task Force that worked in the early nineties. Some of those reforms which could make significant needed changes are:

1. Rules allowing for market tests and experiments;
2. Negotiated service agreements;
3. Separate rules for limited scope rate cases;
4. Expedited minor classification cases;
5. Adoption of procedures to use contract rates and volume discounts to counter competition; and
6. Multi-year test periods for new services (as opposed to the current single test year).

b. Labor Relations

Remarks of the Postmaster General imply that he would like to get rid of the Merit Systems Protection Board, veterans' preference rights, and a host of other rules and regulations which he believes interfere with his ability to deal with his vast work force. These kinds of radical solutions do not seem to be in the cards. On the other hand, changes here may offer the most significant opportunity for improvements in Postal Service costs, productivity, and, consequently, competitiveness in the new world in which it must compete. Collective bargaining is not going to be displaced. However, the PMG's concern with the system of arbitrated settlements is well placed. There must be some better system than one in which decisions are imposed from outside and are neither the choice of management nor labor. On the other hand, is the Postal Service, and more importantly its customers, and the public, willing to endure a postal strike, which is the usual result of an impasse in collective bargaining in other parts of our economy?

Is labor itself ready and willing to exchange lock step compensation systems and rigid hierarchical structures, for a freer, more open, democratic organizational structure where pay is tied in part to performance? We do note, for example, that Vincent Palladino, the President of the National Association of Postal Supervisors, has recently stated that his organization "remains open to pay for performance proposals." Mr. Palladino also said: "There is no question that the collective bargaining agreements since 1971 have gradually eroded our ability to manage the workroom floor." He further added that: "A parallel problem is our inability to reward our best performers, other than by just giving them more work, usually the work that should have been done by the poor performers."

The vast restructuring of the workforce initiated by the Postmaster General over the last two years seems to have finally settled into place and one can say at best it had mixed results. After encouraging directly or indirectly the departure of almost 50,000 postal employees, with a short-term significant reduction in total number of employees, the Postal Service once again is back up to the point where today it employs 36,000 more full-time employees than it did a year ago, after restructuring, and, in terms of total employment, reached a new peak of 807,125 last January. Thus, the much ballyhooed restructuring and downsizing does not seem to have stuck. Despite billions invested in technology and automation, the Postal Service remains almost as labor intensive as it was twenty-five years ago. This is a failure; but possibly not a failure inherent in the Act, but rather in the inability of the people at all levels to make it work.

There do, however, seem to be positive results from this restructuring. Everyone in the Postal Service at a managerial or supervisory level was forced to reexamine the work that they were doing and their relationship to the Postal Service and other units within the bureaucracy. Functions were shifted; positions were shifted, people were shifted, everyone was forced to take a harder look. Some layers of the bureaucracy were peeled away and there seems to be a more directed workforce that takes

far more seriously, from top to bottom, the fact that customers are the first concern of the Postal Service. Employees at all levels seem to be more involved in setting goals and striving for achievement, and there seems to be a less rigid hierarchical and authoritarian culture.

It is generally our position that the Postal Service, its employee organizations, the Postal Rate Commission, and mailers should together make the maximum amount of improvements that are possible within the current statutory framework, and only after concluding that the law inhibits the fundamental reforms that need to be made, ask Congress to change the law.

5. Privatization

One cannot avoid consideration of what the current fad of "privatization" might mean for the Postal Service. At a moment when every government agency is being looked at to determine whether or not it remains essential for the government to conduct its functions, it is perfectly natural that a number of voices would be raised to advocate the "privatization" of the Postal Service, whatever that may mean to different audiences. To some privatization simply means a wholesale transfer of the United States Postal Service into private hands through a variety of means. These include, among bills that have already been introduced, creating an employee-owned Postal Service much on the order of ESOPs that have existed for some time in the private sector.

At least, unlike some other government agencies and functions, where the agency function has been disparaged as something that does not need to be done by anyone let alone government, what the Postal Service currently does is essential for this country and is certainly essential for the industry to which our members belong. So the question remains who should perform those functions: a quasi-government agency such as the Postal Service, or the private sector, or a partnership of the two? Implicit in this debate is whether it is necessary and desirable to continue the grant of a monopoly over the delivery of letter mail. There are some postalogists who believe devoutly that there will never be an efficient Postal Service, or at least there will never be fair and equitable postal rates, so long as the Postal Rate Commission is fixing those rates, which they must do so long as the Postal Service is to enjoy a monopoly. If there were no monopoly, then they argue there is no need for a Postal Rate Commission, because, if the Postal Service were to have unfair rates or practices, competition would take the business from them. Such is the overriding belief in the efficacy of the free market.

The Mailers Council recently issued a press release announcing that the results of a poll just taken suggest that seven out of ten Americans think the quality of service provided by the Post Office would improve if private companies were allowed to compete for the Nation's mail delivery. Frankly, the only surprise is that this means that there are three out of ten Americans who believe that service would not be improved if there were competition for it. One would not expect the American people to understand the very complicated issues of the dependence of universal postal service upon the monopoly; and the possible financial consequences to mail that is left captive to the Postal Service because private companies do not want to deliver it. One can expect, on the other hand, that those who think about these issues, and the Congress itself, will weigh those considerations.

Our members do understand that it is difficult to know whether a large institution is or isn't efficient when it has no competition; when there is no competing service with which to compare that service. Our members do have a basis to know whether their parcel post or United Parcel Service rates are fair or not, whether the service is good or not, because there is competition. However, since the Postal Service maintains the monopoly over the delivery of their third class mail solicitations, they can't know for sure whether the Postal Service is efficient in the performance of that service; whether the price they pay for it is fair (they think it is not; they are aware that the Postal Service asked for lower prices for their third class products and that the Rate Commission three times in a row raised those third class rates above what the Postal Service asked for). They also know that it is difficult for managers to get the most out of their employee work force when the company is not faced with competition and thus the possibility of loss of business and loss of jobs. Since the Postal Service has never suffered a decline in volume or revenues since postal reform, no postal employee has lost a job due to the fact that business or revenues have been lost.

Certainly, postal service functions should be examined rigorously to determine what nonessential activities are being performed that could be better performed by the private sector. One obvious part of the Postal Service operation where there seems to be manifest inefficiency is in long haul transportation of mail and merchandise. The Postal Service's costs for providing long haul transportation of mail

and merchandise are way out of line with those incurred in the private sector. This seems the perfect opportunity, just to mention one, where the Postal Service ought to procure services of the private sector rather than attempting to provide at much higher costs what they don't seem to do well.

Thus, our members do have a number of questions about the continued value of the postal monopoly. On the other hand, they are gravely concerned about the possibilities of serious disruption and damage that may be the result of the elimination of that monopoly. For that reason they do not want any precipitate action taken; they do not want the monopoly changed until there is a full measurement of the consequences of that change; an understanding of those consequences; and a willingness by the users of postal services to accept those consequences.

CONCLUSION

Notwithstanding all of the talk about the obsolescence of the Postal Service, the evils of government monopoly, revolutions in communications technology, and the desire to remove government from the performance of nonessential functions, we hope this Committee will keep uppermost in mind the fact that the Postal Service remains an indispensable communication means for all of our members and for a very large segment of the business community. American business which markets its products and services invested over $29 billion in such marketing in the United States Postal Service through its mailings in 1994; that puts the Postal Service in a three-way tie with television and newspapers for the American advertising dollar. And those businesses knew what they were doing because that advertising through the United States Postal Service paid off when customers spent more than $200 billion in mail order purchases in 1994.

In the near term it is simply not going to be possible for our members, many other mail order companies, and publishers to find any substitute for the current type of hard copy communication made available only by the Postal Service. But that service must remain affordable. It is very sobering to understand that in the last five years, according to the Postmaster General, the Postal Service has seen its share of the financial transaction marketplace drop by 35% with a prediction that it will lose another 35% of market share over the next five years. That kind of trend imperils the ability of the Postal Service to continue volume growth, particularly when outside pressures such as those imposed by Congressional exactions of billions of dollars of postal revenues, continue to force up postage prices. I again refer to the $14 billion that will have been taken from the Postal Service between 1987 and 1998 by Congressional action. That $14 billion did not come out of the Postal Service, some anonymous government agency. That $14 billion was taken from the pockets of our members and other users of the Postal Service. The taxpayers pay nothing for the Postal Service they get. Quite the contrary. Because of these Congressional raids on postal revenues, mail users are now subsidizing the Treasury and taxpayers.

We recognize that this is a new era, that this Committee now starts with a fresh slate, and we are pleased that we have this chance to begin a new. We must say though that in the past we feel that the Congress has too often been the enemy and not the friend of the Postal Service. While pointing an accusing finger at inefficient postal operations with one hand, the Congress has grabbed deeply in the postal treasury with the other hand, taking billions of dollars from it to attempt to balance budgets. Many of the financial and operational crises (and even the service deterioration) the Postal Service has experienced in recent years can be traced directly to these raids on postal revenues. In that sense the Postal Service's troubles have been significantly influenced by Congressional action. We are encouraged that new Congressional leadership will put all of this in the past; and that we can expect a renewed concern and interest by the Congress with the preservation of the Nation's universal delivery system upon which all of its citizens depend, and which is an indispensable tool of the mail order industry.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO TIMOTHY MAY

Response to Question 1.

My view about the elimination of the appropriation to cover workers' compensation costs of the former Post Office Department is the same as my reaction to other eliminations of appropriations to the Postal Service, as well as congressional demands for repayments of Postal Service monies to the Treasury. It is yet one more breach of the contract made in postal reform. There was a clear obligation undertaken by the United States Government to fund these costs from taxpayer funds.

While this time the amount is far more modest than the very substantial amounts stolen from the Postal Service in previous years, the principle is the same; it is a breach of faith by the Congress, and a failure of the current Congress to honor the commitments of predecessor Congresses.

Response to Question 2.

I think Congress has been encouraging postal management and the unions to address their labor management problems, and I would urge that the Congress continue to do so. However, surely top management and top labor leaders must understand that it is in their mutual self interest to minimize the unnecessarily adversarial character of much of their past dealings. The congressional oversight function helps to put the spotlight on these failings of management and labor; but the Congress needs to be sure that it is not simply providing a convenient pulpit for grandstanding by either side. No matter what procedures are put in place, it is nevertheless most important that there be excellent leadership in both management and labor to make things run better. There simply is no substitute for good people.

The inability of labor and management to reach agreement on a new collective bargaining agreement, of course, affects the members of The Parcel Shippers Association because a lack of labor management harmony contributes to inefficient service and ultimately higher prices that the members must pay. On the other hand, it is not as though this were a new development. This seems to recur at the end of every cycle because there is not sufficient incentive on the part of either labor or management to settle their own problems at the bargaining table. The system must be fixed so that each side has something to lose if they are unable to agree and must seek arbitration. Under the current situation there simply is not sufficient risk inherent in the arbitration process. On the contrary, arbitration must seem to both sides the least risky course of action, based upon the tendency of past arbitrators to simply avoid hard questions and cut the baby in half.

Response to Question 3.

It is the fact that 20 plus years of regulation of parcel post rates and services by the Postal Rate Commission has created the opportunity for UPS to become a monopolist of business parcels. To put it succinctly, the Commission has refused to allow the Postal Service to divide up its parcel service offerings and differentiate them to different markets. By forcing the Postal Service to serve everyone everywhere at fundamentally the same price (until recent years), the PRC created a very comfortable umbrella for lower United Parcel Service rates that were targeted at the most attractive business volume which was the least costly to handle and from which the most profits were derived. A fairly good summary of this history is contained in a paper published by two rate experts on the staff of the Postal Rate Commission, captioned "Regulation Of Unregulated Firms: The Postal Service and UPS." I have enclosed a copy of that monograph.

The question states that the Postal Service "faces direct competition from alternative carriers." If by that it is meant that the carriers are those who are physically carrying letter-type materials, then it is clear that there is not significant competition to the Postal Service for that business. On the other hand, the Postal Service is clearly faced with very direct competition from alternative media for messages and advertising, mostly electronic, but other communications media as well. To the extent that the reference is to parcel and express carriers, there is no question that the Postal Service faces very severe competition. In the case of the delivery of parcels to residences, the only competitor is United Parcel Service. In business-to-business parcel delivery there is the additional competition supplied by Roadway. For the express market there are more than a handful of very aggressive competitors. But in the ground parcel shipment business, United Parcel Service totally dominates the market.

A change in the current monopoly law would have absolutely no effect on this situation. There is no monopoly protection for the Postal Service in the express mail business; in the parcel business; and, for that matter, in the catalog delivery business. In our opinion, Congress made a great mistake by deregulating the United Parcel Service monopoly. Before deregulation of trucking, it was possible for our members to petition the Interstate Commerce Commission for relief from the dictatorial, aggressive, and monopolistic behavior of United Parcel Service. Subsequent to deregulation, there has been absolutely no governmental restraint on UPS. Up until last year it was possible to appeal to the protection of State Commissions who had regulatory authority over the intra-state portion of United Parcel Service business However, in the last Congress United Parcel Service succeeded in attaching

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[Note: The information referred to can be found in the subcommittee's files.]

a rider to a bill signed into law which eviscerated all regulatory authority of state regulatory bodies over United Parcel Service. Thus, Congress, by successive actions, has created a totally unregulated de facto monopoly carrier of small parcels.

Our members absolutely do not enjoy a competitive system from which to chose a carrier, except for USPS parcel post service. Our members have no ability to deal or negotiate with the Postal Service on parcel post, because the Postal Rate Commission has denied the Postal Service any flexibility in terms of service and negotiated prices. It is simply not possible for the Postal Service to compete with United Parcel Service when UPS is free to negotiate any price that it wishes. We have reference to the The Wall Street Journal story announcing that J.C. Penney's has entered into a $1 billion multi-year contract with United Parcel Service. While no one knows exactly what rates are granted to Penney's under that contract, it is perfectly clear that all large shippers who use United Parcel Service have the opportunity to negotiate rates and services that are well below those in any published tariff. The only thing that would bring competition is the deregulation of parcel post service from the oversight and control of the Postal Rate Commission.

Mr. MCHUGH. That concludes the prepared testimonies. We could question you—I could question you at some length. I want to get to some inquiries. But recognizing that Members have very busy schedules and in appreciation for his being here, I would yield to the gentleman from New York for any questions or comments he might have.

Mr. OWENS. Thank you, Mr. Chairman. I have just one general question. I represent the city of Brooklyn, a borough which, if it were a city, would be the 11th or 12th largest city in the country. And each time the Postal Service reorganizes, we become more and more a second-class citizen in the postal constellation.

Some of these reorganizations I guess you can't understand. My brother is in the Navy. He used to say that the Navy was a system designed by geniuses for idiots to run. I think that some of this restructuring of the Postal Service is designed by idiots for geniuses to try to figure out, to run.

Brooklyn always seems to come out at the bottom each time in the reorganization. And I know that you're not responsible for that; I just wanted to know if you can be a little more objective than top management of the Postal Service.

You use it. Have you benefited from the series of reorganizations and restructurings that have taken place the last 10 years? Let's pull out automation and machinery. I'm just talking about the structure, the chain of command and all the complex changes that have taken place, which resulted in New York and Brooklyn being placed under Queens and all kinds of strange charts that are supposed to improve service. Has the service been improved for you, users of the service, as well, in these reorganizations? Is somebody benefiting?

Mr. BARTON. Well, I'll start off with that. I'm foolish to do it, I know.

In the first place, we love Brooklyn and we want you all to buy from our people. I think in the process toward automation, and things you said that were not included in this question, that we're moving in the right direction, we're doing better. We need to do a lot better.

I think that probably the consensus among our members is there may be—over the past several years, has been too much reorganization that has created a turmoil within particularly the middle to higher level management structure, that probably didn't need to be created, though I am not a management expert. But I do think

that our general consensus is that the last series of restructurings, which in some ways sort of went back to the old management structures in which you combined the marketing and the operations under one head in each area, is probably a move in the right direction. And we hope that all of the turmoil will now settle down; we'll be able to really look forward to a more smoothly functioning Postal Service. But I would recognize, there have been difficulties.

Mr. SACKLER. Let me add, you're talking about several reorganizations that have taken place. There were one or two back in the 1980's that I believe were fairly roundly condemned, because they were ill thought out and were executed very quickly, almost willy nilly.

The one that's happened most recently, in 1992, as I mentioned in my statement, follows a fairly traditional pattern where you run into difficulties after a downsizing and restructuring, and then there's hopefully a fine-tuning and a pattern of adjustment and improvement. And what we're seeing in the most recent results from the postal system seems to be following that pattern. The Service is coming back and volume is coming back.

What is the most recent sense that you're getting in Brooklyn? Has, over the past few months, service still been lousy? We don't have any particular reports from there. But is it following the pattern of the rest of the country, or is it out of step with that and needs special attention from the postal system?

Mr. OWENS. It's out of step with the rest of the country.

Mr. SACKLER. Excuse me?

Mr. OWENS. It's out of step with the pattern of the rest of the country.

Mr. SACKLER. Even over the last couple months? OK.

Mr. OWENS. Yes.

Mr. MAY. Yes, let me say that, and I said this before to some of the Governors at the Postal Service, the post office for 25 years has been recognized as an operating entity. It's got a job to do. It has very little to do with the setting of policy. And I've asked some of the Governors from time to time what they would think of a private enterprise company, a Fortune 400 company, that had to recruit eight of the last nine CEOs by going outside the organization, whether they would not think that the directors of that organization should all be summarily dismissed for having failed to provide for the continuation of that organization.

There isn't a lot of policy being set at the post office. This is an organization that's got a job to do, it's got mail to move, and it doesn't have a lot of policy to set. There is no reason for constantly going in and going out and bringing in people from outside.

We're just lucky that we have someone as talented as Marvin Runyon, for example, who's willing to do this. He's willing to do it, I suppose, because this is the end of his career, and he's willing to make that sacrifice.

But the post office shouldn't have to depend upon that sort of thing. And every time one of these new folks comes in, you've got about a year for them to figure out what's going on; then they want their own organization. So this happens again and again, and I don't care who you are, you can't run an operating organization with that kind of business.

It's been said that the results are still out on the latest restructuring. A lot of people left the Postal Service, a lot of talented people are out because of that restructuring, as I'm sure you know. And a lot of talent was lost, a lot of lives were bruised. We're back now up to about the complement of employees there were before.

On the other hand, it did—it shook everything up. Everybody had to rethink their job, rethink their mission. The buddy system was broken up. A lot of good things come out of a reorganization, but there's a lot of bad to it. You simply can't have one, though, every time you get a new PMG, as long as what we're doing is constantly going outside to find them, because you'll have an agency constantly in turmoil.

But nothing, it seems to me, is more important than to develop a system where you're going to be able to breed in house the future leadership of this operating entity, and it may be that this isn't possible with the present pay structure. Others have alluded to that proposed change in that.

Thank you.

Mr. VOLNER. Mr. Chairman, very briefly, I think Mr. May has put his finger on the problem. You've got a Postal Service that needs to operate like a business. Throughout the country, Brooklyn, where I'm from, as well as other parts of the country, you've got a Postal Service that's wrapped around by statutes, rules, regulations, policies, procedures, that make it almost impossible to do that, operate like a business. And it's not just third class mail that's taking the hit, it's all mail.

It's the public. There's a connection between my third class mailers and the people who buy the goods and products we sell through the mail, and they use the postal system also.

The only way you can solve the problems in the current structure is to do precisely the wrong thing; you get a new man in—it's hard to find one—he reorganizes. That is not the way to proceed, but that's the only way they can under this statute, the way it is now written.

And so I think we come back to our theme, change the statute, make it necessary for them to serve Brooklyn. And make them pay, if they don't, through alternative means.

Mr. OWENS. Thank you.

Mr. MCHUGH. Thank you for your comments in that regard. I recognize—and it was stated in some of your spoken words, and others mentioned it in their written testimony—that virtually all of you are involved in processes, examining the minutia of this process.

Art Sackler mentioned the Postal Reform Conference that will begin this week, for example. I think that's an exciting opportunity to try to refine some of these generalities into more specific initiatives. But for the purposes of this morning, let's discuss the issues.

Starting on the broad base, let's assume that, indeed, as Mr. Volner just suggested, we have an overregulated body that simply cannot do its job, given the constraints that it operates under. Let's assume, therefore, that we loosen it or totally free it. The concern we always hear, and the concern that I have as well, is what happens to that universal service component?

What most of you have said or written in your testimony, is that you can't totally deregulate a monopoly without getting rid of its monopolistic protections. How do we bring those two components together? How do we unfetter the Postal Service from what we'll agree for this moment are unnecessary and totally restrictive requirements in government oversight, while still assuring that people in Pierrepont Manor, NY, population 208, because my wife and I are out of town—it's usually 210—that they're going to receive their mail 6 days a week?

Mr. TODD. Mr. Chairman, I would make two comments on that. First, in terms of the issue of pricing and classification, I'm not sure that I would agree that this—these rules and regulations are preventing the Postal Service from effectively doing its job, which is essentially both a very simple and a very complex one. It's moving a physical piece of something from one place to another. But it is clear that the regulatory function has run amuck.

I can't imagine any business having to do the kind of minute examination of costs and markets that the Postal Service has to go through in order to change prices or classifications. And it really is a stupefying effort and one which I think is counterproductive, even though it has kept a lot of lawyers and economists busy for too much of the time.

I would also say that I think you do put your finger on the problem and why MOAA, for one, that its members, quite aside from first class mail, in all classes of mail, need to ensure that all parts of the country are equally served. I think that the possibility of removing the monopoly is an issue in which we really do need to know what would happen before moving in that direction, so that your hometown gets well served and, indeed, so that Brooklyn gets well served. And I think that we're not ready to take a position on this, but we are certainly concerned that these kinds of steps be taken only with study and with great care in order to ensure the goal of universal service.

Mr. MCHUGH. Anybody else?

Mr. Volner.

Mr. VOLNER. Mr. Chairman, since I am the one who has most aggressively raised the question of monopoly, let me respond. I was thinking, when I was listening to Mr. Todd, two things. First, nobody's talking about promiscuously removing the monopoly. Second, I recall the conversations that occurred in the mid-1970's, when the Department of Justice decided it was time to break up what we then knew as the AT&T Bell System. Bell took the position that it had a monopoly, end to end, cradle to grave, and that was the only way, it said, that we could serve places like Rose, NY, or Hamilton, NY, where I went to college. That was the argument.

What we did, what this country did, what the courts, what the Congress, what the FCC did, was to pick the monopoly apart gradually in stages, by pieces, so that the safety net, the assurance that there would be universal service, is preserved today. And even as we speak, further deregulation, further competition in the telecommunications field is occurring through the efforts of this Congress.

I don't think any of us have the precise answer at this table. But there are mechanisms, and a lot of them, to reconcile the impor-

tance of universal service with real competition. Nobody, least of all AMMA, wants the monopoly repealed until there is real competition. Nobody wants to talk about removal of rate regulation until there is real competition. But you can move toward real competition. And if we sit and insist that we must know the guaranteed outcome before we start, we will never get there. And I think that's a greater danger to service to Rose, NY, than the alternative.

Mr. MCHUGH. My father went to Colgate as well, and my grandmother always told me he never wrote home. Maybe it was because mail service wasn't good enough. I don't know, but that's——

Mr. SACKLER. Mr. Chairman, I would largely agree with Mr. Volner. I think you'll find that universal service will be a constant throughout the business mailing community, as well, I believe, throughout the nonprofit mailing community. You'll hear from them later this morning.

One thing that you might do, and you probably already are, is look to foreign postal administrations that are either considering or in the process of changing over from a total governmental postal monopoly to something else; and I say "something else" because there is whole variety of what they're doing.

But again, the constant that appears to be around the globe—and it may need further study—is universal service. No matter how they do it, they stay with universal service so everybody, in whatever nation it is, continues to be served by a hard copy distribution service.

Mr. MCHUGH. Just following up on that, in a devil's advocacy role, I suspect that those who would defend the status quo to whatever extent might suggest that those services handled far less volume of mail than the USPS. They do it in a much less efficient and productive manner, and do it at much greater expense.

Mr. SACKLER. I am not sure that, that is universally true, if you look at all prices. You could also make the argument that there are huge economies of scale to be had in this country anywhere you look and that that might benefit not only the existing Postal Service, as it might be adjusted, but it would also benefit any competitor that would arise.

Mr. MCHUGH. Did I interrupt someone?

Mr. BARTON. No. I was going to add something real quick.

I agree with everything everybody said at this table. Hope is coming, because our next Governor Affairs Committee meeting is on June 15, so I will give you the answer on June 16.

I just have something to add here, for what it is worth. I agree that you cannot move away from the monopoly unless you really understand what is going to happen and where it is going to go. And I have a feeling by the time you reach that understanding the monopoly is going to be irrelevant. I think the monopoly now has virtually become irrelevant and, at times, I think we spend too much time thinking about what to do about it, when, as a matter of fact, the Postal Service is facing phenomenal competition outside the monopoly to the point where the monopoly is almost not important, I think.

So I think you can do a lot of things in changing the Postal Service and making it more competitive without addressing the whole

concept of monopoly. This is my own personal opinion, by the way, and not an official opinion of the Direct Marketing Association.

Mr. MAY. Mr. Chairman, I think that the burden is on those who would do away with the monopoly whether wholesale or in pieces. And that the burden is on them to demonstrate that a universal mail system will survive that.

We have the phenomenon today where there are billions of pieces of mail that are not covered by the monopoly and there is no one seeking to deliver those other than the Postal Service. I would proffer that there is some 8 billion catalogs that, by definition, are excluded from the monopoly. No one is struggling to deliver those. There is no private company that says, yes, we want to go to every home in America and to every business and we want to deliver those to every address.

There are those who would like to peel off bits and pieces of the business and say we will do that. The question is who is ready to step forward and say we will do the whole job? Because my members have to have someone who is going to do the whole job. It is not going to benefit them to be able to save a few dollars and get a little better service by having certain parts of their message system or their delivery system taken care of, and then find that they are still stuck with the post office for all the rest and meanwhile the post office still is now going to charge them more because they are dealing with less volume.

I am not saying it cannot be done, and I am not saying that the AT&T breakup is totally a pointless analogy. It comes close to being pointless because of the technology involved, but there may be some analyses that are apt in it. But, nevertheless, I think those who want to do it are going to have to reassure our members that there is not going to be suddenly no one there to handle their business because they are out of business. If there is not someone there who is going to reliably and affordably deliver their sales messages, then they're going to have to go into a different kind of business.

Now, maybe they're going to have to in 50 years because of the telecommunications revolution. Maybe none of us will even be able to read any more—everything will be electronic impulses—but until that happens, the business my members are in is in delivering, having the hard copy sales messages delivered and getting orders back. And if they can't be assured that there will be a universal system to deliver that, they don't want to do anything permanent to what we have now. Thank you.

Mr. MCHUGH. Thank you.

Well, all right, then, let's move the scope a bit narrower. We talk about flexibility. That seems to be at least for most of us an equivalent phrase meaning how do you set rates. There is a frustration across the board, from my analysis, with the process of rate setting and we are going to hear from some of our friends in the newspaper industry who, as I read their testimony last evening, felt that the Postal Rate Commission and the process provided them with protections and how they might not have received their fair consideration were the process not available by which they were required—or the Postal Service was required to give back up data to their rate requests.

It seems that many of you feel that the Postal Rate Commission could do it better. Perhaps we ought to do it differently. The Chairman of the Rate Commission, Mr. Gleiman, Ed Gleiman came here and said, "You don't need us, but you do need something."

Is it your opinion that we can fix it within the current structure, the PRC, or do we need to scrap it and just start from square one?

Mr. TODD. Mr. Chairman, in the deliberations leading to the Postal Reorganization Act, the Senate talked about the fear that a bureaucratic struggle might develop between the Postal Rate Commission and the Board, and if that were the case, they were going to have to revisit the whole issue.

That bureaucratic struggle has clearly developed and has not reached either its zenith or nadir as you might look at it. I don't believe that that struggle has been entirely the product of the Postal Rate Commission. The Postal Service, has been, if not an equal player, certainly a heavy contributor toward the struggle.

Nevertheless, what was I believe established as an independent group that was supposed to set postal rates on economic bases has become excessively politicized, and, in many ways, views itself as an ombudsman to nag the Postal Service into doing its job better.

I believe there does have to be a fully independent method of establishing rates, but I think it must be done on a much more professional level and one in which we have not created almost this second branch of the Postal Service without a clearly defined function of, as I say, setting rates on the basis of economic considerations. It has become altogether too involved in the politics of the situation and in becoming a nag at the Postal Service in a way which I do not believe has been useful.

So my view would be there has to be some change in the basic rate-setting mechanism if we are to achieve the kind of expert rate setting which was originally envisioned in the Postal Reorganization Act.

Mr. VOLNER. Mr. Chairman, it seems to me that there are three things that need to be done. The statute does need to be changed to permit price cap rate regulation to be used. Nobody is saying for the short run that you are not going to need a rate regulator. When you change the statute to a price cap approach, you narrow the jurisdiction definitionally of the rate regulator. That, to me, is a good thing. That may warrant some downsizing of the Rate Commission or its functional equivalent.

There have been, over the years, a number of ideas to do it in the Postal Service, to do arbitration packages and that sort of stuff. I don't think that will work. But there needs to be some sort of a permanent institution that, at least for as long as rate regulation lasts, regulates rates. But you may not need the size of the commission you have.

I have never understood why we have five commissioners at the Postal Rate Commission and five at the Federal Energy Regulatory Commission, which has 400 times more burdens and responsibilities, and five at the Federal Communications Commission, which at the present time has 1,000 times more. It needs to be reshaped, refocused, restructured.

It also, to the extent that we do not succeed in accomplishing an independent proceeding, it needs to be clearly told that the Postal

Service is to do market testing; that it is to do negotiated service contracts, so long as safeguards are put into place. Those are the sorts of things I am afraid will require legislation.

Basically, I think that change can come from the Rate Commission, but change will also have to come from the Congress.

Mr. MCHUGH. I thank you. As we are all aware, the negotiated service agreements concept is in the current rulemaking and we will obviously be very closely following that.

You used in your written testimony, Mr. Volner, the rate cap and you just mentioned rate gap pricing. Just so I am certain we are all talking about the same thing, why don't you define that; how you mean that?

Mr. VOLNER. There is nothing terribly revolutionary about it. It is used by all foreign postal administrations now. It is being used throughout this country in telecommunications. Price cap regulation means you set an external index, the GNP, CPI, or some cost-of-living inflator as the maximum rate. You then insist that the regulated entity share with its consumers based upon a productivity factor so that its GNP, CPI, minus something, is their maximum rate increase. And then the only question for the regulator is have they calculated it correctly.

There are complications, which is why you do need a regulator. Will they cheat? Yes, if they think they can get away with it. What do you do with new services as they come on? How do you develop the caps, is what I am saying? You do need a regulator, but it can be done a lot more easily than this inane process we go through at the present time.

Mr. MCHUGH. Your testimony notes on page 3, that the Postal—and I am quoting—"The Postal Service is not used to the flexibility that the law now allows."

The concept you just described is in broad terms encompassed in the two by four regs that were never enacted, and, as I understand it, could have been by rule by the Postal Service.

Mr. VOLNER. Well, the two by four regs are cost of service ratemaking. Instead of having a rate case every 3 or 4 years, we would have one every year and a half.

Mr. MCHUGH. I understand it is a different thing, but it is the same concept of providing flexibility for rate setting. No?

Mr. VOLNER. No, I don't think it is. Any time we are stuck with cost of service, it is not going to be the same thing as rate flexibility. That is the first point.

The second point is, it does not do away with the 10-month process we go through, every 3 years sometimes, if we are lucky, every 4 years, and we would be doing it under that process every year and a half. It does not produce flexibility and it engenders rate instability. And, to mailers, stability is as important as flexibility.

Mr. MCHUGH. My intent is not to get you to embrace two by four.

Mr. VOLNER. I understand, Mr. Chairman. I have already—the AMMA has thoroughly denounced it and we will hold to that position.

Mr. MCHUGH. My point, rather, to get to the core of your comment in your written testimony that the Postal Service has not really embraced those opportunities for flexibility that have been provided to it, some might say why bother going through the exer-

cise; they are not going to embrace it in the future? They have not in the past. What might we do, other than having a lot of optimism? That we all do.

Mr. VOLNER. What I had in mind is, for 5 years the Postal Service had the opportunity to fine-tune rates for expedited mail through the market response rules. Some of us fought hard to get the Rate Commission to develop those. For 5 years those rules sat on the books and the Postal Service did nothing except lose expedited mail market share and then they discovered the rules were on a time clock.

They discovered 6 months after the rulings had run out that the rules were no longer in place. And they went back to the Rate Commission and the Rate Commission gave them the rules again. But I have to wonder what happened inside the Postal Service after this fight to get flexibility that they never once used it. For 5 years they never used it. I think we need to ask them that. And as we said in our testimony, they need to be criticized for that.

Mr. MCHUGH. We did ask. And the answer couldn't have been that great because I don't remember what it was. Subjective judgment, I guess.

Any other comments on the rate-setting process?

Mr. MAY. Yes, Mr. Chairman. As I say, indeed the Postal Rate Commission is currently regulating things that don't need regulating. The American people do not need to be protected on parcel post rates, for example. United Parcel Service, the most successful transportation company the world has ever known, is sitting there ready, willing, and able to carry parcels. So if the post office abuses the public by having unreasonable parcel post rates or services, the business will go somewhere.

So there are occasions where the commission should not be exercising the heavy hand of regulation that it is, and it may be, however, that the law has to be changed because they have no choice.

A number of these other criticisms, though, I believe, as I think the chairman himself recognizes, might be solved by this rulemaking that is presently before the Rate Commission, with the goodwill of both sides. If there is this persistence of the bureaucratic struggle between the two government agencies, then maybe only Congress can resolve that by legislating it. But, hopefully, they will try to see where there are some answers here.

But, on the other hand, where the post office enjoys an actual monopoly, I don't see why they need to have this immediate flexibility. Why do they need to be able to change first class rates in a heartbeat? Nobody else can carry it. So why is it necessary to scrap those parts of the regulatory rules?

But, on the other hand, where the post office is confronted with competition, then, indeed, they have to be flexible. They cannot go through these lengthy processes only to find out that the market has been taken by the time they get there. So if the commission and the post office cannot get together to work out some regulations, or if the law will not allow it to give them more flexibility in responding to these kind of market conditions, Congress will have to step in on that.

Mr. MCHUGH. Thank you. Any other comments?

Mr. SACKLER. I would just add one thing, Mr. Chairman. In terms of competition, it is not only, as I think everyone has been saying this morning, the hard copy competition, it is the other electronic, telephonic, and so forth diversions that would be called into play some way to provide the Postal Service a little more flexibility to respond to the market faster than the kind of ossified system we have now. Certainly, in the instances that Mr. May is mentioning, where there already exists formidable hard copy distribution competition, the Postal Service should be freed up to respond as markets demand.

Mr. MCHUGH. Thank you.

Mr. May envisioned a world of some time in the future where we all communicate telepathically—my wife thinks I should be able to do that already—and things are sent telekinetically, and there may indeed come that time. But let us talk a little bit about a closer date in the future, and that is the concept of what should the Postal Service of the 21st century be focusing its efforts on.

I think David Todd made it pretty clear in his comments that a diversion into the electronic communications network by the Postal Service would not, in his opinion, be the wisest of things. Mr. Volner spent quite a bit of time of his written testimony talking about the challenges of that particular field. Where do the rest of you come down on that issue?

Mr. BARTON. Well, I think that we would essentially say that the Postal Service should stick to its role of delivering hard copy. That is where it is now; that is where it should be. As a practical matter, it is not going to be allowed to get heavily into the electronic market. Probably the E–COM experiment of 10, 12 years ago, I think, shows that.

We would prefer, I think, that the reorganization, the improvements and everything focus on hard copy, which is what the Postal Service does best and what it should do.

Mr. MCHUGH. Is there any value—go ahead, Mr. Sackler.

Mr. SACKLER. All right. What I was going to add is that while, in general, I would say that the council certainly would agree throughout that the Postal Service should stick to the knitting and concentrate on its core businesses, we are all kind of from Missouri on this. If they can show us, or somebody somewhere outside the system, from our ranks, up on the Hill, from wherever, can show us that there is a constructive, cost-effective role for the Postal Service in the electronic environment, then we would surely like to hear about it in detail and let them compete in that environment.

Mr. TODD. If I could offer a brief comment. I would agree with Mr. Sackler on that. I would also say, however, that, again, my fundamental premise is that for the foreseeable future the Postal Service's task is how to efficiently move pieces, corporal things from one place to another. Where the electronic revolution is going, especially when you leave the financial transactions market, and this is quite clear at the moment, and it is moving quite quickly, and I don't think the Postal Service can or should try to do anything about that; but when it comes to the third class area and delivering messages, advertising messages, where we are going is far less clear. And my sense is there are going to be a lot of different ideas tried, a lot of entrepreneurs are going to lose a lot of money,

and eventually someone will get it right, the market will be there, and it will represent a threat at that time to the Postal Service.

Again, however, it seems to me for the Postal Service to be going into these high-risk areas and using mailer revenues is a mistake. I think this is something that should be left to the private sector and we should see what develops, again recognizing that to the extent that the Postal Service can play some role in some of this, that makes economic and operational sense, obviously, that would have to be something they would be free to do.

Mr. MCHUGH. Let me play off that for a moment, then, and I am not disagreeing with a word that any of you just said. But prior to this question and your comments, we were talking about the need to provide the flexibility necessary to make the Postal Service competitive. New products, they should not have to go through this kind of process whereby by the time they developed and marketed them they are behind the curve and they are out of the competitive position.

Do we just take that concept and keep it on hard mail and exempt them from the same process on electronic services or?

Mr. TODD. Well, the answer is, again I am not suggesting that we legislate that the Postal Service not go into some of these areas; really, this testimony is in the way of advice. I am suggesting that it seems to me its overall mandate should be hard copy.

And I am not suggesting that there should be legislation prohibiting the Postal Service from doing any particular thing within that broad mandate. But, again, I am very, very skeptical about the wisdom of massive efforts on the part of the Postal Service to get into the electronic area.

Mr. MAY. Our testimony suggested that we also agree that what is really the post office's mission is delivering hard copy messages and some allied services that go with that because of the marvelous delivery network they have. But we have no objection to the post office trying to find a role for itself in the telecommunications business, so long as that role is a natural complement to their hard copy business.

I can foresee the day when there is no more hard copy. If that day arrives, the post office will not be the office, all my members will be in a different kind of business, because that is not what they do now, and no one can predict the future. But certainly in the immediate future, hard copy is going to be around and if it is not around, our companies are not going to be around. So anything the post office can do to help itself overall to become an efficient competitive operation, it should do, so long as it does not stray from its core mission. Its core mission is not a future where they're one of the major telecommunications competitors. That is not needed, it seems to me.

Mr. MCHUGH. Thank you.

We could, I could continue all day, but you gentlemen have been very generous with your time and I deeply appreciate it. Obviously, we hope that this is just an ongoing piece of the process and we look forward to working with you further.

I would hold open the right to submit to you some questions, if we deem it is fitting and appropriate, for written response. Also, we would allow other members of the committee to exercise that

option as well. But again thank you, gentlemen, for being here. It has been fascinating. I appreciate it.

The next panel is the publisher's panel.

I have a unanimous consent request to submit for the record the opening statement of Ben Gilman. The statement will be so entered.

[The prepared statement of Hon. Benjamin A. Gilman follows:]

PREPARED STATEMENT OF HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I thank you for calling this fourth meeting in a series of hearings to address the issues that the Postal Service must confront in the coming years. Today we will hear testimony from several organizations, representing members whose business survival depends on the quality of service and reasonable rates provided by the Postal Service. It is my hope that in this subcommittee we will engage in a constructive dialogue which will improve the efficiency and customer service of this indispensable agency.

I welcome the representatives of the large scale commercial, institutional, and nonprofit mailers to our subcommittee and I look forward to hearing testimony and suggestions from the customers' perspective. Thank you Mr. Chairman.

Mr. MCHUGH. We are honored today to welcome our second of three panels comprised of Tonda Rush, president of the National Newspapers Association; Cathleen Black, who is president and CEO of the Newspaper Association of America; George Gross, who is executive vice president of the Magazine Publishers of America; and Steve Bair, senior vice president, law and business affairs, of Time Life, Inc., representing the Association of American Publishers.

We welcome you all here today. As I presume you saw in our opening discussions with the previous panel, we would again request that your written testimony be submitted in its entirety for the record and that we summarize your comments in somewhat less time. We have been speaking about 5 minutes, but just so that we can keep it at a reasonable length.

Also, as is required under the rules of the committee, we would ask that you rise and join me in taking an oath, so if you will raise your right hand and repeat after me.

[Witnesses sworn.]

Mr. MCHUGH. We will begin today in the order as they appear on this page, with Tonda Rush of the National Newspaper Association.

STATEMENTS OF TONDA RUSH, PRESIDENT, NATIONAL NEWSPAPER ASSOCIATION; CATHLEEN P. BLACK, PRESIDENT AND CEO, NEWSPAPER ASSOCIATION OF AMERICA; GEORGE GROSS, EXECUTIVE VICE PRESIDENT, MAGAZINE PUBLISHERS OF AMERICA; STEVE BAIR, SENIOR VICE PRESIDENT, LAW AND BUSINESS AFFAIRS, TIME LIFE, INC., ON BEHALF OF THE ASSOCIATION OF AMERICAN PUBLISHERS

Ms. RUSH. Thank you, Mr. Chairman.

Mr. MCHUGH. Welcome.

Ms. RUSH. With your permission, I will not only summarize my remarks, but I think I will depart slightly from what I thought I wanted to say in summary to be more responsive to some of the concerns the chairman has raised.

I represent the Nation's community press. Our members are about 4,000 weekly and small daily newspapers around the country. The association is 110 years old and has appeared before Congress virtually every year of its existence to talk about the Postal Service. Most of our members use the mail as their primary method of distribution, so it is obviously an area of intense interest to us.

We have high regard for the job that this committee is undertaking in its oversight role, and I would also like to say we have high regard for the job that Postmaster General Marvin Runyon is doing. He earned our respect last year when he showed up at our Government Affairs Conference and faced 300 very angry publishers because 2 days before the event they had announced a 34 percent increase in the rate that newspapers would be using to mail to their subscribers. It was a very tough audience and he came in without armed guard, he acquitted himself well, and he got out without injury. But he left us with many concerns and many in relation to the subjects that you have raised this morning.

Our concerns probably boil down to about three. First, the Postal Service clearly would like to favor mailers on the basis of their volume. The system is very well constructed to capture the concerns of the largest mailers. Some of the very talented gentlemen you heard from this morning represent the largest mailers in the country. And the Postal Service needs volume to cover its large overhead. And it is a lot easier, as you know if you have ever done sales, to land a few big accounts than to mess around with a lot of small ones, but those are often the very ones that leave you the soonest and when your few big customers are gone, you are left with an empty cash register and a heavy heart. We don't think it is good business and it is clearly not good government.

Setting the Postal Service free to set its own competitive rates for classes where there is competition, we fear, will be the beginning of the end of universal service and not in fact the answer to the problems the Postal Service faces. What that basically does, Mr. Chairman, is to use the Postal Service as a rate regulator for the private sector businesses that are competing for that mail. And we have major concerns about that.

Our second concern is that clearly the Postal Service would like to get out of the government. It increasingly chafes at the oversight of the Postal Rate Commission and sometimes by the Congress. It wants to be set free as much as possible. It is a natural impulse. It has proposed over the past few years many changes to the Postal Reorganization Act, but, in general, we find the proposals unwise, and we think that unless the Postal Service really does want to begin to give up its monopoly that those changes should be viewed with great skepticism and concern by the Congress.

Our third concern is that we are getting less for more. We have had persistent problems in mail delivery, particularly outside the county, where newspapers are mailed, for a number of years that have never been very well addressed. Now we are facing the proposal of a 17-percent increase in our rates without any more serious attempt to address the service problems.

As you probably know, if you watch your mailbox for your hometown paper, at your home in Washington or in your office, your

newspapers arrive in clusters and sporadically. And I assure you that we publish every week or every day as we are scheduled, and we put it in the mail stream. That is not how we intend to deliver to it to you. We have been working on that problem for years and I can't say it has improved very much.

Many of the mailers, most of the mailers I think here today, are echoing the same themes, and that is the Postal Service really can't have the best of both worlds. It cannot have a monopoly and pure freedom to exercise its own rate discretions. It has to have one or the other. Some would lean I think more heavily into the private sector model. We would say that plenty of good businesses exist to serve in that model and the Postal Service should be the Postal Service.

We do believe in a strong Postal Rate Commission, or if not a Rate Commission, an oversight body in the rate arena. Last year, when that 34 percent rate increase came at us, the Postal Service was very responsive and worked very closely with us to try to find the mistakes in their cost calculations to fix it, and in fact they did fix it. The 34 percent became a minus 1.2 percent by the time we were finished. It cost us a lot of money to do that, and we are not a very large association. Obviously, we were glad to get the results that we got. It would have been devastating for newspapers to face that kind of increase in 1 year.

Would we have had that responsiveness from the Postal Service without an oversight body, without a Postal Rate Commission with jurisdiction over those rates? I don't know the answer to that, but we would not like to take our chances.

We are right now before the Rate Commission arguing that mailers ought not to receive lower rates by virtue of their volumes. Presently, the Postal Service proposes a new subclass in second class mail, which our mailers oppose, called "publication service." As far as we can tell, none of our 4,000 newspaper members will be eligible for it. In fact, out of the thousands of newspapers, magazines, and newsletters currently in the mail stream, there are only a few hundred that will be able to take advantage of it.

We have argued for the dismissal of this case. We think it is ill-conceived; it is premature. The Postal Service cannot even tell us completely exactly where they expect to go with this new proposal and we have urged the Rate Commission to at least delay the case until we have got a full record before us to show where the Postal Service wants to go.

The bottom line I think, Mr. Chairman, is that this is an institution that must keep its public service mission visibly before it. We believe in efficiency. We are glad the Postal Service is no longer supported by tax dollars. We helped the Congress 2 years ago to end a subsidy for our own mail and saw our industry through a very hazardous time in transition, and we are glad that we got there. But we do believe in universal service and we will be standing staunchly with our friends at the Postal Service in favor of that universal service, I suspect long after many Postal Service customers will have gone off to other electronic transmission or alternate delivery services.

It does not mean subsidized service, it doesn't mean taxpayer cost, it need not mean inefficient operation. It just means what it

says, and that is universal. And that will require the oversight of this committee, and we believe of the Rate Commission.

We would like to suggest, in closing, Mr. Chairman, that as your committee continues in its oversight mission, that you take a look at some of the measurements of how well you think the Postal Service is doing with its current business to see if you think it is doing well enough to justify new ventures.

Specifically, we would invite you to look at studies of the performance for both second and third class mail. The first class mail performance has been much discussed and well covered in the press and discussed by your committee, but the second and third class mail performance is not as well known and I think it would be a fertile subject of inquiry for your committee.

We would also suggest that the committee move very carefully with any proposals to weaken the Rate Commission. In fact, we may ourselves be looking at some proposals to strengthen the Rate Commission. Litigation is very costly for a small association like us, but we would rather face it than to face the hazards we might face from the Postal Service if it really were set free to do all that it seems to be interested in.

We have recently formed a loose alliance with other groups that represent the little guys, and we are joined here today by the American Business Press, which represents trade, scientific, and business journals. ABP is working with us to preserve the opportunity to mail at fair and equitable rates, and our group would like to present ourselves to assist the committee, as it may need us, to present you with any information you may need as you execute your mission. And I thank you for the opportunity to comment.

[The prepared statement of Ms. Rush follows:]

PREPARED STATEMENT OF TONDA RUSH, PRESIDENT, NATIONAL NEWSPAPER ASSOCIATION

The National Newspaper Association very much appreciates the time and energy the House of Representatives devotes to its oversight responsibilities with respect to the Postal Service.

We have a very strong interest in the issues that come before this Subcommittee. One, in particular, you have considered this year is the role of the Postal Rate Commission in the finances and operations of the Postal Service. We are very much in favor of a strong Postal Rate Commission.

Today we would like to comment on that point and we will also express our views on the importance of keen, attentive oversight by this Subcommittee, on future legislation affecting the Postal Service, on some policy problems the Service is wrestling with and on a few suggestions on how this Subcommittee might help improve and strengthen the Postal Service.

The potential of this Subcommittee to assist the Postal Service, and thereby help the national economy, can hardly be overstated.

Last year's oversight hearings, for example, saved mailers nearly a billion dollars in postage payments. At the hearings last year, Postal Rate Commissioner W. H. LeBlanc testified that the Postal Service was on track to lose about $2.4 billion in fiscal year 1994. In response to his public testimony, Postal Service management redoubled its efforts to control operations during the remainder of the year in order to report final results better than had been anticipated.

In addition, former Chairman Bill Clay displayed the chart (which is attached to our testimony) showing the recent and dramatic increase in the Postal Service's cumulative net loss. His public announcement of this situation also placed pressures on Postal Service that helped goad it to a better performance in 1994. Even better, the attention his inquiry brought to the question of the Postal Service's loss of equity and made restoring that equity a management goal of the Postmaster General. A sound financial structure for the Postal Service is important to all who depend on the mail.

The current system of laws and regulatory procedures governing the Postal Service is working well now. The Postal Service has been freed of many constraints generally imposed on government agencies while retaining significant advantages unavailable to private sector businesses. The combination of Congressional oversight coupled with postal rate and mail classification review by the Postal Rate Commission has maintained a fairly balanced postal system.

The members of the National Newspaper Association (America's community newspapers) along with our readers and advertisers in most of our Nation's cities, have been the number one target of the Postal Service recently. Let me assure the members of this subcommittee that we are very sensitive to the quality of your oversight because, without it, the Postal Service would seek to reward a few of its favored customers at the expense of mailers who are dependent upon the Postal Service because of the Postal Service monopoly.

A good example of the way our current postal structure works can be seen in the Postal Service's 1994 plan to raise rates for in-county second-class mail by 34 percent while raising nearly all of its other rates by ten percent. The Postal Service plan would have spelled disaster for thousands of community newspapers throughout the country.

Because the Postal Service has to justify its proposals before the Postal Rate Commission and because Members of Congress and in-county mailers had an opportunity to challenge the calculations behind the proposal, the Postal Service was forced to verify its mathematics. When the Service re-evaluated it found that the in-county rate should actually have gone down slightly because the Service had been miscounting publications in its cost measurement samples. Without the Rate Commission process, in-county mailers would be paying inflated, inappropriate rates today.

The oversight process continues to work well for the benefit of our national postal system. Right now the Postal Service is apparently adopting a short-sighted, counter-productive business plan for the future that is only partly complete. It doesn't really know where it wants to go nor how it expects to get there. Postal Service executives are speaking in many forums, including this subcommittee, about the benefits of a fundamental change in postal operations and they don't yet know what fundamental changes they are going to recommend.

Based upon the briefings we have attended, we seriously doubt that any one of the proposals being considered by the Postal Service will be acceptable to this Subcommittee. The possibility that the Postal Service could develop a comprehensive reform plan that could pass muster in Congress seems to us to be so remote that we suggest the Subcommittee focus its legislative efforts on more detailed oversight of the Service.

The members of subcommittee can play a key role in guiding and directing Postal Service policies to ensure that they serve the national interest and that they look to the long-term health of the Postal Service and the services it provides for all of us.

Today's problem for the Postal Service is the fact that it doesn't seem to have a realistic or practical business plan. For the past few months the Postal Service has been devoting itself to a strategy it will be unable to implement; namely, to focus primarily on its processing of automatable pieces from large mailers and its delivery operations in suburban locations. Such a strategy is bound to fail since it reflects what we think are false expectations of the world in which it operates.

Moreover, even if the Congress and the Commission were to adopt the suggestions of the Postal Service to free itself from the constraints of being a government agency, the Postal Service would be creating a dependency on those USPS customers who would leave it most rapidly for a competitive service.

To get what the Postal Service seems to want, it would likely have to give up its total control of the mailbox and its statutory monopoly over the mail. The result would be disaster for the Postal Service which is at present a high cost producer with little truly competitive experience. Such a result would also be temporary disaster for the American public who would have to suffer through the transitional period that would see the Postal Service fall along with the rise of private competitive postal companies.

A transitional period following failure of the Postal Service would result in highly varied service disparities based upon geography and on economic well-being. No one can truly predict how such a transition would proceed.

On the other hand, giving the Postal Service what it seems to want and also allowing it to retain its monopolies would be disastrous for its existing competition.

In the current reclassification case that is pending before the Postal Rate Commission the Postal Service is essentially admitting it cannot compete in mail processing and mail transportation. In fact, Postal Service witnesses are practically in-

viting and encouraging mailers to undertake their own transportation—a tactic that only serves to penalize further those who remain dependent on the Service. Only its monopoly leaves it able to compete in mail delivery, its other operational activity.

Recently, the Postal Service has decided to favor two very particular kinds of mail at the expense of mailers and recipients who don't happen to fall in the favored groups.

First, the Service has decided to literally abandon inner-city and rural mail recipients of periodicals. The Service has proposed a mail reclassification program that, among other effects, will encourage periodical publishers to trim subscribers in rural areas or inner-city locations from their circulation lists. Some publishers may find their postal bills falling by one-third if they drop subscribers in less densely populated rural areas or in economically poorer inner-city areas.

Likewise it will be much more expensive for individuals and small businesses to mail. For example, thousands of publications will pay about 35 percent higher postage bills than the few hundred who are favored customers.

Mailers who enter in bulk in standardized, prebarcoded envelopes are currently paying low rates but their rates would become even lower under Postal Service plans. Small businesses that are neither regional nor national in scope will pay an even higher premium than they already do.

The large volume bulk mailers would have a choice of three levels of service under the Postal Service plan while individuals and small businesses would be limited to the two higher priced services. Worse, individuals and small businesses would be limited to the higher priced portions of the higher priced classes.

The Postal Service will close out the year with more than $1 billion surplus. This amount is right on target with the estimates in last year's rate case. Most of the surplus is due to an amount added to rates that recaptures Postal Service losses from prior years. Over $400 million of the surplus is due to the Postal Rate Commission's decision to speed up the rate case so that rates could be raised a month earlier than the Postal Service had expected. Finally, the Service has benefited to the tune of $300 million from the stalemate in labor negotiations—which has meant it hasn't had to pay any COLAs or wage increases this year.

There are a number of actions this Subcommittee could take to enhance Congressional oversight of Postal Service operations.

We would like to see the Committee request copies of studies the Postal Service contracted to have performed on second- and third-class mail service performance. Apparently the results were so poor that the Postal Service is unwilling to produce them as it does the quarterly First-Class studies.

We believe it would be helpful to the Service, the Congress and all mailers for you to review these reports. The Postal Service seems not to have an objection to publication of the First-Class reports which show that performance has not improved over time and that nearly 20 billion pieces of First-Class mail are delivered late each year. We think the other classes should be publicly measured as well.

If the Committee is interested in legislative initiatives, we would recommend that the concept of a strong Postal Rate Commission be paramount in any statutory changes you might make.

The current process rewards dilatory litigation tactics by the Postal Service because it combines a statutory deadline for completion of a case with no direct authority for the Postal Rate Commission to obtain needed information. The current process also results in a non-decision at the end of Postal Rate Commission proceedings. The Commission decisions, under current law, are only recommendations to the Postal Service Board of Governors.

If the Postal Service comes up with any recommendations for legislative action this year, the National Newspaper Association will be happy to work with the Subcommittee to review any proposals and their effect on the postal system. If the Subcommittee feels that a legislative initiative is worth pursuing we might have additional recommendations for change at that time.

The Postal Service calls on nearly every home and business in America every day. The policies that govern its operations affect every American in very direct and substantial fashion. We believe a Postal Service Subcommittee dedicated to the oversight of an important $55 billion share of the national economy is a strong step forward. We look forward to a close working relationship with you.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO TONDA RUSH

Question 1. The Government Reform and Oversight Committee has been instructed by the Budget Committee to report reconciliation legislation involving man-

datory spending programs within its jurisdiction. The Budget Committee suggested we look at eliminating the transitional payments to the Postal Service which cover workman's compensation liabilities incurred by the former Post Office Department prior to the 1970 Reorganization Act. The current appropriation is approximately $37 million per year and declining. Last week the House passed its Budget Resolution which included this provision. What are your views concerning the elimination of this appropriation for former Post Office Department workers' compensation costs?

Answer. Congress has generally followed the practice of continuing its obligations for lapsed or terminated government programs. The obligations incurred were accepted by the government on behalf of the public and should be carried out as accepted. The US Postal Service should not be asked to inherit costs it did not create, even if they are declining and are minimal, except within the scope of its continuing mission. Therefore we oppose the imposition of the $37 million in workers' compensation costs upon current mailers or the current USPS corporation.

Question 2. Long-standing labor relations problems persist on the work room floor of the Postal Service. Literature on the subject suggest that unionized organizations can make little progress reinventing the organization or changing its culture of relations between management and labor leaders are adversarial. How can Congress and the executive branch?

Answer. NNA does not take positions on the labor and management issues of USPS, except to note that costs must be controlled and to observe that most employers cannot begin to compete with the standards set by USPS in compensation, particularly in small towns. Also, we note that continued service is essential.

Question 3. Why do you say that the Postal Service's proposed reclassification case indicates its decision to abandon inner-city and rural mail recipients.

Answer. The Postal Service's reclassification plan rewards mail density—which is a function of both population density in a given ZIP Code and the economic status in the ZIP Code. The Postal Service is offering publishers a 28 percent rate decrease if its overall circulation pattern meets the Postal Service's density requirement. Thus, a publisher has a large incentive to eliminate subscribers in the least populated postal areas in order to reduce the price of mailing every other copy of the publication. The two areas where mail density is likely to be low are rural and inner-city areas. USPS effectively trims subscription lists for our members to eliminate delivery in sparsely populated, more distant areas or low-income areas where volume criteria may not be met.

Question 4. In your testimony you indicate your organization's desire to retain a strong regulated Postal Service. What are your views on the Postal Service's desire to compete with emerging technologies? Does not the use of such technologies by business and individual mailers alike forecast a dim future for long-term postal finances? Are not members of your organization actively involved in exploring alternative delivery systems which could significantly erode Postal Service market share and finances?

Answer. NNA believes in a cost-effective and efficiently-run Postal Service. We do not wish to be understood as endorsing needless regulation. Our point is that as long as USPS operates with a nationally-mandated mission and monopoly, regulatory oversight is needed to prevent excess and abuse. If USPS decides it would prefer to operate without such oversight, it must give up the privileges of monopoly that go with it—and with that relinquishment goes, we fear, universal service.

NNA has no objection to ventures into new technologies so long as: (a) they can be done without funding from captive customers, (b) they can be done fairly without unduly impeding private sector competitors and (c) they are done with some rational fore thought. It is often said in our industry that in electronic technologies that millions will be spent before hundreds are made. Newspaper companies have proven that axiom adequately to satisfy us that USPS ought to be cautious in its investments in cyberspace.

As to private delivery, it is assuredly true that many newspapers have been driven to development of delivery systems as a cost control measure. As they develop these systems, they are interested in collecting additional volume to defray their costs. They are the very reason we urge USPS not to force newspapers into these defensive measures: USPS creates competitors where none existed before. But whether these forces are likely to significantly erode market share or finances for the Postal Service over the short term is extremely doubtful. They are a wedge to watch for the future, but hardly a present threat.

Mr. MCHUGH. Thank you for your testimony and for that offer. And as I have tried to indicate to others, who, like you and your

organization, have a vital interest in this process, that certainly is our intent, and we look forward to working with you as well.

Mr. MCHUGH. The next presenter is Cathleen Black, representing the Newspaper Association of America. Welcome.

Ms. BLACK. Thank you, Mr. Chairman. And thank you for the opportunity to appear before you today.

Since this is the 25th anniversary of the Postal Reorganization Act, it seems to us that this is a very good time to assess how the law is working and whether any changes need to be made, and we applaud the dedication of you and your committee members.

As you know, NAA is also a national trade association representing newspapers. We represent about 1,500 newspapers, the majority of which are daily newspapers and represent about 85 percent of the circulation in the United States. Today, newspapers spend literally hundreds of millions of dollars collectively to mail in all three classes—first, second, and third. Yet we are not considered to be the large customers by the Postal Service, and few individual newspapers have regular and direct contact with top postal officials like some of the predecessors you have heard from today.

Over the years, a profound distrust of the Postal Service has been growing in our industry, particularly among larger newspapers. It stems from an attitude, and, frankly, we would believe a strategy, that has been undertaken by the Postal Service for about 20 years, and that is, viewing newspapers as an advertising vehicle. By that, you might ask what do you mean? Well, by that we mean that the Postal Service has begun to treat newspapers more as a competitor—and this again is not something new, it has been going on for probably 15 or 20 years—rather than as a significant customer.

Many people in the industry believe that the Postal Service, in this strategy to push for volume, has consciously sought to drive ad dollars out of the pages of newspapers and potentially into direct mail. But, more importantly, and on a broader level, as we look at the Postal Service today, we sense that there is a crisis in direction, mission, and purpose; that the institution is at a significant turning point; and that it is potentially in danger of losing sight of what has been its historical and fundamental mission.

Mr. Chairman, we have all heard the cries of the Postal Service beseeching, correct me if I'm wrong, to cut its regulatory reins. The Postal Service has made it clear that it wants to be subject to no regulatory restraints. Yet it is unwilling to be subject to the full constraints and dynamics of the free marketplace. The Postal Service pays no taxes, is immune from the antitrust laws, has a monopoly over the majority of the mail stream, and wants to protect that status at all cost. Yet it complains loudly about the restraints under which it lives.

The situation calls for congressional direction because fundamental policy and philosophical questions are being raised about the very nature of the institution. We believe it should be the Congress and not the Postal Service's own management or its major customers that answer these questions.

For example, should the Postal Service enter new and competitive arenas? What should the Postal Service's role be in the electronic area? And is it really appropriate for the Postal Service to

be forming strategic alliances with some companies or ventures, to the exclusion of others, when it has a monopoly status? The question again is what, if any, of these are proper functions for a government agency?

Now, I don't come to you today with any of these answers, but these are important and fundamental questions that should be addressed fully by the Congress. Additionally, there is also the Postal Service's urgent call for this word you have heard several times today, flexibility, in setting rates. We strongly believe that addressing that question now is premature. The debate of rate-setting flexibility is best done after the basic questions that I have just mentioned, concerning the proper function of the Postal Service, are answered, because it is part of a larger whole.

However, in any circumstance, all entities must be subject to market forces or regulatory forces. As a monopoly, and since it is not controlled by market forces, the Postal Service must remain checked by regulation. Moreover, we believe the calls for rate-setting flexibility are nothing more than a mass effort to lower rates in the competitive arena. This move is accomplished by shifting the institutional costs off of competitive classes and on to the monopoly class. This is an effort that strikes us as inappropriate and contrary to the intent of the Postal Reorganization Act.

As the subcommittee considers these complex issues, it should also question the appropriateness of the direction of the current reclassification case. Statements suggesting that the Postal Service has made automation the center of its reclassifying are definitely accurate, but they do not tell the whole story.

In the reclassification case, there are two quite separate forces at work. One does have to deal with increasing efficiency through automation and encouraging bar coding. We fully support that. The other force, however, has little to do with automation, but is focused on creating flexible and some, in fact, might say, subjective rates for a pricing structure that will allow the Postal Service to shift the institutional costs in the future.

This is the driving motivation behind the idea of a special enhanced carrier route subclass in third class and a special publications subclass in second. Both of these proposals are designed to allow the Postal Service in future rate cases to shift overhead costs away from these new subclasses and onto its first class captive audience. This is a radical break with the past and one that raises crucial public policy questions, questions that we believe are best answered by the Congress.

Finally, some mailers have called for the abolition of the Postal Rate Commission alleging that it is irresponsible. We believe that the PRC has conducted its proceedings in a professional, impartial, and efficient manner. We believe the PRC has done so in a highly sophisticated fashion and has completed its responsibilities in a timely manner, more rapidly than many other regulatory agencies. It deserves the full and continued support of the subcommittee.

We appreciate the opportunity to testify this morning and we also would look forward to working with you as you move forward on these sticky and complex issues. Thank you.

Mr. MCHUGH. Thank you. We appreciate your comments as well.

[The prepared statement of Ms. Black follows:]

PREPARED STATEMENT CATHLEEN P. BLACK, PRESIDENT AND CEO, NEWSPAPER ASSOCIATION OF AMERICA

Good morning Mr. Chairman, distinguished members of the Committee. My name is Cathleen Black and I am the President and Chief Executive Officer of the Newspaper Association of America (NAA). It is a pleasure to be here with you today, and we look forward to working with you and your staff on the difficult issues this Subcommittee will face today and in the future.

NAA is a nonprofit corporation serving more than 1,500 member newspapers in the United States and Canada. NAA members account for more than 85% of U.S. daily circulation. Our organization has been involved in postal issues for over a century and has worked closely with Congress on these matters during that time.

Thank you for giving NAA the opportunity to appear before you in your inaugural set of postal oversight hearings. Since this year marks the twenty-fifth anniversary of the Postal Reorganization Act, it is a good time to assess how the law is working and whether any changes may be needed. We appreciate the time you are spending in the postal area, and we applaud the dedication with which you are undertaking your charge.

Newspapers make extensive use of the postal system and spend hundreds of millions of dollars collectively to mail in First, Second, and Third class. Indeed, newspapers are often one of the largest customers of the Postal Service in their local area. Yet, in the overall scheme of things, newspapers are not considered "large customers" by the Postal Service, and few individual newspapers have direct contact themselves with postal officials at L'Enfant Plaza. Since many members of the Subcommittee are new to the area, I have attached to my testimony a more complete description of NAA and how newspapers use the mail.

Despite the fact that newspapers are major customers of the Postal Service, a profound distrust of the Postal Service has grown up in our industry. This stems in large part from the attitude that the Postal Service has taken towards newspapers as advertising vehicles since the mid-1970s. Since that time, the Postal Service has treated newspapers more as competitors than as significant customers, and many newspapers believe that the Postal Service consciously has sought to drive advertising dollars out of the pages of newspapers and into direct mail.

We realize that you are just in the preliminary stages of this inquiry. However, as you assess how well the postal system is working today and how a universal delivery system can best be maintained, we urge you to consider carefully what role the Postal Service has in competing with private enterprise. The Postal Service bureaucracy, supported by a handful of very large mailers, assumes that it is a proper function of government to consciously take business away from private enterprise. We don't agree with that approach, and think the time is ripe for Congress to look at the issue. Congress has never set public policy in this area, and if it does not do so, the postal bureaucracy surely will.

Mr. Chairman, in the balance of my testimony today I would like to address two key areas.

THE POSTAL SERVICE IS AT A TURNING POINT AND NEEDS CONGRESSIONAL DIRECTION

It has become the fashion today in postal circles to loudly proclaim a "crisis" in postal management and delivery, and to forcefully call for radical reform. We, however, look at the facts, and wonder about the nature of this "crisis." Is it a problem of delivery? Or of rates? Or of management? Or of the institution and its mentality?

In terms of delivery, although there was a colossal delivery "snafu" in recent years, our sense is that the system has more or less worked it out, and is running fairly well, although First Class delivery isn't as good as it should be, and often runs below published delivery goals. In terms of rates, the Postal Service and the Rate Commission have recently held rate increases to around inflation levels a first in recent postal history. In the last rate case, NAA joined with other mailers in strongly supporting a 10.3 percent across-the-board increase, and although the result differed slightly, the overall result was still more than acceptable. In terms of the long run financial condition of the institution, there surely is a significant problem with the Postal Service's equity position, which is now a negative $6 billion. Although that is a question for another day, in passing I would urge you to ask the Postal Service how it intends to restore the American taxpayers' net equity.

We sense that there is a crisis of direction and purpose at the Postal Service. The institution is at a significant turning point, and we are concerned that it may be in danger of losing sight of what has been—and remains its fundamental mission. More and more we see the Postal Service moving away from an institution that should be run "in a business-like fashion," as the Postal Reorganization Act envisioned, to one that wants to be an independent business. There is a big difference

between the two, especially for those entering less volume into the system than others.

As we look at the Postal Service, we see an institution that cries out loudly to be free from the constraints of regulation, and yet is unwilling to be subject to the constraints of the free marketplace. We see an institution that pays no income or property taxes, is exempt from the antitrust laws, has a legal monopoly over the vast majority of the mail stream, and yet at the same time complains about the restraints under which it lives.

The situation calls for Congressional direction. Fundamental questions are being raised, and given that the Postal Service is a government institution, it should be Congress that answers them, not Postal Service management.

Should the Postal Service enter new and untried competitive areas? Does Congress want the institution to shift its primary attention to competing with the private sector, or should it refocus its efforts on consistently delivering its current volumes on time and at a reasonable price? Is it proper for a government institution to consciously attempt to drive business away from private enterprise? Should the Postal Service be forming "strategic" alliances with some companies and some industries, to the exclusion of others? Should the Postal Service be entering into "partnering" agreements with Time-Warner, Microsoft, and others consciously choosing to favor one company or set of companies over another? Is that a proper role for government? What exactly is in the public's interest? And what about universal service?

Should the Postal Service devote a significant amount of its efforts and vitality to trying to carve out some niche in the electronic world? Rumors from L'Enfant Plaza have been plentiful over the last several years, and have ranged from talk about creating "electronic postmarks" to even wilder rumors about the acquisition of local telephone companies.

Or, should the Postal Service continue to do—and improve upon—what it has traditionally done, which is to collect, process, and deliver hard copy in areas that the private sector does not readily serve, through a universal delivery system? Everyone wants the most efficient and productive system possible. How should that be obtained, and maintained?

Naturally, a huge question from our perspective is what the Postal Service's relationship properly should be with newspapers. The relationship between the Postal Service and newspapers is an old one, dating back to colonial times when many post offices existed to ensure that newspapers were delivered to citizens in a timely manner. For close to two centuries that relationship endured, even though larger newspapers slowly moved away from postal delivery in their local areas, as urban density and the need for early morning delivery encouraged newspapers to build their own delivery systems.

In the late 1970s, however, this relationship began to seriously deteriorate as the Postal Service began to view itself as being in direct competition with weekly and daily newspapers. Today, many newspapers believe that over the last twenty years the Postal Service has consciously sought to move advertising dollars out of newspapers and into direct mail—an effort we hasten to point out, that may not have been understood at that time, much less approved by Congress.

For years, the newspaper industry has had to live with the uncomfortable reality of having a government agency that pays no taxes and is not subject to the antitrust laws trying to drive away from newspapers the advertising dollars on which they depend. Moreover, newspapers have been frustrated by the fact that it has been done with virtually no supervision and no checks on the institution. Should this continue? Is it appropriate?

These are very important, and very fundamental questions. They have never been seriously asked, much less answered, by Congress. They need to be, for the answers will determine the direction of our postal system as it enters the twenty-first century. The Subcommittee needs to focus on these questions and explore them in depth. And it needs to do so before it considers any question of "privatization," for privatization can not and should not be considered as an end in itself. Clear answers to the question of where and what one wants the Postal Service to be will make any "privatization" debate much easier, more straightforward, and much less political.

RATE SETTING "FLEXIBILITY" SHOULD EXIST ONLY IN A MARKET ENVIRONMENT

Recently, the Postal Service has called for "increased flexibility" for "competitive" services in the rate setting process and has filed at the Postal Rate Commission for rules that would allow it to evade close scrutiny of price changes for "competitive" services. However attractive that may sound, we believe that these calls for "in-

creased flexibility" and "competitive pricing" are code words for efforts to lower "competitive" rates by shifting institutional costs off of those classes and onto the monopoly classes, an effort that strikes us as inappropriate and contrary to the intent of the Postal Reorganization Act.

This Subcommittee should discount suggestions to eliminate full regulatory review of the Postal Service's Rates and Classifications. All entities have to be checked by either market or regulatory forces. Since the Postal Service is not controlled by market forces, it must be checked by regulatory forces.

In suggesting that the Postal Service's call for less rate regulation is inappropriate, NAA does not wish to suggest that all Postal Service appeals for regulatory relief are necessarily unreasonable. There may well be instances where the Postal Service is living under inappropriate regulation. However, NAA urges the Subcommittee not to confuse these instances with the Postal Service's rate, pricing, and classification situation, for the rate making scheme that the Postal Service is under today is not only appropriate, but we believe absolutely necessary.

Additionally, as the Subcommittee considers these issues, it should also question the appropriateness of the direction of the current reclassification case, where the Postal Service is proposing to reshape its pricing structure so that is better prepared to shift more of the institution coast burden from "competitive classes" to monopoly classes.

Statements suggesting that the Postal Service has made automation the centerpiece of its reclassification filing are accurate—but do not tell the whole story. In the reclassification case, there are two quite separate forces at work. One has to do with increasing efficiency through automation. The other, however, has nothing to do with automation, but is focused on creating a pricing structure that will allow the Postal Service to give large mailers a break at the expense of others, and to more easily shift institutional costs from competitive classes to monopoly classes, under the guise of "demand" pricing.

One component of the case calls for the creation of increased incentives to barcode. This is the part of the case proposing First Class and Third Class Automation subclasses. A second component of the case calls for a special Enhanced Carrier Route subclass in third class, and a special Publications subclass in second class. The driving motivation behind the creation of the latter two subclasses is a desire to give larger customers a break at the expense of smaller ones, and a desire to create a rate structure that will allow the Postal Service in future rate cases to more easily shift overhead costs away from these new subclasses and to its First Class captive services. This is a radical break with the past, and one that raises crucial public policy questions that need to be answered, and not ignored by Congress.

The newspaper industry expects that the Rate Commission, after thorough consideration, will reject the second component of the proposal. Further, we hope that the Commission ignores the attempts to publicly intimidate it that have appeared in the pages of the postal trade media over the last several years.

Both the Postal Service and a small minority of mailers have repeatedly and severely criticized the Postal Rate Commission and the rate setting process. Some mailers have gone even further, and have called for the abolition of the Postal Rate Commission, alleging that it is biased and irresponsible. We believe that this criticism—boiled down to its essentials—really amounts to a complaint that the PRC has not rubber stamped the Postal Service's repeated attempts to shift more of its institutional cost burden off of some classes and onto "Aunt Minnie."

We believe the PRC generally has conducted its proceedings in a professional, impartial and efficient manner, and has usually bent over backwards to see that the due process rights of all were protected. While never perfect, the PRC has delved deeply into the statistics and economics of the mail industry. It has done so in a highly sophisticated fashion, and has completed its responsibilities in a timely manner and, incidentally, much more rapidly than many other regulatory agencies. The PRC's mission has been to see that all costs caused by a class or type of mail are attributed to that mail, and that the institutional costs of the Postal Service are spread fairly. It is a tough job, but the Commission has done it in a considered and appropriate fashion. The Commission deserves the full and continued support of this Subcommittee. Indeed, our recommendation would be to strengthen the Commission by giving it the legal authority to defend its decisions in court and by giving it the ability to subpoena information from the Postal Service.

Thank you for considering our views. I would be pleased to try to answer any questions you might have.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO CATHLEEN P. BLACK

Question 1. The Government Reform and Oversight Committee has been instructed by the Budget Committee to report reconciliation legislation involving mandatory spending programs within its jurisdiction. The Budget Committee suggested we look at eliminating the transitional payments to the Postal Service which cover workman's compensation liabilities incurred by the former Post Office Department prior to the 1970 Reorganization Act. The current appropriation is approximately $37 million per year and declining. Last week the House passed its Budget Resolution which included this provision. What are your views concerning the elimination of this appropriation for former Post Office Department workers' compensation costs?

Answer. NAA has no formal position on this issue.

Question 2. Longstanding labor relations problems persist on the work room floor of the Postal Service. Literature on the subject suggests that unionized organizations can make little progress reinventing the organization or changing its culture if relations between management and labor leaders are adversarial. How can Congress and the executive branch encourage and assist postal management and unions to address the severe labor management problems in the Postal Service?

Answer. Changing an institution's working relationship with its labor unions is a challenging task, and the ultimate responsibility for improving labor relations is on the shoulders of both labor and management. Without changing the law, there is little either Congress or the Executive Branch can do to ameliorate the situation, other than to keep both parties focused on the issue, and to keep emphasizing the importance of the issue to both sides.

Question A. As usual, labor and postal management have been unable to reach agreement on a new collective bargaining contract. Does the current state of labor management relations in the Postal Service affect your organization's members as postal customers?

Answer. Newspapers distribute a significant amount of their total market coverage advertising products via the Postal Service. As local third-class mailers—and I emphasize local—our advertising mail products usually receive the excellent delivery service that is characteristic of most local third-class mail. To the degree that the current situation will tend to affect the Service's quality of delivery, our mail would be adversely affected.

Question 3. You voiced concern that a more demand-sensitive rate setting mechanism might shift more institutional costs to second-class mailers from third-class mailers. Hypothetically, if third-class mailers should leave the Postal Service altogether by locating alternative delivery systems, would not the remaining mailers—particularly first- and second-class—be left footing the bill? Does not an increase in volume—no matter what the service or class—lead to decreased institutional costs attributable to each specific customer?

Answer. First, I would like to clarify our testimony.

NAA's concern about "market pricing" is not limited to a concern that the Postal Service might shift institutional costs off of third class and onto second class. Rather, our concern is a much broader one.

We believe that under the guise of "responding to market demand," the Postal Service would propose to shift costs off of "competitive" classes, which is to say that it would propose shifting more costs onto monopoly classes. Given the relative sizes of the classes, this shift would most significantly occur between First and third. This is a concern, we note, that has been expressed by other witnesses before your committee, including the United Parcel Service.

Turning to the hypothetical question of what would happen if all third class left the system, it is true that if all third class mail left the system, the institutional cost burden that third class had covered would have to be borne by the mail remaining in the system. This is equally true, of course, for any class of mail, including First Class.

In order to fully understand the implications of this question, one must consider the issue in the context of the relative amount of the Postal Service's institutional costs that are covered by First and third class, and the importance of each of these classes to the other. A good way to do this is to look at how much rates in one of these classes would have to increase if the other class of mail left the system.

As the Postal Service correctly points out in the current reclassification case, if all third class left the system, and third class' institutional costs had to be borne

by First Class, the First Class rate would have to increase by about two and a half cents on average.[1]

On the other hand, as the Postal Service was forced to recently confirm in the current reclassification case, if all First Class mail left the system—say to email and electronic bill delivery and payment—and First class' institutional costs had to be borne by third class, the third class rate would have to increase by about twenty cents per piece.[2] That is a significant difference, and one that is usually glossed over by advocates of third-class mail.

This would occur because, as one can see from the table below and the chart on the next page, while First Class makes up 54 percent of the volume of the Postal Service, it picks up a whopping 76 percent of the overhead. Third class, on the other hand, makes up 39 percent of the volume of the Postal Service, but only picks up 18 percent of the overhead.

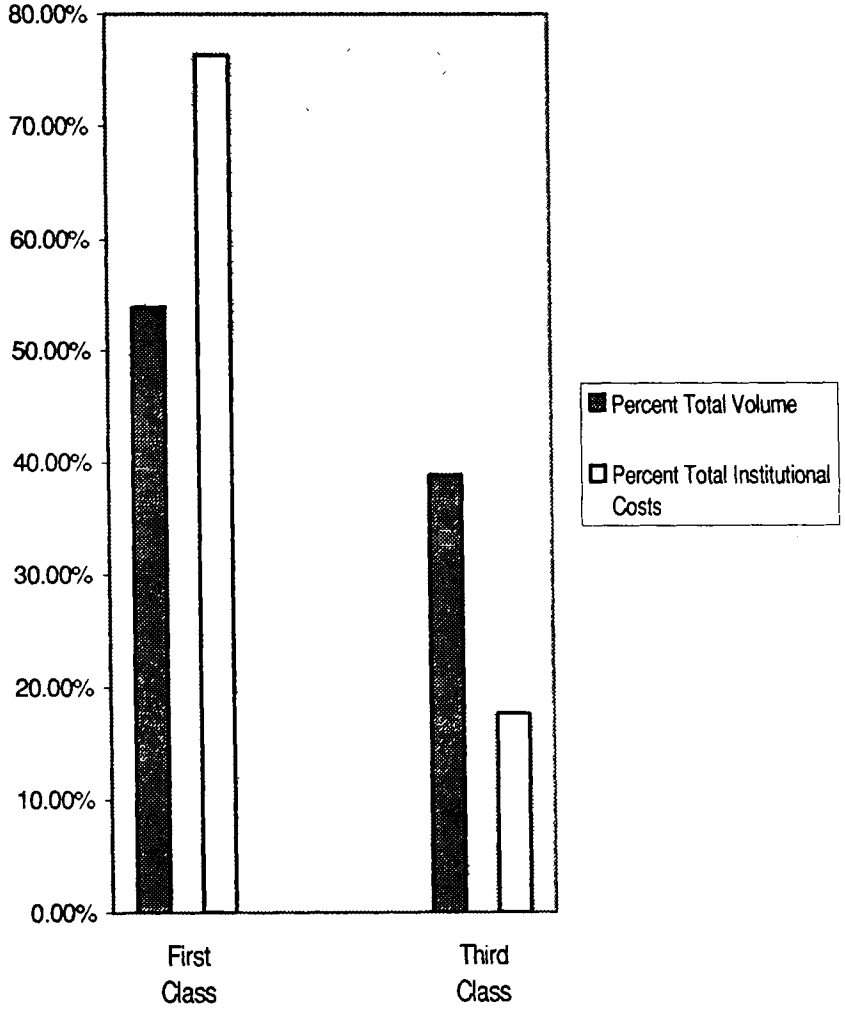
Facts on First and Third

	Total Volume	Total Overhead Costs	Total Revenue
First class	53.91%	76.31%	64.59%
Third class	38.88	17.67	21.40
Total	92.79	93.98	85.99

[1] See the Direct Testimony of Charles C. McBride on behalf of the United States Postal Service, in Docket No, MC95–1, at page 18.

[2] See the Postal Service answer to NAA's interrogatory NAA/USPS–T1–20 in Docket MC 95–1, the pending reclassification case.

First and Third Class Volumes and Institutional Costs, Compared



This relative allocation of institutional costs appears disproportionate even under the current ratesetting policies. If the Postal Service successfully were to apply "market based" pricing to shift institutional costs off of third class and onto First Class, the 76 percent to 18 percent disparity of First to third illustrated in this graph would widen still further.

Finally, in response to the last part of your question, an increase in volume—no matter what the service or class—as a general proposition leads to a larger base among which to spread institutional costs. But it is important to remember that because more than three quarters of the institutional costs of the system are borne by First Class mail, and because First Class mail is more than one half of the volume of the system, increasing volume in other classes simply does not have a significant impact on the spread of institutional costs among specific customers, or on the price of a First Class stamp. Because of this, an increase in volume of First Class—much more than any other class—leads to a reduced institutional cost contribution for each specific customer.

Question 4. You mentioned the significance of work-sharing between mailers and the Postal Service (e.g., performing initial sorting and mail preparation yourselves in return for a rate discount). However, even though mailers are being called upon to do more and more of the work of the Postal Service in mail preparation, the number of postal employees remains very high. How do you explain both the high number of employees and the increasing work requirements on mailers? Is work-sharing cost-effective for your members?

Answer. We find this explanation to be beyond a logical explanation. It suggests, however, that the Postal Service has trouble capturing the labor cost savings that are reasonably expected to occur from mailer worksharing. Testimony before the Commission has suggested that the problem is most acute in the mail processing area.

Questions also have been raised as to the depth and quality of the discounts. For instance, our economists have suggested that for some time the destination entry discount exceed the cost savings because the costs avoided are measured in pounds but the discounts are given on a per piece basis. Nevertheless, the worksharing system has worked tolerably well over the years, and it is a far more equitable way to recognize differences in the cost of delivering mail than the bundled classification system that has been proposed in the current reclassification case.

Also, one must recognize that the discounts for mail processing activities (presortation, walk-sequencing, and the automation-related discounts) and the discounts for drop shipping (destination entry, SCF, and BMC discounts) are replacing USPS processing and transportation, and fundamentally changing the nature of the postal system. One aspect of this transformation—and one seldom noted—is that the essential nature of the postal monopoly is also being transformed from a monopoly over the processing, transportation, and delivery of mail, to a monopoly over just the delivery of mail.

Indeed, the contrast can be striking. Mailers are given discounts to replace the postal processing and transportation functions in the postal system, but are forbidden by law from replacing the delivery functions of the postal system. The net result is that mailers opt out of the system in areas where the costs are largely attributed to all classes of mail, but stay in the system in the area—delivery—where the costs are predominantly paid for by First Class.

Work-sharing is, generally, cost-effective for our members.

Mr. MCHUGH. Next, Mr. George Gross, representing the Magazine Publishers of America.

Mr. GROSS. Thank you, Mr. Chairman. I am George Gross. I am the executive vice president for government affairs for the Magazine Publishers of America.

MPA, as you know, is the national association of the consumer magazine publishing industry. We currently have about 200 domestic companies as members, publishing about 750 U.S. magazines. In this age of niche publishing, our magazines appeal to virtually everyone of every taste: news, fashion, home and gardening, hobbies, sports, religion, science, literature, and so on.

Our membership includes some of the best-known titles, with circulations often running into the millions, such as Time, Newsweek, the Reader's Digest, Sesame Street, National Geographic, and a growing magazine, Modern Maturity, as well as such smaller publi-

cations as the New Republic, Teacher, Chesapeake Bay Magazine, Snow Week, and Children's Business, which have circulations of only a few thousand.

Our members mail about 4 billion copies every year through the Postal Service, a figure that demonstrates the importance of the Postal Service to us. We have been and are very strong supporters of an efficient, reliable, responsive postal system. We have long placed particular emphasis on the need for controlling costs by shifting mail preparation from the Postal Service to the mailer in order to reduce costs, in a word, worksharing, which leads to lower mailing costs for the entire industry.

While service from the point of view of our members continues to be generally satisfactory, increasing costs remain an urgent concern. A look at the last three rate increases tells you why that is true for second class. In 1988, second class rates went up by nearly 19 percent, on average. In 1991, about 22 percent. And in 1955, by about 14 percent. In total, second class rates went up by 55 percent, considerably higher than the cumulative rate of inflation during these years and in a period of generally stable volume in second class. In other words, less efficiency, not more mail, caused these high increases.

Consequently, it is not surprising that during this period there has been an increasing interest in exploring private delivery, which does not face the high labor and transportation costs characteristic of the Postal Service. While some of our members have been involved in private delivery since the 1970's, many became involved for the first time in 1989 with the creation of Publishers Express by Time and some other large publishers. Originally covering five zip codes in the Atlanta suburbs, Publishers Express now delivers magazines and advertising matter in 717 zip codes throughout the country, delivering about 38 million pieces of second class mail annually. In addition, Alternate Postal Delivery of Grand Rapids, MI, delivers additional millions of pieces of second and third class mail.

It is clear that unless the Postal Service gets control of costs in a meaningful way, more second class mailers will divert an increasing portion of their mail to private delivery. What that means is that absent effective cost control, postal volume will gradually decline or grow even more slowly than it is growing now; unit costs will rise; jobs will be lost; and service will decline. Since the Constitution places in you the power and duty to provide the American people with an effective and efficient system of post office and post roads, the challenge is clearly up to you.

The need to find more effective ways to reduce costs explains our general endorsement of the Postal Service's reclassification efforts for second class. The reclassification proposal would promote more efficient mailing practices throughout second class and base rates more closely on costs, as required by the Postal Reorganization Act of 1970. These objectives are clearly in the long-term interests of second class, in which mail is still frequently handled manually and transported over long-distances through costly postal transportation.

In our view, second class costs will continue to rise disproportionately to other classes until publishers have adequate incentives to change their mailing practices. We think that publishers of all

sizes, both small and large volume magazines, will increasingly adopt more efficient mailing practices, particularly co-mailing, in order to qualify for the new publications service subclass; and once in the subclass, they will adopt more efficient practices, like increased dropshipping and carrier route sorting, that enables them to pay the lowest possible rates. Over time, second class will become a more and more efficient class of mail.

Finally, we look forward to and encourage you in this comprehensive review of the Postal Reorganization Act of 1970. You should note, though, that review of the 1970 act began shortly after the ink was dry and has continued ever since. Legislation has been introduced in nearly every Congress since 1970 to make changes in postal law. Almost all reform proposals relate to postal rates, defining costs for ratemaking purposes, hurrying up or slowing down the process of increasing rates, increasing or reducing the authority of the Postal Rate Commission, Congress' own creation, or doing away with it altogether. Some relate to relaxation or abandonment of the private express statutes which provide the economic basis for nationwide daily postal delivery.

If Congress undertakes a comprehensive review of the act, you will likely face the same issues that Congress faced a quarter century ago: how should these rates be set; how should authority be divided; how should due process be ensured; who may carry what outside the mails? Many of these issues, as you know, will be aired this week at the Mailers Council Summit and Debate on Privatizing the Postal Service, which we, as council members, are cosponsoring.

Furthermore, as this hearing is held, the Postal Rate Commission, at the request of the Postal Service, is looking into changes in procedures for considering rate proposals in order to simplify and expedite changes in rates with the least administrative cost. As you know, many of these proposed changes, which are clearly within the rulemaking authority of the commission, originated 4 years ago after wide-ranging discussion by many parties, including MPA. We believe these proposals represent a good starting point for your consideration.

Thank you. I will be happy to answer any questions.

Mr. MCHUGH. Thank you.

[The prepared statement of Mr. Gross follows:]

PREPARED STATEMENT OF GEORGE GROSS, EXECUTIVE VICE PRESIDENT, MAGAZINE PUBLISHERS OF AMERICA

My name is George Gross. I am the Executive Vice President for Government Affairs of the Magazine Publishers of America (MPA). It is a pleasure to appear before you this morning.

MPA is the national association of the consumer magazine publishing industry. Founded in 1919, MPA provides a variety of services to magazine publishers, through its offices in New York, Washington, and Detroit.

We currently have about 200 domestic firms as members, publishing approximately 750 U.S. magazines. In this age of niche publishing, our magazines appeal to many tastes: news, fashion, home and gardening, hobbies, sports, religion, science, literature, art, trades and professions of all kinds. Our membership includes some of the best-known titles, with circulations often running into the millions—such as Time, Newsweek, The Reader's Digest, Sesame Street, National Geographic, and Modern Maturity—as well as such smaller publications as The New Republic, Teacher, Chesapeake Bay Magazine, Snow Week, and Children's Business, with circulations of only a few thousand.

The Audit Bureau of Circulation, which verifies the circulation of magazines distributed to paid subscribers, estimates that about 5.3 billion consumer magazines are mailed annually to subscribers through the postal system. Of that total, MPA members mail about 4.3 billion copies, about 80 percent of all subscription circulation.

These figures demonstrate the importance of the Postal Service to the magazine industry. We have been and are strong supporters of an efficient, reliable, and responsive postal system. We have long placed particular emphasis on the need for controlling costs by shifting mail preparation from the Postal Service to the mailer in order to reduce postal costs: in a word, "worksharing", which leads to lower government costs and lower mailing costs for the mailing industry, including the magazine publishing industry.

While postal service continues to be generally satisfactory for our publications, increasing costs remain an urgent concern. A glance at the past three rate increases for second-class mailers indicates why: in 1988 second-class rates went up by nearly 19 percent; in 1991 by about 22 percent; and in 1995 by about 14 percent. In total, second-class rates increased by about 55 percent, considerably higher than the cumulative rate of inflation during these years, and in a period of generally stable volume in second-class. In other words, less efficiency, not more mail, caused the high increases.

Consequently, it is not surprising that during this period there has been an increasing interest in exploring private delivery, which does not face the high labor and transportation costs characteristic of the Postal Service. While some of our members have been involved in private delivery since the 1970's, many became involved for the first time in June 1989 with the creation of Publishers Express by Time Inc. and other large publishers. Originally covering five zip codes in the Atlanta suburbs, Publishers Express now delivers magazines and advertising matter in 717 zip codes throughout the country, delivering about 38 million pieces of second-class mail annually. In addition, Alternate Postal Delivery of Grand Rapids, Michigan, delivers additional millions of pieces of second- and third-class mail. Unless the Postal Service gets control of costs in a meaningful way, more second-class mailers will divert an increasing portion of their mail to private delivery.

What that means is that, absent effective cost control, postal volume will gradually decline, or grow even more slowly; unit costs will rise; jobs will be lost; and service will decline. Since the Constitution invests in you the power and duty to provide the American people with an effective and efficient system of "Post Office and Post Roads", the challenges is clearly up to you.

The need to find effective ways to reduce costs explains our endorsement of the Postal Service's reclassification efforts for second-class. The reclassification proposal would promote more efficient mailing practices throughout second-class, and base rates more closely on costs, as required by the Postal Reorganization Act of 1970. These objectives are clearly in the long-term interests of second-class, in which mail is still frequently handled manually and transported over long distances via postal transportation. In our view, second-class costs will continue to rise, disproportionately to other classes, until publishers have adequate incentives to change their mailing practices.

Publishers must, in our view, have an incentive to sort their mail more finely (to avoid costly manual handling until the Postal Service improves the automation of flat mail in general, and second-class flats in particular); and to increase drop shipping to destination postal facilities (to avoid continuing high Postal Service transportation costs). The Postal Service second-class reclassification proposal provides great incentives for mailers to do both.

We believe that publishers of all sizes—both small- and large-volume magazines—will increasingly adopt more efficient mailing practices, particularly co-mailing, in order to qualify for the new Publications Service Subclass. Once in the Subclass, they will adopt more efficient practices, like increased drop shipping and carrier route sorting, in order to pay the lowest possible rates. Over time, second-class will become a more and more efficient class of mail.

Finally, we look forward to a comprehensive review of the Postal Reorganization Act of 1970 and stand ready to provide whatever help we can. It should be noted, however, that review of the 1970 Act began only shortly after the ink was dry, and has continued ever since. Legislation has been introduced in nearly every Congress since 1970 to make changes in the postal law. Almost all reform proposals relate to postal rates—defining "costs" for ratemaking purposes, hurrying up or slowing down the process of increasing rates, increasing or reducing the authority of the Postal Rate Commission, Congress's own creation, or doing away with the Commission altogether. Some relate to relaxation or abandonment of the Private Express Statutes, which provide the economic basis for nationwide daily postal delivery.

If Congress undertakes a comprehensive review of the Act, you will likely face the same issues that Congress faced a quarter-century ago: how should rates be set? how should authority be divided? how should "due process" be ensured? "who" may carry "what" outside the mails?

Many of these issues will be aired at this week's Mailers Council Summit and Debate on Privatizing the Postal Service, which we as members are cosponsoring. Furthermore, as this hearing is held, the Postal Rate Commission, at the request of the Postal Service, is considering changes in the procedures for considering rate proposals, in order to simplify and expedite changes in rates, with less administrative cost. As you know, many of these proposed changes, which are clearly within the rulemaking authority of the Commission, originated four years ago after wide-ranging discussion by many parties, including MPA. We believe these proposals represent a good starting point for your consideration.

Thank you. I will be happy to answer any questions you may have.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO GEORGE GROSS

Question 1. The Government Reform and Oversight Committee has been instructed by the Budget Committee to report reconciliation legislation involving mandatory spending programs within its jurisdiction. The Budget Committee suggested we look at eliminating the transitional payments to the Postal Service which cover workman's compensation liabilities incurred by the former Post Office Department prior to the 1970 Reorganization Act. The current appropriation is approximately $37 million per year and declining. Last week the House passed its Budget Resolution which included this provision. What are your views concerning the elimination of this appropriation for former Post Office Department workers' compensation costs?

Answer. MPA would strongly oppose eliminating the appropriation for past Post Office Department workers' compensation costs. The goal of a self supporting Postal Service simply cannot be achieved if Congress continues to require the Service to absorb expenditures that rightfully are the responsibilities of the Federal Government.

Question 2. Longstanding labor relations problems persist on the work room floor of the Postal Service. Literature on the subject suggests that unionized organizations can make little progress reinventing the organization or changing its culture if relations between management and labor leaders are adversarial. How can Congress and the executive branch encourage and assist postal management and unions to address the severe labor-management problems in the Postal Service? As usual, labor and postal management have been unable to reach agreement on a new collective bargaining contract. Does the current state of labor-management relations in the Postal Service affect Your organization's members as postal customers?

Answer. Management disputes of varying intensity are inevitable in such large institutions as the U.S. Postal Service. Serious disputes can be moderated, in my view, by greater attention to them by Congress and the Executive Branch: whenever the major actors in our governmental system make clear that prompt and responsible resolution of issues is important to the Nation, the parties are more likely than not to respond appropriately. Strained labor-management relations affect all users of the Postal Service by reducing the confidence that users must have in the system.

Question 3. What is the current status of efforts to utilize private delivery methods? What proportion of mail do your members divert to private delivery?

Answer. It is very difficult to provide any meaningful number for either publications that use private delivery or the number of copies delivered by private delivery systems. Together, Publishers Express and Alternate Postal Delivery deliver about 70 million magazines annually. It is unlikely that more than 1-2% of our publications are delivered by private delivery services.

Question 4. Do the Postal Service's reclassification efforts meet the objectives of your members in finding more efficient mailing practices to stabilize or reduce costs? Pursuant to the reclassification proposal, incentives will be provided to those mailers who are capable of automation via barcoding. Do your members fit into this category?

Answer. My statement makes clear that the USPS reclassification proposal for second-class meets our objectives for reducing costs. Second-class mailers participate less in barcoding than other classes, however, as stated above.

Mr. MCHUGH. I have just been informed that the National Security Committee is going to be holding a must-attend vote at 12:15.

I apologize for this interruption, but I have been instructed to be there by higher authorities, even higher than my mother. So I beg your indulgence.

It is my intent to go there, if we could suspend at this point. Mr. Bair, we will come back and resume with you. I have a number of questions and we also have a third panel. I am hopeful this delay will not take too long. Certainly for my part I will return as quickly as I possibly can.

Obviously this—is this a problem? Is it something you can accommodate?

Mr. BAIR. I have to be back at the office, so I guess I would just submit our testimony, which you already have. I have nothing startling to add in my comments, although I obviously would have liked an opportunity to talk to you about it.

Mr. MCHUGH. Again, my deepest apologies. This was not totally expected. Certainly that. And beyond that, I would suggest at your convenience that perhaps we could sit down together and talk about any issues either already stated in your testimony that I have read, or others, if you would want to respond to those. We could certainly do that. I would welcome that opportunity.

Mr. BAIR. Well, that would be fine. I would enjoy that.

Mr. MCHUGH. I appreciate that. And again my apologies.

[The prepared statement of Mr. Bair follows:]

PREPARED STATEMENT OF STEVE BAIR, SENIOR VICE PRESIDENT, LAW AND BUSINESS AFFAIRS, TIME LIFE, INC., ON BEHALF OF THE ASSOCIATION OF AMERICAN PUBLISHERS

My name is Stephen L. Bair. I am Chairman of the Postal Committee of the Association of American Publishers ("AAP"). I am also Senior Vice President, Law and Business Affairs of Time-Life, Inc. AAP appreciates the opportunity to present its views to the Committee on postal matters, our members' current interaction with the Postal Service, and other issues affecting the future of the Postal Service.

AAP is a national association of book publishers. It has over 200 members which encompass large and small publishing houses, as well as university, religious and non-profit publishers. AAP's members use all classes of mail, but they particularly use fourth class—bound printed matter, special rate fourth, and library rate—to distribute books and other educational materials to customers and the public. We actively participate in postal rate cases and other proceedings before the Postal Rate Commission. We have a strong interest in an efficient and economically viable postal service.

I have previously testified before this Committee about proposals and measures affecting the efficiency, competitiveness and financial health of the Postal Service. AAP's positions on these issues have been guided by a number of general principles. We believe that mailers need service that is reliable, consistent and dependable. We further believe that mailers need access to services and products that facilitate our ability to use the mail as a medium for communicating and transacting business with our customers. We thus believe that the Postal Service should be accorded greater flexibility than it presently has to test and price new products and services. In addition, AAP believes that mailers need greater stability in postal rates. Finally, AAP believes that the goal of universal service continues to have vitality.

Three years ago, the Joint Task Force on Postal Ratemaking, which consisted of representatives of Board of Governors of the Postal Service and the Postal Rate Commission, issued a report which identified the need for the Postal Service to become more customer responsive and for the relationship between the Postal Service and the Rate Commission to be less confrontational and adversarial. AAP agreed then, and agrees now, with those prescriptions. If it is to remain viable, the Postal Service must treat AAP's members and other mailers as customers rather than as supplicants. I am pleased to note that there has been promising progress on this score. In addition, however, the Rate Commission must treat the Postal Service and its commercial mailing customers more constructively and less as targets.

With these general comments in mind, I would like to address two subjects: (1) the recent revival of postal ratemaking reform efforts and (2) the Postal Service's comprehensive reclassification initiative.

REVIVAL OF REFORM

I am pleased to note that the Postal Service and Rate Commission have begun a proceeding that may result in changes that would give the Postal Service greater flexibility in pursuing rate and classification innovations. The Postal Service's request for this rulemaking appears to be an effort to achieve some of the reforms previously proposed by the Joint Task Force on Postal Ratemaking. At that time, this Committee held hearings on the Joint Task Force's proposals, and the Rate Commission began a rulemaking proceeding to consider some of them. Regrettably, these reform efforts largely failed to accomplish anything of substance. AAP commends the Postal Service for seeking to revive these reforms. We are particularly pleased to see proposals that would allow negotiated service agreements, market tests, and provisional services.

Postal administrations in many other countries, such as Canada and the Netherlands, have the ability to enter into service agreements with large volume mailers. In our experience, these negotiated service agreements introduce needed flexibility into the postal system. It is, of course, necessary to establish appropriate safeguards to protect the interests of smaller mailers who may not be able to take advantage of these agreements. The Postal Service's proposal appropriately recognizes this consideration.

We also believe that explicit rules to allow the Postal Service to obtain data from actual market tests of classification and rate changes are needed. The Postal Service should have the ability, like other businesses, to test new products and services without being required to go through full-blown adversarial proceedings. Past proposals to the Rate Commission, such as flat discounts in 1991 and the bulk-small parcel service in 1992, would have benefited from such rules. We agree that there should be a presumption in favor of innovation.

Likewise, AAP supports expedited consideration by the Rate Commission for proposals to establish services on a provisional basis. After the Postal Service, its customers and the Rate Commission acquire experience with new services, full proceedings before the Commission can be held to determine whether these services should be made permanent.

It is evident that these proposals can succeed only if there is cooperation between the Postal Service, mailers and the Rate Commission. Indeed, it was a reversion to business-as-usual that brought previous reform efforts to naught. AAP intends to participate in the rulemaking proceeding where the Postal Service's proposals will be considered, and hopes that it will have a prompt and productive outcome. If it does not, legislative remedies may well be necessary.

RECLASSIFICATION

As the Committee is aware, the Postal Service has filed with the Rate Commission the first phase of its proposals to overhaul completely the mail classification schedule. Since the first phase does not address the parcel classes with which AAP's members are principally concerned, any expression of our views at this time must necessarily be tentative and limited. As we understand the Postal Service's approach, the basic criterion guiding the reclassification initiative is that the mailing customer's choice of service level, rather than content, should chiefly define the classes of mail. We understand the Postal Service thus to be seeking to achieve homogeneous cost and market-based classes and subclasses with favored treatment for the use of advanced technology and bulk bypass of the postal system. The Postal Service is seeking to encourage low cost mail streams, modernize and standardize entry requirements, and add classifications only where significant market or operational needs exist.

While we support the Postal Service's efforts to achieve greater efficiency and market responsiveness, we do wish to raise a concern. AAP has consistently contended that the Postal Service offers services that importantly affect the public interest and that these public interest considerations should not be lost in reform, rate and reclassification initiatives. Congress has long recognized this aspect of the Postal Service's mission. That is why Congress itself created the book rate well before postal reorganization, and has mandated that the educational, scientific, cultural and informational value of mail matter should be one of the criteria that guide the Rate Commission in its decision making. Accordingly, AAP is concerned that content considerations should not be lost in postal reclassification. We are particularly concerned that the first phase of the Postal Service's reclassification case cites the bulk

mailing of books as an example of the undue complexity of current classifications and blames content restrictions in the current classification schedule for this alleged complexity. AAP believes that, as reclassification proceeds, the choices available for the mailing of books should not be diminished, and the dissemination of materials which promote literacy and educational improvement should not be disadvantaged. We note that the Postal Service's proposals for second class mail preserve a subclass based on content. However, under the Postal Service's proposals, the subclass would experience a rate increase of 17 percent on top of the increase of 14 percent in the rate case that ended late last year.

Notwithstanding this concern, the Postal Service's reclassification initiative is an example of constructive cooperation between mailers and the Postal Service. The Postal Service commendably engaged in extensive consultation with mailers prior to the filing of the first phase of its proposals. Mailer representatives sewed on, and chaired, task forces and committees to assist the Postal Service in the development of the proposals. AAP believes that this type of cooperation should serve as a model for future efforts to improve the development and delivery of postal services.

CONCLUSION

A theme of my testimony on behalf of AAP is the need for greater cooperation between the Postal Service, mailers and, in particular, the Rate Commission to reform the rate and classification process so that reliable service, innovative products, and stable rates are available to all mailers. To its credit, the Postal Service has recognized that it faces ongoing and serious erosion of its position in the market. It has already lost most of the parcel business to private competitors. It is now losing a substantial share of transactional correspondence, especially business-to-business. The Postal Service has indicated that since 1980 its share of transactional correspondence has diminished from 75 percent to 62 percent. Clearly, the Postal Service must be more market responsive, efficient and innovative.

Recognizing the compelling need for these steps, the Postal Service and mailers have sought to work cooperatively in the last several years to confront the challenges to the Postal Service and to meet the needs of mailers. The Postal Service and many mailers sought to avoid the usual costly and time-consuming litigation of costing and pricing issues by proposing a settlement in the last postal rate case that would have achieved a rate increase at less than the rate of inflation. Similarly, mailers worked with the Postal Service to develop the proposed bulk small parcel service several years ago. Unfortunately, the Rate Commission rejected the proposed settlement in last year's rate case and effectively denied the proposal for the bulk small parcel service. In both cases, extensive litigation resulted, and the Rate Commission's application of the standards of the Postal Reorganization Act was, in AAP's view, unduly rigid. AAP hopes that the Commission will join with mailers and the Postal Service to deal cooperatively and constructively with the serious issues facing the availability of efficient, affordable and widely available postal services. Absent this cooperation, Congressional intervention and overhaul may well be necessary.

Mr. MCHUGH. Will the three of you be able to remain? And our third panel? Are we OK? Yes?

Then we will recess for an indeterminate amount of time and, hopefully, as little as possible, and I appreciate your indulgence.

[Brief Recess.]

Mr. MCHUGH. We'll reconvene the hearing.

Again, my apologies. I appreciate your patience. I'll take a moment to reorient myself here.

Let me go back to some comments that Ms. Rush made. You expressed, as I understood your presentation, a concern that if we were to take away whatever restrictions there might be, vis-a-vis rates, in the currently noncompetitive area in which the Postal Service is involved, you believe that that would allow the Postal Service to set rates for the entire industry? Did I hear your words?

Ms. RUSH. If the noncompetitive rates?

Mr. MCHUGH. Yes.

Ms. RUSH. If I understand what you're asking, you want to know whether the Postal Service should have the freedom to set the

rates in the noncompetitive rates, without the oversight; am I understanding you?

Mr. MCHUGH. Well, what I was wondering was—what I understood you to say was if we take away some of the restrictions that others today have argued in noncompetitive, parcel post, for example, that would in turn in your view allow the Postal Service to set the rates for the entire industry.

Ms. RUSH. I see. I think I——

Mr. MCHUGH. My question, wouldn't it be the other way around? I mean, wouldn't—those who would argue for that kind of atmosphere, I believe, would suggest that removing the rate inhibitors in those areas where there is competition already—I said noncompetitive, I apologize. Where there is competition.

Ms. RUSH. Let me give you an example of one of the common statements that will be made by witnesses before the Rate Commission in this area. Witnesses will come in and say to the Rate Commission, we want you to set lower rates for our use of this particular subclass of mail, because if you don't, the private sector out there that we otherwise would use would have a lot higher rates. We want you to put your thumb on the scale to make them hold down their rates to us.

And in those areas where the Postal Service does face either actual competition for certain mail volumes or potential competition for certain mail volumes, it's not uncommon for those who would like to not necessarily use the mails, but have that leverage there in bargaining with private sector competitors to ask the Rate Commission specifically to hold down the Postal Service's rates so that the private sector competitor will in turn hold down their rates.

And that does in fact happen with newspaper advertising, as I'm sure Ms. Black would agree, that an advertiser would like for the Postal Service to offer low direct mail rates because they will then in turn go to the newspaper and say, you have to lower your rates.

Now, that is how that competitive ballet goes within the Postal Rate Commission setting, and in the—to the argument that people would make that you don't need a restraint on the Postal Service in places where there is competition, I would say—I would want to know whether the mailer really wants to use the Postal Service as a delivery vehicle, or if they want to use them as a rate regulator, if you will, for the private sector.

Mr. MCHUGH. OK. Ms. Black, you made a comment about how you believe there is a purposeful strategy by the Postal Service to drive advertisements out of newspapers and into direct mail. What do you—that's a rather strong statement in the eyes of some. On what do you base that observation?

Ms. BLACK. If one looks back over quite a long period of time, the—there is a strong body of thinking that would say that one of the reasons that direct mail has grown so rapidly over this same period of time is that they have had a significant rate advantage.

And therefore, many traditional advertisers in newspapers are then able to take advantage of reaching the homes that they want at a substantially lower rate. They could be food stores: They could be smaller retailers, boutiques, shops, restaurants, the traditional types of advertising that generally have been the mainstream or the mainstay of a newspaper's advertising revenue.

Mr. MCHUGH. I understand why you could suggest that is what is occurring. But your constituents are losing advertising dollars to direct mail. The question I had, however, was I interpreted your comment to be somewhat more provocative in that, in that there's a deliberate strategy to get newspapers.

Ms. BLACK. I don't mean it to literally get newspapers. Let me clarify that, if I might. But I think it has been, and the other phrase I used this morning, to drive volume. So if they want to put more volume into the mailstream, that has been the impact. I mean, I'm not implying that they're out to get newspapers or that they're after newspapers literally, but more figuratively. And the end result has been that.

Mr. MCHUGH. OK. I thought that was an important point of clarification.

Mr. Gross, you mentioned in your written testimony that decreased postal efficiencies are one of the major reasons for increase in postal costs over the last 7 years. Would you care to expand upon what kinds of inefficiencies you believe are attributable to that, to that rate?

Mr. GROSS. Mr. Chairman, it's very hard to make a definitive statement in this area. I will bring up, however, a principal issue that emerged in the last major rate case, R–1990.

Our analysis of the Postal Service's cost data showed that attributable costs for second class mail were going up faster than we thought justified or adequately explained by the Postal Service. Our theory to explain that was to this effect: that during the late 1980's and into that case, first class and third class mail were becoming automated at a much greater rate than second class was; and that, consequently, manpower was not needed to as great an extent in first and third class, and some personnel were simply assigned to second class.

Could we show that in any way, shape, or form? No, we could not prove that in any way. We did raise that in our case at the Rate Commission. And, after the case was over, we initiated a proceeding along with some other second class parties, to see if we could focus on the question of why second class costs appeared to be going up so quickly without any understandable reason. As I said, second class volume has remained relatively stable for several years.

The proceeding that we initiated at the Rate Commission did not go forward because, in fact, the Postal Service convinced the Commission, I believe, that it didn't have the data, and it would have made the proceeding quite a difficult one. We don't quite know what it is. We do know that the rate of further automation in first and third class is growing.

Second class automation is not. In fact, this reclassification proposal in second class, unlike first and third class, is not focused on promoting more automatable mail. Because second class, frankly, is just not quite automatable enough. No. 1, there are a lot of newspapers. They don't get automation treatment. We have a lot of magazines that are oversized, more than 16 ounces. We have a lot of magazines that are carried in polybags, which current machines cannot handle. So the rate of automation in our class simply is not paying off with savings in our class.

Mr. MCHUGH. I see. I believe it was Ms. Rush who made the comment regarding how those who receive their newspaper by mail getting bunches of them rather than how they've been mailed on a regular basis. I mentioned this before the hearing began.

My mother complained this year that her local newspaper was delivered six and seven at a time. And that was a source of great irritation to her, which ultimately became a source of great irritation to me.

At the risk of asking the obvious, or too simple a question, do we have a reason why that happens?

Ms. RUSH. Well, Mr. Chairman——

Mr. MCHUGH. What can I tell my mother?

Ms. RUSH. Your mother probably figures you're going to fix this, now that you have this job. The reason, to the best of our knowledge, there are a number of reasons for it. The principal one seems to be that newspapers are, because they're not automatable, there is no automation sorting machine at this point, either present or in the Postal Service's near future designs, that will automate a newspaper. They have to go through a somewhat different handling process than the automated mail.

Even though newspaper publishers do, and have for many years done, carrier route sorting and every kind of list management that you can think of to try to get the newspaper delivered on time, the newspapers still are a little bit more difficult for the carriers to handle. And I think that they sometimes just let them pile up, frankly.

They—in your case, probably what is happening is that there are relatively few pieces coming to your zip code, probably even to the three-digit zone in your zip code, so they don't come in easily identifiable packets. They come sort of one at a time. And it just sort of invites setting them aside, not handling them, not moving them along.

Inevitably, if we ask the Postal Service to put a tracer on a particular problem, the instant the tracer is on, the problem goes away. When the tracer is gone, the problem is back again. And it's like trying to herd cats. There's no way you can try to create a system that tries to make them all move systematically through the mailstream and be delivered on time, despite our best efforts and sporadically the Post Service's efforts to fix it.

Mr. MCHUGH. Would others on the panel agree with that?

Ms. BLACK. I don't think it's going to please your mother.

Mr. MCHUGH. Well, she has been disappointed in me before.

Mr. GROSS. You can talk to her about national security.

Mr. MCHUGH. I wish you would.

Mr. Gross, in your written testimony, on page 2, you talked about what I interpreted to be your impression of the benefits of work sharing. We didn't get to this on the first panel, but in some of the testimony that was presented in writing from those gentlemen, there were references to this as well. I certainly don't have any qualms with the concept.

I do wonder, how is it, do you think, that clearly as work sharing as a concept has grown in practice, and there seems to be more and more of it, as a result the mailer does more of the Postal Service's work for supposed rates. We don't see a lot of changes in the force

structure of the Postal Service. On the surface, that seems somewhat of an anomaly.

Do you have any thoughts on that?

Ms. RUSH. We've got a peculiar situation where work sharing is involved, because—because of the automation. The Postal Service's delivery patterns, mail sorting patterns, transportation patterns, the sort of wiring behind the system, have all shifted over the past few years to try to feed the automation investments the Postal Service has made.

Puts us in the strange position, as one of our Postal Committee members frequently tells us, of having a newspaper in McCook, NE that is being delivered 30 miles away in that same county, to have to go about 100 miles out of its way down to the next largest city where there's an automated facility, and then back again.

Now, you want to know why the paper doesn't get delivered on time, it's going a lot more circuitous route to get where it wanted to go before. But despite the fact that the wiring is set up to feed automation, the newspaper is not automatable. So it's going along on the truck to the automation center. It doesn't need to be automated because the publisher has already done the sorting for the Post Office.

Taking a lot longer to get where it wanted to go to begin with, and we're paying an extra cost for the privilege of sort of going along for the ride. You talk about whether or not the Rate Commission process works. That's precisely the sort of thing the Rate Commission tries to get into is, are these really our costs.

And we become very frustrated because, yes, they probably are our costs; yes, our newspaper did go from point A to point B to get over to point C, but we didn't want to go there. All we wanted to do was get from here to where we went before.

And I think that in our case, we would be an atypical mailer to ask that question to, precisely because of being caught along in the backwash of the automation move.

Mr. MCHUGH. Mr. Gross, what about work sharing, same number of people, roughly 800,000, your constituents are doing more of the work; what's going on?

Mr. GROSS. Well, our constituents and members in many cases are doing a lot more of the work. And in this case, I do believe there's a focus on the larger mailer doing more of that work. After all, a mailer with a large volume circulation is far more capable of, say, drop-shipping hundreds of thousands of magazines to a point closer to the destination Postal Service.

The magazine publishing industry is, I'm sure you know, made up of huge number of smaller publishers who do not and up until now have not taken as much advantage of some of the work sharing possibilities as they can. In some part, it's clearly due to their volume. In other areas, there are constant efforts that the Postal Service makes to encourage them to do so.

In fact, the reclassification case is a good example of an incentive system being set up that will put strong pressure on smaller publishers and medium-size publishers, and even larger publishers where they have small publications, to do more work sharing. In fact, while I'm not an expert in postal personnel area, I think the numbers in the Postal Service were in fact going down for a while,

until recent years when there was—there were—when Postmaster General Runyon came in, there was a reduction for a while, as you know, through early retirements and reorganizations.

The numbers bounced back in some part at least due to the hiring of part-time help. I don't believe that the system of heavy work sharing discounts really is quite old enough to have had the major impact on personnel that people hope for.

Mr. MCHUGH. However, conceptually, do you think it's a good direction?

Mr. GROSS. I don't think there's any question it's a good direction.

Mr. MCHUGH. Ms. Black, any comment?

Ms. BLACK. I don't have a comment on that, but I'd be happy to respond in writing if you would like.

Mr. MCHUGH. OK, yes, we'd appreciate that. Let me ask you something you did mention. You spoke about, and very correctly, the protections that the Postal Service currently enjoys or the beneficial treatments, for example no taxes, as a strong argument against placing it in a competitive position, while still enjoying those protections. Just for the record, were we to take away those protections from top to bottom, would you feel that would be sufficient argument for placing the Postal Service in a competitive position?

Ms. BLACK. I think that anything that you and the Congress do to rethink the Postal Service, it still has to come back to the early questions that I posed in the testimony. And that is to make sure that there is a concerted opinion as to the fundamental mission and philosophy of the Postal Service.

I think we believe certainly that there are things that the Postal Service can do better in terms of efficiency. We believe totally in universal service. And we have grave concerns that in the rhetoric of competitive type language, that the concept of universal service could be left by the wayside.

Your colleague, Mr. Owens, is a perfect example. You know, who is going to want to deliver in Brooklyn, in the rush to wanting to get into new businesses and strategic alliances and all the kinds of things that one can hear about? So I think that anything you do has to be approached with great caution and, as I think you're doing, listening to the thoughts and ideas and opinions of many different bodies who have a vested interest in it. But I think we absolutely cannot forget about your mother or the Brooklyn constituents or, you know, Aunt Milli.

Mr. MCHUGH. Comments?

Ms. RUSH. Mr. Chairman, if you don't mind, I would like to take just 1 second——

Mr. MCHUGH. Sure, please.

Ms. RUSH [continuing]. And talk about this concept of competition with newspaper advertising from the viewpoint of the smaller newspapers. Because I think it's relevant to this question of the dash into competition. It is true in fact that the Postal Service has done market studies and did one in 1978 before it began the first of its carrier route discounts, and determined that newspaper advertising was its most lucrative opportunity for growth, with the intention of having the advertising that previously was in the pri-

vate delivery sector of newspapers and pulling them into the mailstream as direct mail.

So there is—you can't really call it a conspiracy as it's been really open and aboveboard and discussed, but in fact it is viewed as a growth opportunity. Our members probably don't focus on it as heavily as some of the larger newspapers, because they're so preoccupied with their problems in getting the newspaper delivered, that they don't focus as heavily upon the competitive desires of the Postal Service for direct mail. But I think that's beginning to shift within our membership.

I have had many complaints from our members about the Postal Service doing seminars in the marketplace for local retailers to encourage them to take their advertising out of the newspaper and put it in the mailstream. Now, even though the Postal Service is not tax supported, it is in fact tax-exempt. It does in fact have a monopoly over letter mail and it is in fact a government institution. And I think publishers rightfully raise the question of whether that is an appropriate role for a government-owned corporation.

Mr. MCHUGH. Well, that's an excellent example. I appreciate that, the expansion on the earlier question. As with the first panel, we could continue for some time. Obviously we've already imposed greatly upon your patience and the panel that comes behind you. So as with the first panel, we would exercise the option of asking further questions in writing if it's appropriate.

Ms. Black, I would appreciate your written response to the one question on work sharing. And thank you so much for being here. Thank you for waiting for us to come back. And we look forward to working with all of you.

If we could go right to the third panel.

Gentlemen, welcome. And as with the past panel, I particularly appreciate your patience. And I again apologize for a circumstance that arose with the interruption. Let us first introduce you to those folks in the audience.

This panel is made up of Mr. Alan Kline who is vice president, and will be accompanied by Neal Denton, the executive director of the Alliance of Nonprofit Mailers. And also Mr. Lee Cassidy, the executive director of the National Federation of Nonprofits.

As with the other two panels and in keeping with the committee customs, if you gentlemen would rise and take the oath with me, please.

[Witnesses sworn].

Mr. MCHUGH. I liked my version better. We will begin, please, with the presentation of Mr. Kline. The floor is yours, sir. Thank you for being here.

STATEMENTS OF ALAN KLINE, VICE PRESIDENT, ALLIANCE OF NONPROFIT MAILERS, ACCOMPANIED BY NEAL DENTON, EXECUTIVE DIRECTOR; AND LEE CASSIDY, EXECUTIVE DIRECTOR, NATIONAL FEDERATION OF NONPROFITS

Mr. KLINE. Thank you. Good afternoon, Mr. Chairman. I'd like to ask that my full written testimony be included in the report.

Mr. MCHUGH. Without objection.

Mr. KLINE. I must begin by telling you this is the first time I've ever testified before a committee of Congress. But I've sat through

the first series of the oversight hearings and have been impressed with the open and thorough discussions that this committee has initiated. I hope that my experiences as a bulk mailer, a participant in the Mailers Technical Advisory Committee, and as an officer of the Alliance, will be of value as you take a good hard look at the U.S. Postal Service.

The Alliance of Nonprofit Mailers is a coalition of more than 150 nonprofit organizations. These organizations represent a diverse cross-section of missions and ideological positions. With me today is Neal Denton, our executive director.

I would like to briefly discuss three topics from a nonprofit perspective: The effects of the recent Revenue Forgone Reform Act, the reclassification proceeding before the Rate Commission, and last, toss in our 2 cents in the recent privatization discussions.

The most notable change brought about by the passage of the fiscal year 1994 Revenue Forgone Reform Act is that the nonprofit community is not here today before you seeking half a billion dollars in revenue forgone appropriations. That's the good news. But as you know, the reform act was a compromise. We're not completely happy with the results, nor is the Postal Service.

Nonprofit organizations are continuing to struggle with increased postal rates. Step three of the planned six-stepped increases on nonprofit postal rates takes effect on October 1st. At that time, nonprofit mailers will have absorbed three rate increases in just 1 year. That's the bad news. But at least the increases were divided into phased steps. For that, we appreciate the work of Congress. It could have been worse, much worse.

You don't have to be a government relations whiz to know that we'd rather be dealing with stepped increases and eligibility restrictions than trying to seek a $500 million appropriation. Just don't let anybody tell you that nonprofits are getting a free ride. We pay all of our attributable costs and make a contribution to Postal Service overhead, just like every other mailer. In fact, our overhead contribution percentage is currently higher than some commercial categories. Nonprofit mailers have paid a price to reduce the outlays from the Federal Treasury.

Mr. Chairman, I would like a minute to address the current proposal before the PRC. The service is proposing to offer deeper discounts to mailers who present the mail to the Post Office in its most acceptable form. Many of our mailers, this would have been a welcome development as we could capture discounts by sharing in the work of automating or presorting the mail.

And mailers that have been slow to jump on the automation train would have new incentives to get on board. The only problem is that nonprofits were denied passage on the train. We're not even allowed to sit in the back.

Postal Service has excluded nonprofit mailers from receiving the benefits of reclassification until, "later." A good argument can be made that a filing excluding nonprofits may be illegal. But we don't want to harm a case that might benefit some of our commercial colleagues.

But we know that later can be stretched out a very long time. It's even difficult to predict what will come out of the proceeding. However, we agree with the many intervening parties who are con-

cerned that the new qualifying rules the Postal Service will impose on mailers haven't been written yet. It's as though mailers are being asked to approve a blank check.

This much I do know, it's certainly a difficult time to be a member of the Rate Commission. If the PRC agrees with the service and reallocates the cost pie in the fashion proposed, many mailers will suffer, and some may well close their doors and go out of business. If the PRC dramatically alters the filing, or ices the proposal until all of the data, marketing studies, and discussions can be thoroughly debated, then some will most certainly come sprinting before this committee asking to abolish the Rate Commission. We'd be very uncomfortable with allowing any monopolistic entity the unilateral control to set prices without an oversight process.

And maybe this is a good time to quickly comment on recent calls to privatize or commercialize or corporatize the Postal Service. Our message to you is this: Please be very careful. Please don't rush into decisions. Because once a thing is done, it might very well be difficult to undo. The Postal Service is not a private enterprise. It's not supposed to be. It's one of the single most important, everyday jobs that the Federal Government does for the people.

There are most certainly some serious problems in the Postal Service today. Many Monday morning quarterbacks might have questioned the recent reorganization that slowed the drive to automation, released some of the more experienced mail handlers, and reduced the amount of training that new employees receive. I've listened as postal employees talk about the necessary revisions to the 1970 act. I've also heard Chairman Gleiman remind us that some of the requested changes can be found in some joint recommendations approved a few years ago.

The Postal Service has requested some expanded authority to experiment with contract postal rates, to set flexible rates within a set range for competitive services and other changes. This seems like a good first step. Maybe Chairman Gleiman was right, maybe many of these changes can be done without major reform of the statutes.

In 1990, Postmaster General Tony Frank also wanted to look into the 1970 act to identify some areas to update the law. He called together the mailing organizations, unions, and others to try to identify some consensus. That would seem like a good second step. I can only hope that nonprofits won't be left out of any new discussions.

The fact is, Mr. Chairman, the nonprofit community has much at stake in these debates. Direct mail is not an option for us. It's a necessity. As you go about the business of making the Postal Service a stronger and more efficient service to the American taxpayer, I hope you'll accept our assistance in studying these proposals and in dealing with new issues as they emerge.

Thank you for your time and we'd be happy to answer any questions you might have.

Mr. MCHUGH. Thank you, Mr. Kline.

[The prepared statement of Mr. Kline follows:]

PREPARED STATEMENT OF ALAN KLINE, VICE PRESIDENT, ALLIANCE OF NONPROFIT MAILERS

Good morning Mr. Chairman and Members of the Subcommittee. I must begin by telling you that this is the first time that I've ever testified before a Committee of Congress. But I've been sitting in the rows behind us through the first series of these oversight hearings and have been impressed with the open and thorough discussions that this committee has initiated. I hope that my experiences as a bulk mailer, as a participant of the Mailers' Technical Advisory Committee and as an officer with the Alliance will be of value as you take a good hard look at the U.S. Postal Service.

The Alliance of Nonprofit Mailers is a coalition of more than 150 nonprofit organizations. These organizations represent a diverse cross-section of missions and ideological positions. With me today is Neal Denton, our executive director. Our colleagues range from health-related charities to veteran's groups to churches to colleges, universities and other educational organizations like the American Management Association, my employer. The Alliance was originally formed because the costs of litigation in the rate case proceedings demanded that nonprofits coalesce in order to afford adequate representation. Incidentally, those litigation costs still continue to climb.

What I would like to do this morning is to briefly discuss with the Committee three topics from a nonprofit perspective:

- The effects of the recent Revenue Forgone Reform Act;
- The classification proceeding before the Rate Commission; and lastly toss in our two cents in the recent "Privatization" discussions.

EFFECTS OF REVENUE FORGONE REFORM ACT ON THE NONPROFIT COMMUNITY

The most notable change brought about by the passage of the FY94 Revenue Forgone Reform Act is that the nonprofit community is not before you today seeking half-a-billion dollars in revenue forgone appropriations. That is the good news.

But as you know, the Reform Act was a compromise. We're not completely happy with the results nor is the Postal Service.

Nonprofit organizations are continuing to struggle with increased postal rates—Step 3 of the planned, six-stepped increases on nonprofit postal rates takes effect on October 1. At that time, nonprofit mailers will have absorbed three rate increases in just one year. That is the bad news.

But at least the increases were divided into the phased steps. For that, we appreciate the work of Congress. It could have been worse—much worse.

And, just this past month, the USPS has completed a final draft of the third-class eligibility restrictions that severely limit so-called commercial uses of the preferred postal rate. Again, this was a component of the compromise that we would rather have done without. It is frustrating for a community-based symphony orchestra or arts group that's trying to come up with creative ways to raise funds. Now, even most offers of a t-shirt in a third-class mailing would disallow it under the new regulations.

On the whole though, you don't have to be a government relations whiz to know that we'd rather be dealing with the stepped increases and these eligibility restrictions than trying to seek a $500 million appropriation. Just don't let anybody tell you that nonprofits are getting a free ride. We pay all of our attributable costs and make a contribution to Postal Service overhead just like every other mailer. In fact, our overhead contribution percentage is currently higher than some commercial categories. Nonprofit mailers have paid a price to reduce the outlays from the Federal Treasury.

CURRENT RECLASSIFICATION PROCEEDING EXCLUDES NONPROFITS . . . IS THAT GOOD OR BAD?

Mr. Chairman, I'd like a minute to address the current proposal before the PRC.

Nonprofit mailers are strong supporters of a National mail delivery network. Because we strongly agree that the USPS must move into the next century (leaving sacks and hand-sortation behind), we applauded former Postmaster General Tony Frank's efforts to automate the mailstream. We were disappointed when the recent reorganization chilled that bold automation effort. Now, with the current proceeding before the Commission, the Postal Service is trying to play catch-up ball.

The Service is proposing to offer deeper discounts to mailers who present their mail to the Post Office in it's most acceptable form. For many of our members, this would be a welcome development as we could capture discounts by sharing in the

work of automating or presorting the mail. And, mailers that have been slow to jump on the automation train will have new incentives to get on board.

The only problem is that nonprofits were denied passage on that train. We're not even allowed to sit in the back. The Postal Service has excluded nonprofit mailers from receiving the benefits of reclassification until "later."

A good argument can be made that a filing excluding nonprofits may be illegal. We don't want to harm a case that might benefit some of our commercial colleagues—but we know that "later" can be stretched out a very long time. We remain hopeful that, through negotiations with the Postal Service, we can reassure nonprofits that "later" will come before the next general rate case and that some interim measure of relief can be identified. But, it does strike us as bizarre that the Postal Service would purposefully leave out nonprofits in the first place—and then would be so unyielding in seeking a solution to this bind.

It's difficult to predict what will come out of the proceeding. Some of the smaller mailers are worried that these proposals will only benefit larger mailers. At least in third-class, we're not sure that's a valid argument. In the current environment, anybody can automate their mailstream. However, we agree with the many intervening parties who are concerned that the new qualifying rules the Postal Service will impose on mailers haven't been written yet. It's as though mailers are being asked to approve a blank check.

Nonprofits are doubly wary—providing new automation and presort discounts to some mailers and leaving out nonprofits is blatantly unfair and very likely illegal. I just hope that the nonprofit community is not pressed into the corner on this issue. Unfortunately, not much has changed in USPS management attitudes toward nonprofit mailers since last year's hearings when Rep. Morella described the USPS treating its nonprofit customers like the "odd step-cousin."

This much I do know: it's certainly a difficult time to be a member of the Rate Commission. Some might suggest that this proceeding offers a no-win scenario for Chairman Gleiman. If the PRC agrees with the Service and re-allocates the cost pie in the fashion proposed, many mailers will suffer and some may well close their doors and go out of business. If the PRC dramatically alters the filing—or ices the proposals until all of the data, marketing studies and discussions can be thoroughly debated—then some will most certainly come sprinting before this Committee asking to abolish the Rate Commission.

Frankly, we've had our debates with the Commission in the past. However, we'd be very uncomfortable with allowing any monopolistic entity the unilateral control to set prices without the oversight and open-air debates of the PRC process.

And maybe this is a good time to quickly comment on recent calls to "privatize" or "commercialize" or "corporatize" the Postal Service.

RECENT DISCUSSION REGARDING PRIVATIZATION CAUSES US CONCERN

Our message to you on all of the recent calls for dramatic reform of the 1970 Reorganization Act is this: please be very careful and please, don't rush into decisions because once a thing is done, it might be very difficult to undo.

The Postal Service is not a private enterprise. It's not Nissan Motor Co. It's not supposed to be. If the Postal Service were to run like a private business then countless rural post offices would close tomorrow, a stamp to mail across the country would cost more than a stamp to mail across the county. Taxpayers in rural districts would have different delivery schedules than urban taxpayers and folks outside of the 48 states would likely just paste a dollar bill onto their envelopes instead of the new Marilyn Monroe stamp.

The Postal Service is not a private business—it's one of the single most important every-day jobs that the Federal Government does for The People.

There are most certainly some serious problems in the Postal Service today. Many Monday morning quarterbacks might have questioned the recent reorganization that slowed the drive to automation, released some of the more experienced mail handlers and reduced the amount of training that new employees received.

I've sat here and at the Postal Forum and at other hearings on the Hill and at MTAC meetings and listened as postal employees talk about necessary revisions to the 1970 Act. I also heard Chairman Gleiman remind us that some of the requested changes can be found in some joint recommendations approved a few years ago.

Now I'm told that the Postal Service has requested that the Commission grant some expanded authority to experiment with contract postal rates, to set flexible rates within a set range for competitive services and some other changes that management has requested. The Alliance has yet to take a formal position on the USPS request, but it does seem like a good first step. Maybe Chairman Gleiman was

right—maybe many of these changes can been done without major reform of the statutes.

In 1990 Postmaster General Tony Frank also wanted to look into the 1970 Act to identify some areas to update the law. He called together all of the mailing organizations, the unions and others to try to identify some consensus. That would seem like a good second step. I can only hope that nonprofits won't be left out of any of those discussions.

The fact is Mr. Chairman, the nonprofit community has just as much, if not more, at stake in these debates then some of the other mailing interests. Direct mail is not an option for us, it's a necessity. As you go about the business of making the Postal Service a stronger and more efficient service to the American taxpayer, I hope you'll accept our assistance in studying these proposals and in dealing with new issues as they emerge.

Thank you for your time, we'd be pleased to respond to any questions.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO ALAN KLINE

Question 1. The Government Reform and Oversight Committee has been instructed by the Budget Committee to report reconciliation legislation involving mandatory spending programs within its jurisdiction. The Budget Committee suggested we look at eliminating the transitional payments to the Postal Service which cover workman's compensation liabilities incurred by the former Post Office Department prior to the 1970 Reorganization Act. The current appropriation is approximately $37 million per year and declining. Last week the House passed its Budget Resolution which included this provision. What are your views concerning the elimination of this appropriation for former Post Office Department workers' compensation costs?

Answer. Your first question suggested that Congress may eliminate the transitional payments from the Federal Treasury to USPS for former Post Office Department workers' compensation costs.

Like the other mailing groups, the Alliance views this appropriation as part of a contract entered into by Congress and the USPS when the Postal Service was created from the Post Office Department. The Federal Government has a responsibility to cover these costs. Anything else would represent reneging on a bargain struck in 1970. I don't believe that's what anyone meant about revising the Postal Reorganization Act.

Any reductions would have to be captured from the USPS revenues generated from postal rate payers. So this, like the earlier proposed $11.6 billion hit, would smack of a stamp tax.

Question 2. Longstanding labor relations problems persist on the work room floor of the postal Service. Literature on the subject suggests that unionized organizations can make little progress reinventing the organization or changing its culture if relations between management and labor leaders are adversarial. How can Congress and the executive branch encourage and assist postal management and unions to address the severe labor-management problems in the Postal Service?

Question 2A. As usual, labor and postal management have been unable to reach agreement on a new collective bargaining contract. Does the current state of labor-management relations in the Postal Service affect your organization's members as postal customers?

Answer. You also ask my opinion about Congressional and executive branch intervention in USPS labor relations.

Blame for the unfortunate adversarial state of labor relations in the USPS can be distributed to both labor and management—but not necessarily in equal proportions. For the problems to begin to become resolved, both labor and management will have to truly be willing to do something about the fact that this is not a one-sided problem.

Certainly any encouragement from Congress and the executive branch could only be useful, but perhaps even more useful would be the continued aggressive and thoughtful oversight of the USPS by this panel.

In addition, from the executive branch side, ensuring that the regulatory panels—the USPS Board of Governors and the Postal Rate Commission—are stocked with a full complement of members who are competent and capable of carrying out their charge would be a vast improvement from the situation which they have gone through over the past three years.

And, as to the affect of labor-management relations on Alliance members, while the inability of the USPS and its labor unions to reach a collective bargaining agree-

ment has little direct impact on Alliance members, the adversarial nature of these talks do not lead to a healthy working environment for any USPS employee, including those in management positions.

Question 3. Mr. Kline, you say in your prepared statement that "in today's environment anybody can automate their mailstream" yet you are unsure whether the reclassification case will be bad for smaller volume mailers. Can you elaborate on how smaller businesses or mailers can begin to take advantage of some of the automation benefits available to large mailers? Is there a difference in the availability of automation opportunities among the various classes?

Answer. The final question asks about automation benefits for smaller mailers and the availability of automation opportunities among classes of mail.

I'll answer the second part of this question first. Yes, there is a difference in the availability of automation opportunities among the classes of mail. Mailers in first and third-class receive more incentive (deeper discounts) to automate their mailstreams. This is primarily predicated on shape differences (second class mail is generally larger and heavier) and the USPS's current inability to produce the technology that can read and process these pieces with the same degree of speed and accuracy of letter mail.

The ability of a mailer to take advantage of worksharing discounts under the current system are not a matter of size, although the extent to which one can take advantage of them may be. Any third-class mailer can capture automation discounts with the use of a personal computer and inexpensive software. At the minimum, these mailers can save 1.7 cents per third-class letter. Even those who do not have a personal computer have access to lettershops and remailers who pass along at least part of the discount back to the mailer.

The reason for our unsureness about the impact of the reclassification case is that the rules for qualifying have not been fully determined, but preliminary indications are that more comprehensive and perhaps onerous requirements will have to be met as part of the reclassification proposal. These new qualifications might make a smaller mailers' ability to participate less cost effective.

This also points to a flaw in the USPS plan—the Postal Service continues to lend extensive assistance and expertise to its customers who are already taking advantage of the many postal worksharing opportunities. Meanwhile, USPS assistance is usually lacking for those customers who have not mastered many of the intricacies of advanced mail preparation. This upside-down philosophy will continue to disenfranchise those mailers who are not preparing their mail in the manner the USPS needs in order to finally achieve savings from the automation program.

Mr. MCHUGH. We would now go to Mr. Cassidy for his presentation.

Mr. CASSIDY. Thank you, Mr. Chairman.

The nonprofit community has played an important role in American life for more than a century. We're pleased, as an organization with more than 300 members, to be the largest advocacy organization for nonprofits. It was nonprofits that systematically began to alleviate suffering by feeding the hungry and healing the sick, helping the poor. Nonprofits are responsible to a very great extent for the pluralization of American life, through churches and synagogues, many fraternal and ethnic groups, cultural and artistic organizations, and a majority of the institutes of higher learning.

Now, with the recognition that there are problems government cannot solve, charities and other nonprofit organizations are being asked to do more than ever before. We're ready and willing to face those responsibilities in partnership with government, and I want to discuss that partnership for a few moments today.

Mr. Kline and I did not confer in advance of this hearing, but I'm going to discuss the same three subjects that he did. My written testimony goes into much greater detail on those issues, but I will briefly summarize those three this afternoon.

First, the Revenue Forgone Reform Act, nonprofit mailers have long paid 100 percent of the direct or attributable cost of their mail. The appropriation for revenue forgone paid that portion of

the Postal Service's overhead that was charged to nonprofits. Over time, that appropriation grew to more than a half billion dollars a year, and with increasing deficits in the 1980's and early 1990's, it was obviously impossible that that level of appropriation could be sustained.

Finally, in 1993, with some arm twisting by members of both Houses, both parties, a compromise was put together. It was not perfect. It satisfied no one, but was acceptable to almost everyone, including the Postal Service. And that became the Revenue Forgone Reform Act of 1993. It had provisions that satisfied the Postal Service, it had provisions that satisfied the nonprofit community, and it had provisions that satisfied those in the regular rate community who had complained for some time that we were not paying our way.

What is perhaps most important, Mr. Chairman, about the Revenue Forgone Reform Act, is the protection that it gives nonprofits. Our rates now are permanently tied to those of regular rate mailers. The two groups are no longer at odds with one another. Regular rate mailers protect nonprofits by lobbying to keep their own charges for overhead rates as low as possible. Nonprofits help them by giving the Commission, the Postal Rate Commission, the opportunity to consider the effect on nonprofits when assigning overhead charges to regular rate mailers. But the Revenue Forgone Reform Act also has a provision that protects the Postal Service and all its customers. That provision provides a de minimis appropriation of $29 million per year to reimburse the Postal Service for transitional costs.

That was an integral part of the compromise between Congress, the Postal Service, and all mailers. Without that provision, compromise could not and would not have taken place.

Mr. Chairman, I'm well aware that appropriations are not part of this subcommittee's responsibilities. But the subcommittee does have influence, and I strongly urge you to use that influence to assure that the small appropriation of $29 million per year does not become an issue. Congress agreed, the Postal Service agreed, mailers agreed, that the funds would be appropriated. That agreement should be kept.

I'd like to spend a few moments discussing reclassification. As you know, in its recent filing, the Postal Service did not include any proposal regarding nonprofit third class mail. Moreover, the proposal for second class mail is incomplete in that it does not include all regular rate second class and includes no nonprofit second class.

We understand that one or more later filings will complete reclassification of second class, including nonprofits, and will address reclassification of nonprofit third class. Our concern is this: Until nonprofit mail is reclassified, and unless it is reclassified in a mirror image of regular rate mail, there will be no "closest comparable rate category," which the Revenue Forgone Reform Act requires, to base our overhead charges upon.

When reclassification of nonprofit mail is addressed, nonprofits will be pressured to accept a mirror image rate structure, whether or not it turns out that such a structure is appropriate to our needs. We're concerned, too, about the possible need to fully partici-

pate in simultaneous reclassification and rate proceedings, a need that would not have existed if we were part of the current proceeding. Those undertakings are expensive, they're time-consuming, and for that reason we've generally avoided full participation.

It's likely that there will be some period between the end of the current reclassification case and the end of the case that reclassifies nonprofit mail, during which nonprofits will have a rate structure that is not comparable with that of regular rate mailers. And in that situation, we could end up with rates that may not be fair to regular rate mailers, and may not be fair to nonprofit mailers.

The Postal Service in its haste to begin the process of reclassification on a schedule that was apparently dictated more by the desires of senior management than by complete preparation for the case, has put nonprofits in a difficult situation. Incomparable rates could be to our disadvantage, as well as to our advantage. In fact, probably more likely to be to our disadvantage. And we don't look forward to the pressure to have to conform a newly reclassified nonprofit rate structure to the previously decided regular rate structure.

Fairness would have had us involved in the original proposal at every stage as regular rate mailers were. Nonprofits together represent more than $1 billion in annual revenues for the Postal Service. We don't feel as though we're getting $1 billion worth of attention.

My last comments have to do with possible privatization of the Postal Service. We share the concern of the Postmaster General, the Mailers Council, and others that the Postal Service become more competitive by becoming more efficient. That applies not just to pricing, which is at issue in reclassification, but even more so to the Postal Service's costs, including overhead and labor.

Mr. Chairman, the Postal Service is a creature of government policy. It should remain so. Whether there is some small percentage of communication traveling outside the mailstream, or a very large percentage, as long as there's a need to deliver communications to every American citizen, the Postal Service must remain a creature of government policy.

Several bills have been introduced in the 104th Congress that would help the nonprofit sector. They would increase tax deductions for charitable contributions and offer other assistance to the nonprofits. We appreciate that support from Congress. But there's another important form of support that directly concerns this subcommittee and that is the continuation of preferred postage rates for nonprofits.

If the Postal Service were to be privatized, nonprofits may well be required to pay the same postage rates as commercial organizations. If that were to happen, nonprofits could not raise funds in the amounts needed to continue and to expand services. In fact, they probably could not raise funds even at the current level if their postage rates were to be significantly increased.

As it is, nonprofit rates have increased six times in the last 4 years. They will increase at least once a year for the next four, regardless of any current or future actions taken by the Postal Service. It would be disastrous, if we saw in addition to those next four increases, further increases up to the level of regular rates.

Mr. Chairman, I know that several members of the subcommittee staff are likely to attend the summit on privatization sponsored by the Mailers Council, which convenes tomorrow. I am certain the staff will pick up numerous ideas about how to make the Postal Service more efficient. Some of those ideas may relate to privatization of the Postal Service.

I ask that the subcommittee and the staff keep in mind the needs of nonprofit organizations as those ideas are presented, and that they filter those ideas through the reality of the needs of nonprofits and the good works that nonprofits perform.

Thank you, Mr. Chairman.

Mr. MCHUGH. Thank you, Mr. Cassidy.

[The prepared statement of Mr. Cassidy follows:]

PREPARED STATEMENT OF LEE CASSIDY, EXECUTIVE DIRECTOR, NATIONAL FEDERATION OF NONPROFITS

Mr. Chairman and Members of the Subcommittee:

The National Federation of Nonprofits appreciates the opportunity today to present our views on the Postal Service. With more than 300 members, comprised of nonprofit organizations of all types and sizes, the National Federation of Nonprofits is the largest advocacy organization for nonprofits. We were known as the Nonprofit Mailers Federation from our founding in 1982 until last year, and while the range of issues we deal with has increased, thus occasioning the name change, our involvement and interest in postal matters remains primary.

Mr. Chairman, the nonprofit community has played an important role in American life for more than a century. It was nonprofits that began to alleviate suffering by feeding the hungry, healing the sick, helping the poor. Nonprofits are responsible to a very great extent for the pluralization of American life, through its churches and synagogues, its many fraternal and ethnic groups, its cultural and artistic organizations, and the majority of its institutions of higher learning.

Nonprofits have demonstrated what can be done to help solve social problems. In more recent years, government has assumed responsibility for many of those social problems. Now, with the recognition that there are problems government cannot solve . . . as government at all levels is downsized . . . charities and other nonprofit organizations are being asked to do more than ever before. Nonprofits must now continue the work they have done, plus assume many responsibilities recently handled by government.

But we are ready and willing to face those responsibilities, in partnership with government. And it is that partnership I want to discuss today.

My testimony will touch on two major issues:

- The Revenue Forgone Reform Act of 1993, which is an important partnership between Congress and the nonprofit community, and which must continue to be supported and enforced.
- The Postal Service's current reclassification proceeding before the Postal Rate Commission, which is an issue of concern for nonprofits.

I will also comment briefly on privatization of the Postal Service, and continuing problems of inconsistent rulings by the Postal Service that have a major economic impact on nonprofits.

REVENUE FORGONE REFORM ACT

Nonprofit mailers have long paid 100 percent of the direct, or attributable, cost of their mail; the appropriation for "revenue forgone" paid that portion of the Postal Service's overhead costs which was charged to nonprofits. In 1991, with growing deficits, it became apparent that Congress could no longer support nonprofit postage rates by voting to appropriate more than a half-billion dollars each year for revenue forgone by the Postal Service.

The appropriation, which was first voted in 1971 when the Post Office became the Postal Service, was attacked by the Reagan and Bush Administrations, both of which attempted to "zero it out". In addition, regular rate mailers complained about unfair competition from nonprofit organizations, which were mailing ads for financial services (affinity credit cards), insurance, and travel programs, (together called "FIT"), and other products and services, at nonprofit postage rates.

In 1990, Congress enacted a restriction against advertising "FIT" at nonprofit rates. But regular rate mailers felt the problem was larger than the solution, and wanted further restrictions.

In 1992, the then-new Postmaster General proposed elimination of virtually all nonprofit mail, a position that was anathema to Congress as well as to most groups of both regular rate and nonprofit mailers. Nonprofits and regular rate mailers' groups met frequently during the 1992 legislative session with representatives of the House and Senate postal committees, the Postal Rate Commission, Postal Service, and others, to try to reach a compromise. In spite of Herculean effort by all concerned, no compromise was reached.

To protect nonprofits from the huge rate increase the Postal Service could, by law, have imposed because of the failure of appropriation, Congress voted a "freeze" on nonprofit rates for FY 1993.

In calendar year 1993, following further attack on the revenue forgone appropriation by the incoming Administration, it was obvious that reform legislation was urgently needed. The nonprofit community proposed a plan that would eliminate the revenue forgone appropriation and respond to the concerns of regular rate mailers.

I want to emphasize that: nonprofits volunteered to give up more than a half billion dollars a year, to help reduce the deficit by reforming revenue forgone.

Members of Congress, from both houses and both parties, worked with nonprofits and regular rate mailers, and came up with compromise legislation based on the demands and needs of all the interested groups. Few organizations were entirely happy with the legislation, but in the end most signed on.

The legislation was introduced as an amendment to the 1994 Appropriations Bill for Post Office, Civil Service, and General Government, where it was titled the "Revenue Forgone Reform Act of 1993".

Nonprofits owe a great debt to many current and retired Members and Senators from both parties for moving the legislation through both houses.

The legislation had these major provisions:

- The revenue forgone appropriation would be eliminated for nonprofit mailers. Appropriations would be continued for free mail to the blind and other handicapped, and for certain mail pertaining to voting.
- The charge to nonprofit mailers for the overhead portion of rates, formerly paid by appropriation, would be capped at one-half the percentage charged regular rate mailers, for the closest comparable regular rate category.
- Nonprofit rates would increase over a six-year period; about 2 percent per year for second class, about 3 percent per year for third class, until the rates reached the can, in the sixth year.
- The Postal Service would receive an appropriation of $29 Million per year for 42 years, to compensate for out-of-pocket transitional costs.
- Further restrictions would be placed on advertising in nonprofit mail.
- Postage rates for most advertising in nonprofit second class mail would be increased to the same rates as regular rate mail.

Following enactment of the Revenue forgone Reform Act, the Postal Service drafted regulations required by the legislation, to be effective in September 1994. During the pendency of the regulations, Congress, at the request of nonprofits, enacted a clarifying amendment to the Revenue Forgone Reform Act. The Postal Service withdrew the regulations, redrafted them after consultation with nonprofits, and recently reissued them, to become effective October 1, 1995.

What is perhaps most important about the Revenue Forgone Reform Act is the protection it gives nonprofits. Nonprofit postage rates are permanently tied to those of regular rate mailers. The two groups are no longer at odds with one another; regular rate mailers protect nonprofits by lobbying to keep their own charges for overhead rates as low as possible, and nonprofits help them by giving the Postal Rate Commission the opportunity to consider the effect on nonprofits when assigning overhead charges to regular rate mailers.

But the Revenue Forgone Reform Act also has a provision that protects the Postal Service, and all its customers. That provision provides a de minimis appropriation of $29 million per year to reimburse the Postal Service for transitional costs. The small appropriation was an integral part of the compromise between Congress, the Postal Service and mailers.

Without the provision for the $29 million appropriation, the compromise could not and would not have taken place.

Mr. Chairman, I know that appropriations are not part of this subcommittee's responsibilities. But the subcommittee does have influence, and I strongly urge you to use that influence to assure that the small amount of $29 million per year does not become an issue. Congress agreed, the Postal Service agreed, and mailers agreed that the funds would be appropriated. Agreements should be kept. The Revenue

Forgone Reform Act is the most important piece of postal legislation to be enacted since the 1970 Act which created the Postal Service. It is critical that the Act continue to be supported and enforced.

MAIL RECLASSIFICATION

The Postal Service, in its recent filing to reform the Domestic Mail Classification Schedule, did not include any proposal regarding nonprofit third class mail. Moreover, the proposal for second class mail is incomplete.

It is our understanding that one or more later filings will complete reclassification of second class mail, including nonprofits, and will address reclassification of nonprofit third class mail. We have, in fact, recently been told that we will be invited to meetings at the Postal Service to work with them to reach agreement on details of their proposal.

Nonetheless, our concern is this: until nonprofit mail is reclassified, and unless it is reclassified in a "mirror image" of regular rate mail, there will be no "closest comparable rate category" upon which the Revenue Forgone Reform Act bases (and places a ceiling upon) our overhead charges.

Because of the economic need for comparable rate categories (so that our overhead charges are one-half of the "closest comparable regular rate category"), nonprofits will be pressured to accept a mirror image rate structure, whether or not such a structure is appropriate to our needs. Moreover, we will be pressured to accept such a structure in advance of the next omnibus rate case, which most observers believe will be forthcoming immediately following the current reclassification case, in early 1996. Thirdly, we are concerned about the possible need to fully participate in simultaneous reclassification and rate proceedings, a need that would not have existed if we were part of the current proceeding. Such undertakings are expensive and time consuming, and we have generally avoided full participation for that reason.

It is possible . . . perhaps even likely . . . that there will be some period (between the end of the current reclassification case and the end of the reclassification of nonprofit mail) during which nonprofits will have a rate structure that is not comparable with that of regular rate mailers.

In that situation, the Postal Service can decide to request no change in nonprofit rates during the interim, or to propose rates based on incomparability. The former may not be fair to regular rate mailers, the latter to nonprofits.

The Postal Service, in its haste to begin the process of reclassification on a schedule apparently dictated more by the desires of senior management than by complete preparation, has put nonprofits in a difficult situation. Incomparable rates could be to our disadvantage as well as to (or more likely than) our advantage, and we do not look forward to the pressure to conform a newly reclassified nonprofit rate structure to the previously-decided regular rate structure.

Fairness would have had us involved in the original proposal at every stage, as we were at the beginning, and as regular rate mailers were through to the point of preparation of the proposal. Nonprofits together represent more than $1 Billion in annual revenues to the Postal Service, and we don't feel as though we're getting $1 Billion worth of attention.

PRIVATIZATION OF THE POSTAL SERVICE

Nonprofits share the concern of the Postmaster General and the Mailers Council that the Postal Service become more competitive by becoming more efficient. That applies not just to pricing, which is at issue in reclassification, but even more so to the Postal Service's costs, including overhead and labor costs.

The Postmaster General has asked for, and in fact does need, to have the ability to change job classifications and work rules, to make the operation much more efficient. He does need to be able to pay for the talented executives it takes to run a large operation. He does need to continuously review mail classifications to determine whether they are appropriate, fair and equitable. But first and foremost, the Postal Service, as a creature of government policy, should forever remain so. Whether some small percent of communication is traveling outside the mail stream, or a very large percent is, as long as there is a need to deliver communications to every American citizen, the Postal Service must remain a creature of government policy.

One of the ways that government policy affects the Postal Service is in the continued policy decision to grant preferred mail rates to nonprofits. That policy is a natural follow-on to the creation of the nonprofit sector by the granting of tax-exempt status to appropriate organizations.

Several bills have been introduced in the 104th Congress that would help to the nonprofit sector, by increasing tax deductions for charitable contributions, etc. We

appreciate that support from Congress. Another important form of support . . . one that also concerns this subcommittee . . . is the continuation of preferred postage rates.

If the Postal Service were to be privatized, nonprofits may well be required to pay the same postage rates as commercial organizations, and therefore could not raise funds in the amounts needed to continue and expand services In fact, they could not raise funds even at the current level, if their rates were to be significantly increased.

As it is, nonprofit postage rates have increased six times in the last four years, and will increase at least once a year for the next four years, apart from any omnibus rate changes or reclassification. So if the Postal Service were to be refused permission to reclassify mail, and if they filed no rate cases, nonprofit rates still would increase every year for the next four years.

If the Postal Service were to be completely privatized, and nonprofits lost preferred rates, the additional postage rate increases that would be almost certain would be disastrous to nonprofit mailers, coming as they would on top of numerous . . . almost continual . . . rate increases over the last and next four years.

Mr. Chairman, I know that several members of the subcommittee staff expect to attend the summit on privatization, sponsored by the Mailers Council, which convenes tomorrow. I'm certain the staff will pick up numerous ideas about how to make the Postal Service more efficient. Some of those ideas may relate to complete privatization of the Postal Service. I ask that the staff keep in mind the needs of nonprofit organizations as those ideas are presented, and that they filter them through the reality of those needs, and of the good works that nonprofits perform.

INCONSISTENT ACCEPTANCE RULINGS BY THE POSTAL SERVICE

The regulations affecting what can be mailed by Second Class and Third Class mail are complicated. The regulations affecting nonprofit mail for those two classes are even more complicated. For that reason, there are continuing differences between mailers and the Postal Service about whether an individual mailpiece meets the requirements of the regulations.

Nonprofits and the Postal Service continually disagree over interpretations of the regulations; but even more troubling is that what is accepted in one post office is refused in another. What is accepted today is not accepted tomorrow.

Decisions in one region have no precedent value in other regions, and even the acceptance of a specific mailpiece, unchanged for years, by a single post office does not assure its acceptance by that same post office in the future.

This lack of consistency can have serious economic effect on nonprofits. When a mailing is ruled unacceptable at nonprofit rates, the mailer must pay regular rates, which are generally about a third higher, and then enter a protest and request a refund.

For a large mailing, the difference can mean many thousands of dollars in postage which the nonprofit must pay to the Postal Service, and then hope that the protest will be successful and the money refunded. And in some cases, the nonprofit may have to retain legal counsel to help with the protest, thus incurring additional cost.

Most nonprofits have continuing cash flow problems, and don't have reserves for unforeseen events such as that. And remember that the Postal Service can and has, many times, refused to accept, at nonprofit rates, the same mail they accepted in the past. So the nonprofit organization could not reasonably have expected that it would have to pay the higher postage costs, even temporarily.

The National Federation of Nonprofits is preparing a report on the problem, and will review its findings with the subcommittee staff as soon as the report is complete to see whether some action can be taken to alleviate the problem.

Mr. Chairman, we thank you again for the opportunity present our views today. On behalf of our members and other nonprofits that depend on preferred postage rates to communicate with donors and members, we look forward to the opportunity to work with you, the subcommittee and your staff in the future.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO LEE CASSIDY

Question 1. The Government Reform and Oversight Committee has been instructed by the Budget Committee to report reconciliation legislation involving mandatory spending programs within its jurisdiction. The Budget Committee suggested we look at eliminating the transitional payments to the Postal Service which cover workman's compensation liabilities incurred by the former Post Office Department prior to the 1970 Reorganization Act. The current appropriation is approximately

$37 million per year and declining. Last week the House passed its Budget Resolution which included this provision. What are your views concerning the elimination of this appropriation for former Post Office Department workers' compensation costs?

Answer. As I noted in that testimony, an important part of the compromise reached in 1993 between Congress, nonprofits, regular rate mailers, and the Postal Service was that the transitional costs related to reforming revenue forgone, which eliminated more than $500 million in annual appropriations, would be paid to the Postal Service by appropriation, over a 42-year period. I have no doubt that the Postal Service would have objected to any legislation that did not include some provision to pay those costs.

Similarly, Congress agreed in 1970, when it passed the Postal Reorganization Act, to pay the costs of retirement and health care for Postal Service employees who were once federal employees. As Postmaster General Runyon has related many times, the Postal Service has been saddled over recent years with $13 billion in additional costs related to those employees. The costs were not part of the 1970 agreement, and really are unfair to the Postal Service and to its customers who ultimately pay the bill.

One may pretend that the costs will be paid by the Postal Service, but in fact it is the customers who will pay them. That isn't called a tax increase, but inasmuch as the revenue goes to the Treasury, it amounts to the same thing. In my view, there is no difference between cutting the instant appropriation and imposing the $11 6 billion charge for retiree health care costs discussed last year and early in 1995 Either of those amounts to a stamp tax, and should not be imposed.

Question 2. Longstanding labor relations problems persist on the work room floor of the postal Service. Literature on the subject suggests that unionized organizations can make little progress reinventing the organization or changing its culture if relations between management and labor leaders are adversarial. How can Congress and the executive branch encourage and assist postal management and unions to address the severe labor-management problems in the Postal Service?

Question 2A. As usual, labor and postal management have been unable to reach agreement on a new collective bargaining contract. Does the current state of labor-management relations in the Postal Service affect your organization's members as postal customers?

Answer. I am not expert or even very knowledgeable about employee relations. But the continued poor state of labor-management relations at the Postal Service adds to the cost of handling mail, and that adversely affects our members and all mailers. It also worsens already-poor communications between managers and workers, which affects the way decisions are made affecting our members (see next response).

I do know that inconsistent delivery, with mail between the same two points sometimes being delivered overnight and sometimes not for days, indicates problems with the system rather than with the people working in the system.

Management is responsible for the system. I am heartened that Mr. Runyon is studying and attempting to apply the guidelines of the Malcolm Baldridge Award. It indicates that he understands that management, not labor, is the problem.

Lack of tenure is yet another problem. Each time the Postal Service acquires a new Postmaster General it also acquires new ideas . . . . new solutions for long-term problems. The solutions may or may not be good ones, but inevitably the Postmaster General is gone before his ideas have had an opportunity to be tested and accepted.

It is important to bring new ideas into any large organization, and especially one as production-oriented as the Postal Service. Labor-management relations would be vastly improved by having a Postmaster General who understands that the quality of work product will be only as good as the system he installs, and who then stays for ten years, to see his system installed, tested, modified, and smoothly functioning.

Question 3. Mr. Cassidy, I am intrigued by your statements regarding inconsistencies in the acceptance policies at various individual Post Offices. You say that a mailing may be accepted at one facility and not at another— and even the acceptance of a mailing at a regularly used Post Office does not mean it will be accepted at the same Post Office the next time it is deposited. These inconsistencies trouble me. Do you feel that this is a problem in the training of postal employees or does it lie in confusing postal-acceptance regulations?

Answer. The problem of inconsistent mail acceptance decisions by Postal Service employees stems from a variety of factors, most of which have been with us for many years.

First: the current Postmaster General has fostered an us-vs.-them atmosphere regarding nonprofits since 1992. Mr. Runyon was piqued over the difficulty in reform-

ing revenue forgone, and saw how Congress was reluctant either to fund the appropriation fully or to increase nonprofit postage rates dramatically to make up the shortfall. He began telling the world that nonprofits were a major part of the problem, the problem being balancing USPS expense and revenues. That atmosphere has abated somewhat, but still continues.

Second: It is difficult not to believe that the Postal Service has determined to harass certain fundraising consultants whom the USPS believes are or were abusing the system to their own advantage. By claiming many mailings are "cooperative", and thus not authorized to be entered at nonprofit rates, many clients of these fundraisers have been harmed, and precedents created which are detrimental to other nonprofits.

Third: the Postal Service has few written guidelines for "cooperative mailings", creating a situation that, by its very nature, encourages inconsistency.

Fourth: the training of mail acceptance personnel, from those on the receiving docks to the attorneys at USPS headquarters, lacks consistency and rationality. A few acceptance personnel have had extensive training, while others only see occasional bulletins circulated from USPS headquarters or regional or district offices.

Were the training and rationales consistent, and if Postal Service personnel knew more about their customers' operations, decisions would also be more consistent.

Fifth: the bureaucratic tendency to avoid making waves often comes into play. It is not unusual for refusal by individual post offices to accept mail at nonprofit rates for specified reasons to be supported upon appeal to districts, regions, and headquarters, but for different reasons than the original refusal.

Sixth: because the Postal Service makes most acceptance decisions on a case-by-case basis, when a decision is rendered it may or may not create a precedent. And few decisions are routinely circulated to post offices around the country as future guidance. There is no body of decisions, compiled into a single document, which mailers and Postal Service personnel alike can rely upon. Nor is there any routine monitoring of decisions, by Postal Service senior management, to determine whether they are consistent.

Seventh: the Postal Service is reluctant to give advance rulings, creating a situation in which nearly every mailer is always at risk. A more extensive and user-friendly system of advance rulings would head off many problems.

Eighth: there are few disciplines upon Postal Service personnel to rely on prior decisions. If a nonprofit organization has been mailing the same mail piece for many years, the Postal Service still can (and does) create new standards and decisions without notice, suddenly refusing to accept the piece at nonprofit rates. The mailer is required to pay the higher (regular) rate, then appeal for return of the excess postage. Such appeals almost always involve legal and other extraordinary expenses, and can take weeks, months, or even years.

There is no penalty to the Postal Service or the individual decision maker for wrong or even incomprehensible decisions, because the considerable expense is buried in the total of institutional (overhead) costs. There is significant cost to the mailer: loss of use of the excess postage, legal and other fees, and the time of management of the nonprofit involved in getting the problem solved.

There should be a "presumption of regularity" . . . . that mail pieces can continue to be mailed at nonprofit rates once the Postal Service has accepted them, either by advance ruling or docksite acceptance.

Question 4. Do you see reclassification as necessitating a review of the Revenue Forgone Reform Act? If legislative changes are not necessary, will the Postal Service need to issue new regulations?

Answer. As you know, the Postal Service is finally about to re-start reclassification of nonprofit mail. We expect meetings between the Postal Service and nonprofit umbrella groups to begin in a few weeks. Simultaneously, we will begin confidential negotiations with parties to the reclassification case to attempt to segue nonprofit mail into the current docket. We have hopes, but no confidence, that those negotiations will be successful, but believe it necessary to try. It is also necessary to keep them confidential.

Nonprofits on the one hand are under pressure to conform nonprofit subclasses to regular rate subclasses, because of the provision in the Revenue Forgone Reform Act that overhead charges for nonprofit mail will be one-half that of the closest comparable rate category for regular rate mail. On the other hand, conforming nonprofit subclasses (so-called "mirror image" subclasses) may not be to our advantage, because almost no nonprofit organization can reach the saturation levels of large regular rate national mailers. It appears likely that, in mirror-imaging, nonprofits would be shut out of the lower-rate subclasses.

We will monitor the situation very closely and report to you if it becomes apparent that either the Revenue Forgone Reform Act, or the regulations flowing from it, need revision.

Mr. MCHUGH. Let me assure both of you gentlemen that to the extent we have jurisdiction and it is a very limited area and generally is indeed confined simply by what influence we have, we are, as a subcommittee, deeply concerned about the $29 million as it relates to your activities.

You never give up vigilance, but to this point, as a piece of information, that part of the appropriations package seems relatively secure. We'll continue to watch that, and as I mentioned, we share your concerns.

Your structure as nonprofits seems to be tied less to some of the broader concerns expressed by other members of previous panels than it is by ensuring that you retain the ties to vis-a-vis closest comparable rate class, et cetera. And that's understandable.

I'm just—I'm intrigued by the use of the word "later" with respect to reclassification as it will affect you. I wonder if both of you could just kind of expand on what the conversations between either yourselves or your organizations and the Postal Service have been.

Why do they say you'll come later and what do they mean by later and how do you feel? Obviously you're concerned about it, but what is your gut reaction to the likelihood of your being accommodated in the way that you feel is just?

Mr. CASSIDY. I think perhaps a brief recitation of recent history is in order. More or less from the beginning, nonprofits were involved in many of the reclassification discussions. I say more or less because it was not the beginning, and more or less because we were not involved in all the discussions.

But sometime last summer, red flags began to be waved that perhaps things were not going to proceed on a parallel, simultaneous track between regular rate and nonprofit reclassification. And in a period of just a few months, the signals were: we will include nonprofit, we may include nonprofit, we might not include nonprofit, we will not include nonprofit.

And during that time and since, we were told that it was a question of allocation of resources, that there just were not enough people to do all the work that was needed to file complete reclassification simultaneously. And I can understand that. I can also understand that having committed to a 4-year term with almost 3 years gone, the Postmaster General is very anxious to see, if not complete, reclassification during his tenure, at least a very big step in that direction.

And so I alluded to that by saying that reclassification seems to have proceeded on a schedule more dictated by senior management than by complete preparation for the case. We were also told at various points along the way that there was a rather narrow window for filing the case and that that window would close because of the need to use an already existing test year sometime in late March or early April, my memory tells me.

You also asked the question of when is later. Apparently much later. I had a conversation with someone in the Postal Service yesterday who discussed, during the National Postal Forum in Nashville a couple of weeks ago, that he would soon be holding meetings

with nonprofits to bring us up to the same level of preparation as for regular rate mailers. And the impression that I had was that such an initial meeting would be called very shortly.

After yesterday's conversation, my understanding is it will be much closer to July 1 than June 1, before the first meeting takes place. And obviously if there is not a high degree of urgency at the beginning, there's not going to be a high degree of urgency later on. As we go into July and August with the difficulty of getting people together because of vacations, I can see that stretching out essentially to the end of the current rate case, perhaps as long as the end of the year. Not very heartening news.

Mr. KLINE. Mr. Chairman, I'd like to add to that.

Mr. MCHUGH. Please.

Mr. KLINE. As a member of MTAC, the Mailers Technical Advisory Committee, we are informed of new programs and new ideas that the Postal Service is considering, usually fairly early on. And when the subject of reclassification was announced, volunteers from MTAC made up the committees to work with the Postal Service on reclassification.

I've been involved with reclassification for almost 3 years. From the very first meeting that we had with the Postal Service, we asked, are you planning to include nonprofits? And the answer was, yes, yes. At one point, we had a meeting that was held in Virginia and the question again came up, because we were getting concerned about the fact that we didn't see too much being said about nonprofits.

And I believe it was at that meeting that Gene Del Polito, who is with AMMA, one of the groups that testified today, announced to the Postal Service that without nonprofits there would be no reclassification, meaning that the other groups would not stand for us not to be included. We participated—I participated, as I say, over the last 3 years.

As we got closer and closer to the date when they were looking to do something with reclassification, it started to become evident that they would go ahead with third class and second class, but they were not going to touch nonprofits at that time. When we questioned them on that, we were told, well, we didn't do the surveys yet, and so we're about 3 months behind on the nonprofit reclassification case.

We asked if there was a way we could speed that up and get back in step with the regular rate mailers, and the answer was, no, there just weren't enough resources to do that. And so we would be behind. From that point on, we thought we were going to be 3 months behind.

At an MTAC meeting last summer, Charles McBride announced that they were going ahead with the reclassification filing and originally it was going to be in the fall, or they had hoped it would be the fall or certainly by the end of the year. When we asked about second class nonprofit, were they included, his answer was, no, they're not included. We said, well, why not? And the answer he gave was, well, nobody asked for them to be included. We had asked for third class nonprofit to be included.

I did not know that we had to specify that we had to ask for second class nonprofit to be included, too. We assumed nonprofit was

nonprofit. But in any case, we were told at that point that they were even further behind than we were. We were behind by 3 months.

Meetings started taking place at that time to work on second class nonprofit. We had meetings up until early January, and we were told that third—that regular rate mailers were going to go ahead probably in March, and that we would follow sometime, "later."

We had a meeting at postal headquarters in May when we asked again about what was happening with nonprofits, and we were told that later was probably going to be sometime toward the end of the year when we might see a nonprofit reclassification put forth. We would have to do surveys, we would have to complete all the necessary studies and everything else to get nonprofit, third class nonprofit going, possibly second class at the same time.

We made a suggestion that we thought would be appropriate to the Postal Service. They have an awful lot riding, and they've put an awful lot of time and effort into the reclassification process. And they certainly don't need anyone going before the PRC opposing non—opposing reclassification. We suggested that what they might do, since it would take quite awhile for them to implement the reclassification once approved by the PRC, we asked them to push on the studies for the nonprofits, get them up to speed, file them as soon as possible, with the understanding that they would not implement the regular rate reclassification until third class, nonprofit reclassification had been approved. So we gave them an out to their dilemma, and to the fact that we did not want to be spoilers and go before the PRC and oppose reclassification.

They have not accepted that. We are now, as a result of the—at the forum, postal forum, it was announced that there is a new person taking over responsibility for third class and second class nonprofit reclassification, name of John Dorsey, and he spoke at the postal forum. Based on what he said, and I questioned him afterwards in the question and answer session, I said, it sounds like we're starting back at square one. There were studies that were done for third class nonprofit, what about all the information that we had developed over the years? And he said, well, we—we'll use that, but we still are looking toward the end of this year before we can expect anything.

In the final session at the postal forum, I questioned their vice president of marketing and asked him if he had an idea of when we would see nonprofit reclassification go through, and his answer was, before the next rate case, before the next rate case. So that word "later" might mean any or all of those things, and depending on what happens with rate case, we're expecting there could be one in 1996, so maybe we will be classified by then, reclassified. Otherwise, maybe not.

Mr. MCHUGH. And please restate what you believe your exposure is potentially, until such a reclassification occurs.

Mr. KLINE. The main—the main exposure, we mentioned one part of it which is we don't know what our rate is going to be based on because there will be no comparable class.

Mr. MCHUGH. Has anyone in the Postal Service given you any kind of indication or comfort or cause for concern about what might happen?

Mr. KLINE. I'd like to defer to Neal. Neal, did you have an answer to that?

Mr. DENTON. Yes, we filed interrogatories with the Postal Rate Commission asking that very question: what will our rates be pegged to in the interim? The Postal Service says they have a legal opinion that they don't have to change nonprofit rates at all in the interim, until they take us to reclassification again. That can't hold true for nonprofit second class.

If you will recall from the Revenue Forgone Reform Act, nonprofit second class magazines are required to pay the same commercial advertising rate that commercial mailers pay. Reclassification, of course, changes the commercial advertising rate. So for the Service to say they have a legal opinion that our rate won't change in that interim, I think is, at the best, nebulous.

We're very concerned, as Lee and as Alan point out, that changing the equation in the middle of the game without including nonprofits is a real problem. The biggest problem, the biggest problem though, Mr. Chairman, might be the fact that this reclassification case proposed now is revenue neutral. That means the Postal Service is not going to generate any new revenues, while changing this rate structure. So that those mailers that receive a discount because of the way that they automate their mail, their rates are going to go down a little bit, and the folks who aren't going to receive that discount, their rates are going to go up a little bit. Because it's revenue neutral.

If, as many suggest, the reclassification for nonprofits won't take place until something concurrent with the next rate case, then the disparity for nonprofits will be much more. We won't have these small little, little bitty incremental changes. Someone's going to get creamed. And it's going to be a small community-based nonprofit that doesn't know how to automate. It's going to be a college or university that can't automate their list because that's not the way that business is conducted. They don't have the advantage of a revenue neutral reclassification case in order to get ready to make some of the automation changes that are going to be required.

Mr. MCHUGH. Thank you.

Mr. Cassidy, you want to make a comment?

Mr. CASSIDY. Yes, Mr. Chairman.

The Postal Service has told us in writing that they have no intention and believe that they don't have the authority to change our rates as compared to reclassified regular rates, until our rates are reclassified. That is, our rates presumably would have to remain the same until they're reclassified. But as Mr. Kline and I have both discussed, there appears to be no chance that they will file for reclassification of nonprofit rates until the end of the year. And it is an open secret that they plan to file a new rate case very early in 1996.

And so what we're looking at is essentially simultaneous cases for the reclassification of nonprofit and perhaps some other mail, and a rate case, simultaneous. We will have two proceedings that we will have to monitor and intervene and probably be involved in

at some level at the same time. That is a very difficult thing to ask us to do.

Mr. MCHUGH. I understand. So, Mr. Denton, to go back to what you said, with respect to your understanding of how second class nonprofit publications are priced at the same level as for profit——

Mr. DENTON. The advertising portion, right.

Mr. MCHUGH. Yes, it would be your assumption, then, that the Postal Service's legal opinion would not be correct?

Mr. DENTON. Oh, I don't know if it would be—I hope it's—frankly, I hope it's correct. I hope that we have a situation where, for that interim period of time, the rates for nonprofit second class magazines, the advertising rate won't go up.

If I were a commercial publication sitting in the panel earlier with George Gross from the magazine publishers and I thought that nonprofits were paying a reduced advertising rate, I might file suit, and I don't know if that would hold water. I would be very concerned that that would hold water.

And frankly, the Service's proposal is now presented to the Postal Rate Commission. I'm not altogether sure that they like to accept Postal Service proposals carte blanche anyway. As I said, it's just—I am not sure if it holds water.

Mr. CASSIDY. I agree with that statement, Mr. Chairman. The rationale for increasing nonprofit postage rates for the advertising portion of second class is that regular rate mailers complained that we were competitive with them, that is, nonprofit publications were containing much of the same advertising, and we were able to mail our publications at lower rates and that was not fair. And that argument prevailed with Congress, and that was one of the elements of the Revenue Forgone Reform Act.

And so I absolutely agree, if I were a regular rate mailer and our rates don't go up because they can't, even though they should because—because regular rates are going up, I'd be very, very upset about that. And in fact, it presumably would be a violation of the Revenue Forgone Reform Act.

Mr. DENTON. Mr. Chairman, I want to add to that. The nonprofit community would love to find a way to resolve this. We've been talking with the Postal Service and with senior staff and in our interrogatories we've been trying to find a way that we can resolve this, because it might just be that this is a sticky situation that's a result of the legislative reform from last year that could be fixed to get us over this hump. I'm hopeful that it can, although I will report now at this point the Postal Service has not been at all forthcoming in coming to some solution to this.

We've—as Mr. Kline and Mr. Cassidy suggested, we've offered what I think are some very reasonable approaches that might resolve this, but it's been difficult up to now, I think.

Mr. MCHUGH. Which brings us to the point about the Revenue Forgone Reform Act in general. It doesn't help you currently, necessarily. But is perhaps the time upon us when we look at mandating that second and third class, because I guess we have to—we just can't say nonprofits. Second and third class nonprofits have to be part of any reclassification. How do you think that would work? Or is that——

Mr. DENTON. I would have a suggestion. I would—Mr. Cassidy's group and mine are different because there are obvious differences in our constituents. I'm not altogether sure that some nonprofits would benefit from reclassification.

Mr. MCHUGH. That's what I'm asking.

Mr. DENTON. I think, you know, Mr. Cassidy suggested the necessity for a mirror image filing for nonprofits. I'm not altogether sure that would help our community-based nonprofits across the country. I think there are some things that can be done to lift some of those nonprofits up into the automation mailstream, but at the same time, I wouldn't want to impose some of the real draconian hoops that it seems like mailers are going to have to jump through in order to get discounts.

Is it necessary to legislate? Well, I would—I wouldn't speak for my organization, but I would really hesitate before I'd say it's necessary to legislate anything. I should like to think that there are ways to negotiate out of this. The Postal Service has a large customer base that has a real problem and it's something that can reasonably be fixed and not cost them any money, it should be something that could be resolved.

Mr. MCHUGH. OK. That's fair.

Mr. KLINE. Our—our efforts are ongoing. We think we still have a meeting scheduled on this Friday with Loren Smith, senior vice president of marketing at the Postal Service, to again keep talking about the issues with nonprofits and how we can make sure that we can be reassured enough that we would not have to oppose the reclassification at the PRC level. So we're still working at that. And if our meeting is still on for Friday, I don't know if it is, but if it is, that's going to be in that.

Mr. CASSIDY. I'm reminded of something that the Supreme Court said 42 years ago, Mr. Chairman. And that is, separate is inherently unequal.

Mr. MCHUGH. Well, they did say that. I would be interested, and I don't want to open the can of worms right now, but I would be interested in any suggestions you might have as to how the revenue reform—Forgone Reform Act might work better.

The litmus test of my government experience has been if everyone's unhappy, it's probably working pretty well. And as was commented, it does seem everybody's a little bit upset with it, but everybody can seem to live with it. So maybe hands off is the best direction. But your assessment on that would be important to us. Obviously, this is the first time we've had a chance to look at it and I'm not anxious to go rushing in necessarily.

Mr. Denton, I admire your personal opinion, we ought to proceed legislatively with great caution. I think that applies here, too. But if you have suggestions, we'd certainly like to review those.

And as with other mailers, we have run far over our original intent of the schedule, that's because of the interruption that was suffered, and also because of the very high caliber of all three panels. And you gentlemen included. And I appreciate that. It just shows you what a little place like Saranac Lake can do for the world, if given a chance. And I am, by the way, looking forward to coming up there, taking a look around.

What day is summer on this year?

Mr. KLINE. I'm sorry?

Mr. MCHUGH. What day is summer this year?

Mr. KLINE. I think we probably stand a pretty good chance of missing it. It's around July 5. But we'll find a date that's convenient for you and we'll make it happen.

Mr. MCHUGH. I appreciate that. And with that, as we have indicated previously, ask the option to leave the record open for written questions, too, should that occur, and also for other Members to submit them or any other statements they might have.

Our next scheduled hearing will be on June 7th for taking testimony from employee groups and labor unions, a continuing process, and we appreciate everyone here today, both the panel participants and those in the audience, for being patient. And thank you again, I appreciate it.

With that, we'll adjourn the hearing.

[Whereupon, at 1:47 p.m., the subcommittee was adjourned.]

GENERAL OVERSIGHT OF THE U.S. POSTAL SERVICE

WEDNESDAY, JUNE 7, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON POSTAL SERVICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2247, Rayburn House Office Building, Hon. John M. McHugh (chairman of the subcommittee) presiding.

Members present: Representatives McHugh, Collins, Owens, Green, and Meek.

Staff present: Dan Blair, staff director; Jane Hatcherson, Robert Taub, Heea Vazirani-Fales, and Steve Williams, professional staff members; Meryl Cooper, clerk; and Jean Gosa and Denise Wilson, minority professional staff.

Mr. MCHUGH. Good morning. We'll call the hearing to order. We do have a number of Members who indicated that they will be here. But in recognition of a great deal of time pressures on both sides of the dais this morning, I think it would be best if we started.

Perhaps if we could have the first panel come forward—Messrs. Quinn, Hicks, Biller, and Sombrotto—and get them settled in. I'll make an opening statement and extend the opportunity to Mrs. Meek or to others that have joined us, and we can go from there.

I want to welcome our witnesses here this morning, as the subcommittee continues its scheduled series of general oversight hearings. We have a very important group of witnesses here today. Employee unions and organizations represent the real backbone of the Postal Service—its workers.

If any systemic changes are going to occur in the current structure, such changes must be brought about with the cooperation and the support of the men and women who make up the more than 800,000-strong postal workforce.

I also want to note, for the record, at this time, that the esteemed chairman of the House Committee on Resources, Congressman Don Young of Alaska, had intended to join us here today and wanted to extend a special word of welcome and a number of comments.

He has been stricken ill, we're told not seriously, but he won't be with us. I will, without objection, place his comments in the record. I know Chairman Young has a long history of involvement on these issues, and he very much wanted to join us.

[The prepared statement of Hon. Don Young follows:]

PREPARED STATEMENT OF HON. DON YOUNG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALASKA

The United States Postal Service is a cornerstone of our great Nation. It has kept pace with a growing America and has evolved beyond Ben Franklin's greatest vision. Their duties are enormous and a vital part of everyday life, whether it be business or personal.

At the beginning of the 104th Congress, the Post Office and Civil Service Committee was eliminated and I was prevented from sitting on the Government Reform and Oversight Committee because of my other duties as chairman of the Resources Committee and my position on the Transportation and Infrastructure Committee. I want to stress my support to Chairman McHugh and my former chair, now ranking minority member Barbara Rose Collins.

In order that we may serve the American people best we must work in a bipartisan fashion for resolutions to issues such as the privatization of the Postal Service, resolving retirement issues; improving rural mail services, which are so important to my State of Alaska, and perhaps most important guaranteeing universal coverage for all at a reasonable price.

There are some Members of Congress that would like to privatize the Postal Service indirectly by using it as a source of deficit reductions that would require higher postage rates. There are other proposals haunting this Congress from previous Congresses that would have the Postal Service prefund retiree cost of living allowances and health care costs, which would be a burden on the Postal Service and be a stamp tax to the consumer. There has even been a bill introduced (HR 210) that would privatize the Postal Service. This approach would make it impossible for the Postal Service achieve its original mandate of universal service at reasonable rates. This would be detrimental to rural America and to my State of Alaska.

The Federal Government, along with the Postal Service made a contract with its employees. The employees bargained in good faith for a fair contract that provided fair wages and a fair retirement system. Our employees have planned their lives, children's education, home mortgages and futures around the current retirement system. We as Members of Congress should not change the system for current employees.

There have been many proposals put forth with the goal of reducing Government spending and achieving a balanced budget by the year 2002. The House of Representatives has put forth two significant changes in the Federal retirement system. The first would be a tax increase of 2.5% for employees. I opposed this position on the House floor. The second would raise the current retirement calculation, based on the average annual salary for the highest pay over any three consecutive years of service to a "high 4" calculation in 1996, then a "high 5" in 1997. Although these programs would help in our goal of reducing Government spending and trimming the deficit the proposals do not consider the contract the Federal Government has with its employees.

I am grateful of the fine job the Postal Service and its employees provide to the American people. My State is very dependent on the Postal Service. Almost everything delivered to rural Alaska is through by by-pass mail. This subcommittee, along with the House of Representatives, Chairman Ted Stevens of the Post Office and Civil Service Subcommittee in the Senate and the U.S. Senate must work with the United States Postal Service, the American Postal Workers Union, the National Association of Letter Carriers, the National Rural Letter Carriers Association, the National Postal Mail Handlers Union, the National Association of Postmasters of the U.S., the National League of Postmasters and the National Associations of Postal Supervisors to make the Postal System even more efficient and better in the future than it is today.

Mr. MCHUGH. We look forward, today, to hearing from our panel of witnesses regarding their collective impressions of the current state of the Postal Service and what changes they believe may be necessary in order to ensure its continued viability. Twenty-five years following the passage of the Postal Reorganization Act, we find postal finances on the mend, at least for the short term.

But competition from a host of new technologies looms on the horizon. And a recent General Accounting Office report finds labor-management at a nadir. The GAO observed that one of the key impediments to a successfully operated Postal Service is the inability of management and labor to reach agreement on key workforces.

I will not engage in fingerpointing and attempts to assess blame. Rather, this subcommittee must review the systemic problems associated with poor labor-management relations and search for common ground in which both sides can agree in crafting solutions.

In its report, the GAO observed that the root of the problems could be found in a pervasive cultural distrust between labor and management. For decades, an autocratic management style loaned itself to the adversarial nature of the current labor-management culture. GAO said this "us versus them" attitude fosters an environment of distrust which spills over from the bargaining table to the work room floor.

Both sides often view attempts to compromise as a zero sum game, in which any ideas or concepts of benefit to one side necessarily must be to the detriment of the other. This negative atmosphere permeates almost all aspects of the Postal Service. While not fatal, the GAO said this culture attitude will ultimately restrict the ability of the Postal Service to compete in an increasingly competitive environment.

I hope our witnesses can comment on these findings. I do not believe Congress should interject itself into the daily operations of the Postal Service by micromanaging labor-management relations. However, the subcommittee must address concerns raised by the current process, and we must exercise our obligation to responsibly review and put forward any initiatives that may enhance the process.

If management and labor cannot come to terms over changes needed in the work place, we may be forced into reexamining aspects of the current act which serve as barriers to reaching a long-term agreement on improving the work room climate. In addition to improving labor and management relations, I hope the witnesses here can comment on what other changes might improve the postal environment for both the organization and the customer.

Some witnesses, during the past oversight hearings, have said our current Postal Service is broken and needs a total overhaul from top to bottom. These witnesses have targeted for reform the role of the Postal Rate Commission and the scope of the private expressed statutes. Others have testified that no legislation is needed; rather, the subcommittee should devote its energies solely to its oversight responsibilities.

I would be most interested in hearing your views on this matter, as well, gentlemen. I cannot overemphasize the importance this subcommittee will place on the opinions put forth by the witnesses today. If any changes are to occur in the current postal universe, such actions must reflect the need and the concurrence of those toiling under such modifications. However, I stress that all parties should remain open to the considerations put forth today.

While some ideas may have been rejected or not considered in the past, a new day has dawned. It will be best for all parties concerned to thoroughly evaluate any proposals, keeping in mind that the interest of both employees and management are inextricably linked to the overall success of a viable and a robust Postal Service. With that, I would turn the dais over to the gentlelady from Florida, Mrs. Meek, for any comment she may wish to make at this time.

Mrs. MEEK. Thank you, Mr. Chairman. I'm pleased to be here and to welcome those of you who represent the workforce in the Postal Service. It's my pleasure to serve on this committee to learn of your issues and your concerns. And certainly, I will keep a very open ear to the discourse here today. Thank you very much.

Mr. MCHUGH. I thank the gentlelady. I'd also ask Mr. Green, the gentleman from Texas, if he might wish to make any comments at this time.

Mr. GREEN. Thank you, Mr. Chairman. Just like you and Mrs. Meek, I welcome our employee representatives here today. Our committee is in a learning curve, and we're continuing to investigate and learn about the Postal Service and its efforts, and I'm just glad you're here so we can continue that education. Thank you.

Mr. MCHUGH. I thank the gentleman. As our witnesses here this morning may be aware, the rules of the Committee on Government Reform and Oversight require that all witnesses appearing before any subcommittee be administered an oath and give their testimony under the said oath. And I would ask that you gentlemen join with me by rising and raising your right hands.

[Witnesses sworn.]

Mr. MCHUGH. Thank you, gentlemen. A bit of housekeeping before we begin—as I've said, and as we have done in the past, the green light, red light 5-minute rule is troublesome to me. I'd prefer to operate without them.

We do have some time constraints, however. We have two panels here this morning. And I would ask that if you gentlemen would please offer your entire written statements for entry to the record and then perhaps just give a summary of your comments, that would be helpful to us.

Also, normally, we have a protocol for who would testify first. I am informed, however, that Mr. Sombrotto is involved in some contract negotiations and is extremely pressed for time. And without any objection from your fellow members of the panel, I would ask that you present your statement first, and hopefully we can be helpful to your schedule, sir.

STATEMENTS OF VINCENT SOMBROTTO, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL–CIO; MOE BILLER, PRESIDENT, AMERICAN POSTAL WORKERS UNION, AFL–CIO; WILLIAM QUINN, PRESIDENT, NATIONAL POSTAL MAIL HANDLERS UNION, LIUNA, AFL–CIO; AND SCOTTIE HICKS, PRESIDENT, NATIONAL RURAL LETTER CARRIERS ASSOCIATION

Mr. SOMBROTTO. Thank you, and I wish to thank the committee for its indulgence, as well as my colleagues for allowing me to present my testimony on behalf of the National Association of Letter Carriers. Chairman McHugh and members of the subcommittee, I am Vincent Sombrotto, president of National Association of Letter Carriers, AFL–CIO, a union which represents city letter carriers actively employed and retired from the U.S. Postal Service.

On behalf of the 350,000 members of the NALC, I'm pleased to share with you my thoughts about the current status and the future of the U.S. Postal Service. As the elected representatives of the American public, all of whom are customers of the Postal Serv-

ice, the members of this subcommittee should be commended for the keen interest in the operations of the Postal Service.

Letter carriers throughout this great Nation desire to be active participants in this subcommittees' deliberations on how to improve the operations of the U.S. Postal Service, as well as on how the institution must adapt to the dynamic marketplace in which it competes.

It is clear that the predominant player in this Nation's hard copy delivery network, the Postal Service, must innovate in order to remain an integral rather than a vestal component of our Nation's communication system.

The NALC has a responsibility to public as well as to its members to help chart the U.S. Postal Service on a course that protects its long-term viability. Simply stated, we strongly believe that the Postal Service must be able to operate more like a business, retool its operations and streamline its managerial structure. Letter carriers acknowledge that change is not only desirable, but absolutely necessary.

However, unless basic internal structure and cultural changes are adopted first, proposed legislative solutions will be doomed to failure. To attain these goals, the Postal Service must, as a first step, reduce the size of its managerial bureaucracy. The Service's convoluted management structure diffuses the lines of communications between L'Enfant Plaza and the letter carrier.

There exist too many intermediary steps hindering the ability of carriers to do their jobs as efficiently as they are capable of doing. Unfortunately, this outmoded structure has resulted in the USPS stubbornly refusing to work with the NALC to empower letter carriers to provide postal customers with the best possible service.

Under the Postal Service's outdated, self-imposed operational regulations, letter carriers do not have the latitude to innovate and improve the way they do their job. The Postal Service rejects this type of worker empowerment when we propose it in collective bargaining.

The Postal Service must recognize, as other large corporations, that the 1950 style operational rules simply do not work as we enter into the 21st century. The USPS must act in concert, not in opposition, to its employees desires to improve postal operation. It is surprising that the Postal Service functions as efficiently as it does despite bearing the burden of congressionally imposed assessments and a plethora of anti-competitive regulations.

As you know, the U.S. Postal Service is financially self-sufficient and does not benefit from any direct taxpayer appropriation. The Postal Service earned operating profits of $1.8 billion between 1991 and 1994. If not for the $6.8 billion in payments to the United States Treasury, imposed by the Omnibus Budget Reconciliation Acts of 1990 and 1993, the USPS could have delayed the 1995 postage rate increase.

The total congressional assessment against the Postal Service from 1987 through 1998 will be $14 billion. While NALC appreciates this subcommittee's opposition to the recently proposed $11.6 billion hit on the Postal Service to prefund retiree health benefits, we have to remain vigilant against other attempts to unfairly burden the Service with such provisions.

Together, we must prevent the Postal Service from being saddled with payments for the purposes of deficit reduction or to underwrite tax breaks for the wealthiest Americans. Besides congressional assessments, the Postal Service is constrained in a communications marketplace where it's not competing on a level playing field.

For example, whereas its competitors are able to offer volume discounts on certain postal products, the USPS is precluded from offering such initiatives to its patrons. This unfair restriction hinders our customers' ability to realize reduced mail rates and impedes the Postal Service's capability to offer affordable, quality delivery services to millions of Americans.

Furthermore, this restriction adversely affects the continued viability of the USPS. We strongly urge this subcommittee to investigate and remediate this unfair restraint. Despite these overwhelming odds, the Postal Service continues to offer the cheapest and most efficient mail delivery system in the world.

If you account for inflation and the elimination of taxpayer subsidies to the Postal Service for operations, the actual cost of mailing a letter has decreased dramatically since the Postal Reorganization Act in 1971. If the actual cost of mailing a first class letter had risen between 1971, when it stood at 11 cents, and 1995 at the same percentage of inflation, the price of a stamp would be 41 cents, rather than 32 cents.

Contrary to the assertions made by a number of postal critics who score the Postal Service on poor service, the USPS delivers first class mail, overnight, on time 85 percent of the time. Furthermore, a November 1994 Roper poll concluded that consumer satisfaction with the cost and service is at an all-time high. According to the poll, nearly 90 percent of all customers are either completely or fairly satisfied with the mail service.

I know the subcommittee is interested in the international experience with postal reform. However, as you study the international experience, please keep in mind that most reformed foreign postal services continue to be publicly owned. In addition, postage rates continued to be regulated, ensuring universal delivery. Moreover, postal monopolies are preserved on specific classes of mail.

Only in Sweden has the monopoly been abolished. However, private postal competitors must be licensed by the Swedish government. And the publicly owned post office corporation must provide universal service. The international experience clearly indicates that the subcommittee needs to understand that privatization involves more than just ownership. It often involves issues of commercial freedom as well as regulation to ensure universal service.

It is not, as some postal privateers have stated, simply breaking up and selling off the Postal Service to the highest bidders, or even to its own employees. For example, while Sweden has been identified as a leading example of privatization, it's postal service is in fact totally owned by the government, and there are no plans to sell it.

Furthermore, although private competitors are not required to guarantee universal delivery, the Swedish postal service continues to provide such delivery and is compensated by the government—that is, the taxpayer—for providing this service.

Additionally, although the Dutch post office is partially owned by private investors, it remains a government sponsored operation which retains a monopoly on letter mail. Indeed, the Dutch government maintains a significant ownership interest in the people enterprise.

You will also be interested to note that while the conveyance of periodical mail parcels and non-addressed advertising mail in the United States is open to competition, many reformed foreign postal departments preserve their postal monopolies on these classes of mail.

The NALC strongly believes that a deregulated, privately owned Postal Service would create a fragmented, confusing, hard copy communications system, which will ill serve the interests of the Nation. Private delivery firms will cherry pick profitable Postal Service areas. Unprofitable service to rural areas as well as to poverty stricken communities will be left to the Postal Service.

I believe this type of postal deregulation will lead the USPS into a death spiral of rising rates and falling volume from which it would be unable to escape. However, the threat of this death spiral does not come solely from wholesale deregulation. It would also be the consequence of a gradual relaxation of the private expressed statutes.

For example, the modification of the double postage rule would seriously undermine the Postal Service operational capabilities. This rule, which defines the urgent letter exception to the Private Expressed Statutes and requires private competitors to charge $3, or double the applicable postage, whichever is higher, to deliver mail.

At first blush, this rule may seem unfair to the uninitiated. But it is absolutely essential to provide universal mail delivery to every American. The so-called profits, accrued from the double postage rule, help to support the national postal infrastructure, which is central to universal delivery. Elimination of the double postage rule would jeopardize the non-discriminatory postal network.

Our competitors do not want a truly competitive Postal Service, but one that will operate only where there is no profit, to serve as a sort of communication safety net. This fact is exemplified by the past regulatory fights over parcel post mail, and the present debate regarding the status of priority mail. Our competitors do not want to be required to operate where they are not going to make money, nor do they want to offer products that are not profitable.

In their minds, these charity services should be left to the Postal Service. The unfortunate scenario is what the authors of one Private Expressed Statute clearly understood. For this reason, the limited postal monopoly was absolutely necessary. It binds this Nation together, and the authors had the foresight to comprehend that no other hard copy delivery network in the entire world can match the economies of scale which the Postal Service offers its citizens.

The NALC looks forward to working with you as you seek ways to improve the Postal Service, enabling it to meet the needs of your constituents and of all postal customers. Thank you very much, and I'd be delighted to answer any questions.

[The prepared statement of Mr. Sombrotto follows:]

PREPARED STATEMENT OF VINCENT SOMBROTTO, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL–CIO

Chairman McHugh, and Members of the Subcommittee, I am Vincent R. Sombrotto, President of the National Association of Letter Carriers, an AFL–CIO union which represents city letter carriers actively employed by and retired from the United States Postal Service. On behalf of the 315,000 members of the NALC, I am pleased to share with you my thoughts about the current status and the future of the United States Postal Service.

As the elected representatives of the American public, all of whom are customers of the Postal Service, the members of this Subcommittee should be commended for their keen interest in the operations of the Postal Service. Letter carriers throughout this great nation desire to be active participants in this Subcommittee's deliberations on how to improve the operations of the USPS, as well as on how the institution must adapt to the dynamic market place in which it competes. It's clear that the predominant player in this nation's hard-copy delivery network, the Postal Service, must innovate in order to remain an integral, rather than a vestigial component of our nation's communications system.

The NALC has a responsibility to the public, as well as to its members to help chart the USPS on a course that protects its long-term viability. Simply stated, we strongly believe that the Postal Service must be able to operate more like a business, re-tool its operations, and streamline its management structure. Letter carriers acknowledge that change is not only desirable, but absolutely necessary. However, unless basic internal structural and cultural changes are adopted first, proposed legislative solutions will be doomed to failure.

To attain these goals the Postal Service must, as a first step, reduce the size of its behemoth managerial bureaucracy. The Service's convoluted management structure diffuses the lines of communication between L'Enfant Plaza and the letter carrier. There exists too many intermediary steps, hindering the ability of carriers to do their jobs as efficiently as they are capable of doing. Unfortunately, this outmoded structure has resulted in the USPS stubbornly refusing to work with the NALC to empower letter carriers to provide postal customers with the best possible. Under the Postal Service's outdated, self-imposed operational regulations, letter carriers do not have the latitude to innovate and improve the way they do their job. The Postal Service rejected this type of worker empowerment when we proposed it in collective-bargaining. The Postal Service must recognize, as have other large corporations, that 1950's-style operational rules simply will not work as we enter the 21st century. The USPS must act in concert with—not in opposition to—its employees desire to improve postal operations.

It's surprising that the Postal Service functions as efficiently as it does, despite bearing the burden of congressionally-imposed assessments and a plethora of anti-competitive regulations. As you know, the USPS is financially self-sufficient, and does not benefit from any direct taxpayer appropriations. The Postal Service earned operating profits of $1.8 billion between 1991 and 1994. If not for the $6.8 billion in payments to the U.S. Treasury imposed by the Omnibus Budget Reconciliation Acts of 1990 and 1993, the USPS could have delayed the 1995 postage rate increase. The total Congressional assessment against the Postal Service from 1987 through 1998 will exceed $14 billion.

While the NALC appreciates this Subcommittee's opposition to the recently-proposed $11.6 billion hit on the Postal Service to pre-fund retiree health benefits, we will have to remain vigilant against other attempts to unfairly burden the Service with such provisions. Together, we must prevent the Postal Service from being saddled with payments for the purposes of deficit reduction or to underwrite tax breaks for the wealthiest Americans.

Besides Congressional assessments, the Postal Service is constrained in a communications market place where it is not competing on a level playing field. For example, whereas its competitors are able to offer volume discounts on certain postal products, the USPS is precluded from offering such incentives to its patrons. This unfair restriction hinders our customers' ability to realize reduced mail rates, and impedes the Postal Service's capability to offer affordable quality delivery services to millions of Americans. Furthermore, this restriction adversely effects the continued viability of the USPS. We strongly urge the Subcommittee to investigate and remediate this unfair restraint.

Despite these overwhelming odds, the Postal Service continues to offer the cheapest and most efficient mail delivery system in the world. If you account for inflation and the elimination of taxpayer subsidies to the Postal Service for operations, the actual cost of mailing a letter has decreased dramatically since the Postal Reorganization Act in 1971. If the actual cost of mailing a first-class letter had risen be-

tween 1971, when it stood at 11 cents, and 1995 by the same percentage as inflation, the price of the stamp would be 41 cents, rather that 32 cents.

Contrary to the assertions made by a number of the postal critics who score the Postal Service on poor service, the USPS delivers first-class overnight mail on time, 85 percent of the time. Furthermore, a November 1994 Roper poll concluded that consumer satisfaction with the "cost and service" is at an all-time high. According to the poll, nearly 90 percent of all consumers are either completely or fairly satisfied with their mail service.

I know that this Subcommittee is interested in the international experience with postal reform. However, as you study the international experience, please keep in mind that most reformed foreign postal services continue to be publicly-owned. In addition, postage rates continue to be regulated, ensuring universal delivery. Moreover, postal monopolies are preserved on specific classes of mail. Only in Sweden, has the monopoly been abolished. However, private postal competitors must be licensed by the Swedish government and the publicly-owned post office corporation must provide universal service.

The international experience clearly indicates that the Subcommittee needs to understand that "privatization" involves more than just ownership. It often involves issues of commercial freedom, as well as regulation to ensure universal service. It is not, as some "postal privateers" have stated, simply breaking-up and selling-off the Postal Service to the highest bidders or even to its own employees.

For example, while Sweden has been identified as a leading example of "privatization," its postal service is in fact wholly owned by the government—and there are no plans to sell it. Furthermore, although private competitors are not required to guarantee universal delivery, the Swedish postal service continues to provide such delivery and is compensated by the government (that is the taxpayer) for providing this service. Additionally, although the Dutch post office is partially owned by private investors, it remains a government-sponsored operation which retains a monopoly on letter mail. Indeed, the Dutch government maintains a significant ownership interest in the postal enterprise.

You will also be interested to note that while the conveyance of periodical mail, parcels, and non-addressed advertising mail in the United States is open to competition, many reformed foreign postal departments preserves their postal monopolies on these classes of mail.

The NALC strongly believes that a deregulated, privately-owned postal system would create a fragmented, confusing hard-copy communications system which will ill-serve the interests of this nation. Private delivery firms would cherry-pick profitable postal service areas—unprofitable service to rural areas, as well as to poverty-stricken communities, would be left to the Postal Service. I believe that this type of postal deregulation would lead the USPS into a death spiral of rising rates and falling volume from which it would not be unable to escape.

However, the threat of this death spiral does not come solely from wholesale deregulation. It would also be the consequence of the gradual relaxation of the private express statutes. For example, the modification of the "double-postage rule" would seriously undermine the Postal Service's operational capabilities. This rule, which defines the "urgent letter" exception to the private express statutes, and requires private competitors to charge $3 or double the applicable postage—whichever is higher—to deliver mail. At first blush this rule may seem unfair to the uninitiated, but it is absolutely essential to provide universal mail delivery to every American. The so-called profits accrued from the double-postage rule helps to support the national postal infrastructure which is central to universal delivery. Elimination of the double-postage rule would jeopardize this nondiscriminatory postal network.

Our competitors do not want a truly competitive Postal Service, but one that will operate only where there is no profit—to serve as a sort of communications safety-net. This fact is exemplified by the past regulatory fights over parcel post mail and the present debate regarding the status of priority mail. Our competitors do not want to be required to operate where they are not going to make money, nor do they want to offer products that are not profitable. In their minds, these "charity services" should be left to the Postal Service. This unfortunate scenario is what the authors of the private express statutes clearly understood. For this reason, the limited postal monopoly was an absolute necessity. It binds this nation together. And, the authors had the foresight to comprehend that no other hard-copy delivery network in the entire world can match the economies of scale which the Postal Service offers our citizens.

The NALC looks forward to working with you as you seek ways to improve the Postal Service, enabling it to meet the needs of your constituents and to all postal customers. Thank you.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO VINCENT SOMBROTTO

The Postal Rate Commission (PRC) has been a major obstacle in the U.S. Postal Service's ability to compete on a level-playing field with its competitors. The PRC's role and rate—setting procedures should be revised to recognize that the USPS must have an unfettered opportunity to compete in the postal marketplace to survive.

The USPS should have the sole authority to set its own rates and market new products, without being subjected to a time-consuming exercise which compromises its capability to serve the American public. The often protracted PRC process merely provides the USPS' competitors with a fertile forum to economically cripple the Postal Service, and deny the Service the opportunity to market new products and establish competitive rates.

No other corporate entity is shackled to a 9-month delay in establishing prices for its products, nor does any firm submit to a process where its competitors are encouraged to intervene in the setting of those prices. This extended and litigious process inspires competitors to intercede in matters that merely protect their own proprietary interests and shield its products from fair competition. Moreover, the inordinate amount of time it takes for a rate case to reach a conclusion adversely impacts the ability of the USPS to operate efficiently, and introduce new products in a timely manner.

The NALC urges that the PRC's jurisdiction should be limited to monopoly mail, and that it be required to render a rate decision within 120 days from the date in which the proposal is formally submitted for its consideration. Furthermore, the NALC urges that only postal customers, through the "consumer advocate", should be permitted to intervene in the PRC deliberations—postal competitors should be excluded from the process.

The NALC not only participated, but also took a leadership role in the 1991 legislative conference on the Postal Service. The NALC would actively participate in another such legislative conference. However, such a meeting must not be a substitute for collective-bargaining between postal employees and the USPS.

The NALC proposes that the Postal Service take whatever legal means are available to right-size its middle and senior level postal management. We continue to believe that the Postal Service's behemoth bureaucracy hampers the ability of letter carriers to do their jobs in a manner in which that postal customers demand. Whereas the private sector has successfully reduced the size of its management level personnel, the USPS has failed. A promotion freeze combined with attrition would be an almost painless way to accomplish this goal. However, I recognize that other options are available and would be appropriate if such a strategy is not successful.

Furthermore, the USPS must totally reinvent and streamline its management structure, an approach to corporate reform successfully employed by progressive private sector firms. This would require an earnest examination of the functions provided by all supervisory personnel, including postal supervisors and postmasters. Postal headquarters should seriously consider management consolidation from the top to bottom, recognizing the fact that front-line postal employees who directly serve postal customers should be empowered to effectively perform their jobs.

Over the past several years, long before the GAO issued its report, the USPS has indicated its desire to negotiate a new system of evaluating and adjusting city carrier routes—even though it has never made a formal proposal to us on the matter. NALC has been more than willing to discuss the issue. Indeed, in anticipation of serious negotiations on the subject, I appointed a National Task Force on Route Structure in 1993 to study alternatives to the existing city carrier system. In addition, NALC and the USPS held a series of preliminary discussions on a new route system issue during the summer of 1994.

In August, 1994 the National Task Force issued a report to the 59th Biennial Convention of the NALC which was held in Atlantic City. At that convention, I sought and obtained from the membership of my union the authority to negotiate with management over the route evaluation system during the 1994 round of collective bargaining talks.

Early in the last year's negotiations the parties mutually agreed to defer further discussions on the issue of route structure. It was agreed that a change in the Fair Labor Standards Act (FLSA) would be necessary before fruitful discussions could proceed. (Note: The rural letter carrier system is made possible by a provision in the FLSA that specifically exempts rural letter carriers from parts of the Act related to overtime pay.)

The NALC is opposed to "final offer arbitration." We believe the existing tripartite arbitration process gives the parties the most flexibility to craft mutually acceptable solutions to problems even after unmediated negotiations fail. It is our view that tripartite interest arbitration is an extension of the collective bargaining process, not an alternative to it. In contrast, final offer arbitration is pure litigation.

The NALC would not object to Whistle Blower Protection being extended to employees of the USPS, as long as it does not impinge on rights protected under collective-bargaining.

Mr. MCHUGH. Thank you, President Sombrotto. Normally, again, what we would do is go through all of the presenters and then ask questions. And I would ask the further indulgence of your fellow panel members, if we might just direct a few questions to President Sombrotto, so that he may continue his schedule. You said in your testimony that the Postal Service must be able to operate more like a business.

We've heard that a lot. But at least what I have found, however, is that when you probe that question a bit further it means very different things to different people. You mentioned later in your testimony about volume discounts. What do you mean when you say the Postal Service must be able to operate like a business? What changes do you see that are necessary?

Mr. SOMBROTTO. Well, that's one example. The question of allowing the Postal Service to set rates that are more favorable to customers that have great volumes is one of the things the Postal Service would like to do, but they're prohibited from doing; which then creates an unfair or an unlevel playing field. The other question, of course, is how the Postal Service is able to set its rates. The Postal Service is unlike any other business.

It cannot react to market forces as they present themselves, in even a short period of time. And that is because it takes almost as long as having a baby—it takes more than 11 months to have a rate increase from the beginning, its inception, its proposal, to its final determination.

That is too long. Things change dramatically within an 11-month period, and contingencies and assumptions have to be made within the case itself that are not always going to be reliable. They're not always going to come to fruition. So it would be easier for the Postal Service to have the ability to set rates and to offer new products to the American public, based on the need and market forces as they are at any particular point in time.

Mr. MCHUGH. Would you get rid of the Postal Rate Commission?

Mr. SOMBROTTO. I think the Postal Rate Commission can play a role in that type of scenario. I don't know whether you'd have to eliminate it entirely, but I think it could play a different type of role than it presently plays.

Mr. MCHUGH. I would ask, not at this time, but if you have further thoughts on the specificity of how we might restructure rate setting, it would be of great interest to us.

Mr. SOMBROTTO. Sure.

Mr. MCHUGH. You spoke about the Postal Service's outdated, self-imposed operational regulations that inhibit your carriers from doing what I believe you think would be a better job. What kinds of things? Seven and one rule?

Mr. SOMBROTTO. No, no, not—it's the whole mind-set of the Postal Service. It's foundation was based on some sort of a military for-

mat. I mean, that's why you have a Postmaster General. If you wanted to be businesslike, it could be a CEO and it would be more appropriate. But it is an autocratic institution that's encumbered by an enormous bureaucracy.

And it's difficult for a job to be done under those circumstances. We have tried to encourage the Postal Service to take into account what the individual employees have to offer, or the employees as a group, in an effort to make the job better, to make it more efficient, to make it a job that is one that they enjoy and that they can produce for the American public.

And we have been stalled at every turn. The Postal Service is not interested. They talk the talk, but they won't walk the walk. They talk a good game, but when it comes to downright coming up with a structure that empowers the craft workers, they have no real intention of going along with such a process. In fact, we've been involved in such a process for 12 years, and now they're slowly dismantling it.

They have no intention of going forward. And in point of fact, I mean, I think this is something the committee should know, because all the rhetoric that comes from L'Enfant Plaza is contrary to their actions. At our recent fact-finding and hearings that we held before a fact-finder, the Postal Service said, across the table, that if we introduced a program for worker empowerment, that they would file an unfair labor practice against us.

Because, they said, that's permissive bargaining, and we have no interest in it; and if you try to get that kind of a proposal across the table, we will file an unfair labor practice against you.

Kind of interesting. There are those that think if you get worker empowerment programs, that's union busting. It seems, though, that the Postal Service thinks that they want no part of that type of a program within the Postal Service. They don't want to empower people.

Mr. MCHUGH. Thank you.

Mr. SOMBROTTO. And it's consistent. And if I may, maybe I can anticipate a question. Maybe I'll answer a question—use an old New York trick: I'll ask myself a question and then answer it.

Mr. MCHUGH. I'm from New York, go ahead.

Mr. SOMBROTTO. There's been a lot of voices emanating from L'Enfant Plaza, singing from the same hymn book about collective bargaining. And they keep saying that collective bargaining is broken, it doesn't work, and we've got to find another solution. I would remind them, as I have, and as I would remind this committee, that is the national policy. Collective bargaining is the national policy.

Collective bargaining is the purest form of democracy—people with disparate views sitting across the table in an attempt to iron out their differences by talking and presenting facts. The Postal Service has no interest in collective bargaining, has no interest in the empowerment of its workers. Witness the fact that there are three unions sitting at this table that have been in the collective bargaining process in an effort to negotiate contracts.

None of us have been successful. I have to rush from here because today is the opening session of our interest arbitration. And yet they scream and yell about collective bargaining doesn't work.

It cannot work when one party is absolutely intransigent. They have made a concerted effort not to negotiate with the representatives of the employees of the Postal Service. So when they talk about collective bargaining doesn't work, collective bargaining works fine; it works fine.

The other issue that you should focus on—while there have been two interest arbitrations that defined contracts for employees, I would remind everyone that there hasn't been any cataclysmic events that have taken place because of those arbitrations; that the Postal Service has continued to function, and it will continue to function after these arbitrations.

But the fact is that the Postal Service does not like the idea of sitting down as an equal partner to the collective bargaining process. They think that they will tell us what to do and how to do it, and we ought to march in lock step to their instructions. And that is not what collective bargaining is.

Mr. MCHUGH. Well, I appreciate those comments. Obviously, we could continue for some time. Your time is pressed, and my colleagues are patiently waiting for an opportunity to ask you a few questions as well.

Speaking of New York, we're honored to have with us Major Owens, a member of this subcommittee, and a long-time member of the committee. We're pleased he's joined us. We would refer and turn the mic over to the gentlelady from Florida for any questions she might have. Mrs. Meek.

Mrs. MEEK. Well, in the essence of time, Mr. Chairman, I've learned something from your presentation. It appears that you aren't too happy with the top-heavy bureaucracy in the Postal Service. If you had your way, what kind of cutting measures would you use to eliminate some of the bureaucracy at the top of the agency?

Mr. SOMBROTTO. Well, I would point out that representing a labor union, I'm not in the business to try to find ways of eliminating jobs, but to try to create jobs where the jobs are necessary. However, where jobs are unnecessary, and they create an impediment to a more efficient Postal Service, we ought to look at that. The postal bureaucracy has built itself up—it was reduced because of the early out program that the Postmaster General engaged in just a few years ago.

And now the number in the bureaucracy have increased to numbers above what they were before the early out. That was designed to reduce the bureaucracy. If I had my way, I guess I could work out a plan, I could show how it could be done. I'm not suggesting that all of the people that are in the management structure should be fired overnight.

I think they should be offered the opportunity to get out. I think if they don't get out, we ought to find other, more productive things for them to do, and I'm sure there are. And given the task, I would gladly do it. I mean, if the Postal Service and this committee could assign me that task, I'd take it up. I'd be delighted to act in that capacity.

Mrs. MEEK. I bet you would. Thank you.

Mr. MCHUGH. The gentleman from Texas, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. Briefly, I met with a couple Postal Service employees yesterday in my district, and they also pointed out the military structure that we have in the Postal Service. It's interesting to hear the same from the president of one of the bargaining units that we have. I have lots of questions, but, due to time constraints, I'd like to make sure our ranking member on our committee has time. Thank you.

Mr. MCHUGH. I thank the gentleman. The gentleman from New York, Mr. Owens.

Mr. OWENS. Well, just briefly, Mr. Sombrotto, I understand from a note that my staff member gave me, before I came in, you made a revolutionary proposal about setting rates in accordance with market forces.

Mr. SOMBROTTO. Mm-hmm.

Mr. OWENS. Well, I think most of my constituents might go along with that if you can guarantee them they're going to get some decent postal service. Right across my whole district, from one end to the other, middle-income communities, poor communities, everybody is just constant complaints about the post office. And in Brooklyn, I can't understand the structure we've got.

We have a structure there where Queens, which is a smaller borough, is in command and control of Brooklyn's post office. We don't have a central post office that's open at night. Every time they reorganize, service gets worse. And the service on the streets with the letter carriers is outrageous, because I think they save a lot of money by hiring large numbers of casuals and temporaries and everybody except trained letter carriers to service our people.

So I'll make an appointment and talk to you in more detail about this. It's really a serious matter in my district and most of the borough of Brooklyn, at this point. I'll look forward to talking to you about it.

Mr. SOMBROTTO. Well, certainly I concur with all of the statements you've made. I'm very familiar with the New York scene, being a New Yorker. And I'm particularly informed about Brooklyn. And that's my point—the competitors would like the Postal Service only to be left with Brooklyn and to do a lousy job there while they could skim off—if you could get into privatization—they would rather take the more profitable areas.

Mr. OWENS. I'm sure Brooklyn is quite profitable, because it has 2.5 million people—the largest borough in New York City. It would be the 10th or 11th largest city in the country if it was a city itself. So it's very profitable. They make money off of us and give us lousy service. But that takes a long-time discussion.

Mr. SOMBROTTO. Yes, well, I'm going to say—and I must say this in defense of letter carriers—they do the best job they can do under the circumstances that they're allowed to do it. I agree with you that the whole structure there cries for some reform, and we haven't received it; just as we had the same problem here in Washington, DC. But I'm willing to do whatever's possible to improve that situation.

Mr. OWENS. You want to end the hiring of all casuals and have first class letter carriers?

Mr. SOMBROTTO. Well, you know, what are you doing in the next half hour? We could use you at—[laughter.]

Mr. MCHUGH. He's staying here. Any other questions from the gentleman from New York? OK. Mr. Sombrotto, one question for the record, before you leave. Since the Reorganization Act—and you mentioned your frustration with the collective bargaining process, at least in terms of the product—how many contracts have you brought in without going to binding arbitration?

Mr. SOMBROTTO. Two—and we had two that were gone to interest arbitration, and now this third has gone to interest—so we've had, out of five agreements, three of them would have gone to interest arbitration.

Mr. MCHUGH. Three out of five?

Mr. SOMBROTTO. Three out of five. And I would point out, at the end of that process, and if one thinks that—that's a part of the collective bargaining process. That's what's in the Postal Reorganization Act. That was given to us in view of the fact that we don't have the right to strike—the question of final and binding arbitration. I would point out that that has been very successful.

At the conclusion of each of those processes, when the parties received the award from the arbitrators, the unions weren't happy and management wasn't happy. And I guess the way to define whether something works is to say, if everybody's unhappy, it must be working; or if everybody's happy, it must be working. So there has been no damage to the Postal Service as an institution because of that process, because it's fair.

We have an opportunity to make our case; they will make their case. And an impartial judge will decide the merits of the cases and issue an award. It's not always what we like. It hasn't been in the past, and I'm sure it's not what the Postal Services like. But that's the process. And we would rather have—and right as I sit at this table, if the Postal Service wants to sit down and negotiate the contract, I make this declaration right here at this hearing that I'm willing to sit down in an effort to fashion a collective bargaining agreement that we can both author, rather than have a third party author it for us.

Mr. MCHUGH. I thank you for those comments. Again, I appreciate your being here. I know this is a very important day for you and your membership. And we appreciate your being here and wish you well.

Mr. SOMBROTTO. Well, we need all the prayers we can get. But thank you very much, and I want to thank you for your indulgence. And I want to thank my colleagues for allowing me to do this.

Mr. MCHUGH. And again, to the other members of the panel, I appreciate your accommodation of Mr. Sombrotto's situation. We then move to the testimony of the president of the American Postal Workers Union, AFL–CIO, Mr. Moe Biller. President Biller, welcome, sir.

Mr. BILLER. Thank you. Good morning. Chairman McHugh and members of the subcommittee, I'm Moe Biller, president of the American Postal Workers Union, AFL–CIO. The American Postal Workers Union represents some 360,000 members and retirees, and is the largest free and democratic postal union in the world. I'm proud to represent the men and women who move more than 177 billion pieces of mail per year.

Prior to the passage of the Postal Reorganization Act of 1970, pay and working conditions in the Post Office Department were abysmal, and morale was low. Pay levels were imposed by legislation, and many workers were on welfare. By the way, before I proceed, I'd ask—this is the oral version, the 5-minute thing; and I ask that the full testimony be incorporated into the proceedings.

Mr. MCHUGH. Certainly, without objection.

Mr. BILLER. Thank you. Facilities were undercapitalized, workers were on welfare, too often Congress micromanaged operations of the Post Office Department. The Postal Reorganization Act, while not perfect, was a vast improvement. It allowed collective bargaining in the Postal Service. This is a basic free right in a free society, but one which was previously denied to American postal workers. Unfortunately, in my opinion, it did not go far enough.

It should have provided for an agency shop and the right to strike. I commend you, Mr. Chairman and the committee, for holding this series of hearings. It should be part of a larger effort by this subcommittee to educate new Members, as well as more senior Members, about the complexities of the U.S. Postal Service. Unfortunately, some Members have proposed rash, ill-considered actions that could be detrimental to the Postal Service and its dedicated, hardworking employees.

I'm concerned about the hearings that I understand you plan to hold this fall, which will include extensive testimony advocating legislation to privatize the Postal Service by selling off its assets. The U.S. Postal Service continues to be the best system in the world, with the lowest first class postage of any industrialized country. It does far more at lower rates than any other postal system on this planet.

It has not been subsidized since 1982. Please don't allow future hearings to turn into a radio talk show where cranks can put forward ill-conceived ideas. There are two types that want to privatize the Postal Service—right-wing, ideologues, who do not live in the real world; and opportunistic businessmen who want to loot the Postal Service at the expense of the American public. As the subcommittee with jurisdiction, it is your responsibility to keep your colleagues informed and steer them from bad ideas to good ones in support of a strong Postal Service; and we propose to help along these lines.

Major areas of concern—the APW currently has four main areas of concern, including one, the Private Express Statutes which are the key for universal postal service at uniform prices throughout the Nation; two, postal worker benefits; three, collective bargaining; and four, ensuring the viability and the future of the Postal Service as an important part of the information superhighway.

Universal postal service in the Private Express Statutes—universal service are essential to a national hard copy delivery system. The Private Express Statutes protects that system from cream skimming by private business of the most profitable postal routes. If the Private Express Statutes are weakened or eliminated, hard to serve areas will receive either expensive or diminished service or no service at all, and mailboxes will be flooded by fly by-night firms with no accountability.

The Postal Service is quasi-independent. It is off budget. The Postal Service will be required to operate in a businesslike manner and to balance its books over time. Status as an independent establishment of the Federal Government is commensurate with the Postal Service's businesslike mandate and its responsibilities as the national postal service.

The stability of the Postal Service system is essential to this country, and to the economy, I might add, as representatives of mailers groups recently testified before your subcommittee. As Postal Rate Commission Chairman Edward J. Gleiman recently said in a speech to the Mailers Council, "We have a nationwide delivery system that delivers universal service with uniform, affordable rates. Why put it at risk?" And I might add that once you break it up, who's going to put Humpty Dumpty together again if it doesn't work?

Benefits of Postal Service pays a full employee the cost of providing benefits to postal employees for health, retirement, life insurance and injured workers compensation. The APW is very concerned that the value of these programs not be undermined by actions of Congress. The benefits under these programs should be improved and not reduced. These benefits are part of the total compensation package received by postal workers.

Wages are negotiated by the union with consideration of the total compensation package. Any unilateral cuts in those benefits will unfairly undermine the collective bargaining process. I urge you to impress on your colleagues the importance of maintaining quality benefits to maintain a motivated, quality workforce. Collective bargaining, the right to be represented collectively, and the right to withhold labor are basic American rights recognized throughout the free world.

Recognizing that Postal Service is vital to the American economy, the Postal Reorganization Act prohibited strikes in the Postal Service and prohibited the Service from locking out employees or unilaterally imposing wages and working conditions. In place of this basic right to withhold labor, the Congress included in the Postal Reorganization procedures resolving a stalemate in collective bargaining between the Postal Service and its unions through mandatory binding interest arbitration.

Postmaster General has suggested a need for change in the mandatory arbitration provisions, though he has not recommended any alternatives or specified any. If Congress acts on the PMG's suggestion, whatever it may be, it would follow that the workers be allowed the legal right to strike and an agency shop and safe where it is legal. The union also asks that it be fully consulted on any proposed change.

Deficit reduction—in Congress' desperation to balance the budget at all costs, it has taken numerous steps over the last 10 years to save money by undermining benefits for Federal employees and by using the Postal Service as a cash cow to the tune of $14 billion since 1987. The Congress have effectively treated the USPS as a cash cow, and there is no more milk to give.

We hope these actions have come to an end. I urge you and your colleagues to stop any effort to cover Federal deficit spending with postal revenues, which is nothing but a stand tax on postal cus-

tomers. Unfortunately, this year's budget resolution again proposes further benefit cuts or increased employee contributions. We urge you to reject these proposed cuts and not further undermine the value of postal and Federal service.

We look forward to working with you on any future legislative agenda. At this time, the American Postal Workers Union does not see need for extensive legislative action by the subcommittee or the committee, although I think we can shorten the period of hearings on rates. However, if the subcommittee or the committee chooses to move ahead, we would expect to be fully consulted. I thank you Mr. Chairman, for indulging us.

[The prepared statement of Mr. Biller follows:]

PREPARED STATEMENT OF MOE BILLER, PRESIDENT, AMERICAN POSTAL WORKERS UNION, AFL–CIO

Mr. Chairman and members of the Subcommittee, I am Moe Biller, President of the American Postal Workers Union, AFL–CIO. The APWU represents 360,000 members and retirees, and is the largest free and democratic postal union in the world. I am proud to represent the men and women who move more than 177 billion pieces of mail per year. The United States Postal Service continues to bind the nation together.

The APWU represents clerks, maintenance workers, motor vehicle service employees, special delivery messengers, and workers in several smaller bargaining units. We also have a large and active retiree department. The APWU was originally formed in 1971 as a consolidation of five unions; the National Postal Union and four craft unions. Other unions represent city letter carriers, mailhandlers, and rural letter carriers.

The APWU is concerned with the pay, benefits and working conditions of its bargaining unit members, and ensuring a viable and successful Postal Service for the future. Prior to passage of the Postal Reorganization Act of 1970, pay and working conditions in the Post Office Department were abysmal, and morale was low. Congressional intervention too often prevented effective business like management and fair determination of wages. Pay levels were imposed by legislation. Facilities were under-capitalized. Too often Congress micro-managed operations of the Post Office Department. The Postal Reorganization Act, while not perfect, was a vast improvement. The PRA allowed collective bargaining in the Postal Service. This is a basic right in a free society, but one which was previously denied to American Postal Workers. Unfortunately it didn't go far enough. It should have provided for an agency shop and the right to strike.

The PRA provided for an independent Board of Governors with a mandate to operate in a "businesslike" manner. The PRA also recognized the essential public service provided by the mail delivery system.

Mr. Chairman, I am concerned about the lack of knowledge and understanding of the operations of the Postal Service by Members of Congress. I commend you, Mr. Chairman, for holding this series of hearings. It should be part of a larger effort by this subcommittee to educate new members as well as more senior members about the complexities of the United States Postal Service. Members need to understand how the system works as a whole so they will take only careful, well-thought-out actions in support of it. Unfortunately, some have proposed rash, ill-considered actions that would be detrimental to the Postal Service and its dedicated, hard-working employees. Frankly, I am concerned about the hearings that I understand you plan to hold this fall, which will include extensive testimony advocating legislation to "privatize" the Postal Service by selling off its assets. In the past, committees of jurisdiction have recognized these proposals for what they are: fringe ideas put forward to serve an ideological agenda; ideas not based on an understanding of how the system actually works.

The United States Postal Service is the best system in the world, with the lowest first-class postage of any industrialized country. It does far more, at lower rates, than any other postal system on this planet. I urge you and your colleagues on the Subcommittee and full Committee to keep future hearings balanced. Don't just provide a forum for ideologies and demagogues. Don't turn future hearings into a radio talk show where cranks can put forward ill-conceived ideas. There are two types who want to privatize the Postal Service: right wing ideologies who do not live in the real world, and opportunistic businessmen who want to loot the Postal Service

at the expense of the American public. As the subcommittee with jurisdiction, it is your responsibility—and I admit it is going to be difficult and time-consuming—to keep your colleagues informed and steer them from bad ideas to good ones in support of a strong Postal Service.

AREAS OF CONCERN

The APWU currently has four main areas of general concern, including: (1) protection of the Private Express Statutes as the key to a universal postal service at uniform prices throughout the nation, (2) protection of postal worker benefits, (3) strengthening of the collective bargaining system, and (4) ensuring the viability and the future of the U.S. Postal Service as an important part of the super information highway.

UNIVERSAL POSTAL SERVICE AND THE PRIVATE EXPRESS STATUTES

Universal service and uniform rates are essential to a national hard-copy delivery system. The Private Express Statutes protect that system from "cream-skimming" by private businesses of the most profitable postal routes. Cream skimming would leave only the hard-to-serve urban and rural areas for the Postal Service and undermine its revenue base. The Postal Service has not received a public service subsidy since 1983. Postal revenues currently pay for national postal services on an accrual basis over time. If the Private Express Statutes are weakened or eliminated, hard-to-serve areas will receive either diminished, expensive service or no service at all, and mail boxes will be flooded by fly-by-night firms with no accountability.

The Postal Service is quasi-independent. It is "off-budget," although Congress has chosen in recent years to impose over $14 billion in additional expenses on the Postal Service. You have effectively treated the USPS as a cash cow and there is no more milk to give. Net costs only are added in the budget. The Postal Service is required to operate in a business-like manner and to balance its books over time. It is allowed to make neither a loss nor a profit on its services. Postal revenues are not subject to change by Congress or the President, but are set through a regulated rate-making process. Spending is a permanent appropriation determined by the Board of Governors and is not subject to annual review by either the President or the Appropriations Committees. Status as an Independent Establishment of the federal government is commensurate with the Postal Service's business-like mandate and its responsibilities as a national public service. The stability of the postal service system is essential to this country as representatives of mailers' groups recently testified before your subcommittee. Specific steps to strengthen the Postal Service in its goal to operate in a "business-like manner" may be acceptable, but we recommend that there be no legislative changes in the Private Express Statutes or other major steps toward private ownership.

As Postal Rate Commission Chairman Edward J. Gleiman recently said in a speech to the Mailers Council; "We have a nationwide delivery system that delivers universal service with uniform, affordable rates. Why put it at risk?"

The Postmaster General has recommended several changes in Postal Service relations with other federal agencies. We support the Postmaster General and see no problem with allowing the Postal Service to be free of Treasury Department control over cash handling and borrowing. Similarly, if the Department of Transportation regulation of international air service rates increases costs for the Postal Service, it should be released from that obligation. The Postal Service is capable of acting independently on these matters. The Board of Governors, however, has asked for revision of the Department of Labor's role in federal worker's compensation, OPM's role in personnel rules and the Merit Systems Protection Board's responsibility to review personnel disagreements. These areas affect the union's role as representative of postal worker wages, benefits and working conditions. We would want to be fully consulted on any changes in these areas.

The PMG has also asked that steps be taken to streamline the postal ratemaking process. The current process takes too long, and does not allow enough flexibility. We would be willing to look at any procedure that allows greater flexibility if it can be shown that the change will allow the Postal Service to be more competitive.

BENEFITS

The Postal Service pays the full employer cost of providing benefits to postal employees through the Federal Employees Health Benefits Program (FEHBP), the Civil Service and Federal Employees Retirement Systems (CSRS and FERS), the Federal Employees Group Life Insurance Program (FEGLI), and the Federal Workers Compensation Program (FECA). Therefore, the APWU is very concerned that the value of these programs not be undermined by actions of Congress. The benefits

under these programs should be improved, not reduced. These benefits are part of the total compensation package received by postal workers. Wages are negotiated by the union with consideration of the total compensation package. Any unilateral cuts in those benefits would unfairly undermine the collective bargaining process. Although I realize that benefits come under the jurisdiction of another subcommittee, I urge you to impress on your colleagues the importance of maintaining a quality workforce. Quality benefits are very important in maintaining a motivated and quality workforce.

COLLECTIVE BARGAINING

The right to be represented collectively and the right to withhold labor are basic American rights recognized throughout the free world. Recognizing that postal services are vital to the American economy, the PRA prohibited strikes in the Postal Service and prohibited the Postal Service from locking out employees or unilaterally imposing wages and working conditions. In place of the basic right to withhold labor, the Congress included in the PRA procedures for resolving a stalemate in collective bargaining between the Postal Service and its unions through mandatory, binding interest arbitration. The Postmaster General has suggested a need for change in the mandatory arbitration provisions, though he has not recommended any alternative. If Congress acts on the PMG's suggestion, then it would follow that the workers be allowed the legal right to strike and an agency shop in states where it is legal. The union also asks that it be fully consulted on any proposed change.

DEFICIT REDUCTION

In Congress's desperation to balance the budget at all costs, it has taken numerous steps over the last ten years to save money by undermining benefits for federal employees, and by using the Postal Service as a "cash cow"—to the tune of $14 billion since 1987. We had hoped these actions had come to an end. Last summer the APWU was at the forefront of efforts to oppose another cash cow proposal to impose additional fees of approximately $11.6 billion on the Postal Service for pre-funding retiree health benefits. It appears that proposal will not surface again this year. I urge you and your colleagues to stop any such effort to cover federal deficit spending with postal revenues, which is nothing but a stamp tax on postal customers. Unfortunately, this year's budget resolution again proposes further benefit cuts or increased employee contributions. We urge you to reject these proposed cuts and not further undermine the value of postal and federal service.

SUMMARY

We look forward to working with you on any future legislative agenda. At this time, the APWU does not see any need for extensive legislative action by the Subcommittee or the Committee. However, if the Subcommittee or the Committee chooses to move ahead, we would expect to be fully consulted.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO MOE BILLER

Question 1. You have stated on numerous occasions, including your written statement before the Subcommittee on Postal Service on June 7, that giving postal workers the right to strike would enhance the likelihood of voluntary agreements. You note that this is the sort of pressure which compels agreements in the private sector. You have said that if any changes are made in the mandatory arbitration provisions, then it follows that workers should be allowed the right to strike and an agency shop.

a) Should management be extended the right to engage in a worker lock out and be allowed to hire replacement workers if postal workers are allowed the right to strike?

b) If postal employees did engage in a strike, postal customers would most certainly petition for suspension of the private express statutes. Is the APWU prepared to support such a suspension?

Answer. The preface to the two questions posed by paragraph 1 makes reference to my proposal that Postal Workers be given the right to strike and my proposal that the Postal Service be given the right to agree to an agency shop. The two questions that follow seem to relate only to the right to strike. I wish to emphasize that these are separate proposals and that the passage of one does not affect the passage of the other. With that preface, my responses to your specific questions under No. 1 are as follows:

a) If postal workers are given the legal right to strike, I would not oppose extending to Management the right to engage in a lockout under the same standards that apply to the private sector under the National Labor Relations Act. In either a strike or a lockout situation, however, the hiring of replacement workers must be prohibited. Experience in the private sector has shown that the hiring of replacement workers is inconsistent with the free exercise of bargaining rights, including the right to strike. The argument that striking workers should be required to jeopardize their jobs and the ability of their families to survive financially as a price for engaging in a strike is an outdated relic of the 19th Century. In a struggle between labor and management, the workers should be entitled to withhold their labor until they have a collective bargaining agreement under which to work. A strike does not sever the employment relationship.

b) The APWU opposes the suspension of the Private Express Statutes and would continue to oppose the suspension of the Private Express Statutes during a strike. The suggestion that the Private Express Statutes should be suspended during a strike is, in reality, a statement that Postal Workers should be threatened with the destruction of their livelihood if they engage in a right to strike. We reject that assertion. It is ridiculous to suggest that suspension of the Private Express Statutes would provide a short-term solution to mail backlogs during a work stoppage by postal employees. Such a temporary, short-term suspension would only cause further chaos and increase problems associated with a work stoppage.

Question 2. Scottie Hicks, President, National Rural Letter Carriers' Association, in his testimony before the Subcommittee on the Postal Service on June 7 made a suggestion that Postmaster General Runyon call a conference to create legislative improvement for the Postal Service along the path the Postal Service did in 1991, which included mailers, USPS officials Postal unions and Postal employee organizations. Mr. Hicks further suggested that the collective group could agree on 75% or more of the subjects for reform proposals in order to ensure that all would have an interest in the passage of the reform. Would the APWU be willing to be an active participant in such a conference? What would be the chief concerns you would want to discuss?

Answer. This question is not entirely clear to me. The phrase "conference to create legislative improvement for the Postal Service" leaves me in doubt about the intention of President Hicks of the National Rural Letter Carriers Association. I participate in numerous forums, committees and working groups that relate to the question of legislation affecting the Postal Service. These include the annual Brookings Institution forum, a recent debate with Congressman Dana Rohrabacher (R. Cal.) sponsored by the Mailers' Council, and many others. Not the least of these opportunities is my participation in the Leadership Team meetings of postal executives. I began meeting with the Leadership Team at Postmaster General Runyon's invitation shortly after we signed our mutual Memorandum of Understanding on Cooperation. If some additional forum is provided to consider issues related to the United States Postal Service and possible legislation, I would certainly consider seriously whether it would be worthwhile to participate.

Question 3. Please expand on your thoughts regarding rate setting and the postal Rate Commission (PRC) including:

a) whether there needs to be a Postal Rate Commission;

b) whether the PRC should continue the same functions as it is now performing; or

c) whether the PRC should perform different or additional functions;

d) should the rate setting process be shortened?

Answer. a) I support the continuing existence of a Postal Rate Commission, but with very different functions.

b) The function should be changed.

c) The PRC should perform different functions.

d) The rate-setting process should be shortened, and the Postal Service should be given then the right to set its own rates, subject only to general overview by the Postal Rate Commission.

Question 4. How would the APWU react to "final offer arbitration" (best and final offer) where each party puts on the table, issue by issue or by final package as previously determined, and an arbitrator would choose the best offer. Of course, the offerings must be reasonable to stand the chance of being selected and this would put more responsibility on the parties rather than on the arbitrator. Do you agree?

Answer. There is no magic in "final offer arbitration." In an industry as large and complicated as the Postal Service, final offer arbitration is not well-suited to resolving labor disputes. It is my opinion that the present system should be made more like the private sector by giving postal workers the right to strike. A change to final offer arbitration would not serve the interests of the Postal Service or the workers.

I specifically disagree with the assertion that final offer arbitration puts more responsibility on the parties rather than on the arbitrator. In interest arbitration as we presently have it, the parties bear very substantial responsibility. Under the PRA, we have a system of tripartite arbitration, where the party-appointed arbitrators are participating along with the neutral arbitrator.

Question 5. Postal Service personnel are not covered by the Whistleblower Protections Statutes. I received correspondence from postal employees seeking coverage under the Whistleblower Protection Act. Many of these letter writers state that this change would encourage greater disclosure of fraud, waste and abuse as well as ensure protection for whistleblower complainants. What is APWU's specific position on extending this Act to postal employees?

Answer. The APWU does not oppose, in principle, extension of whistleblower protection to postal employees, but the enforcement mechanism should be carefully considered. Bargaining unit employees have protection against being discharged for blowing the whistle, because they have a right not to be discharged without just cause. Properly revealing wrongdoing by postal officials is not just cause within the meaning of the collective bargaining agreement. An example is provided by a whistleblower who complained that mail destined for desert storm troopers was being delayed unnecessarily because it was routed to a distant embarkation point rather than being sent by the most expeditious route. The whistleblower wrote to a local newspaper and was disciplined for conduct unbecoming a postal worker. The APWU filed a grievance and the employee's discipline was rescinded. Workers who are entitled to Veterans Preference status also have a right to appeal to the Merit Systems Protection Board if adverse action is taken against them.

If legislation is proposed to give postal employees a further right of appeal, we would like an opportunity to examine that legislation before it is introduced. There has been considerable difficulty in coordinating the appeal rights of postal workers who have multiple appeal rights. In some cases, employees inadvertently appeal to the wrong forum or appeal to multiple forums with the consequence that their rights are prejudiced.

Mr. MCHUGH. Thank you, President Biller. I appreciate again your being here and your comments. I would note that we have been joined by the ranking minority member of the subcommittee, the Honorable Barbara Rose Collins, gentlelady from Michigan. And I would allow her any opening comments she may wish to make at this time.

Miss COLLINS. I thank you, Mr. Chairman. I'd like to ask that my opening remarks be made a part of the record.

Mr. MCHUGH. Without objection, so ordered.

Miss COLLINS. It's a pleasure to see you again, Mr. Biller, and I did hear all of your remarks.

[The prepared statement of Hon. Barbara-Rose Collins follows:]

PREPARED STATEMENT OF HON. BARBARA-ROSE COLLINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman, I join you in welcoming representatives of postal unions and employee organizations. Our witnesses represent the backbone of the Postal Service. In the midst of increased automation, work continues to rely on the efforts of the employees of the Postal Service to provide efficient and courteous service to customers.

Postmaster General Runyon has stated he wants to make the postal service more business-like and more responsive to its customers. That's great, but no real lasting changes will happen without the support and cooperation of postal employees.

As such, they deserve a working environment that fosters productivity and recognizes their value and dedication to the job. And, it will become harder and harder for postal workers to do a good job when faced with budget cuts in their retirement and health benefits.

There are no easy solutions or quick fixes. To that end, I look forward to your testimony and to exploring the many, many issues facing postal employees. Thank you.

Mr. MCHUGH. I thank the gentlelady. As we indicated, we will attempt to go through all of the testimony and then come back for

questions afterwards. In my book, the arrangement is that the next presentation would come from Mr. William H. Quinn, who is national president of the National Postal Mail Handlers Union. Mr. Quinn.

Mr. QUINN. Thank you, Mr. Chairman and members of the subcommittee. My name is William H. Quinn, and I am president of the National Postal Mail Handlers Union. The Mail Handlers Union represents more than 55,000 mail handlers employed by the U.S. Postal Service. Most of our members work in large mail processing and distribution plants within the Postal Service. In simple terms, we move the mail, making sure that the 180 billion pieces that are collected and delivered each year are loaded, unloaded, and processed in a timely and efficient manner.

I appreciate the opportunity to testify about the general state of the Postal Service, with special emphasis on issues that might be the subject of further congressional oversight. I begin with the proposition, indisputable, in my view, that the U.S. Postal Service stands at an important crossroads in its long history. At one level, the Postal Service is booming with success. With the recent rate increase, the Postal Service is operating at record profits.

Mail volume continues to increase at a rate that far exceeds expectations. Delays in delivery are being fixed, and customer satisfaction remains at extremely high levels. It is a tribute to the Postal Service and its 800,000 employees that a letter can still be sent anywhere in the United States for only 32 cents. At another level, the Postal Service is experiencing significant failure.

The state of labor-management relations is in disrepair, and there are mounting threats to the Postal Service and its employees from private competition and from the U.S. Congress, most notably in the areas of employee benefits and privatization. One, let me start with labor-management relations, where I believe it is safe to say things are not good.

Last year, in November 1994, three major postal unions and postal management were faced with the simultaneous expiration of their respective collective bargaining agreements. This should have been seen by postal management as an opportunity for creative thinking and joint resolutions to long festering problems. A rational Postal Service would have taken advantage of these unique circumstances, perhaps by reaching long-term financial arrangements with their employees, in return for improvements in the methods and processes that the Postal Service must follow to move and deliver the mail.

In this way, postal management could have focused its efforts not on fighting with postal unions, but rather on working with postal employees and their unions in order to improve the services provided to the American public. Given these choices, what did the Postal Service do on collective bargaining? It proposed wholesale cuts in the pay of all postal employees, including the elimination of cost of living clauses that have been a mainstay of our national agreements for over two decades, and deep cuts in other pay items.

To make matters worse, when the postal unions predictably rejected such Draconian proposals, postal management tried to place the blame for the impasse in bargaining not on its own lack of vision, but rather on the Federal statute—the Postal Reorganization

Act that has governed collective bargaining since 1970. I have a message for the Postmaster General, however, that should also be heard by this subcommittee.

There was nothing wrong with the Postal Reorganization Act, and Congress should leave the act alone. There was nothing wrong with collective bargaining in the Postal Service that could not be fixed by postal management's willingness to introduce serious economic proposals at the bargaining table. For the Postal Service to blame the Postal Reorganization Act for its own inability to reach bargaining agreements with the major postal unions would be laughable, if it were not so sad.

Indeed, when all is said and done, I believe that the process of collective bargaining in the Postal Service has served us well. Congress should not be fooled into believing that the Postal Reorganization Act is broken and needs to be fixed, when the only thing that is broken is postal management. Two, also toward the end of 1994, the General Accounting Office released its report on the state of day-to-day labor-management relations in the large mail processing and distribution centers where most mail handlers work. That GAO report only highlighted what all mail handlers know from first-hand experience; that the primary reason for the tense relationship between worker and manager on the work room floor is, to quote the GAO, "The Postal Service's inability to change its corporate culture, which has long been characterized as autocratic."

This subcommittee might wonder what changes have been made by the Postal Service in response to the GAO report. The answer is, none. I do recall that Postmaster General Runyon invited me and other union leaders to a so-called GAO summit, where he proposed that the parties discuss the findings of the GAO report. This was nothing more than a publicity stunt, however, meant to defer attention from the actual findings and conclusions of the report. It seems that the public relations department is the only aspect of postal management that continues to do its job.

Three, another major area of concern to all mail handlers is the question of privatization. In recent remarks, for the first time in memory, the PMG actually has expressed limited support for privatizing—or what he likes to call commercializing—certain aspects of the Postal Service. Unfortunately, under the rule book of commercialization, the PMG includes amending the collective bargaining process that is currently set by the Postal Reorganization Act.

For reasons that I have already explained, the Mail Handlers Union is strongly opposed to any change in the bargaining law. Another reason that the PMG supports certain aspects of privatization is his desire to destroy important statutory rights that have protected postal employees for decades. For example, the Postal Service would like to remove postal employees from various EEO requirements and from the protections granted to certain employees by military veterans with military service by the Merit Systems Protection Board.

The PMG calls these protections unnecessary work rules and government red tape. The Mail Handlers Union calls them necessary and well-deserved protection for all postal employees. The PMG would also like to be freed from some of the delays imposed

by the Postal Rate Commission so that the Postal Service can respond more quickly to its competition and to trends in the marketplace. On some of these issues, the interests of the Mail Handlers Union and the Postal Service may merge, as improving our ability to compete with the private sector will benefit both employees and customers of the Postal Service.

But we will continue to reject any changes that come at the expense of postal employees. Four, finally, I would be remiss if I did not express, in the strongest possible terms, the vehement opposition of all mail handlers to any changes in the current retirement systems covering Federal and postal employees. Stated simply, we consider any attempt to change the calculation of annuities, including the current proposal to go from a high 3 to a high 5 calculation, as a cut in pension benefits that is nothing more and nothing less than another tax on employees.

We ask all members of this subcommittee to oppose this proposal. If there was a common theme to my testimony, it is this: the National Postal Mail Handlers Union strongly opposes any attempts to increase congressional interference in the operations of the Postal Service, or in the terms and conditions of employment of postal employees. Almost 25 years ago, when the Postal Reorganization Act was first enacted, one of its primary objectives was to de-politicize the Postal Service so that it could be operated and managed in a professional manner, without the constant intervention of Congress, the White House, and other political entities.

Since that time, virtually every time that Congress has tried to play a larger role with regard to the Postal Service, the specific action taken by Congress has done more harm than good for both the Postal Service and its employees. Most notable in this regard has been the series of Omnibus Budget Reconciliation Acts that have been passed by Congress, in which Congress has treated the Postal Service as a cash cow in order to decrease Federal budget deficits.

The current effort to cut retirement benefits looks like another sorry example of unjustified congressional interference. It is time for Congress to recognize that the Postal Service and its employees, as represented by their freely chosen unions, should be allowed to operate without any further legislative interference. Thank you for your time, Mr. Chairman and subcommittee members. I will be glad to answer any questions that you may have.

[The prepared statement of Mr. Quinn follows:]

PREPARED STATEMENT OF WILLIAM QUINN, PRESIDENT, NATIONAL POSTAL MAIL HANDLERS UNION, LIUNA, AFL–CIO

Mr. Chairman and Members of the Subcommittee. My name is William Quinn, and I am President of the National Postal Mail Handlers Union. The Mail Handlers Union represents more than 55,000 active mail handlers employed by the United States Postal Service. Most of our members work in the large mail processing and distribution plants run by the Postal Service. To give you a sense of the typical workday for a mail handler, you should know that more than half of the hours worked by mail handlers fall between the hours of 6:00 p.m. and 6:00 a.m. In simple terms, we move the mail, making sure that the 180 billion pieces of mail that are collected and delivered each year are loaded, unloaded, and processed in a timely and efficient manner.

On behalf of our members, I appreciate the opportunity to testify about the general state of the Postal Service, with special emphasis on issues that might be the subject of further Congressional oversight. In particular, I want to highlight a few

areas that are of prime importance to my membership, and that should be of concern to this Subcommittee.

I begin with the proposition—indisputable, in my view—that the United States Postal Service stands at an important crossroads in its long history, and that the directions that are taken in the coming months and years will go a long way towards determining the future of the Postal Service as we know it.

At one level, the Postal Service is booming with success. With the recent rate increase, the Postal Service is operating at record profits; mail volume continues to increase at a rate that far exceeds expectations; delays in delivery are being fixed; and customer satisfaction remains at extremely high levels. It is a tribute to the Postal Service and its 800,000 employees that a letter still can be sent anywhere in the United States for only 32 cents.

At another level, the Postal Service is experiencing significant failure. The state of labor-management relations is in disrepair, and there are mounting threats to the Postal Service and its employees from private competition and from the United States Congress, most notably in the areas of employee benefits and privatization.

What is most troubling, at least from the perspective of the Mail Handlers Union, is how the Postal Service is reacting to its failures. Indeed, it appears that postal management either has no idea how to respond to these problems or, even worse, that postal management is deliberately exacerbating these problems in order to bring about changes that, in my view and the view of my membership, will be to the long-term detriment of hundreds of thousands of loyal and dedicated postal employees.

A few examples will help to explain my point.

1. Let me start with labor-management relations, where, I believe it is safe to say, the current relationship between postal employees and postal management is less than satisfactory. Last year, in November 1994, three major postal unions and postal management were faced with the simultaneous expiration of their respective collective bargaining agreements. This should have been seen by postal management as an opportunity for creative thinking and joint solutions to long-festering problems in labor management relations. A rational Postal Service would have taken advantage of these unique circumstances, perhaps by reaching long-term financial arrangements with their employees in return for improvements in the methods and processes that the Postal Service must follow to move and deliver the mail, including changes in the procedures that are used to resolve employee grievances. At worst, given the simultaneous approval of a rate increase, another rational approach that could have been adopted by the Postal Service would have been to propose a retention of the status quo, such that employees would continue to receive modest pay increases similar to the terms of prior National Agreements. In this way, postal management could have focused its efforts not on fighting with the postal unions, but rather on working with postal employees and their unions in order to improve the service that is provided to the American public.

Given these choices, what did the Postal Service do in collective bargaining? It proposed wholesale cuts in the pay of all postal employees, including the elimination of cost-of-living clauses that have been a mainstay of our National Agreements for over two decades, and deep cuts in other pay items, including a freeze on all step increases, as well as cuts in overtime, night shift differential, and Sunday premium pay.

To make matters worse, when the postal unions predictably rejected such draconian proposals, postal management tried to place the blame for the impasse in bargaining not on its own lack of vision, but rather on the federal statute—known as the Postal Reorganization Act—that has governed collective bargaining since 1970. Sometime after November 1994, Postmaster General Runyon suddenly decided that it is the process of collective bargaining—a process, I should note, that has successfully directed America's private economy for the past sixty years, and that has successfully governed the Postal Service for the past twenty-five years—that is to blame for the woes of the Postal Service. Indeed, in his latest speech to the National Postal Forum, Runyon claimed that "collective bargaining produces accusations instead of agreements."

I have a message for the Postmaster General, however, that also should be heard by this Subcommittee. There is nothing wrong with the Postal Reorganization Act, and Congress should leave the Act alone. There is nothing wrong with collective bargaining in the Postal Service that could not be fixed by postal management's willingness to introduce serious economic proposals at the bargaining table. There is nothing wrong with labor relations in the Postal Service that could not be fixed by a little rational thinking on the part of postal management. For the Postal Service to blame the Postal Reorganization Act for its own inability to reach bargaining agreements with the major postal unions is laughable, if not downright pitiful

Why then, you may wonder, is the Postal Service so eager to amend the Postal Reorganization Act. Because it would like to change the current compensation system for postal employees—which is properly based on a combination of satisfactory performance and seniority—with a system that they euphemistically call "pay-for-performance." In simple terms, the Postal Service would like to impose a reward system on postal employees, in which pay would be based on the mail volume that employees are able to process. It was many decades ago, however, when the American economy abandoned pay based on piece-work, and instead adopted the principle of a fair day's pay for a fair day's work. Notwithstanding the pleas of the Postal Service, the Mail Handlers Union has absolutely no interest in returning to the nineteenth century.

When all is said and done, I believe that the process of collective bargaining in the Postal Service has served us well. As I noted earlier in my remarks, it has produced a Postal Service that is second to none in terms of extremely high service at an extremely low cost. To be sure, when one or both parties do not put reasonable proposals on the bargaining table, the Postal Reorganization Act directs that a neutral arbitrator will set the terms of employment for the next few years, and that is how the current impasse is likely to be resolved. Congress should not be fooled into believing, however, that the Postal Reorganization Act is broken and needs to be fixed, when the only thing that is broken is postal management.

2. Also toward the end of 1994, the General Accounting Office released its report on the state of day-to-day labor management relations in the large processing and distribution centers where most mail handlers work. That GAO report only highlighted what all mail handlers know from first-hand experience: namely, that the primary reason for the tense relationship between worker and manager on the workroom floor is—to quote the GAO—the Postal Service's inability "to change its corporate culture, which has long been characterized as autocratic. Employees continue to work in vast mail processing plants and in post offices throughout the country under a highly structured system of work rules and a highly autocratic management style."

Nor has the Postal Service taken any direct action to rid itself of this autocratic management style. As the GAO Report also notes, the training of supervisors in human relations and interpersonal skills is a low priority for the Postal Service, and there is little, if any, attempt to rate supervisors based on their treatment of craft employees. To the contrary, supervisors are judged almost exclusively on budget numbers and mail volume, leading inevitably to an incentive system that encourages harassment of employees in the never-ending effort to "whip" the employees into shape.

This Subcommittee rightfully might wonder what steps have been taken by the Postal Service since the issuance of the GAO Report. The answer is none. I do recall that Postmaster General Runyon invited me and other union leaders to a so-called GAO summit, where he proposed that the parties discuss the findings of the GAO Report. This was nothing more than a publicity stunt, however, meant to defer attention from the actual findings and conclusions of the Report. It seems that the public relations department is the only aspect of postal management that continues to do its job. As I told the Postmaster General earlier this year when I declined his invitation, the first priority of the Mail Handlers Union and the Postal Service should be to reach a collective bargaining agreement. When such an agreement is reached, then the Mail Handlers Union will be prepared to discuss the findings of the GAO Report, and to search for ways to change the autocratic culture that continues to pervade the workroom floor.

3. Another major area of concern to all mail handlers is the question of privatization. In recent remarks, for the first time in recent memory, the Postmaster General actually has expressed limited support for privatizing, or what he likes to call "commercializing," certain aspects of the Postal Service. The specifics of his proposals are somewhat difficult to decipher, however, and therefore the Mail Handlers Union must remain extremely wary.

For example, as I noted earlier, one of the primary reasons that the Postmaster General has suggested that the Postal Service be commercialized is to provide an excuse for amending the collective bargaining process that currently is set by the Postal Reorganization Act. For reasons that I already have explained, the only aspect of the bargaining process that truly must be changed is the Postal Service's refusal to put a fair and equitable economic proposal on the bargaining table. The Mail Handlers Union is strongly opposed to any change in the bargaining law.

Another reason for the Postmaster General's willingness to support certain aspects of privatization is the Postal Service's desire to destroy important statutory protections that have been available to postal employees for decades. For example, the Postal Service would like to remove postal employees from the EEO require-

ments of the anti-discrimination laws and from the statutory protections afforded to certain employees—primarily veterans who served in the military prior to their employment by the Postal Service—by the Merit Systems Protection Board. The PMG calls these protections "unnecessary work rules" and "government red tape." The Mail Handlers Union calls them necessary and well-deserved protections for all postal employees.

The Postmaster General also would like the Postal Service to be freed from some of the requirements and resulting delays imposed by the Postal Rate Commission, so that the Postal Service can respond more quickly to its competition and to trends in the marketplace. On some of these issues, the interests of the Mail Handlers Union and the Postal Service may merge, with the understanding that certain improvements in the ability of the Postal Service to compete with the private sector will benefit both employees and customers of the Postal Service. We will continue to reject any such changes, however, that may come at the expense of postal employees.

4. Finally, I would be remiss if I did not express, in the strongest possible terms, the vehement opposition of all mail handlers to any changes in the current retirement systems covering federal and postal employees. Stated simply, we consider any attempt to change the calculation of annuities, including the current proposal to go from a high-3 to a high-5 calculation, as a totally unacceptable breach of the employment contract under which postal employees have agreed to work. This cut in pension benefits is nothing more, and nothing less, than another tax on employees. There has been absolutely no justification offered for this proposal—other than the desire to cut the federal budget deficit on the backs of working-class taxpayers—and we ask all members of this Subcommittee to oppose it.

* * * * *

If there is a common theme to my testimony, it is this: the National Postal Mail Handlers Union strongly opposes any attempt to increase Congressional interference in the operations of the Postal Service or in the terms and conditions of employment of postal employees. Almost twenty-five years ago, when the Postal Reorganization Act was first enacted, one of its primary objectives was to de-politicize the Postal Service, so that it could be operated and managed in a professional manner without the constant intervention of Congress, the White House, and other political entities. Since that time, virtually every time that Congress has tried to play a larger role with regard to the Postal Service, the specific action taken by Congress has done more harm than good for both the Postal Service and its employees. Most notable in this regard has been the series of Omnibus Budget and Reconciliation Acts that have been passed by Congress, in which Congress has treated the Postal Service as a "cash cow" in order to decrease federal budget deficits. The current effort to cut retirement benefits looks like another sorry example of unjustified Congressional interference. It is time for Congress to recognize that the Postal Service and its employees, as represented by their freely chosen unions, should be allowed to operate without any further legislative interference.

In short, the mail handlers remain proud to be postal employees, and we remain proud of the efficient, yet inexpensive service that the Postal Service continues to provide to the American public. To be sure, there is much need for improvement, especially in the area of labor-management relations. But that improvement will not come from Congress; instead, it will occur, if at all, when postal management, the postal unions, and the hundreds of thousands of postal employees that we represent are able to develop a meaningful working relationship based on mutual respect and common concerns. The Mail Handlers Union will continue its never-ending efforts to realize that goal.

Thank you for your time, and I will be glad to answer any questions you may have.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO WILLIAM QUINN

First, you inquire about the agreement between the NPMHU and the United States Postal Service to modify the statutory process regarding resolution of labor disputes under the Postal Reorganization Act. In particular, you ask for an explanation of the NPMHU's reasons for approaching negotiations in this way, as well as the reactions of the other postal unions.

Unfortunately, because the dispute resolution procedures between the NPMHU and the USPS are still underway, I do not feel it would be appropriate to share the reasons for strategic judgments that have been made by the NPMHU during the process. Suffice it to say that both the NPMHU and USPS agreed, for their own

independent reasons, that it made most sense to await the outcome of other negotiation disputes prior to resolving their own. I should add that I do not believe this has caused any consternation on the part of our sister labor unions.

Second, you ask why third-party intervention has been the norm in resolving collective bargaining disputes with the Postal Service, and whether a change to best and final offer arbitration would improve bargaining incentives.

With regard to third-party intervention, this has become necessary because of the corporate culture that pervades the Postal Service, whose decision-makers have convinced themselves that postal employees are vastly overpaid. As a result, during the past few rounds of bargaining, and most particularly during the 1994 round of bargaining, postal management has refused to put fair or reasonable economic proposals on the bargaining table.

What occurred in 1994 illustrates the point. It was not until two days before the expiration of our collective bargaining agreement that the Postal Service proposed its first economic package. This package included a total freeze on current wages for two years. Two days later, only a few hours before contract expiration, the Postal Service proposed its second and final economic package. This package included draconian reductions in the pay earned by all mail handlers, including the following: (1) the total elimination of cost-of-living adjustments; (2) the freezing of all step increases; (3) the payment of only lump-sums in January 1995 and December 1995, averaging less than $300 per mail handler; (4) the payment of only one general wage increase of less than 1% in December 1996; (5) a cut in night shift differential from 10% to 50 cents per hour; and (6) a substantial cut in Sunday premium pay. No self-respecting employee or labor organization could—or ever would—accept such cuts in pay, especially when the employer is producing record surpluses and unprecedented customer satisfaction.

In short, although you might—and, unfortunately, do—characterize this as a "blame game," the facts demonstrate that it has been the Postal Service, rather than the NPMHU, that continually has relied on third-party intervention to do its job in collective bargaining.

As for best and final offer arbitration, such a process works best in relatively uncomplicated bargaining disputes, when only a handful of issues divide the parties. Such a process also works best when each separate issue dividing the parties is itself subject to best and final offer arbitration, rather than arbitration over an entire contract. That being said, the NPMHU sees no reason to amend the Postal Reorganization Act in this way, inasmuch as the current process of bargaining followed by interest arbitration has worked well over the years. To be sure, it has produced an efficient and effective Postal Service that has never been beset by work stoppages or mail delays caused by ongoing labor disputes. As I stated in my oral testimony, there is nothing broken in the "process" established by the PRA, and therefore the statutory process does not need to be fixed.

Finally, you ask why the NPMHU has refused to discuss the GAO Report on the sorry state of labor relations in the Postal Service prior to the conclusion of negotiations or arbitration over the terms of our 1994 National Agreement.

The answer is quite simple: how can the NPMHU be expected to discuss solutions to the autocratic culture that pervades postal management throughout the country when the managers at USPS headquarters in Washington, D.C. continue to display such an attitude in national bargaining. It would the epitome in hypocrisy for the NPMHU to discuss current failures in labor-management relations while ignoring the number one issue in that relationship, namely the ongoing dispute over our next contract.

Mr. MCHUGH. Thank you, President Quinn. As we always say, last but not least, president of the National Rural Letter Carriers Association, Mr. Scottie Hicks. President Hicks.

Mr. HICKS. Good morning, Mr. Chairman and members of the committee. I am Scottie Hicks, president of the National Rural Letter Carriers Association, representing 88,000 members who travel, on a daily basis, over 2.7 million miles while delivering to more than 24 million customers. Rural carriers are known as the post office on wheels, because they provide a full range of services to rural, urban, and suburban customers.

Next year we will be celebrating our 100th anniversary of rural free delivery, providing service with a smile as a post office on wheels. I want to focus on three basic issues today. First is the

NRLCA as company stakeholders. Rural letter carriers have an evaluated pay system that measures miles driven, boxes, and mail volume on a regular basis. The rural craft is the only craft that already has in place a pay for performance system of compensation.

Our work rules reward creativity and motivate rural carriers. Our evaluated system of pay creates the incentive for carriers to use their ingenuity on a daily basis to get the job done quickly and efficiently. Rural carriers provide, to the mail box, the same full range of postal services which are available at their local post office. This includes selling stamps, mailing parcels, money orders right on the route, every delivery day of the year. We already operate like a business.

That is why only 10 percent of managers' time is used in facilitating the craft function. Our system of compensation is what's right for rural carriers, our employer, and most of all, our customers—the American mailing public. The NRLCA has been an enthusiastic supporter of the empowerment of employees to solve problems through work teams composed of carriers and managers.

National and State leadership, as well as the general membership, have fully participated in the Quality of Work Life/Employee Involvement Process since its inception, more than a decade ago. It has been very effective and, yes, on occasion, frustrating.

Progress and change are often that way. Our QWL/EI process has successfully dealt with many work place subjects such as automation, hiring, training, vehicle placement, missing children, as well as the work place environment. Our membership is grateful for the opportunity to solve our own problems in this joint endeavor with management.

In addition to the QWL/EI process, the union is actively involved at the headquarters level in the leadership meetings; the area performance cluster at the area level; and our State leadership at the State level. All this includes the union working on and solving Postal Service issues.

We believe our efforts show, also. In 1992 and 1993 and 1994, the employee opinion survey showed rural carriers to be the most committed, proud, and positive workforce in the U.S. Postal Service.

We believe our system of participation and compensation causes rural carriers to be stakeholders in the U.S. Postal Service. We are proud of our members' accomplishments. Even though the rural carrier system works great, we will continue to examine innovative methods in the upcoming negotiations in August 1995 to enhance our current system to an even better pay for performance system.

The second item today is corporatization, commercialization and deregulation. The NRLCA is prepared to support changes that will make the Postal Service an active participant in communications into the 21st century. The American people deserve and must have a universal costs efficient postal system. The U.S. Congress has declared it national policy that the Postal Service deliver mail to everybody, everywhere, every day of the week, at uniform prices.

This association believes that Congress should reaffirm that policy as you write legislative changes that enable the USPS to increase our productivity, efficiency and competitiveness. We believe that today, by moving 600 million pieces of mail a day, we do ex-

tremely well at carrying out the mandate which you, the Congress, gave us.

As reform is considered, buzz words such as corporatization, commercialization and deregulation are bantered about. These words have various meaning to each of us. The USPS commissioned a study recently by Price Waterhouse of 10 foreign postal administrations. We think that study is being used as a beginning point for U.S. postal reform.

But the study results need to be analyzed thoroughly. When comparing the cost of postage and the quality of service, what is each country's mail volume and the delivery distance? Let's examine the productivity, the efficiency and the customer satisfaction of each of those countries. Today, the USPS picks up a letter in Pierrepont Manor, NY, and delivers it to Brownsville, TX; or a parcel from Myrtle Beach, SC, delivered to Friday Harbor, WA, at universal rates, 85 to 90 percent on time.

To those who would advocate privatizing the U.S. Postal Service, we ask the question, how interested would private companies be in servicing those delivery points just named on a daily basis at Postal Service prices? Today there are only two hands in the mailbox—the carrier's and the customer's. There is security and confidence in the U.S. mail. U.S. customers may have a theft from the mailbox. Would the Postal Inspection Service have an obligation to investigate that theft, if everyone had access to the mailbox?

We have more than 40 million Americans who move every year. Would private carriers forward first class mail for a year or more at no cost if someone moves? In 1970, Postal Reorganization Act has worked very well; and we all want to work together to make it better. I have a proposal for the Postmaster General. Postmaster General Runyon should call a conference to create legislative improvement for the Postal Service along the path the Postal Service did in 1991.

That included the Mailers, USPS officials, postal unions, and postal employee organizations. I suggest, under Marvin Runyon's leadership, that the collective group could agree on 75 percent or more of subjects for reform proposals. A collective effort by such a group would ensure that all would have a stake in passage of reform, which ensures everyone's input as a stakeholder.

We have a track record of supporting change. We want to be an active participant in ensuring the American public's needs are met in the current and future communications arena and the information revolution. This train is on the right track, going in the right direction. Let's make it operate more efficiently, not derail it. The third and final item is collective bargaining.

The Postal Reorganization Act created the structure for postal collective bargaining. And over the past 25 years, it has served the association and the Postal Service very well. Since 1971, we have successfully negotiated eight out of nine collective bargaining agreements with the Postal Service. We believe the PRA has worked well in this regard. There have been no unlawful strikes; no work slowdowns; and no blue flu. When necessary, binding arbitration has completed this mission.

Often times, our contract does not coincide with the NALC and APWU. Therefore, their contract sometimes drives part of our eco-

nomic package. In prior negotiations, we accepted the Striving For Excellence, SET, package, which over the past 4 years, has gained our membership an additional $76 million. In the grievance and arbitration procedure, we have negotiated provisions to prevent pursuing the same issues through multiple appeals process.

This avoids having conflicting decisions on the same subject. Likewise, in the adversarial process, when arbitration is the ultimate decider, the loser must pay all costs in the arbitration proceedings. This causes the parties to more closely scrutinize those areas and cases that they take to arbitration, and only take those where there is a reasonable likelihood of prevailing. Those are important initiatives for collective bargaining to work.

We will be further exploring methods of expeditious grievance processing in the upcoming contract negotiations this August. The NRLCA would be willing to explore prospective improvements to binding arbitration. But we strongly believe the current system works well. Thank you, Chairman McHugh and other committee members, for holding these oversight hearings and the invitation to express our views on the Postal Service today. We'd be pleased to answer any questions you may have.

[The prepared statement of Mr. Hicks follows:]

PREPARED STATEMENT OF SCOTTIE HICKS, PRESIDENT, NATIONAL RURAL LETTER CARRIERS ASSOCIATION

Good Morning, Mr. Chairman and Members of the Committee:

I am Scottie B. Hicks, President of the National Rural Letter Carriers' Association, representing 88,000 members who travel on a daily basis over 2.7 million miles while delivering to more than 24 million customers. Rural carriers are known as a "Post Office on Wheels" because they provide a full range of services to our rural, urban and suburban customers. Next year, we will be celebrating our 100th Anniversary of Rural Free Delivery, providing "Service With A Smile" as a "Post Office On Wheels."

I want to focus on three basic issues today.

1. NRLCA As Company Stakeholders.
2. Corporatization, Commercialization and De-Regulation.
3. Collective Bargaining.

1. NRLCA AS COMPANY STAKEHOLDERS

Rural letter carriers have an evaluated pay system that measures mileage driven, boxes and mail volume, on a regular basis. The rural craft is the only craft that already has in place a pay for performance system of compensation. Our work rules reward creativity and motivate rural carriers. Our evaluated system of pay creates the incentive for carriers to use their ingenuity on a daily basis to get the job done quickly and efficiently.

Rural carriers provide over 24 million customers, at their mailbox, the same full range of postal services which are available at their local post office. This includes selling stamps, mailing parcels, money orders, etc. right on the route every delivery day of the year. We already operate like a business. That is why only 10% of management's time is used in facilitating the craft functions. Our system of compensation is what's right for rural carriers, our employer and, most of all, our customers, the American mailing public.

The NRLCA has been an enthusiastic supporter of the empowerment of employees to solve problems through work teams composed of carriers and managers. The National and State leadership, as well as the general membership, have fully participated in the Quality of Work Life/Employee Involvement Process since its inception more than a decade ago. It has been very effective and, on occasion, frustrating. Progress and change are often that way. Our QWL/EI Process has successfully dealt with many work place subjects that involved task and substance oriented issues, such as automation, hiring, training, vehicle placement, missing children, as well as the work place environment. Our membership is grateful for the opportunity to solve our own problems in this joint endeavor with management.

In addition to the QWL/EI Process, the Union is actively involved at the Headquarters level in the Leadership meetings, the Area Performance Cluster and the State leadership at the District level. All of this includes the union working on, and solving, Postal Service issues.

We believe our efforts show, too. The 1992, 1993 and 1994 Employee Opinion Surveys show rural carriers to be the most committed, proud and positive work force in the United States Postal Service. The recent GAO report on labor management problems in the Postal Service states that only 10% of supervision time is spent overseeing the rural craft. The National Rural Letter Carriers' Association has fewer grievances per employee represented than other postal unions. We believe our system of participation and compensation causes rural carriers to be stakeholders in the U. S. Postal Service. We are proud of our members' accomplishments. Even though the rural carrier system works great, the NRLCA will continue to examine innovative methods in the up-coming negotiations in August 1995 to enhance our current system to an even better pay for performance system.

2. CORPORATIZATION, COMMERCIALIZATION AND DE-REGULATION

The NRLCA is prepared to support changes that will make the Postal Service an active participant in communications into the 21st Century. The American people deserve and must have a universal cost efficient postal system. The U. S. Congress has declared it national policy that the U. S. Postal Service deliver mail to everybody, everywhere, everyday of the week at uniform prices. This Association believes that Congress should reaffirm that policy as you write legislative changes that enable the USPS to increase our productivity, efficiency and competitiveness. We believe that today, by moving 600 million pieces of mail a day, we do extremely well at carrying out the mandate which you, the Congress, gave us.

As Reform is considered, buzz words such as corporatization, commercialization and de-regulation are bantered about. These words have various meanings to each of us. The USPS commissioned a study by Price Waterhouse of 10 foreign postal administrations. We think this study is being used as a beginning point for U. S. Postal Reform. The study results need to be analyzed thoroughly. When comparing the cost of postage and quality of service, what is each country's volume of mail and delivery distance? Let's examine the productivity, efficiency and customer satisfaction of each of these countries.

Today, the USPS picks up a letter in Pierrepont Manor, New York, and delivers it to Brownsville, Texas, or a parcel from Myrtle Beach, South Carolina delivered to Friday Harbor, Washington, at universal rates 85%-90% on time. To those who would advocate privatizing the U. S. Postal Service, we ask this question: How interested would private companies be in servicing those delivery points just named on a daily basis at Postal Service prices?

The Price Waterhouse study shows that most foreign posts have a relaxed access to the mailbox. Today, there are only two hands in the mailbox—the carrier's and the customer's. There is security and confidence in the U. S. Mail. U. S. customers may have a theft from the mailbox. Would the Postal Inspection Service have an obligation to investigate the theft if anyone had access to the mailbox? More than forty million Americans move every year. Would private carriers forward first-class mail for 1 year or more after someone moves, at no cost? The 1970 Postal Reorganization Act has worked very well. Let us all work together to make it better.

The NRLCA has a track record of supporting change. We want to be an active participant in ensuring the American public's needs are met in the current and future communication arena and the information revolution. This train is on the right track, going in the right direction. Let's make it operate more efficiently—not derail it.

3. COLLECTIVE BARGAINING

The Postal Reorganization Act created the structure for Postal collective bargaining and, over the past 25 years, it has served our Association and the Postal Service well. Since 1971, we have successfully negotiated 8 out of 9 collective bargaining agreements with the Postal Service. The goal of binding arbitration is to bring closure to collective bargaining impasses. We believe the Postal Reorganization Act has worked well in this regard. There have been no unlawful strikes, no work slowdowns and no blue flu. When necessary, binding arbitration has completed its mission. Oftentimes, our contract does not coincide with the NALC and APWU. Therefore, their contract often drives part of our economic package. In prior negotiations, the NRLCA accepted the Striving for Excellence (SET) package which, over the last four years, has gained our members over 76 million dollars. In the grievance and arbitration procedure we have negotiated with the Postal Service provisions which

prevents pursuing the same issues through the multi appeals process that is available to aggrieved employees. If there are multiple appeals filed by an aggrieved employee through the various forums available, the NRLCA would only pursue any unresolved issues through the grievance/arbitration process. This avoids having conflicting decisions on the same subject. Likewise, in the adversarial process, when arbitration is the ultimate decider, the loser must pay all costs in the arbitration proceedings. This causes the parties to more closely scrutinize the cases and only take to arbitration those cases where there is a reasonable likelihood of prevailing. Both are important initiatives for collective bargaining to work.

We will be further exploring methods for expeditious grievance processing in the up-coming contract negotiations in August 1995. The NRLCA would be willing to explore prospective improvements to binding arbitration, but we believe strongly—the current system works well.

Thank you, Chairman McHugh and other Committee Members for holding these oversight hearings and the invitation to express our views on the Postal Service today. I would be pleased to answer any questions for you or the Committee.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO SCOTTIE HICKS

Question 1. Public pensions will continue to be under strict budget scrutiny. Would you support an independent system for postal employees? Why or Why not?

Answer. A little less than 10 years ago, Congress and the White House negotiated a new Federal Employee Retirement System, F.E.R.S. The pressure behind the creation of FERS was to:

1) merge all federal employees into Social Security pensions,
2) reduce the cost of the pension system to the government and
3) place federal pension funding on a Pay-As-You-Go basis.

Today FERS is a less costly system than CSRS. FERS is dynamically funded, whereas CSRS is statically funded. The new pension system and its Thrift Savings Plan have been very successful.

Therefore, the first question NRLCA would have to pose for the Committee is why should we be interested in a separate pension system for the United States Postal Service?

Would Congress prescribe, in law, minimum standards for a postal pension system?

What would those minimum standards be?

What would be the status of current employees?

Would current employees continue in their present system?

Would current employees cease in their current system?

If so, would they automatically be vested in their current system?

Would current employees put into a new system have different vesting requirements?

Who bears the financial responsibility for retirees?

These are some of the questions that must be answered for the NRLCA members before considering the larger question of how do we feel about a separate postal retirement system.

Question 2. If a legislative conference were agreed to, what areas would you expect agreement on/disagreement on?

Answer. The NRLCA believes a conference on legislative changes could create broad areas of agreement among mailers, unions, management associations and the USPS.

Some of the issues upon which agreement would be reached are rate and service flexibility. This could include simplified periodic rate increases capped to under inflation. In areas of true competition, the USPS could be given pricing flexibility. The Postal Rate Commission could allow the USPS to expedite Experimental Service Pricing. We believe these broad areas, and others, could be agreed upon before the introduction of legislation. Some expansion of flexibility in the international area could also probably be agreed upon.

Question 3. How would the NRLCA react to "final offer arbitration"?

Answer. The Association is firmly committed to the old adage "if it ain't broke, don't fix it." The NRLCA is a firm supporter of the present statutory structure for collective bargaining and interest arbitration under the Postal Reorganization Act. We have successfully negotiated agreements with the Postal Service, and it does not believe in limiting the authority of an arbitrator if and when arbitration is necessary.

Contrary to the statements of the Postmaster General, to the effect that the present statutory structure is broken and unworkable, the NRLCA respectfully disagrees and submits that his opinion is premised on circumstances arising out of experiences different than those shared with our craft. The complaints of the Postmaster General do not apply to the excellent historical relationship between the Postal Service and our craft, and we should not suffer because of bad experiences which pertain to other unions.

"Last-Best-Offer" arbitration limits the ability of the arbitrator to fashion a full and complete agreement when there are many issues left on the table. We have confirmed with several prominent, nationally-known and respected arbitrators, and we share with them their feelings that anything which restricts or constrains an arbitrator in adjusting the many facets of an inter-related collective bargaining agreement is counterproductive and not workable. Such is the case when an entire collective bargaining agreement is submitted to an arbitrator for his judgement.

The NRLCA has, since it began in 1978 bargaining as a separate union from the other postal unions, found it necessary to proceed to arbitration on only one occasion in 1984. The last several contracts the NRLCA and the Postal Service have successfully negotiated without the need of proceeding to arbitration. This is not to say that the NRLCA fears arbitration, which it does not. Rather, we prefer to write our own agreements, and will continue to prefer negotiation over arbitration so long as we are satisfied that we have achieved the best and most realistically achievable results at the bargaining table. Because we do not have the right to strike, arbitration, without restraints upon the arbitrator, remains a necessity and must be preserved as a viable alternative.

The NRLCA would be remiss if it did not point out the Postal Service arguments in favor of changing the existing structure do not mention one undeniable fact in respect to its uses of the arbitration process. Whereas the Postal Service continues to complain about arbitration and the results therefrom, the Postal Service has never acknowledged that it has voluntarily signed-off on every one of the arbitration awards and has joined with the arbitrator in issuing the award. The NRLCA questions why, if the Postal Service is so opposed to the process and the results, the Postal Service has not objected or dissented to the several awards, or made its objections known before now. The NRLCA suspects the Postal Service is crying "crocodile tears" and is probably looking to the Congress for help in tilting the playing-field in its favor. The NRLCA trusts that the Congress does not want to be made a party to any such anti-employee stratagem, and that Congress will eschew intruding into the process on one side of the bargaining table against the other.

Question 4. What is your specific position on extending the Whistleblower Protection Act to postal employees?

Answer. The NRLCA is opposed to the inclusion of postal employees, particularly rural carrier craft employees, under the Whistleblower Protection Act for several reasons. First, inclusion under the Act will, unfortunately, give employees a false sense of protection and security which could lead to untoward and unnecessary exposure of them to unwarranted personnel actions. The employees may incorrectly believe that they are immune from adverse actions and are afforded protection therefrom, and come forward and expose themselves to employer reprisal and retaliation. The enclosed newspaper article of August 21, 1995, in the Federal Times, demonstrates this kind of problem and the ordeal employees subject themselves to.

Second, the NRLCA believes that the present statute is not working as intended and does not provide the protection necessary for the affected employees. It would be improper for us to go on record in favor of inclusion when we know that the statute is not fully protective and does not secure the employees from retaliation and reprisal. Unless and until the statute is strengthened to guarantee the employees the original protections as intended, the NRLCA cannot support inclusion.

Third, the NRLCA is satisfied that its own vigorous representation of craft members in pursuing legitimate complaints against management, as presently performed, is the best way of continuing to deal with "whistleblower" issues. If and when the present situation does not permit the NRLCA to provide the necessary protections, the NRLCA may ask for more protective statutory relief than It deems necessary at the present time.

FEDERAL TIMES August 21, 1995

IN THE LAW

Toxic Waste Whisteblower Fighting for Her Job

By Meg Walker
Federal Times Staff Writer

A woman who alleged a laboratory illegally dumped and stored toxic chemicals was wrongly denied a permanent job by the Interior Department, according to the Office of Special Counsel.

OSC filed an Aug. 2 complaint with the Merit Systems Protection Board on behalf of Elizabeth Carey, a physical science technician with the National Biological Service from November 1991 to February 1993.

Carey worked at the Upper Mississippi Science Center, a fisheries laboratory in LaCrosse, Wis., for two years on a temporary appointment.

Carey was not given a permanent job despite successful performance ratings because agency managers believed she complained to local and congressional officials that the laboratory could be violating environmental laws by storing and dumping toxic chemicals improperly, according to the OSC.

The special counsel's office wants Interior to give Carey a job at the laboratory or in another nearby Interior office, as well as pay dating back to March 28, 1993.

The action is significant because OSC seldom petitions the board to hear complaints filed by employees.

In 1994, OSC received 1,887 complaints from employees who said they were unfairly treated on the job, according to Louis Vega, an OSC spokesman. OSC staff investigated 644 of the cases and took 25 of them to MSPB.

Soon after she was hired at the Upper Mississippi River Science Center, Carey complained to her supervisors the chemical storage area contained expired chemicals and chemicals that weren't stored properly.

Carey observed an employee, and later took a picture of him, "dumping hazardous chemicals down a manhole," the special counsel's complaint said.

She was the only one of six temporary employees who was not recommended for a permanent position.

In June, Special Counsel Kathleen Day Koch wrote th National Biological Service, requesting Carey be given a pe manent position at the research center or a nearby Interio office as well as back pay.

Interior's Eastern Region Director Sheila Hamilton re plied, saying the agency would not grant back pay or a pe manent position to Carey. She said Carey was not selecte because other candidates had better experience.

Jan Rifle, director of the center, said the laboratory di nothing wrong in not hiring Carey or in its use of chemicals.

Rifle told Federal Times that after Carey's allegations, th center's storage and disposal of hazardous waste was in spected by a special task force from Interior, inspectors fro the Nuclear Regulatory Commission and the state depar ment of natural resources. The inspections turned up poti ing but praise, Rifle said.

He added that the manhole sited in the complaint leads t a treatment facility specially designed for chemical wastes.

Mr. MCHUGH. Thank you, President Hicks. And again, thank you to all three of the presidents who have joined us here this morning. I was going to ask Mr. Biller's view on privatization, but you made that pretty clear.

Mr. BILLER. Well, I'll send in my report. But I was at the Mailer's Council a week ago. I'm opposed to privatization, as I said before. First, the Postal Service is a total internetwork. And you start peeling off pieces at a time, there will be problems. There will be economic problems, in addition. Mr. Sombrotto, in his testimony, has very well articulated that in Europe, that hasn't gone forward anyway. Notwithstanding, when you read about privatization in Europe, they talk mainly about having separated the telecommunications system from the postal service itself.

And I'm unalterably opposed to privatization. I don't think it would be good for the country. I don't think it would be good for the Postal Service; nor would it be good for the workers.

Mr. MCHUGH. I appreciate your additional comments, and certainly your testimony made that very clear, as well. Much like the words commercialization, privatization means many different things to many different people. I noted your comments and your expression of concern about the likely hearings that we'll be having this fall. I certainly don't want to underplay the importance of those to you and your membership.

I want to assure you that it is not the intention of this chairman to turn these hearings into a sounding board for people other than those who are very serious and thoughtful about the process. I've said repeatedly that I believe the burden of proof is heavily upon those who wish to bring about a wholesale change in the system. I will not speak for other members of this subcommittee, but I feel very confident when I say that the hearing to be scheduled in no way reflects any Member's support for or opposition to those kinds of initiatives.

It's just that we feel it's important to explore all avenues of the issue. And that is our intent.

Mr. BILLER. It's very gratifying, Mr. Chairman. By the way, I'll send you the cassette that the Mailer's Council put on—the greatest debate since the Lincoln-Douglas debate. [Laughter.]

Mr. MCHUGH. That was the Biller-Rohrabacher debate? I'm looking forward to the movie. You spoke and you commented in your testimony, President Biller, about the right to strike. Obviously, that is a question of great interest to both labor and management. If there were a change made with respect to the unions of the Postal Service's ability and right to strike, how would that affect, if at all, your position on, say, collective bargaining?

Mr. BILLER. Well, first, in an organization the size of the Postal Service, I don't think you could strike every day, every year. But I think the very knowledge that we have that right to strike—and to my knowledge, we're the only free nation in the entire industrial world that still carries that halo about us that doesn't permit it, and prevents it. I think it would prevent the Postal Service from stonewalling us, as they're attempting to do.

You've heard it today to the point of almost boredom. There are three unions negotiating this year. We're negotiating separately. We're not in concert, unfortunately. But be that as it may, there's

no agreement at all. Obviously, it is possible that all parties have a share in it, but obviously the primary blame falls on the Postal Service because they know that whatever their attitude is, the ultimate—if they don't make it, they can go back to the board of Governors and say, well, we tried, pal; we didn't make it, and now we'll have an arbitrator make our determination. And that isn't very helpful to the collective bargaining system.

Mr. MCHUGH. If you had the right to strike, would you be willing to give up binding arbitration?

Mr. BILLER. Well, if we had the right to strike, we wouldn't require binding arbitration; that's correct.

Mr. MCHUGH. I think I misunderstood. If you had the right to strike——

Mr. BILLER. We would not require binding arbitration.

Mr. MCHUGH. You would not require that. OK.

Mr. BILLER. And that doesn't mean we would every day, either, or every other day. It's a big organization. And as I indicated, we have concerns about the viability of the Postal Service, too. We not only want to meet our obligations under the statute in representing our people, but we have a concern on the viability and the future of the Postal Service.

Mr. MCHUGH. Certainly. I have a number of questions for all three of the members, but I know that subcommittee members have busy schedules, so I'm going to defer to them. And then we'll come back and discuss issues further. I now yield to the ranking minority member, the gentlelady from Michigan, Miss Collins.

Miss COLLINS. I thank you, Mr. Chairman. Mr. Biller, as you know, there are those that wish to undermine the 1993 memorandum of understanding, entered into between the APWU and the PMG, regarding the contracting out of bar coding jobs. Opponents of the memorandum have been quick to point out that this arrangement is costing the Postal Service an additional $230 million annually to use postal workers.

And opponents also state that the memorandum has not improved relations between management and the postal employees. Could you comment on that?

Mr. BILLER. Sure. I have to go back to the old cliche, I'm glad you asked that question. Anyway, No. 1, that was a GAO report, which the GAO has now admitted is flawed. I met with them, they claimed—I'm not going to get into their differences with the Postal Service as to what figures they got. But they're going to redo the report; they said so. And I'm glad to hear that.

They indicated that, in their opinion, it would be about a difference of $10 million to $30 million. The Postal Service claims it's nowhere near that. But clearly, the report is flawed. And more than that, what was of concern to me, there's a group called the Jefferson Group that I'm told represent the contractors that have been lobbying the Congress of the United States.

I guess that's their right to lobby it, but at the same time, I think some of it has become kind of discombobulated and confused. I understand there are people involved who should not be involved in that particular area and working with that group that represents the Contract Service American Association. Moreover, I

might point out, and you can check this with the Postal Service, they tell me that productivity has improved greatly.

There has been no control over the contractors. I can go through chapter and verse. In York, PA, for example, the contractor was never able to get the number of employee necessary. They've played games. In Lynchburg, VA, for example, which has now been turned over to the Postal Service, initially, they were paying employees $7.11 an hour and no health benefits.

Very shortly before they turned it over to the Postal Service, they increased it by—I was told, I haven't been able to get a confirmation of that—that the hourly rate that was in fact granted was one higher than the Postal Service pays, and they gave them health benefits, which has created quite a stir among those employees.

Miss COLLINS. Thank you very much. Mr. Quinn——

Mr. BILLER. One other area, may I add. You spoke of the 1993 memo of cooperation. I think relations have improved. The fact that with us, I think the fact that we have no contract I'm not sure represents the fact that this hasn't bubbled into a marriage in the last year and a half or whatever. And I say there is more important evidence that it's just not our fault alone.

I might also have cited one other thing. In a recent arbitration, probably a year and a half ago, maybe longer, the representative then of the vice president of I believe it was human—quality at that time, Mr. Charter, since deceased, had given a history of collective bargaining in the Postal Service. And the last negotiated agreement was in 1987. When he gave that history, he stated—and you can check that out, it's in those proceedings—that there were arbitration cases before.

But in 1987, Postmaster General wanted a contract, and we got one. Mr. Sombrotto was there with me at 4 a.m., 4 hours after the deadline, when the chief negotiator stated that was as far as he could go. And we asked, would the Postmaster General be willing to come down and see if he could iron it out. He came down, right at 4 a.m.; within a half hour or 45 minutes, we had a contract.

In 1990, the then Postmaster General, with the same chief negotiator, who's around today, Mr. Mahon, that Postmaster General came down a half hour before the deadline, 11:30 p.m., to call a press conference and announce that we were at an impasse. He wasn't even willing to work that one half hour. Presently, the Postmaster General has not intervened yet. And I think that behooves a CEO, in an attempt to resolve this, rather than to just throw it into arbitration, to come down to Earth—he's not up in heaven yet, he's just up on the 10th floor of L'Enfant Plaza.

And the realities are that right up until the arbitrator makes and issues that final written decision, there's an opportunity to achieve a contract. And if there are challenges, I'll make that challenge, when there is still time to get a contract. I'm not convinced that, with the APWU, that we were that far apart. But whatever their reason, so it is. The last time we met, all we got was a lecture from the chief negotiator.

I was tempted to suggest, after it was over, that it was time for the kindergarten class to begin, however.

Miss COLLINS. Thank you. Mr. Chairman, I had a question for Mr. Quinn, but they're waiting for me—I have a constituent wait-

ing, so I can't give it. If I could just say it, and maybe he could, for the record. According to testimony before the committee last year, the GAO reported that 74 percent of bargaining employees reported that some people do most of the work, while others do just enough to get by.

Also, they went on to state that both union and postal officials believe that some managers think employees respond best to intimidation and discipline. And according to a management official, the autocratic management style has become so ingrained over the years, that new supervisors tend to treat employees the very same way they were treated when they were craft employees.

And I held numerous hearings in the past couple of years, when I was chair of this committee, on the autocratic management style. What do you think we can do to break that vicious style of autocratic management? And I'm sorry I can't stay for your answer. Maybe I could read it in the record.

Mr. QUINN. Let me guarantee you, it will be a very good answer. [Laughter.]

Miss COLLINS. That was two questions.

Mr. QUINN. That was a joke. Well, presumably, if one were treated poorly when they were a craft employee, if they become a supervisor, you would hope that they would treat people with more respect and dignity. I think one of the primary reasons why in many cases that scenario doesn't come to fruition is I think many people in management seem to feel that the way to rise to higher management is to be in the eye of the storm at all times.

And unfortunately, many supervisors who have had many confrontations seem somehow to be kicked upstairs. Rather than having a confrontational nature militate your rise in management, it has just the opposite effect, from what I've been able to determine. And as a result of that, even though it's totally illogical, that train of thought has perpetuated itself.

Miss COLLINS. My first question—74 percent——

Mr. QUINN. I was a young man when you asked me that one.

Miss COLLINS. [continuing]. Seventy-four percent say some employees do all the work, and some do enough to get by. Do you agree with that? I've got to go. [Laughter.]

Mr. QUINN. It depends on which of the employees I'm representing. I can't honestly answer that, since I was one of the 74 percent who was working so hard. I never noticed what the other 26 percent were doing.

Mr. BILLER. Good for you.

Mr. QUINN. I really have no way of saying if that's an accurate statement or not. I don't even know that it's even accurate that people made that statement. I tend to think that some of these statements that are made somehow find their way into print, as if it were the Pope speaking, and I'm not so sure that's the case. I have a difficult time believing that 74 percent of the people are saying 26 percent do nothing.

Mr. MCHUGH. OK. I'm sure the gentlelady ranking minority member will be made aware of that view. I would next yield to the gentleman from Texas, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. I'd like to ask each of you to respond, and I'll be brief because I know we have another panel.

Mr. Sombrotto mentioned that there has been efforts by the letter carriers to bring in cooperative management or employee empowerment that have been met with resistance at the Postal Service. I was just wondering if you could each address that.

If you all—has it come up in your bargaining? Or is there any pilot projects the Postal Service is doing to try to enlist the opinions, other than a suggestion box of your members, on how we could provide better service? I think most of us recognize that the folks who really provide the service on the front line are the ones who can make the best suggestions. And your members are those people. And if that is being stymied or not encouraged or even rejected, then I would hope this committee would be interested in that.

Mr. BILLER. Well, I say we signed a labor-management cooperation agreement in 1993. We believe we're fulfilling it. In times of suggestions or employee opinion surveys, I think you should note that the Postal Service has attempted to use the employee opinion survey—at least in our opinion—during the collective bargaining process, to attempt to use that against the workers in terms of pay, et cetera.

And we presently have an unfair labor practice charge, so I won't comment any further on that.

Mr. GREEN. So in trying to get information from employees or your members, it becomes a collective bargaining issue, then?

Mr. BILLER. Well, that's what they have turned it into. That's our opinion, unfortunately. The NLRB hasn't ruled yet.

Mr. GREEN. Yes. Mr. Hicks.

Mr. HICKS. Well, we have a very successful employee empowerment process. We started in 1983, and we have literally hundreds of work teams—joint teams of managers and carriers across the country who are doing the very thing you're talking about, working on service, customer satisfaction, employee commitment, revenue generation. We have successfully dealt with the deployment and implementation of automation, delivery point sequencing.

We just believe a task such as automation is too important to allow managers alone to do it, because the carrier's knowledge is there and need to be pursued, and they are very successfully. So we have not had any major problems. As a matter of fact, tomorrow, I'll be meeting with the Chief Operating Officer, Bill Henderson, at L'Enfant Plaza, with the members of the national committee for this process, to reaffirm and garner support for our empowerment efforts with our teams out there.

Mr. GREEN. Thank you. Mr. Quinn.

Mr. QUINN. The Mail Handlers still have a process known as quality of work life that came into existence in the early 1980's. By the late 1980's, the process was essentially dormant. But much of the blame for that lay with the union as much as it did with management. And April 1994, in an effort to revitalize the process, we had a meeting with management. At that time, we agreed to have meetings on a monthly basis.

Laughably enough, we didn't have another meeting until after a Senate subcommittee hearing last November, where I lambasted postal management for its lip service performance regarding QWL.

Postmaster General Runyon was in the audience, so I suspect that my comments may have precipitated management into moving off the dime. And the process started again in earnest earlier this year. New people were put on the committee by postal management.

And ironically enough, when I leave this hearing today, I'm heading up to Baltimore. There's a 3-day training program on the quality of work life process up there. So although it has had some mixed results in the past, I'm optimistic that the future will bring better things on it.

Mr. GREEN. And this is part of the collective bargaining agreement that each of you have?

Mr. QUINN. Well, it's part of the agreement to the extent that an article of the agreement says there will be a committee at the national level. But the items that are dealt with by the participants in the quality of work life process are not supposed to include articles that directly involve the contract.

Mr. HICKS. It is not a part of our collective bargaining agreement; it never has been. And at this stage, we don't envision it at this time. It may be a point of issue in August. But it is not part of our collective bargaining. It just stands alone. It is a joint union and management endeavor. But there is national, area, and State leadership is involved from the union and from management. This keeps it a joint process to keep it from violating the National Labor Relations Act.

Mr. BILLER. American Postal Workers Union has not been involved in the quality of work life programs or employee involvement. And we have our own labor-management cooperation memo, and under the contract, we have labor-management committee meetings. We don't want to bypass that process. I just want to say that, in a recent issue of the Postal News, and I thought I had brought it here, you'll find the Postmaster General complimenting the employees and the fact that productivity has improved, the volume of mail.

And a recent ad in the Federal Times said the same thing. When it comes to the bargaining table, this is not recognized. All you get is a lecture from the chief negotiator. But I'll listen to his lectures anyway. I may not respond the way he likes.

Mr. GREEN. You may want to take a copy of that ad with you to your bargaining station.

Mr. BILLER. I'm going to do that.

Mr. GREEN. Mr. Chairman.

Mr. MCHUGH. I thank the gentleman. The gentleman from New York, Mr. Owens.

Mr. BILLER. He's the other side of the river, Mr. Chairman. I'm the Lower East Side of Manhattan. OK, sorry.

Mr. MCHUGH. I'm on the other side of the Mohawk.

Mr. OWENS. He's from one of these rural districts that gets service with a smile.

Mr. HICKS. Right.

Mr. OWENS. I think all of you have agreed that privatization would not be a good idea. I want to go on record, again, stating I don't think privatization is a good idea. The private sector is not the only way to efficiency, effectiveness and the delivery of good

service. We do need better service, however, in Brooklyn. I hate to sound like a broken record. But when I talk to my colleagues in Chicago, it sounds like they have the same kind of problem, and in Washington.

So I guess maybe I'm talking about a big city problem, Mr. Hicks. We don't get service with a smile. I go to post offices and they're jammed full of people. And the workers, sometimes I think they're overworked, maybe, and that's excuses, but often they're not giving service with a smile. There are continuing problems that, in my 13 years in Congress, I've gone through over and over again with the post office representatives; usually management representatives.

And that's what my question is all about. And they respond by reorganizing. We've had several different reorganizations. And as I told Mr. Sombrotto, the latest reorganization is absurd, the last one; and we get worse service as a result of each reorganization. And I know about the Price Waterhouse evaluations and how they say it takes only 3 days to get mail from California to Brooklyn.

And I go to the town meetings and I tell people, they've got this Price Waterhouse survey that tells me how long it takes for the mail to get from California to Brooklyn and from Brooklyn to Manhattan. And they want to throw me out of the place, when I tell them from Brooklyn to Manhattan, 2 days. They're talking about 7 days, and they have these long stories about the guy on the route delivering to Prospect Place, instead of Prospect Avenue.

And on and on it goes, because we have a large number of casuals. I think they made a big profit off casuals. I think casuals are paid just half what the regular letter carriers are paid.

Mr. BILLER. Less than.

Mr. OWENS. And they don't have benefits. So I think they made a lot of money off casuals, and the use of casuals, lowering their expenses; but at the expense of service to our constituents. So my question is, my constituents want service. You all agree that interference by Congress is not a good thing. But they don't give a damn who interferes. They look to Congressmen because they think that's where the responsibility lies for the mail.

So they are going to demand interference. I'd like to have positive interference and a positive relationship with the postal officials as we try to improve service. And I never had a consistent set of conversations with representatives of the actual mail handlers, letter carriers. Maybe that's what we need.

Do you have committees in your unions which deal with improving service and some way to relate to the constituents out there who are complaining and who might demand of their congressman that you vote for privatization if they don't get some improvement over these decades? Things keep getting worse, or they don't get any better, certainly in the big cities. So what kind of mechanism do you have for relating to your customers, your clients, from the base of your union and the members of your union?

Mr. BILLER. Well, you're aware that I do not represent letter carriers or rural letter carriers. We represent the people who work inside, those who drive the trucks, those who carry special delivery, et cetera. I can only tell you this—your complaint has to be with

management. It's not that we're above that, but they're the people who are managing, who are running the Postal Service.

And when you talk of privatization, practically every single manager, since the Postal Reorganization Act, with the exception of one, came as people from the corporate sector. Now, obviously, nothing has changed in that regard. Moreover, if you look at the records—and those are not my records—on the productivity of the people who do the distribution of mail, take Japan which today is hailed as a great industrial power, our people are twice as productive in the sorting of the mail than the Japanese postal workers or than our nearest competitor in that regard.

Each employee handles about a quarter million pieces of mail a year. That's not going to satisfy a constituent, I agree with you. And we'd be glad to help, but we've told you our problems. But you have to have people who know how to manage. And we did not make Queens the district over Brooklyn, or whatever it is. We have no real say in that matter. I'm not abandoning ship; these are the facts of life, Congressman.

Mr. OWENS. Yes, Mr. Quinn.

Mr. QUINN. Well, I think one of the problems that you alluded to deals with the constant reorganizations within the Postal Service. And quite frankly, I think one of the reasons for that is the lack of continuity at the top. The fact is that Postmaster General Bolger was a career postal employee, had been in the Postal Service some 40 years; was the first postal employee to rise to the position of Postmaster General.

He was followed by Paul Carlin, who is another career employee. However, the board of Governors, in 1986, for some of the most nefarious reasons imaginable—one of which precipitated one of the Governors going to prison—decided to jettison Postmaster General Carlin. And since that time, we've had a revolving door. We've had four different Postmaster Generals in the last 10 years. And quite frankly, they all come in as the CEO of an organization; and I'm very suspect that they even know what a stamp costs.

It looks like Pat O'Brien playing Knute Rockne in the locker room, throwing up a football. But the fact of the matter is, that they all come in as total neophytes, as the CEO, and immediately, to make a name for themselves, precipitate a host of changes. And you have reorganization after reorganization, and as a result of that, you simply have no continuity.

Furthermore, when you're talking about the unions having some ability to deal directly with the American public, as far as improving mail service, the problem that we have, quite frankly, is when we tell postal management how they can improve mail service, we're told that under both the national agreement and the Postal Reorganization Act, that it's management's right and obligation to manage, and that, quite frankly, it's none of the union's business.

Inherent in the right to management, obviously, is the right to mess things up; and management exercises that right every day of the week. So although I'm sympathetic to your desires that the unions can help remedy the problem as far as mail service to the American public, quite frankly, we're behind the eight ball regarding that.

Mr. OWENS. Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman. Mr. Quinn, you're on a roll; let's keep it going.

Mr. QUINN. I'll break out of the shell sooner or later. [Laughter.]

Mr. MCHUGH. I want to give you that chance. In your written testimony, you spoke about the Postmaster General's response to the GAO report recommendation, to call a summit, as a publicity stunt. I'd like to have you expound upon that. Quite frankly, to those of us who are trying to get initiated in this, and when you read this study, and you come across that recommendation, it seems reasonable. It may not produce anything, but most of us are of the "nothing ventured, nothing gained" school of management here, which may be not the best way to approach these issues.

But it seems a little strange to hear you label it as nothing more than a publicity stunt. I'd like you to expound upon that. Why do you have that attitude?

Mr. QUINN. Well, the fact is that three unions went in to negotiate a labor agreement last August with an expiration date of November 20, 1994. Since that time, the Postmaster General has been complaining that the Postal Reorganization Act is somehow broken because the unions failed to sign an agreement. I told him that Luca Brasi couldn't get me to sign the agreement.

Mr. MCHUGH. That's because he sleeps with the fishes.

Mr. QUINN. The fact is that the proposals that were submitted by management were so unbelievably regressive, so Draconian, that there was absolutely no way that he could get anybody that he expected in the postal unions to sign on to any kind of an agreement. The fact is that he took every action conceivable under the sun to force the postal unions into arbitration.

It's totally disingenuous for him to now turn around and say that the problem lies with the Postal Reorganization Act. That's just patently ludicrous. So, as a result, at the termination of negotiations, he comes up with this grandstand play about a GAO summit. I mean, under the law, the labor unions and postal management are mandated to negotiate an agreement. There are provisions in the law, obviously, on what to do in the event of an impasse.

But my membership is interested in securing an agreement, not even in going to arbitration. Although we have no hesitation to do so if we're forced into that position. This GAO summit, it just sounds to me like another bromide. We told the Postmaster General that we'd be glad to attend such a meeting at the conclusion of the collective bargaining process, and to get real and to come to the table with some serious proposals that the union could contemplate and possibly accept.

And then we'd be glad to talk about a GAO summit. But to do that at the time that he was talking about borders on the ludicrous.

Mr. BILLER. May I just add two sentences why I agree with Mr. Quinn? Actually, the Postmaster General—and I met with him any number of times—had never raised that question to any of us, to my knowledge. And the first time he raised it was a congressional hearing; and that's why I think it was just a gimmick. And we'd be glad to comply, right after we get through with negotiations.

Mr. MCHUGH. Mr. Hicks, why do you disagree with that? Do you know that Luca Brasi sleeps with the fishes, so who cares? [Laughter.]

Mr. HICKS. I'll leave that to Bill. Really, we just look at every opportunity to work with the Postal Service to explore opportunities for creative solutions to whatever is out there. I accepted that proviso at that time, just on the condition that we would meet, explore whatever avenues they wanted to explore; the same way my challenge today here to the Postmaster General to establish the commission like we did in 1991.

In 1991, everyone was involved in looking at reform. I think that needs to be done today. If they want to convene a summit, I think that's great. Whatever can be consummated, I think it should be. We all have ideas and suggestions to put forth that I think can bring about a better solution.

Mr. MCHUGH. To the gentlemen sitting on either side of you, how do you respond to Mr. Hicks' proposal in his written testimony today, calling for a reconvening of a 1991 like get-together?

Mr. BILLER. For a what? I'm sorry, I didn't follow.

Mr. MCHUGH. As Mr. Hicks just restated, and as he said in his opening statement, he challenged the Postmaster General to convene a meeting of all interested parties in the Postal Service, a similar event that happened in 1991, to talk about issues and try to find a common ground. I believe the figure he used was 75 percent of the challenges out there are probably resolvable.

Mr. BILLER. I don't recall a summit meeting in 1991 or in 1946, when I was born. I don't recall such a meeting, OK? You may have had it with the Rural Letter Carriers. And again, we're in the midst of a collective bargaining process. I think that process should be finished. After it's over, we'd be glad to do that. But I think if it wasn't a gimmick, he would not have just come here to the Congress of the United States; he knows how to reach us when he wants to.

Mr. QUINN. Well, I agree with Moe. I believe that—and I'm not sure, Mr. Hicks can address that, but there's something in the negotiations that they have this year as hooked into the results of the other contract agreements. But right now, the rural carriers are not in the midst of negotiations and/or arbitration, as are the other three unions. So their perceptions obviously may differ from ours.

But I concur with Moe that if in fact Postmaster General Runyon were serious about this GAO summit, he wouldn't have pulled this grandstand play in front of a Senate subcommittee the week after Thanksgiving. Approximately 10 days after the contract expiration date expired is the first time anybody heard about it. I find that to be totally self-serving, and quite frankly, it appeared to be like Greeks bearing gifts, if that's a proper allusion to a Trojan Horse.

Mr. MCHUGH. We've got the Irish, with Knute Rockne; we've got the Italians with Luca Brasi; and now we've got the Greeks.

Mr. QUINN. Well, this is a great country, Mr. McHugh, and I represent them all.

Mr. MCHUGH. Absolutely.

Mr. QUINN. But I took the whole thing to be a Trojan Horse. I did have 4 years of Latin in high school.

Mr. MCHUGH. Pax vobiscum. So did I.

Mr. QUINN. But in any event, he pops up at the last—in fact, 10 days after the expiration date of the contract. And it just seems to me, if he were serious about the importance of this so-called GAO summit, it would have been raised long before that point.

Mr. MCHUGH. OK.

Mr. QUINN. I mean, that's precisely the reason that I termed it a grandstand play then, and why Mr. Biller's terming it a gimmick today. It's a fact.

Mr. HICKS. Mr. Chairman, just as a clarifying point. I'm not sure the principals were involved in the 1991 legislative conference. It was, at that stage, predominantly the legislative people from the respective organizations who were involved in preparing and developing—and did reach quite a few goals that they had about legislative reform. And that got dropped under the new Postmaster General for whatever reason. And therefore, this is along the lines that I was suggesting of convening this group together.

Mr. MCHUGH. Thank you for that point. I saw a movie the other night, Maverick. And as he was sitting down to play cards, he said, "I rarely bluff and I never cheat." Maybe you ought to think about calling the Postmaster General's bluff sometime. Just some movie reference in the theme of the morning. [Laughter.]

Moving along.

Mr. QUINN. I'll refer that to Jack Warner.

Mr. MCHUGH. There seems to be a difference of opinion on another issue, as well. Mr. Quinn spoke about piece work and the desire of the Postal Service to return to either the 18th or 19th century. While Mr. Hicks spoke about the satisfaction of the rural carriers with their system of being evaluated almost on a piece work basis; and that there is a satisfaction level, at least I gain from Mr. Hicks' testimony on quality of work life issues, that I don't see among the craft people or the delivery people in the urban setting.

Could you two gentlemen kind of talk about that a bit? Why do you have such different opinions as to that kind of question?

Mr. BILLER. Well, we have different opinions, if I may, we have different opinions because this is the United States of America. That's No. 1. As a matter of fact, we did not go into the so-called SET program, nor did the letter carriers, and they'll have to speak for themselves. Everybody has different experiences, and we didn't feel that this was an appropriate thing for us.

As a matter of fact, we have been in a pilot operation now, I guess, for about 3 years in something that I think would be very helpful. They had a meeting late yesterday, so I'm not aware of any results yet. But particularly on an item called crew chief, which was agreed to have pilot operations. And we've been going into that; we think it would save the Postal Service a considerable amount of money.

They don't want to break away from the culture of a large bureaucracy in an oversupervised organization. So we are not part of the SET program. I'm not sure what Billy's experiences have been. They've been involved in it.

Mr. QUINN. Well, I think what we have to look at, Mr. Chairman, is piece work really has gone the way of the buffalo, as far as American industry is concerned, for one. The unions and management both, in many instances, have shunned that for many, many

decades. The second thing—and I can't speak for Mr. Hicks—but obviously, the people that I represent and most of the people that Moe represents work in large mail processing facilities, where they're under the constant eye of management.

I suspect it's much different from Mr. Hicks' constituency in that they're off on their Jeep to travel 77 million miles, or however many miles they go, according to the testimony. The point is that they're out on their own. I think another reason, quite frankly, that maybe there are some differences regarding the collective bargaining agreement is what your money buys you.

Before the Civil War, you walked into the store, as I understand it, with money in your pocket, and you walked out with food in a basket. After the war, you walked in with money in the basket, and walked out with food in your pocket. Well, if you're making $30,000 in some rural area, I suspect your money will take you much further than making $30,000 if you live in Mr. Owens' area of Brooklyn.

Mr. MCHUGH. Really?

Mr. BILLER. You should know that in the Civil War, a letter carrier got 2 cents for every letter he delivered. I'm sure they'd be glad to take it today, though I don't represent them.

Mr. MCHUGH. You gentlemen have been very patient with your time, and I appreciate it. We have a whole host of other questions that, with your permission, we'd like to submit for written response.

Mr. BILLER. Sure.

Mr. MCHUGH. And I also extend that opportunity to other members of the committee. And again, I appreciate very much your being here. I would hope that this is an opening, rather than a closing part of the process. I think, obviously, without the participation of the rank and file workers of Postal Service, nothing good can come out of the concerns that we all have.

So I'm looking forward to working with each and every one of you, and I deeply appreciate your being here.

Mr. BILLER. Thank you very much.

Mr. HICKS. Thank you.

Mr. QUINN. Thank you, Mr. Chairman.

Mr. MCHUGH. And we have a second panel. I will administer the oath. Please rise and raise your right hands.

[Witnesses sworn.]

Mr. MCHUGH. I'm just going to ask that you present your testimony in the order in which it appears in my book. The first to appear in the book is the president of the National Association of Postmasters, Mr. David Games.

Mr. GAMES. Thank you.

Mr. MCHUGH. You're welcome, sir.

Mr. GAMES. I was going to say, Mr. Chairman and members of the subcommittee, but Mr. Chairman.

Mr. MCHUGH. The important people are here, and that's not me. That's these folks. Having had power in my life, when I was on staff, I know that they put everything together.

Mr. GAMES. And I agree.

Mr. MCHUGH. So believe me, your testimony is falling on very interested and influential ears. Thank you.

Mr. GREEN. I agree.

STATEMENTS OF W. DAVID GAMES, PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES; VINCENT PALLADINO, PRESIDENT, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS; AND BILL BRENNAN, PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS

Mr. GAMES. I'm David Games, president of the National Association of Postmasters of the United States, NAPUS. And NAPUS represents more than 42,000 active and retired postmasters throughout the country, and I thank you today for giving us the opportunity to appear before you. First let me give you a little bit of background about the management association.

NAPUS was formed in 1898, as a fraternal organization working for the betterment of the Postal Service and postmasters. NAPUS was instrumental in the passage of legislation to improve the status of postmasters, and we are particularly proud of our leadership role in helping enact the Postal Reorganization Act of 1970, which created the U.S. Postal Service.

Today, NAPUS continues to provide a voice for postmasters in our dealings with the Postal Service, Congress and others. As you probably know, postmasters are responsible for the day-to-day operations of the post office in each and every community in the United States. They must meet the daily challenge of providing service to the public; creating incentives for the employees who do the work; and meeting the demands of productivity and budget established by the Postal Service.

Some post offices are one-person shops, operated out of trailers, while other postmasters work out of huge facilities, and supervise thousands of employees. It is the postmaster who assigns work duties; who hears the complaints from customers; and who bears the ultimate responsibility for financial success or failure of that particular office. In addition to the postal duties, postmasters take their civic responsibilities very seriously.

They participate in community activities, through membership in chambers of commerce and other social and service organizations. NAPUS remains concerned about the safety of postmasters. Postmasters and other employees have been the victims of robberies at postal facilities or on their routes on more than 294 occasions, over the past fiscal year. And like the rest of the Nation's citizens, we watched the aftermath of the bombing in Oklahoma with horror and an increased understanding of our own vulnerability.

NAPUS would support legislation to increase the safety of Federal and postal employees and facilities. The Postal Inspection Service also reports a 6.9 percent increase in the number of assault and threat incidents involving postal employees over the past fiscal year. Because we know that work place violence remains a concern for many postmasters, NAPUS is an active participant in the national committee on work place behavior.

NAPUS is also closely involved with more common concerns about labor-management relations. During the last session of Congress, the Senate Subcommittee on Post Office and Civil Service held a hearing focusing on the General Accounting Office's, the GAO, report on labor-management relations. NAPUS fully sup-

ported the Postmaster General's call for a summit, and continues to do so. We believe that the resolution of these issues should be a top priority.

The present labor-management structure remains adversarial. Postal employees rightfully expect to work in an environment where they are treated with dignity and respect. However, it is sometimes difficult for postmasters to enforce basic work performance standards. As soon as a postmaster begins to take some corrective action, the employee can raise the cry that management is creating an adverse working environment.

In response to this sort of complaint, the supervisor or postmaster is often forcibly removed from that post office. NAPUS would like to see greater support for supervisors and postmasters who are trying to enforce legitimate work rules. One of the few avenues for appeal the postmasters have is their Merit Systems Protection Board, or MSPB, rights. Those rights allow postmasters to appeal serious adverse action to an independent external body. Such adverse action includes removals, reduction in pay or grade, or suspensions over 14 days.

Postmaster General Runyon was recently quoted in a Federal Times report as stating that he favored the removal of postmaster MSPB rights. And NAPUS wants to go on record strongly opposing any changes to those rights. Obviously, NAPUS supports the right of all postal employees to appeal to adverse actions. However, we agree with findings of the September 1994 GAO report regarding the current grievance arbitration process for union employees.

The number of grievances is too high, and many grievances need to be resolved at a lower level within the system. Some limitations need to be imposed by the unions themselves, or a joint agreement must be made to modify the system in order to avoid frivolous and repetitive grievances. But only as an extreme last resort would we agree to changes to the Postal Reorganization Act to restrict the right to binding arbitration.

Another problem correctly identified in the GAO report is the lack of work incentive systems for many of our employees. We believe that postal productivity would be improved if more weight were given to overall performance than to hours spent on the job. We believe these are issues where a joint cooperative approach among unions, management associations and the Postal Service is the best means to achieve resolution.

We ask this subcommittee to endorse the recommendations of the GAO report, and to impress upon all parties the need to move forward with these recommendations. We further ask this subcommittee to place time limits on this process, with a request that all parties report back to the subcommittee with meaningful results. Now we'd like to briefly raise two legislative issues which are troubling to our members.

The first issue I will mention very briefly is the continued attempt to reduce retirement benefits for postal employees and retirees. We understand that this subcommittee does not have jurisdiction over this issue. But since you are charged with oversight of the entire postal system, we know that you are certainly concerned about the proposals currently being discussed to change the retire-

ment benefit formula, the employee contribution level, and the employer contribution to health care.

We are opposed to these proposals. It is important for the Postal Service to maintain a good level of work benefits so that the Postal Service is able to retain highly skilled personnel. It is equally important for postal employees to be able to plan for their financial future, and to know, with a high measure of certainty, what funds will be made available to them upon retirement. NAPUS believes that retirement benefits are part of a postal employee's compensation package, and are owed to that retiring employee as an implied part of his or her employment contract.

Changing the rules, particularly for people who have spent many hours and many years in the current Federal postal system is unfair. The other issue that NAPUS wishes to discuss is that of postal privatization. Many of the groups that are discussing postal privatization believe that the Postal Service has outlived the usefulness of the original mandate to bind the Nation together. We simply do not agree.

We will continue to oppose anything which threatens the universal mandate and leaves the American people with reduced service. We do not support the Crane bill, H.R. 210. We do not believe that a private corporation would be able to replace the U.S. Postal Service. After all, people do not buy stock in a corporation to break even, as the Postal Service is currently mandated to do.

They buy stock to make money. Rationally, that means stamp prices will go up, not down. And it also means that non-profiting portions of the business, such as rural post offices, would very likely be closed. Some areas might also see their residential delivery discontinued, unless they are willing to pay a higher cost for it, than their urban neighbors.

And what if no company wanted to bid on service to certain parts of the country, such as rural Montana, or upstate New York, or to Alaska? We also believe that if the Postal Service became a private corporation, the original concept of public service would be lost. Another issue that continues to concern us are the constant attempts to use the Postal Service as a cash cow.

The 1996 House budget resolution included a provision denying transitional payments to the Postal Service for disability payments to former Post Office Department employees. This is only the latest in a series of raids on the Postal Service. Since 1985, the Postal Service has been asked to take on a variety of new financial responsibilities, and has contributed $14 billion to the U.S. Treasury.

These constant raids play havoc with the Postal Service's ability to run its operations efficiently, and result in reduced services to the American people. All we ask is a fair chance to do our jobs for the American people, without taking on more deficit reduction responsibilities. And that concludes my statement, Mr. Chairman.

[The prepared statement of Mr. Games follows:]

PREPARED STATEMENT OF W. DAVID GAMES, PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

Mr. Chairman, and Members of the Subcommittee, I am David Games, President of the National Association of Postmasters of the United States (NAPUS). NAPUS represents more than 42,000 active and retired postmasters throughout the country. I thank you for giving us the opportunity to appear before you today.

First, let me give you a little bit of background about our management association. NAPUS was formed in 1898. Its stated purpose was (and still is): "To promote the interests of the Postal Service; to cultivate the welfare and enhance the happiness of its members; to cooperate with the Post Office Department [later changed to the United States Postal Service] and executives thereof, in advancing the high standard of efficiency and economical operation required in the interest of public welfare; to perpetuate itself as a truly fraternal organization working for the betterment of every branch of the Postal Service and the postmasters of every class; to encourage a closer and more friendly relationship between the different post offices of the country."

Early on, NAPUS was instrumental in passage of legislation to improve the status of postmasters in all offices. NAPUS had an active hand in the adoption of the 40-hour workweek for postmasters, numerous pay and benefit improvements, better working conditions, convention leave and many other measures that continue to benefit postmasters. We are particularly proud of our leadership role in helping enact the Postal Reorganization Act of 1970, which created the United States Postal Service.

Today, NAPUS works to preserve and promote the nation's universal postal service; consults with its Postmasters Retired organization to prevent the closing of post offices' and, most importantly, provides a voice for postmasters in their dealings with the Postal Service, Congress and others. Our postmasters continue to promote the best interests of the United States Postal Service, strive to foster a favorable image of public service and work diligently to assure the users of the mail the best service possible. NAPUS cooperates with other groups and levels of postal management in the achievement of common goals and to cultivate the welfare and enhance the happiness of its members. NAPUS also provides a forum for postmasters to voice concerns and to exchange information on better methods for performing their work responsibilities. We have attached the list of regional and state NAPUS officers printed in our most recent monthly magazine to this testimony for the convenience of any Subcommittee member who wishes to contact NAPUS members in his or her state for more information about the organization.

As you know, postmasters are responsible for the day to day operations of the post office in each city and community. They must meet the daily challenge of providing service to the public, creating incentives for employees who do the work, and meeting the demands of productivity and budget established by the Postal Service. Some post offices are one person shops operated out of trailers while other postmasters work in huge facilities and supervise thousands of employees. It is the postmaster who assigns work duties, who hears complaints from customers, and who bears the ultimate responsibility for the financial success or failure of that particular office.

In addition to their postal duties, postmasters take their civic responsibilities very seriously. They participate in community activities through membership in Chambers of Commerce and other social and service organizations. Postmasters in larger cities establish Postal Customer Councils to receive input from the community on service and operational needs. In our small communities and towns across America, the local post office is often the hub for community activity and the postmaster is viewed as the lone representative of the federal government.

Postmasters are proud to be members of the Postal Service and are committed to the continued competitiveness of the Service. We believe it is important for the Postal Service to be sensitive to the needs of our customers. For this reason, NAPUS supports the Postal Service's plan to modernize and streamline its product offerings through the ongoing reclassification proceeding. We believe that this case illustrates the Postal Service's willingness to change its way of doing business so that it can better respond to customer needs.

NAPUS also remains concerned about the safety of postmasters and other postal employees. Postmasters and other postal employees have been the victims of robbery at postal facilities or on their routes on more than 294 occasions over the past fiscal year. And, like the rest of our nation's citizens, we watched the aftermath of the bombing in Oklahoma with horror and an increased understanding of our own vulnerability. NAPUS would support legislation to increase the safety of federal and postal employees and facilities.

The Postal Inspection Service also reports a 6.9 percent increase in the number of assault and threat incidents involving postal employees over the past fiscal year. Because we know that workplace violence remains a concern for many postmasters, NAPUS is an active participant in the National Committee on Workplace Behavior. This Committee is composed of postal managers and employees who meet regularly to help find solutions to this problem.

NAPUS is also closely involved with more common concerns about labor/management relations. During the last session of Congress, the Senate Subcommittee on

Post Office and Civil Service held a hearing focusing on the General Accounting Office's (GAO) report on labor/management relations. NAPUS fully supported the Postmaster General's call for a summit and continues to do so. We believe that the resolution of these issues should be a top priority.

The present labor/management structure remains adversarial and these adversarial relations radiate through the organization, even into many of our smallest post offices. Postal employees rightfully expect to work in an environment where they are treated with respect and dignity. At the same time, postmasters also have a right to expect these employees to give a fair day's work for a fair day's pay and to be courteous with customers as well as accurate in the handling of customers' mail. However, it is sometimes difficult for postmasters to enforce these basic work performance standards.

As soon as management begins to take some corrective action, the employee can raise the cry that management is creating an adverse working environment. In response to this sort of complaint, the supervisor or postmaster is often forcibly removed from that post office. NAPUS would like to see greater support for supervisors and postmasters who are trying to enforce legitimate work rules.

One of the few avenues for appeal that postmasters have is their Merit System Protection Board (MSPB) rights. Those rights allow postmasters to appeal serious adverse actions to an independent, external body. Such adverse actions include removals, reduction in pay or grade, or suspensions over 14 days. Postmaster General Runyon was recently quoted in a lines report as stating that he favored the removal of postmasters' MSPB rights. NAPUS wants to go on record opposing any changes to postmaster's MSPB rights.

Obviously, NAPUS supports the right of all postal employees to appeal adverse actions. However, we agree with findings of the September 1994 GAO report on USPS Labor/Management Relations regarding the current grievance arbitration process for union employees. The number of grievances is too high and many grievances need to be resolved at a lower level within the system. Some limitations need to be imposed by the unions themselves or a joint agreement must be made to modify the system in order to avoid frivolous and repetitive grievances. Only as an extreme last resort would we support changes to the Postal Reorganization Act to restrict the right to binding arbitration.

Another problem correctly identified in the GAO report is the lack of a work incentive system for many of our employees. Obviously, this does not encourage efficiency. One employee group, the rural letter carriers, has a pay system which encourages more personal initiative among employees. Therefore, it should come as no surprise that those employees are among the most satisfied in the postal system, according to the Employee Opinion Survey. We believe postal productivity would be improved if more weight were given to overall performance than to hours spent on the job.

NAPUS has raised three issues: (1) greater protection from reassignment for supervisors and postmasters attempting to enforce reasonable work rules in their facilities, (2) improvements in the present grievance/arbitration process to reduce the number of grievances and (3) the adoption of a pay system which better rewards personal initiative. We believe these are three issues where a joint cooperative approach among unions, management associations and the Postal Service is the best means to achieve resolution.

We ask this Subcommittee to endorse the recommendations of the GAO report and to impress upon all parties the need to move forward with these recommendations. We further ask this Subcommittee to place time limits on this process with a request that all parties report back to this Subcommittee with meaningful results.

In our oversight testimony last year we raised several internal postal issues. Unfortunately, the problems we noted have not been corrected and so we will mention them here again. The first issue is that of postmaster training. While postmasters bear a great deal of responsibility for the success of their postal facilities, they receive very little training for their jobs. You may be surprised to know that no special training is mandatory for new postmasters. They are usually expected to perform their duties based upon their experience in lower level postal positions even though, as postmasters, they often have duties that are new to them. NAPUS tries to help its members increase their job skills through seminars held at our annual convention, but many postmasters cannot attend these meetings or need other assistance in meeting their new responsibilities. We believe that every dollar the Postal Service chose to invest in training postmasters would be returned many times over in increased performance.

The other ongoing concern is hiring difficulties. It continues to be difficult to hire people in a timely fashion. While we consider background checks to be important for prospective postal employees, they currently take many weeks and even months

to process. You may also be surprised to learn that, in many cases, postmasters do not have the authority to hire needed employees. The approval of a District Manager is needed. We believe that more local hiring authority would better serve the interests of postal customers.

In addition to these postal management issues, we would like to briefly raise two legislative issues which are troubling to our members. The first issue I will mention very briefly is the continued attempt to reduce retirement benefits for postal employees and retirees. We understand that this Subcommittee does not have jurisdiction over this issue but, since you are charged with oversight of the entire postal system, we know that you are certainly concerned about the proposals currently being discussed to change the retirement benefit formula, the employee contribution level and the employer contribution to health care. We are opposed to these proposals. It is important for the Postal Service to maintain a good level of work benefits so that the Postal Service is able to retain highly skilled personnel . It is equally important for postal employees to be able to plan for their financial future and to know, with a high measure of certainty, what funds will be available to them upon retirement. NAPUS believes that retirement benefits are part of a postal employee's compensation package and are owed to a retiring employee as an implied part of his or her employment contract. Changing the rules, particularly for people who have spent many years in the current federal/postal system, is unfair.

The other issue NAPUS wishes to discuss is that of postal privatization. We would not be honest if we did not admit that there is room for improvement within the postal service. But we do not believe that the answer is to sweep away the system that is currently in place and we are please to note that the major mailers who testified before this Subcommittee a few weeks ago concur with that belief.

The U.S. Constitution authorized Congress to institute a nationwide system for delivery of messages. The founders' intent was that no part of the nation should be cut off from communications with the rest of the country. That nationwide system encouraged the development of interstate commerce, legal transactions, and the exchange of ideas as well as personal communications even as the country grew far beyond the bounds of the original 13 colonies.

Many of the groups who are discussing postal privatization believe that the Postal Service has outlived the usefulness of this original mandate to "bind the nation together". NAPUS does not agree. While we understand that other valuable means of communication exist in this country, we will continue to oppose anything which threatens the universal mandate and leaves the American people with reduced service. When the major mailers testified before this Subcommittee a few weeks ago, they agreed that continued universal service was necessary in order for them to continue to operate their businesses.

We do not support the Crane bill, H.R. 210. We do not believe that a private corporation will be able to replace the U.S. Postal Service. After all, people do not buy stock in a corporation to "break-even", as the Postal Service is currently mandated to do. They buy stock to make money. Rationally, that means stamp prices will go up, not down. It also means that non-profitmaking portions of the business, such as rural post offices, would very likely be closed. Some areas might also see their residential delivery discontinued unless they were willing to pay a higher cost for it than their urban neighbors.

What if no company wanted to bid on service to certain parts of the country such as rural Montana, upstate New York, or Alaska? When the airline system was deregulated, many smaller airports were closed. Now, people who do not happen to live near major airline hubs often find their choice of carriers limited.

We also believe that, if the Postal Service became a private corporation, the original concept of public service would be lost. Certainly carriers would no longer be urged to check on elderly customers when they dropped off the mail or serve as a safe person for school age children to approach in an emergency. After all, time is money and cannot be spent on such unprofitable pursuits.

Most people don't comprehend the sheer volume of mail that goes through the Postal Service on an average day. In just three days, the Postal Service handles the same volume of mail as UPS, the nation's largest private carrier, handles during the entire year. And, unlike the private companies, the Postal Service has been handling the entire nation's mail for the last 200 years. Any private company that took over a substantial portion of the Postal Service's current mail volume would have to create its own distribution system. And the research, development and start-up costs of such an enterprise would surely be passed on to postal customers through higher rates.

Many of the current proposals to "privatize" the Postal Service are purely theoretical and the proponents have not thought through the full consequences of the

changes they are proposing. At this point, privatization would mean exposing the people and businesses of this nation to an untried experiment.

Another issue that continues to concern us are the constant attempts to use the Postal Service as a cash cow. Both last year and this year, proposals were discussed which would have required the Postal Service to prefund retiree health benefits, a potential $11.6 billion hit. The 1996 House Budget Resolution included a provision denying transitional payments to the Postal Service for disability payments to former Post Office Department employees. This is only the latest in a series of raids on the Postal Service. Since 1985, the Postal Service been asked to take on a variety of new financial responsibilities and has contributed $14 billion to the U.S. Treasury. These constant raids play havoc with the Postal Service's ability to run its operations efficiently and result in reduced services to the American people.

As postmasters, we have served on the front lines in keeping postal budgets in check. We have juggled our resources, stretched our dollars and honestly have done all that we could do to maintain our offices and serve our customers. Meanwhile the Postal Service has had to postpone projects like building new post offices and buying new equipment as it tried to absorb these hits and not raise postage rates. We believe we have done more than our fair share of budget balancing. All we ask is a fair chance to do our jobs for the American people without taking on more deficit reduction responsibilities.

That concludes my statement. Again, thank you for providing us with the opportunity to appear before you. I am ready to answer any questions you may have.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO W. DAVID GAMES

Question 1. Many have expressed concern about the Postal Service being a cash cow in an attempt to balance the budget. How would you recommend that the retirement system for postal employees be insulated from budget pressures? What is your position on a separate retirement system for postal employees run by the USPS.

Answer. While NAPUS definitely believes that past actions of Congress have had the effect of making the USPS a "cash cow" in an effort to balance the budget, we also deeply believe that our government has an obligation to see that every postal employee who is entitled to a civil service retirement receives one. We don't believe that the Postal Service should have to take on this burden that was promised us years ago by our government.

In addition, we have many concerns about the Postal Service trying to create a separate retirement system for its employees. We fear that the cost of administering such a system would be prohibitive and could result in increased postal rates for consumers. A number of questions need to be answered. One is whether such a retirement system would be in effect for (1) all current employees and retirees, (2) current employees only, or (3) new employees only? Another question is whether the Postal Service would be required to completely prefund such a program. Since the Postal Service is operated on a break-even basis, it would require major changes in their accounting operations, among other things.

We also note that a bill, H.R. 103, has been introduced which would take the civil service retirement fund off-budget. Many of our members have expressed interest in that bill and believe it would be helpful. However, we understand that the administration, the Congressional Budget Office and the Government Accounting Office believe that such a move would increase the federal deficit and would not insulate civil service employees from budget cuts. It was our hope that the creation of FERS would insulate postal and federal employees from budget pressures. When that system was created, federal and postal employees were assured that it would relieve them from the budget pressures inherent in the old CSRS retirement system.

Question 2. Scottie Hicks, President, National Rural Letter Carriers' Association, in his testimony before the Subcommittee on the Postal Service on June 7, made a suggestion that Postmaster General Runyon call a conference to create legislative improvement for the Postal Service along the path the Postal Service did in 1991, which included mailers, USPS officials, Postal unions and Postal employee organization. Mr. Hicks further suggested that the collective group could agree on 75% or more of the subjects for reform proposals in order to ensure that all would have an interest in the passage of the reform. Would your association be willing to be an active participant in such a conference? What would be the chief concerns you would want to discuss?

Answer. We would be pleased to be an active participant to such a conference. Our chief concerns would be (1) how the labor management process could be im-

proved and (2) how the Postal Service could be provided with greater flexibility in pricing services.

Question 3. National Association of Letter Carriers President Vincent Sombrotto suggested to the Subcommittee in his testimony that the Postal Service should reduce the size of its managerial bureaucracy. PMG Runyon attempted to streamline managerial numbers by offering a buyout during restructuring in 1992 but more craft employees and mail carriers availed of this opportunity than supervisors and postmasters.

a) Would your organization be agreeable to the USPS offering another buyout targeted to managers? How many postmasters would you expect to take a buyout?

b) Do you think that the ratio of managers to employees is better today than before the last buyout? What is the present ratio?

Answer. (a) We have no way to poll our membership but we believe that many managers who are near retirement might accept a buyout if the requirements and buy-out pay are the same as given in 1992. Our estimate is that as many as 2,000–3,000 postmasters would take a buyout similar to that given in 1992.

(b) No, we strongly disagree with that assertion. There is really no excess in managerial employees in the Postal Service right now. In fact, there is a 40 percent reduction in the number of managers as a result of the 1992 reorganization. Some postmasters now have to work 12 hour days to cover the workload of supervisors lost during reorganization. Service standards took a marked drop directly after the 1992 reorganization because so many experienced managers left. Currently, there are 60,000 additional craft employees on the rolls who have been hired since the last early out. Yet there are 8,000 fewer managers to supervise them.

We would also like to note that if the city carriers, whom Mr. Sombrotto represents, had a pay system similar to that of rural carriers, less supervision would be required. You may recall that rural carriers are not paid on an hourly basis, as city carriers are, but on a set salary based on average mail volume and route length.

Question 4. Postal Service personnel are not covered by the Whistleblower Protection statutes. I receive numerous correspondence from postal employees seeking coverage under the Whistleblower Protection Act. Many of these letter writers state that this change would encourage greater disclosure of fraud, waste and abuse as well as ensure protection for whistle blower complainants. What is your specific position on extending this Act to postal employees?

Answer. We do not believe there is a need to extend whistleblower protection to postal employees. The Postal Service already has many internal controls including an 800 number which employees can use to report fraud and abuse. Also, it is our understanding that when the Whistleblower Protection Act was originally passed, the Post Office and Civil Service decided that it was not necessary to include postal employees because union grievance procedures and postmasters' MSPB rights already provide a similar type of protection for postal employees.

Mr. MCHUGH. Thank you very much, Mr. Games. Next we have Vince Palladino, who's president of the National Association of Postal Supervisors.

Mr. PALLADINO. Good morning, Mr. Chairman. My name is Vince Palladino, and I'm president of the National Association of Postal Supervisors. Thank you for this opportunity to testify before the subcommittee members. My written testimony contains a lengthy history of the association, in addition to comments on more recent events, both postal and legislative. Therefore, I would ask that my statement be entered into the record, and I'll just make a few brief comments at this time.

Mr. MCHUGH. Certainly, without objection.

Mr. PALLADINO. Mr. Chairman, this has been a difficult past 3 years for us, and by us, I mean the postal supervisors, and for our organization. The Runyon restructuring in 1992 resulted in 10,000 fewer management jobs that belong to the association I represent. It also allowed our most experienced clerks and carriers to retire; many of whom come from Brooklyn. And that's part of our problem.

We don't anticipate the structural changes to end any time soon, either. Just as the corporate world seems to be taken with the ideas of downsizing and empowerment, so too is the Postal Service.

While we learn to live with this new organization, however, someone has to be responsible for managing this changing workforce. And that's what my members do—manage the best they can, in spite of a constantly changing organizational structure, fluctuating budgets, and new work rules.

Add to that the financial demands of competition and congressional mandates for unscheduled payments, and you find a work place that is never the same 2 days in a row, and a workforce that changes about as often, with inadequate training and inexperience the only thing we can count on. We have learned to adapt to many of these changes. But you and your colleagues can help us, which in turn will help America's mailers.

As I said in my prepared remarks, the Postal Service is a unique institution in its purpose, size, and workforce. Postal employees are dedicated to serving the general public and American business as a premier communications corporation in this country. But to do that, we need a clear mandate from you and others in Congress. We need assurances that we will not be continuously used as an easy source of several billion dollars to help reduce the deficit. And we need to know that Congress will live by the terms of our contract with America, and provide the benefits promised to us when we were hired.

There are a number of other pressing issues of direct concern to this subcommittee, and we look forward to discussing them during this and other hearings. I'll be glad to answer any questions, Mr. Chairman.

[The prepared statement of Mr. Palladino follows:]

PREPARED STATEMENT OF VINCENT PALLADINO, PRESIDENT, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

Mr. Chairman, my name is Vince Palladino, and I am president of the National Association of Postal Supervisors, or NAPS. We appreciate this opportunity to testify at the first oversight hearing for postal employee organizations before this new subcommittee. The Postal Service, its employees and retirees have been the subject of much conversation recently on Capitol Hill. Much of that conversation has reflected a need to explain the history of the institution and the legislation which established rights for postal employees and managers that are unique among federal agencies.

Because so many of the subcommittee members are new to Congress and postal oversight, I will provide a short history of our organization, followed by comments on today's postal and legislative environment for postal supervisors, then outline NAPS' long-term goals for its members and the Postal Service.

A BRIEF HISTORY OF NAPS

NAPS is a management association, not a union. We are unique among federal management associations in that our rights are statutory, with a high level of detail concerning our relationship with the United States Postal Service (USPS).

We represent the overwhelming majority of first-line supervisors who work both in facilities where we process mail and those where we deliver mail. Our membership also includes other mid-level supervisors and managers in every functional area of the Postal Service, including marketing, finance, human resources and maintenance, to name a few. We even have a growing number of postmasters as members, individuals who decided to remain a part of our organization even after being promoted to a postmaster position. Our members are supervisors and managers who work in the field. We do not represent those managers who work at USPS Headquarters in Washington, and we do not represent any senior managers (those belonging to the Postal Career Executive Service).

Our history dates to September 9, 1908, when the first organizational meeting was held in Louisville, Kentucky. When supervisors began forming their own national organization, a number of other postal employee groups had already been for-

mulated, most for the same reason: working conditions were often deplorable, pay was inadequate, and benefits were nonexistent.

The first section of NAPS' first Constitution and Bylaws from 1908 reads almost exactly as the current edition, and best defines why we exist as an organization:

> "The objects of this association shall be cooperative with the Post Office Department in the endeavor to secure uniform, modern and economical business methods; to raise the standard of efficiency; to secure legislation that will increase compensation and widen the field of opportunity for employees who make the business of the postal service their life work."

The phrase "widen the field of opportunity" was an endorsement of promoting managers from within the organization, that "positions up to that of postmaster general should be filled by promotions from one position to another on a basis of fitness, energy and industry, with length of service taken into consideration."

The immediate concern of NAPS' board in 1908 was the pursuit of legislation that would improve the dismal benefits and working conditions of postal supervisors. Supervisors' salaries were only slightly more than those paid craft employees. Workdays began at a specified time but routinely lasted more than eight hours, with most postal employees spending well over fifty hours a week in their facility. The Sunday closing law would not be passed for another four years. Occupational health and safety oversight by the government (federal, state or local) was virtually nonexistent. A comprehensive health insurance program would not be passed for half a century. But it was the lack of a pension system, perhaps more than any other issue, that drove supervisors to organize. Pursuit of such a legislative change would not be easy, however, for several reasons.

The first was the attitude of senior postal management toward employee organizations. In a review of postal policy, Rep. Clyde Kelly wrote in 1931 that for many years the Post Office Department ("the Department") "forbade real organization and dismissed postal employees for attempting it." As Kelly noted, in 1895 Postmaster General Wilson issued an order prohibiting employees from visiting Washington for the purpose of influencing legislation. Any worker violating this order was dismissed.

In his 1905 report Postmaster General Cortelyou states that any organization "to receive its sanctions in any degree must have their object improvement in the service or be of a purely fraternal or beneficial character. With any other purpose in view they are detrimental to the service, to their members and to the public." The Department aggressively enforced this policy.

A second obstacle was a series of presidential orders, known as "gag orders," which strictly limited the contact postal (and other federal) workers could have with their elected representatives in Congress. The first, issued in 1902 by President Theodore Roosevelt, prohibited postal employees "directly or indirectly, individually or through associations, to solicit an increase of pay or to influence or attempt to influence in their own interest, any legislation whatever, either before Congress or its committees or in any way save through the head of the Post Office Department." The original gag order was extended by orders issued in 1906 and 1909.

While Congress removed the gag orders in 1912, the Department continued to make life difficult for postal organizations. Postmaster General Burleson, expressed his attitude in a 1917 report:

> "The conduct of these organizations is incompatible with the principles of civil service and good administration of the postal service; they are fast becoming a menace to public welfare and should no longer be tolerated or condoned."

Gradually such attitudes changed, and Congress began to change the pay and benefits of all federal workers. In his report for 1921 PMG Will Hays said he met with the heads of postal organizations as often as possible. He addressed his attitude toward employees in terms that must have seemed quite progressive in his day:

> "There is no business in the world so dependent upon the human factor as the postal service. To treat a postal employee as a mere commodity in the labor market is not only wicked from a humanitarian standpoint, but it is foolish and short-sighted even from the standpoint of business. A postal employee who is regarded as a human being whose welfare is important to his fellows, high and low, in the postal organization, is found to do his work with a courage, a zest and a thoroughness, which no money alone can buy."

Despite Hays' appreciation for the efforts of postal employees, meaningful recognition of NAPS and the other employee organizations was decades in the making, and

almost always as the result of congressional action. Although supervisors' objectives have changed little over the years, the identity of the organization, especially as viewed by the Post Office Department (and later USPS) has evolved gradually. Organizationally sandwiched between postmasters and union members, supervisors have always been considered part of management, but often have fought side-by-side with postal unions—even for a brief period as a member of the American Federation of Labor.

Legal standing was first significantly achieved in 1960 with the issuance of Executive Order 10988, Employee-Management Cooperation in the Federal Service. It provided "a legal base for the rights of federal employees and employee organizations to participate in improving personnel policies and working conditions not specifically fixed by the Congress." In 1969 that order was succeeded by Executive Order 11491, that removed the distinction between formal and informal organization representation and required agencies to "establish intermanagement communications consultation with its supervisors or associations of supervisors."

Postal Reorganization

With the passage of the Postal Reorganization Act (PRA) in 1970, NAPS received statutory recognition and a clearly defined role within the postal management structure. Soon after passage of the PRA, however, it became apparent that a clarification of that role was necessary. It was gained, in part through court action, in part through legislative action.

When Congress and President Nixon approved the PRA, few in the postal community anticipated the immediate implications for supervisors, who repeatedly found themselves fighting for their jobs, and for NAPS, which became involved in a series of lengthy and expensive court cases filed in the years immediately following reorganization.

Even though many in and out of government had talked of the need to "do something" about the post office, it took the 1970 strikes by union employees and the chaos that followed to force Congress and the Nixon Administration to approve the most significant change to the mail delivery system since universal delivery was first established. The result, as you and the other committee members have learned at previous oversight hearings, was PRA passage, which radically reformed the Post Office Department. The PRA established a new quasi-independent government corporation within the Executive Branch, renamed the United States Postal Service.

The PRA was written to establish a new USPS that would operate in a business-like fashion. Congress granted the unions a collective bargaining process, but not supervisors. The PRA stipulated that there should be a reasonable pay differential between supervisors and craft employees, and stated that the organization representing supervisors (which is NAPS) was entitled to "participate directly in the planning and development of pay policies and schedules, fringe benefit programs, and other programs relating to supervisory and other managerial employees."

The trust often missing in the relationship between NAPS and USPS, according to many of our of ricers at the time, dates to the passage of this language. Our concerns over appropriate recognition for NAPS and the employees it could and would represent, and concerns over whether the new USPS would actually allow NAPS to "participate directly" in the planning and development of pay and benefit programs, were soon justified.

In 1971 the Board of Governors slowly implemented the PRA sections concerned with postal supervisors. Most notable was the compression of the number of salary levels, and the removal of supervisors from the PS pay schedule and placement in a new Postal Managers Schedule, or PMS.

Court Action Between USPS and NAPS

Determining how supervisory positions should be rated, and whether they should be placed in existing pay schedules or newly created ones based on the type of work involved, consumed much of senior postal managers' time following reorganization. Management established a new Job Evaluation Program (JEP) in 1971—with the full support of many groups, including NAPS, because we believed supervisory positions were underrated. When the results were finally announced in early 1973 by the Westinghouse Electric Corporation of Pittsburgh, which had been hired to conduct the study, supervisors learned that most of their positions were considered overrated.

Based on the JEP report, the Postal Service offered supervisors, who were still without their first pay raise since reorganization, a $500 flat pay increase. With the reduction in grade many supervisors would be "red circled," or would remain at the top step of their grade, for the balance of their careers. NAPS immediately asked that the JEP results be set aside, and that supervisors receive an across-the-board

salary increase retroactive to 1972. NAPS also protested its lack of involvement in JEP. In March 1973 NAPS President Donald Ledbetter, when asked if he had participated in the planning and development of the programs as intended by Congress, said, "I don't know the meaning of the word 'participation.' Consultation on JEP has been perfunctory from the start."

On February 27, 1973, the Postal Service notified NAPS that JEP would be implemented. On March 3 NAPS instructed its legal counsel to petition the US District Court to grant a temporary restraining order preventing USPS from implementing the program. For the first time in its sixty-five-year history, NAPS had gone to court against the Postal Service.

On April 3 Federal Judge Oliver Gasch of the US District Court in Washington, DC, denied NAPS' motions for summary judgment. The decision focused on the interpretation of the statute granting NAPS consultation rights. Gasch said:

> "It is not necessary that the organizations covered by section 1004(b) [of the PRA] be involved in planning and development at the inception of each such program, so long as they are afforded reasonable opportunities to analyze, understand and criticize its features and have their recommendations regarding any desired changes given consideration."

While the decision was before the US Court of Appeals, the Postal Service moved forward with JEP. By 1974 the Court of Appeals had yet to hear the JEP case, and NAPS reached an out-of-court settlement with the Postal Service in the JEP suit. The agreement detailed procedures for a consultative process which is followed today.

In the summer of 1973 a second court case was brought against the Postal Service by supervisors, concerning the denial of overtime pay, premium pay, night differential and retirement credit. In August 1974 the US District Court for the Southern District of New York ruled in NAPS' favor in the case. Supervisors received checks totaling $951,000.

Efforts to secure greater consultation rights through the passage of legislation continued, but NAPS was forced to initiate legal action against USPS for the third time the following year. The reason for the suit was the pay package offered supervisors in 1975.

While this "differential" suit continued, the Postal Service, in June 1976, announced a new pay and benefits package for supervisors, and unveiled a new salary schedule: the Postal Technical, Administrative and Clerical Schedule (PTAC). This schedule identified nonsupervisory employees in field installations, regional headquarters, USPS Headquarters and headquarters-related units. Although supervisors remaining in the PMS schedule were to receive a six percent increase over the next ten months, the nearly 4,000 NAPS members placed in the PTAC schedule would not receive any pay increase or cost of living allowance (COLA). NAPS took the only action it could by suing the Postal Service for a fourth time, challenging their classification of some supervisors in the PTAC schedule.

In February 1977 US District Court Judge June Green handed down decisions favoring NAPS in both the differential and PTAC suits. In the differential suit, Green found that the Postal Service had not given consideration to the statutory requirement that an adequate and reasonable salary differential be maintained between supervisors and other managerial personnel and employees in the clerk and carrier grades. In the PTAC suit Green determined that NAPS had the right to represent those employees in PTAC who were managerial. As soon as that determination could be made, Judge Green would order the Postal Service to remove the managerial employees from the PTAC schedule. The Postal Service appealed both decisions, exacerbating the growing dissension between NAPS and USPS.

In 1978 USPS abolished both the PTAC schedule and the Postal Executive Schedules, then merged affected employees into the new Executive and Administrative Schedule (EAS), which had forty-two grades.

Because NAPS and USPS had signed an agreement defining the scope of NAPS' representation, USPS could not appeal the PTAC suit and had to return positions ruled by the court to be supervisory or managerial back into the PMS schedule, retroactive to June 19, 1976. USPS announced that employees affected by the PTAC court ruling would be returned to PMS schedule effective May 6, 1978.

Five years after the differential suit had been filed a final decision was reached. The Postal Service won on appeal and the initial decision to set 24.5 percent as the "adequate and reasonable" pay differential was overturned.

The evidence prepared in all of the lawsuits showed that the PRA indicated Congress' dissatisfaction with the pay practices of the old Post Office Department, especially as they concerned supervisors and managers. Clearly there was an inadequate differential between the salaries paid craft employees and their supervisors, so

much so that not enough qualified candidates were moving into managerial positions. (This problem still exists in many postal installations.) Those who drafted the PRA believed they had adequately addressed this situation and offered an indication of the resolution that should be pursued by the new Postal Service and its management associations. Instead, the result was an unprecedented level of contention between the two parties, and an unexpected series of legal battles that, in 1980, seemed destined to continue, especially over the issue of an adequate differential.

Resolution through Legislation

A legislative solution would be necessary, but difficult to achieve. Postal managers had already tried to "gag" all employees, supervisors and postmasters as one of their first actions following PRA passage. On the grounds that the Act removed the politics from USPS, when it actually only removed the political appointment of employees, the postmaster general issued a notice to the field stipulating all official contacts with Congress go through the Government Liaison Office at USPS Headquarters.

After the protests of every postal employee organization congressional pressure was applied to the Postal Service and the directive was clarified, "allowing" contact with members of Congress, and indicating that formal requests for information would be made through the legislative department.

In the years following reorganization NAPS twice sought legislative relief in areas of principal interest to supervisors and other managers.

Beginning in 1973, during the early days of NAPS' court fight over the Job Evaluation Program, we asked Congress to pass a bill extending NAPS' consultative rights, granting postal supervisors a salary arbitration process like that given the craft unions in 1971.

In testimony before Congress in 1975, President Ledbetter noted that, in too many instances, NAPS "was denied its statutory right to participate directly in the planning and development of personnel policies." In spite of PRA provisions and the consultative agreement reached as part of the JEP case settlement, supervisors were still concerned that, in the area of greatest importance (pay and benefits), ". . . if the Postal Service chooses to ignore the position of NAPS no matter how reasonable, we have no recourse under the Act as now written."

Such was the case in 1979, when a pay package offered by the Postal Service granted a small increase for PMS supervisors, but nothing for EAS supervisors. All PMS supervisors were to be transferred into the EAS schedule. NAPS presented evidence that pay compression among supervisory ranks was a problem exceeded only by the compression in salaries between PMS–15 supervisors and PS–5 clerks and carriers—a violation of the differential established in the court suit earlier in the decade.

Early in the ninety-sixth Congress Rep. Charlie Wilson (D–CA) introduced HR 827, commonly called the arbitration bill. Wilson's remarks at the time it was introduced best explain its purpose:

> "The bill which I am introducing today provides dispute resolution procedures, with arbitration as the final step, for disputes of national magnitude between the National Association of Postal Supervisors and Postal Service top management. There is room in this bill for the postmaster general to step in and resolve disputes in a reasonable way, but the final step of impartial arbitration will be available when necessary. While Postal Service management continues to maintain that it is improving relations with postal supervisors, after the generally recognized management blunders of the early 1970s, the fact is that the postal supervisors' organization is once again in court challenging the Service's most recent proposals for supervisors. The proper place for resolution of postal top management disputes with its supervisors is not in the courts. This bill establishes a much more reasonable procedure since the Postal Service has habitually ignored its responsibility under the Postal Reorganization Act to, in good faith, consult with postal supervisors during the development of major issues affecting them."

In July 1979 the House overwhelmingly approved HR 827. Senate action was longer in coming. In July 1980 the Senate approved an amended HR 827, which codified current consultation procedures, but also tied the schedule of pay and benefit consultations to the schedule of the bargaining unit contract.

The most significant feature of the bill, which became PL 96–326, was that it established an independent fact-finding panel empowered to set standards of pay and offer recommendations to settle pay disputes between NAPS and USPS. As NAPS President Ledbetter said upon receiving the Postal Service's 1979 pay package,

USPS official's were too often inclined to brush aside NAPS' examples of pay inequities collected from the field "as though they did not exist." They would no longer be able to treat evidence so capriciously in the future, knowing an independent panel would be the next level of appeal.

NAPS' other significant legislative effort came only a few years later, providing a new form of job protection against authoritative managers that hundreds of postal supervisors have used successfully during the intervening years. The need for a fair adverse action appeal process existed well before postal reorganization, when the Postal Service implemented an internal review system defined in Employee and Labor Relations Manual (ELM) section 650. The system was never well received, primarily because most considered it inherently unfair, and nothing more than a "kangaroo court." But supervisors also disliked the system because of the lengthy time required to resolve these appeals. ELM section 650 contains time limits for each step in the process, but also allows for extensions by the Postal Service when the Postal Service deems it necessary. Such extensions were routine, a criticism many contend is still valid today. Adverse action cases may go on for months (often for more than a year), creating great personal hardships for the accused supervisor.

NAPS sought a change to Title 39 of the US Code granting all supervisors rights then available only to veterans preference eligible supervisors: appeals to the Merit Systems Protection Board (MSPB). The veterans-only requirement excluded many men and virtually all women belonging to NAPS.

The need for involving the independent MSPB was concisely explained by Rep. Mervyn Dymally (D–CA), when he introduced HR 2854, the MSPB bill: "While the Postal Service has established an internal appeal procedure for supervisors and postmasters, I fear that this structure does not lend itself to objectivity and impartiality—the cornerstones of a fair appeal."

Congress did not approve the MSPB bill during the first congress in which it was introduced. Companion bills were introduced in the House and Senate in 1987, the latter by Senator David Pryor (D–AR). Both bills excluded those groups of employees entitled to form a collective bargaining unit (and thus have available to them binding arbitration). The Postal Service opposed both bills, but in the summer of 1987 we gained MSPB rights when the president signed what became PL 100–90.

The fight for MSPB rights represents the only situation in recent history when USPS senior managers and postal management associations worked in opposition to, rather than in support of, a bill concerning the Postal Service.

From this brief history I hope the committee now understands why NAPS exists, and why Congress has, in a few unusual situations, granted postal supervisors with special statutory protections: to ensure that an adequately compensated management corps will exist within the Postal Service.

TODAY'S POSTAL AND LEGISLATIVE ENVIRONMENT

As for current issues, let me first bring you up to date on our two primary postal issues (compensation and adverse actions), then comment on pending legislation.

A four-year pay and benefits agreement between NAPS and the Postal Service expired December 1, 1994, the same date the two largest unions' collective bargaining agreement expired. As stipulated in Title 39, our pay consultation process is tied to the union's collective bargaining agreement. After the Postal Service signs a new collective bargaining agreement with its largest union, the APWU, then the Postal Service must propose a new pay and benefits agreement to NAPS within 45 days. If, as expected, an arbitrator must resolve the union contract, we won't begin pay consultations until September or October.

The other area of concern to our members, and an issue I know the committee has reviewed at length, is how the Postal Service resolves disciplinary problems with its employees and its supervisors. I regret to report that postal managers in many installations continue trying to use suspensions and removals as a management weapon. This problem has become worse in some parts of the country during the last six months. Postal officials are wasting hundreds of hours of time pursuing attempts to remove supervisors or reduce their grade levels based on inconsequential charges they know they cannot sustain before MSPB. We can only speculate that this pattern of abuse is an attempt to intimidate supervisors who won't go along with the authoritarian management style of their managers.

Since Congress approved MSPB rights for postal supervisors, the need for this independent appeals process has been validated to a degree even we did not anticipate; so has our contention that the internal appeals process was biased. We have gone from a situation where the Postal Service refused to overturn the overwhelming majority of disciplinary and adverse action cases heard through the internal ap-

peal system, to a situation where the overwhelming majority of cases are decided by the Merit Systems Protection Board in favor of the appealing supervisor.

Perhaps because of our success in appealing adverse actions, the Postal Service has taken a new attitude toward letters of warning and suspensions for supervisors. A "paper discipline" pilot program, in which disciplinary notices are removed from a supervisor's personnel file after a specified period of time if no other notices are issued, may soon become the national standard.

The value of consultation and MSPB rights, both granted by Congress, was never more evident than in the months following Postmaster General Marvin Runyon's 1992 restructuring. Our consultation rights were the only thing that slowed down Runyon's hastily planned restructuring. We were unable to stop his arbitrary, across-the-board forty percent management cut or alter the early out program. Both so decimated our ability to provide service that some of our staunchest allies are asking whether it's time to make major changes to the Postal Reorganization Act. We did force a few changes in the restructuring plan that helped sustain customer service, and ensured that career postal supervisors and managers were not treated like so many pieces of automation machinery.

Headquarters employees, whom we do not represent, have not fared as well. Although many received the same consideration as their counterparts who work in the field, some have yet to find new positions. According the last report received, approximately ninety of them remain unplaced.

Although we value our MSPB rights, NAPS believes that significant changes must be made in our systems for handling both craft employee and supervisory grievances. Improving communication and eliminating authoritarian management are the best methods of doing that, but are objectives we have had difficulty achieving. To get at the root of this problem, and to address the related issue of workplace violence, the Postal Service and its employee organizations must begin a new dialogue at the highest levels. That is why NAPS endorsed PMG Runyon's call for a summit with all the employee organization presidents.

The animosity resulting from the failed collective bargaining negotiations is perhaps the biggest obstacle to such a meeting. However, some concerns have also been aired that such a meeting might violate the collective bargaining process. We do not think that would be the case, and NAPS would not participate in any meeting or process that would endanger collective bargaining. I give the subcommittee my personal assurance that I will continue working with my colleagues in the postal unions on this issue, which is a priority for this association.

Current Legislative Proposals

That brings us to the 104th Congress and the proposals that have been discussed, or formally introduced as bills and resolutions, that would affect the Postal Service, its employees and retirees.

PMG Runyon has suggested to several House and Senate members (publicly and in private) that the time has come to make dramatic changes in the PRA so that the Postal Service can compete in the marketplace like a private sector organization. Let me state unequivocally that we could not disagree more.

His recommendation assumes that the Postal Service should be as much like a private corporation as possible, but that is impossible as long as the Postal Service operates under the mandate we have been required to follow since the United States Constitution was written: We must provide universal delivery at a reasonable, universal price. No private sector corporation in America works under such a mandate.

In 1970 Congress reaffirmed the Postal Service's fundamental purpose when it approved the PRA. The Act says we should operate in a business-like fashion, but it also says we may not make a profit. Again, no corporation in America has such a requirement.

As long as the universal delivery mandate remains our guidepost, then we will never be able to re-create ourselves like a private corporation, and we shouldn't. That doesn't mean we cannot improve our management practices, offer wages competitive with the private sector, provide a safe work place for all our employees, and assure our customers a consistently high level of service at a reasonable price.

We believe most calls for privatizing or commercializing or deregulating the Postal Service would not be heard from so many people so loudly if two things had not occurred:

1. Marvin Runyon's disastrous 1992 restructuring; and,
2. Congress' demands for Postal Service payments that will total $14.5 billion by 1998.

Our customers, including members of Congress, have publicly questioned whether the Postal Service's time has come and gone, and if it is time for a new organization to take USPS' place. We don't believe that is necessary. Most of our critics question

our service and our price. We have improved our service, and our price increases could be less than the rate of inflation if the Postal Service is not subjected to further interference by congressional budget cutters.

The Runyon restructuring, or RIF as it was later declared, left us incapable of providing quality service in our largest cities because experienced clerks and carriers were allowed to take the early out offer. Across-the-board management cuts may have thinned bloated bureaucracies, but it left all of the efficiently managed departments with inadequate staffing, in effect penalizing previous efforts to streamline operations.

Runyon eliminated several so-called unnecessary levels of management, but any resulting savings have been reduced because hundreds of retired managers have been re-hired as contract employees. Other nonpostal contractors also were brought into the system, especially here in Washington. At USPS Headquarters some days it seem those with the red badges, worn by the contractors, outnumber career employees with their blue badges.

In operational areas where management cuts were not needed, hundreds of craft employees have been put into what we call "204B positions," the postal term for acting supervisors. Most of them handle the reams of reports that Runyon didn't eliminate along with the managers who used to prepare them. That's a major reason why you've seen craft overtime escalate to unheard of levels, especially in those postal districts where since 1993 management prohibited supervisory overtime.

We would like to provide precise figures on these rehired annuitants and nonpostal contractors, but the Postal Service continues to refuse our requests for this information. Similarly, we have asked how Runyon determined that a forty percent management cut in 1992 was the appropriate number of managers to eliminate, but the Postal Service never provided evidence in a study or report. It would not surprise me to learn someday that the number was plucked from thin air.

Another constraint on our productivity and efficiency, I must add, came from this body before which I testify today. Postal Service witnesses at previous hearings have shown that USPS is the least expensive postal administration among industrialized nations. But how much lower might our prices be without the disastrous effects of the Omnibus Budget Reconciliation Acts of 1985, 1987, 1989, 1990 and 1993?

Each OBRA forced the Postal Service to pay enormous amounts of money that it did not and could not factor into its budgets. Most of the $14.5 billion will pay for health care and cost of living allowance costs for postal retirees. But instead of requiring the Postal Service to assume these costs gradually, as called for by those who wrote the PRA, the Postal Service was required to pay all of those costs retroactive to 1970, when Congress approved the PRA.

If the Postal Service had not been used as a source of deficit reduction legislation, Americans would be paying far less than $.32 for a First-Class postage stamp.

The Postal Service almost faced another large demand for cash earlier this year, which could have been a fatal blow to the institution. The proposal, which was never introduced as a bill, would have required the Postal Service to pay $11.6 billion to prefund retiree health care costs. That would have necessitated another rate hike and prompted many of our largest mailers to actively pursue alternative delivery methods.

Fortunately the Congressional Budget Office's review of the proposal exposed it as just another budget gimmick that would not reduce the deficit, and many of our mailers let members of the House and Senate know that another "stamp tax" was not what last November's elections were all about. The prefunding proposal was dropped, but we remain concerned that some in Congress continue to see the Postal Service only as a source of ready cash.

These concerns have only been heightened with talk of eliminating the budget deficit by 2002. We hope this subcommittee will fight further unwarranted raids on the Postal Service's treasury.

This year those looking to cut federal spending also set their sights on postal and federal retirement programs. Under the guise of an alleged unfunded liability, a bill was submitted and later approved by the House as part of HR 1215, the tax cut bill, that will potentially cost federal and postal retirees thousands of dollars. Recently approved House and Senate budget resolutions include even more benefit cuts.

Several of the proposals are based on the premise that the retirement trust fund faces bankruptcy unless Congress takes immediate action. If, contrary to the reports by the Congressional Research Service and the General Accounting Office, there is an unfunded liability crisis looming, then there should be a full airing of this issue. We would ask your help, Mr. Chairman, in seeing that this issue is adequately investigated by your colleagues on the Committee on Government Reform and Oversight before Congress makes any drastic pension program changes.

LONG-TERM OBJECTIVES

The Postal Service faces many challenges to its continued existence, some of our own making, and others imposed from outside the institution. Perhaps our greatest fear, Mr. Chairman, is that the future of the Postal Service may become swept up in the political revolution we are experiencing, amid the calls for slashing the size of government at the federal level, and transferring much of what the federal government does to the state or local level, or to the private sector.

The primary question for this committee, then, is whether the nation still needs a federal postal system, and whether the constitutional mandate for universal delivery remains valid more than 200 years after its implementation. We believe the answer to both questions is yes, and we believe the majority of the over 700,000 postal employees are dedicated to providing a valuable communications service to the nation. And if we can ever find a way to get rid of poor-performing employees and adequately reward hard-working employees, our level of dedication will go up that much more.

Electronic communication and other technological innovations will undoubtedly continue reducing our volume in some mail categories, but for the past several years and into the foreseeable future total mail volume will increase, as will our total number of customers.

I cannot overstate to those who have never worked in a postal facility the sheer size of the job postal employees perform every day. Last year the Postal Service added over a million new deliveries. What private sector corporation could handle such an enormous influx of new business? Similarly, some of our critics like to compare us with other delivery firms, such as Federal Express and United Parcel Service. They are both fine companies, but comparisons with the Postal Service are worthless, if only because of differences in volume. Each day the Postal Service handles more mail than Fed Ex handles in a year. Every three days we handle more than UPS handles in a year.

We are far from perfect, but our flaws are easier to understand when you consider the task we have been assigned and the obstacles put in our way.

One obstacle that has particular relevance following the Oklahoma City federal building bombing is the demeaning criticism of federal and postal employees. We are often collectively characterized on Capitol Hill as overpaid, lazy bureaucrats who could not compete in the "real world." Spend a night sorting mail in a processing facility on Tour I, or a day delivering mail even when the temperature outside is at a comfortable level—and what you'll discover is that most private sector employees wouldn't last a month in a postal position, no matter what they were paid.

As for whether or not we are overcompensated, a number of studies have been done over the last twenty years showing that this accusation is inaccurate. Our benefits are better than the private sector in some areas, less generous in others. But I refuse to apologize for the gains in employee rights and benefits that often were earned first through the efforts of postal and federal unions and management associations.

The federal government should always be the model for others to follow in terms of providing fair wages and safe working conditions. We have led the way in making the workplace better and safer, and I see no reason for giving up that leadership position. We should not feel obligated to apologize for what postal and federal employees receive as compensation, when in fact the problem may be what private sector employees are denied. Not everyone should be forced to take a $6 an hour job with no health insurance and no retirement benefits, as is often the case with private sector alternate delivery firms.

The Postal Service is a unique institution, in its purpose, size and work force. Postal employees are dedicated to serving the general public and American business as the premier communications corporation in this country. But to do that we need a clear mandate from you and others in Congress; we need assurances that we will not be continuously used as an easy source of several billion dollars to help reduce the deficit; and we need to know that Congress will live by the terms of our contract with America, and provide the benefits promised to us when we were hired.

There are a number of other pressing issues of direct concern to this subcommittee and we look forward to discussing them during this and other hearings. Mr. Chairman, I would gladly answer any questions you may have at this time.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO VINCENT PALLADINO

Question 1. Many have expressed concern about the Postal Service being a "cash cow" in an attempt to balance the budget. How would you recommend that the re-

tirement system for postal employees be insulated from budget pressures? What is your position on a separate retirement system for postal employees run by the USPS?

Answer. The best way to protect postal employees from budget pressures is to eliminate the many misconceptions about the financial viability of the current pension programs. We believe allegations of financial instability are being exploited solely for the purpose of justifying increased employee payments and reduced retirement benefits. We recommend a series of hearings to examine whether or not the financial crises predicted really is likely to occur, and whether or not a new retirement program should be considered.

As for the need for a new retirement program, the impetus for this idea again appears to be the need to reduce spending, with little regard for the government's ability to recruit qualified, dedicated individuals for public service. NAPS strongly opposes a separate postal retirement plan. We see no reason for separating postal employees from the larger federal workforce. Although the Postal Service is a quasi-independent federal agency, this has not prevented Congress from demanding $14.5 billion since 1985. A separate, postal only, retirement program would not provide any further assurances that we would be safe from those members of Congress looking for deficit reduction dollars from a politically vulnerable group. Furthermore, we believe establishing a separate postal retirement program would make it easier for those who would like to privatize the Postal Service.

Question 2. Scottie Hicks, president, National Rural Letter Carriers' Association, in his testimony before the Subcommittee on Postal Service on June 7, made a suggestion that Postmaster General Runyon call a conference to create legislative improvement for the Postal Service along the path the Postal Service did in 1991, which included mailers, USPS officials, postal unions and postal employee organizations. Mr. Hicks further suggested that the collective group could agree on seventy-five percent or more of the subjects for reform proposal to ensure that all would have an interest in the passage of the reform. Would your association be willing to be an active participant in such a conference? What would be the chief concerns you would want to discuss?

Answer. NAPS would actively participate in a discussion with these individuals about the need to reform the Postal Reorganization Act. We would want to discuss changes to the ratemaking process that would speed rate approval and make it easier to bring new products into the marketplace. We do not have any other specific concerns, but would hope such a meeting might force the Postal Service to be more specific in its suggestions that change is needed in areas such as collective bargaining, grievance arbitration, and employee compensation.

Question 3. National Association of Letter Carriers President Vince Sombrotto suggested to the subcommittee in his testimony that the Postal Service should reduce the size of its managerial bureaucracy. PMG Runyon attempted to streamline the managerial numbers of offering a buyout during restructuring in 1992, but more craft employees and letter carriers availed of this opportunity than supervisors and postmasters.

Answer. Prior to the 1992 reorganization, there unquestionably was a portion of postal bureaucracy that needed to be eliminated. NAPS testified on numerous occasions before the 1992 restructuring that the Postal Service was "top heavy" with managers. We recommended eliminating the Postal Service regions and thinning the management ranks at USPS Headquarters, actions PMG Marvin Runyon took in 1992. Today, we see some of the functions previously administered by the regions being handled by the ten USPS area offices. The Postal Service apparently shares this concern and is reexamining the size and the function of the areas, and the role of the USPS districts. We believe the Postal Service has plans to reduce the number of managers at the area and district levels, although PMG Runyon has not released any specific plans. We also expect the number of managers and supervisors at lower levels to decline as automation improves productivity and reduces the number of craft employees.

We do not agree with Vince Sombrotto's general assessment that the Postal Service has an excessive number of supervisors and managers, as indicated in our response to part b) of this question.

Question A. Would your organization be agreeable to USPS officering another buyout targeted to managers? How many supervisors would you expect to take a buyout?

Answer. We do not believe the Postal Service has such an excess of managers nationwide that a general buyout would be appropriate. However, should the Postal Service decide to eliminate some positions, we would rather see the individuals in those positions offered a buyout than see them suffer through a reduction in force (RIF).

We cannot speculate on the number of supervisors who would take such a buyout, however, congressional efforts since January to reduce retirement benefits have created an intense degree of anxiety so that many senior managers would readily accept such an offer if it came before any retirement benefit cuts went into effect. A general buyout would create the same problems experienced in 1992–1993 when we lost so many senior managers and craft employees that service declined sharply, especially in large cities. To avoid repeating this problem, buyouts should not be offered to craft employees unless their job functions become unnecessary because of automation.

Question B. Do you think the ratio of supervisors to employees is better today than before the last buyout? What is the ratio?

Answer. The ratio of supervisors to managers did not change because of the buyout, but because the Postal Service dramatically cut the number of supervisors in the 1992 restructuring. In most cases the cuts were forty percent across-the-board. These cut were made without adequate planning or consultation with NAPS and the two postmaster associations. As a result, we had fewer supervisors, many without prior experience in operations, who were put in charge of mail processing or delivery units where there was a high percentage of newly hired craft employees. The result was evident in the sharp decline in service experienced in 1993 and 1994. Today those same craft employees have one or two years experience, but we have about one-third the number of supervisors responsible for the same amount of paperwork that existed before the restructuring—more paperwork in most situations. These supervisors also are now responsible for some administrative duties (such as grievances) previously handled by individuals whose jobs were eliminated in 1992.

We have asked USPS officials to reestablish some of the positions that were eliminated during the restructuring. A recent example, discussed at our monthly consultative session for June, is the accident investigator/claims coordinator position. The responsibilities previously delegated to a single individual were reassigned to a group of four "generalists," all with the title customer service analyst. We believe such an important function requiring very specific training and experience should be given a higher priority than some of the other functions these analysts handle. Apparently, many managers in the field agree with NAPS, because several USPS district managers have assigned one individual exclusive responsibility for investigating accident claims. There are other positions eliminated by headquarters managers, but recreated by field managers on a de facto basis to get the mail delivered and respond to other customer and corporate needs.

Regarding the ratio between managers and employees, there is no single ratio for the entire Postal Service. What is an appropriate ratio in marketing or human resources may not be appropriate for a station with over 100 letter carriers. Any discussion of this rate usually compares first-line supervisors to either clerks or city carriers. Here again, however, this number must change based on the circumstances of the facility in question. Supervisors whose employees work on a single floor in a building constructed in the last decade or so are capable of supervising more employees that those who work in older, multistoried structures. Other factors could include the number of deliveries and the number of customers. The ratio for first-line supervisors in mail processing facilities, including every manager in the facility, was set in 1992 at 20:1. There is no set ratio for first-line supervisors in delivery facilities; ratios range from 6:1 to 30:1 (or more).

Question 4. Postal Service personnel are not covered by the Whistleblower Protection statutes. I receive numerous correspondence from postal employees seeking coverage under the Whistleblower Protection Act. Many of these letter writers state that this change would encourage greater disclosure of fraud, waste and abuse as well as ensure protection for whistleblower complainants. What is your specific position on extending this Act to postal employees.

Answer. When Congress last revised these statutes, we discussed with the committee members and staff at that time whether postal supervisors should be included in the bill's language. It was their suggestion, with which we agreed, that postal supervisors already had this protection through our Merit Systems Protection Board rights. PL 100–90 extended to all supervisors appeal rights against adverse actions that previously were available only to supervisors who were veterans. Therefore, any language including postal supervisors in the Whistleblowers statutes would be superfluous. We would not object to being included in the statutes, but we do not see that it would afford any additional benefits or thus encourage any more supervisors to report fraud, waste and abuse.

As for other postal employees, we are not aware of what rights each category has. We would not object to extending Whistleblower Protection rights to any employees.

Mr. MCHUGH. Thank you very much, Mr. Palladino. We next have the privilege of hearing from William P. Brennan, who is president of the National League of Postmasters. Mr. Brennan.

Mr. BRENNAN. Mr. Chairman, my name is Bill Brennan, president of the National League of Postmasters, and I am pleased to be making my first appearance today before this distinguished subcommittee. In keeping with the wishes of the Chair, I will summarize my testimony, and request that my complete statement be made part of the record.

Mr. MCHUGH. Without objection, so ordered.

Mr. BRENNAN. Our organization represents postmasters, and it came into being originally, back in the late 1880's because of small postmasters having no rights whatsoever, and serving at the beck and call of their superiors. They began to ban together into an organization. And finally, in 1904, we elected a national president with residency here in Washington.

Ironically, our first national president was removed from the Postal Service, because he opposed some of the action. A lot of this occurred because of the ruralness of America back then. The travel, the small towns, all of this required a tremendous number of post offices. And as a result, these were very much political patronage jobs, even though in the beginning, they did not pay much.

But our organization, as well as the rest of the organizations, were created to represent our membership, and to focus to improve working conditions, salaries, and to represent postmasters in disputes with the U.S. Postal Service. No, as management, we do not have collective bargaining rights, such as our previous panel indicated. We have basically asked to be treated with respect and dignity, and in return, we promise to treat our people with respect and dignity.

We also wish to cooperate fully with the Congress of America, in developing laws and discussion that will serve our members, the Postal Service, and, yes, the American postal customers. The Postal Service is assisted by professional managerial skills of postmasters and supervisors; and we believe has faithfully carried out its Constitutional mandate to provide the American public with a universal postal service—one that assures prompt, reliable, and efficient service to all individuals and businesses nationwide.

I believe that we have met this mandate, in spite of the revolutionary communication changes over the past two centuries. And we're prepared to continue in carrying out our mandate well into the next century. Postmaster General Runyon recently stated that he envisions a Postal Service that is committed to being on the cutting edge of change, evolving into the premier provider of communications for our Nation.

Mr. Chairman, we share that vision. You heard a little earlier that there is a difference in opinion of whether the Postal Service is improving or not. Independent studies do reflect that local first class mail is being delivered overnight at new records of service and customer satisfaction, and that the vast majority of Americans are generally satisfied with their mail service.

I know that we have problems in major cities across this country. The Postal Service is addressing some of those, and with the help of supervisors and managers, and many of our craft people, we are

trying to improve this service. Fortunately, we've reached an area where our competition has a distinct advantage over the Postal Service. They are not bound by similar constraints which unfairly limit the Postal Service's efforts in pricing and marketing its services and products.

Changes in the Postal Reorganization Act, after a quarter of a century, may be needed in some areas to allow the Postal Service to keep pace with its competitors. But that change should be thought out very, very carefully. Certainly, our non-monopoly mail should be competitive with the services needed and the fees charged, to be set by the marketplace, and not decided nearly a year later by a Presidentially appointed commission, i.e., the Rate Commission. Perhaps a solution to this problem—and it has been an ongoing problem—is to allow the Postal Service to establish new services and interim rates while this review process is going on.

And I fully agree that the Postal Service should not be privatized. Mr. Chairman, we submit that those who call for privatization have never supported with facts their claims of providing a universally cheaper mail rate and faster service to all customers.

It must be remembered that the Postal Service, by law, cannot make a profit. And in addition, the Private Express Statutes are what guarantee a universal postal system through all parts of this country. What private entrepreneur would guarantee universal postal service for uniform rates? Which one would deliver to those areas of the country, or into some of the inner city, where you could not make a profit?

How would they guarantee the sanctity of the mail that we've all come to just take for granted? What would happen, even, to the free forwarding system, and with the mail of the 20 percent of Americans that move each year? Mr. Chairman, the list goes on and on, and we urge this committee to oppose any idea that would change that current system. While the Postmaster General speaks of a need for legislative reform, until we see specific proposals from either the Postal Service or Congress, we will not take a position on that.

We are willing to review, discuss, and support certain proposals that will produce greater efficiency and flexibility in servicing postal customers, in competing with the private sector in the communications field. We disagree, however, that postal employees are overpaid or that they should be removed from the Federal agency's governing rules and regulations concerning their benefits and welfare.

You've heard several references to the GAO report, issued last fall, pointing out the dissatisfaction among some of our postal employees. We feel that much of that report was based on studies in areas where employee satisfaction was low, and yes, that is a widespread problem. Perhaps a solution to parts of these problems could be found by studying those areas where employee satisfaction was high. The League, however, is very supportive of efforts to improve employee relations. We are an active participant in ongoing programs.

Mr. Chairman, before closing, I wish to address certain fiscal 1996 budget proposals currently under consideration. This subcommittee, as well as others, will soon begin a reconciliation proc-

ess. And as these issues come up, either directly under this committee, or in the full committee or the full House, consider the following: The civil service retirement trust fund now has more than $350 billion. It is not broken; it does not need fixing. It is financed primarily by withholding from salaries of employees, plus interest from investment.

Postal and Federal employees receive an annuity, not a pension. The average annuity that each of them receive is less than $1,500 a month, before taxes. The average retirement age for an employee leaving the service is not 55, it's closer to 61. Cost of living adjustments for Federal retirees have been canceled, reduced, or delayed in recent years to the tune of $40 billion in deficit reduction.

Our employees and our retirees are willing to do their fair share in the financial interest of this Nation. But the record shows that they have sacrificed far more than other workers. And we ask that this committee say "enough is enough," and that this matter be put behind us.

You've heard several comments on the amounts that the Postal Service has been billed for so-called "prior sin," going back to before there was a Postal Service, in the days of the Post Office Department. And these, yes, our customers had to pay for, and they have resulted in standbacks. You've also heard of appropriations that are proposed for the 1996 budget that, again, are in danger. We ask that the committee consider these facts as they deliberate the 1996 budget issues this year.

Mr. Chairman, the National League of Postmasters looks forward to working with you and your subcommittee and staff on these and other matters; and I thank you for the opportunity to appear before you.

[The prepared statement of Mr. Brennan follows:]

PREPARED STATEMENT OF BILL BRENNAN, PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS

Mr. Chairman and members of the committee, my name is Bill Brennan, and I am President of the National League of Postmasters. The League proudly represents Postmasters, retired Postmasters, and other postal and federal employees across this country from the largest urban area to the smallest and most-remote of rural areas.

Thank you for this opportunity to assist this committee in its oversight responsibilities of the US Postal Service.

A LEGACY OF SERVICE

As early as 1887, Postmasters of small, fourth-class post offices began organizing Leagues in counties around the country. In 1904, Oscar Pogue, President of the recently organized Texas State League, called an organizational meeting of the National League of Postmasters at the St. Louis World's Fair. In December of that year, a national headquarters office was established in Washington, DC, and the National League of Postmasters began its service to Postmasters which has continued without interruption to this day.

During the same period of time a magazine for Postmasters of the Fourth Class was initiated. The Fourth Class Postmaster, which began publication in 1894, was renamed The Postmasters Advocate on July 1, 1900, and continues as the primary publication of the National League of Postmasters.

In 1904, out of a total of 71,131 post offices, 65,766 were fourth class offices; 3,896, third class; 1,204, second class and 265, first class. The average annual salary of the fourth class postmaster was $163.70. These postmasters received no other support from the Post Office Department. It was the Postmaster's responsibility to provide the postal facility and all necessary supplies for its operation, as well as to

pay for a substitute Postmaster when needed—all out of his or her small compensation.

Postmasters were divided into four classes based on volume of business which also determined their compensation. In 1904, First-class Postmasters were paid over $3000 annually; Second Class, $2000–2999; Third, $1000–1999, and Fourth, less than $1000. Also, postmasters of the first two classes were appointed by the President and those of the third and fourth by the Postmaster General.

The National League of Postmasters was organized to improve working conditions for its members. The League set out to tackle certain problems and to resolve them. Its goals were to obtain more favorable working conditions, job security, and better pay for Postmasters, and to work to improve service to the public. The League was successful in bringing fourth-class postmasters under the federal civil service system and in gaining financial support from the Post Office Department for facilities and supplies.

Though originally organized by postmasters of fourth-class offices, the League opened its membership to third-class offices in 1908, to second-class offices in 1942 and eventually to first-class offices. Today, there are only 26,803 postmasters. The League represents postmasters from every level of office, as well as retired postmasters, officers-in-charge and postmaster reliefs.

Today our goals remain the same. We still work to improve service to the public, and though working conditions and job security have improved, we continue to feel the need to protect our members' jobs and benefits.

OPPOSITION TO PRIVATIZATION

From our beginning the League has represented the interests of small post offices and post offices in out-of-the-way places. Today we have members who must deal with difficult delivery situations in some sections of our inner cities, as well as in sparsely populated rural areas. Our experience in these situations drives home the importance of universal delivery to all citizens of this country. These are routes that would not be considered profitable. People served in these unprofitable areas would be the first to lose out if private enterprise were to take over the Postal Service.

As you know, the Postal Service was authorized by the US Constitution and created by an Act of Congress to provide postal services "to bind the nation together." By law the Postal Service is required to provide regular postal services to all parts of the United States, including rural areas, communities and small towns where Post Offices are not self supporting. Congress intended that postal services be guaranteed to both urban and rural communities.

The League strongly believes that Congress must continue to protect the right of all citizens to have mail Service to their homes and in their communities, whether they live in a crowded, urban ghetto or on an isolated ranch.

The Private Express Statutes make it possible for the Postal Service to support universal delivery at uniform and reasonable rates. These statutes are a group of laws which give the Postal Service the exclusive right to carry letters. Without the Private Express Statutes, private delivery companies could operate in low cost, high profit areas free of the mandate to provide universal service. This would leave the Postal Service with expensive delivery areas, resulting in lost revenue and forcing increased postage rates on the public and possibly creating the need for subsidies from the government. As you know the Postal Service is not allowed to make a profit in the performance of its service.

We staunchly defend the Private Express Statutes and the system of universal delivery.

Breaking up the Postal Service or allowing various private entities to take over all or parts of its major functions would bring chaos to routing, tracking, pricing and paying for services.

How would the price of a stamp be divided between those who pick up and sort, those who transport, those who receive and those who deliver if they all worked for different companies? How much would they charge to forward the mail?

Would more than one company be allowed access to the home mail box? Would that mailbox remain secure?

Would new players in the delivery of mail be allowed to make a profit? Why would they get involved if they could not? If a profit were allowed, how would the price of a stamp be controlled?

The League is opposed to dividing up the Postal Service, selling off parts of the Service or weakening the Private Express Statutes.

Given the complexity of universal delivery of the mail, a monopoly is essential. That monopoly needs to remain accountable to Congress. The Congress needs to provide certain protection to the employees of that monopoly.

This is the system which we have now. This is how we protect mail delivery for all Americans and how we protect the rights of the men and women who carry out this service day-in and day-out.

Our Postal Service may have some problems, but it is the most efficient postal service in the world, and it is still the best way to guarantee universal mail service.

A COMPETITIVE POSTAL SERVICE?

Is it possible to make changes to the private express statutes and, at the same time, protect universal delivery? The law requires universal delivery and provides for a monopoly in certain classes of mail. However, not all postal business is monopoly. Yet, in dealing with non-monopoly mail, the Postal Service is restricted by the same rules that govern the monopoly.

In non-monopoly areas, where the Postal Service is in a competitive situation, the League believes the Postal Service should be allowed to compete. More flexible rate setting would allow the Postal Service a more even playing field with competitors for Express Mail and Parcel Post. Our competitors in these areas can change rates with little or no notice, but the Postal Service must go through an arduous, expensive, rate process.

While the Postal Service would like to become more market-driven, the League cautions that the Private Express Statutes and universal delivery should be protected and offices in rural areas and small communities should never be threatened with closure in the name of cost savings.

ADJUSTING TO REORGANIZATION

Three years after our most recent reorganization, the Postal Service continues to adjust. In some cases it is still too early to pass judgement on this massive undertaking.

Last year, the League pointed out the problems postal employees, and particularly Postmasters, were having with the separation of the customer services and the processing and distribution functions. Confusion ensued. Employees lacked certainty about who was in charge. They were not sure who had the authority to make and carry out decisions.

The League requested that these functions be reunited under a single authority in smaller facilities. That has not happened yet.

However the Postmaster General did join these functions at the headquarters and area levels. The League applauds him for his responsiveness in making this move.

GAO RECOMMENDATIONS

During the last couple of years a few unfortunate events and service problems provided the press with sensational news copy.

This coverage created a distorted view of the massive service the Postal Service provides, every day, by moving the mail to 125 million addresses at a rate of approximately 580 million pieces of mail a day.

We are proud of the important job we do and the service we provide to our customers.

In a report to Congress last year, the GAO reported on labor/management problems within the postal service. The League feels that while the GAO reported on real problems, the supporting study focused too much on problem areas. I would like to suggest that future studies look at districts where employee and customer satisfaction is high. These success stories could provide us with models to use in correcting problems in areas where satisfaction is low.

In response to some of the suggestions made in that report, be assured that we are willing to work with the Postal Service and other employee representatives in changing the work climate. We agree that incentives could encourage teamwork and that greater responsibility and accountability could improve work results. We also recognize the value of more training.

The League supports cooperation at every level and communication and respect between all levels.

CIVIL SERVICE PROTECTION AND BENEFITS

However, there is one proposal that the League will never support: the idea that the Postal Service should be freed from civil service rules.

As I mentioned earlier, this organization, in its infancy, fought hard to bring Postmasters into the Civil Service System.

Our first success was on behalf of the vast majority of Postmasters, those with fourth-class offices. Later we succeeded in having all Postmasters included.

More recently, this organization has fought hard for MSPB rights for Postmasters. We will do everything necessary and within our power to maintain the protections we have gained and we have no intention of taking a step back.

Postal employees fear real threats to their benefits and compensation from several directions.

I take exception to the Postmaster General's assertion that our craft employees are overpaid by 30% and our managers, by 14%.

I also challenge the current move by Congress to reduce civil service retirement benefits based on the misconception that the Civil Service retirement fund is in trouble. This fund of more than $350 billion is not in trouble. Furthermore, it is financed primarily by withholdings from salaries of federal and postal employees.

Federal/postal retirees receive an annuity, not a pension. The average earned annuity is less that $1500 a month before taxes. The average retirement age for a federal employee is 61, not 55.

Furthermore, cost-of-living adjustments for federal/postal retirees have been canceled, reduced or delayed in recent years to the tune of $40 billion, in the name of "deficit reductions."

While federal and postal employees and retirees are willing to do their fair share in the financial interest of this nation, the record shows that we have sacrificed far more than any other workers or retirees in this country.

The League says "enough is enough" and we hope this committee agrees.

"STAMP TAXES"

The League is very appreciative to members of this committee for their part in saving the Postal Service from the $11.6 billion hit which was proposed last year. I hope you can continue to help us to fend off similar attacks as they continue to occur.

I remind you that from 1987 through 1998, the US Postal Service will have paid $14 billion to reduce the federal deficit as required by Congress in the OBRAs of 1985, 1987, 1989, 1990 and 1993. Now the House of Representatives is asking for MORE. The budget resolution would repeal the Postal Service transitional subsidy which covers liabilities of the former Post Office Department to the Federal Employee's Compensation Fund for injuries which occurred before July 1, 1971. The amount involved is $130 million over five years, starting with $37 million in 1996.

Every time Congress takes large sums of money from the Postal Service, postal employees are asked to do more with less. How can we be on the cutting edge of technology without the funds to pay for it? How is the Postal service expected to balance a break-even budget when Congress adds to the cost of doing business?

The bottom line is that each time Congress takes money from the Postal Service, another tax is imposed on the public—a "stamp tax."

In summary, the National League of Postmasters has worked to protect Postmaster's jobs, and improve benefits and conditions for around a century now. We strongly support the continuation of universal delivery and efforts to improve and upgrade service. We urge Congress to help us protect our benefits and to work with us to protect and improve our service.

This concludes my testimony. Thank you for this opportunity to bring these issues to your attention. The National League of Postmasters looks forward to working with you and your staff in an effort to improve our circumstances and our service.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO BILL BRENNAN

Question 1A. How would you recommend that the retirement system for postal employees be insulated from budget pressures?

Answer. The federal retirement system should be self contained. It should be off-budget and off-limits. Not only that, but funds contributed by employees and the Postal Service should NOT be loaned to the federal government without substantial interest. Federal retirements should be protected by the same laws that protect private plans.

Question 1B. What is your position on a separate retirement system for postal employees run by the USPS?

Answer. This question brings up more questions than answers. We don't feel qualified to assess the ability of the Postal Service to administer a retirement plan. Would we be entitled to the same level of benefits? Would this become a negotiated benefit for which we would have to trade off other parts of our compensation? Would Congress return to the Postal Service retirement fund all funds already contributed to the federal retirement systems by postal employees and the Postal Service, and

owed to that fund by the federal government before the Postal Service assumed that obligation? In addition would the federal government return funds taken in the last 10 years through various OBRAs? Would this plan be subject to federal laws? Would it be off-budget to the federal government?

If we could be assured of the same level of benefits, based on a formula which would not be subject to changes, with built-in protection and security, we would be willing to consider such a plan.

Question 2A. Would your association be willing to be an active participant in such a conference?

Answer. Yes.

Question 2B. What would be the chief concern you would want to discuss?

Answer. Building "true teams," improving work rules, resolving disputes at lower levels for both craft and management employees, and improving training.

3. Response to statement: Postmasters hold the top position in the facilities they serve. In some facilities, they are the only on-site employee. In some instances, a Postmaster vacancy in one of the steps toward eliminating that office.

Unions have always complained about management. It is the nature of the beast and part of the power struggle between labor leaders and management. Perhaps management styles could be improved, but someone has to do the job. Do they want union stewards to replace supervisors?

Postmaster numbers are down to 28,000. We see no need for fewer Postmasters or fewer Post Offices. Someone has to be in charge of the Post Office and we believe Postmasters are the only logical choice. If you take away the Postmaster, someone would have to do the job. Fewer Postmasters is not a practical suggestion.

Question 3A. Would your organization be agreeable to the USPS offering another buyout targeted to managers? How many postmasters would you expect to take a buyout?

Answer. Another buyout would place a hardship on this organization and on the Postal Service, if many Postmasters accepted it. This soon after the last buyout, I wouldn't expect high numbers. However, added on to pending reductions in retirement benefits by increasing the number of high salary years, more Postmasters might leave. Some of our members are definitely interested in an early-out.

In 1992 approximately 5,000 Postmasters took the buyout. Depending upon the offer, I would expect as many as 2500–3000 to seriously consider a new offer. The Postal Service should be able to provide the number of current employees of retirement age and approaching that age. This would help determine who is eligible. The down-side of this would be that the Postal Service would lose more experienced employees who would be replaced with less experienced or inexperienced employees. This could cause a temporary dip in service. The Postal Service, by necessity, is labor intensive.

Question 3B. Do you think that the ratio of managers to employees is better today than before the last buyout? What is the present ratio?

Answer. The reduction in the number of supervisors in individual Post Offices has created a problem for many Postmasters who had to pick up the workload when supervisory positions were eliminated. The Postal Service could run figures on the present ratio.

Question 4. What is your specific position on extending the Act (Whistleblower Protection statutes) to postal employees?

Answer. We have fought in the past for MSPB rights. Postmasters have nothing to hide. We would support this. However, we would hope that complaints against waste (efficiency) could be worked out within the office or on an advisory capacity.

Mr. MCHUGH. I thank you, Mr. Brennan. Mr. Brennan, let me just ask you, please, and I apologize, but I've been perusing your written statement; I had read it previously. You made a comment about the Presidentially appointed Postal Rate Commission.

Mr. BRENNAN. Yes.

Mr. MCHUGH. Could you repeat that for me, because I'm not sure I heard it all?

Mr. BRENNAN. The sentence is as such: Certainly non-monopoly mail should be competitive, with fees and services set by the marketplace, and not decided a year later by a Presidentially appointed commission, which is the Postal Rate Commission.

Mr. MCHUGH. Right, thank you. I appreciate that. I wasn't sure. I thought I understood your direction on that, but I didn't want to

make that assumption. Let's begin with Mr. Games. On page 3, you talked about your understandable interest in increasing work place and worker safety. Obviously, or I would hope obviously, that's a concern to all of us. Robberies and assaults and such are tragically increasing. Certainly we are becoming more aware of them.

Could you share some specifics as to what you think not only needs, but could practically be done to increase the safety situation?

Mr. GAMES. I think there's probably a few things. I think the Postal Inspection Service does an excellent job in deterring a lot of crime that would come our way. Post offices, probably on the whole, are hit a lot less, have a lot less problems than, say, a convenient market or even a bank because of the Postal Inspection Service. But I do believe that somehow or another, we need to do something—get a committee together to look at ways that we can be even safer than what we are.

I don't know if that means putting cameras and whatever in every facility or what. That's still not going to stop somebody coming in and wanting to do a shooting. There's probably not much that's going to stop somebody that comes in with an Uzi. But I do think also, internally, we do have a lot of internal problems. And a lot of that, I think, goes back to our hiring process. I think we need to look at our hiring process and the way we deal with people after they're hired, if it's obvious that they have a problem.

Sometimes we just don't do a good job of screening, and also of removing people who have problems.

Mr. MCHUGH. We assume, or many of us assume that those situations are usually found in metropolitan, urban, inner city areas. But what is the crime situation, in the more rural parts of America? Is this a problem for these types of people as well?

Mr. GAMES. I can think, over the last few years, of several postmasters in small towns, who were robbed and even two or three who were killed during robberies. And these were in very, very small towns throughout the country—Ohio, Louisiana, and some other places. So, yes, it's not only a big city problem. It's probably more of a big city problem, but it happens all over.

Mr. MCHUGH. In those instances, to anybody, is there something obvious we should be doing that we're not? I mean, I think your suggestion that we look at it more in depth is a good one. But is there anything that stands out that you think——

Mr. BRENNAN. Unfortunately, it's very difficult. You're dealing with small towns, you're dealing with small offices. Many times there's only one person in that office. You don't have that employee backup group there. You're usually in a community that may not even have a full-time police force. So you're dealing with the county police forces. We can't make our post offices prisons to protect the people inside, so to speak.

The problem is growing, and I think it will continue to grow with the drug culture that is in America. As people move around, they're interested in getting money, money, money. And if they ever come across this, that they can just start going down the road to small offices, they may not get a lot of money at any particular one, but they won't get any resistance. And this, I think, is the front edge of that curve that we've got to get ahead of somehow.

Mr. MCHUGH. Mr. Palladino.

Mr. PALLADINO. Well, when I think of safety, I think our employees are concerned with two areas, basically. And one is problems on the work room floor between employees and then outside influence. I think that our change toward employee assistance programs and changing our attitude toward a problem employee, or trying to help that individual instead of moving toward discipline and working out the problem, will help bring safety to the work room floor.

And that's what I was looking for at the summit—to discuss those type of situations, how we're going to treat each other on the work room floor and how we can help each other in that way. And the other calls for us to work together to make the work room floor safe from outside intruders. And that takes everyone to get involved. And we're beginning to train all our employees and supervisors in that effort.

But we suffer from the same thing that all America suffers from—an increase in crime. And there's no way that we can arm every one of our places. I mean, I guess we're just like 7–11's in the night, or maybe training, I don't know. I don't know how we can do that, but we can sure get all the employees together to help security in a lot of our big installations. Those are the two areas I think are a big concern.

Mr. MCHUGH. Let me go back to your first comment in your response. You talked about the need to work these issues, internal issues, out on the floor, and the need to discuss that at a summit type get-together.

Mr. PALLADINO. True.

Mr. MCHUGH. Right now, are you being encouraged by those above you to pursue that kind of course? And are you in any way trained to do that, or is that something that you'd need to be provided?

Mr. PALLADINO. Well, we need that training. We're being encouraged, and the training has been promised for 3 years.

Mr. MCHUGH. But you're not receiving it.

Mr. PALLADINO. Not yet. I believe that we're on the verge of getting the training needed. What we need, though, is cooperation between hierarchy and these craft organizations. I think the contract negotiations has interrupted many good things that we could have done. I can't agree more with Bill Quinn when he said, I had thought we would get a good contract; that the Postal Service would offer some modest increase in pay, and look to change some of the work room floor rules that make it so difficult for us, for both of us to do our jobs—not only the supervisor, but the craft employees.

I mean, when you think about it, you talk about empowerment, from 1971, we had a contract of 58 pages. It is now 358 pages. And the bigger it gets, the more difficult it is for a supervisor to manage on the work room floor. And we get caught between work room rules and calls for increase in productivity and the inability—the 74 percent that said there were poor performers; there are. And there's no way that we can—we haven't successfully found a way that we can get them off the work room floor, or get them to improve.

It isn't that I think we want to fire them. That isn't the first choice. But to get them to improve is very, very difficult.

Mr. MCHUGH. Whose shortcoming is that? Is this a problem that the unions have been intransigent about? Are they allowing those kinds of procedures to evolve, or has management simply not pursued it?

Mr. PALLADINO. I think it's both of our problem. I think that's what the summit could discuss. I think that we both have to admit to each other that we might have some authoritarians, and they might have some goof-offs. And we ought to get together on that issue, without disturbing their collective bargaining rights. I'm for collective bargaining, and I think work rules have to be made. But I think they can be less stringent.

I mean, they just keep getting more complicated. More decisions should be made at the work room site, instead of way up at the top. And I think that's where we have a problem meeting. I think that's where—and I guess they're not without reason—the unions don't trust us at that level. And I think that's a problem that we have to overcome, and I hope that summit could help.

Mr. MCHUGH. So you agree with Mr. Quinn in part of his analysis, but you wouldn't, I assume, agree with his assessment that the PMG's call for the summit was a publicity stunt?

Mr. PALLADINO. Oh, it may have been. I'm not saying that.

Mr. MCHUGH. Oh.

Mr. PALLADINO. But it's still—regardless of what it was, I still think it would be useful.

Mr. MCHUGH. A useful purpose.

Mr. PALLADINO. Absolutely.

Mr. MCHUGH. OK. Thank you. Either of you gentlemen have any comments on what Mr. Palladino has just stated? I'm particularly interested with respect to the issue of resolving work floor disputes and working with those who are in charge as supervisors.

Mr. GAMES. I agree with Mr. Palladino and what he said. As far as training, I don't believe the supervisors, the postmasters have been given a lot of training in things such as conflict resolution by mediation and things of that type. We do need much more of that. Training, the last few years, has been almost non-existent.

Mr. MCHUGH. Why is that?

Mr. GAMES. I don't know. When reorganization, restructuring in 1992 came in, the training as we knew it then was sort of disbanded at headquarters. The group that was here that took care of training was sent to Chicago, and cut drastically. The districts, in the reshuffling and whatever and the stress or the push to get things done, they had a very tough year last year. And I think probably that was one area that got cut. Hours weren't there to do the training.

I do believe that there's a real push now to get back on track in that area. And I do hope that they will give some training in helping supervisors and postmasters with things like conflict resolution and how to do that; it's needed badly.

Mr. BRENNAN. Yes. During this last reorganization in 1992, so many people changed jobs and came into new jobs with no background in that particular functional area. And in addition to that,

we lost, from the craft site, so many of the experienced people that we really needed.

So we've gone through that, and I think the problems that Mr. Owens is experiencing, while they didn't start in 1992, I think they became a focus of the major cities in 1992 because of all of the inexperienced people who were out there.

Training, as Mr. Games said, yes, it became almost non-existent, except in some progressive areas in the country that took it upon themselves to do some things. There was no organized effort from the national level. We have, unfortunately, a history, when money gets tight or issues get tight like that, we cut back on training when we should be doing the opposite to help people do better. I think that conflict could be avoided in many cases.

Mr. MCHUGH. Mr. Palladino, did you want to add something?

Mr. PALLADINO. Well, also, the Postmaster General made it known that he wasn't in favor of classroom type training of that type. And that sort of lent the field the great idea that they could save on budget and eliminate training totally. And there was no direction to pick it up locally. So we went for 3 years where nobody knew exactly what to do, so nothing got done.

And hopefully, now, they see the benefits of training not only for violence on the work room floor, but also for the work rules and how to get to or treat poor performers, and how to respond to the employee opinion survey that we took. And we haven't done that yet, but we're hoping that it will come.

Mr. GAMES. And this is at the same time we had tremendous changeover. We had 5,000 postmasters retire. And the 5,000 that took their place just didn't have the training to carry on as before. So we did lose a lot of institutional knowledge, a lot of knowledge in dealing with the contract and things of that type. We needed the training at that time, and we just didn't get it.

Mr. MCHUGH. Let's talk a bit about collective bargaining, binding arbitration and such. As you listened to the first panel, it would certainly, I think, be a fair assessment of their comments that the current difficulties in contract negotiation are pretty much driven from the management side. The failure to have the system work is not a problem of the system, but rather a problem of management. How would you respond to those comments as you heard them?

Mr. PALLADINO. Well, not being at the table would be kind of difficult. When I first heard them talking before, it seemed like both were intent on getting a contract without going to arbitration. But when I heard what they both proposed, I would suspect that—it seemed like they were so far apart that maybe neither side wanted to get to a contract. I don't know.

Mr. MCHUGH. You had earlier indicated that you felt that the Postal Service's offer was—I don't want to put words in your mouth—unreasonable?

Mr. PALLADINO. Yes.

Mr. MCHUGH. It didn't come close to what——

Mr. PALLADINO. No, I thought that if they had offered a modest increase in pay, and looked for some changes in work rules, that the Postal Service and the employees and everybody would have come out better; maybe even looked toward area wage so that carriers in Brooklyn can smile like those in the rural area.

Mr. MCHUGH. Are you smiling over there? You said the two sides were so far apart. You characterize the Postal Service's offer as unreasonable. Would you characterize the unions' position as being, what, reasonable, unreasonable?

Mr. PALLADINO. Well, I don't know. I guess the counteroffer—I wasn't aware of what they had proposed for pay. But from what I heard, it was kind of unreasonable.

Mr. MCHUGH. So we had two unreasonables, then. Mr. Games, you said——

Mr. PALLADINO. From what I heard.

Mr. MCHUGH. All I'm asking you is your opinion. I'm interested in trying to ascertain or assess as best I can if this system is indeed broken, as some have suggested, a failure of one side or the other to behave and to negotiate and to participate in reasonable ways? And all I—one of the important parts in making that determination is just asking people's opinion.

Whatever you say is fine with me. I'm just interested in what you have to say.

Mr. PALLADINO. I believe in the collective bargaining system, and I believe it's the duty of the Postal Service to make it work, more so than the crafters.

Mr. MCHUGH. OK. Any comments from either of you two, Mr. Brennan, Mr. Games?

Mr. GAMES. I think I pretty much agree with Vince on that. I don't know that it's broken or not, either. But just the little bit of information that came out of it, I do believe that both parties really needed to get a lot closer together. And maybe it's just the system. Maybe you start out in left field, and hopefully move toward the middle. I don't know. I'm not real privy to what went on behind the closed doors, but it sure didn't get the results we would have liked for it to.

Mr. MCHUGH. OK.

Mr. BRENNAN. True. It caused an agitation right now that the Postal Service didn't need. I'm a true believer that if two sides really want to come to an agreement and want to be reasonable, and realize that no one will get everything that they want, then they can come to an agreement. I think, unfortunately, though, that the situation right now is because of the last two interest arbitration settlements, and that neither party trusts each other at the moment.

I think if we could get the trust back, then, well, we could solve most problems in the world, if people trusted each other.

Mr. MCHUGH. Yes.

Mr. PALLADINO. Just one other comment. I think that the change at postal headquarters has gone more in line with corporate thinking; meaning, pay the top the highest, and the bottom the lowest you can get. And that's the thinking at our corporate Postal Service at this point. I don't think it's a wise thing to do, but I believe that's what prevails.

Mr. MCHUGH. All three of you spoke about allowing the Postal Service to operate like a business. The first panel spoke about that, as well. Mr. Palladino, you, on page 8, indicated that—you didn't indicate, you stated it unequivocally, let me state it unequivocally,

that we could not disagree more. I want to make sure I understand the context of that comment.

Are you referring only to those areas where the Private Express Statutes come into play? Or are you also——

Mr. PALLADINO. Right.

Mr. MCHUGH. How would you respond to the PMG and others who say, we've got areas like pricing; we have areas, introduction of new product; we have areas of the need to compete in the new electronic age. Do you have a problem with opportunities and changes that allow the Postal Service to do that, or are you concerned about—and the reason I'm pressing this is because you mentioned about profit. Are you concerned about, for example, expensive new product lines that may be doomed to failure, and therefore erode into the profit?

I realize, obviously, you'd be concerned about such an occurance. But how do you feel about allowing the Postal Service to compete on those levels?

Mr. PALLADINO. Well, I think basically what we're afraid of is tampering with the law. We think that there are a lot of changes the Postal Service is looking for that can be achieved without disturbing the law. That's what we're—we're against changing Public Law 39, because it's very dangerous to tamper with what exists. We don't feel that we're that far off the mark. I think we've been a success over the 20-something years.

I mean, there's no other agency that can say they've given back to the government close to $15 billion. By 1998, we'll have paid close to $15 billion back. And the cost of the stamp is—we've improved. Letter carriers have improved their productivity; it just doesn't seem to be enough in today's day and age. I think we can get better, and we can do it on our own.

But I think we have to move slowly. I think things that are done very quickly and rashly, fail. And I point to the 1992 restructuring for my proof. That was done without thinking, and now we're in a position where all of a sudden we have tremendous competition. People are calling for privatization. We weren't in that position before 1992. I mean, we could have downsized in a proper way—little by little, not all at once.

And this seems to be, this call for commercialization or privatization seems to be another rash move to do something quickly, without thinking. And I'm not in favor of that.

Mr. GAMES. I agree. I think when we talk about being able to operate more like a business, to be more competitive in things, we need that opportunity. In my real job, I'm postmaster of Frankfort, KY. And I can just think back of many customers that we lost because we couldn't respond to State capital. We have State government as a customer, and we might have signed them up with certain businesses such as Express Mail or overnight business.

And when our competitors can come in and undercut us, and find out what we're giving, they know what we're giving—we can't change it. We can't lower our rates for volumes or whatever. It causes us a problem. We lose the good business and end up with places where it's hard to get to. And it is a problem. We really do need to be able to be more competitive.

And how we get there, again, I don't think we should throw the baby out with the bathwater, either. I do think that there's—we have a history of over 200 years serving the public. But there are small things that we could probably do to make us even stronger.

Mr. MCHUGH. List for me two or three basic ways in which you lose those customers. Is it a pricing problem?

Mr. GAMES. Pricing is a lot of it. In fact, I think it's the big thing. If we go in and we're charging $10 or $11 for a product, and our competitors can come in and, because of volumes, give it to them for $6, then we've lost that customer. It's a pricing thing. We can be very competitive on service and getting the mail or the product anywhere in the world with anybody.

But if we can do it, and it costs us more to do it than it does our competitors, we're going to lose that service.

Mr. MCHUGH. Do you support volume pricing?

Mr. GAMES. I sure do.

Mr. MCHUGH. Do all three of you?

[Panel nodding.]

Mr. PALLADINO. We should have the ability to change. Where we have competition, there should be less stringent rules by the Rate Commission. We should work that out with the Rate Commission. We have competition in parcel post and overnight delivery, and there's no reason for us to be hampered in those areas. I mean, they lobby Congress to raise our rates so they can charge higher. It's a ridiculous cycle that somebody has to look into.

Mr. MCHUGH. We had, in a previous hearing, the not-for-profit mailers come in. And frankly, they're one of the few organizations thus far—and I'm sure there would be others—that have argued very strongly for maintaining the current pricing system. And they cite previous rate cases where, indeed, because of the process, they were able to prove the Postal Service was wrong. And their rates, as such, were not just increased, they were decreased.

How would you respond to them? How could you provide the flexibility you're speaking about, and at the same time, ensure that the interest of not-for-profit mailers and others are protected as well? Any thoughts on that right now, or would you like to get back to me?

Mr. GAMES. Quite frankly, we don't have a lot of competition, in my opinion, in that area. We don't have a lot of competition because our competition's not going to take it; we give it to them so cheaply. So they're not going to come in and try to take that away. It's not profitable for them to do that. The areas where we need the competition is in the others, the first class; the Express Mail; the parcel post. No one wants the churches, because they don't pay that much.

Mr. PALLADINO. But that's an important part of our business.

Mr. GAMES. It really is, yes.

Mr. PALLADINO. We have to work out somehow, and I don't have the answer for you today, but we have to work out somehow to keep the business mail happy and delivered for them at a reasonable price, so that they don't go elsewhere.

Mr. MCHUGH. President Palladino, you've been quoted in past occasions as saying that there's an inability in the Postal Service that allows you to reward your best performers. Do you want to expand

on that a bit for me? What kinds of things would you like to see available to allow you to do that? For example, you heard President Quinn's objections to piece work, payment by piece.

Mr. PALLADINO. Right. Well, I think at this point, I would concentrate more on trying to get everyone to work together. And I think the poor performance and the attitude on the work room floor would be more, I guess, something that we should work on first. I think, also, that first line supervisors should have the ability to reward good workers. And I know they have, I think, some incentive pays to give, but it's very difficult to get it through the system. And what normally happens is, we reward the good worker with more work. And we allow the poor performer to continue, because there's no way to get him, to motivate him into working harder.

Mr. MCHUGH. Any comments, gentlemen? Do you feel that you're inhibited in your ability to reward particularly good performances, and presumably, therefore, there are few encouragements to have exemplary service.

Mr. GAMES. There are ways. We do have ways within the Postal Service to reward the good performers. But what we also have is a real problem in getting people, such as craft people, to move up into supervision, because of pay. I think pay is the main reason. A lot of times, they actually take a cut in pay when they take a supervisory job, simply because they're used to all kinds of overtime and whatever.

They get into management, they don't get that. So that's a problem, too. But I think we do have ways to reward. Sometimes, depending on who the manager is, it just doesn't get done.

Mr. PALLADINO. I'll tell you where it becomes a problem. Let's say you have a unit with some very good workers and some poor performers, but the unit productivity doesn't come up to the expectations of your boss. There's no way you're going to be able to reward the good worker in your unit when the whole unit goes down. It's very difficult to get that passed—oh, yes, I know we failed and we didn't make our budget, but this individual did a great job. It just doesn't seem to get through.

Mr. BRENNAN. We deal with that particular concept all the time. We're kind of being led toward a total team concept. And of course, any time you do that, you lose the identity of the individual. And I think, to a person, we think it's very important that that individual be recognized regardless of how that team does, because without the individual, the team will never be successful. The pressures are difficult, very difficult.

Mr. MCHUGH. Well, gentlemen, I thank you. We've already gone more than 45 minutes over the length that we had informally planned for the hearing. And I deeply appreciate your patience, your contributions, as well as the members of the first panel. I would note that, as with the first panel, we would reserve the right and ask your indulgence to submit written questions to you for future response.

I've also been informed that Cardiss Collins and Ben Gilman have asked for the opportunity to submit written statements for the record, and we would also extend that to any other Member. Also, I would enter, without objection, to the full record, the writ-

ten testimony of Mr. James Burns of the Postal Managers of America, which we have in our possession.

[The prepared statements of Hon. Cardiss Collins, Hon. Ben Gilman, and Mr. Burns follow:]

PREPARED STATEMENT OF HON. CARDISS COLLINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Good morning. I join my colleagues in welcoming our distinguished panel of postal labor unions and postal employee organizations. Together our panelists represent more than 800,000 dedicated postal employees who move over one billion pieces of mail a day. It would appear you remain poised to meet challenges and overcome obstacles. You have faced a major restructuring and downsizing, growing pains associated with advances in technology, and continuing competition from private delivery companies.

Against that backdrop you are now grappling with severe cuts in postal retirement benefits and the reneging of the government's funding of the workers' compensation fund. These proposed changes follow on the heels of the Postmaster General (PMG) calling for the replacement of the collective bargaining and grievance arbitration processes and the scraping of the seniority system. All of this is intertwined with further calls by the PMG to reform the 1970 Postal Reorganization Act and free act "more like a business". Last but not least, this "activity" takes place in the midst of calls to privatize the postal service. And you thought the restructuring/downsizing was a major hurdle!

This hearing is timely because our subcommittee has already heard from the PMG, the Postal Rate Commission, the Board of Governors and the mailing community. It is now your turn to respond to legislation pending before this Subcommittee, H.R. 210, which would privatize the postal service and calls by Postmaster General Runyon to change three areas focusing on "people, prices and products." This Subcommittee needs to hear your thoughts on the PMG's recommendations to: revise collective bargaining and workers' compensation, eliminate appeals from MSPB, reduce the role of the Office of Personnel Management, and reform the Postal Reorganization Act of 1970.

We also need the benefit of your insight on ways to ensure the viability of the postal service and improve the work environment for all postal employees, management and union.

To that end, I look forward to your presentation. Before closing, let me take the opportunity to thank the American Postal Workers Union, National Association of Letter Carriers, National League of Postmasters and National Association of Postal Supervisors for your assistance in defeating efforts in this full committee to reduce retirement benefits for postal workers and place an additional tax on all Federal workers.

That battle could not have been won without your support and that of federal employee unions. Unfortunately, despite the defeat of the bill in full committee, it was included in tax cut legislation which passed the House.

In two weeks, my colleagues on this committee will vote on repealing the federal payment to the Postal Service for the compensation fund. We are facing assaults from all fronts. Your continued support is needed! Thank you.

PREPARED STATEMENT OF HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I thank you for calling this fifth meeting in a series of hearings to address the issues that are currently confronting the Postal Service. Today we will hear testimony from panelists that direct our largest postal unions, representing this country's dedicated letter carriers, mail handlers and postmasters.

It is important that as we debate proposals that seek to make the Postal Service more competitive in the coming years, we do not lose sight of those who work hard every day to provide universal delivery. To this end we must honor the commitments we have made to our postal employees and our civil service employees in general. While I understand the need to cut spending at the Federal level, I wish to note that I have had serious reservations regarding the efforts to alter the retirement benefits package for our postal workers.

As I have stated previously, I hope that as this series of hearings proceeds, this subcommittee will continue to engage in a constructive dialogue which will improve the efficiency and customer service of this indispensable agency while keeping in

mind the hard work provided by the membership of the organizations represented here today.

I join in welcoming these distinguished union leaders to our subcommittee and I look forward to hearing their testimony. Thank you Mr. Chairman.

PREPARED STATEMENT OF JAMES A. BURNS, PRESIDENT, POSTAL MANAGERS OF AMERICA (PMA)

GOOD MORNING!

By way of introduction, my name is James Anthony Burns, a 32 year veteran of the United States Postal Service, and President of the POSTAL MANAGERS OF AMERICA (PMA) organization with our national headquarters located in the Southern California city of Irvine. Also, I am the Postmaster of Irvine, and have been since 1988. I was also in the Postal Inspection Service for 13 of my 32 Postal years. The Irvine Post Office is a Level 24 post office with almost 400 employees, and is the fastest growing city in the Southern California area.

The POSTAL MANAGERS OF AMERICA organization came into being after an incident when one of the more established Postmaster organizations saw fit to bow to political pressures from Postal Headquarters on down and isolated our local Chapter by eliminating our presidency and restricting our rights to properly represent the members. We are not like the other existing management organizations in that we are not afraid to address politically sensitive or unpopular issues relating to our ORGANIZATION's membership. We are different in that our ORGANIZATION's leadership is on the front line every work day, we don't rely on someone else in the field to tell us what is going on. We know! We don't purify the information that we send to our members. We send them the whole truth, and nothing but the truth. We were the ONLY management organization from the beginning which called Runyon's 1992 restructuring what is was i.e. a Reduction In Force. All the other management organization's supported Runyon in telling their members that his action was not a Reduction In Force, but a restructuring. After researching the Postal regulations, and with the Postmaster, Fullerton, CA—Mr. Tim Bomersback, the POSTAL MANAGERS OF AMERICA organization came into existence in February, 1994. Don't be misled—exercising our rights as American citizens and as Postal employees have come with some associated personal costs. The Washington Post recently wrote "we are a small, but vocal group." I would say that we are a "new and growing group." We aren't afraid to exercise our 1st Amendment rights, even though this is very unpopular and has proven to be unhealthy for those that would buck the Runyon power team.

Section 680, Employee and Labor Relations Manual (ELM) states "No interference, restrain, coercion, or discrimination to encourage or discourage membership in such an organization will be effected in the Postal Service. Also, Postal personnel have the right, freely and without fear of penalty or reprisal, to form, join, or assist a supervisory or managerial organization or to refrain from any such activity. Such personnel are protected in the exercise of such rights." These statements are also contained in the Postal Reorganization Act. While these statements seem rather straight forward and simplistic, our ORGANIZATION and its' members have met nothing but resentment, abuse, threats, and discrimination from Postal Headquarters, Area offices, and the Districts for exercising these rights. Since February, 1994 ten of our members have gone out on stress from their jobs as a result of their membership in PMA. Many others have been belittled in front of their peers, challenged by Postal executives, and others totally ignored. Many of our member's Postal careers have come to a fast halt. Numerous letters have been written to Headquarters, Areas, and Districts regarding the abuse of our members and the discrimination toward our ORGANIZATION and its' members with a big "NO RESPONSE" received, and the discrimination goes on. Recently, Senator Feinstein was contacted to assist our ORGANIZATION in participating in the automatic payroll deduction program offered by the Postal Service to employees who have membership in management associations and unions. The response offered by Postal Headquarters to Senator Feinstein was that "to the best of our (Postal Service Headquarters) knowledge, this organization (PMA) has a membership of less than 15 people." Also, in February, 1994 the Santa Ana District Manager pulled every PMA officer into his office, and gave each of them a letter signed by him restricting each of our rights under Section 680, ELM and the Postal Reorganization Act. A copy of my letter has been furnished to the members of the subcommittee as part of my written record for their review. Participating in the automatic payroll deduction program, being a recognized management association, providing worthwhile information to our members, protecting the well-being of our members, ensuring the well being of the Postal

Service, and holding Postal executives accountable for their abusive actions, are among the primary short term objectives of our ORGANIZATION. The primary long term objectives of our ORGANIZATION would be to unite ALL Postal managers and supervisors into ONE effective, strong management organization in order to better deal with Postal executives in terms of adverse hearings, discipline, collective bargaining, etc., and ensure the well being of the Postal Service.

Another issue that our ORGANIZATION has had major problems with higher level management in the Postal Service is that of representation. Section 650, ELM deals with the right of representation that a non-bargaining employee has in regard to adverse hearings. Also, the EEO process guarantees a Postal employee the right of representation in regard to this process. However, as simple as this right might seem in writing and in the various legal processes in America, higher level management continues to abuse this basic right by denying employees the right of representation when they are involved in disciplinary procedures, investigative interviews, and other stressful situations. I can't tell you how many EEO complaints have been filed regarding this issue by members of our ORGANIZATION. Higher level management prefers getting an employee in a situation where there are more of them present in a meeting than the employee. This way later on in an EEO or MSPB hearing, there is corroborating testimony on the side of higher management versus the employee who is the subject of the demotion or other adverse action.

The POSTAL MANAGERS OF AMERICA organization now has membership in 29 states, with approved and recognized Charters in 5 of those states, in a period of 16 months. Our ORGANIZATION accepts the membership of any Postal manager or supervisor. We have been written about in the Federal Times, Business Mailers Review, and the Washington Post as well as other publications. We are registered with the State of California and the Federal Government . In the past, we have provided written testimony to Representative William Clay's subcommittee on Post Office and Civil Service. We have a non-profit mailing permit approved by the Postal Service out of Fullerton, CA. With all of this, the Postal Service continues to ignore us as not being a "recognized" management organization. Their goal is simple—if they don't recognize us, then they won't have to deal with us. Also, by not recognizing us, they force us to solicit the members to stay current on their dues versus an allotment being deducted from their individual payroll check each month and sent to our ORGANIZATION's account. This creates more work, and requires more time, in order to stay alive, BUT WE AS AN ORGANIZATION HAVE OVERCOME THIS WITH THE DEDICATION AND LOYALTY OF OUR MEMBERS.

Postmaster General Runyon's 1992 Reduction In Force was probably the most demoralizing event of my 32 year career. Many great, dedicated managers took advantage of the early out bonus and cashed in their careers. This left the Postal Service with a void that we suffer from today. Many managers and supervisors were told that there might not be jobs available in the Postal Service, and "Concentration Camps" or career counseling centers, were set up to assist managers and supervisors in finding new jobs. Some were told that they probably would be relocating. Relocation for most all would have included moving away from family and friends. Runyon changed our Postal Eagle to the new "Seattle Supersonics" Eagle, because he said the old Eagle looked like it was roosting. Do you think many Postal employees understood any of this, I remember a Postal executive coming back from a nationwide Postal executive meeting where Runyon introduced the new Eagle logo. Somebody there at the meeting asked if there were any objections to the new Eagle, and NO ONE raised their hand in objection. Who would dare? Runyon came in and had to change the OLD Postal titles of Senior Assistant Postmaster General, Assistant Postmaster General, etc. because they did not reflect Runyon's NEW Postal Service. We in the field started hearing CEO, Vice President, Chief Operating Officer, etc. What did this accomplish? 1992 was the ONLY time in my 32 year career that wholesale, non-competitive selections were made to critical positions in the Postal Service such as District Manager, Processing and Distribution Manager, and Postmaster to name some. The people who came into power from hitting the 1992 Lottery often times selected old friends and associates that did not possess the skills to handle this type of position. Similarly, it was recently reported that the Service's Chief Operating Officer selected his baby sitter for the Vice President's position for Employee Relations. If you remember right, Runyon was going to eliminate this "good old boy" system, but in actuality he has fostered MORE of it. The Corporate Automation Plan for the Postal Service was thrown out the window. Now, we have no Plan! Runyon talks about Automation saving the Postal Service $5 BILLION dollars. I would like to see his support for this number; however in Delivery, automation has not saved a dime. The District Managers are abusing, harassing, and threatening Postmasters, managers, and supervisors to get the savings from automation in delivery via Delivery Point Sequence. We are expected to get in the car-

riers face, and extract the savings the hard way. Further, there are still over 300 PCES executives in lower level EAS positions as a result of the 1992 Reduction In Force. The tragedy of this situation is not only the under utilization of the Postal Service's executives, but also the Postal Service continues to promote non-PCES employees to PCES level positions thus essentially adding to this already poor situation.

To me, the worst case of the 1992 Reduction In Force dealt with the former Santa Ana Division Manager in California, Hector G. Godinez. Mr. Godinez had served his country in World War II as a teenager. He fought in each of the 5 major battles of World War II. He earned the Purple Heart and the Bronze Star. Incident to the 1992 RIF, he had been considered for the Postmaster General's job, one of only three Postal employees. He had served the Postal Service for over 45 years. 5 of the 10 present Area Vice Presidents have served under him at one time or another in their careers. This person had been offered many top positions in the Postal Service, received more awards than probably anyone else has ever received, a stalwart in his community assisting poor Hispanics in the Santa Ana area, and a person sought after by private and commercial companies for his expertise in business. He built the Santa Ana Postal machine up over his tenure to return over a quarter of a BILLION dollars, net profit back to the Postal Service each year. However, in 1992, due to the politics of the Postal Service at that time, this person was found UNQUALIFIED for the District Manager's position in Runyon's Postal Service. The new District Manager is a person that was kicked out of San Diego Division, non-selected by Mr. Godinez in 1986 for the Santa Ana Division, and persona non grate in the Van Nuys Division prior to 1992. This person has had a solid record of FAILURE throughout his Postal career, not to mention other very serious personal habits and behavior. We ask why the Postal Service is in trouble? Do we need to dissect the problem any further? Santa Ana, in 1992, was just a microcosm of the entire Postal Service, and we still live with it today.

In 1992, many support personnel were placed in Operational positions. Most all of these people had little skill in Operations. Similarly, many executives with little Operational knowledge were given critical Postmaster and other executive positions such as District Manager. This lack of Operational knowledge in many of our top managers has been having a detrimental impact on the Postal Service from the beginning. Runyon came in preaching Dignity and Respect, Partnership, and Empowerment. He said "you won't ever hear him say the B (Budget) word or the P (Performance) word. After all, he was going to change the culture in this autocratic, dictatorial Postal Service. Well, Runyon's Camelot has burned! We haven't heard the words Dignity and Respect, Partnership, and Empowerment for months. However, ALL we hear is Budget and Performance. Runyon talks about our Postal culture as though we just mirror society and the violence we see everyday on TV., the newspapers, etc. I DISAGREE! Runyon talks about needing to change the Postal Reorganization Act. I DISAGREE! Isn't it interesting that none of the prior PMG's never made a big deal out of the Postal Reorganization Act, and how it hampers our ability to compete. Runyon talks about how the Postal Service has a YTD Net Profit of around $750 million dollars. How much net profit would we have if the Postal Service had settled with the Unions and management associations for pay raises last November? How much would the Postal Service had made if the 1995 Budget was not front loaded? Lastly, I go back to the Postal culture. I have always found that untruthful, discredited, and irresponsible leaders will foster a negative, critical work environment. If you place Runyon's double messages, lack of a merit pay package and SET payments to the EAS employees, his non-offers to the Unions during the last collective bargaining, and the lack of follow through on most of his early commitments to the Postal employees, I believe that the Postal culture mirrors what Runyon himself has created.

Dealing with PMG Runyon brings to the minds of our members the Paul Harvey saying "now for the rest of the story." Recently, PMG Runyon boasted about how service has improved with the last EXFC scores. Nothing was said about how many Districts throughout the country had arbitrarily changed the collection times on all of the collection boxes in their area to 10:00 a.m., almost totally ensuring that no collection failures would occur again, thus ensuring the increase in the EXFC scores. For us on the front lines, I only can offer that the mail flows have not gotten better, automation has not helped our mail flows or is causing any savings in the delivery operation. The GAO has reported on the ineffectiveness of our Service in regard to the District and P&D dual leadership structure or Cluster organization leadership. Rumors continue to abound about Runyon's "Compliance RIF" turning into a "Full RIF", simply because only the veterans are being included in this process instead of ALL Postal employees. A return to ONE person in charge at the District and P&D level, thus eliminating the Cluster concept, would make things better for all.

Mr. Godinez use to always say that "a decision by committee, never works." His comments were not at all directed at our government committees, but at having more than one person in charge. Another issue deals with the Employee Opinion Surveys. Runyon has been very unhappy with the results for the past three years. They are not getting better! Knowing that the chances are slim to none that Runyon will ever get good results, he now has the Districts conducting mini-EOS surveys prior to the "Big One," in hopes of letting the employees vent their venom early, thus almost guaranteeing better results for the big EOS survey—the one that would be reported to the American public and the Postal employees. Also, Joe Mahon, Vice President for Labor Relations, recently used the EOS results against the craft by stating that because most of them were happy with their wages, NO wage package was offered at the last collective bargaining. The local unions in Southern California recently directed their members to "trash" the next EOS survey form they receive.

PMG Runyon was recently challenged for some of the comments made by him while attending a NAPS meeting. Runyon supposedly stated that "EAS employees had once been offered the same merit pay and bonus package as the executives, but declined." Who in their right mind would make such a comment? Why would any Postal manager or supervisor decline the opportunity to make 5 to 10 times more money? Runyon talked about his desire to do away with managers and supervisors Merit Protection Board rights. Can you imagine leaving managers and supervisors with NO rights, ONLY the goodness, and fairness of those in charge. The casualty rate would increase 100 times.

PMA aggressively uses the EEO and MSPB processes as well as the Federal Court system because we find that these are the ONLY rights we really possess. I have personally filed about 52 EEO complaints relative to the abuse and discrimination that I have had to endure over the past 2½ years. Before this time, I had NEVER filed an EEO in my career. Recently, I received my first Letter of Warning, this after 32 years, for failure to follow instructions i.e. the instructions contained in the February 24, 1994 letter issued to me, and the charges being totally false as they relate to my position as the Postmaster, Irvine. Another sad commentary! Many of our ORGANIZATION's members are in a similar position. Section 650, ELM deals with managers and supervisors rights under an adverse hearing environment. The problem that we are finding in the field is that the District or P&D manager holds ALL the cards and simply does not have to agree or settle anything pertaining to an EAS employee's discipline. THERE IS NO PROGRESSIVE DISCIPLINE FOR NON-BARGAINING EMPLOYEES LIKE THE CRAFT EMPLOYEES HAVE INCLUDED IN THE NATIONAL AGREEMENT. My Letter of Warning would be one example, but I could mention other EAS employees with 38 creditable years of service only to receive a 14 day suspension as the result of an Area audit in his section, or an employee who was issued a downgrade as the result of unsupported allegations and was removed from his position without even being first interviewed. There are many other examples that I could mention. When appealed to the next higher level, I have never seen an executive NOT support another executive no matter how unfair or abusive the discipline may be. You are left at the mercy of those in charge. I have read statements from Runyon on Sexual Harassment. PMA members have written Headquarters and the Area offices about the severe sexual harassment practices by those in charge at the District level only to have absolutely NO ACTION taken in this regard. Simply, there is no action taken if those in charge choose to ignore you. This is why PMA chooses to become active in writing our Senators, Representatives, newspapers, members of the Board of Governors, the Postal Inspection Service, and others. By staying in the Postal box, we would not achieve anything, or ever be heard . We, in our ORGANIZATION, know first hand how grateful we are to live and work in a land that guarantees us our rights.

After the Dana Point, CA and Royal Oak, MI tragedies, many of us in the Postal Service and those outside heard about the creation of a Violence in the Workplace Committee. This committee was going to meet regularly, have high level recognition and appeal, and resolve issues in our Postal work environment to make it better for all. If you look at the record of this Committee, it became very inactive and non-effective shortly after the news hype died down about the tragedies. Now a new venture has been voiced by Runyon having to do with the New Jersey tragedy. Recently, an employee that physically assaulted another employee in my office received a transfer to another post office and a one week suspension. This after the assaulted employee felt as though his life was going to come to an end. This is a typical example of how higher management would much rather give in than to support the efforts of the Postmaster. If you follow up on what Runyon commits to, you will find that little gets done or is followed through . Frankly speaking, if Runyon can't make it work the normal way, he will find a way to get us thinking that failure is really

success. The 360 Degree Feedback system is a prime example of this. If an executive got a low rating, he could be removed from his position. This never happened. Headquarters changed the criteria, but the 360 Degree was still a success.

Also, it should be noted that Headquarters, Areas, and the Districts have all gone overboard in pushing Performance. The casualties, needless to say, are the Postmasters, managers, and supervisors. The other management organizations could give you much more additional information on this, but are afraid to do so. After all, they might offend Mr. Runyon, or seem critical of his management style. Along with this Performance push, many Postmasters, managers, and supervisors have had to resort to making the numbers (especially Delivery volumes) appear better/heavier than they really are. When you deal with Performance, there are only two variables—work hours and volume. I know firsthand that I have written the Pacific Area on this subject several times with another big NO RESPONSE received. Again, it makes all executives look better than they should. When Postmasters, managers, and supervisors do go after the "poor performing craft employees," they find themselves oftentimes all alone due to the "ineffectiveness and lack of Operational knowledge" of Labor Relations people to follow through on removing these employees from the Postal Service. Another deterrent for Labor Relations is that if they seem too rigid in their purpose, then the Unions will dig in later on simple issues. Labor Relations simply does not like confrontation with the Unions.

I can't emphasize enough how much in turmoil the U S. Postal Service is in under the leadership of Marv Runyon. The Merit Systems Protection Board ruled against him in regards to the Reduction In Force of 1992. So what is Mr. Runyon's solution—remove the Postal Service from being under the regulations and guidelines of other Federal agencies. Mr. Runyon offered the craft Unions absolutely NOTHING at the last collective bargaining. So what is his answer—we need to change the way we negotiate. Also, how is it that after 200 years of existence, it took a "man of vision" like Mr. Runyon to realize the need to change the total image of the Postal Service, and want to talk about "Privatization," or "Commercialization" as Mike Coughlin puts it? No other PMG had this kind of insight! After what happened to TVA when Mr. Runyon left, has he postured the Postal Service for much of the same? Veterans are now receiving their "Best Offer" from Mr. Runyon's "Compliance RIF." Believe me, these are not any where near a "Best Offer," at best they were "No Offer." They were a joke at best. Also, another large group of good, hard working Postal employees have found themselves receiving letters telling them that they will soon be "bumped" from their positions, and some don't have any idea what is going to happen to them after being bumped. You should see their faces and morale, firsthand. It's an eye opener! The Runyon Era will go down in the history of the Postal Service as the "saddest and most destructive" era to the employees of this great Service.

I would like to touch on just a couple of more subjects before closing. Einar V. Dyhrkopp, a member of the Board of Governors has been a blessing to our ORGANIZATION. He has welcomed our comments, criticism, letters, newsletters, and has taken what we have said at face value. He has, along with other members of the Board, started to hold Runyon more accountable for his actions. Our ORGANIZATION has a standing offer to Runyon and his power team that we are prepared to take the polygraph test whenever they are, about whatever we write or say. Mr. Dyhrkopp has given our ORGANIZATION encouragement and has been there for us. PMA's Chief Legal Counsel, Mr. Clete Weiser, P. O. Box 382774, Germantown, TN 38183 (901/757–5708) has been probably the most active lawyer in the nation representing PMA members and non members relative to the RIF. I would suggest to the committee to invite Mr. Weiser to testify in order to gain insight as to the Postal Service's attitude in dealing with employees who would dare challenge the System. I believe that it would be quite enlightening for all the members of the subcommittee.

Lastly, if all of you think back to the pre-Runyon Postal Service, you NEVER heard a lot of rhetoric about the 1970 Postal Reorganization Act and the need for major change, privatization, violence, Clusters, supersonic Eagles, Chief Executive Officer, or Chief Operating Officer, or Vice Presidents, or having to advertise how well we are doing in our service to our customers, reclassification, P&D's, automation savings for just mail processing, a no offer to the Unions during collective bargaining, big executive buy out agreements, uncontrolled arrogance on the part of Postal executives, Chicago, $250,000.00 renovation projects with no discipline, the strengthening of the "good old boy" network, compliance RIF's, etc. THE ONLY THING WRONG WITH THE POSTAL SERVICE IS THAT WE NEED TO GET A CREDITABLE, TRUTHFUL, HONEST, TRUSTFUL POSTMASTER GENERAL AND HAVE A SELECTION PROCESS THAT FOCUSES IN ON A PROVEN

TRACK RECORD OF THE CANDIDATE VERSUS SOME PAPER MADE TRACK RECORD.

The PMA ORGANIZATION continues to make efforts to meet with Headquarters, Area, and District management to discuss and resolve issues important to ALL EAS employees. Out of the dozens of letters addressing individual issues that have been written to all levels of Postal management and asking for a response, NO RESPONSE or REPLY has ever been received. ONLY the rhetoric that your letter has been sent to a lower level for their response. The ONLY resolution to our ORGANIZATION's issues have been through the intervention of those outside of the Postal Service. Also, the Postal Service seems very confused in their dealings with me in that while I sign ALL my letters as the President, PMA, the few times the Postal Service has acknowledged receipt of one of these letters, it has been addressed to me as the Postmaster, Irvine. They are definitely afraid to further the notion that the POSTAL MANAGERS OF AMERICA organization exists. Like we say, "they are in denial."

In closing, I want to thank Chairman McHugh and the other members of this subcommittee for the opportunity to provide this written testimony. To say we in the Postal Service need your best effort, would be an understatement. Many of us feel like we are being led down a "dead end" street. Many are too afraid to open their mouth or get involved, because they fear retaliation from higher level management. I would merely support this statement by what has happened to our ORGANIZATION and it's members. It is my hope that I may be asked to provide testimony in the future about what is happening in the "real world" on the front line, and not the make believe world conjured up by the Postal Headquarters.

Thank you very much, and this marks the end of my written testimony.

SANTA ANA DISTRICT,
Santa Ana, CA, February 24, 1994.

MEMORANDUM FOR JAMES BURNS, POSTMASTER, IRVINE

This will respond to correspondence and discussions with you regarding the fact that you have severed all ties with NAPUS, in which you were formerly an official representative, and that you are in the process of attempting to form and organize a new management organization.

In order that there be no misunderstandings, the purpose of this memorandum is to apprise you of my expectations concerning these activities in light of controlling regulations and policies. It is important that you fully understand that such activities may not be inconsistent with the faithful performance of your duties as Postmaster, Irvine, CA.

While you have chosen to organize an association of management employees, any activities in this regard may not under any circumstances interfere with your duties and responsibilities as a Postmaster or with the operations of your office or any other Postal installation. In that regard, you are not permitted to utilize Postal resources or equipment or work time for your organizational activities or perform them in such a manner that you are contacting other managers during their working time. You may not use Postal stationary, envelopes (penalty or otherwise), word processing equipment, typewriters, duplicating machines, telephones or any other Postal resources in furtherance of your efforts to form or represent a management association. Likewise, you may not contact in person or by phone other Postal managers while they are on work time or in a work area where the purpose of the contact is to organize or conduct business on behalf of this association.

Additionally, you have stated that all employees have the right to a representative of their own choosing at specific stages of the process in the EEO, MSPB, and ELM Part 650 processes, and have invited employees to utilize you in that capacity. The right, however, for employees to select a representative of his or her own choosing is not unlimited. First, one employee cannot represent another where to do so would create a conflict of interest or the appearance of such a conflict. Secondly, no employee may engage in the capacity of the personal representative of other employees to such a degree that he abdicates any of the usual duties of his position. Thirdly, even where another employee properly designates you as a representative, you must notify Mr. Manuel Botello, Manager, Human Resources, in advance so that he may determine that such designation is proper, and that he knows when you are away from your office and when you are expected to return. This is an ongoing responsibility throughout the duration of any representation he has approved.

It would constitute an actual or apparent conflict of interest for you as a Postmaster to represent any employee in your chain of command or to ever represent

any craft employee in any of the above mentioned complaint procedures. It would also be an apparent or actual conflict of interest for you to approve paid official time (including Personal Leave) to any employee in your chain of command for purposes of representation or organizational activities related to the Postal Managers of America. Whether your representation of another manager in a particular case creates a conflict of interest or appearance thereof will be determined on a case by case basis based on all relevant factors, including reporting relationships involved and the effect on them, the appearance of undue influence, the functional areas involved, whether your representation puts you in conflict with applicable policies and any other factor which indicates an actual or apparent conflict of interest.

When you have been requested to represent another employee, you are to contact Mr. Botello in advance so that he can ensure that such representation falls within the guidelines set forth herein, is not inconsistent with the faithful performance of your duties, and that the time requested is reasonable.

Finally, I expect that you will comport yourself with professional courtesy toward Mr. Botello, me, and other managers in all communications and when you are engaged in organizational or approved representational activities.

I would also like to clarify the extent of your organizational activities and respond to your request of February 7, 1994, for the performance review data on the offices in this District, and your request of February 10, 1994, to be permitted to conduct an organizational drive in Postal installations while the employees being contacted are on work time. Those requests and certain of your other communications indicate to me that your position is that you enjoy all of the rights and privileges of the other managerial or Postmaster associations with whom the Postal Service interacts. However, under the Postal Reorganization Act, specifically § 1004 (b), "the Postal Service shall provide for a program of consultation with recognized organizations. . . ." Recognition is contingent upon any such organization demonstrating that it represents a "majority or substantial percentage" of Postal managers.

Unless and until your new association has properly secured recognition under that provision and secured other rights through the consultative process, you do not yet enjoy certain of the rights you are asserting, including the right to performance data from other offices. Accordingly, your request for performance information is denied, and your request to conduct an organizational drive by soliciting managerial employees on the clock is denied. Your request to conduct an organizing drive by contacting employees in other facilities on their working time refers to the fact that certain NAPS representatives had been permitted to do so in the past. To the extent that such a drive may have occurred, it was not consistent with Postal policy, and will not be permitted to recur. The purely internal business of any employee organization should be conducted on non-work time except to the extent that a greater right has been granted pursuant to 39 U.S.C. § 1004 or through collective bargaining.

The guidelines set forth herein apply equally to any other officers or officials of your association. Please ensure that they are disseminated.

Your letter of February 10, 1994, concerning performance reviews in this District suggests that persons affiliated with your association are being treated differently because of their association. This is untrue. There has not been and will not be any harassment or coercion of any person based on association affiliation. However, violation of the policies and guidelines set forth herein could result in appropriate corrective or administrative action.

If you wish to discuss or clarify any of the matters set forth herein, please contact my office to schedule an appointment.

ARTHUR O. MARTINEZ,
District Manager.

Mr. MCHUGH. And with that, and with my thanks to all the members of the audience who have also sat so patiently, I would adjourn this subcommittee until Wednesday next, June 14, when we'll hear testimony from the postal reliant businesses and competitors.

[Whereupon, at 12:50 p.m., the hearing was adjourned, subject to the call of the Chair.]

GENERAL OVERSIGHT OF THE U.S. POSTAL SERVICE

WEDNESDAY, JUNE 14, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE POSTAL SERVICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2247, Rayburn House Office Building, Hon. John M. McHugh (chairman of the subcommittee) presiding.

Members present: Representatives McHugh, Gilman, Shays, Collins of Michigan, Owens, Green, and Meek.

Staff present: Dan Blair, staff director; Jane Hatcherson, Robert Taub, Heea Vazirani-Fales, and Steve Williams, professional staff members; Meryl Cooper, clerk; and Jean Gosa and Denise Wilson, minority professional staff.

Mr. MCHUGH. We have three panels today. All of these good people are giving up their valuable time to be with us, and we have made an executive decision to begin.

The bad news for the panelists is that they will have to deal only with me. The good news is—and I'm not an attorney, but I suspect that after you take the oath, if this is not an official meeting, we can accuse you of perjury. So until the second member arrives, you are allowed to say just about whatever you want. After that time, I would be more cautious.

I do want to begin. Let me just make a few comments in the way of an opening statement, and then we can start.

Today, we are in the sixth of the scheduled seven hearings on the general oversight of the U.S. Postal Service. To this point, we have heard from Postal management, labor, and customers. Today we are about to hear from two important groups in the postal universe: those who rely on the Postal Service as a source of business and those who compete for business with the Service.

Our first panel of witnesses today is comprised of a group of trade associations and a business franchiser. During our past hearings we have emphasized the role of the Postal Service as a provider of needed services to the customer. Today's witnesses represent the flip side of that coin: The Postal Service is a valued customer of these witnesses, and their members depend upon a viable and a financially secure Postal Service as a source of business.

The second panel includes witnesses who represent businesses who are the primary manufacturers and suppliers of postage meters to the general public and the Postal Service itself. I look forward to these witnesses commenting on GAO's findings last year

regarding meter fraud and the progress of efforts on behalf of both meter manufacturers and the Postal Service to stem the tide of fraud through the development of newer, tamper-proof meters.

Our third panel today represents the primary competitors to the Postal Service in those areas where the current Postal monopoly has been modified to allow for competition. I am particularly interested in hearing these witnesses' views on the proper role of the Postal Service in a competitive environment.

A public service mandate of universal delivery does not apply to Postal competitors. Consequently, Service supporters accuse these companies of cream-skimming the lucrative markets, leaving the less financially rewarding routes to the Postal Service.

I am interested in hearing these witnesses' views concerning those types of observations and whether they see the private sector as being able to take up the slack should the private express statutes be revised to allow competition in first, second, or third classes of mail.

Again, I want to thank today's panels for providing the subcommittee with its valued testimony. This is the first oversight hearing of its kind, to my knowledge, where the committee of jurisdiction has asked that these Postal-reliant businesses and competitors come testify during the conduct of general oversight hearings.

I hope this hearing will help the subcommittee further understand the symbiotic relationship Postal-reliant businesses and competitors have with the Postal Service. This seemingly contradictory relationship further evidences the strong web and bond that the Postal Service has with the American public in providing basic and necessary services.

With that, again, I welcome you all.

Let me just say, before we get to our witnesses, that we have been joined—and we now have an official meeting, so you will be held responsible for everything you say—by the Honorable Carrie Meek, the gentlelady from Florida. We welcome her.

Any opening comments she may wish to make at this time?

Mrs. MEEK. Thank you, Mr. Chairman. I am just glad to be here to listen to presentations by the members of the panels.

Mr. MCHUGH. Thank you very much.

As I mentioned, it is the rule of the full oversight committee that all testifiers before subcommittees take an oath of affirmation. If you gentlemen would rise and raise your right hands and affirm after I say the oath.

[Witnesses sworn.]

Mr. MCHUGH. Thank you.

Let the record show that each witness responded to the oath in the affirmative.

Our first panel today, as I mentioned, is made up of a distinguished group of individuals who are Postal-dependent businesses. The panel is made up of John V. "Skip" Maraney, executive director of the National Star Route Mail Contractors Association; Mr. Randall Holleschau, director of the National Association of Presort Mailers; Mr. Don Harle, who is vice chairman of the Mail Advertising Service Association International; Mr. Robert Muma, chairman of the Postal Affairs Committee, Envelope Manufacturers Associa-

tion; and last, Mr. Anthony W. DeSio, president/CEO of Mail Boxes, Etc.

I hope I pronounced all of the gentlemen's names correctly. If I did not, please correct me.

Why don't we just begin on the left and work to the right, as you face me, if that will be agreeable.

We have been joined by two more subcommittee members: Miss Barbara-Rose Collins and Mr. Ben Gilman. Miss Collins is the distinguished ranking minority member of the subcommittee.

Miss Collins, if you have any opening remarks, you may wish to make them at this time.

Miss COLLINS OF MICHIGAN. Thank you, Mr. Chairman. I join you in welcoming our panelists. We have a very distinguished and diverse group of witnesses, and I look forward to hearing your views on matters pertaining to the future of the U.S. Postal Service.

It is true that today's hearing covers a wide range of issues. For the first time, we will hear from companies in direct competition with the Postal Service, and we will hear from companies in partnership with the Postal Service and those who depend on the USPS for service.

For the first time since the General Accounting Office issued a report last May on the need to curb meter fraud and recoup revenue losses, we will hear from the postage meter industry. Their participation is critical if we are to address revenue losses of over $100 million a year due to criminal tampering of postage meters.

Some of our witnesses want to enhance the operations of the Postal Service; others believe that the Postal Service cannot be allowed to really act like a business unless it is relieved of its protective governmental cloak and competes like every other business.

We have many issues to resolve. We started this investigation on postal meter fraud last year, Mr. Chairman, and I look forward to all of your presentations.

Thank you.

Mr. Chairman, I should say that I am in a markup in Transportation, so I will be in and out.

Mr. MCHUGH. Well, we understand, certainly, and appreciate your presence here, Miss Collins.

We have also been joined by the gentleman from New York, Mr. Ben Gilman, a long time member of the full committee and now a very distinguished member, and valued member, of the subcommittee. I would yield to the gentleman if he has any opening comments.

Mr. GILMAN. Thank you, Mr. Chairman. I want to thank you for calling this additional hearing in the series of hearings addressing the issues that the Postal Service must confront in the years ahead.

Today we welcome the testimony from several corporate concerns and organizations representing members whose business survival depends on the quality of service and reasonable rates provided by the Postal Service. In addition, we look forward to hearing from businesses who are in direct competition with the Postal Service.

As I have previously noted, it is my hope that in our subcommittee we will be able to engage in a constructive dialog that will pro-

vide and improve the efficiency of customer service of the Postal Service. We welcome to our subcommittee these representatives from various businesses which rely on good working relationships with the Postal Service, as well as those corporations who compete with the Postal Service. We look forward to their testimony and suggestions.

I thank you again, Mr. Chairman, for conducting this series of hearings.

Mr. MCHUGH. I thank the gentleman.

With that, Mr. DeSio, thank you for your patience, sir. The floor is yours.

STATEMENTS OF ANTHONY W. DESIO, PRESIDENT AND CEO, MAIL BOXES, ETC.; ROBERT MUMA, CHAIRMAN, POSTAL AFFAIRS COMMITTEE, ENVELOPE MANUFACTURERS ASSOCIATION OF AMERICA; DONALD L. HARLE, VICE CHAIRMAN, MAIL ADVERTISING SERVICE ASSOCIATION; RANDALL HOLLESCHAU, DIRECTOR, NATIONAL ASSOCIATION OF PRESORT MAILERS, ACCOMPANIED BY DENNIS MacHARG; AND JOHN V. MARANEY, EXECUTIVE DIRECTOR, NATIONAL STAR ROUTE MAIL CONTRACTORS ASSOCIATION, ACCOMPANIED BY R.B. MATHESON AND M. SODREL

Mr. DESIO. Thank you.

Mr. Chairman, members of the subcommittee, my name is Tony DeSio. I am the president and chief executive officer of Mail Boxes, Etc. Mail Boxes, Etc.'s 2,300 individually owned and operated service centers are part of what is known as the CMRA, or commercial mail receiving agent, industry.

Through an arrangement with the U.S. Postal Service, a CMRA serves as agent for postal customers to receive and distribute their mail. In addition to mail receiving, we pick up stamps for our customers, deliver their mail and parcels to the post office, and provide a variety of mailing and packaging services.

Our industry is a classic example of the free enterprise system at work. It was created because entrepreneurs like myself recognized a public need that was not being adequately served and invested our capital to build a business to satisfy that need. When we opened our first service center in 1980, its principal purpose was to improve public accessibility to the U.S. Post Office's services in our community. Public response to our concept was overwhelming, and we expanded rapidly. As of this date, there are approximately 8,000 to 10,000 independently owned and operated CMRA retail facilities operating in almost every significant community in America.

We believe the customer should make the ultimate decision as to which delivery service he or she will choose, based on price and reliability of service. Therefore, our facilities also offer the services of the Post Office's competitors. Since many CMRA operators have invested their life savings in their businesses, they are highly motivated to provide the highest level of service and to operate very efficiently.

The effectiveness of our distribution system has not gone unnoticed by the Post Office's competitors. UPS, DHL, Federal Express, and other private sector firms have all but abandoned plans to

open new retail facilities and are utilizing the CMRA industry to expand their retail distribution.

These Post Office competitors are investing their capital in improving delivery services rather than expanding their retail distribution networks. The Post Office, on the other hand, continues to view us as competitors. They have continually frustrated our ability to service our customers by refusing to accept change of address requests or to return mail to sender when one of our customers moves or discontinues his mail-receiving service. This is the subject of House Resolution 1464, which is currently before the Congress, and which I hope you will support.

They also refuse to provide us with stamps on consignment or schedule regular parcel pickups at our facilities. Recently, the Post Office announced their intent to expand their retail distribution system by placing thousands of so-called "postal stores," which are basically clones of CMRA centers, in shopping centers across the Nation.

Upon completion of the planned 5,000 to 8,000 postal store chain, the Post Office will be incurring billions of dollars of additional cost annually. I know of no private sector firm that would consider an investment of this magnitude without first conducting an exhaustive study to determine the incremental revenue which such an investment would bring and without considering the alternative of utilizing existing retail distribution systems.

Recently, at the request of Congress, the GAO conducted a study of several postal stores. The results presented to you, however, did not compare incremental revenue with the cost of operating these facilities. Rather, the report, which was apparently prepared with the assistance of the Postal Service, completely ignored the fact that the bulk of the revenue attributed to these facilities was already being received by the Postal Service prior to the construction of the facility. These revenues previously came through CMRAs and contract stations in the area.

CMRA operators are not adverse to competition. Our labor costs are a small fraction of those of the Post Office retail outlets, and our ability to offer nonpostal services helps to defray the cost of operating our facilities. On a level playing field, we are fierce competitors. We cannot compete, however, with retail facilities that can subsidize their losses with revenue derived from a monopoly on first-class mail and which are exempt from payment of sales, income, and other taxes.

We, therefore, ask that the Postal Service not be allowed to destroy the ability of our small business owners to support their families and provide service to their communities by placing postal stores in close proximity to their businesses.

In closing, let me point out that, when monopoly powers are granted to any organization, great care must be taken to assure that these powers are not used to destroy private sector businesses. A bureaucratic monopoly such as the Post Office is much like any government agency. Unchecked, it will expand at the expense of the public, which is forced to support it, and eventually it will destroy anything it perceives as a deterrent to its growth.

CMRA operators have built, with their own capital, an extremely effective retail distribution system for dispensing postal services.

The responsibility to ensure that the U.S. Postal Service utilizes this distribution system, rather than destroying it, rests with you, the members of this subcommittee.

Mr. Chairman, on behalf of the thousands of hard-working, tax-paying small business owners who constitute the CMRA industry, I urge you to fulfill that responsibility.

Thank you.

[The prepared statement of Mr. DeSio follows:]

PREPARED STATEMENT OF ANTHONY W. DESIO, PRESIDENT AND CEO OF MAIL BOXES, ETC.

Mr. Chairman, Members of the Subcommittee, my name is Tony DeSio. I am President and CEO of Mail Boxes, Etc.

Mail Boxes, Etc.'s 2300 individually owned and operated service centers are part of what is known as the CMRA or Commercial Mail Receiving Agent industry. Through an arrangement with the U.S. Postal Service, a CMRA serves as the agent for postal customers to receive and distribute their mail. Typically the CMRA establishes a retail outlet which becomes the focal point for distribution of mail to our customers. In addition to mail receiving, we pick up stamps for our customers, deliver their mail and parcels to the post office, and provide a variety of mailing and packaging services.

Our industry is a classic example of the free enterprise system at work. It was created because entrepreneurs like myself recognized a public need that was not being adequately served and invested our capital to build a business to satisfy that need. When we opened our first service center in 1980, its principle purpose was to improve pubic accessibility to Post Office services in our community. Public response to our concept was overwhelming and we expanded rapidly. As of this date, there are approximately 8 to 10 thousand independently owned and operated CMRA retail facilities operating in almost every community in America. Virtually all of these facilities reduce the U.S. Post Offices costs by selling stamps and consolidating delivery of mail to our customers.

Our facilities also offer the services of the Post Office's competitors. We believe the customer should make the ultimate decision as to which delivery service he or she will choose based on price and reliability of service.

Since many CMRA operators have invested their life's savings in their business, they are highly motivated to provide the highest level of service and to operate very efficiently. This efficiency has not gone unnoticed by the Post Office competitors. UPS, DHL, Federal Express and other private sector firms have abandoned plans to open new retail facilities and are utilizing the CMRA industry to expand their distribution. These Post Office competitors are investing their capital in improving delivery services, rather than on expanding their network of retail outlets, because they recognize the cost effectiveness of our distribution system.

The Post Office on the other hand continues to view us as competitors. They have continually frustrated our ability to service our customers, by refusing to accept change of address requests, or to return mail to the sender when one of our customers moves or discontinues his mail receiving service. This is the subject of HR 1464 which is currently before the Congress and which I hope you will support. They also refuse to provide us stamps on consignment or schedule regular pickups for parcels.

Recently, the Post Office has announced their intent to expand their retail distribution system by placing thousands of so called postal stores (which are basically clones of CMRA centers) in shopping center locations across the nation. The annual cost of this expansion is estimated to be $250,000 to $500,000 per facility. Upon completion of the planned 5,000 to 8,000 postal store chains, the Post Office will be incurring billions of dollars in additional costs annually.

No private sector firm would consider an investment of this magnitude without first conducting an exhaustive study to determine the incremental revenue which such an investment would bring and without considering the alternative of utilizing existing distribution systems. Recently, at the request of Congress, the GAO conducted such a study. The results presented to you, however, did not compare incremental revenue with the cost of the investment. Rather, the report (which apparently was prepared with the assistance of the Postal Service), completely ignored the fact that bulk of the revenue attributed to the facilities studied was already being received by the Postal Service prior to the construction of the facility. These

revenues previously came through CMRA's, contract stations and conventional post offices in the area.

CMRA operators are not adverse to competition. Our industry is already extremely competitive. Our labor costs are a small fraction of those of Post Office retail outlets and our ability to offer non-postal services helps to defray the cost of operating our facilities. On a level playing field we are fierce competitors.

We cannot compete, however, with an organization that can subsidize its losses with revenues derived from a monopoly on first class mail and which is exempt from payment of sales and other taxes.

We, therefore, ask that they not be allowed to destroy the ability of one more small business owner to support their family and provide service to their community.

In closing, let me say that I am not a proponent of privatization of the U.S. Postal Service. When monopoly powers are granted to any organization, however, great care must be taken to assure that these powers are not used to destroy private sector businesses. A bureaucratic monopoly such as the Post Office is much like any government agency. Unchecked, it will expand at the expense of the public which is forced to support it. Eventually, it will destroy anything it perceives as a deterrent to its growth.

The responsibility to insure that the USPS does not engage in these tactics rests with you, the Members of the Sub-Committee. Mr. Chairman, Members of the Sub-Committee on behalf of the thousands of hard working tax paying small business owners that constitute the CMRA industry, I urge you to fulfill that responsibility.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO ANTHONY W. DESIO

Question. Why do you believe the Postal Service has refused to allow your customers, who are also customers of the Postal Service, the option of forwarding their mail when they discontinue using your mail box services? Also, have you conducted any evaluations as to how many of your customers would benefit from the forwarding service?

Answer. We believe that the USPS decision is arbitrary and intended to discourage the use of Commercial Mail Receiving Agencies (CMRA) which the USPS management considers as competition to USPS postal stores. The justification they have used to deny their customers this service, is one of incremental expense to the Postal Service. This justification has no validity since the cost of forwarding mail for USPS customers has always been included in the price of postage. The USPS provides its customers mail forwarding service in all cases except when the customer addresses their mail to a CMRA. This policy results in many USPS customers paying for additional postage to send mail that is undeliverable. Worse yet, USPS customers are not being told that the mail they have paid to have delivered, is in fact, undeliverable, so they continue to purchase postage and send mail to clients of CMRA facilities where the CMRA operators have no option except to dispose of it since their clients justifiably refuse to indefinitely pay forwarding costs.

The management of any private sector firm that continued to sell a service that they knew to be defective would probably be prosecuted by the Federal Trade Commission for fraud. Certainly, they would not remain in business very long. I firmly believe that USPS customers who purchase postage are entitled to have their mail forwarded and be notified when the person/or business they are mailing materials to change their address. This USPS policy is such an embarrassment to local Postmasters that the majority of them are currently processing our clients requests for Change of Address and are forwarding mail in violation of USPS policy, rather than allowing postal customers to indefinitely continue to send mail to incorrect addresses.

We don't feel that mail forwarding services for USPS customers who address mail to clients of CMRA's should be any different than those services provided to customers who address mail to residents of apartment houses or to businesses in high rise office buildings. USPS customers should not be discriminated against simply because they are addressing their mail to clients of our Centers. The fact of the matter is that the USPS forwards mail to convicted felons when they are released from prison, but refuses to do the same for mail addressed to our customers.

Question. Has MBE done cost comparisons between what it costs the USPS to establish a contract community post office, which as you know is an office operated under contract by the private sector for the USPS, what would it would cost an MBE franchisee to establish a store in the same community? What does MBE look for in a community prior to the establishment of one of your offices?

Answer. Contract stations generally are operated at little or no cost to the USPS. Usually, if Postmasters decide they need coverage in a specific area in their jurisdiction, they post a bid notice to businesses in that area. Interested businesses then bid to have a Postal Contract Stations placed in their businesses. There is no criteria regarding who is qualified to bid. The Postmaster then makes a selection based usually on the low bid. The result is the granting of Contract Stations to unqualified businesses that need a traffic builder. Businesses that are on the verge of failure generally are the only ones willing to bear the expense of staffing and operating Contract Stations. Most of these businesses engaged in a completely different business ranging from pet shops to grocery stores. Services provided by these facilities to postal customers are generally marginal and they usually terminate that relationship as soon as their core business customer count and revenues increase to a point where they feel it is no longer necessary for them to bear the additional expenses incurred in operating a Postal Contract Station.

Approximately 5 or 6 years ago, USPS representatives met with us and asked MBE if our Franchise Owners would be interested in operating Postal Contract Stations in their Centers, on an as needed basis, with a compensation of 7% of postal revenues generated. It didn't take long to realize that based on the square footage required in the Center, the staffing required based on an average of 60 hours of operation weekly and other costs, such as shrinkage and employee benefits, that this would be a losing proposition. Our Centers do not need additional traffic where expenses are higher than profits. We did not endorse that offer, however, we took a neutral position and indicated to our Franchise Owners that if they were interested, they should contact their local Postmasters. To our knowledge, very few, if any of our Franchise Owners elected to do so at the level of compensation offered.

Our estimates are that it would cost our Franchise Owners 10 to 12 percent of revenue to operate a Postal Contract Station in their Centers and provide postal customers with the same level of expertise and customer service as we provide all MBE customers. Obviously compensation in any private sector business must include a profit. Had the USPS indicated that they would pay the fixed prorated portion of our operating costs, (expense for the space and utilities and the personnel required to staff) and pay us 7% of the revenues generated, we would have considered that a reasonable offer. Under this scenario the cost to the USPS of utilizing our facilities would still be a small fraction of the cost of building and operating their own "Postal Stores". We are still willing to discuss becoming Contract Stations, however, the compensation level must be such as to allow our operators to cover their costs and receive a reasonable return on their investment. This concept, of operating retail outlets on a profitable basis seems to be difficult for USPS management to understand.

Mr. MCHUGH. Thank you, Mr. DeSio.

I should note that, without objection, all of the panel members' statements, in their entirety, will be submitted for the record. I would also, as I believe you have already been requested—Mr. DeSio did it very nicely—try to limit your comments, particularly to those members who have submitted very complete testimony, which we welcome and appreciate.

With that, I would now recognize Mr. Muma for his comments. Welcome, sir.

Mr. MUMA. Thank you, Mr. Chairman.

I'm Bob Muma, vice president of Allen Envelope Corp. I am also chairman of the Postal Affairs Committee of the Envelope Manufacturers Association and president of the Philadelphia Direct Marketing Association. I serve the U.S. Postal Service as a member of the Mailers Technical Advisory Committee to the postmaster and have worked in the envelope industry for 22 years.

I would like to share with your committee why companies like Allen Envelope Corp. are interested in seeing change in the U.S. Postal Service. Allen Envelope Corp. has 102 employees and will produce about $20 million worth of envelopes this year.

Companies like Allen are part of the approximately 1.5 million jobs that are tied to the well-being of the U.S. Postal Service. These jobs include envelope manufacturers, printers, mail shops, direct

mail advertising agencies, corporate mailroom employees, computer companies, equipment manufacturers, paper companies, ink manufacturers, fulfillment companies, business forms companies and, of course, the 800,000 postal workers of the U.S. Postal Service.

I know that you have heard testimony stating that it is almost impossible to predict the long-term future of the paper-based mailing industry. Regardless, now is the perfect time to proceed with fundamental changes that will prepare the Postal Service to deal with the uncertainty of the future and its increasing level of competition from the electronic communication medium.

As an envelope manufacturer, it is clear to me that, if the Postal Service does not survive, we do not survive. As an industry, we support all classes of mail, and we make products for all of these classes. Our single motivation is to keep the Postal Service healthy. We are committed to work with Congress and the mailers we supply to preserve our national system of mail delivery.

As a medium-sized manufacturer, we, too, must prepare for the future. It is evident that electronics will have a major impact on our future, that it will come slowly at first, but its growth will compound as we move into the future. We chose to heavily capitalize our business over the last 2 years and will continue to do so for at least the next 5 years.

Television did not eliminate radio; credit cards have not replaced cash. Yes, our market share will diminish, but only as a percentage. The growth of the overall market will more than make up for our loss of share; volume, in fact, will increase.

The key for us is to modernize now so that we can maneuver as the need for different envelope products changes. We must make sure that our plant is efficient and well run. We are still bullish about 5- and 7-year payouts on million-dollar investments for capital equipment.

For my company to continue in this direction, we must see that the Postal Service is equipped to compete well into the next century, that it is structured so that it can make the changes it needs quickly, to meet the challenges set forth by its competition.

I believe in the free market and its influences. I also understand mandates from customers such as universal and 6-day delivery. I am confident, with the proper tools, that the Postal Service can meet the general needs of our country and survive this electronic competition.

Our association recently issued a paper on Postal Service governance. In that paper and in our written testimony today, we focus on who owns the Postal Service and why does it matter, redefining governance and can "de-governmentalization" work, and "profitizing" the Postal Service.

We are concerned with the issue of ownership because the current statute impedes and delays the Postal Service's ability to respond to challenges and opportunities which it finds in the marketplace today. I feel that a system of ownership that is accountable to those with vested interests in the well-being of the Postal Service will best serve the best interests of all Americans.

We also address the issue of "de-governmentalization" and look at some options as to how this may come about. We use this word because we have explored many options, from one end of the spec-

trum, total privatization, to the other, a government-controlled institution. The new form that the Postal Service takes will affect its ability to compete and survive in the communications market. A process of "de-governmentalizing" or commercializing the U.S. Postal Service may be the answer to providing the postal service that can deliver quality for the lowest possible price.

Because the Postal Service must operate under a current system of governance that makes it difficult for them to respond to its customers, it tends to misfocus its energies. Like my business, the Postal Service will have to be able to switch its focus from one market to another, develop new products, and proact with the competition.

Should an organization with public service responsibility, such as the Postal Service, be "profitized"? There is no easy answer. As we explore this issue, we do see that it is dependent on the issue of ownership. Cases can be made either way. To help guide you, we are suggesting models such as UPS, COMSAT, and Fannie Mae for your consideration.

While it is very easy for critics to say that less government involvement is the solution, a question arises as to what new governance should take its place. Should employees, mailers, suppliers, and maybe even competitors take on this responsibility? Regardless of the type of governance, issues such as civil-service-like tenure protection, executive salary caps, no strike, rate regulation, monopoly, and binding arbitration must successfully be addressed.

The telecommunications industry has been able to evolve their style of governance from a strict form of oversight and low customer involvement in their decisionmaking to low oversight and high customer involvement. It is our opinion that the Postal Service will need to move through the same evolutionary process as it meets the challenges of greater competition and seeks greater flexibility.

Thank you, Mr. Chairman. That concludes my comments.

[The prepared statement of Mr. Muma follows:]

PREPARED STATEMENT OF ROBERT MUMA, CHAIRMAN, POSTAL AFFAIRS COMMITTEE, ENVELOPE MANUFACTURERS ASSOCIATION OF AMERICA

INTRODUCTION

The Envelope Manufacturers Association of America (EMAA) greatly appreciates this opportunity to provide the Subcommittee with some of our views on our Nation's postal system. As our name indicates, we are not a mailer's organization. Rather, we provide products for all classes of mail. As a non-mailer organization, we advocate a strong, effective and efficient national system of mail delivery.

We are not here today to cast doubt on the future of the United States Postal Service. None can predict that future with any degree of accuracy. We do see opportunities where the present system can be changed to make it more contemporary in operation and in service. Laws, unlike wine, do not improve with time. The Postal Reorganization Act of 1970 was a carefully crafted compromise designed to bring together a variety of competeting interests to create our present system of mail delivery. Amending the Postal Reorganization Act will require a consensus of competitive interests but we believe that consensus can be achieved.

The testimony that we provide today calls for a comprehensive review of the current statute and for the legislative and regulatory community to move carefully forward with changes. America needs universal mail delivery but we also need a postal system that is much more customer oriented than the present system. In using the term customer oriented, we mean a system that is cost-effective and timely.

Our association applauds the work of this subcommittee in your consideration of the views of each "stake holder" in our postal system. We hope that as you consider

legislative options concerning the future of the Postal Service, you will continue to solicit the views of the various stake holders. The solutions which will preserve our national system of mail delivery may be neither simple nor comprehensive. We may well see a succession of changes, not one comprehensive piece of legislation. We believe that these solutions will emerge, albeit slowly, through these hearings and other public forums. We remain committed to working with Congress and the mailers that we supply to achieving the best and most reliable postal system in the world.

EXECUTIVE SUMMARY

Our association recently issued a paper on Postal Service governance. We have again supplied members of the Subcommittee, staff, and the public with this paper this morning. Our testimony this morning will focus on this paper because we feel that it provides a foundation for the rational discussion on the future of the Postal Service.

[Note.—A copy of the issue paper can be found in subcommittee files.]

"Who owns the Postal Service?", "Why does it matter?"

As you well know, there are currently nine governors who function as a board of directors, with responsibility for the direction and course of the Postal Service. The president appoints these governors, with the advice and consent of the Senate on a bipartisan basis. In turn, the governors appoint the postmaster general, who appoints subordinate officers within civil service type legal constraints, and (presumably), after consultation with the governors. But who are these governors and officers accountable to? Congress does have an oversight role, but how are the customers' interests considered? One might suggest that the independent Postal Rate Commission represents a mechanism for consideration of customer interest. However, the Commission recommends to the board of governors and the governors can overturn the decision of the Commission by unanimous vote. We could also surmise the interests of the customer groups are considered through the consumer advocate function of the Postal Service. Yet, postal customers have limited recourse on many service issues.

Conceptually, we are concerned that the issue of "ownership" of the Postal Service is so awkward under the current statute that it impedes and delays the Postal Service's ability to respond to challenges and opportunities which are presented to it. The issue of "ownership" is important because it relates to control and accountability. Ownership does not necessarily equal control, and control does not necessarily convey ownership. However, the concept of vesting the control of an enterprise in those who have a direct economic stake in it is well accepted. In the private sector, voting stockholders or partners own—and ultimately control—an enterprise. Similarly, voting members typically control, or "own," a private, non-profit, organization.

None of the current corporate models apply to the Postal Service in its present structure. One could say that in a sense, the President and Senate control the Postal Service through the appointment process, but that could stretch the point. One could argue that the American public owns the Postal Service because it elects the people who, in turn, appoint the governing body. But this conclusion may stretch the point beyond reality. The public, mail users, their suppliers, and employees (directly and through unions)—all have influence on the postal policy-making process. But they do not have the control that traditional "owners" have in other organizations.

This is no small, theoretical point. Control influences the Postal Service's relationships and reactions in many areas. For example, the Postal Service cannot borrow money in private markets, it is restricted to the use of the Treasury Department as its lender. Salary caps and the involvement of the Merit Systems Protection Board in employment policy matters mandate and control the hiring process. The involvement of Congress in postal policy matters certainly influences the manner in which the "ownership" of the Postal Service is vested in a number of competeting interests which may not be in the best interest of the postal customer. The recent Presidential involvement in philately is yet another illustration of how postal policy gets made without a sense of ownership on the part of the mailing public.

Still, the long history of governmental influence in the postal services throughout the world is more than an accident. Mail may not have the same public impact as police or fire services, but that does not mean that mail service should be without government influence. As long as the Postal Service has "public service obligations" such as universal service and six-day-a-week delivery, some governmental involvement may be necessary. Other nations, however, have been able to place government influence and involvement in a much broader perspective. In the Netherlands, for instance, the postal service is totally private, with very limited government in-

volvement. The German Post Office or Deutches Post is moving to a more private structure, with some government involvement. The Royal Mail or British Post Office is still government owned, but has created a more corporate structure and is now again looking at going private. The Swiss Post Office will maintain its public ownership but will operate under a form of governance where the user of the mails has a definite involvement in decisions made by the corporation.

The world in which most postal systems operate is changing dramatically. Most postal systems are moving towards governance styles that give them greater freedom to set rates, develop new products, launch new services, and reap the rewards, or suffer the financial consequences of those decisions. Many of the world's postal services have the ability to contract out or franchise with private carriers to accomplish tasks more cost effectively and efficiently. In postal organizations like the Royal Mail, this is done with the consent of labor, not its opposition..

We note that in April of this year, the Postal Service filed a petition with the Postal Rate Commission seeking rules which would permit it to negotiate service contracts with mailers—similar to customized tariffs existing in the telecommunications industry. The Postal Service is also seeking greater flexibility in the establishment of new and changed services, including the need to conduct market tests. We believe that these directions are appropriate to a contemporary style of operation, more consistent with a "world class" view of postal operations and services.

We strongly recommend that as the subcommittee moves forward to consider the advice offered by the many groups which are stakeholders in the Postal Service that it continues to focus on the issue of "Who will own?" and "How will accountability and control be preserved?" We need a national system of mail delivery that is more responsible to the customer, whether business or consumer, and that system must also be influenced by government as long as universal service and some form of monopoly protection defines its operations.

REDEFINING GOVERNANCE—CAN DE-GOVERNMENTALIZATION WORK?

We use the term "de-governmentalization" throughout our issue paper. Our choice of this term is deliberate; the word fully conveys the range of governance options available. "Privatization," presumes to us that all of the Postal Service's assets would be sold to a private sector enterprise, or that the Postal Service itself will be converted into a purely private, for profit undertaking. Privatization may be one form of de-governmentalization; it is by no means the only alternative.

On August 10th, 1753 Benjamin Franklin of Philadelphia, Pennsylvania and William Hunter of Williamsburg, Virginia were appointed Deputy Postmasters and Managers of all of the British Provinces in North America. Franklin continued in his position until just before the American Revolution, with Foxcroft, Findlay and others being appointed in his stead by the King of England. These early Deputy Postmasters had to use their own resourcefulness in developing a network of post roads and way stations which began our national system of mail delivery. In a number of instances, privatization of cartage of mail was considered. The problem limiting the use of private carriers was always service reliability throughout the colonies.

However, a system of "penny posts" evolved from the need to enhance delivery services in urban areas. These penny posts operated largely in the cities of Boston, New York and Philadelphia. The penny postmen were private carriers who for the price of one cent would deliver mail from business to business or from private residence to business in the cities that they served. These posts were very popular and competed against the Post Office Department for intercity business. The penny post offered the postal customers two features, low cost and reliability. The provisions of an Act of March 3, 1851, authorized the Postmaster General to establish post routes in all cities and towns where the postmasters were appointed by the President. The Postmaster General on July 17, 1860 further declared the all streets and roads in the cities of Boston, New York and Philadelphia to be "post roads" and delivery service would only be offered by the Post Office. Private dispatch services would spring up frequently in the history of our nation. One of the most famous, the Pony Express, was to go down in our lore as a shining example of American ingenuity. Through the history of our postal system, we have always tried to preserve a system that combined the efficient private cartage of immediate correspondence with the ability to move larger qualities of mail via public means. Creating a postal culture that is more entrepreneurial, more profit oriented and more adept at controlling costs has always eluded our national system of mail delivery.

The form that the Postal Service takes will affect its ability to compete and survive in the communications market that lies before us. A process of de-governmentalizing or commercializing the United States Postal Service may be the answer to providing a Postal Service than can deliver quality for the lowest possible

price. Because the Postal Service must operate under a system of governance that makes it difficult to respond to its customers, it tends to misfocus its energies. The Postal Service estimates that it has lost 35% of the business-to-business transaction market as telephone, EDI, E-Mail and electronic banking have taken larger chunks of the financial transaction market. If the Postal Service's presumption that it will lose an additional 35% of this market over the next five year is correct, than business-to-business mail is no longer a driving mechanism of postal volume.

Consumer-to-consumer mail is also becoming a smaller segment of the mail volume. According to the Postal Service, only 6.3% of total mail volume in 1993 constituted personal correspondence. The bulk of personal communication is now moving via telephone and e-mail. While personal correspondence will remain a part of the function of a national system of mail delivery, it will probably not be a driving force. The manner in which the Postal Service is governed has an impact on its ability to sense changes in the mail mix and communications market and react to those changes in a timely manner. The Postal Reorganization Act requires that the Postal Service balance its revenues and expenses as nearly as practicable. It is clear that today's Postal Service is not knowingly and consciously seeking maximum profits. Some feel that the absence of a profit motive may be a significant barrier to obtaining a more effective, more efficient, and more responsive postal service.

Profitizing The Postal Service

But given its "public service" responsibility, should the Postal Service be profitized? There is no easy answer to this question, for three reasons.

First, there is a great deal of analytic and empirical work which demonstrates that non-profit organizations can function as efficiently and effectively as for-profit enterprises. In fact, according to the American Society of Association Executives operating ratio studies, many non-profit organizations have financial performance which compares favorably against for-profit corporations. In essence, the "profit" motive is not the only determinant of an organization's success.

Second, the idea that the electronic communications field has successfully harmonized public service obligations with profit incentives—a premise that underlies many of the calls for "profitization" of the Postal Service—is somewhat exaggerated. Implementation of the public service obligations of telephone companies, cable operators, and broadcasters (through devices such as the universal access fund, mandatory carriage rules, and political advertising rules) has been a source of confusion, contention, and uncertainty.

Third, the risk of failure is intrinsic to the proper functioning of the profit incentive, and the Postal Service cannot, as a matter of basic policy, be permitted to fail. This raises the question of whether reward without risk is conducive to efficient operations and places doubt on the entire concept of profit incentive as a basis for efficient operation. "Profitization" may not be the best alternative for de-governmentalization of the Postal Service.

Some Alternatives Worth Considering

Regardless of whether de-govenmentalization of the Postal Service takes the form of a for-profit or not-for-profit enterprise, it would have to include some mechanism to enfranchise users, employees, investors, and the public. We return to our basic question, "who owns?" or "who votes?"

In the for-profit model, the Postal Service would be a publicly traded, for-profit stock corporation, and voting rights would rest with those who chose to invest. An alternative would be to structure the corporation in such a way as to place ownership (at least controlling interest) in the hands of its managers and employees, as is the case, essentially, with the United Parcel Service (UPS). If the Postal Service were to be a private sector, not-for-profit organization, formulating a voting control mechanism would be more complex. The organization's charter would have to define the conditions of eligibility for membership in the voting class (more likely, classes).

There has been much discussion along the lines of an employee-owned corporation. This may be based on the belief that because UPS has operated successfully as an employee-owned, for-profit business, the approach would work equally as well with the USPS. It is not clear, regardless of the case, that an organization with public service obligations would prosper under an employee-owned model. One clear problem is that customer groups would even be less represented than they are now. Certainly labor representation on the governing board of a de-governmentalized Postal Service deserves consideration, as does the question of who else should be represented on the board.

What role should the government have in a de-governmentalized Postal Service? How are the public service obligations of the Postal Service to be carried out without government involvement? One view might be that public service duties should be

defined by statute and enforced by private lawsuits, with the government having no role. The opposite view might hold that the government has absolute control over the Postal Service as it does now. There are business models which demonstrate intermediate levels of government involvement.

Comsat

An act of Congress created the Communications Satellite Corporation (Comsat) as a for profit corporation to establish and operate a communications satellite system as part of an improved global communications network. Comsat is, essentially, a telecommunications common carrier whose customers are also telecommunications common carriers. Comsat has a board of 15 directors. The president appoints three of them (with the advice and consent of the Senate) and the stockholders elect the other 12. In fact, there are two classes of stock and two categories of board members. Stockholders who are communications providers (users and customers of Comsat) choose half the elected board. Stockholders who don't fall into that category choose the remaining board members.

Fannie Mae

Fannie Mae's structure also reflects a mixed private/public service mission. Its purpose is to provide stability in the secondary market for residential mortgages, which it accomplishes by purchasing portfolios of residential mortgages from private lenders. Originally, Fannie Mae had two classes of stock; the government held preferred stock while the common stock was publicly traded. In 1968, Fannie Mae was separated into two entities and became entirely privately owned through the retirement of the government-held stock. Although it is now privately owned, the government still has representation on Fannie Mae's board. The President appoints five of 18 board members annually; stockholders elect the remainder.

We have provided these examples to show that de-governmentalization of the Postal Service would not necessarily mean a complete separation of its operations from governmental control.

THE CONSEQUENCES OF DE-GOVERNMENTALIZATION

If de-governmentalization does not mean a total separation of government from the Postal Service, what does it mean? One basic premise is that putting the governance of the Postal Service in the hands of those who run it and use it (mailers, their suppliers, employees, and even competitors) will make it more responsive and innovative in delivering more efficient and effective service. Private sector control and accountability—at the policy formulation level—includes the idea of dismantling the apparent structural separation between those who make Postal Service policy and those who use the mail and/or carry out that policy.

There are some legal and practical consequences that result from this approach. First, there would be less oversight by Congress and the Administration. The debate of whether the Postal Service is on or off budget for deficit reduction purposed could be ended. However, the government, as an owner, might insist upon a dividend or licensing fee as the price for exempting the Postal Service from certain private sector obligations such as income tax. The Postal Service's dependence on the federal banking system would be eliminated, or at least changed.

The government-type operating procedures—including the civil service-like tenure protection, executive salary caps, etc.—would be eliminated, or greatly reduced. And, de-governmentalization would entail a re-examination of the no-strike, binding-arbitration structure of the Postal Reorganization Act.

There is no linkage between a change in the form of governance of the Postal Service and the scope of its monopoly under the Private Express Statutes. The question of governance has to do with efficiency, accountability, and flexibility. The question of the Postal Service monopoly has to do with whether the delivery of "letter" mail is a "natural monopoly" requiring protected status to be accomplished successfully. Comsat was created as a for-profit corporation, but, as a result of its charge and international treaties, it had (until very recently) a virtual monopoly on all international satellite communications traffic originating from the United States.

De-governmentalizing the Postal Service is not tied to the question of whether there is a need for rate regulation, and, if so, whether the Postal Rate Commission is the appropriate body to carry out that task. Rate regulation is tied to the question of whether the Postal Service maintains a legal monopoly over certain categories of mail, or, even without the statutory protection, has a de facto monopoly over certain types of mail. Even without the monopoly, there may be some need for rate oversight (albeit greatly reduced) because of questions over the cost of public service and who is to absorb them. There are ways of dealing with these questions without an entire rate-making and classification proceeding, and these might make it unneces-

sary to have a permanent regulatory agency whose sole jurisdiction is postal matters. The point remains, there is no necessary connection between degovernmentalization and rate regulation. Many corporations (including Comsat) remain subject to rate regulation despite their for-profit structures.

SUMMARY

Many of the governance issues which are so central to Postal Service management and operation will not be resolved overnight. However, these issues must shape the debate on the future of the Postal Service. As long as the Postal Service retains a legal or de facto monopoly, some form of regulatory oversight will be critical. That regulatory oversight does not necessarily have to be supplied by an organization of the size and complexity of the Postal Rate Commission.

The telecommunications industry, as evidenced by two examples provided above, has been able to evolve their style of governance from a strict form of oversight and low customer involvement in decision making to low oversight and high customer involvement in decision making. It is our opinion that the Postal Service will need to move through the same evolutionary process as it meets the challenges of greater competition and it seeks greater rate making flexibility.

The Envelope Manufacturers Association of America agrees with many of the mailer organizations that have testified before this subcommittee that the status quo is unacceptable.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO ROBERT MUMA

Question 1. On page one of your written testimony, you, like others at these hearings, have mentioned the need for a postal system that is more customer-oriented than the present system. In your view, is a Postal Service customer easily defined and on which customer traits do you feel that the Postal Service should focus?

Answer. My view is that the Postal Service customer can be defined, and that this can be accomplished using common marketing practices. A balance between legislative service mandates plus the marketing of competitive products and volume market segments can be achieved. The existing statute that is interpreted by the Postal Rate Commission restricts the Postal Service from positioning its products and services in a competitive fashion to its various market segments.

I view the Postal Service as a communication delivery service. After meeting its mandated obligations, it should focus on the traits or, more importantly, the needs of its "customers". I define the "customer" as the entity that pays for the service of delivery. I believe that many perceive every mail box to be a customer, and that every customer should have equal status in a marketing plan. This thinking will not work with CONSUMER TO CONSUMER mail only making up 6.3% of the total mail volume in 1993, and business-to-business market declining by 35%. It is apparent to me that the Postal Service needs to look to find ways to keep business-to-consumer and consumer-to-business strong and to grow the advertising mail segment of business-to-consumer mail.

I would first look to service the customer market segments that supply the volume that keeps the average cost of mail down. Then I would look to service the areas of above-average volume profitability and segments of future growth. The Postal Service needs to have the ability to fend itself from competitors and to become more pro-active where needed.

Question 2. On page three of your testimony during your discussion of postal ownership, you describe the problem of the Postal Rate Commission's recommendation being overridden by the Board of Governors. Do you feel the commission needs to be strengthened?

Answer. I do not feel the Postal Rate Commission should be strengthened. The point which I was trying to make with that reference is that the system, as it now stands, is awkward and un-focused. It is currently influenced by: the Board of Governors, the Postal Rate Commission, Postal Service management and Congress. My opinion is that each has a very different vision of who the customer is and how to service them. This diverse influence of direction hinders the Postal Service in its reaction to its competition. The Postal Service needs to have its "ownership" defined and to allow that "ownership" to direct the service.

Question 3. You ended your testimony by noting that the status quo is unacceptable—a view shared by many of the major mailing groups. You also noted the need for some changes to the postal rate setting policies and process. Could you be more specific? In general, what would be your priority areas that the subcommittee should address in order to deal with the unacceptable status quo?

Answer. Ten months is far too long for the rate process to take. I believe that the Postal Service should be able to set rates within "caps" to respond to market conditions. I also believe that the Postal Service should be able to price the service as a whole and to be allowed to price different services to generate volume and profitability. This also could be accomplished within "caps".

I would like to see the subcommittee address the issues of ownership, profit versus non-profit, rate setting, competition and the adversarial relationship between the Postal Rate Commissioners, the Board of Governors and postal officials. I have noted in some of the testimony that I have read that different parties have addressed issues germane to their individual needs, rather than these individual issues. I would like to see you concentrate on a structure that gives the Postal Service the tools to operate as a commercial business.

Mr. MCHUGH. Thank you, Mr. Muma.

Before we move to Mr. Harle, I would like to recognize the gentleman from Connecticut, the home of the Lady Huskies and NCAA national basketball champions, Chris Shays.

Mr. SHAYS. Both teams.

Mr. MCHUGH. Well, the women won it first. The men followed.

I would be happy to yield to the gentleman, if he has any opening statement he would like to make.

Mr. SHAYS. [No response.]

Mr. MCHUGH. Thank you.

With that, Mr. Harle, the floor is yours, and welcome, sir.

Mr. HARLE. Thank you, Mr. Chairman, members of the committee.

My name is Don Harle. I am first vice chairman of the Mail Advertising Service Association and its postal chair. In real life, I operate a company called Mid-America Mailers in northwest Indiana, just outside of Chicago.

We think the discussions that you are undertaking now are probably the most important postal-related discussions and thought processes that have gone on since the Postal Reorganization Act of 1970. Clearly, the Postal Service needs to prepare itself for all the changes that are taking place in the communications industry and communications technology now and in the 21st century.

We do, however, think there are some things that can be done here and now to make the Postal Service operate more effectively and be organized in a more businesslike manner. We do think it is important, in looking at all these issues, that we don't throw out the baby with the bathwater. The Postal Service has been a key national resource that, when you step back and look at the overall picture, has served this country extremely well and continues to serve the country quite well.

So we have looked, as the envelope manufacturers have, at the words from one extreme to the other of what we may do to the Postal Service, and we think, at least to begin with, we should unburden the Postal Service of some of the restrictions that keep it from operating in a truly businesslike and effective manner.

If I can take just a minute to give you some perspective about who we are and what we do. By and large, we are small businesses. Thirty-five years ago, when I started out in this industry, even the very large companies were still owner-operated businesses. Now we have a handful of publicly traded companies, but, generally speaking, we are entrepreneurs. We are in every major market across the country, and we are in several hundred smaller cities and towns, literally from coast to coast.

We are employers. Our smaller members employ 10 to 20 people. Our larger members employ 100 people or several hundred people. Often these are the first full-time jobs our employees have had that have legitimate career path opportunities.

We are innovators, and we are risk-takers. We are the people who prepare the advertising mail. The Postal Service delivers the advertising mail. We are in a unique partnership with the Postal Service, serving mutual customers. You are all familiar with much of the mail we produce. They are the efforts that sell magazine subscriptions and music club memberships; they are offers for insurance and credit cards; they are solicitations for the Red Cross and the March of Dimes and for the national political parties.

We are also the companies that present the local supermarket flyers, that maintain the mailing list for the furniture store, that help a local manufacturer compete in a national market. We raise money for the local arts associations and, yes, even for congressional campaigns and other local political activities.

What we do is prepare mail. The nugget or the core of our business takes computers and separates mailing lists into market segments. We correct the addresses, and we put them into proper postal sortations. In addition to that, we personalize, through laser printers, ink jet addressers, and Cheshire labels, the envelopes and the mailing letters that you get in the mail.

We insert it, typically, into an envelope, and we put a bar code on it, or we put a carrier route code to assist delivery. Over 90 percent of the mail that our company puts out—and this is typical of most of our members—is either pre-barcoded or has a carrier route already applied to it.

We prepare and enter the mail. Some of our members also print and design mailing pieces. They handle responses in what is known as a fulfillment operation, and some are presort service bureaus. But preparing the mail is the tie that binds all of our companies together.

Another common thread we have is that we participate in postal work-sharing programs, those programs that are designed to eliminate processing functions within the Postal Service by giving them mail that is prepared to a specific degree. Our customers get compensated for our efforts through discounted postage rates. Obviously, we then get compensated by our customers.

Doesn't it make sense to sort names and addresses when they are on computer tape rather than when they are on envelopes on a postal workroom floor? These are the kinds of work-sharing programs in which we participate.

We have been innovators in the Postal Service's effort to introduce work-sharing programs. Typically, with carrier route assignment, barcoding, drop ship, and other presort systems, we have taken the volume of that mail far beyond what the Postal Service projected, to which these discounts would actually apply. We give them clean, accurate mail. We understand the Postal Service, and we think, to their credit, they have a growing understanding of what we do. We are the people who hand the mail over to the Postal Service.

So, from this perspective, let me present our concerns and our suggestions. Regardless of your long-term view as to who should

own the Postal Service, we think some things can and should be done right now. A key area of unburdening lies in the general field of labor relations and labor costs.

We feel, clearly, the time has come to eliminate compulsory arbitration in the postal wage-setting process. It is time to make the collective bargaining process work, and it doesn't work as long as one party to that process knows that if they ask demands that are high enough, an arbitrator will find the middle ground somewhere.

We think it is necessary to streamline the endless and overlapping work rules and appeals processes. Supervisors have to be able to manage and discipline their work force. We would like to establish incentives so that those postal employees who are more productive are actually rewarded, and that is true whether they are a line employee or a management employee. We feel the current system gives those who are efficient more work to do and gives those who are not efficient overtime pay.

We also have concerns about the rate-setting process and regulations between the Postal Service and the Postal Rate Commission. In each of the last three rate cases, those in 1988, 1991, and the one just completed, each of them saw significant increases in third-class mail, which is, most advertising mail.

Yet the Postal Rate Commission increased the amount that the Board of Governors was requesting as an increase, if I may, by anywhere from one-third to over 50 percent, in what we feel was a predisposed bent to making sure that advertising mail carried a higher burden of the overhead costs than we feel necessary.

If our mutual customers, the Postal Service's and ours, the advertisers, don't have confidence in the Postal Service's ability to control its own costs and the Postal Rate Commission's willingness to give them an objective look, they aren't going to continue to advertise through the Postal Service and continue to pay a significant share of the Postal Service's overhead.

We find the rate process and the new product introduction process to be slow, expensive, and cumbersome. Frankly, we feel the Postal Service's competitors have too much input into the establishing of postal rates. I, or any other business person, would love to be an intervenor in my competition's rate-setting process.

We think the procedure makes it difficult for the Postal Service to introduce new products and services, both in terms of the time it takes to introduce the products and services and a basis on short-term costing and introductory costs, rather than the long-term advantage of these services. We certainly don't say we should eliminate the Rate Commission, but we do think a lot of work needs to be done in the whole rate-setting process.

We clearly support classification reform. Although it is not a legislative issue, we think it is a major step on the part of the Postal Service to tie its rates to the true cost of producing that mail, the service that mail gets, and the competitive marketplace in which the Postal Service offers that mail. So we clearly support the current reclassification objectives.

Again, we welcome this discussion on where the Postal Service should be as it enters the 21st century. Clearly, the greatest danger is in not looking. As to a privatization role, we probably look at reorganization of the Postal Service as a greater opportunity to

take a really creative look at work-sharing activities. We think carrier route barcoding and drop shipping are just scratching the surface of the combination that the Postal Service can develop with the private sector.

I think it is interesting to note that throughout the last 15 or 20 years, key increases in postal productivity have tracked pretty closely to the introduction of new work-share activities.

Again, we encourage your interest in the future of the Postal Service. We want to be part of that debate, and we thank you for the chance to present our views. May I also say that we invite any of the members of the committee or their staffs to visit any MASA plant anywhere around the country. We would be happy to handle the arrangements to make that possible.

Thank you.

[The prepared statement of Mr. Harle follows:]

PREPARED STATEMENT OF DONALD L. HARLE, VICE CHAIRMAN, MAIL ADVERTISING SERVICE ASSOCIATION

My name is Don Harle and I am Vice Chairman of the Mail Advertising Service Association and also serve as Chairman of the association's Postal Affairs Committee. I am part of the volunteer leadership of this 75 year old trade association. Most of my daylight hours are spent running Mid-America Mailers in Hammond, Indiana. My company, like many of the approximately 500 member companies of MASA, serves a variety of marketing, political, and charitable organizations that have a message to take to businesses and individual consumers through the mail.

The association's members are in the "mailing services" business. MASA is an association of lettershops, data processing organizations, mailhouses, direct mail agencies, fulfillment operations, and suppliers to these businesses. Our members prepare large and small mailings for others. When consumers receive offers through the mail for insurance, credit card solicitations, requests for political support, and communications from charitable organizations they are very often prepared by members of the Mail Advertising Service Association. Our members are a major force in the preparation of all types of advertising mail. MASA members prepare the mail. USPS delivers the mail. A survey by MASA suggests that our members prepare about half of the third-class mail handled by USPS . . . nearly 35 billion pieces . . . and a very significant quantity of First-Class mail, as well.

This subcommittee has heard from other organizations over the last month or so. Many of these organizations represent what we would call the users of the mail. These users have a vital need to communicate and advertise. It is to our members that they often turn for the actual physical preparation of their mail. Mailing service companies provide a wide range of services to their customers during the mail preparation process. The core of the mailing services industry is the folding, inserting, personalizing, addressing, presorting, barcoding, and entering of the mail into the postal system. The "services" provided by our members through worksharing programs significantly reduce the costs incurred by USPS to process and deliver mail.

Our list preparation capabilities ensure that much of the sorting of the mail is done, not on the Postal Service's work floors, but in the computers of our members. Further, the physical packaging and presentation of the mail, which our members do under the presort and dropship programs, facilitate efficient handling and subsequent delivery by the Postal Service.

Many of our members also act as direct mail agencies to provide creative services. Some even print the components to assure professionally prepared mail pieces. In a growing part of our industry several hundred of our members also provide fulfillment service. This includes the receipt of orders for literature or products and the fulfillment of these orders, frequently through the mail.

Perhaps more so than any other organization that has testified recently before this committee, MASA represents the "hands on" companies in the mailing community. Our employees are very much "in the trenches"—the very same trenches in which postal employees may be found. Our employees are the last people to touch the mail before it is turned over to postal employees. This means that they must wrestle daily with the physical realities of preparing and moving millions upon millions of pieces of mail. While the Postal Service has the admiration of the world for

the volume of mail that it processes daily, we feel that the preparation of that mail is no less admirable. Throughout MASA's 75 year history, preparing mail is the common thread that binds our member companies.

Because our companies and the Postal Service have over the years been facing very similar logistical challenges, our relationship with the Postal Service has been close and cooperative. Our members have been extremely active on joint committees and task forces with the Postal Service, such as the Postmaster General's Mailers Technical Advisory Committee, the Competitive Services Task Force, various worksharing committees, and other joint efforts designed to address mutual problems and challenges.

Before we look at short or long term goals for USPS, I think it is important to take a lesson from recent history. In the late 1980's and early 1990's postal costs were soaring. These costs were reflected in skyrocketing postage increases. The Postal Service's proposed rates were well above inflation and then the Postal Rate Commission upped the rate increase for most advertising mail by another 50%.

Our members and, more importantly, their customers were losing confidence in USPS's ability to get costs under control and in the PRC's willingness to provide an objective evaluation of advertising mail. These were difficult financial times for our industry and for USPS! We are pleased that postal management's work to control costs coupled with industry's efforts with barcoding and other workshare programs now seem to be bearing fruit. The fact that the last rate increase was delayed through a fourth year and tracked closely the rate of inflation has helped restore mailers' cnnfidence and balance sheets.

We are, however, concerned that many of the underlying problems still exist. Addressing these problems is one of our short term goals with USPS. Maintaining USPS as a vital resource in an exploding communications market is among our long term interests.

We encourage and want to participate in the emerging discussions regarding needed changes in the process of postal re-organization.

The truth is, the future of our companies is tied very closely to the future health and vitality of the United States Postal Service or whatever system will be delivering printed communications. We look at ourselves as portals to the postal system. Consequently, while our days are full struggling to meet the demands of the market and our customers, we nevertheless have remained attentive to the challenges faced by the Postal Service. We are extremely interested in working with USPS and the Congress to ensure a bright future for this organization that has served the country so well for so many years.

PRIVATIZATION

MASA has a somewhat different view on privatization of the Postal Service. We are strong participants in the outsourcing by the Postal Service that has already been occurring over many years. Our hundreds of plants are now involved in handling of the mail that was previously done by government employees within the Postal Service. I am referring to the functions, often referred to as worksharing, in which mailing service companies are involved. These functions include addressed-focused activities designed to improve delivery accuracy, presorting of the mail to simplify handling by postal employees, application of barcodes to improve and speed handling by government equipment, and transporting of the mail in our own trucks to distant points, relieving the Postal Service from that obligation. For these worksharing functions we are, of course, compensated with discounted postage rates. One of the important results of this worksharing cooperation has been an ever-improving Postal Service serving the needs of a growing nation.

In fact, Postal Service productivity gains track the implementation of new worksharing activities, with significant increases in productivity paralleling the expansion of workshare programs in the late 1980's.

We really don't like the term "privatization" as it is currently being used. The truth is, we have not yet heard a term that we feel accurately describes what we would like to see happen relative to the Postal Service. While terms like privatization, de-governmentalization, and commercialization are suggestive of the direction we should be going—we feel they don't quite hit the mark. If we had to coin a term, we might select "unburdening the Postal Service." This means that certain, specific, burdens with which USPS now struggles should be removed by the U.S. Congress, for the betterment of the Postal Service and the country that it serves.

The Postal Service is, of course, a very large business, albeit one with a special charter and obligation to the American people. While we recognize that there is a need for a system of constraints and protections under which USPS operates, we also know as business people that many of these constraints work against the suc-

cess of the Postal Service. We all know that there are many variables that contribute to the success of a large business operation. If one of these variables is broken or out of sync, the business can falter or even fail. For example, when you take something as basic to a successful business as labor relations, and design a system such as binding arbitration to determine wages, the result will be counter-productive to the success of the business. Today no private sector company would let an outside party set its wage rates, yet this is one of the burdens under which USPS must operate. Another burden is the system of work rules that actually work against the efficient operation of the system. Frequently, employees who produce well are rewarded with more work while those who don't produce are rewarded with overtime pay. Endless and overlapping grievance procedures undermine supervisors' efforts to achieve efficiency and leave little incentive to discipline employees.

Among other burdens on the Postal Service are the statutory obstacles to establishing prices. USPS cannot change prices without almost one year's notice, giving its competition a chance to analyze, testify against, and perhaps undercut those prices—even before they are implemented.

Another major area where we feel the Postal Service should be unburdened deals with rate setting and new products.

I've already indicated our members' feelings that the Postal Rate Commission has not treated advertising mail equitably in the last several rate cases. Our members also feel that the PRC's last three decisions have been influenced more by a philosophical bent to increase advertising mail's contribution to overhead than by the record of the case.

We also feel that the Postal Service's competitors play too large a role in the setting of rates. What a competitive advantage it is to them to be able to participate in their competitor's (the Postal Service's) pricing deliberations! Is it any surprise that their testimony always suggests that higher attributable costs should be assigned to categories against which they compete?

MASA's members don't want the Postal Service to have a totally free hand in the rate setting process nor do we advocate the elimination of the PRC. We do however, feel that adjustments to the present situation are needed.

The introduction and pricing of new services, some of which may be aimed at very narrow, specific markets are critical issues to the evolution of the USPS in today's and tomorrow's communication environment. The current process is slow and seems to be based more on the initial costs than on market acceptance and long term cost and profit potential. Again, the regulatory delays are a tremendous advantage to USPS's competitors. No business could introduce a new product if they had to do so under the constraints which limit USPS in this area.

We do believe, however, that the rulemaking proposals made to the Postal Rate Commission recently by the Postal Service have potential to improve the way that rules and rates are determined in certain instances. Our industry is still examining the specific proposals and has concerns about some of them. We believe, however, that MASA and other interested parties will be able to address our concerns with facts and comments to the Postal Rate Commission. We are optimistic that the final result will be beneficial for the Postal Service and its customers.

CLASSIFICATION REFORM

Classification reform is an issue of critical importance to MASA member companies. MASA is entirely supportive of the Postal Service's efforts to move toward a classification structure that puts more emphasis on level of service and Postal Service processing costs than on the content of the mail. We believe that these proposed classifications are an important step toward bringing the Postal Service more in line with the realities of today's mail and the marketplace in which it serves. The new classifications will reward with lower rates mail that is prepared for ease of handling by the Postal Service. Since the Postal Service will have to put less work into handling the mail, it only makes sense to encourage the preparation of such mail with favorable rates. Our industry is expert at preparing clean mail with accurate addresses, presorted to the fullest extent possible, and with barcodes applied whenever possible.

More than ten years ago our companies started making major investments in equipment and software to support the Postal Service's automation objectives. Much of this investment has been aimed at giving the Postal Service mail that is already barcoded to its actual delivery point. Under classification reform we look for rates that will more accurately reflect the true savings USPS realizes (and has realized) from this mail.

POSTAL RE-ORGANIZATION

Soon Congress will likely be considering broader areas on postal reform, some possibly even affecting ownership of the system. We look forward to participating in that discussion. Right now we probably see postal re-organization more as opening the door to a more creative look at worksharing and/or contracting out possibilities than we do toward a change in postal ownership, but we do support an open discussion.

Written communication is the cornerstone of commerce and commerce is the cornerstone of an open civilization. We feel that the efficient delivery of this written communication by the Postal Service of the future is vital to the health and prosperity of our country and our members.

We strongly feel that the future will continue to need the efficient universal delivery of these written communications. Advertising mail will continue to be an essential part of our economy.

To that end we will continue to embrace the technology necessary to keep a strong and healthy Postal Service for the delivery of our messages and the employment of our and future generations.

Thank you for the opportunity to express the views of the mailing service industry. I'd like to extend an open invitation for you or members of your staff to visit any MASA plant and see first hand how this unique partnership works between the preparers of the mail and those who deliver it. We wish you well as you evaluate America's mail system and contemplate improvements for the future.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO DONALD L. HARLE

Question 1. What type of system would you replace for binding arbitration?

Answer. One possible replacement to binding arbitration would be a process similar to that found in the rail and air transport industries under the Railway Labor Act. We support the following elements of such a process:

- the unions would have the right to strike
- the Postal Service would have the right to hire replacement workers
- the parties would have to complete a negotiation and non-binding mediation process before a strike could commence
- the President would have a variety of special powers to avert a crippling strike: he could order a 90-day cooling off period and, if that did not produce a contract, and if he felt that use country could not tolerate a strike, he could order binding arbitration in a best and flaw offer system like that which exists in major league baseball.

Question 2. Are there specific statutory changes needed to improve the rate setting process? Would you also share with the Subcommittee your views as to the General Accounting Office's recommendation on the use of demand pricing and volume discounting?

Answer. We support changes consistent with the GAO recommendations in its March 1992 report on "Pricing Postal Services in a Competitive Environment".

We support the following specific statutory changes that could improve the efficiency of the ratemaking and classification process.

- require demand based pricing, and eliminate the laundry list of factors in § 3622(b) or give clearer guidance in their application to the pricing of postal services and the allocation of institutional costs. This is consistent with the GAO recommendations and would require pricing of products in a manner that most closely approximates the price that would be charred for the Product in a competitive environment
- permit the Board of Governors of the Postal Service to overturn a Rate Commission decision on a vote of two-thirds of the governors (rather than requiring a unanimous vote as provided under current law)
- permit the Postal Service to offer experimental services (below a certain revenue threshold) without requiring approval by the Rate Commission
- permit pricing flexibility, i.e., the ability to change prices between rate filings within a narrow band to meet competitive pressures.

Mr. MCHUGH. Thank you. Maybe if we did that, we could talk about that campaign fund-raising thing you do.

Mr. HARLE. It's a very effective medium.

Mr. MCHUGH. Before I recognize our next witness, I would like to recognize first the presence of the gentleman from Texas, a distinguished member of the subcommittee, Mr. Gene Green.

Any opening comments?

Mr. GREEN. Mr. Chairman, no opening statements. I apologize for being late, but I'm in the middle of a markup in another committee, and I may have to leave. Obviously, this is an important subcommittee to all of us who have to mail, even during campaign time.

Mr. MCHUGH. I thank the gentleman.

Next, I would welcome and turn the floor over to Mr. Holleschau.

Mr. HOLLESCHAU. Thank you.

The members of the National Association of Presort Mailers would like to thank the Honorable John McHugh, chairman of this distinguished committee, for the opportunity to appear here today.

The testimony within our statement was prepared by our executive director, Bob Williamson, who has served in that position since 1984. He does regret not being able to be here today and requested that we convey his sincere appreciation and respect for all the members of the subcommittee, and will avail himself at a later date for any further questions raised by his statement.

In introduction here today, I am Randy Holleschau, president of PSI Group and a director of the association. Accompanying me is Dennis MacHarg, president of Advance Presort Services, located in Chicago. Mr. MacHarg is also the president of the National Association of Presort Mailers.

Mr. Chairman, in your invitation letter, you indicated that your subcommittee wished to be informed about our short- and long-term objectives, as they relate to postal matters, our current interaction with the Postal Service, and any other concerns that we may have. Our statement attempts to meet those requests.

For the past 18 years, members of our association have made a major contribution in reducing the Postal Service's processing costs by billions of dollars. We actively participate, as mailers, on the Mailers Technical Advisory Committee, a joint Postal Service-industry committee, and its various ad hoc subcommittees. We were active participants in Postmaster General Frank's joint work-sharing task force in 1988 and his competitive services task force in 1992.

It is interesting to note that one of the tasks of the latter was to make the Postal Service customer-driven versus operations-driven. It is obvious that that objective was short-lived, because most of the reforms in the current classification reform case before the Postal Rate Commission, Docket MC–95–1, are more operation-driven than ever before and will place our industry's very existence in jeopardy, if the Postal Service does not relax its arbitrary requirements proposed to the Postal Rate Commission.

The small and mid-range volume mailers cannot comply with those requirements for various reasons and, therefore, will be forced to forego the little postage savings that they share with the service bureaus and letter shops today, because their national density mail is insufficient to qualify for work-sharing incentives. Accordingly, we forecast major mail migration away from work-shar-

ing, which will add to the already saturated workloads of many of the post offices.

The result is no winners. The mail customer loses postage savings and thus increases his postage cost. The letter shops and service bureaus lose volume and revenue to a point where they will be unable to sustain operations. And the Postal Service will be forced to absorb billions of mail pieces without bar codes and sorted, ready for distribution, which will significantly increase their costs and force another substantial increase in postage rates by 1997, or before.

We are and will continue to support the Postal Service's automation goals but cannot, if overregulation precludes our contribution of processing over 16 billion mail pieces annually, of which approximately 80 percent are barcoded with the 11-digit delivery point bar code, which, I might add, bypass at least one processing point at the USPS.

We have invested hundreds of millions of dollars to support the Postal Service; again, I note, without any formal contracts, and these investments are ongoing, long-term financial commitments. It is imperative that no rate be established for barcoded mail that doesn't bypass at least one USPS operational point.

Our statement reviews some of the highlights of the recent GAO briefing report addressed to Chairman McHugh, the ranking minority member, the Honorable Barbara-Rose Collins, and the Honorable Senator Ted Stevens, chairman of the Senate Subcommittee on Post Office and Civil Service.

We also noted, on page 10 of our statement, some of the findings of a recent Harris study, entitled "Delivering the Mail, Should America Have a Choice?" which was sponsored by the Mailers Council, of which we are a member. Further, we have attached a complete copy of this Harris study, No. 954006, to our statement for your information.

This study concludes that the mailing public opposes the turning of the Postal Service into a private company, yet they believe if more private companies were allowed to compete with the Postal Service, it would improve the Nation's postal system.

Business executives participating in the Harris poll leave little doubt that more competition, however achieved, would be good for all: businesses, the Postal Service, and the American public. A majority expect that the cost of mailing would go down as a result of competition, and an even greater majority see a competitive marketplace, spurring the Postal Service to offer improved quality of services without resorting to the misuse of its monopoly.

These same business executives have expressed strong confidence that private companies could do a better job of managing the Nation's postal service than is currently being done by the Postal Service. By margins that exceed 70 percent in each case, executives expect private companies could do a better job of controlling operating costs, modernizing management practices, improving productivity, and enhancing customer satisfaction.

If this committee has any specific questions regarding the Harris poll, they can be answered by Art Sackler of the Mailers Council.

Finally, on pages 11–14 of our testimony, we offer some recommendations for revisions to the Postal Reorganization Act of

1971 for your consideration. Briefly, they are to amend the private express statutes to preclude the Service's misuse of the monopoly on first-class mail and to strengthen the role of the Postal Rate Commission.

Let us conclude by saying that we sincerely appr. ·te your role in these oversight hearings and the time you give to hearing from those of us who work hard and take substantial financial risks to help the Postal Service meet its objectives and goals.

We have proven our performance, our capabilities, and our willingness to continue those great efforts; however, we have failed to date in communicating to Postal management the devastating effects the proposed operational reforms will have on our industry, the small and medium-sized mailers, and the Postal Service itself.

We will gladly try to respond to any of your immediate questions and stand willing to do the same in the future.

Thank you.

[The prepared statement of Mr. Williamson follows:]

PREPARED STATEMENT OF ROBERT C. WILLIAMSON, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF PRESORT MAILERS

INTRODUCTION

In a letter dated May 18, 1995, we were invited by the Honorable John M. McHugh, Chairman, Subcommittee on the Postal Service of the House of Representatives' Committee on Government Reform and Oversight, to participate in the oversight hearing scheduled this date. This written testimony was prepared on behalf of the members of the National Association of Presort Mailers by its Executive Director, Robert C. Williamson, and is presented by Randall Holleschau, President, PSI Group, and Dennis MacHarg, President, Advance Presort Services. Collectively, these three witnesses have more than fifty (50) years experience in the mail processing industry and their observations herein are based on the combined inputs from the Association's more than 108 members, especially those with sophisticated automation systems used in the prebarcoding and presorting of both first and third class mail.

Since the Association's founding in 1984, one of the primary objectives has been to develop and improve USPS programs to produce cost savings and service benefits for prebarcoding/presorting mailers and the US Postal Service. The presort industry developed the comingling process 18 years ago so that small and medium volume mailers could realize the postage savings enjoyed by the major mailers. Presort, and prebarcoding added later, became the most successful worksharing programs ever offered by the Postal Service. It saved the Service billions of dollars in mail handling costs from the era of manual and/or mechanized processing to the automation age today. From just a few members in 1984, this Association grew rapidly to 108 today and is still growing. Today, nearly all of our members are automated and are processing an estimated sixteen billion pieces of first and third class mail annually of which approximately 80% is prebarcoded with the 11-digit Delivery Point Barcode. The mailpieces which we process come from nearly 20,000 small mailers and bear only a 5-digit numeric zipcode and no barcode. With the advent of the Multi-line Optical Character Reader (MLOCR) systems, utilized by both the Postal Service and the private sector, the street and city portion of the address bearing only a 5-digit numeric zipcode is read and converted into an 11-digit barcode, known as the Delivery Point Barcode. The investment by the private sector in these systems is in the hundreds of millions of dollars which is obviously a long term rather than a short term commitment with amortization periods of five or seven years. The financial risks are far above normal since we have no contract or written working agreement with the Postal Service. These investments are perpetual due to the rapid changes in technological advances forcing improvements and/or replacement of automation systems before the end of planned amortization schedules. For example, the failure of mailers to adopt the Zip+4 numeric zipcode in anticipated volumes forced the shift from Single-line Optical Character Readers (SLOCR) to Multi-line Optical Character Readers (MLOCR) at significant cost to mailers and without compensating incentives to offset those costs. Again in 1993, the Postal Service implemented the requirements for the 11-digit barcode (Delivery Point Barcode) without any ad-

justment in the worksharing incentive, but with full knowledge that the longer barcode would cause a degradation in the coding rates. Before the shift to the Delivery Point Barcode, we experimented by comparing the code rates using the Zip+4 barcodes and the new 11-digit barcodes and found the degradation to be substantial. The Postal Service ignored our findings and the premature implementation of the Delivery Point Barcode requirement cost private sector mailers millions of dollars. Later in this testimony, we will quote from a recent GAO Study which confirms our early estimates that the objectives of the Delivery Point Barcode would fall short of the Service's objectives.

In the past, our working relationships with the Postal Service were generally very good. However, the new eligibility requirements for incentives outlined in the Service's testimony before the Postal Rate Commission in the current Classification Reform filing (Docket MC95–1) poses serious threats to the survival of our industry. These arbitrary requirements will negatively impact our ability to meet our fiscal commitments to our suppliers and the service commitments we have made to the small postal customers, who rely on us and the comingling of mail volumes, in order to qualify their mail for some postage savings. These requirements appear to be influenced by those major list mailers who have already expended the necessary resources to meet the established standards referred to in the Service's testimony. Without some flexibility on the part of the Postal Service which we have requested on behalf of the smaller volume mailers, only the "mega-mailers" will benefit and the bottom line for others will show no winners. The smaller mailers will be forced to put full postage on their mail thus increasing their annual postage costs; the letter-shops and service bureaus will lose substantial mail volume and revenue; and the Service will be faced with a significant volume of full-postage "raw" mail which will further increase their operating costs substantially. One of the Service's primary objectives in Reclassification was to increase the number of prebarcoded pieces generated by the private sector. The opposite will prevail due to the proposed rules which will govern the new worksharing incentives. For example, the allocations of barcoded mail were initially 40/40/20—40% of the barcodes would be applied by the private sector; 40% by the Postal Service's MLOCRs; and 20% by the costly Remote Barcode System (RBCS). First, let us compare 1993 estimates with actual performance:

	Private Sector	Postal Service MLOCR	Remote Barcode System	Total
Estimated	29 billion (31%)	51 billion (55%)	13 billion (14%)	93 billion
Actual	30 billion (48%)	29 billion (47%)	3 billion (5%)	62 billion
Estimated for 1995	46%	37%	17%.	
Estimated for 1997	39%	33%	28%.	

These figures are based on data provided by the Postal Service to the General Accounting Office (GAO) for the latter's Briefing Report to Congressional Committees dated February 22, 1995 and entitled "POSTAL SERVICE: Automation is Taking Longer and Producing Less Than Expected".

The members of our Association are currently processing over 16 billion mailpieces annually of which over 13 billion are prebarcoded representing an estimated 40% of all Delivery Point Barcodes from the private sector. Accordingly, we question the reliability of the 1995 and 1997 percentage estimates as evidenced by the 1993 comparison above. With wage rates more than 4 times that paid workers in the private sector, the Postal Service should be taking advantage of the private sector's capabilities and capacities to generate Delivery Point Barcodes at less cost and concentrate on their core function—the delivery of mail.

CLASSIFICATION REFORM 1 (DOCKET MC95–1)

This Association fully supported the idea of reclassifying the traditional classes of mail by making them cost and performance driven versus content driven. We participated in meeting with the "Reclassification Committee of 100"—a joint Postal Service and private industry group which met regularly over a two year period from 1992 to 1994. Meetings ended in September, 1994, while the Service awaited the results of a market survey they ordered through a firm used frequently for analytic studies. This is the same firm which a few years ago polled a select list of the mailing public to determine whether the public wanted speed or consistency in the delivery of mail. The Postal Service ignored the recommendations from the Postal Rate Commission in Docket MC91–1 and revamped the delivery system which ultimately became, as you well know, slower and less consistent than before. Because of this and the refusal to divulge certain details about this market study, several business mailers are questioning the validity and credibility of the study upon which the

Service relied heavily as the basis for much of their case now before the Rate Commission. The Postal Service prepared their filing without further joint meetings. The case was filed on March 24, 1995 with the Rate Commission and included several controversial rules which postal managers had assured us would not be in the filing and these assurances came as late as the day of filing.

We have appealed to postal managers to reconsider their demands for those items which favor only the "mega-mailers", or sometimes referred to as "list mailers", and punish those who have faithfully generated more than a third of the barcodes from the private sector—the small business mailers who give their mail to lettershops and service bureaus for processing. With the added incentives from last year's 10.3% across-the-board increases, most of the private companies have committed that capital toward generating even more barcodes to help the Service meet its barcoding goals. The private sector has by far exceeded all expectations for the number of barcodes to date and therefore has done its part. The Service has failed to match the number of barcodes and the aforementioned General Accounting Office Study (GAO/GGD–95–89BR) reports that the Service's automation is not performing as expected and concludes, in part, as follows:

a. Letters Barcoded in 1993 fell short of the benchmark.

b. Mailers barcoded more letters than expected and most of the 20 billion shortfall was due to the Service not barcoding its share of letters.

c. Smaller mailers have not been directly eligible for barcode discount.

d. Minimum quantities required to qualify for barcoding discount effectively eliminate medium and small mailers.

e. Mail preparation requirements discourage barcoding because of complicated mail preparation regulations; thousands of employees could be required to monitor compliance with unknown effectiveness of monitoring.

f. Remote barcoding has been more expensive than planned.

g. Remote barcoding has been more extensive than planned. It was intended as an interim barcoding method until advances in technology eventually phase it out but is now seen as a long-term part of automation.

h. Obstacles to achieving delivery point sequency—delivery point sequencing not yet implemented for high-rise business or residential buildings which includes 23.1 million addresses, or 19% of total deliveries. The time frame for implementing delivery point sequencing for high-rise structures is indefinite.

i. The Service no longer anticipates that carriers will save two hours a day preparing mail for delivery, and now uses a savings estimate of 80 minutes a day based on standard sorting rates and volumes. Capturing carrier savings is behind schedule; sequenced mail volume is behind schedule; carrier in-office time is increasing; and the Inspection Service finds little savings and that the amount of delayed mail has increased.

j. Automation was expected to save 84,000 work-years but there has only been an actual reduction of 40,000 work-years in functions directly related to automation.

The GAO Briefing Report was addressed to Chairman McHugh, and the Ranking Minority Member, the Honorable Barbara Rose-Collins and the Honorable Ted Stevens, Chairman of the Senate's Subcommittee on Post Office and Civil Service under the Committee on Governmental Affairs. While some of the Report's conclusions may be subject to debate, the statistics presented therein appear to be sound and reasonable. On this premise, one can conclude that the Service's estimates of achievable goals fall short of being meaningful and that is reason for us to challenge their intention to destroy the very industry it needs to accomplish its automation goals. Their treatment of "business partners" is incomprehensible knowing well the substantial financial investments that are in jeopardy and the tens of thousands of employees and postal customers who will suffer irrecoverable losses. The Postal Service has been granted a monopoly in First Class Mail by the Private Express Statutes as a protection against competition. While the Service well knows that its First Class mail customers have no alternatives, we believe that the use of the monopoly to force its customers to accept mandatory rules which are impossible to comply with is both unfair and unreasonable. This is a direct contradiction of the Service's testimony in the ongoing Docket MC95–1 wherein it was stated, "Current plans are based upon mailers being the largest single source of barcoded letter mail".

PRIVATIZATION OF THE POSTAL SERVICE

We have never endorsed the total privatization of the Postal Service but have strongly supported the enhancement of worksharing. There is no doubt that with much lower wage scales and comparable automation systems, the private sector has the capability and capacity to process more mailpieces most effectively and at the lowest combined costs. We have proved this capability continuously since former

Postmaster General Frank invited the private sector to be his partners in meeting the objective of barcoding all letters by the end of 1995. We met that challenge and the figures quoted previously support the success achieved to date. When asked by members of this committee in the past why we were successful in the automation processing of mail, we explained the need for motivation to use automation to increase productivity at reduced costs. As businesses, we have to make it work or face the consequences of bankruptcy. The attitude of the postal bureaucracy is not business oriented. For example, we presented a proposal to postal managers a few months ago which concluded a savings of more than four hundred million dollars a year. One manager responded such savings were not a significant amount since the Service expended that amount every other day. Our proposal also concluded that implementation would eliminate the need for 10,000 positions. A different postal manager responded that it would be impossible to eliminate jobs. With attitudes like these, it is difficult for the bureaucracy to ever act like a business much less ever become a business.

In a very recent Harris poll, the American public opposes the turning of the Postal Service into a private company, yet believe if more private companies were allowed to compete with the Postal Service, it would improve the nation's postal system. Further, Americans clearly prefer having choices and many even say they would pay more to a private company providing faster, more reliable service. Business executives leave little doubt that more competition, however achieved, would be good for all—businesses, the Postal Service and the American public. A majority expect that the cost of mailing would go down as a result of competition and an ever greater majority see a competitive marketplace spurring the Postal Service to offer improved quality of services without resorting to the misuse of its monopoly. The Harris Study showed strong support for ending the blanket monopoly by the Postal Service. Business executives have expressed strong confidence that private companies could do a better job of managing the nation's postal services than is currently being done by the Postal Service. By margins that exceed 70% in each case, executives expect private companies could do a better job of controlling operating costs, modernizing management practices, improving productivity, and enhancing customer satisfaction. Yet, they do not support making the Service a private company. Another key finding in the Harris poll was that 69% of businesses would turn to a private company when it is very important for someone to receive a hard copy communication without delay. Perhaps this experience explains why these executives would place a great deal of trust in a private company to be reliable and protect the privacy of their mail.

We have reproduced and attached hereto copies of the Louis Harris and Associates' Study No. 954006. *

Our Association, as a member of the Mailers Council and participants in the Harris Study, concur with the consensus reflected in the conclusions above.

POSTAL REORGANIZATION ACT OF 1971

When testifying before this oversight committee in the past, we have been asked if we believed it was time to review the Act which established the postal system we have today. In each instance, we responded that in our opinion it was premature but the time might come. Today, we believe now is the time to review the Act and give serious consideration to amendments which would streamline the processes in order to give the Postal Service some latitude in competing at the marketplace by acting more like a business.

We realize that you have been deluged with all types of ideas, concepts, recommendations to improve the postal system including the abolishment of the Postal Rate Commission, the removal of the monopoly on First Class Mail in the Private Express Statues, and proposed legislation to privatize the Postal Service. While we are not in the position to judge the merits of other's recommendation, we can offer our views for your consideration as follows:

a. Amend the Private Express Statues to preclude the Service's misuse of the monopoly on First Class Mail. The current rates for Express and Priority mail are now well below the Service's competition and should increase the volume of market-share provided the quality of service and delivery consistently improves. Regular letter-size mail is, according to the Postal Service, a real bargain compared with other countries around the world. If this is true, the migration of mail volume in this category should be minimal. Most business executives still use First Class mail for hard copies of Fax or E-mail. In addition, the Service could not deprive the medium and small volume mailers of worksharing incentives by over-regulation dictated by

* [Note.—The information referred to can be found in the subcommittee's files.]

the specifications recommended by the multi-billion dollar corporations referred to earlier as the list mailers. The cost of forwarding mail is the focal point at issue but the Service's estimates of such cost have varied by more than a billion dollars a year just within the past few months.

b. Strengthen the role of the Postal Rate Commission. This is a necessary regulatory body tasked by Congress to insure that classification and rates proposed by the Postal Service are fair and equitable to the American public after hearing testimony from witnesses representing all classes of mail before making its Opinion and Recommended Decision to the Postal Board of Governors. Without this regulatory process, pricing and classification of mail would rest solely with the postal bureaucracy whose cost estimates are of questionable accuracy. As a recent example, the Service proposed in Docket MC95–1, to lower the incentive for basic presorted mail to two cents, which is below the actual cost of processing such mail, while concurrently sharing part of the incentive with the small mailer providing the mailpieces. The private sector has thoroughly researched the potential migration of mail from prebarcoded to non-prebarcoded, if the requirements for incentives are forced upon the mailing public. The Service has ignored this research and refuses to accept the threat of mail migration. Such moves by postal managers only show ignorance of sound business principles and support our contention that the Congress correctly added the necessary checks and balances to the regulatory process by establishing the Postal Rate Commission. While we have not always agreed with each and every part of the Commission's decisions, we believe their rate-making role is essential to the total process but concur with the Postal Service that the review process is too long.

We believe that the Commission's review process could be streamlined so that it better fits the need for the Service to be more business-like and less authoritarian. For example, the requirement of the three year cycle in establishing rates so that the Service makes money the first year, breaks even the second year and loses money the third year is far from business-like. The Service should be motivated as a business to make money every year. Bonuses should only be granted when there is a profit and any surplus funds left over should be returned to the U.S. Treasury as the Service's contribution toward lowering the Federal deficit. Postal managers would be motivated to control costs so that limited bonuses are attainable and the American public would be proud of the Service's efforts to lowering the country's huge deficit.

CONCLUSION

As you will note from the foregoing, our primary concern is the very survival of our industry, which ever since 1977 has played a significant role in making it possible for small and medium range mailers to qualify their mail for worksharing incentives. Without this effort, the postage savings offered through worksharing would have been the exclusive privilege of the multi-billion dollar corporations, who have obvious influence over the qualification requirements set forth in the ongoing Classification Reform case (Docket MC95–1) before the Postal Rate Commission. Without the opportunity to testify before that regulatory body, the Service would unilaterally terminate our industry. The end result is devastation for all involved: the small and medium range mailers would lose their postage savings and thus face increased postage costs; the lettershops and presort service bureaus who now process billions of mailpieces annually will lose mail volume and revenue needed to sustain operations; and the Postal Service will have to absorb billions of mailpieces, currently prebarcoded with the Delivery Point Barcode, as unprocessed mail to saturate their already overloaded mailstreams in many cities. This will ultimately result in even fewer pieces of prebarcoded mail as deadlines are shortened and thus more delayed delivery of mail. Hundreds of millions of dollars invested in sophisticated automation systems are at stake, as well as the thousands of jobs in this industry. Further, we find it incomprehensible that the Service is attempting to force requirements on their smaller business customers knowing first hand that they cannot comply but they have no alternatives because of the misuse of the monopoly the Service holds. No company could stay in business using such tactics.

It has once again been a pleasure and honor to present testimony before this distinguished committee. We welcome your questions at any time.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO RANDALL HOLLESCHAU

Question 1. In the past months we have heard a good deal regarding the customers of the Postal Service and the need for it to be more customer oriented. Would

you share with the Subcommittee specifically, why you feel the reclassification case is "operations-driven" instead of "customer-driven" and how you would define the Postal Service's customer?

Answer. In 1988, Postmaster General Frank formed a joint Worksharing Task Force made up of representatives from the Service and Industry. This group was tasked to develop ideas and concepts in the processing of mail which would improve then current practices at the lowest combined costs. This effort developed over 125 ideas from which some 36 were selected for implementation over the next few years for the mutual benefit of the Service and its industry "partners" at the lowest combined costs.

In 1992, Postmaster Frank formed the Competitive Services Task Force under one of his Associate Postmaster General and the Chairman of Advo, Inc. This joint group focused on ideas to make the Service more "customer and market driven" and less "operations driven" as had been the practice in the past. The work sessions within this Task Force focused on ideas which would make the Postal Service easier to work with as it became more business-like and less bureaucratic. There was much emphasis on cooperation with the postal customers to determine their needs and satisfaction with the less authoritarian approach by the Service and a more business-like attitude. One of the major recommendations coming out of this group was the demand for a new easier-to-read Domestic Mail Manual so that postal customers could better understand the demands placed upon them when entering bulk mailings.

The Reclassification Case, Docket MC95–1, known as Classification Reform 1, is far greater in scope than initially anticipated by most business mailers. For example, it was a general understanding that rates established by the rate case last year, Docket R94–1, would hold until replaced by the next omnibus rate case, reportedly to be filed in early 1996. Our Association fully supported the Postal Service's idea of reclassification and participated in the joint sessions on the subject during 1993–1994. In a market survey conducted in the second half of 1994, it became obvious that the Service had once again become "operations driven" with the drastic changes it proposed in processing regulations and eligibility requirements for worksharing incentives. These requirements have been supported by the major "list mailers" because they impose little change from today's environment and will cost relatively little for them to implement. On the other hand, the new requirements will be very difficult for small and medium-size mailers and service bureaus that have already invested hundreds of millions of dollars to comply with current regulations.

What is being proposed is practically impossible, and its impact is worsened because it simply follows a history of change imposed by the Postal Service, where the costs of compliance often just barely meet, or in this case, exceed the financial gains. This is the reason that small to medium-size mailers and service bureaus are concerned that their investments may be in serious jeopardy.

In a "customer driven" environment, one would expect the Postal Service to understand its client base. Specifically, why they mail, to whom they mail, how and how often they mail, etc., and find ways to incent clients to move in a particular direction. Classification Reform 1 is seen, by the smaller mailers, as a penalty, not an incentive. Senior Postal Officials have publically stated that, "The Postal Service can't continue to operate inefficiently, and if mailers can't comply with new regulations, then they don't deserve any incentives". What the Service fails to recognize, is that the regulations proposed with Classification Reform may cost "list mailers" a one time hit of $10,000 to $20,000 for CASS certification and an additional $2.00 to $5.00 per thousand for NCOA matching in order to achieve additional savings of $25.00 per thousand, but at the same time, to reach the same savings, service bureaus will have to invest hundreds of thousands of dollars, again, and the small mailers that make up their client base will have to incur additional costs of $20 and more (per thousand) to, hopefully, achieve the same discounts.

As the owners of service bureaus, we too, would like to run more efficiently, and wish our clients would improve their mail quality. However, we are not protected by monopoly status, and if we ever attempted to impose the same quality requirements that are being imposed by the Postal Service, the majority of our client base would transfer their business to our competitors.

We define the Postal Customer as any company or individual who generates mailpieces which bears U.S. Postage and is presented to the Service for delivery to the addressee.

Question 2A. Throughout your testimony you discuss the current Classification Reform case before the Rate Commission. For example, you note that the multi-billion dollar corporations have influenced the Postal Service to propose mandatory requirements for prebarcoding discounts which will result in the unilateral termination of your industry.

Could you explain these concerns in more depth? What specific aspects of the reclassification proposal do you find most troubling? Is the problem that the Postal Service will require 100 percent of the mail to be prebarcoded in order to receive the discount?

Answer. There are two specific aspects of the reclassification proposal that we find are threatening to the very industry which has always supported the Postal Service's automation plans and goals. First, as already mentioned in response to question 1, it appears that the "list mailers" who co-chaired two of the joint reclassification subcommittees were instrumental in convincing the Service to require specific addressing qualities which they have been using for years. The small and medium volume mailers who generate most of the mail processed by lettershops and service bureaus are not list mailers. These thousands of smaller mailers generate over 16 billion mailpieces annually which are given to the lettershops and service bureaus to commingle with others' mail in order to qualify for the prebarcoding/presorting incentives. Without this commingling of mail, which has been so successful for the past 18 years, the smaller volume mailers could not qualify for any of the discounts. Mandating address quality systems as a requirement for automation incentives, with no opportunity for Postal Customers to achieve a return on investments already made to date, has met with strong opposition from mailers because of the expense involved and the fact that these regulations violate the confidentiality of their customer's addresses.

The Postal Service confronted many of these mailers a few months ago to get their reaction to the forced requirement and to the best of our knowledge, not a single customer would adopt the systems to be required. They have repeatedly stated that they would post their mail at full postage instead, which would do nothing to improve their addressing and the Postal Service would fail in their objective to improve mail quality. If these same mailers hold their views, and there are no indications to date that they will not, the source of mail for the lettershops and service bureaus will substantially decrease, and because of the loss of revenue and the volume necessary to meet the "new" volume requirements, service bureaus could be in jeopardy.

Second, after testifying to the contrary in Docket R94–1, the Service has decided to offer a significant decrease in the incentive for basic presorted mail—from 4.6 cents to 2.0 cents—a 67% drop. Lettershops and service bureaus who share the incentive with their customers would no longer be able to process mailpieces for approximately one cent. Furthermore, even if they could keep the entire discount, the address standardization requirement for non barcoded mail would prevent the mailer from presorting. This mail would then be added to residual mail and presented to the Service as non-processed mail. We have estimated that residual mail will increase by more than 650%, and this figure goes even higher if the Service experiences saturation in some cities and mailers are required to enter mail earlier than they are today creating even more non-processed mail. This data will be an integral part of our testimony before the Postal Rate Commission later this month.

The 100% of the mail to be barcoded is an added problem because it is impossible to attain such a level. The level is currently a ratio of 85/15 and was to be increased incrementally to 90/10, then 95/5 and ultimately to 100% if that level was attainable. Even the major "list mailers", who have absolute control over all the physical characteristics of their mailpieces reported to the reclassification committee that they had reached 92% but that it was not cost effective to increase above that level. Most of our members are above the 85% level but cannot sustain the 90% level. To require the 100% is unreasonable since the Service can only provide codes for approximately 96% of all U.S. addresses.

Contrary to the Postal Service belief that service bureaus will purchase sufficient coding desk equipment to apply barcodes to mailpieces which could not be coded using MLOCR equipment, much of the rejected mail may end up in the aforementioned residual stream because service bureau clients will not allow service bureaus to re-date substantial volumes of rejected mail in order to have the necessary time to code mail on the much more costly and slower equipment.

Question 2B. How will these changes terminate your industry—isn't the point that the Service needs to move on from presorting to prebarcoded mail? Doesn't this change to prebarcoding provide entrepreneurial opportunities for your members to continue helping process the mail for small and medium sized mailers?

Answer. Our businesses are based on our ability to prebarcode and presort significant volumes of mail to reach the density requirements necessary to qualify for discounts. We have seized the entrepreneurial opportunities as evidenced by the more than 16 billion mailpieces processed today with about 80% of that volume generated with the Delivery Point Barcodes making us one of the leaders in assisting the Service in meeting its objectives. However, as stated above, the small and medium sized

mailers cannot meet the addressing quality requirements being forced upon them and without their volume, we cannot sustain the current level of operations we have invested heavily to accomplish.

We can understand the Service' desire for prebarcoded/presorted mail, and yes on the surface, there appear to be new opportunities to provide additional services to smaller mailers. However, the costs to implement Classification Reform changes appear to exceed the financial gain for most small mailers.

Question 2C. You note on page 6 of your statement that the Postal Service prepared this filing without holding any more joint meetings of the Mail Technical Advisory Council after September 1994. As a point of clarification: Is it accurate to say that the Postal Service failed to hold ANY joint meetings in the six months before its filing?

Answer. This is in reference to the statement, "The Postal Service prepared their filing without further joint meetings." We should have added to that sentence, "of the Joint Reclassification Committee." We were informed that the Service was awaiting the final results of a market survey before unilaterally preparing the filing. There were other joint meetings such as the Mailers Technical Advisory Committee (MTAC) and the Multi-line Users Group during the period from September 1994 and the filing date March 24, 1995 but there was no opportunity to convince the Service of the negative impact if they pursued their outlined requirements used in the market survey. After the filing was made with the Rate Commission, we were told that there could be no changes to the substance of the Service's testimony which represented the "WHAT". There would be an opportunity to discuss the "WHEN" and "HOW" only. In other words, the Work Groups formed by the MTAC were eventually renamed Implementation Advisory Groups and their meetings were limited to when and how the substance of the filing, assuming Postal Rate Commission concurrence, would be implemented.

Question 2D. What aspects, if any, of the proposed reclassification case do you support?

Answer. We support the Service's objective of improving mail delivery and realigning costs of processing mail with the actual rates paid. As an Association, we have consistently supported the Postal Service in every way possible despite the many barriers related to business mail acceptance and the unfair and unreasonable penalties associated with them, i.e. the rejection of entire mailings of hundreds of thousands of pieces because one mailpiece was found to be one thousandth (0.001) of an ounce over one ounce or that the acceptance clerk could not clearly read the letter "R" in Richmond.

In our testimony before the former House Post Office and Civil Service Committee, we supported the Postmaster General on his proposed solution to the "Revenue Foregone" issue. We were also a strong supporter and one of the first signatories of the Stipulation Agreement for last year's 10.3% across-the-board rate increase as a means of providing the Service of much needed revenue until Reclassification was filed and an omnibus rate case could be proposed thereafter.

As members of the Correspondence & Transactions subcommittee of the Reclassification Committee formed by the Postal Service, we were active participants at each meeting throughout 1993 and most of 1994. We fully supported Reclassification as initially proposed until operational requirements were added which represented a direct threat to small and medium size mailers and service bureaus, and the resulting loss of ability to stay in business as described above.

With the event of new technology being developed jointly by the Postal Service and the private sector, we firmly believe that the addressing quality will be better resolved by the addition of the Multiline Forwarding System (MFS) as an alternative to the current systems found unacceptable by the Service's small and medium volume customers. There are also major mailers including an aircraft manufacturer and an insurance company who have voiced opposition to those systems being forced upon them. Without these undue requirement we could once again support reclassification. As the requirements now stand, there are no winners: the small and medium volume mailers can no longer participate in worksharing and thus their postage costs will be increased substantially; the lettershops and service bureaus who depend upon the volumes currently processed for those mailers will lose both volume and revenue; and most important of all, the Postal Service will become saturated with unprocessed mail currently being prebarcoded and presorted which will significantly increase the Service's operating and processing costs.

Mr. MCHUGH. Thank you, sir.

Last, and as we always say, because it's true in this instance, not least, Mr. Maraney.

Welcome, the floor is yours.

Mr. MARANEY. Thank you, Mr. Chairman.

I am Skip Maraney, and I am the executive director of the National Star Route Mail Contractors Association. With me today is our current president, R.B. Matheson from California, and our past president, chairman of our Postal Policy Committee, Mr. Mike Sodrel of Indiana.

The association ultimately represents some 12,000 to 13,000 small and medium-sized, family owned trucking firms, representing some 15,000 contracts, who contract with the U.S. Postal Service for the over-the-highway transportation of the mail.

Mr. Chairman, I have included some historical data here, because the subcommittee is new, and I think it is important to point out that there was surface contract transportation going on before there was a Postal Service. The Continental Congress, of course, entered into the first contracts. Under the 5-minute rule, I will synopsize, and we will go on—if you want to follow along—to page 4.

In 1970, when Congress passed the Postal Reorganization Act, the department was transferred into a quasi-corporation independent of Congress. Section 5005 of the law provides the USPS with the authority to procure highway transportation of the mail via competitive bidding and also carried forward the renewal and adjustment language of the previous law.

The principal perspective of our industry in dealing with the Postal Service is, of course, in the area of transportation. Transportation, however, is obviously an important link in the Postal Service's chain of services, since without it a piece of mail would not arrive at its destination. Over the last 25 years, highway transportation has been the least criticized operation of the USPS, as the mail, as a general rule, goes from point A to point B on time.

Our industry is the only dedicated industry with which the USPS contracts, as over 85 percent of our highway contractors engage in no other business than hauling mail. Our contractors bid and perform under precise time schedules set by the USPS, when it wants the mail moved, not around the schedules of other modes of transportation with which it contracts.

The industry is composed of a wide variety of businessmen and women, from owners of fleets of tractor trailers hauling intercontinental mail, to small and medium owners of straight trucks and vans hauling within sectional centers, to contractors contracting to provide for the delivery of mail in rural areas and provide the identical service as USPS rural carriers but at a much lower cost than USPS.

The facilities of the U.S. Postal Service are linked by a transportation network extending over millions of miles. With the decline of the railroad transportation and substantial cutbacks in round-the-clock services for air transportation, short-haul surface transportation by highway contractors has become the most significant aspect of the transportation network.

Latest statistics demonstrate that the highway contractors, in 1994, traveled approximately 1.1 billion miles. This is up from 700 million miles in 1976. In addition, as stated above, in rural areas a significant portion of the mail is delivered by independent contractors.

The internal postal reorganization in 1992 placed a heavy burden on the Postal Service transportation contracting officers, as the numbers were reduced from 23 throughout the country down to 10, with a concomitant drop in administrative support.

I might interject here, Mr. Chairman, it seems like every time we get a new PMG, we get another reorganization within the Postal Service. And over the last 25 years, we've gone from 15 regions to 5 regions, from 23 contracting officers to 10 contracting officers, from 20 area managers to 10 area managers, to 10 distribution network offices. Every one of these reorganizations causes a lot of burden to the people dealing with the Postal Service, because it involves changes in personnel, reductions in staff, and what have you. An example of this burden can be found in one contracting officer who administered 800 contracts prior to the reorganization and now is responsible for 2,600, with little additional help. This has resulted in delays in contract adjustments, service change adjustments, and delays in other contract modifications, which hurt the contractors.

A major negative impact has been avoided because of the close business relationship which exists between the association and USPS transportation officers at headquarters and in the field. This relationship is ample evidence that business and government, through cooperation and constant communication, can be most effective in heading off potential problems before they occur.

The association and the USPS each have transportation policy committees which meet in joint session two or three times a year to discuss proposed or potential policy and/or regulatory changes which may mutually impact the Service and the industry. Each committee brings a different perspective to the table. The USPS is the final arbiter, but the association is comforted by the fact that its views have been solicited and it has been offered the opportunity to explain the impact any regulatory change will have on the contractors.

This is not to say that we find no fault with the way the Postal Service conducts its business. Periodically, it appears to lose sight of the importance of a strong and stable highway transportation industry and adopts measures that threaten the very existence of the companies that are the heart of the industry, the small, family owned and operated contractors who have made postal transportation contracting their livelihood for generations.

One recent example of this phenomenon was the decision by the Postal Service to eliminate the requirement that newly bid highway contracts be backed up by a performance bond. The decision was made because fewer and fewer insurance companies remained in the bonding business, for the purpose of bonding highway contracts, and the possibility for abuse increased. The remedy, however, the entire elimination of the bonding requirement, proved to be worse than the disease. The Postal Service is simply not equipped to judge the financial stability and reliability of each of its bidders; hence, contracts are being let at noncompensatory rates to unproven contractors, with the result, according to our statistics, of a more than doubling of the default rate on contracts. Because the contracts are not backed by bonds, the Postal Service has little chance of recovering its losses caused by the default. More impor-

tantly, by accepting lower and lower bids, the Postal Service has substantially reduced the incentive for long-time contractors to stay in the business.

This, too, will cost the Postal Service substantial sums in revenue, since without proven and reliable contractors, the service provided by the Postal Service will deteriorate, thus reducing its ability to compete with other modes of delivery. We have recommended several alternatives to the Postal Service to replace corporate bonds, including cash bonds or escrow accounts, but thus far our recommendations have not been adopted.

As I have pointed out earlier, the Congress has been extremely supportive of the need to maintain continuity to USPS highway contract mail transportation by the continuing adoption of the competitive bidding, contract renewal, and contract adjustment language contained in Title 39.

It is the association's opinion that the postal monopoly should remain intact, because it is the only way of assuring universal service. I reiterate that the transportation and facilities of the USPS are tied together through a universal network, with each link interdependent on the other to make service requirements.

This kind of network can only be coordinated, in our opinion, under one centralized unit which is responsible for the efficient operation of each link as they make up the whole. It is difficult to imagine a fluid operation if a multitude of corporations owned and were responsible for only certain segments of the mail service, with no central control for the entire system.

And what happens to the rural areas, where all the economics dictate against providing service, if one is profit-oriented? This would require the Postal Service, or the government, to provide a skeletal service to areas which nobody else wants, and the cost of such service would, of course, be enormous.

The association is opposed to privatization if it means selling the U.S. Postal Service piecemeal or a wholesale transfer of its functions into private hands. We do believe, however, that the highway contracting industry offers an outstanding example of what can be accomplished by the USPS acting in partnership with the private sector.

Mr. Chairman, that concludes our prepared remarks, and of course we would be happy to respond to any questions that you or the members of the committee may have.

[The prepared statement of Mr. Maraney follows:]

PREPARED STATEMENT OF JOHN V. MARANEY, EXECUTIVE DIRECTOR, NATIONAL STAR ROUTE MAIL CONTRACTORS ASSOCIATION

My name is John V. "Skip" Maraney and I am the Executive Director of the Association. With me today is Association President R.B. Matheson, and Mike Sodrel, former President and Chairman of our Postal Policy Committee. We appreciate the opportunity to submit, on behalf of the Association, the following comments with respect to the effectiveness of the United States Postal Service.

The Association ultimately represents some 12–13,000 small and medium-size family-owned trucking firms, representing some 15,000 contracts, who contract with the USPS for the over-the-highway transportation of the mail.

Historically, routes on which the mail was transported by independent contractor were known as "star routes" and this has given our Association its name. Since the Postal Reorganization Act of 1970, the USPS has referred to these contracts as Highway Contract Routes (HCRs). Contracting for the transportation of the mail traces its history back to 1786 when a stage-coach company owned by Mr. Levi

Pease of Shrewsbury, Massachusetts, entered into the first contract with the U.S. Government (the Continental Congress). The contract was from Shrewsbury to Boston to Hartford, Connecticut and consumed three full days of travel. It was not until a much later period that Congressional action gave a definite basis to Star Route Service. For many years the Post Office Department consented to a burden of which it was hardly capable, by employing coach transportation on many routes where the size and weight of the mail did not really require a higher grade of service than horseback. A new law (drafted by Postmaster General G.A. Wickliffe and passed by Congress, March 3, 1845) very consistently enjoined it upon the Postmaster General, in all future letting of contracts, to accept the service of the lowest bidder proposing to convey the entire mail over a post route "with celerity, certainty and security," without reference to the mode of conveyance. For the sake of brevity in Post Office Department and reports, these types of bids were designated by using an asterisk (star) and herein is the first formulation of the name, Star Route Contractor.

After the turn of the century, the plight of the Star Route Mail Contractor came more and more to the attention of the United States Congress. Contracts were awarded for four-year periods with no provisions for monetary adjustment due to unforeseen cost increases or for renewal of such contracts. This procedure resulted in extreme financial hardships for the contractors and finally the 75th Congress (1937) passed House Resolution 4408 which provided for the renewal and adjustments of star route contracts. President Roosevelt vetoed this legislation but the problems persisted and became so acute that of the 11,000 contracts let between 1944 and 1948, 5,000 failed, a casualty list of almost 50% of the contracts. This cost the Post Office time, money and a breakdown of service to its patrons. It also led, however, to the passage of Public Law 669, passed by the 80th Congress in 1948 which gave the Postmaster General permissive authority to renew star route contracts for additional terms of four (4) years at the rate prevailing at the end of the contract term. It also provided for monetary adjustments for increased or decreased costs caused by changed conditions occurring during the contract term which could not reasonably have been anticipated at the time of the original bid. Thus for the first time in the history of the Star Route Industry, substantial legislation was passed and enacted into law which provided investment protection to the contractors and afforded the Post Office Department continuity of service from reliable and efficient contractors at reasonable rates.

Because of the broad language of the law, the Postmaster General, at that time, wrote to the Comptroller General and asked for a ruling as to the intent of the law. The Comptroller General ruled that the intent was as follows:

a. Adjustment of contract pay would be made when costs are increased or decreased because of changed conditions.

b. Changed conditions include increases and decreases in the cost of living, purchase or maintenance of equipment, additions to or subtractions from route requirements, and increases or decreases in the volume of mail or services performed.

c. Contractors should not be forced into situations which require them to carry mail at a loss.

d. Contractors have a right to expect a return for their work which will permit them proper standards of living.

e. Extensions or revisions of contracts should take into consideration human elements enumerated in 526.121c and 526.121d.

f. When conditions change, the contractor has the right to ask for adjustment so he can make a profit, or at least a living, and break even or better.

g. The intent of the law is:

(1) To eliminate insecurity.

(2) To prevent "cutthroat" bidding.

(3) To retain the services of honest and conscientious carriers.

(4) To permit a flexible procedure for adjustment.

(5) That the Postmaster General administer the law with the purpose of using it as a tool to eliminate the inequities existing in the star route system.

(6) That the Postmaster General approach the problem of adjustments and renewals from a viewpoint sympathetic to the existing contractor.

After the Postal Reorganization Act of 1970, then Committee Chairman David Henderson (D–NC) wrote to the Comptroller General and requested a ruling on the intent of the relevant transportation provision in the Act and the Comptroller ruled that the intent was the same as in 1948. In 1983, Senator Charles McC Mathias also wrote to the Comptroller General requesting an updated ruling on the same congressional intent and again the Comptroller General ruled the intent was the same as in 1948.

In 1970 Congress passed the Postal Reorganization Act transferring the Post Office Department into a quasi-corporation independent of Congress. Section 5005 of

the law provides the USPS with the authority to procure highway transportation of the mail via competitive bidding and also carried forward the renewal and adjustment language of the previous law. The principle perspective of our industry in dealing with the Postal Service is, of course, in the area of Transportation. Transportation, however, is obviously an important link in the Postal Service's chain of services, since without it a piece of mail would not arrive at its destination. Over the last 25 years, highway transportation has been the least criticized operation of the USPS as the mail, as a general rule, goes from Point A to Point B on time.

Our industry is the only dedicated industry with which the USPS contracts, because over 85 percent of highway contractors engage in no other business than hauling mail. Our contractors bid and perform under precise time schedules set by the USPS when it wants the mail moved, not around the schedules of other modes of transportation with which it contracts. The industry is composed of a wide variety of business men and women; from owners of fleets of tractor-trailers hauling intercontinental mail; to small and medium owners of straight trucks and vans hauling within sectional centers to contractors contracting for intra-city operations; to approximately 6,000 box-delivery contractors who provide for the delivery of mail in rural areas and provide the identical service as USPS rural carriers but at a much lower cost to the USPS.

The facilities of the United States Postal Service are linked by a transportation network extending over millions of miles. With the decline of railroad transportation and the substantial cutbacks in round-the-clock services for air transportation, short-haul surface transportation by highway contractors has become the most significant aspect of the transportation network. Latest statistics demonstrate that the highway contractors in 1994 traveled approximately 1.1 billion miles. This is up from 700 million miles in 1976. In addition, as stated above, in rural areas, a significant portion of the mail is delivered by independent contractors.

The internal postal reorganization in 1992 placed a heavy burden on the postal service transportation contracting officers as the numbers were reduced from 23 throughout the country down to 10 with a concomitant drop in administrative support. An example of this burden can be found in one contracting office which administered 800 contracts prior to the reorganization and now is responsible for 2600 with little additional help. This has resulted in delays in contract adjustment, service change adjustments and delays in other contract modifications which hurt the contractors. A major negative impact has been avoided because of the close business relationship which exists between the Association and USPS Transportation Officers at Headquarters and in the field. This relationship is ample evidence that business and government, through cooperation and constant communication, can be most effective in heading off potential problems before they occur. The Association and the USPS each have transportation policy committees which meet in joint session two or three times a year to discuss proposed or potential policy and/or regulatory changes which may mutually impact the service and the industry. Each committee brings a different perspective to the table and the USPS is the final arbitrator, but the Association is comforted by the fact that its views have been solicited and have been offered the opportunity to explain the impact any regulatory change will have on the contractors.

This is not to say that we find no fault with the way the Postal Service conducts its business. Periodically, it appears to lose sight of the importance of a strong and stable highway transportation industry, and adopts measures that threaten the very existence of the companies that are the heart of the industry, the small family-owned and operated contractors who have made postal transportation contracting their livelihood for generations.

One recent example of this phenomenon was the decision by the Postal Service to eliminate the requirement that newly-bid highway contracts be backed by a performance bond. The decision was made because fewer and fewer insurance companies remained in the bonding business, and the possibility for abuse increased. The remedy, however, the entire elimination of the bonding requirement, proved to be worse than the disease. The Postal Service is simply not equipped to judge the financial stability and reliability of each of its bidders. Hence, contracts are being let at non-compensatory rates to unproven contractors, with the result, according to our statistics, of a more than doubling of the default rate on contracts. Because the contracts are not backed by bonds, the Postal Service has little chance of recovering its losses caused by the default. More importantly, by accepting lower and lower bids, the Postal Service has substantially reduced the incentive for long-time contractors to stay in the business. This, too, will cost the Postal Service substantial sums in revenue, since without proven and reliable contractors the service provided by the Postal Service will deteriorate, thus reducing its ability to compete with other modes of delivery. We have recommended several alternatives to the Postal Service

to replace corporate bonds, including cash bonds or escrow accounts, but thus far our recommendations have not been adopted.

As I have pointed out earlier, the Congress has been extremely supportive of the need to maintain continuity to USPS highway contract mail transportation by the continuing adoption of the competitive bidding, contract renewal, and contract adjustment language contained in Title 39.

It is the Association's opinion that the postal monopoly should remain intact because it is the only way of assuring universal postal services. I reiterate that the transportation and facilities of the USPS are tied together through a universal network with each link inter-dependent on the other to make service requirements. This kind of network can only be coordinated under one centralized unit which is responsible for the efficient operation of each link as they make up the whole. It is difficult to imagine a fluid operation if a multitude of corporations owned, and was responsible for, only certain segments of the mail service with no central control for the entire system. And, what happens to the rural areas where all the economics dictate against providing service if one is profit oriented? This would require the Postal Service (or the government) to provide a skeletal service to areas which nobody else wants and the cost of such service would, of course, be enormous.

The Association is opposed to privatization if it means selling the United States Postal Service piecemeal or a wholesale transfer of its functions into private hands. We do believe, however, that the highway contracting industry offers an outstanding example of what can be accomplished by the USPS acting in partnership with the private sector.

Mr. Chairman, the Association appreciates the opportunity to appear before this distinguished Sub-Committee and we offer our services to you and the USPS in our mutual goal of providing an economical, efficient and reliable universal postal system. I will be happy to respond to any questions you or members of the Sub-Committee might have. Thank you.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO JOHN V. MARANEY

Question 1. Mr. Maraney, the Subcommittee received testimony at a previous oversight hearing from the Parcel Shippers Association. They testified that "there seems to be manifest inefficiency" in long haul transportation. This organization concluded by saying this would be a perfect opportunity for the Postal Service to procure the services of the private sector?

Answer. Yes, Mr. Chairman, you are correct, we are the private sector. The testimony you quoted was derived from a Postal Rate Commission opinion and recommended decision of Docket No. R94–1 dated November 30, 1994, pages III 49 through III 56 and V–37 to V–38 and includes a table of weight and postal zone charges.

The primary issue here pertaining to contract transportation involves the recognition of distance-related transportation cost in route design.

The USPS relies on an ongoing sampling system known by the acronym TRACS—Transportation Cost System.

During the debates about distance related costs certain adjustments were recognized for commercial air attribution. The adjustment was for the separation of terminal handling costs that are clearly not distance related in the active long haul costs. No such adjustments have been made in Highway Transportation. The Highway contracts include all costs and there are no additional charges (terminal handling, etc., etc.).

Its important to note that the advocates stating that postal transportation costs are too high are in reality arguing the attributive percentage being charged their class of mail is too high.

The Florida Fruit Shippers argued in the R94.1 rate case that even though there are twice as many cubic feet of Third Class transported as parcel post, relying on the TRACS data, the USPS attributes more intra BMC Transportation costs to parcel post than to Third Class.

The Postal Rate Commission did not make any adjustments in route design for the Fruit Shippers argument for two reasons:

(1) They felt that Fruit Shippers had not made a conclusion showing cost incurrance but:

(2) The PRC acknowledged this issue was raised in the rebuttal stage of this proceeding and that as such was improper rebuttle testimony because the other parties, particularly the USPS, had not had an opportunity to address the issue.

Therefore, they (the PRC) felt it would be unfair to make any changes on the basis of an incomplete record but the PRC did request that prior to the next route case, the Postal Service review its sampling procedures to ensure that the sample reflect cost increases.

The testimony in the enclosed rate case makes it clear that the weight and zone rate table reflects far more than the Postal Service actual cost. See the testimony of Nashua District photo witness Haldi on pages V 37 & V 38.

The table in some instances indicates that a piece of mail costs six times as much to go through 8 zones as it does for 2 zones, a patent absurdity. If anything the cost could be lower because of the long haul reduction in cost per mile rates.

1993 Transportation costs accounted for $3.125 billion of total costs of $49.751 billion.

The USPS attributes 84.3% or $2.636 billion of these costs to various classes of mail.

In 1990 Transportation was 6.0%, in 1993 6.3%.

[Dollars in Millions]

	Attributable Costs	Total Costs	% Attributable
Domestic air	$969	$1,009	96
Alaska air	16	85	19
Highway	843	1,222	69
Railroad	218	220	99
Domestic water	26	27	96
International	563	563	100
Total	2,636	3,125	84

The record clearly indicates that the service and the costs of the Highway Contractor is widely appreciated and that the parties are arguing about the division or the attribution of the costs and not the total costs. Again it is apparent by the record that while total postal costs exceed the total rate of inflation by a large margin between 1989 and 1993 Transportation costs went up less than 1% a year and most of that was in Air Transportation.

Mr. Chairman, there are probably only a handful of people in the whole country who understand how the USPS allocates its costs. But we do know that we have to be careful to make certain we are talking about the same thing—actual costs or allocation of costs.

A good question for the Committee to ask the Postal Service? Is the USPS not getting long haul service from its highway contractors commensurate with the cost paid? The Association thinks the USPS will reply that it is getting a bargain price and is the best deal since the postal service had a 3 cent stamp.

Question 2. Mr. Maraney, what percentage of long-haul mail trucking do your members maintain as compared to the Postal owned and operated surface transportation?

Answer. Mr. Chairman, the Highway Transportation Industry hauls 100% of the long haul highway transportation of the U.S. Mail. The Postal Vehicle Service is used mostly for intra-city transportation. There are, however, many intra-city operations that are also contracted and performed by highway contractors.

Question 2A. How do your members compare against the Postal Service in terms of Contract Delivery Routes? How do these numbers compare to several years ago?

Answer. Mr. Chairman, there are approximately 6,000 box-delivery contractors compared to approximately 35,000 to 40,000 rural carriers who are employees of the USPS. Both groups perform full rural features which means delivery to rural mailboxes, selling stamps, picking up out-going mail, forwarding, etc., etc. Of interest to the Subcommittee is that the box delivery contractor performs the same service for as much as 50% less cost than the rural carriers and do not burden the USPS with retirement or hospitalization costs once they retire. I have enclosed a General Accounting Office Report of 1972 which states that in the Atlanta Region as much as twenty-four million dollars annually could have been saved by using the lower cost star route service. In the Seattle Region, the GAO estimated that savings of about five million could have been realized by using star route service instead of rural delivery.

The Postal Inspection Service not too long ago conducted a similar study in Jacksonville, Florida and came to similar conclusions. A report was prepared for the PMG in the fall of 1993 indicating that some fifty-five million dollars could be saved by converting rural carrier routes to star route box delivery routes. Any mass con-

version of this nature is unlikely to occur since the USPS has a collective bargaining agreement with the Rural Letter Carriers and the USPS is very sensitive to the rural carriers concern in this area. The rural carriers are fine people, do a good job and are well represented in Washington. There no doubt will always be a need for a large portion of rural mail carriers throughout the country since even if the USPS decided to implement more contracting out its success would depend on finding willing contractors to bid on such service.

The number of box carriers and rural carriers has remained static over the years since for the most part, we are not a threat to them and they are not a threat to us.

LOGISTICS AND COMMUNICATIONS DIVISION,
U.S. GENERAL ACCOUNTING OFFICE,
Washington, DC June 29, 1972.

B–114874

DEAR POSTMASTER GENERAL: We are closing out our study of the transportation activities of the Post Office Department (POD). We completed a survey of Post Office transportation activities prior to enactment of the postal reorganization bill. This survey showed that POD's transportation system had been responsive to the needs of the postal service. We did, however, find areas where we believe improvements would have: increased the efficiency of the system and would have resulted in substantial savings. Corrective action on many of the areas would have previously required congressional approval, but can now be taken by the Postal Service under authority granted by the Postal Reorganization Act.

Details of our observations were included in a draft report furnished to the Postal Service in July 1971.

The Service agreed with many of our observations and promised to take action to improve or correct the problems identified. A brief summary of the more significant areas where corrective action was promised follows.

SAVINGS BY USING STAR ROUTE SERVICE MORE EXTENSIVELY

Our analysis of postal transportation activities in sparsely populated areas throughout the United States showed that substantial delivery service with contract star route service. By comparison, the cost of box delivery star routes during our survey ranged from 40 percent to 60 percent less than the cost of Government rural delivery service.

For example, in the Atlanta Postal Region, the average mileage cost for box delivery star route service was about 24 cents, as opposed to about 58 cents for Government rural delivery service. Based on these costs, we estimated that savings of as much as $24 million annually could have been realized in this area by using the lower cost star route service.

Another example involved the Seattle Region. We estimated that savings of about $5 million could have been realized in that region by using star route service instead of rural delivery service.

At the time of our survey POD was restricted by law from converting rural routes to star route service or from consolidating rural routes. But, under the Postal Reorganization Act, the Postmaster General now has the authority to select the mode of transportation which will provide the most prompt and economical delivery of mail.

The Postal Service, in commenting on a draft of a proposed report, agreed with our observations and advised us that it plans to make an overall review of the rural delivery operation to determine the adjustments needed to update this operation. The Service indicated that adjustments would be subject to any labor agreement constraints.

SAVINGS BY GREATER USE OF CONTRACT VEHICLE SERVICE FOR TRANSFERRING MAIL TO AND FROM AIRPORTS

At the time of our survey, pertinent provisions of law (39 U.S.C. 6402(a)(5)) prohibited the use of contract service for transferring mail between airports and post offices when (1) there was Government-owned motor vehicle service available and (2) when the distance between the post office and the airport was not more than 35 miles. Because of these restrictions, POD had been unable to realize the economies available through greater use of contract service, and it had not made recent cost comparisons to show whether economies in transportation costs could be achieved.

Under the Postal Reorganization Act, the Postmaster General was given authority to use contract service when it is more economical than Government- service. In view of the potential savings involved, we suggested that the Postal Service make cost comparisons at each location and select the most economical method of transporting mail to end from airports.

Docket No. R94–1

D. Transportation Costing Issues

1. Introduction

[3164] Contract services for moving mail by air, truck, rail, and water within the United States and from the United States to foreign locations are accounted for in Cost Segment XIV, Purchased Transportation. Purchased transportation contracts are usually limited to a specific mode of transportation for a geographic area or route structure with a schedule of services and rates. Transportation contracts often include the incidental handling of mail and containers at terminals and transfer points. The contractor pays for terminal dues and other expenses.

[3165] In FY 1993, transportation costs accounted for $3,125 million of total accrued costs of $49,751 million. Following the methodology employed by the Commission in Docket No. R90–1, the Postal Service attributes 84.3 percent, $2,636 million, of these costs to the various classes of mail and services. As a percent of total accrued costs, purchased transportation costs have increased slightly from approximately 6.0 percent of accrued costs in Docket No. R90–1 to 6.3 percent of accrued costs in FY 1993. For FY 1993, purchased transportation costs by various transportation modes are set forth in the following table.

Table III–2

[Dollars in Millions]

	Attributable Costs	Total Costs	% Attributable
Domestic air	$969	$1,009	96
Alaska air	16	85	19
Highway	843	1,222	69
Railroad	218	220	99
Domestic water	26	27	96
International	563	563	100
Total	2,636	3,125	84

[3166] In prior proceedings, the methodology employed to attribute and distribute purchased transportation costs generated a number of issues. Many of these issues arose due to changes which took place between rate cases in the procedures and methods employed by the Postal Service to collect cost data, attribute costs, and distribute attributable transportation costs to the various classes of mail. Since Docket No. R90–1, there have been relatively few changes in data collection procedures.

[3167] Cost attribution and distribution issues are addressed in this section of the Opinion. The Postal Service has not proposed any changes from the Commission's Docket No. R90–1 methodology to attribute or distribute purchased transportation costs.[46] As a consequence, the primary issues pertaining to contract transportation involve the recognition of distance related transportation costs in rate design. Except for

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costs, and 11 percent; if intra-BMC is the proxy. USPS recommends utilization of a 20 percent adjustment factor. UPS Brief at 22.

[3177] Question 1 of Presiding Officer Information Request No. 7 asked the Postal Service to "indicate, with reasons, whether the hypothetical highway transportation costs to be used for the Alaska air adjustment more closely resemble intra-BMC or inter-SCF highway, transportation." Tr. 26E/14524. In response to this question, witness Barker states that if highway transportation could be substituted for Alaska

[46] For instance, consistent with PRC Op. R90–1, para. 3706, the Postal Service adjusted the distribution of Eagle Network costs so that classes other than Express Mail and Priority Mail are charged only the equivalent of regular passenger air costs for their usage of the Eagle Network.

air, the substitute transportation mode would result "in attribution of transportation costs in proportions more like the relative total cost attributions for these modes in FY 1993, 42.2 percent Inter-SCF and 57.8 percent Intra-BMC." Id. at 14525. He states the weighted average of the costs of these two modes of transportation would be an appropriations proxy.

[3178] This approach is logical. Taking into account the vast territory served by Alaska air, comparable highway transportation would have characteristics similar to both inter-SCF and intra-BMC highway transportation. Taking the weighted average of these two modes of transportation results in 14.4 percent of Alaska nonpreferential air costs being attributed to parcel post in the test year, with the balance being treated as institutional costs. As in Docket No. R90–1, most of these costs are attributed to parcel post. Because this approach constitutes a superior approach to that followed in Docket No. R90–1, the weighted average adjustment procedure described by witness Barker is being followed in this proceeding.

5. Distance/Nondistance Related Transportation Costs

[3179] Nashua/District Photo witness Haldi raises a theoretical problem concerning the distribution of air transportation costs for the purpose of designing Priority Mail rates. While witness Haldi's testimony focuses on Priority Mail, his testimony applies to all classes and subclasses incurring commercial air transportation and having a zone rate structure. These include parcel post and bound printed matter.

[3180] Under the most recent air system contract, ASYS-94–01, commercial air carriers are paid for air transportation on the basis of a fixed per-pound handling component and a mileage-based line haul component (per pound mile). Tr. 8/3943. For FY 1993, the fixed per-pound handling component, i.e. the terminal charge, is 19 cents per pound. For FY 93, the line haul charge is the sum of a fuel-related and a non-fuel-related element totaling 0.00989 cents per pound-mile. Tr. 13B/6393. For FY 94, the line haul charge is 0.0079 cents per pound-mile. Id. at 6398. For short-haul commuter operations, the terminal charge is generally higher than the ASYS terminal charge. Tr. 8/3944 and Tr. 13B/6394. From data supplied by the Postal Service, witness Haldi calculates the total pound-miles of Priority Mail flown by commercial air to zones 4–8 at 0.0079 cents per pound-mile. These fees constitute 34 percent of total attributable air transportation costs. According to witness Haldi, the remaining 66 percent consist of terminal charges, and these costs are not distance related. Tr. 13B/6370.

[3181] In Docket No. R90–1, the Commission rejected a similar proposal from Nashua/District Photo to divide air transportation between distance and nondistance costs, because it was "not shown that the way the contractor incurs costs affects the charges paid by the Postal Service." PRC Op. R90–1, para. 3715. Based on the evidence provided by witness Haldi, as described in the preceding paragraph, Nashua/District Photo has met this burden. With certain modifications, the Commission is adopting Nashua/District Photo's proposal. Contractors bidding on air transportation contracts divide their bids into two components. On a functional basis, the terminal charge is a pound-related cost for nonlocal transportation. If the piece is to be transported by air, these non-distance related costs are incurred regardless of miles flown. The remaining costs vary by distance and thus, for rate design purposes, can be distributed by pound-mile to zone.

[3182] Following up on the testimony of witness Haldi, the Presiding Officer requested, and witness Barker provided, information indicating that for FY 1993, approximately 60 percent of commercial air costs and 15 percent of Eagle Network costs, are terminal handling costs. Tr. 28/15192/A60. To separate air transportation costs between distance and nondistance costs in the test year, the Commission is using the weighted average of these costs. For Priority Mail, 51.7 percent of attributable air costs are nondistance costs based upon the weighted average of nondistance costs for the Eagle Network and commercial air transportation. These nondistance costs are distributed according to pounds and the balance are distributed according to pound-miles. While witness Haldi's testimony focuses on Priority Mail, parcel post and bound printed matter also have zoned rate structures and incur some small amount of air transportation costs. Accordingly, to be consistent, similar rate design adjustments need to be incorporated for these two subclasses.

[3183] In its reply brief, the Postal Service indicates that adoption of this proposal may "upset the reasonable, logical relationships that exist among the classes and subclasses of mail." Postal Service Reply Brief at V–65–66. The Commission acknowledges this concern and has incorporated only 50 percent of the distance/nondistance adjustment in this case. For Priority Mail, the adjustment is 25.8 percent rather than 51.7 percent. A similar 50-percent adjustment is made for parcel post and bound printed matter. Thus, in designing rates for parcel post and bound printed matter, 30 percent of attributable commercial air transportation costs are consid-

ered nondistance, costs based on the weighted average of terminal costs for commercial air transportation.[47]

6. Intra-BMC Transportation Costs

[3184] On rebuttal, Gift Fruit Shippers witness Ball alleges that the TRACS system is biased in favor of third class. According to witness Ball there are 458.573 million cubic feet of third class. After excluding pieces not incurring intra-BMC transportation costs, 300.061 million of these cubic feet are transported via intra-BMC transportation. Tr. 20/9837–38. In comparison there are 143.112 million cubic feet of parcel post transported via intra-BMC transportation. Even though there are more than twice as many cubic feet of third class transported as parcel post, relying on TRACS data, the Postal Service distributes more intra-BMC costs to parcel post than to third class. Specifically, $74.9 million of intra-BMC costs are distributed to parcel post and $51.8 million are distributed to third class.

[3185] Witness Ball states that this irregularity results from most third-class mail being deposited at a BMC or being plant-loaded. He states that very little third class oridinates at a SCF for handling through a BMC. Since 70 percent of the TRACS

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consequently the Postal Service no longer advertises Priority Mail as a two day service. This decline in value of service militates against the increase in cost coverage proposed by the Postal Service.

b. Rate Design

[5118] The Postal Service does not propose any changes from the Docket No. R90–1 rate design. Rate design changes are proposed by the OCA and Nashua/District Photo. The OCA proposes to zone the entire Priority Mail rate structure.

[5119] Nashua/District Photo witness Haldi proposes three modifications to the Postal Service's proposal. First he recommends, separating and recovering nondistance related air transportation costs through the piece charge. The Commission is accepting this suggestion in principle, as explained in Section III F 5 of this opinion, which deals with transportation costs. To avoid severe rate impact and potential marker dislocations, only 50 percent of this adjustment is reflected in the rates recommended in this case. Second, as in Docket No. R90–1, witness Haldi opposes the application of an institutional cost markup to transportation costs in the development of rates. Finally, witness Haldi proposes that there be uniform $.50 per-pound rate increments between Priority Mail pieces weighing two pounds and pieces weighing five pounds.[73] The Postal Service's proposed rate schedule has rate increments of $1.20, $0.55 and $0.80 cents between two and three pounds, three and four pounds, and four and five pounds, respectively.

[5120] No markup on transportation costs. In support of his proposal not to markup the distance-related component of transportation costs, witness Haldi argues that there is an unjustified disparity in treatment of transportation costs for rate-design purposes. For second and third class, where the Postal Service offers discounts to mailers who drop ship to destinating, facilities, the discounts are computed at actual cost savings. He states that the effect of this approach "is that all contributions to institutional cost are reflected in the per piece and per pound elements of the rate Structure, but not in the distance portion." Tr. 13B/6371 (emphasis omitted). There is no markup on the distance-related transportation costs; therefore, "mailers who elect not to drop ship are able to buy additional transportation services . . . at a discount from the Postal Service's incremental cost." Ibid (emphasis omitted).

[5121] In contrast, for Priority Mail and parcel post, the transportation costs reflected in the zoned rates include a markup. Witness Haldi states, for Priority Mail, "the markup is quite substantial, and the difference in rates for near and far entry reflects far more than the Postal Service's actual cost." Id. at 6372. (footnote omitted, emphasis omitted).

[5122] Since witness Haldi raises his proposal as, a rate design issue his proposal does not affect the cost coverage of Priority Mail. Consequently, witness Haldi's proposal would rave the effect of reducing, Priority Mail rates in distant zones and increasing them for shipments to the close-in zones. Witness Haldi's indicates that for classes where there are drop-shipment discounts, economic efficiency is achieved because the opportunities to save transportation costs gives rise to "consolidation and/or drop shipment." Id. at 6373. In contrast as to Priority Mail.

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[47] A distance/nondistance adjustment is not being made for Alaska air costs because the Alaska air attributable costs constitute a proxy for surface transportation.

[73] David Popkin also proposes identical increases between increments. Popkin Brief at 2.

> where the rate differentials are so much more pronounced For packages that weigh more than 5 pounds, the experience has been quite different. Here consolidation and drop shipment are virtually nonexistent. Instead, the inordinately blah rates have pretty much taken the Postal Service out or the transportation business and the delivery business for heavier weight expedited packages. This is the real world-result of the accounting fiction that mislabels weight-related costs as distance-related costs.

Id. at 6373–74.

[5123] In Docket No. R90–1, the Commission rejected the identical proposal because it did "not believe the disruption caused by such a dramatic change in the way rates are developed is warranted by Nashua's presentation." PRC Op. R90–1, para. 5219.

[5124] The Commission's major concern continues to be whether the increase in rates for Priority Mail sent to the near zones will cause significant dislocation in the Priority Mail market.[74] If it does, the alleged benefits described by witness Haldi may

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[74] In contrast to this proposal, market impact considerations are significantly less important in evaluating Nashua's proposal to separate air-transportation costs into

CTC Distribution Services Exhibit 2 1994 Rate Comparisons

Rate	Weight	2	3	4	5	6	7	8
94UPS-R	1	2.95	3.10	3.34	3.43	3.52	3.60	3.67
94' S-C		2.35	2.50	2.74	2.83	2.92	3.00	3.07
INTER		2.19	2.32	2.46	2.74	2.85	2.85	2.85
94CTC005		2.19	2.30	2.43	2.71	2.81	2.81	2.81
94UPS-R	2	2.97	3.14	3.62	3.73	3.95	4.05	4.30
94UPS-C		2.37	2.54	3.02	3.13	3.35	3.45	3.70
INTER		2.19	2.32	2.46	2.74	2.85	2.85	2.85
94CTC005		2.19	2.30	2.43	2.71	2.81	2.81	2.81
94UPS-R	3	3.07	3.31	3.82	3.98	4.25	4.36	4.69
94UPS-C		2.47	2.71	3.22	3.38	3.65	3.76	4.09
INTER		2.29	2.49	2.70	3.12	3.54	4.00	4.05
94CTC005		2.29	2.48	2.68	3.05	3.30	3.50	3.67
94UPS-R	4	3.18	3.47	3.95	4.15	4.39	4.59	4.98
94UPS-C		2.58	2.87	3.35	3.55	3.79	3.99	4.38
INTER		2.39	2.65	2.94	3.50	4.06	4.35	4.60
94CTC005		2.39	2.64	2.92	3.27	3.57	3.74	4.03
94UPS-R	5	3.30	3.60	4.03	4.24	4.57	4.78	5.21
94UPS-C		2.70	3.00	3.43	3.64	3.97	4.18	4.61
INTER		2.49	2.81	3.17	3.88	4.58	5.20	5.40
94CTC005		2.49	2.80	3.16	3.45	3.85	3.97	4.34
94UPS-R	6	3.41	3.68	4.09	4.31	4.74	4.97	5.36
94UPS-C		2.81	3.08	3.49	3.71	4.14	4.37	4.76
IN R		2.59	2.98	3.41	4.26	5.10	6.33	8.55
94 C005		2.59	2.97	3.27	3.61	3.99	4.14	4.46
94UPS-R	7	3.52	3.75	4.15	4.36	4.86	5.17	5.59
94UPS-C		2.92	3.15	3.55	3.76	4.26	4.57	4.99
INTER		2.68	3.14	3.65	4.64	5.62	7.06	9.60
94CTC005		2.68	3.13	3.37	3.67	4.08	4.30	4.68
94UPS-R	8	3.63	3.82	4.22	4.44	5.00	5.40	5.97
94UPS-C		3.03	3.22	3.62	3.84	4.40	4.80	5.37
INTER		2.78	3.31	3.89	5.02	6.14	7.78	10.65
94CTC005		3.13	3.22	3.47	3.74	4.21	4.53	5.02
94UPS-R	9	3.74	3.90	4.28	4.54	5.16	5.69	6.40
94UPS-C		3.14	3.30	3.68	3.94	4.56	5.09	5.80
INTER		2.88	3.47	4.12	5.40	6.67	8.51	11.70
94CTC005		3.22	3.32	3.59	3.82	4.38	4.81	5.39
94UPS-R	10	3.85	4.00	4.35	4.67	5.33	6.04	6.83
94UPS-C		3.25	3.40	3.75	4.07	4.73	5.44	6.23
INTER		2.98	3.63	4.36	5.78	7.19	9.24	12.75
94CTC005		3.31	3.42	3.68	3.95	4.54	5.11	5.74
94UPS-R	11	3.94	4.10	4.44	4.86	5.59	6.38	7.28
94UPS-C		3.34	3.50	3.84	4.26	4.99	5.78	6.68
INTER		3.08	3.80	4.60	6.16	7.71	9.97	13.75
94 C005		3.39	3.53	3.78	4.13	4.78	5.42	6.14
94UPS-R	12	4.03	4.22	4.55	5.07	5.87	6.75	7.73
94UPS-C		3.43	3.62	3.95	4.47	5.27	6.15	7.13
INTER		3.18	3.96	4.83	6.54	8.23	10.69	14.80
94CTC005		3.47	3.65	3.89	4.36	5.06	5.71	6.53

CTC Distribution Services Exhibit 2 1994 Rate Comparisons

Rate	Weight	2	3	4	5	6	7	8
94UPS-R	13	4.10	4.34	4.67	5.29	6.17	7.16	8.20
94UPS-C		3.50	3.74	4.07	4.69	5.57	6.56	7.60
INTER		3.25	4.08	4.99	6.79	8.57	11.17	15.85
94CTC005		3.54	3.76	4.04	4.56	5.34	6.06	6.94
94UPS-R	14	4.18	4.48	4.83	5.52	6.48	7.54	8.69
94UPS-C		3.58	3.88	4.23	4.92	5.88	6.94	8.09
INTER		3.32	4.19	5.16	7.04	8.92	11.65	16.90
94CTC005		3.61	3.89	4.21	4.77	5.61	6.42	7.34
94UPS-R	15	4.26	4.64	5.00	5.77	6.79	7.95	9.17
94UPS-C		3.66	4.04	4.40	5.17	6.19	7.35	8.57
INTER		3.38	4.28	5.27	7.23	9.17	11.99	17.95
94CTC005		3.68	4.01	4.37	4.98	5.86	6.71	7.76
94UPS-R	16	4.34	4.81	5.17	6.01	7.12	8.35	9.63
94UPS-C		3.74	4.21	4.57	5.41	6.52	7.75	9.03
INTER		3.43	4.36	5.39	7.40	9.40	12.31	19.00
94CTC005		3.75	4.12	4.58	5.20	6.14	7.05	8.15
94UPS-R	16	4.34	4.81	5.17	6.01	7.12	8.35	9.63
94UPS-C		3.74	4.21	4.57	5.41	6.52	7.75	9.03
INTER		3.43	4.36	5.39	7.40	9.40	12.31	19.00
94CTC005		3.75	4.12	4.58	5.20	6.14	7.05	8.15
94UPS-R	17	4.42	4.96	5.34	6.22	7.42	8.73	10.10
94UPS-C		3.82	4.36	4.74	5.62	6.82	8.13	9.50
INTER		3.48	4.44	5.49	7.56	9.62	12.61	19.91
94CTC005		3.82	4.24	4.75	5.39	6.41	7.38	8.55
94UPS-R	18	4.49	5.11	5.51	6.45	7.73	9.13	10.57
94UPS-C		3.89	4.51	4.91	5.85	7.13	8.53	9.97
INTER		3.53	4.51	5.60	7.72	9.83	12.90	20.38
94CTC005		3.89	4.35	4.92	5.61	6.68	7.72	8.95
94UPS-R	19	4.59	5.22	5.69	6.66	8.07	9.51	11.04
94UPS-C		3.99	4.62	5.09	6.06	7.47	8.91	10.44
INTER		3.58	4.59	5.69	7.87	10.03	13.17	20.83
94CTC005		4.00	4.47	5.09	5.80	6.96	8.04	9.36
94UPS-R	20	4.73	5.38	5.88	6.92	8.37	9.89	11.51
94UPS-C		4.13	4.78	5.28	6.32	7.77	9.29	10.91
INTER		3.63	4.65	5.79	8.01	10.22	13.43	21.26
94CTC005		4.13	4.57	5.24	6.03	7.23	8.36	9.76
94UPS-R	21	4.89	5.54	6.04	7.15	8.68	10.30	11.99
94UPS-C		4.29	4.94	5.44	6.55	8.08	9.70	11.39
INTER		3.68	4.72	5.88	8.15	10.40	13.68	21.66
94CTC005		4.27	4.69	5.35	6.24	7.49	8.72	10.16
94UPS-R	22	5.01	5.70	6.23	7.38	8.98	10.67	12.46
94UPS-C		4.41	5.10	5.63	6.78	8.38	10.07	11.86
INTER		3.72	4.79	5.97	8.28	10.57	13.91	22.05
94CTC005		4.38	4.78	5.52	6.44	7.78	9.04	10.57
94UPS-R	23	5.14	5.83	6.42	7.63	9.31	11.06	12.90
94UPS-C		4.54	5.23	5.82	7.03	8.71	10.46	12.30
INTER		3.77	4.85	6.05	8.40	10.74	14.14	22.43
94CTC005		4.50	4.94	5.66	6.66	8.06	9.36	10.95

Rate	Weight	2	3	4	5	6	7	8
94UPS-R	24	5.27	6.00	6.60	7.86	9.62	11.45	13.39
94UPS-C		4.67	5.40	6.00	7.26	9.02	10.85	12.79
INTER		3.81	4.91	6.13	8.52	10.90	14.36	22.78
94CTC005		4.61	5.09	5.80	6.87	8.33	9.70	11.37
94UPS-R	25	5.40	6.14	6.81	8.12	9.93	11.85	13.86
94UPS-C		4.80	5.54	6.21	7.52	9.33	11.25	13.26
INTER		3.85	4.97	6.21	8.64	11.05	14.57	23.13
94CTC005		4.72	5.21	5.93	7.10	8.60	10.04	11.77
94UPS-R	26	5.52	6.32	6.99	8.36	10.25	12.21	14.32
94UPS-C		4.92	5.72	6.39	7.76	9.65	11.61	13.72
INTER		3.89	5.03	6.29	8.76	11.20	14.77	23.46
94CTC005		4.82	5.35	6.08	7.31	8.88	10.36	12.16
94UPS-R	27	5.64	6.47	7.18	8.59	10.56	12.63	14.81
94UPS-C		5.04	5.87	6.58	7.99	9.96	12.03	14.21
INTER		3.93	5.09	6.36	8.87	11.35	14.97	23.78
94CTC005		4.93	5.49	6.22	7.52	9.15	10.70	12.58
94UPS-R	28	5.70	6.64	7.36	8.83	10.88	13.01	15.26
94UPS-C		5.10	6.04	6.76	8.23	10.28	12.41	14.66
INTER		3.97	5.14	6.44	8.97	11.49	15.16	24.09
94CTC005		5.00	5.63	6.36	7.73	9.43	11.03	12.97
94UPS-R	29	5.78	6.77	7.55	9.08	11.19	13.40	15.75
94UPS-C		5.18	6.17	6.95	8.48	10.59	12.80	15.15
INTER		4.01	5.20	6.51	9.08	11.63	15.34	24.39
94CTC005		5.09	5.75	6.50	7.95	9.70	11.37	13.39
94UPS-R	30	5.89	6.89	7.77	9.35	11.55	13.83	16.27
94UPS-C		5.29	6.29	7.17	8.75	10.95	13.23	15.67
INTER		4.05	5.25	6.58	9.18	11.76	15.52	24.68
94CTC005		5.20	5.87	6.67	8.13	10.02	11.73	13.83
94UPS-R	31	6.00	7.01	8.00	9.62	11.90	14.24	16.77
94UPS-C		5.40	6.41	7.40	9.02	11.30	13.64	16.17
INTER		4.09	5.30	6.65	9.28	11.89	15.69	24.96
94CTC005		5.30	6.01	6.88	8.33	10.32	12.09	14.26
94UPS-R	32	6.09	7.15	8.20	9.91	12.25	14.68	17.29
94UPS-C		5.49	6.55	7.60	9.31	11.65	14.08	16.69
INTER		4.13	5.36	6.71	9.37	12.01	15.86	25.23
94CTC005		5.39	6.16	7.06	8.52	10.53	12.47	14.71
94UPS-R	33	6.20	7.32	8.43	10.19	12.61	15.10	17.80
94UPS-C		5.60	6.72	7.83	9.59	12.01	14.50	17.20
INTER		4.17	5.41	6.78	9.47	12.14	16.02	25.50
94CTC005		5.49	6.30	7.26	8.72	10.77	12.82	15.14
94UPS-R	34	6.31	7.50	8.63	10.41	12.93	15.52	18.30
94UPS-C		5.71	6.90	8.03	9.81	12.33	14.92	17.70
INTER		4.20	5.46	6.84	9.56	12.26	16.18	25.75
94CTC005		5.58	6.46	7.44	8.87	10.99	13.19	15.58
94UPS-R	35	6.42	7.72	8.81	10.67	13.25	15.97	18.80
94UPS-C		5.82	7.12	8.21	10.07	12.65	15.37	18.20
INTER		4.24	5.51	6.91	9.65	12.37	16.34	26.01
94CTC005		5.68	6.61	7.59	9.05	11.18	13.56	16.00

CTC Distribution Services Exhibit 2 1994 Rate Comparisons

Rate	Weight	2	3	4	5	6	7	8
94UPS-R	36	6.50	7.87	8.99	10.92	13.56	16.33	19.28
94UPS-C		5.90	7.27	8.39	10.32	12.96	15.73	18.68
INTER		5.78	7.05	8.47	11.24	13.99	17.99	27.75
94CTC005		5.77	6.79	7.97	9.58	11.74	13.88	16.42
94UPS-R	37	6.58	8.04	9.20	11.15	13.88	16.74	19.75
94UPS-C		5.98	7.44	8.60	10.55	13.28	16.14	19.15
INTER		5.81	7.10	8.53	11.32	14.10	18.14	27.99
94CTC005		5.86	6.96	8.11	9.79	12.00	14.23	16.82
94UPS-R	38	6.65	8.18	9.39	11.41	14.21	17.12	20.24
94UPS-C		6.05	7.58	8.79	10.81	13.61	16.52	19.64
INTER		5.85	7.15	8.59	11.41	14.21	18.29	28.22
94CTC005		5.91	7.07	8.24	9.94	12.29	14.56	17.24
94UPS-R	39	6.72	8.29	9.58	11.64	14.52	17.52	20.70
94UPS-C		6.12	7.69	8.98	11.04	13.92	16.92	20.10
INTER		5.88	7.19	8.65	11.49	14.31	18.43	28.45
94CTC005		5.99	7.16	8.39	10.10	12.48	14.90	17.64
94UPS-R	40	6.84	8.44	9.78	11.91	14.84	17.93	21.18
94UPS-C		6.24	7.84	9.18	11.31	14.24	17.33	20.58
INTER		5.92	7.24	8.70	11.57	14.42	18.57	28.67
94CTC005		6.09	7.27	8.51	10.27	12.69	15.24	18.04
94UPS-R	41	6.92	8.55	9.95	12.13	15.15	18.31	21.65
94UPS-C		6.32	7.95	9.35	11.53	14.55	17.71	21.05
INTER		5.95	7.28	8.76	11.65	14.52	18.70	28.89
94CTC005		6.17	7.40	8.64	10.43	12.89	15.57	18.45
94UPS-R	42	7.01	8.70	10.16	12.39	15.47	18.70	22.11
94UPS-C		6.41	8.10	9.56	11.79	14.87	18.10	21.51
INTER		5.98	7.33	8.82	11.73	14.62	18.83	29.10
94CTC005		6.27	7.54	8.79	10.60	13.09	15.91	18.85
94UPS-R	43	7.10	8.85	10.34	12.63	15.79	19.11	22.59
94UPS-C		6.50	8.25	9.74	12.03	15.19	18.51	21.99
INTER		6.02	7.37	8.87	11.81	14.72	18.97	29.31
94CTC005		6.35	7.66	8.94	10.77	13.31	16.21	19.26
94UPS-R	44	7.20	9.03	10.54	12.86	16.10	19.48	23.07
94UPS-C		6.60	8.43	9.94	12.26	15.50	18.88	22.47
INTER		6.05	7.42	8.93	11.88	14.82	19.09	29.51
94CTC005		6.44	7.74	9.11	10.93	13.52	16.46	19.67
94UPS-R	45	7.29	9.18	10.73	13.11	16.42	19.88	23.55
94UPS-C		6.69	8.58	10.13	12.51	15.82	19.28	22.95
INTER		6.08	7.46	8.98	11.96	14.91	19.22	29.71
94CTC005		6.52	7.94	9.28	11.09	13.72	16.72	20.08
94UPS-R	46	7.41	9.34	10.93	13.37	16.73	20.28	24.01
94UPS-C		6.81	8.74	10.33	12.77	16.13	19.68	23.41
INTER		6.12	7.50	9.03	12.03	15.01	19.34	29.91
94CTC005		6.63	8.11	9.45	11.26	13.93	16.98	20.49
94UPS-R	47	7.48	9.45	11.11	13.59	17.05	20.67	24.50
94UPS-C		6.88	8.85	10.51	12.99	16.45	20.07	23.90
INTER		6.15	7.54	9.08	12.10	15.10	19.46	30.10
94CTC005		6.71	8.21	9.62	11.42	14.12	17.23	20.90

CTC Distribution Services Exhibit 2 1994 Rate Comparisons

Rate	Weight	2	3	4	5	6	7	8
94UPS-R	48	7.54	9.57	11.31	13.84	17.34	21.05	24.91
94UPS-C		6.94	8.97	10.71	13.24	16.74	20.45	24.31
INTER		6.18	7.59	9.14	12.17	15.19	19.58	30.29
94CTC005		6.78	8.33	9.79	11.58	14.34	17.49	21.26
94UPS-R	49	7.57	9.63	11.50	14.08	17.60	21.42	25.32
94UPS-C		6.97	9.03	10.90	13.48	17.00	20.82	24.72
INTER		6.22	7.63	9.19	12.24	15.28	19.70	30.47
94CTC005		6.84	8.48	9.96	11.74	14.52	17.72	21.62
94UPS-R	50	7.66	9.70	11.64	14.26	17.84	21.76	25.74
94UPS-C		7.06	9.10	11.04	13.66	17.24	21.16	25.14
INTER		6.25	7.67	9.24	12.31	15.37	19.82	30.65
94CTC005		6.92	8.58	10.08	11.87	14.70	17.95	21.97
94UPS-R	51	7.70	9.83	11.73	14.39	18.02	21.97	26.03
94UPS-C		7.10	9.23	11.13	13.79	17.42	21.37	25.43
INTER		6.28	7.71	9.29	12.38	15.45	19.93	30.83
94CTC005		6.96	8.60	10.15	11.96	14.80	18.10	22.22
94UPS-R	52	7.73	9.87	11.79	14.46	18.15	22.08	26 19
94UPS-C		7.13	9.27	11.19	13.86	17.55	21.48	25 59
INTER		6.31	7.75	9.34	12.45	15.54	20.04	31 01
94CTC005		6.99	8.63	10.16	12.02	14.93	18.20	22 35
94UPS-R	53	7.76	9.92	11.85	14.52	18.23	22.19	26.32
94UPS-C		7.16	9.32	11.25	13.92	17.63	21.59	25.72
INTER		6.34	7.79	9.39	12.51	15.62	20.15	31.18
94CTC005		7.01	8.68	10.22	12.08	14.98	18.29	22.47
94UPS-R	54	7.80	9.96	11.90	14.59	18.32	22.30	26.42
94UPS-C		7.20	9.36	11.30	13.99	17.72	21.70	25.82
INTER		6.37	7.83	9.43	12.58	15.71	20.26	31.35
94CTC005		7.04	8.70	10.25	12.14	15.05	18.38	22.56
94UPS-R	55	7.85	9.99	11.95	14.65	18.40	22.41	26.54
94UPS-C		7.25	9.39	11.35	14.05	17.80	21.81	25.94
INTER		6.41	7.87	9.48	12.65	15.79	20.36	31.52
94CTC005		7.07	8.73	10.29	12.19	15.12	18.47	22.66
94UPS-R	56	7.90	10.03	12.00	14.70	18.47	22.49	26.64
94UPS-C		7.30	9.43	11.40	14.10	17.87	21.89	26.04
INTER		6.44	7.91	9.53	12.71	15.87	20.47	31.68
94CTC005		7.09	8.76	10.34	12.25	15.18	18.56	22.74
94UPS-R	57	7.95	10.08	12.04	14.76	18.54	22.57	26.74
94UPS-C		7.35	9.48	11.44	14.16	17.94	21.97	26.14
INTER		6.47	7.94	9.58	12.77	15.95	20.57	31.84
94CTC005		7.11	8.80	10.38	12.29	15.26	18.64	22.83
94UPS-R	58	8.00	10.13	12.08	14.83	18.61	22.67	26.84
94UPS-C		7.40	9.53	11.48	14.23	18.01	22.07	26.24
INTER		6.50	7.98	9.62	12.84	16.03	20.68	32.00
94CTC005		7.13	8.83	10.41	12.36	15.33	18.72	22.93
94UPS-R	59	8.05	10.18	12.13	14.88	18.71	22.76	26.95
94UPS-C		7.45	9.58	11.53	14.28	18.11	22.16	26.35
INTER		6.53	8.02	9.67	12.90	16.11	20.78	32.16
94CTC005		7.16	8.87	10.46	12.40	15.40	18.80	23.02

CTC Distribution Services Exhibit 2 1994 Rate Comparisons

Rate	Weight	2	3	4	5	6	7	8
94UPS-R	60	8.10	10.23	12.17	14.94	18.79	22.85	27.06
94UPS-C		7.50	9.63	11.57	14.34	18.19	22.25	26.46
INTER		6.56	8.06	9.71	12.96	16.18	20.88	32.31
94CTC005		7.18	8.90	10.50	12.45	15.43	18.89	23.12
94UPS-R	61	8.15	10.28	12.23	15.00	18.86	22.95	27.17
94UPS-C		7.55	9.68	11.63	14.40	18.26	22.35	26.57
INTER		6.59	8.09	9.76	13.02	16.26	20.97	32.47
94CTC005		7.20	8.92	10.54	12.51	15.50	18.97	23.22
94UPS-R	62	8.20	10.33	12.28	15.06	18.94	23.04	27.28
94UPS-C		7.60	9.73	11.68	14.46	18.34	22.44	26.68
INTER		6.62	8.13	9.80	13.08	16.33	21.07	32.62
94CTC005		7.23	8.95	10.60	12.57	15.57	19.05	23.31
94UPS-R	63	8.25	10.38	12.33	15.14	19.02	23.14	27.40
94UPS-C		7.65	9.78	11.73	14.54	18.42	22.54	26.80
INTER		6.65	8.17	9.85	13.14	16.41	21.17	32.77
94CTC005		7.26	8.96	10.64	12.63	15.64	19.13	23.42
94UPS-R	64	8.30	10.43	12.38	15.19	19.09	23.25	27.50
94UPS-C		7.70	9.83	11.78	14.59	18.49	22.65	26.90
INTER		6.68	8.21	9.89	13.20	16.48	21.26	32.91
94CTC005		7.28	8.98	10.69	12.67	15.70	19.23	23.45
94UPS-R	65	8.35	10.48	12.43	15.25	19.18	23.36	27.62
94UPS-C		7.75	9.88	11.83	14.65	18.58	22.76	27.02
INTER		6.71	8.24	9.94	13.26	16.55	21.36	33.06
94CTC005		7.30	9.00	10.73	12.72	15.75	19.32	23.60
94UPS-R	66	8.40	10.53	12.48	15.31	19.25	23.45	27.75
94UPS-C		7.80	9.93	11.88	14.71	18.65	22.85	27.15
INTER		6.74	8.28	9.98	13.31	16.63	21.45	33.20
94CTC005		7.33	9.02	10.77	12.78	15.82	19.40	23.72
94UPS-R	67	8.45	10.60	12.53	15.37	19.32	23.55	27.86
94UPS-C		7.85	10.00	11.93	14.77	18.72	22.95	27.26
INTER		6.77	8.31	10.02	13.37	16.70	21.54	33.34
94CTC005		7.35	9.04	10.81	12.83	15.88	19.49	23.82
94UPS-R	68	8.50	10.65	12.58	15.43	19.40	23.65	27.97
94UPS-C		7.90	10.05	11.98	14.83	18.80	23.05	27.37
INTER		6.80	8.35	10.07	13.43	16.77	21.63	33.48
94CTC005		7.37	9.06	10.86	12.89	15.95	19.56	23.91
94UPS-R	69	8.55	10.70	12.63	15.52	19.48	23.75	28.08
94UPS-C		7.95	10.10	12.03	14.92	18.88	23.15	27.48
INTER		6.83	8.39	10.11	13.48	16.84	21.72	33.62
94CTC005		7.39	9.08	10.89	12.95	16.02	19.65	24.01
94UPS-R	70	8.60	10.75	12.68	15.57	19.54	23.85	28.20
94UPS-C		8.00	10.15	12.08	14.97	18.94	23.25	27.60
INTER		6.86	8.42	10.15	13.54	16.91	21.81	33.75
94CTC005		7.41	9.12	10.93	13.00	16.07	19.74	24.12

* * * * *

in the performance of that service; whether the price they pay for it is fair (they think it is not; they are aware that the Postal Service asked for lower prices for their third class products and that the Rate Commission three times in a row raised those third class rates above what the Postal Service asked for). They also know that it is difficult for managers to get the most out of their employee work force when the company is not faced with competition and thus the possibility of loss of business and loss of jobs. Since the Postal Service has never suffered a decline in volume or revenues since postal reform, no postal employee has lost a job due to the fact that business or revenues have been lost.

TESTIMONY OF TIM MAY, REPRESENTING THE PARCEL SHIPPERS—5/23/95

Certainly, postal service functions should be examined rigorously to determine what nonessential activities are being performed that could be better performed by the private sector. One obvious part of the Postal Service operation where there seems to be manifest inefficiency is in long haul transportation of mail and merchandise. The Postal Service's costs for providing long haul transportation of mail and merchandise are way out of line with those incurred in the private sector. This seems the perfect opportunity, just to mention one, where the Postal Service ought to procure services of the private sector rather than attempting to provide at much higher costs what they don't seem to do well.

Thus, our members do have a number of questions about the continued value of the postal monopoly. On the other hand, they are gravely concerned about the possibilities of serious disruption and damage that may be the result of the elimination of that monopoly. For that reason they do not want any precipitate action taken; they do not want the monopoly changed until there is a full measurement of the consequences of that change; an understanding of those consequences; and a willingness by the users of postal services to accept those consequences.

* * * * *

Mr. MCHUGH. Thank you very much, sir.

As everyone in the room today has heard, all of the members of the subcommittee have other duties today, and I want to provide them with the opportunity to pose some questions to the distinguished members of our first panel. So I will withhold my questions and yield to the gentlelady from Florida, Mrs. Meek, for any questions she might have at this time.

Mrs. MEEK. I don't have a question, Mr. Chairman, but I'm really appalled by the number of small industries that are connected to the Postal Service. This is a learning experience for me—first time on this subcommittee—and I'm learning now about all the providers and people who are involved. It's interesting to hear your comments as to how you want things organized.

I'm reading your presentations here, and I will be able to go through them later much more thoroughly as I sit down and read them. I'm very glad that you have presented your recommendations, and sooner and later I will know the difference between the sorters and the prehandlers and all of these men and women who are working in this industry.

So I want to compliment our chairman for doing these kinds of hearings because, for a new member like myself, it's quite an orientation to understand how this system works. It's a very big system; cumbersome, to say the least.

Thank you.

Mr. MCHUGH. I thank the gentlelady. We're in the same boat, so we will go down the river together.

The gentleman from Connecticut, Mr. Shays.

Mr. SHAYS. I'm sorry I didn't hear all of the testimony, but the one thing that comes through loud and clear is that the more efficient the Post Office is, the better off each and every one of you

are, and that you don't have, basically, another player to go to. So that message is there.

I think, candidly, under the leadership of our chairman and the coordination and cooperation with the Post Office, that you're going to continue to see—because I think you have seen some improvements, and I think you will see a lot more. Lord knows there is room for a tremendous amount of improvement.

Mr. MCHUGH. I thank the gentleman.

Mr. Green, the gentleman from Texas.

Mr. GREEN. Thank you, Mr. Chairman.

Again, like the other members of the committee, this is an oversight committee, and we're all learning. I guess, as some of us who have been mailers, and I use my own experience as both a political mailer at third-class, and my background was in second-class, with a newspaper—in my experience with the Post Office, never using a private mailer, but learning our own way to do it, as a small business.

Having been out of the second-class business for a number of years, I can see the changes that have been made, and I would imagine my company is probably contracting with a private mailer now, because barcoding is something they just didn't have the capability to do with a small mailing list.

But I can see, overall, the testimony is that we do need to have—and we have a term on our international relations called "burden-sharing," and I can see where we have that in both the barcoding issue, with both the Postal Service and the mailers, and also private business, and we have to see that. Because with the volume—that I saw when I was at the Houston postal facility, and a billion pieces of mail, packages, whatever, go through just the city of Houston, the Houston district.

And to see the growth—even though we also see the growth in information processing, with fax and e-mail and everything else—but we are still seeing such a phenomenal growth in hard mail delivery that we have to do a lot better, because I don't think that it is slowing up. We are just exchanging ideas a lot more, Mr. Chairman, even more so by hard writing instead of by e-mail or fax.

I thank the panelists for being here and for the information. I do have some questions, but I think it would probably be better to submit them to the panel later so we could go on, because we have ambitious panel groups this morning.

Mr. MCHUGH. I thank the gentleman.

I am going to exercise my prerogative and ask a few questions. I am going to try to start and work down the same line that the testimony was presented and see if that works.

Mr. DeSio, you obviously expressed more than a little bit of concern about the GAO study. You mentioned, with respect to the Postal Service's establishment of contract offices, you suggested they didn't compare incremental revenue with the cost of investment. Do you want to expand upon that a bit? Has either your company or someone else you know of done a comparative study that perhaps shows that there is money to be saved with a different method?

Mr. DESIO. Yes, Mr. Chairman. We have, in fact, several years ago, when the Post Office began to open its first experimental postal stores. It so happened that they opened one in a shopping center that was occupied by one of our franchised outlets. Of course, within a short period of time, that franchisee was driven out of business and had to file bankruptcy.

We, at that time, did a study of the cost of operating that postal store facility and submitted it to the U.S. Postal Service. We also requested that they tell us why they had incurred that cost—and the cost came out to be about half a million dollars a year—to operate that facility.

We asked why they would incur that cost when we had a facility that was basically providing the same services to postal customers at no cost to the USPS. The answer we got back was that the Post Office did not have to justify its expansion of its retail outlets on the basis of the incremental revenue that that facility would provide.

I guess that is one of the reasons why we—we had no luck with the Post Office, in terms of getting them to look at these Postal Service facilities, and that's one of the reasons we are looking to the committee here to give us some assistance.

On H.R. 1464, we are only asking there that the Post Office provide its customers who are using our facilities the services that they provide everyone else, and that is the ability to forward your mail if you change address. The Post Office has steadfastly refused to do this. We don't understand why, really.

It seems as though the Post Office has a tendency to want to punish individuals who use private sector postal facilities such as ours by basically not providing the forwarding services that they provide to everyone else, which the customers pay for, obviously, through the cost of their postage. So I don't really know the answer.

Mr. MCHUGH. To get back to my original question, you know of no countervailing study that would overrule or contradict the findings of the GAO study on Postal Service contract offices?

Mr. DESIO. We've asked that the GAO go back and look at—basically, the GAO study took the revenue from these facilities and the cost of operating these facilities and made a comparison and said, "Yes, the revenue exceeds the cost." But that's a fallacious study in that there is no revenue; there is no incremental revenue. There is incremental cost up to a half-million a year, but there is no incremental revenue, because that revenue is already being provided to the Post Office through CMRA facilities, contract stations, and other vehicles.

Mr. MCHUGH. I understand your concern and your argument, and I don't discount it. I consider you an expert. But, you know, this is the land of who's got the better study, and I was curious if you knew of any other study, and you're telling me you——

Mr. DESIO. We've requested that the GAO——

Mr. MCHUGH. What has GAO told you? "We will get back to you on that?"

Mr. DESIO. They have not responded. We have requested that they consider these factors in the study and pointed out its problems, but we haven't gotten a response.

Mr. MCHUGH. OK. You note that the Postal Service refuses to provide you stamps on consignment. Is that just specifically against your company, or is that a situation that is across——

Mr. DESIO. The Post Office provides stamps on consignment to grocery stores and other facilities. We have requested they provide stamps on consignment to us. They indicate that because our facilities charge a service charge associated with the resale of those stamps that they cannot provide us with stamps on consignment.

The difference between us and a grocery store is, of course, that is our primary business, and we don't derive any revenue from the sale of groceries. So we basically must have some sort of a service charge, and the public is aware of it, and they are willing to pay it. We don't understand why the Post Office would not provide us with stamps on consignment.

Mr. MCHUGH. Mr. Muma, you state, on page 5, in the middle paragraph, that "like the Royal Mail—" you're talking about the process—"the world's postal services have the ability to contract out or franchise with private carriers to accomplish tasks more cost-effectively and efficiently. In the postal organizations like the Royal Mail, this is done with the consent of labor, not its opposition."

Out of all the things you said, that struck me. I think most of all because of the hearing that we held last week with the labor organizations, and it was certainly clear there is a stridency that exists between labor and management in this Postal Service.

Why do you think the Royal Mail is able to handle their labor organizations more effectively, at least in this instance, than the Postal Service here in America? What's the secret?

Mr. MUMA. Well, we were fortunate enough to have the head of the Royal Post speak to our association meeting this spring. During his testimony to us, we noted that certainly the postal services in Europe are much smaller, that they are trying very much to grow advertising mail. I think that there is more of a sense of community in developing a business of growth in those communities.

We heard the same thing from Canada Post, in that they are looking to commercialize, and because of their need to succeed, they are getting the cooperation from labor.

Mr. MCHUGH. So, it is a cultural or societal type of—you don't see some approach, management-wise, that would help us recreate that here? And I'm not as interested in changing unions as I am in changing the environment.

Mr. MUMA. Yes. I understand your amazement, because certainly I was, too. Possibly, we can talk to the Royal Post and get you those answers, specifically, from them. Their statements to us were very general on the commercialization issue, and they certainly did state that that was the end result. I can't really give you the total details of why they were successful.

Mr. MCHUGH. OK.

Mr. Harle, you said, and I think it's a fairly close quote, that "I would love to be an intervenor in my competitor's rate-setting process," regarding the process that the Postal Service operates under currently. You will hear later in the day testimony from UPS and others, but particularly UPS, that states—and this is UPS's position—"Permit me to state up front that UPS has never, nor will it

seek to shift a disproportionate share of cost to any other class of mail, particularly third-class."

How would you respond to that?

Mr. HARLE. I guess I would respond, to a great extent, by saying what I did up front: I think it's a unique opportunity for them to participate in a competitor's rate status. I think there's obviously a vested interest on their part to moving more mail and more costs into the classes with which they compete. It's just a basic fact.

I certainly don't question anybody's motivation, but——

Mr. MCHUGH. Would you take them totally out? Would you remove the opportunity that they have to participate in rate-setting? How would you change it?

Mr. HARLE. Probably not. Maybe we have a feeling that the information they provide has been given abnormal weight or excessive weight in weighing the testimony.

Mr. MCHUGH. So it's not just, perhaps in your mind, the fault of UPS, but the rate-setting commission is not balancing the issues before it. Would that be a fair statement?

Mr. HARLE. Sure.

Mr. MCHUGH. You mentioned, on page 4 of your testimony, that "no private sector company would let an outside party set its wage rates, yet this is one of the burdens under which USPS must operate." And you talk about the difficulties of binding arbitration. You want to do away with that. What would you put in its stead?

Let me pose to you the offer that I made to some of the labor unions last week: the right to strike, fair trade?

Mr. HARLE. The right to strike probably is a fair trade, with certain conditions.

Mr. MCHUGH. What kinds of conditions?

Mr. HARLE. The ability to hire replacement workers, maybe structures that said certain parts of the mail would clearly go through. The right to strike would have to be on the table.

Mr. MCHUGH. So that doesn't send you into apoplectic fits?

Mr. HARLE. No. I wouldn't like the thought of it, but I think we can structure protections. Mediation, the kinds of things that—I'm not an expert on the Railway Labor Act, but I understand that there are processes in there which add mediation. But I think the right to strike has to be on the table, but then other things must be included along with it.

Mr. MCHUGH. OK. That sounds fair.

Mr. Holleschau, how can you convince Mr. Harle that the current reclassification case truly is a threat to your industry's existence, as you say?

When I sat down and read the testimony, and prior to that I tried to understand what kinds of organizations you represent, you seem to represent rather similar operations, in terms of your work product and how you approach it.

And I'm getting a yes and a no. Well, I made an error. That's why we sat you together. We thought you could keep these other people apart.

What are the differences then? Why do you, sir, Mr. Holleschau, obviously have a great deal of concern about the rate reclassification proposal?

And Mr. Harle, if I understand your comments, you are relatively supportive of it. What are the differences?

Mr. HOLLESCHAU. The primary difference—and please be aware that I also own a business and belong to MASA, and do advertising mailing and everything else. The primary difference is that the organizations that support MASA are list-based mailers. They control the mailing list up front.

They are able to meet all of the requirements the Postal Service has implemented with Classification Reform, such as running their addresses against NCOA, national change of address, or doing "address correction requested," all those kinds of things. They are in control of the data base and who they are mailing to, ahead of time.

The National Association of Presort Mailers, we're not in control of the mail until after it has been created, and that's where we differ. So to comply with those requirements after the mail has been created is very, very difficult, and in most cases it's cumbersome. The financial reward is not there. The costs to comply exceed the savings available.

Mr. MCHUGH. Fair description, Mr. Harle?

Mr. HARLE. Generally fair. We don't feel that the reclassification project and the rates and procedures in that are perfect. We look toward both the hearing process, the Postal Rate Commission process, and even beyond that, the Federal Register rulemaking process with the Postal Service, to alleviate some of the things about which we have concerns.

We have concerns about some of these same issues. We share their concern in certain areas. We think they can probably be, to a great extent, mediated through the rulemaking process.

Mr. MCHUGH. Well, that was going to be my next question. Do you think, Mr. Holleschau, there is an opportunity here to fix what you are concerned about, and how do you view the Postal Service's willingness to work with you on that matter?

Mr. HOLLESCHAU. I will have to admit that some of the initial proposed rules, as part of the classification reform, have been modified to date, but we're not there yet. And the opportunities are significant, if some of the rules are relaxed.

But I was even having breakfast with my esteemed colleague, Dennis MacHarg, this morning, and talking about one of the single biggest issues right now is the fact that presort bureaus are dealing with first-class mail, primarily, and third-class mail as a smaller subset of our mail stream.

With first-class mail, our businesses are built on receiving other people's first-class correspondence, and most of those mailers give us mail late in the day, saying, "This is my mail stream. It's not list-based. It's the kind of stuff that's coming off our desks. It's secretary mail; it's correspondence, the last minute sort of stuff."

And they have helped build our business. We have been mail consolidators for all these small mailers. We got them the discounts. We improved delivery beyond what the Postal Service was capable of. And now, as you take a look at that and say, Gee, in order to comply with these requirements for reclassification, we may have to redate their mail, for instance, and say the technical

requirements don't allow us to get all the mail done in the same day.

My company sent out a formal, written survey, and we're following it up with telephone surveys right now, and 9 out of 10 clients are saying, "We will not allow you to redate the mail." So if we can't redate the mail, we can't get the bar codes on it, and all that mail migration starts to migrate to full rate to the Post Office. They will have to buy more bar code machines.

And the more mail we drop—because our ability to get these discounts is based on volume, and if our volume starts to erode, then more and more of it goes to the Postal Service, and it's just because of a few small rules.

Mr. MCHUGH. Well, where are we going from here?

Mr. HOLLESCHAU. Well, gee, I don't know. Can you help?

Mr. MCHUGH. Well, that remains to be seen.

The point of my question about where you stand now, what your future feelings are with respect to the opportunities, I think is important. You say you're not there yet. Are you going to be there? And the answer is, you hope, but you don't know.

We will have to get back to you on that. We have cameras running. I don't want to say anything that will get myself in too much trouble.

Mr. Maraney, you made some comments in your statement, around page 6, about the Postal Service's decision to eliminate the requirement that newly bid highway contracts be backed by a performance bond and the impact of that decision on the ability of some operators, contractors, to perform responsibly.

Two parts: Would you expand a little bit as to how that change came about? And second, although I think I know the answer, do you feel this unnecessarily exposes the Postal Service by not having those bonds in place?

Mr. MARANEY. I'm sorry. Unnecessarily what?

Mr. MCHUGH. Exposes.

Mr. MARANEY. Exposes. Well, initially, I think they used to be required, under the old title 39. When the Postal Reorganization Act came along, they dropped those requirements, but the Postal Service continued to have bonds required. The bonding companies would write bonds, but it covered the 4-year term of the contract, which they were responsible—if somebody defaulted, they were responsible for coming in and finding somebody to run it through the rest of the term of that contract.

The bonding companies who were bonding those companies began to look at that as kind of a high risk, because they were responsible for the remainder of the term. So as they looked at that, they began to diminish, as to the ones that would write bonds. We got down to maybe two or three, and both of them were under investigation for fraud.

So they decided to eliminate the bonding requirement, which left the contracting officers solely responsible for determining who submitted a responsible, responsive bid. Before, they had a buffer. I mean, if you submitted a bid on the contract and you didn't have a bond, the bid was thrown out. You had to have a bond.

So they had a buffer. Now they lost that buffer. So if somebody submitted a low bid and they were rejected as being nonresponsible

and nonresponsive, he could protest. He could come running to his Member of Congress, somebody to write the Postal Service, "I thought you were running a competitive bid system. My constituent's the lowest bidder; why isn't he awarded the contract?"

So a lot of the contracting officers became very timid, and they just started awarding to the low bidder. Well, that resulted in a lot of bad service. I think the northeast section was the first to begin going up the line, getting rid of this bottom bid and going up the line where they thought they had a responsible bid.

They got away with that, and eventually—that is the current policy now. They don't take the lowest bid. But if somebody protests, their attorneys have said, in effect, "We're under no obligation that the contractor make money." They award the contract.

Unfortunately, they do have a responsibility not to cost themselves money. If the contractor can't make it, and he defaults, then they have to get emergency service from an established contractor, which is very costly, reprocure the service again, with maybe going through the same system all over again. So it becomes costly to them, to that extent. The more defaults they have, of course, the more this problem exists.

Mr. MCHUGH. You follow it up and you say, "We have recommended several alternatives to the Postal Service to replace the bonds, including cash bonds or escrow accounts." You have not heard back from them.

Mr. MARANEY. Well, by not hearing back, they have rejected—I mean, it's sitting on the table. A cash bid bond—if somebody—we wanted the Postal Service to get around the country, the Postal Service is interested in serious bids. So if you put a cash bid bond up equivalent to a certain percentage of the bid, that you would get back if you were awarded the contract and took it, versus if you decided that you were too low and you didn't want to start the service, you would forfeit that cash bid bond.

Then, of course, the second one was—responsible bids up front—the second one was making sure you would fulfill the term of the 4-year contract. So we had suggested some method of withholding two accounting periods, or what have you, of the initial check, minus labor and fuel and what have you, that they would get back at the end of the 4-year term.

There is another alternative: They probably could find bonding companies that would bond a contractor just to provide the replacement procurement cost to the Postal Service, rather than be stuck with the whole 4 years. That's a possibility that could be worked out.

Mr. MCHUGH. You say they have sat on it. Have they formally responded to your proposals?

Mr. MARANEY. No.

Mr. MCHUGH. In no way. May we get a copy of those that you submitted?

Mr. MARANEY. Sure.

[Note.—The information referred to can be found in the subcommittee's files.]

Mr. MCHUGH. We would appreciate that, for the record.

The last thing I want to ask you, sir, on page 4, you say "Over the last 25 years, highway transportation has been the least criti-

cized operation of the USPS, as the mail, as a general rule, goes from Point A to Point B on time."

What are you doing right?

Mr. MARANEY. We have very dedicated contractors.

Mr. MCHUGH. Oh, come on. It can't be that easy.

Mr. MARANEY. It has been said by Postal people themselves that, in some cases, our contractors are more dedicated than their own Postal employees. They all have precise time schedules. The Postal Service wants its mail moved at 4 a.m.; that's when they are there. They are very concerned.

I have an interesting story to tell about it, because we have a problem with which drives, transportation processing or transportation. One of the problems we think the Postal Service has, that they don't have with UPS or Fed Ex—they can testify to this—but it's my understanding that with UPS and Fed Ex, that transportation drives processing. In other words, you pull that truck back up to the dock, and the mail is there to load, and off they go.

It's the reverse, in effect, in the Postal Service. Processing drives transportation. Transportation is supposed to be there at 9 a.m., but they are not ready to put the mail on yet. So the transportation has to leave late, which they either catch up or get late slips.

I had an interesting story with a contractor in Connecticut, a small contractor, who was supposed to leave a post office at 9 o'clock and arrive at another end at 9:30. Now, everything is interlinked to where that's going from there. He never got there at 9:30; he'd get there at 10 o'clock. And, of course, they don't want to write late slips, because that's a reflection of their operation.

Every day he arrived at 10 o'clock, they would say, "You're supposed to be here at 9:30. What are you doing?" And he said, "Well, I'll tell you, they don't let me out of there at 9 o'clock. I have to wait." So this went on for a couple of months. One day he showed up at 9:30. And they said, "My god, you're here on time." He said, "Yeah, I'm here on time, but there's no mail in the truck."

Now, we don't recommend that, but this was some extreme measure somebody had to do.

Mr. MCHUGH. OK. [Laughter.]

Gentlemen, I do appreciate your being here. We do have two other panels. I thank you for your comments. We will, with your kind indulgence, leave the record open for the submission of any written questions. Mr. Green suggested he may have some. There may be others, and we would appreciate your attention in this regard. Thank you and best of luck to you all.

Could we have the members of the second panel?

We are pleased to have with us this morning four distinguished witnesses on our second panel: Kathleen Synnott, vice president of worldwide marketing for Pitney Bowes; Neal Mahlstedt, president of Friden Neopost; Michael Allocca, president and CEO of Ascom; and George W. Gelfer, vice president and general manager of Postalia, Inc.

We welcome you all, and thank you for your patience as well as your presence. If you saw the first panel, you understand that, according to the rules of the full committee, we have an oath, to testify that the presentations you are about to present are truthful, as we know they will be.

So if you would stand and raise your right hands and affirm after me.

[Witnesses sworn.]

Mr. MCHUGH. The record will show that all four panel members responded in the affirmative.

We struck upon a good system last time, I thought, left to right from our perspective. Why don't we repeat that. With that, I would turn the floor over to Mr. Gelfer, with our words of welcome and appreciation.

STATEMENTS OF GEORGE G. GELFER, PRESIDENT AND GENERAL MANAGER, FRANCOTYP-POSTALIA, INC.; MICHAEL A. ALLOCCA, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ASCOM HASLER MAILING SYSTEMS, INC.; NEAL MAHLSTEDT, PRESIDENT, FRIDEN NEOPOST; AND KATHLEEN E. SYNNOTT, VICE PRESIDENT, WORLDWIDE MARKETING, PITNEY BOWES, INC.

Mr. GELFER. Thank you, Chairman McHugh and members of the subcommittee, for the opportunity to comment on our objectives, current relationship, and concerns regarding the Postal Service.

My name is George Gelfer. I am president of Francotyp-Postalia. We are a Chicago metropolitan area based organization and have been serving the needs of American mailers and the USPS for approximately 33 years. Our products are sold and serviced through a network of 140 independent mailing equipment dealers across the country who depend on us, the USPS, and ultimately this subcommittee for a large portion of their livelihood.

To some, the Postal Service is a tempting "target of opportunity." It is not a pure government agency, not totally private. It is a complex and at times a difficult organization to understand. It is a diverse and gigantic entity, with something in the range of 730,000 employees. Clearly, something of this size and scope needs to be even more tightly controlled and regulated, perhaps reorganized or fundamentally changed.

We are not so sure. We don't think that kind of thinking benefits the American public or the American mailer. It clearly has negative implications to us and the business of our dealers and their employees. What we do know is that the Postal Service is unique in that their clock is set back to zero every day. The performance of last week, last month, last year's holiday mailing period is always going to be eclipsed by some problem somewhere that happens today. It's simply the nature of the business.

Delivering something in the range of 485 million items per day to 261 million Americans is a nontrivial assignment. Just ask how many times the average citizen comes in contact with agencies like the IRS, Social Security, or any other government organization per year, and you can start to understand, maybe, what makes the Postal Service a rather unique entity. They must be able to deliver every day to every household and business in the country.

Like most businesses in the mailing industry, we have a close working relationship with the Postal Service. As a postage meter manufacturer, our relationship, however, is unique and shared only with our three competitors who are here with us today. That's because the USPS defines the regulations that drive our business.

They approve each new postage meter before we are granted a license to distribute the product. The Postal Service requires that meters be rented and states how often they must be physically inspected. Meter manufacturers have strict guidelines regarding the kinds of records we must keep, the kinds of reports we must provide, and a host of other things.

With the possible exception of pricing, there is not much a meter manufacturer can do without touching the USPS in some fashion, or at least thinking through the Postal Service implications. What we have is a tightly controlled business. This is the overall scenario that, to a large extent, defines our objectives, interactions, and issues with the Postal Service.

As a European-headquartered manufacturer, one of our primary objectives is to ensure that the USPS helps create a level playing field where product approvals and regulations are rational and do not present an unreasonable barrier in our ability to serve the needs of the marketplace.

We have seen improvement, especially during the last 2 years, in what we regard as a life and death issue. Policy, regulatory, and technical meetings are now held in an open forum, on the public record, and not behind closed doors. Officials of the USPS have started to meet with the European postal administrations on a more frequent basis and have visited all the meter manufacturers in their country of origin.

Again, as a European-headquartered company, we are especially pleased to see these actions, since we believe that we should be aiming for common standards for postage meter systems between Europe and America that essentially are in everybody's best interest.

There is more, however, that needs to be done. One thing that stands out to us is the pace of technology innovation. We believe it needs to be substantially more rapid than we have seen in prior years. There is probably no other item in the American office that has advanced at a slower rate over the last 10, 15, 20 years than the postage meter.

The natural incentive to provide innovation is diminished by the requirement to rent these postage meters rather than offer them to our customers for outright sale. Since the meter companies are required to make substantial investments in rental assets, one can understand the reluctance to make a wholesale replacement in one's rental base to introduce new technology.

We believe that current technology can provide a level of security that would allow the sale of postage meters and would foster the introduction of new innovations. Currently, only the United States, Canada, and France require that meters be rented. In the rest of Europe they have been available for outright sale for years.

On our part, we are not waiting for the rules to change. In November of last year, we introduced the first meter in the United States to employ electronic thermal transfer printing. The system has been marketed in Europe since 1991. Besides eliminating ink, it also employs new security technologies designed to protect Postal Service revenues. It is part of our overall plan to use the best technology innovations to help reinvent this business, or at least our part of it.

New systems for security, new regulations, administrative procedures being implemented by the Postal Service need to be balanced against some basic rules of reason. We believe it is possible for the Postal Service to define product requirements that either are not technically practical or result in a cost to the customer that prevents meaningful implementation. The end result could simply be movement by customers away from mail to other forms of communication. Losing customers, obviously, doesn't help the Postal Service or any of the companies dedicated to the mailing industry.

There has been a renewed focus on the security of Postal Service revenues during the last 3 years, and Francotyp-Postalia supports these initiatives. Recently, the Postal Service started discussing a new form of secure meter indicia, or imprint that you see on the envelope, that may be used in the future.

From our perspective, we believe that two additional elements need to be added to the current conversation: First, that the methodology employed be reasonable, to the extent that it can be practically implemented, at a cost that our customers are willing to pay. Next, we believe that if and when the Postal Service moves to a new form of secure meter imprint, or indicia, that it needs to be made available to all manufacturers on a royalty-free basis.

We want to make sure that all manufacturers can produce this new indicia and use the specific techniques that are required for implementation, without being forced to pay royalty fees. If the USPS will be defining a standard that we will be required to meet, we need to be able to implement that standard without a financial penalty. Because the USPS is the ultimate regulator of the postage meter business, we believe they have the statutory authority to act in this manner.

We also believe we need to have a system in place where we are not faced with designing our future products to a moving target. We believe there is a requirement to have clearer and better documented standards for product design requirements, approvals, and testing.

Currently, administrative reporting requirements are increasing at, we believe, an alarming rate. In certain cases, we are asking ourselves if the meter companies are being asked to do tasks that really are the job of the Postal Service. It is in these areas of the business that we recommend that the Postal Service slow down and fully discuss the implications of planned actions before starting with the implementation process.

We support many of the new Postal Service initiatives. We just want to make sure that the financial impact on our customers, who ultimately must pay the cost of regulatory compliance, is considered and limited to reasonable levels.

I would like to close with two additional observations that have a substantial impact on our customers. Francotyp-Postalia strongly believes that the Postal Service must continue to provide universal mail delivery to all Americans. We also believe that the USPS requires considerably more freedom of action and flexibility in setting rates, offering new services, and responding to the needs of the American mailing public.

If this committee is seeking to improve the performance and accountability of the Postal Service, it is only reasonable to give the

management of the USPS reasonable freedom of action to attain those objectives.

Finally, although we profit when postal rates change, we must note that the marketplace is calling for relative rate stability over defined time intervals. Rates for postage in the United States are substantially below those of other developed countries, even our neighbors in Canada. We believe that this generally helps promote the overall growth of the American economy. It is also something that is probably overlooked when discussing the USPS. The 3½ percent growth in mail volume that we have seen over the last 2 years is an encouraging sign for the economy and a Postal Service that we believe has demonstrated a commitment to improve itself.

Thank you, and I would be happy to take any questions.

[The prepared statement of Mr. Gelfer follows:]

PREPARED STATEMENT OF GEORGE G. GELFER, PRESIDENT AND GENERAL MANAGER, FRANCOTYP-POSTALIA, INC.

Thank you Chairman McHugh and members of the Subcommittee for the opportunity to comment on our objectives, current relationship and concerns regarding the United States Postal Service. My name is George Gelfer and I am President of Francotyp-Postalia. We are based in the Chicago metropolitan area and have been serving the needs of American mailers and the USPS for approximately thirty-three years. Our products are sold and serviced by a network of 140 independent mailing equipment dealers across the country who depend on us, the USPS and ultimately this Subcommittee for a large portion of their livelihood. While we are the smallest of the four postage meter companies here today, our parent company Francotyp-Postalia GmbH in Germany has been dedicated to this business for seventy-one years. We are a major supplier in Europe and operate in more than eighty countries worldwide. Now for the business at hand.

To some, the Postal Service is a tempting "target of opportunity." It's not a pure government agency and not totally private . . . a complex and at times a difficult organization to understand. The USPS is a diverse and gigantic entity with something in the vicinity of 730,000 employees. Clearly something of this size and scope needs to be even more tightly controlled and regulated . . . perhaps reorganized or fundamentally changed.

We're not so sure. We don't think this kind of thinking benefits the American public or the American mailer. It clearly has negative implications to our business and that of our dealers and their employees. What we do know is that the Postal Service is unique in that their "clock" is set back to zero every day. The performance of last week, last month or last years holiday mailing period is always going to be eclipsed by a problem somewhere that happens today. It's simply the nature of the business. Delivering something in the range of 485 million items per day to 261 million Americans is not a trivial assignment. Just ask how many times per year the average citizen comes in contact with agencies like the IRS, Social Security or any other government organization and you can start to understand what makes the Postal Service a rather unique entity. They must be able to deliver every day to every household and business in the country.

Like most companies in the mailing industry, we have a close working relationship with the Postal Service. As a postage meter manufacturer, our relationship is unique and shared only with our three competitors who are here today. That's because the USPS defines the regulations that drive our business. They approve each new postage meter before we are granted a license to distribute the product. The Postal service requires that meters be rented and states how often they must be physically inspected. Meter manufacturers have strict guidelines regarding the kind of records we keep, the kinds of reports we must provide and a host of other things. With the exception of pricing, there is not much a meter manufacturer can do without touching the USPS or at least thinking through the Postal Service implications. What we have is a tightly controlled business. This is the overall scenario that, to a large extent, defines our objectives, interaction and issues with the USPS.

As a European-based manufacturer, one of our primary objectives is to ensure that the USPS helps create a "level playing field" where product approvals and regulations are rational and do not present an unreasonable barrier in our ability to serve the needs of the marketplace. We have seen improvement, especially during the last two years, in what we regard as a life and death issue.

• Policy, regulatory and technical meetings are now held in an open forum, on the public record and not behind closed doors.

• Officials of the USPS have started to meet with the European Postal Administrations on a more frequent basis and have visited all meter manufacturers in their country of origin. As a European headquartered company, we are especially pleased to see these actions since we believe that we should be aiming for common standards for postage meter systems between Europe and America that are in everybody's best interest.

There is more that needs to be done. Our objective is simply to compete freely, fairly and ethically in the marketplace. We are working to make sure this becomes more of a reality each year. One of the ways this will happen is by a more rapid pace of technology innovation than this industry has seen in prior years. There is probably no other item in the American office that has advanced at a slower rate over the last ten years than the postage meter. The natural incentive to provide innovation is diminished by the requirement to rent meters rather than offer them to customers for outright sale. Since the meter companies are required to make substantial investments in rental assets, one can understand the reluctance to make a wholesale replacement of one's rental base to introduce new technology. We believe that current technology can provide a level of security that would allow the sale of postage meters and would foster the introduction of new innovations. Currently only the U.S. and France require that meters be rented. In the rest of Europe they have been available for outright sale for many years.

On our part we are not waiting for the rules to change. In November of last year we introduced the first meter in the United States to employ electronic thermal transfer printing. This system has been marketed in Europe since 1991. Besides eliminating ink, it also employs new security technology designed to protect Postal Service revenues. It's part of our overall plan to use the best technology innovations to help "reinvent" this business . . . at least our part of it.

New systems for security, new regulations and administrative procedures being implemented by the Postal Service also need to be balanced against some basic rules of reason. For example, it is possible for the Postal Service to define product requirements that either are not technically practical, or result in a cost to the customer that prevents meaningful implementation. The end result could simply be a movement by customers away from mail to other means of communication. Losing customers obviously doesn't help the Postal Service or companies dedicated to the mailing industry.

There has been a renewed focus on the security of Postal Service revenues during the last three years and Francotyp-Postalia supports these initiatives. Recently the Postal Service has started discussing a new form of secure meter indicia or imprint that may be used in the future. From our perspective, we believe that two additional elements need to be added to the current discussion.

• First, that the methodology employed be reasonable to the extent that it can be practically implemented at a cost that our customers are willing to pay.

• Next we believe that if and when the Postal Service moves to a new form of secure meter indicia that it needs to be made available to all manufacturers on a royalty free basis. We want to make sure that all manufacturers can produce this new indicia and use the specific techniques that are required for implementation without being forced to pay royalty fees. If the USPS will be defining a standard that we will be required to meet we need to be able to implement that standard without a financial penalty. Because the USPS is the ultimate regulator of the postage meter business, we believe they have the statutory authority to act in this manner.

We also need to have a system in place where we are not faced with designing our future products to a "moving target." Francotyp Postalia believes there is a requirement to have clearer and better documented standards for product design requirements, approvals and testing.

Currently, administrative requirements are increasing at an alarming level. In certain cases we are asking ourselves if the meter companies are being required to do tasks that really are the job of the Postal Service. It is in these areas of the business (product requirements and new administrative programs) that we recommend that the Postal Service slow down and fully discuss the implications of planned actions before starting on implementation. We support many of the new Postal Service initiatives. We just want to make sure that the financial impact on our customers, who ultimately must bear the cost of regulatory compliance, is considered and limited to reasonable levels.

I would like to close with two additional observations that have a substantial impact on our customers. Francotyp-Postalia strongly believes that the Postal Service must continue to provide universal mail delivery to all Americans. We also believe

that the USPS requires considerably more freedom of action and flexibility in setting rates, offering new services and responding to the needs of the American mailing public. If this committee is seeking to improve the performance and accountability of the Postal Service, it is only reasonable to give the management of the USPS reasonable freedom of action to attain those objectives. We realize that this must be done in a manner that does not damage current private sector competition.

Finally, although we do profit from rate changes, we must note that the marketplace is calling for relative rate stability over defined time intervals. Rates for postage in the U.S. are substantially below those of other developed countries, even our neighbors in Canada. We believe that this generally helps promote the overall growth of the American economy. It is also something that is often overlooked when discussing the USPS. The 3.5% growth in mail volume that we have seen over the last two years is an encouraging sign for the economy and for a Postal Service that has demonstrated a commitment to improve itself.

Referring to the seven product lines that make up the $49 billion of Postal Service revenue, the 1994 Annual Report of the Postmaster General states "The Postal Service and the mailing industry built these businesses together, taking advantage of the technology and the products that customers need today and will need in the future." That's exactly how we believe the business should be run.

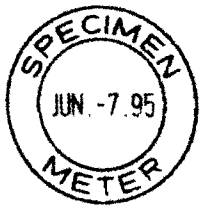
ONE HUNDRED FOURTH

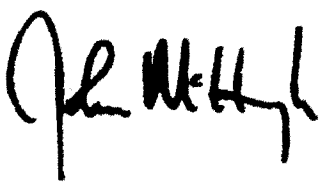
Congress

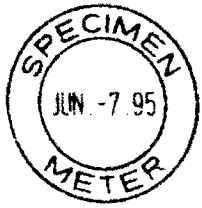
of the

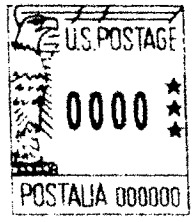
United States

House of Representatives









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These sample mailing labels with Congressional "Meter Ads" were simply scanned into our TELESET Cliche Computer and printed electronically for you with the Francotyp-Postalia T–1000 postage meter.

In November of 1994, FP introduced fundamental change to postage meter technology in the United States. By originating the first "inkless" postage meter—mailers can now avoid old mechanical meters and inky messes. This meter innovation has also allowed FP to offer significant advances in security technology with new electronic features designed to protect USPS revenues.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO GEORGE G. GELFER

Impact of the outright sale of postage meters on the meter industry, the Postal Service and the meter customer:

A. The development of a new postage meter requires several years and millions of dollars of up front investment in product development, new production equipment and product approvals. Typically, it can take between five and seven years before the manufacturer is able to recover the initial investment and generate a profit. By forcing the rental of meters an unnatural business environment is created. When a meter manufacturer looks at the needs of the customers in the market or the requirements of the Postal service the first question is not "What is the best way for us to implement these requirements?" The immediate reaction is "How can I delay or eliminate the need to do something since I must protect my rental base assets?" By allowing the sale of meters, the business becomes more rational in reacting to the needs of the Postal Service and the end user. Obviously if the meters companies are allowed to sell their products cash flow and profitability is improved. In a market that allows the sale of meters, substantial investments required to build a base of rented equipment can be used to further development of new products and systems.

B. A strong case can be made that the Postal Service would also benefit from the sale of meters so long as those meters could demonstrate sufficient security to protect USPS revenues. Currently the USPS and the meter manufacturers are faced with two critical issues that illustrate this point.

1. The 1994 GAO report estimates that approximately 550,000 of the 1.5 million meters are susceptible to fraud in a manner that is undetectable. While it is clearly in the interest of the USPS to get these products out of circulation there is a natural reluctance on the part of the meter manufacturers to move in that direction. The reason is the staggering financial investment required to invest in new rental assets. Had these meters been sold, the manufacturers in question would have a natural incentive to aggressively replace the models in question with new designs that are substantially more secure.

2. Earlier this year the USPS started discussions on new standards for secure postage meter indicias (an indicia is the graphic printed evidence of postage produced by a meter). The goal of the USPS is to make each mailpiece secure and traceable to the organization that created the letter. The USPS goal is to develop an initial standard by the end of 1995. Regardless of what the proposed standard finally becomes the USPS will probably find many manufacturers slow to implement it since it involves replacing one's current rental base with new assets that again represent a significant financial investment and will dramatically reduce the profitability of the manufacturers. If these new generation of meters could be sold to customers the situation would change dramatically as the industry would make replacement of the older technology meters a priority project since it was in their best interest financially to do so.

C. Today in the American office the only device that a customer can not buy is the postage meter. Most customers prefer to have a choice whether to buy, lease or rent a piece of equipment. They resent being told what they must do by a quasi government agency. Virtually all other mailing equipment is sold outright or leased (where the customer has the option to purchase at the end of the lease). The customer who has rented his meter for ten, fifteen or twenty years believes that he has paid for the machine many times over and feels that he is somehow being taken advantage of by the meter company and/or the Postal Service. Clearly the customer prefers to be able to exercise free choice over his purchase options.

The sale of postage meters also benefits the customer since it helps open up the market to free competition and creates more choices. The rental system and the requisite investments required creates an unnatural barrier to market entry. Thus the U.S. market has only four suppliers with one company enjoying a market share reported by the USPS to be 85%. Aside from the legal question of the USPS and the

forced rental of meters supporting a monopoly and reducing competition (whether intended or not), there is clearly an issue of the customer being offered limited choices.

Finally, since the rental of meters has acted to slow the pace of technology development the customer is faced with a product that has advanced at a much slower rate than virtually any other product in the office. One only has to look at recent developments in telephones, personal computers, fax equipment and copiers. Clearly many of the advances we have seen in the last ten years would have not been possible if a set of regulations required that these products be offered only on a rental basis. The deregulation of the telecommunications industry is perhaps the best example of the advances that can be made to benefit customers when business is freed from artificial regulatory constraints.

Sale of meters and the issue of controls over the risk of financial loss to USPS revenues:

In order to allow the sale of meters without risking USPS revenues the level of technology related to security needs to be improved substantially over what exists in most of the 1.5 million installed meters today. The good news is that the technology to do this is available today and should be within the capability of the meter manufacturers. Francotyp-Postalia knows this is a fact since we are already marketing one meter that has many these security features. We also have an enhanced version that is in the final stages of approval at the USPS that we expect to bring to the market place in August or September of this year.

The technologies necessary to ensure security of a postage meter that is sold must deal with several issues:

- Physical security of the meter case is not sufficient to discourage a sophisticated individual seeking to defraud the USPS.
- Security must be sufficient not only to protect the meter but the system that resets the meters over the telephone.
- Field repair must be allowed (currently it is not with rented meters) in such a way that security is not compromised.
- The security techniques employed must allow the USPS to maintain and enhance control over meters in a manner that is superior to the present system.

The security measures employed by Francotyp-Postalia on its T–1000 series meters that would allow the sale is designed in multiple layers and includes:

- A technique, resident in the meter, that detects an unauthorized entry into the inside of the meter by a person or a device trying to read or modify the software or meter registers that causes the meter to self destruct, even if no power is applied to the meter.
- A security counter that requires the meter to call Francotyp-Postalia's data center at an interval defined by the USPS. This feature allows remote interrogation of the meter to ensure accurate accounting. If the customer does not make the call at the prescribed interval the meter becomes inoperative until the call to Francotyp-Postalia is made. This security counter can be easily modified to require the customer to bring the meter to the post office for physical inspection at intervals prescribed by the USPS or it will cease to operate.
- A special electronic design technique effectively "hides" access to the meter's memory and coded instructions.
- Encryption of all information sent between the meter and the data center that resets the meter. Additional encryption inside the meter to protect functional elements of the software and accounting registers. Finally encryption keys are hidden and distributed in such a way to prevent reconstruction by a sophisticated criminal.
- The ability in the data center used to reset meters to determine the average price paid per letter to flag "suspicious" meters to the Postal Service.
- A special initialization mode that prevents a meter from printing postage unless specially coded instructions are entered that have been generated by Francotyp-Postalia's secure data center.
- A final security safeguard is business based and requires no technology to implement. A meter manufacturer could operate exactly like a software company. By that we mean that the product is effectively "sold" to the customer. However the manufacturer issues the customer a license for unlimited use. The license is a business tool that can be used to ensure proper inspection and adherence to USPS policies and procedures.

Mr. MCHUGH. Thank you, sir.

Mr. Allocca, welcome. The floor is yours.

Mr. ALLOCCA. Thank you, Mr. Chairman and members of the committee.

My name is Michael Allocca, and I am president and chief executive officer of Ascom Hasler Mailing Systems, located in Shelton, CT, where we employ about 200 people. We manufacture mailing equipment and systems in Shelton and in Switzerland, and sell in the United States through a network of approximately 200 independent dealers. Having the second largest postage meter rental population, Ascom Hasler has accumulated a 6 percent share since its entry into the United States market in 1981. We provide mailers with a viable alternative in postage metering systems.

Although it is a product developed, maintained, and improved over the years entirely by the private sector, the postage meter has been used by the U.S. Postal Service as a means of generating a remarkably substantial portion of its total revenue. Indeed, today approximately $20 billion, or 40 percent, of the total $50 billion of Postal Service revenue is produced through the use of postage meters. Meters have provided customers with a reliable and convenient method of paying and accounting for postage. For many it is a far more practical alternative to the use of stamps, particularly where large volumes of mail are involved.

Working as a virtual extension of the U.S. Postal Service, which establishes specifications for the components and the capabilities of each meter, Ascom Hasler Mailing Systems and three other companies licensed by the Postal Service to manufacture and rent meters to the public have, since the introduction of such machines, produced meters designed to provide mailers with convenience and increased productivity, and maximize protection against fraud.

Since its invention over 70 years ago, the postage meter is a device that has not experienced dramatic changes in its design. It is still, for the most part, an electromechanical device that securely prints an indicia as proof of postage payment. Creative application of new technology would result in more secure devices and increased functionality for the customer. Some innovation has been introduced into the product with the incorporation of electronics and microprocessors, and the ability to download postage funds into a meter over a telephone line. But, in general, application of the state-of-the-art technology to this business has been discouraged by the following factors:

First, unlike most other countries in the world, in the interest of security, the U.S. Postal Service requires that meters be rented rather than sold. The manufacturers, therefore, have a substantial investment to recover before introducing the new replacement products. Serious consideration should be given to the removal of this barrier to technological progress, without jeopardizing the security of the system, thereby allowing manufacturers to more readily recover their investments and concentrate their efforts on the development of future products.

Second, the Postal Service in the past has not proactively invited the application of new technology to postage meters. Manufacturers risk large investments for the development of new products that require the approval of the Postal Service. This situation has changed with the new USPS administration, which is taking an active role in encouraging the application of new technology, provoked by their concern over potential postage meter fraud.

Regarding postage meter fraud, we agree that there exist new technologies that, when applied to the meter, result in a more secure device. Our R&D efforts are focused in this area. We are also cooperating closely with the Postal Service to address our meters that are currently in place, to define modifications and/or replacement with newer, more secure devices.

Last, there is a considerable concern regarding an inordinate number of patents that threaten the application of even the most basic technology to a proof-of-payment postage device. We are hoping that the Postal Service's selection of acceptable technology and associated standards for future systems will allow the freedom of innovative, efficient, and secure design, without excessive concern for potential assertion of patent claims by the industry leader.

We welcome the recent Postal Service proposals to work with manufacturers to utilize computer and network technology to manage and coordinate the meter system more effectively, resulting in improved control and security. At the same time, we encourage the Postal Service, in the modern-day spirit of privatization of governmental functions, not to undertake business functions that are or could otherwise be performed by private industry.

The Postal Service has recently issued a proposal for new regulations for the postage meter system. While we understand and agree with most of the regulation improvements, some appear to increase the administration costs and the liability of manufacturers, and impose sanctions against them, costs that ultimately get passed on to our customers, without providing commensurate benefit to the USPS or to our customers.

We have expressed our views to the Postal Service and trust that they will be given serious consideration before the regulations are finalized. As a partner of the Postal Service, we intend to continue our work together, in a spirit of cooperation, to improve the security of the meter system and to advance the state-of-the-art in our industry.

In this age of e-mail, fax, and Internet, we are not overly concerned about the future of mail or its ultimate replacement, and believe that it will continue as a viable, cost-effective alternative for a long time to come. However, the Postal Reorganization Act of 1970 did not envision the competitive impact of these technologies when it established a "self-sufficient" Postal Service.

To remain competitive, the Postal Service needs the ability to manage its work force in a manner required to effect the changes required to eliminate bureaucracy and promote efficiency. To remain competitive, it needs increased flexibility to set pricing in reaction to internal business needs and dynamic market forces. To remain competitive, it needs to be able to quickly and continuously introduce new products that are responsive to market needs.

We support the Postal Service's request for the increased freedoms they need to compete as an efficient, responsive business enterprise whose actions extend the longevity of mail as a cost-effective communications medium.

We appreciate the opportunity to address the committee in an effort to express our thoughts and concerns. Thank you.

[The response to written questions submitted to Mr. Allocca follows:]

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO MICHAEL A. ALLOCCA

Question 1. "You discuss in your prepared testimony the new regulations the Postal Service is considering for meters and your belief that some appear to increase costs and liabilities to manufacturers. Could you be more specific on which parts cause you concern?"

Answer.

INCREASED COSTS, OBLIGATIONS AND LIABILITIES:

DMM 501.28.—Computerized Remote Postage Meter Resetting (CMRS)

DMM 501.28 CMRS: CMRS is an acronym for Computer Meter Resetting System. CMRS postage meters can be reset with postage over telephone lines, as opposed to the tedious task of resetting at the local post office. Ascom Hasler has made a substantial investment in hardware and software, something in excess of $2,500,000, to develop its CMRS system. The return on our investment was to be through a service charge for resetting the meter at $8.00 per reset, plus the interest earned on customer prepaid funds held on deposit at a trustee bank. Other manufacturers have similar systems. Under the new regulations the CMRS customer funds will be held by the USPS with all interest earned being credited to the USPS. All operations of the CMRS centers and their associated costs will continue to be borne by the manufacturers including investment in computers, software, and customer service. There were discussions early on regarding fair compensation to be paid Ascom Hasler, however, it now appears that USPS has no intention of compensating us at all for its taking of this segment of our business. It is also our opinion that the reasons asserted by the USPS as justification for taking over the program are completely without merit. With the reduction in profits, manufacturers are less inclined to continue to enhance this secure system. Our position is that control of the CMRS system should stay with manufacturers, encouraging them to continue to enhance and expand usage of these meters. Such an approach is consistent with the salutary movement by government to privatize many of its functions.

DMM 501.25 Inspection of Meters in Use

Ascom Hasler rigorously enforced its current obligations to perform on-site meter inspections. However, the USPS, without final discussion with meter manufacturers has arbitrarily defined a high volume meter, which requires more frequent inspections, as one which uses more than $12,000.00 per year. This figure is far too low a definition of "high volume" and creates undue additional costs and burdens on manufacturers and end users. Further, according to the Inspection Service of the USPS, no mailer tampering has ever been found through the meter inspection program.

Increasing the frequency of these ineffective inspections, unnecessarily increases our costs, which must be passed on to our customers. We feel protection of postal revenue could be greatly enhanced by expansion of USPS's Originating Destinating Information System ("ODIS") testing. ODIS testing monitors metered mail from the receipt of revenue to delivery of mail by unique meter serial number. This matching of revenue with meter serial number gives full closure to the mail system. On-site meter inspections could either be eliminated or scheduled in a more effective and economic manner.

DMM P030.2.0 Meter License

We fully support the USPS in its effort to implement a Centralized Meter Licensing System. This system is the front end of tracking both the end user and a postage meter. Unfortunately, the push to get it implemented by January 1996 seems to be more important than doing it right. The approach of implementing it first and fixing it later is not sound business practice. Additionally, the costs (capital investment, operations and personnel) are being borne primarily by the manufacturers.

DMM 501.22 Distribution Control

The USPS as a government agency is mandating that manufacturers distribute meters exclusively via US Postal Service "Registered Mail" as opposed to the effective private carriers we are presently using. This shipping method costs two to three times more than the more comprehensive service provided by commercial shippers like UPS, Federal Express, Airborne, etc. In addition, this mode of shipping does not offer overnight delivery nor does it provide on demand tracking. Finally, very few computerized mail management systems support Registered Mail, hence Registered Mail is very labor intensive. Again, our increased costs must be passed on to our customers, for which they will receive no incremental benefit.

DMM 501.13 and 501.14

The United States Postal Service requires the meter manufacturers to report security and design weaknesses. However, the USPS claims the right to levy administrative sanctions against manufacturers, without any grace period, from the time they . . . "knew or should have known of a potential security weakness . . ." The United States Postal Service has claimed broad judicial powers. While we agree with the intent of these sections, we are seriously concerned with the possibility of arbitrarily imposed sanctions.

Question 2. "It has been reported that, in partial response to the General Accounting Office report POSTAGE METERS—Risk Of Significant Financial Loss But Controls Are Being Strengthened, all of you have taken several steps to meet the problems of tampering with postage meters, including the appointment at Pitney Bowes of a Vice President for Postage Meter Security. Would you share with the subcommittee some of the steps each of you are taking and methods you are using with the Postal Service in addressing this problem, which the GAO reported could be costing the Postal Service several million per year in revenue losses? Particularly, how are you handling the reporting of theft or loss of meters?"

Answer. To reduce the risk of financial loss to the USPS via the use of postage meters, we have strengthened our controls as follows:

- Returned meters come to a centralized facility in Shelton, Connecticut. Each meter undergoes a multi-step examination looking for signs of tampering. Any meter that is suspicious is flagged and placed in a secure location. The Meter Compliance Department with Postal Service assistance analyzes each meter. This process has had three USPS Inspection Service reviews during the past twelve months.
- Meters returned by high-risk mailers (companies with certain SIC Codes who use high volume postage meters) undergo a full internal inspection. This meter is examined by technicians looking for evidence of tampering.
- High-risk mailers using an Ascom Hasler meter are visited every three months by our local representative. A full meter inspection is completed during these on-site visits.
- Meter and mailer documentation is stored electronically in our computers. This retrieval capability has been used numerous times by Postal Inspectors researching possible fraud.
- We have established a new department to coordinate all USPS Compliance efforts. A team has been created for the express purpose of examining suspected tampered and misregistered meters.
- Detailed procedures are published and disseminated to field personnel for inspection of meters and/ or mailers.
- Meter irregularity reports are generated and filed daily with the USPS.
- Use of serialized security seals is to be implemented in the near future.
- We utilized shippers who have on line tracing of meter shipments.
- We are working with the Postal Service to define ways in which our meter designs can be improved to increase their security.
- Ascom Hasler is the only meter manufacturer using a third party to audit it's distribution points. Utilization of Ernst & Young, a big 6 Accounting Firm, to audit Dealers nationwide helps ensure a high level of meter security.

The USPS has prioritized lost/ stolen meters as a potential threat. Ascom Hasler has also prioritized lost/ stolen reporting to the Postal Service. Below is an overview of the process used by our company.

- Repeated phone calls/ visits are made to the customer.
- Computer databases and telephone information directories are consulted.
- Reports of lost/ stolen meters are filed with the local police.
- The local Post Office is consulted to see if a change of address exists or any meter activity is taking place.
- Our computer system is updated with lost status indicators. A monthly computer tape of this data is sent to the USPS in Washington, D.C.
- A USPS form documenting the situation is completed and date stamped by the local Post Office. The Postmaster, Postal Inspector, and our local dealer receive copies.
- A follow-up letter is sent to the customer, dealer, local Post Office, and local Postal Inspector informing them that the meter is lost. The letter also requests that the Postal Service confiscate the meter if it is brought to the Post Office.
- A file on the meter is sent to an external skip-tracing firm. The firm continues to search for the meter. We provide the firm with monetary incentives to continue exhausting all leads.

Mr. MCHUGH. Thank you, Mr. Allocca. I appreciate your comments.

Before we move to the next presenter, I am pleased to welcome a distinguished member of the subcommittee, the gentleman from New York, Mr. Major Owens.

Does the gentleman have any comments he wishes to make at this time?

Mr. OWENS. No, sir.

Mr. MCHUGH. Thank you.

Mr. Mahlstedt, the floor is yours.

Mr. MAHLSTEDT. Thank you, Mr. Chairman, members of the subcommittee.

I also appreciate the opportunity to make our views known here. Your invitation asked that we inform you of our objectives and concerns only as they relate to postal matters. Since our only business is mailing and shipping, all of our objectives relate to postal matters.

The Neopost organization is the second largest manufacturer of mailing and shipping equipment in the world and has no other interests or commitments. It believes that, in today's environment of international communication, the expansion of mail systems here and in other countries will lead to greater economies for business and individual mailers, more profitable revenues for the postal services that provide delivery of the mail, and better futures for the employees of manufacturers who develop equipment to serve the system. We are convinced that healthy competition for products and services that make the preparation of mail and packages more efficient is essential to the prosperity of everyone on the system.

Friden Neopost's principal objective is to be a useful partner, supporting the U.S. Postal Service in its role as the world's largest carrier of letters and packages. This objective manifests itself in the following ways:

Like our competitors, we encourage businesses to use mail by producing equipment and services that make the purchase of postage and the preparation of letters more economical than other forms of written communication.

All meter manufacturers help decrease the Service's cost of operating local post offices by encouraging meter users to reset their meters remotely, rather than taking them to the local post office where the USPS must undergo the expense of physically resetting them. However, only Friden Neopost presently offers its customers a direct debit payment method in conjunction with its Postage On Call remote meter resetting system. Its customers do not have to maintain expensive escrow accounts to purchase postage by phone.

Neopost is also unique in its efforts to help reduce meter fraud. On its own volition, for over 12 years, it has been retiring its old mechanical meters and replacing them with electronic. Electronic meters, which now make up over 95 percent of its meter population, have proven to be far more tamper-proof than their mechanical predecessors.

In addition to the cost of retiring thousands of fully depreciated mechanical meters, we also bear the additional cost and expense that comes from higher failure rates of electronic meters. This is not due to a flaw in the meter design; it is due to the additional intelligence and sensitivity that is built into the meter's fault detection circuitry, to shut down the meter when it senses tampering.

In a further effort to cooperate, Neopost has also shared the CrediPac and CrediPhone remote meter resetting systems that are used in France and England with the U.S. Postal Service. The Service can take advantage of our technology, wherever it is, should it care to do so.

Our objectives are to continue to deliver innovative products; however, the business climate in which we are able to meet these objectives will directly affect our success. It is this environment where our concerns lie.

Since each year over $20 billion flows to the Postal Service through postage meters, the Service must regulate meter usage, much the same as it protects against forged stamps and the security of mail in general. At the same time, the Service must also direct much of its attention and resources to competing for the lucrative portion of the carrier market that was lost some years ago to the overnight commercial carriers. It is worth pointing out here that carrier competition has not hurt the Service; it has made it better.

Mail equipment manufacturers find themselves in a competitive yet regulated business. This environment is further complicated by the fact that one of the equipment manufacturers controls over 85 percent of the meter business. The natural temptation for a company with almost exclusive possession of a market would be to try to hold that position with patenting policies that discourage other competitors. To coin a more popular term, the playing field here is not level.

By way of example, when Friden Neopost introduced the first electronic meter to the market in 1979, it was forced to develop the product while avoiding many patents that already existed for the electronic meter and had to pay royalties for those it could not circumvent.

When it developed its version of remote meter resetting, it again had to navigate through a myriad of patents. To this day, our customers are only allowed to set their meters with fixed, predetermined amounts of postage because using the phone to set meters for varying amounts had already been patented.

To us, patents based on some specific application of a common business function such as using the telephone have their greatest effect on protecting one's market. It is not rewarding an inventor for creating a unique new product that will benefit business.

Inasmuch as the Postal Service controls certain products and services that affect both the system and the financial health of the businesses servicing it, it should be allowed to create an environment where new technology can be easily introduced. It should have some avenue of appeal to question what gets patented and what does not.

Our other area of concern is also over the regulatory role of the Postal Service as it pertains to the introduction of new products. Inasmuch as its long-range decisions directly affect the return that meter manufacturers receive on their substantial investment in postage meters, it must keep our companies up-to-date on its long-range plans for meters.

Manufacturers constantly invest large sums of money to improve the functionality and longevity of the meters that the Postal Serv-

ice requires that we rent to mailers. Were the Service to change or reduce the role of meters in the system and not make manufacturers clearly aware of this, we could easily go out of business, while thinking we were doing what was expected of us.

As we see it, the need for free, competitive enterprise must exist, along with protective regulations, if the mailing and shipping system is to constantly be provided with innovative products. This can only be accomplished if the participants providing services to the system confine themselves to the specific roles, carriers, regulators, and equipment providers, and if the playing field is kept level.

Thank you very much.

[The response to written questions by Mr. Mahlstedt follows:]

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO NEIL MAHLSTEDT

I can give you short answers on all questions but the one on the national database. Perhaps the national database is one method of improving the USPS control over postage meters but it's not the only one and it could be the most expensive, and least effective one.

I would not be surprised if by now the USPS wasn't convinced that meter manufacturers are dedicated to blocking any changes that they perceive will endanger their meter rental pools. That makes creditability and motive important issues here.

I would like to include in my comments the actions that Neopost has taken over the years to improve our industry and convince USPS personnel that we are interested in technological progress that makes preparing business mail easier and cheaper and USPS revenues safer.

Our motives are simple. Being an innovator in developing practical technology or creatively using new technology is good for the growth of Neopost—despite any short term effects that it may have on our rental stream.

You first asked about the USPS project of bar-coding meters. We believe it is a good step toward increasing the control of meters and we completed the project on time. Thanks for asking if the all meter manufacturers finished on time. It gives me a legitimate opportunity to tell you that we were the only one.

The scheduled dates for completion had to be pushed back from January 4th to February 15th to June 30th. I'm not sure if the USPS is able to instruct its branches to only set meters that have a manufacturer's bar-code on them to this day.

Our attitude of use practical technology for progress has pervaded our organization for years, because we are small and have a healthy need to be competitive. The USPS has been telling us that if the cost of using the mails is reduced more people will use them and we believe that.

That is why Friden offers direct debit payment for the postage that they purchase through our remote resetting system. Companies who object to the added cost of having their cash idling in postage escrow accounts have been quick to take advantage of it.

We lose the interest income from the escrow accounts but are attracting more meter users to our remote resetting systems—including some of our competitors' users. As the other manufacturers follow our lead, the cost of remote resetting will come down and more companies will use it. This works to the USPS's advantage because it gets more meter resetting out of the local post offices where meter resetting is expensive and time consuming.

But reducing the cost of using meters has not been done at the expense of meter fraud. Both the General Accounting Office and the USPS will tell you that from a security point of view, electronic meters are far superior to mechanical ones.

Friden introduced the first electronic meter to the market years ago and has been carrying the cost of replacing its mechanical meters since then. At this time it has a meter pool that is only 5% mechanical. The others have pools that are about 55% and 85% mechanical. Again, competition was our motive.

Friden also made obsolete the old "fan" scale that was used by mailers to manually calculate the amount of postage needed for a letter or package. It developed the first electronic scale. There were plenty of our own scales on rent when we did it but innovation has worked for us.

We are skeptical about the national database or Central Meter Licensing System (CMLS) whose job it will be to track the whereabouts of the 1,500,000 meters in

this country. Our skepticism is based on the statements that it will rely on a paper trail to document, with rubber stamps and signatures, the movement of meters.

There are already many smaller databases in existence that, at any point in time are either out of sync with the paper trail or out of sync with each other. The national database will, I believe be fed by some of the following databases but will have to be reconciled to them.

- The USPS Meter Accounting Tracking System (MATS) developed to allocate postage meter revenues to the Branch Post Offices where the meters are used.
- The contract billing systems of each meter manufacturer—to bill customers for meter rental.
- The meter inventory systems of each manufacturer—to track the location of meters at the branches, dealers, distribution center or repair center.
- The remote meter resetting system of each manufacturer (POC at Friden and RMRS at Pitney Bowes)—used to hold the customers' prepaid postage, reset the meters over telephone lines and pay the USPS.
- The system being built by City Corp. for the Treasury Department of the USPS—to house prepaid meter postage and accept information from the meter POC and RMRS when they set the meters.
- Lastly, there is a database of paper (or paper trail) that is used to verify the movement of every meter. Like most paper based systems it is slow and as a result only provides a documented record of where meters used to be. I understand this will remain in place.

Only the new version of MATS, the National MATS will be as large as proposed CMLS. The present version of MATS is broken into 85 districts.

It's not necessary to understand all the regulatory complexities of documenting the movement of meters between customers, manufacturers' branches or dealers, manufacturers' repair centers and Post Office branches to see how difficult it is to know where all the meters are all the time. Just looking at all the places where meters can be is a pretty good indicator.

Additionally, there are new meters rented and rentals canceled every day and meters have to be replaced with other meters when they jam. The more sensitive the meter is to tampering, as ours are, the more it jams.

Customers don't tell meter companies when they relocate. The signed or stamped papers that make up the paper trail used to update systems are slow and pieces get lost. Manufacturer's employees and postal workers don't always update every system when they make changes.

It's difficult to believe that superimposing another, large system over the existing ones will either reduce meter fraud or build the basis for better meter control in the future—particularly since the same paperwork will remain as the gospel on where the meter is located.

Many remedies already exist to fight meter fraud now. The meter model used in most of the large fraud cases has been decertified. The Inspection Service says that it is going to inspect those high risk businesses more frequently.

The Inspection Service is also going to examine meters that are not reset with postage for three months and use more secure meter seals. The seals will have serial numbers on them.

These are practical approaches to reduce fraud. The USPS also has the authority to penalize meter manufacturers if they do not perform. Keeping track of 1,500,000 meters when it has the authority to make the manufacturers do it seems impractical.

I realize that it's easy for Frided to talk about mechanical meters but the GAO report on meter fraud was clear that mechanical meters are easily deceived and must be modified. That would cost the USPS nothing and would reduce the opportunity for fraud by some 600,000 or 700,000 mechanical meter users. The first step could be to just inspect mechanical meters more frequently.

Lastly, as a suggestion, meter manufacturers systems that reset meters over the phone work to everyone's advantage. They save the meter user from taking their meter to the local Post Office to be reset and they save the Post Office the job of resetting.

The cost of the resets will be driven down as competing manufacturers try to induce more companies to use their system. The more businesses on the system, the more comprehensive the database.

These resetting systems are now able to keep track of how much and how often meter users buy postage. They can be modified to report to the Inspection Service when purchases are reduced or stopped all together. It's less expensive to just investigate companies who are renting meters and not filling them than it is to create another tracking system for 1,500,000 meters.

Competition is the key to getting more companies on remote resetting systems. It will do more for the mailer than the expense of the very best of technology in the hands of a monopoly or a bureaucracy.

Competition has served the industry well to date and I believe is the best way to progress toward lower mail costs and safeguarding USPS revenues.

The expense of new CMRS and CMLS systems is beginning to be felt by the small competitors. If they go out of business the business mailer will have to go forward with a monopoly and a bureaucracy. No matter how efficient and how well intentioned those organizations are they can't replace profit motivated competition.

Mr. MCHUGH. Thank you, sir.

Ms. Synnott.

Ms. SYNNOTT. Good morning, Mr. Chairman and committee members.

I have submitted written testimony, so what I will share with you this morning are highlights of that testimony and be prepared for any questions you may have, as you indicated at the beginning of the session.

The majority of my presentation today includes, first, a summary of the communications marketplace, as well as our thoughts on the future of mail, some background on Pitney Bowes, the need for a competitive Postal Service, and our assessment of postal revenue security, specifically as it relates to the metered mail system.

As background, Pitney Bowes is a worldwide leader in providing mailing solutions, and we are a 75-year-old enterprise which generates about $3.3 billion in revenue, employs 32,000 people around the world, and also has 26,000 people working in the United States, in every State. Pitney Bowes is an American success story. It is a company built on invention and principally the postage meter, which was certified by the U.S. Postal Service in 1920.

Our commitment to the U.S. Postal Service and the businesses who use the mail to collect cash, advertise, or correspond, is unmatched. We have invested $1 billion in research and development in the last 10 years, and we have introduced over 65 new mailing products and services. We are the world leader by any measure.

Before looking at the future of the mailing industry, I think it is important to understand that the U.S. Postal Service is really the first distribution network in what some experts that you have read about have called a "communicopia" of choice.

Enthusiasm, speculation, hysteria for the information highway is stimulating enormous investment. Some estimates anticipate $30 billion to $70 billion will be invested in the next decade in high-capacity communications to the home, which will compete with traditional mailing products and services.

Twenty million to 30 million homes will have access to these new services. One measure of cost is electronic transport costs, which are in fact declining, narrowing if not eliminating the gap that once existed between a 3-minute call and the cost of a postage stamp.

These extraordinary investments will provide more choice for communications customers. The challenge for the mailing industry is not necessarily how to survive in this new world but rather how to grow our stake in a medium that today enjoys great utility and high value. Eighty-three percent of American households look forward to receiving their mail every day. When asked about value comparisons, they rated postage as a "best value" when compared with other products and services, including poultry.

We believe that the future of mail is an important context in which to evaluate the U.S. Postal Service, and we undertook an 18-month study to understand its impact on our business as well. What we learned from that study is that mail has survived a century of formidable communications inventions, including the telephone, radio, television, computers, overnight mail, facsimile, and cellular.

Despite a century of communications, mail continues to grow. In fact, mail has grown about 48 percent per decade since World War II, and the decade of growth was the 1980's. Coincidentally, that's when PCs took off, as well, credit cards, and 800 numbers. And the economic value of a third-class stamp was seen as very favorable. Our belief is that the new media is complementary but that those choices will be made particularly on the basis of value and price.

The pace of change is accelerating. Evidence already exists, and I think you have heard testimony before, that business-to-business mail is declining, which is first-class mail. While business-to-household mail grows, 20 percent of the American households out there today who send and receive the most mail, who are the information consumers, are increasingly becoming more automated.

Couple this with Generation X moving through the work force, and you have a dynamic that, if not managed, could create havoc in the economics of the postal system. In fact, two forecasters that we commissioned indicated that mail will grow 1.2 percent per year till the end of decade. One forecaster, in fact, said that after the year 2000 it will decline.

Pitney Bowes believes that mail is a critical communications medium and is a critical business process that supports commerce and allows companies to compete globally. The mailing industry needs to reduce these costs for American business while improving the value of service in a growing world of choice. That is a responsibility that we believe has to be shared, not only by private industry but government, as well, and will require deep collaboration across additional boundaries to serve our mutual customers in new ways.

As it relates to the Postal Service itself, we believe that the Nation is best served by a competitive Postal Service that is a single entity, proven and trusted, and run by the Federal Government. We believe there is a public need for universal delivery and uniform rates. We also support the oversight of the Postal Rate Commission, but believe that the Postal Service needs the opportunity to act more commercially and respond to market demands by being able to set rates more quickly.

Finally, and probably most important in terms of your own interest, is our position on regulatory review. Pitney Bowes supports the Postal Service's efforts to improve security and fiscal control of all postal revenue collection systems, including permit mail, stamp mail, and metered mail. We have worked closely, through history, with the Postal Service and, most recently, to craft the new regulations.

In our comments, Pitney Bowes has emphasized that the only way to effectively achieve 100 percent security is to make sure that all the participants, the mailers, customers, and the Postal Service, participate in that system. In addition to that, we believe that the regulations are only the first step and that collaboration needs to

continue between the Postal Service and industry, as we both field-test and implement these new regulations.

I think the real measure of this will be whether our customers think it adds cost and administrative burden to an already heavily regulated process or whether it indeed improves security for the entire revenue collection system.

Finally, Pitney Bowes continues to invest heavily in bringing new technology to the marketplace, including near-term introduction of new, encrypted digital postage evidencing technology. This advancement really shifts revenue security focus away from meters to the electronic verification of the data on the mail piece, which I think was cited in the GAO report as a foolproof system. We are also working with the Postal Service to create open standards for new digital technology and facilitating the near-term introduction of this technology ourselves.

These industry alliances are the types of collaborative efforts that will be required of the modern Postal Service to bring forward new, market-driven products and services in a timely fashion and at a competitive price. Working with industry and mail users, Pitney Bowes is confident that the Postal Service will maintain the favored position currently enjoyed by hard copy communication well into the next century, as well as remaining the carrier of choice for the mailing public, with a government-controlled, highly efficient, U.S. Postal Service.

[The prepared statement of Ms. Synnott follows:]

PREPARED STATEMENT OF KATHLEEN E. SYNNOTT, VICE PRESIDENT, WORLDWIDE MARKETING, PITNEY BOWES, INC.

Mr. Chairman and Committee members, thank you for the opportunity to share with you Pitney Bowes' perspective of the United States Postal Service and its viability in the communications marketplace. My name is Kathleen Synnott and I am a Vice President with Pitney Bowes.

My comments today will include some background on Pitney Bowes, a view on the future of mail, the need for a competitive Postal Service and our assessment of postal revenue security as it relates specifically to the metered mail system.

As background, Pitney Bowes is a worldwide leader in providing solutions to business that intelligently manage the movement of messages and packages through relevant networks, such as the United States Postal Service. As a 75-year-old enterprise, Pitney Bowes generates 3.3 billion dollars in revenue with a global work force of 32,000 employees—26,000 of which are in the United States and located in every state. Pitney Bowes, an American success story, is a company built on invention, principally the postage meter, which was certified for use by the United States Postal Service in 1920. Our commitment to the United States Postal Service and the businesses who use the mail to send and collect funds, advertise or correspond is unmatched. In the last decade alone, Pitney Bowes has invested more than 1 billion dollars in research and development and introduced over 65 new mailing products. Pitney Bowes is the world leader in mailing systems by any measure—productivity, technology prowess, financial strength, employment practices and market knowledge.

Before examining the future of the mailing industry, it is important to frame the market in which we compete. The United States Postal Service is one distribution network in what some experts have termed a "communicopia" of choice. Enthusiasm, speculation and sometimes hysteria for the information highway are stimulating enormous investment. Some estimates anticipate that 30 to 70 billion dollars will be invested in the next decade to bring high capacity communications to the home which will potentially compete with traditional mailing products and services.

20 to 30 million homes will have access to new services such as interactive video programming, interactive education and health care, utilities and energy management, videophone and home shopping and banking. Electronic transport costs are in fact declining; narrowing, if not eliminating the once-large gap between the cost of a first-class letter and a three-minute electronic transmission.

These extraordinary investments will provide more choice to the communications customer. The challenge for the mailing industry is not necessarily how to survive in this new world but rather how to grow our stake in a medium that today enjoys great utility and high value. Eighty-three percent of American households look forward to receiving their mail each day, and nearly half consider the cost of postage a "best value" when compared to other products and services.

THE FUTURE OF MAIL

The future of mail is an important context in which to view the United States Postal Service. Clearly, the convergence of technology will provide new communications options for businesses and consumers. How mail competes in this world of expansive choice is an important question. To understand the future of mail and its impact on Pitney Bowes' business, we undertook an exhaustive 18-month study on the future of mail, generating both internal and external perspectives.

From this study we learned that mail has survived a century of formidable communications inventions including: the 1915 introduction of the telephone, followed by the radio in 1921, the television in 1946, the computer in 1943, overnight mail in 1970's, and facsimile and cellular in the 1980's. We also learned that technology adoption usually occurs in 20-year intervals; television, for instance, did not become a household appliance until the 1960's, and penetration of the personal computer in the home will probably exceed 64 million households by the year 2000.

Despite a century of communications inventions, the mail continues to grow both in volume and revenue. In fact, mail has grown an average of 48% each decade since World War II, with the notable decade of growth occurring in the 1980's correlating strongly to direct mail growth. Mail's unique value, combined with the benefits of database marketing, credit card acceptance and the use of toll-free telephone numbers, catapulted direct mail into a major channel of advertising and solicitation for American businesses. Importantly, the price of third-class mail used for direct marketing was also seen as a great economic value. So, in many ways, the same technology accused of threatening mail enabled significant mail volume growth. Obviously, mail's unique attributes of universality, privacy, addressability, portability, tangibility and formality, to mention a few, are difficult to duplicate and are, in fact, powerful when used in combination with other communications media such as the telephone or information technology such as the personal computer.

But the pace of change is accelerating, and businesses and consumers will have more choice in how they communicate, making decisions based on the value they perceive in mail. Evidence already exists that business to business mail, specifically first-class mail, is declining while total messaging is growing, primarily in facsimile, e-mail and EDI. While business-to-household mail is growing, the 20% of households which send and receive the most mail are becoming increasingly more infomated. These urban households are the highly affluent and educated consumers of information where options such as on-line services, cable and the new telephone services will compete strongly for dollars spent traditionally on postage. Couple that with the demographic movement of generation "X", a generation which naturally accepts new technology, and you may have a dynamic that, if not managed, could create havoc in the economics of the postal system.

In fact, two forecasts undertaken for our study by the Institute for the Future and BIS Strategic Decisions indicate that mail volume growth will slow to 1.2% per year until the end of the decade, with one forecaster predicting a decline in mail volume after the year 2000.

Pitney Bowes believes that mail as a communications medium is a critical business process which not only supports commerce but allows companies to compete globally. According to a Gallup poll Pitney Bowes conducted, 9.2% of the total operating costs of Fortune 500 companies are attributable to mailing costs. The mailing industry needs to reduce these costs while improving the value and service received for the investment made in the mailing system. This is a responsibility which both government and private industry must share deeply, collaborating across traditional boundaries, to serve our mutual customers in new ways.

With competition as the yardstick and customers as our conscience, our goal has to be to reduce the cost and cycle time of the mailing process through manufacturers who help prepare the mail, and by the United States Postal Service, which delivers the mail. Growth, not survival, will shape the future of the United States Postal Service.

NEED FOR A COMPETITIVE POSTAL SERVICE

Pitney Bowes believes that the nation is best served by the existence of a well administered, economically competitive Postal Service. American businesses and in-

dividuals need to be able to turn to a single entity, which is proven and trusted, for the nationwide delivery of paper-based communications. Historically, this is a role which squarely falls within the province of our federal government. The burden to demonstrate the need to dramatically change control of this system rests with those promoting change, and Pitney Bowes believes, based on the evidence thus far, that the public interest is best served by the existence of a government-controlled postal delivery service within the federal government.

In our view, there is a public need for universal mail delivery at uniform rates, and this service is best performed by government. It should not be surrendered to the private sector in the absence of substantial evidence that the public can be served significantly better by a demonstrated alternative.

This does not mean that conditions are not changing. The world in which the modern Postal Service operates has changed dramatically since passage of the Postal Reorganization Act of 1970. The continued emergence of alternative forms of communication has had substantial economic impact on the market for postal products and substitutes for those products. These changes in technology and means of communication have required and will continue to require the Postal Service to be able to change with the times. If the Postal Service does not have the ability to adapt to a changing world under constraints in the current Act, modifications will be needed to give it that ability.

Pitney Bowes supports the Postmaster General's desire for the Postal Service to be given greater flexibility to bring quickly to the market new postal products desired by mailers. In doing so, the marketplace realities affecting the introduction of offering of new products need to be understood. Any successful commercial enterprise knows that new product or service offerings frequently lose money at the outset. Initially, new products are priced according to the dictates of the marketplace, and not by fixed rules of economic cost allocation. It is only after new products achieve a certain level of customer acceptance that volumes begin to increase so that revenues exceed costs and profits can be made. Somehow, it must be understood that the Postal Service faces these same market realities, and these realities may require changes to the Act to give the Postal Service the flexibility that it needs to be able to introduce new postal services that are responsive to customer needs.

Pitney Bowes is also a proponent of accelerating the rate-setting process, consistent with preserving the important role of the Postal Rate Commission. Ten months is too long for a customer-focused service organization to respond to the dictates of the marketplace. No private firm could afford such delays, and the Postal Service cannot do so either.

Pitney Bowes supports retention of the postal monopoly, but sees the need to have the Postal Service out-source to private industry performance those ancillary services that do not fall within the area of its core competencies. In our view, the Postal Service should concentrate on those core competencies, and leave to private industry performance of the related services that the private sector is better equipped to furnish to the public.

REGULATORY REVIEW—REVENUE SECURITY

As in the case of liberalizing the rules impacting Postal Service competitiveness, Pitney Bowes also supports Postal Service efforts to improve security and fiscal control of all postal revenue collection systems, including permit mail, stamped mail and metered mail. Throughout its history, Pitney Bowes has invested in technology and other improvements to the metered mail system, and most recently has worked closely with the Postal Service and the other meter manufacturers to craft new regulations intended to improve administrative controls and tighten revenue security. These regulations were published for public comment on January 31, 1995, in the Federal Register.

In its comments, Pitney Bowes emphasized that the only effective way to achieve a secure and efficient postal revenue collection system is to maintain a balance of responsibilities among the participants in the system—meter manufacturers, mailers and the Postal Service. Pitney Bowes has expressed its concern to the Postal Service that certain of the proposed regulations do not sufficiently maintain this balance. Any improvement to the current regulatory framework must maintain the concept of shared responsibility. In addition, any revenue collection system must be implemented in a way that permits the Postal Service and the meter manufacturers to provide mailers with superior customer service.

Of equal if not greater importance in maintaining a proper regulatory balance for the metered mail system is the process which the Postal Service employs in implementing the proposed regulations. Collaboration between the Postal Service and industry members in implementation will be critical in determining whether the new

regulatory framework enhances revenue security and improves the metered mail system, or whether it simply adds cost and administrative burden to an already heavily regulated industry.

The Postal Service must pursue implementation of the regulations in regular dialogue and in a spirit of cooperation with industry members and mailers in designing systems necessary to carry out the regulatory intent. Moreover, it is critical that the new requirements intended to enhance the performance and revenue security of the metered mail system should not be implemented until fully tested to ensure that the regulation in actual practice achieves the desired result and also does not adversely impact customer service. To do otherwise simply adds cost to the system with no discernible benefit. We are all aware of many examples of well-intended laws which are frustrated in their purpose by poor implementation and insufficient field testing.

Pitney Bowes also encourages the Postal Service to make use of readily available and cost-effective automated data collection and reporting systems in the implementation plan. Pitney Bowes already has successfully collaborated with the United States Postal Inspection Service on development and field testing of an electronic meter identification and data analysis system (MIDAS) to identify mailers and practices that pose potential revenue security risks. Also, the Postal Service and industry members are currently collaborating on the development of requirements for the Postal Service's proposed electronic centralized meter licensing procedures. True collaboration and full field testing of the licensing process is critical to its success. Further examples of other low-cost solutions to enhance meter security and revenue protection developed by Pitney Bowes and available for deployment include:

- A single, on-line, national data base of meter population information for enhanced management of the metered mail system. This system has been offered at no cost to the Postal Service for field testing and evaluation.
- A low-cost electronic permit mail verification system which will greatly enhance revenue security in the permit mail system, where the revenue security risks, in our opinion, are far greater than those of the metered mail system.
- A closed loop system for distribution of programmable read-only memory chips ("PROMs") for electronic scales to facilitate timely customer compliance with new rate structures.

Pitney Bowes encourages members of Congress to support Postal Service alliances with private industry to achieve mutual objectives.

Finally, Pitney Bowes continues to invest heavily in bringing new technology to the marketplace, including the near-term introduction of new, encrypted digital postage evidencing technology. This technological advancement shifts the revenue security focus from control of the metering device, i.e., meter inspections and examinations, to electronic verification of the data on the mail piece. The Postal Service is currently collaborating with industry members to establish open standards for facilitating the near-term introduction of this technology.

These industry alliances are the type of collaborative efforts that will be required of the modern Postal Service to bring forward new, market-driven products and services in a timely fashion and at a competitive price. Working with industry and mail users, Pitney Bowes is confident that the Postal Service will maintain the favored position currently enjoyed by hard copy communications well into the next century, and that the carrier of choice of the mailing public will be a government controlled, highly efficient United States Postal Service.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO KATHLEEN E. SYNNOTT

Question 1. In your prepared statement you say that Pitney Bowes sees the need to have the Postal Service out-source more to private industry. Would you be more specific and share with the Subcommittee some areas you believe the Postal Service could do more in this area?

Answer. Pitney Bowes believes that a Postal Service operating philosophy that encourages out-sourcing on a competitive basis of functions which fall outside the core competencies of the Postal Service will result in increased efficiencies for the Postal Service and improved customer satisfaction and service.

For example, out-sourcing of critical activities in the implementation of the Postal Service's new regulations intended to improve the security of the metered mail system is necessary to eliminate redundancy between the Postal Service and the meter suppliers, as well as, to ensure a cost effective and convenient solution for the mailing customer. Pitney Bowes supports continuation of the recent collaboration be-

tween industry members and the Postal Service to draw upon each party's strengths to elevate and improve the overall value of the system.

This same principle needs to apply to the Postal Service's work sharing objectives with mailers. The Postal Service must be encouraged to expand, wherever possible, financial incentives for the quality preparation of mail by the mailer and to ensure that these incentives are broad based and easy to implement. Pitney Bowes urges that, in addition to bar code incentives, the Postal Service consider offering the mailer incentives for the use of meters as is currently the case in a number of countries such as France, Germany, Australia and Spain, to name a few.

Question 2. In your prepared text, you state that Pitney Bowes supports the provision of providing the Postal Service greater flexibility on setting postal rates and introducing new products. What legislative and/or administrative changes are needed to reduce the time and expense required to adjust postal rates? In 1992, GAO recommended that the Congress consider amending the Postal Reorganization Act to give more weight to demand pricing when the Commission sets rates. GAO also suggested that volume discounting be permitted particularly given its wide use in the private sector. What do you think of these proposals?

Answer. The Postal Reorganization Act of 1970 was intended to convert the Postal Service from a government department to a more business-like governmental enterprise. In our view the Postal Service is still in transition.

Clearly a question exists whether the Postal Service can achieve its objective to become a more market driven and customer focused commercial entity within the current statutory framework. We share the concern expressed in the June 1992 report of the Joint (Postal Service/Postal Rate Commission) Task Force on Postal Ratemaking which concluded that the Postal Service's competitive products, e.g., Express and Priority Mail, were "handicapped by the current rate setting procedures" because the market responds to changed conditions before the recommendations of the PRC can be instituted. Ways to expedite the Postal Service's ability to respond to changing market conditions should be explored. At the same time Pitney Bowes recognizes the important role served by the PRC in ensuring that the postal monopoly established by the Act is not abused.

The current reclassification case before the Postal Rate Commission will be instructive on whether the PRC can work with the Postal Service to allow the Postal Service to be more market responsive within the current legal framework. If not, Congress may have to entertain amendments to the Act to grant the Postal Service and the PRC greater rate setting flexibility.

Question 3. The Postal Service told this Subcommittee that they have been working with the meter manufacturers and other to develop more secure postage payment systems than the mechanical meters that currently dominate the market. I understand that promising computerized systems using encrypted data are being considered at the present time and early exemplars of this technology are beginning to enter the market. (For example, in November 1994 a new remote set meter using thermal printing technology approved by the USPS was introduced.) Could you elaborate on the new technology for meters and the extent to which it offers more secure payment systems?

Answer. It is important for the Subcommittee to know that since the early 1980s, Pitney Bowes has offered fully electronic postage payment systems to the market, including resetting of meters remotely through Pitney Bowes Postage By Phone® computerized meter resetting service ("CMRS"). Of the 1.2 million Pitney Bowes postage meters currently in use in the United States, over 55% are fully electronic meters with no mechanical ascending or descending registers, thereby significantly reducing the potential for meter tampering. Moreover, electronic meters as a percentage of meters in service is growing as Pitney Bowes continues to incentivize customers to trade out mechanical meters for more secure electronic CMRS meters. Since in the totality of a mailer's investment in mail preparation and finishing equipment, the meter is perceived by the mailer to be comparatively low, Pitney Bowes is working with the Postal Service on development of an acceptable joint marketing program to offer economic incentives to mailers to accelerate the conversion of the mechanical meter base to CMRS meters.

The Postal Service, in cooperation with Pitney Bowes and other interested parties, is working diligently on the development of an industry standard for postage payment systems using digital cryptography. Once adopted, this standard will greatly enhance the rapid implementation of the technology into the market place.

This technology allows every mail piece to have a unique digital signature which when verified by the Postal Service will allow for effective detection of meter fraud.

In order for this new technology to meet its revenue security potential, the Postal Service must invest in a verification system that complements the Postal Service's substantial investment in OCR automation equipment and which will accommodate

industry's solution for implementing the postal payment digital security standard. Industry members and the Postal Service are working together to ensure adoption by the Postal Service of an efficient, accurate and cost effective system.

Benefits of the system are as follows:

Feature	Benefit
Encrypted indicia	Fully protects integrity of indicia data
System time-outs and lockouts	Ensures lost/stolen meters and those not recently inspected are disabled
Low value indicia	Detects possible under-rating of mail piece
Serialized indicia	Uniquely identifies every mail piece
Audit trail for resets and service calls	Enables effective meter monitoring by Postal Service
Meter report on OCR readable postcards	Enables effective remote inspection

Other improvements to the system include the introduction of modem based meters which allow for on-line communication and monitoring thereby reducing the potential for undetected misuse by the mailer.

Mr. MCHUGH. Thank you very much, Ms. Synnott.

Again, in recognition of the other Members' schedules and in appreciation of their being here, I would yield to Mr. Green for any comments or questions he might have.

Mr. GREEN. Thank you, Mr. Chairman.

In reviewing all the testimony today, there is so much similarity, because I guess you fit into the same niche. One of the things I noticed was a commonality of the patent problems in developing new issues. Of course, our committee does not have jurisdiction on that, and I can see that that could be an issue.

The other one was one that the requirement that you only lease the postage meter, or whatever you may have, and I think in one of the testimonies, it was only France and the United States that require the leasing, whereas in other countries you can purchase it.

Mr. Chairman, I know, if we don't have a response today, maybe we could get one from the Postal Service to see their concern about security, because I'm sure that was the reason for it, and how other countries—are they experiencing higher loss in fraud, as compared to that, or whatever. Because, again, having leased meters for many years, I understand that sometimes it would be better to purchase it, without the change in technology.

That's the only thing, Mr. Chairman. I know we have aggressive panels today, and with other things going on, I appreciate the witnesses being here. Thank you.

Mr. MCHUGH. I thank the gentleman. I think he raises a good point, and perhaps that is one question we can pose to the PMG, when he returns next week, as to his concerns and why we are in a deep minority on leasing versus outright purchase of meters.

Obviously, we have just been called for a vote, but we are all very fast runners here, so I think we have time to yield to Mr. Owens, the gentleman from New York, if he should have any questions.

Mr. OWENS. Mr. Chairman, I missed most of the testimony, and I won't say that I have read all this. It's quite a bit to read. But I want to congratulate you for having these hearings. I've been in Congress for 13 years, and I have seen the Post Office and its problems from the point of view of my complaining constituents. I've learned a lot in the short period of time I've been on this sub-

committee, as a result of the hearings that you have had, hearing points of view from other people who are involved with the industry.

I just wonder—there seems to be a pattern that I have discerned from the past hearings and today—I just wonder if you could just take a minute, each one of you, to say, what is the one thing that you think is most important to be changed, in terms of allowing you to improve the way you do business?

I've heard over and over the ability of the Post Office to set its rates more rapidly, to change rates. I've heard that on several occasions. But here, if you had to pick one priority, what would you say was your priority?

Mr. GELFER. I'll go first. I think they are related. It's the issue that Neal Mahlstedt mentioned and is tied up with the issue of patents. The issue that Neal referred to is, we are making, on the one hand, very substantial investments in what we believe the future holds. OK.

We really need to, A, understand if that is consistent or divergent from the Postal Service's view on the subject so that we are expending our resources correctly. The other is this larger issue of the ability to bring products and technology in some rational way that we can get through the web of patents that really cover the current business.

I think that those two really are related and, at least from our perspective, would be our central issue.

Mr. ALLOCCA. Yes, I would have to pretty much say the same thing. The Postal Service has the ability to promote the application of technology at a much greater level than it currently does. I believe, by recognizing this and recognizing the dynamic forces in the marketplace today, that it could take actions, like being very careful, for instance, how it sets the standards for the next level of technology to be applied to the business. It is in the process of doing this right now.

I think it needs to be very careful that it doesn't handcuff three out of the four of us in a position where we can't apply the best technology for the best solution.

Mr. MAHLSTEDT. I'm going to cheat a little. I second what they say, and I think I've said enough about patents. But I think the other part is that USPS has direct control over our financial investment. For its own security, and appropriately so, it insists that we rent the meters, which I don't take either side as a stand; whether we sell them or rent them, it really doesn't matter that much right now.

But since it has that kind of control, it's very important that it leaves the playing field level and it gives us a good view into the future as to what they are going to do with these substantial investments that we have made.

Ms. SYNNOTT. OK. I first would say that I also share their view that the standards for new technology need to be open, and we are participating in that process. But from my perspective—your question about what should the Postal Service do; what is the most important thing?

I think we have to remember that it's a system; it's a mailing system between customers, the Postal Service, and other people

who participate in the industry. I think we need to collaborate more than ever across those boundaries to make sure that the cost of mail, as a choice, in terms of new media, is competitive. That includes total cost of the mailing piece as well as service provided.

So I would say, deepening collaboration, working more closely together is critical in this competitive time. Second, I would say that the Postal Service needs to focus on core competencies, as it relates to hard copy delivery, and make sure that it leaves to private industry ancillary services that can be performed better.

So those would be the two things that I would say.

Mr. OWENS. Thank you.

Mr. MCHUGH. I thank the gentleman.

I thank you for the responses.

We have 10 minutes in which to vote. Let me just say, I appreciate your being here. I will allow you to choose, and you can choose while I'm out of the room. I'm coming back. Obviously, we have another panel. I have a couple of questions I would be delighted to pose to you in person, if you would like to respond publicly, or I can submit them to you in writing, whichever you choose.

If you are here, one, two, three, or four of you, when I get back, we will pursue it. If not, you leave with our great appreciation and anticipation of the written responses to that. I would like you to stay, but I understand the scheduling problems.

To those in the audience in our third panel, I will be back, and the other Members, as you have heard and have seen, have been in and out, trying to accommodate us, and we appreciate your patience.

With that, we will stand in recess until the return of someone to sit here. Thank you.

[Recess.]

Mr. MCHUGH. We can reconvene. As it usually happens, they threw a curve ball at us and called two votes, not one, so we were a bit longer than we had planned. I appreciate your patience. Particularly to the panel, thank you for being willing to stay with us.

Let me just note that, in the course of our previous oversight hearings, when the Postmaster General appeared, we submitted to him in writing a question regarding the lease versus the sale of meters, and we have received in response the Postmaster General's answer. I just thought it would be of interest to read it.

His answer reads, "Postal Service regulations prohibit the individual ownership of a postage meter for reasons of control and security. Meter manufacturers lease postage meters to individuals and provide maintenance services and supplies to them," et cetera.

He doesn't elaborate on what those issues are. I take it, particularly from you, Mr. Gelfer, in your written statement, that you believe the current technology can provide a level of security that would allow the sale of postage meters. If you wish to expand upon that, I would be interested.

Also, I would pose the question to the other panel members, do you agree with that assessment and, as a result, perhaps disagree, if not with the postmaster's position, but rather the reasons he states in that response?

Mr. GELFER. Sure. Let me address both aspects, the control first, because that's, I think, the easiest issue, and then security, which is much more central to the subject.

It is clearly possible for any of us to go out and sell a meter to a customer and still know where that device is at all times, and to have the necessary administrative controls that we can assure the Postal Service that we know that a specific device is with XYZ Company, because we're providing maintenance. So I'm not so much concerned with the issue of control. I think that's very, very doable on the part of the industry, at least from our perspective.

The issue of security is really very closely coupled with the issue of technology. Clearly, if we're talking about old, traditional devices that were maybe designed and manufactured 20 years ago, purely mechanical devices, yes, I would probably share the concern of the PMG and the folks at the Postal Service. Those things need to be rented.

However, using state-of-the-art electronics and software encryption techniques, I believe that we, as an industry, can prove that a device can be sold, and that even if someone were to break into it and use some fairly sophisticated techniques, they could not cause that device to print postage.

I think that has really been the overriding concern of the Postal Service, is that if the meter is for sale and the customer can do whatever they want, maybe break into the device, that they can cause postage being printed without revenue being paid to the Postal Service. I think that view was probably appropriate 10, 15, 20 years ago. Again, I think, as an industry, we can show that the level of technology specifically related to security—we could demonstrate to their satisfaction that that's not the case anymore.

Mr. MCHUGH. Other panel members?

Mr. ALLOCCA. I agree totally with George. The issue of security is taken care of with an encrypted indicia, which is far, far more secure than what we have now. The issue of control I think is really taken care of when you can hook a postage meter to a telephone line, and could virtually call up the meter to find out that it's there. If it's not there, we are going to know it. We could disable the meter if it is moved from that place.

So the issue of control, which I think is the major issue that rental addresses, disappears, I believe, once you can actually go out and poll a meter over a phone line. That technology is here right now.

Mr. MCHUGH. Mr. Mahlstedt.

Mr. MAHLSTEDT. Probably the technology would help solve the problem, and it even goes deeper than that. They don't keep track of printing presses; they just look for forged dollar bills. And they can look for forged indicia, as well.

I suspect that the problem would get deeper when it comes to Americans' rights to do what they want with what they own. There might be all kinds of legal battles over that. That might be what the Postal Service is concerned with. I don't know.

Mr. MCHUGH. Ms. Synnott.

Ms. SYNNOTT. I'm not so sure that security is related to whether a meter is rented or purchased. I mean, as I said before, I think it's a system, and our view of a secure system means that you have

a system that includes the mailer, the customer, and the Postal Service.

We believe that you can identify high-risk mailers, and there are criteria in place that we are applying to the Postal Service in automating the processes to more early identify those likely people who may be defrauding the Postal Service. Again, that's a minimum few of the total customers who use the metered mail system today.

We also believe that the investment in technology, I think, as it relates to encrypted indicia, makes the mail piece have a digital signature which is verifiable through the postal system, so that, at any moment, any piece of mail coming through the system could be verified, giving you sort of 100 percent closed loop security.

I think in the GAO report itself they said, until we introduce a system like that, where you get away from monitoring meters and you look at the mail piece, which is encrypted and secure, and then you tie it in to the postal system, that you won't have 100 percent security.

So, from our perspective, I think the two issues are separate. I think there are a number of actions we have taken with security and can continue to take with security.

Mr. MCHUGH. I thank you.

The gentleman from Texas, Mr. Green, mentioned in his statement that he felt there was a recurring theme, in at least three of the four presentations, that raised up questions of patent authority. In several of your statements you suggest that the Postal Service does indeed have the power to level the playing field in that regard.

Mr. Allocca, if I wrote down your words correctly, you said, "The Postal Service has the ability to promote levels of technology to a greater extent than it does today." Could you help me to understand?

I believe it was Mr. Gelfer, you mentioned the wish on your company's part that the Postal Service move in this direction so the future "royalties," was the word you used, were, if not overburdensome, perhaps nonexistent.

How do we separate patent law from postal reg opportunities? I'm not sure I understand how, if that can be done at all. Can you help me better understand that? Any of the panel members?

Mr. ALLOCCA. Once again, when the Post Office sets the standards and decides on the technology that it deems acceptable for security and for control, they have to be careful that they don't select any area of technology that is so boxed in by patents that they can only look to one manufacturer for the solution. I think that's a disservice to the consumer, if that is the case.

The issue that we have really been dealing with over the last several years is a rotor issue, and that's the application of very general technology to a simple device, to the extent that it just blocks everyone else out. For instance, the simple application of a microprocessor to a mechanical postage meter is a fairly straightforward conclusion that one would reach, looking at what a mechanical meter does, and now you have this wonderful device called a microprocessor.

Well, there were patents that three out of the four of us had to deal with, and it cost us dearly, and it slowed up the process tre-

mendously, because there really was a patent. I don't know what the answer is to that one. But I do know that when the Postal Service—which is in the process right now of deciding the technology that will be acceptable to them—when they are in the middle of that process, I think they have to recognize that they have to take care that we don't wind up in the same box that we all were in for a long time. Again, it cost dearly.

Mr. MCHUGH. If I can play devil's advocate, that assumes that there are viable choices, does it not? You mentioned the microprocessor. I believe it was you—perhaps one of the other panelists—who mentioned a patent with respect to resetting meters by phone.

Mr. ALLOCCA. It's the same thing, yes.

Mr. MCHUGH. But do you have a choice? I mean, the Postal Service can't be held responsible for whatever patents are issued. If the microprocessor is patented and that's the only technology that is effective, would you not agree that that's the only choice they can make?

Mr. ALLOCCA. Yes. And I don't have the answer for that. But I think there may be other areas where, with a little bit of care, they could even the playing field, and that's my point.

Mr. GELFER. Perhaps I could comment. I'm neither a patent attorney nor an engineer. I'm a business guy. I've gone out, though, and I've looked at two distinct areas, two pieces of equipment. One is the most sophisticated piece of equipment that is now in the Postal Service, and it's something called an OCR channel sorter. This is what processes the mail in all of the Postal Service processing centers in the United States and throughout many countries in the world.

It's extremely sophisticated. It has a very, very high technology content. OK. And I just did some research, and I wanted to find out how many patents covered this very sophisticated device that is just a spectacular piece of equipment. I don't know if you've had a chance to see it. The answer is, about 30.

Now I went out and took another look at this little device called a postage meter, that puts a stamp on your envelope that says, "32 cents." The number there—clearly, it's orders of magnitude difference, in terms of complexity, technology, everything else—the answer is 1,050.

If I take that 1,050 and I say, well, where is the ownership of those 1,050, it turns out that they belong to an organization that has 85 percent of a market. As a businessman, I have to raise at least a yellow flag.

I think the role of the Postal Service is not to go out and be the final arbiter of patents. The issue to us isn't so much the person who invented the microprocessor. God bless him or her for their efforts. The issue is, if something that already exists in the market, that is considered generic, is combined with something else and says that you basically can't use a microprocessor in a car, in a refrigerator, in a VCR, in a microwave oven, in a postage meter, we're not sure whether that's reasonable.

And we think that, at a minimum, since the Postal Service does define the regulations that we work under, since they approve the products before they can go into the market, that they at least have the statutory ability to set a policy that says: This field will be ra-

tional, to the extent that we can do what is right to meet Postal Service requirements and the needs of the American mailing public.

Mr. MCHUGH. I certainly don't disagree with that objective. Again, if a piece of technology or equipment is patented, and that particular piece of technology is indispensable to whatever you are doing, I don't know how you get around the royalty/patent situation.

Mr. MAHLSTEDT. I think they have provided the background, sir, but what is at stake here is either dealing with one company or four. I don't even think the one company wants to be left by themselves in this industry. I think that there could be a rational approach outside of the black and white of the law, with the Post Office more in control.

Without subsidy of strength in markets outside of the United States, there probably wouldn't be any competitors to Pitney Bowes at this stage of the game. There are no purely U.S. competitors; they have all died. So it's a fairly important issue, and it's important to Pitney.

I just think that we need for an organization that is able to regulate this issue, too, among the players.

Mr. MCHUGH. We should turn to "the company," as it has been called.

Ms. SYNNOTT. There are a few things, I guess, we would like to say. One is, the best way, I think, to provide competition is the new standards that the Postal Service is publishing for digital indicia. In other words, if that standard is open and there are agreements in place where we're going to not charge royalties for intellectual property, and everyone puts their intellectual property on the table, then, as a result of that, it will be an open standard. So our recommendation to the Postal Service is to do that.

It's difficult for me to comment, I think, on all these comments here today, because there is a long history here. I can only tell you about today, in that we have licensed all of our technology and have recently negotiated agreements with, I think, at least two of the companies that are here today.

We support competition, but we also believe that we have a responsibility to our stockholders, in that we have made a billion-dollar investment in the last 10 years, in terms of R&D.

As it relates to market share, I would like to say that, if you look at the total mail stream, only 33 percent of the mail stream is metered. We don't view ourselves as really having 86 percent market share but rather 28 percent of all the mail that is processed. We think that view provides growth for us. I think it provides growth for the entire industry. If you look at our worldwide share, we have a 60 percent share, in terms of meters, worldwide, with a 22 percent share in Europe.

So, again, we think competition is healthy. We think that creating open standards will provide the level playing field that everyone is looking for, as it relates to investment in new digital technology.

Mr. MCHUGH. So you're a "glass is half full" type of person.

Well, obviously, this is a very challenging area. I think it's important that the Postal Service try to engage itself in the most positive

way it can. I'm not sure I have any better idea as to how that should be done, but I am sure that I understand your concerns and appreciate the efforts that have been made to this point.

We are running very late. We do have one panel left. While I do have a number of other questions, with your permission, we would like to submit those in writing. I do appreciate your patience and your sharing your very unique and important perspectives with us.

Thank you.

Mr. MCHUGH. Our third and final panel today is made up of Mr. James Rogers, vice president of public affairs for United Parcel Service; Mr. James Campbell, who is counsel for Federal Express; Mr. Peter Hiebert, who is a member of the Winston and Strawn firm, counsel for DHL Airways, Inc.; and Mr. Harry Geller, who is chairman of Global Mail, Air Courier Conference of America.

We appreciate everyone's patience here today, but, gentlemen, we particularly appreciate yours. This has already been a long day, and we haven't had the opportunity of having your insight yet. I can assure you that insight is important to us.

We do have to, as with the other two panels, administer an oath, if you would join with me in rising and raising your right hands.

[Witnesses sworn.]

Mr. MCHUGH. The record will state that all four panelists responded in the affirmative.

Again, moving from my left to my right, I would offer the microphone and the floor and all of our collective attention to Mr. Campbell for his comments.

Welcome, sir.

STATEMENTS OF JAMES I. CAMPBELL, JR., COUNSEL TO FEDERAL EXPRESS CORP.; HARRY L. GELLER, PRESIDENT, GLOBAL MAIL, ON BEHALF OF THE AIR COURIER CONFERENCE OF AMERICA; PETER N. HIEBERT, WINSTON & STRAWN, COUNSEL TO DHL AIRWAYS, INC.; AND JAMES A. ROGERS, VICE PRESIDENT, UNITED PARCEL SERVICE, ACCOMPANIED BY KURT PFOTENHAUER AND DON SPULBER

Mr. CAMPBELL. Thank you very much.

My name is Jim Campbell. As you said, I am counsel to Federal Express on postal issues, both in the United States and outside the United States. The vice president for regulatory affairs, Doyle Cloud, wanted very much to be here and tenders his sincere regrets. Federal has a major regulatory problem involving air transport rights in the Pacific.

Mr. Chairman, we have submitted a prepared statement. I will just summarize very briefly, if that's OK.

Mr. MCHUGH. Certainly.

Mr. CAMPBELL. Federal appreciates very much the chance to testify and believes that these hearings are very timely. We think that it is time to reconsider the 1970 Act and the legal framework for the delivery services sector.

You have heard a lot from the Postal Service about the regulatory burdens that the Postal Service faces, but it seems to us there has been very little discussion of the reasons for those regulatory burdens, which lie in the special privileges that the Postal Service has, including, of course, the monopoly.

Federal's basic attitude is in favor of free trade, and Federal would not and does not advocate, particularly, unnecessary regulation of the Postal Service, any more than it wants regulations for itself. But Federal believes that it would be quite unfair to relieve the Postal Service of regulatory burdens without also looking at the reasons for those regulatory burdens and withdrawing the Postal Service's special legal privileges.

So the obvious solution, in terms of relieving the Postal Service of regulatory burdens, is to honestly treat the Postal Service as a normal competitive business. What that would mean we have discussed briefly, but it would obviously mean getting rid of the monopoly, subjecting the Postal Service to the competition laws, and requiring the Postal Service to undertake the same normal costs of business as everybody else, paying taxes and government fees.

There are certain laws which indirectly support the Postal Service, as well, which should be reconsidered, such as laws that say that if you are tendering something, for example, a government bid, it is deemed received when the Postal Service gets it, but it is only received when a private express company actually gives it to the office that is soliciting the bids.

There are also, of course, a number of regulatory hoops which we go through and the Postal Service does not, such as anything from parking tickets—which is not as unimportant as it may seem—to customs regulations, which are terribly important for international commerce and don't treat private and public operators in the same way.

It would also be necessary to reconsider the United States' representation at international groups like the UPU. That is basically controlled by the Postal Service today, and certainly that is not appropriate for a competitive company. So the first thing we would say is, if you are going to relieve the Postal Service of the regulatory burdens, then, for heaven's sake, withdraw the legal privileges which gave rise to the burdens.

The second thing that we would say is this: if the Postal Service's current monopoly is to be continued, then we would ask you to do something by way of reining the Postal Service in to the confines of what Congress actually granted the Postal Service.

The Postal Service has adopted a number of postal monopoly regulations. I think we can convince anybody that they have nothing to do with the intent of Congress or the law. Whatever the law means, it should mean what Congress said.

In the enforcement area there has been a lot of publicity about postal inspectors harassing customers. Likewise, I think that it is easy to demonstrate that the Postal Service is exceeding the authority granted it by Congress. This is still a problem, because the regulations threaten rather large back postage fines for material that is sent by private courier. Even though the postal inspectors might not be actually paying the calls, the regulations stand as a threat, and those regulations, as far as we are concerned, are flatly illegal.

One last point that we would make: If the Postal Service is to continue to be regulated by the Postal Rate Commission and continue to have its monopoly, there is a case for strengthening the oversight of the Rate Commission in some respects.

Federal Express was involved in a tremendously long argument with the Postal Service in the last rate case over the production of certain information. The Postal Service went through every excuse it could find, and in the end it simply refused the discovery order from the Rate Commission. We know of no legal basis for that. It is completely inappropriate that the Postal Service can do that. So we would ask you to look at that.

Second, we think that there is no case for treating international mail differently than domestic. International mail is essentially domestic mail that happens to go out of the country. We would ask you to extend the Rate Commission's jurisdiction to include international mail on the same basis as domestic mail.

In summary, we would simply say that we think this is a good time to be looking at the 1970 Act. We would be very glad to help in any way that we can, and we are not opposed to a completely open and new solution.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Campbell follows:]

PREPARED STATEMENT OF JAMES I. CAMPBELL, JR., COUNSEL TO FEDERAL EXPRESS CORPORATION

I am an attorney in Washington who has worked closely with Federal Express for many years on postal policy issues both in the United States and other countries. This morning it is my personal pleasure to provide the Subcommittee the initial views of Federal Express on the subject of reform of U.S. postal laws. On Fedex's behalf, let me say that the company appreciates very much the opportunity to present testimony to this panel on one of the most important areas of the service economy of the 1990s, the delivery services sector.

At the outset, Fedex would like to commend the Subcommittee for initiating these hearings. The current situation is, at best, unsatisfactory. Despite the fact that the last half of the 20th century has seen the United States become the world leader in development and innovation in the delivery services sector, the largest single participant in the domestic U.S. marketplace is a quasi-governmental entity which competes fiercely with private companies on the one hand, while enjoying the benefits (and, it must be admitted, the burdens) of a 19th century postal monopoly law, on the other.

For the record, Federal Express is a leading supplier of express delivery services both domestically and internationally. Federal Express began its hallmark overnight services out of Memphis, Tennessee in 1973 with a fleet of 14 Falcon jets. Today it serves 99.2 percent of all U.S. addresses and 201 countries worldwide, carrying over 2.5 million shipments per night in its 489 aircraft and 35,000 trucks worldwide. It carries a wide variety of time-sensitive shipments for its customers, ranging from documents for important business transactions to supplies of rare blood types, from spare parts for main frame computers to just-in-time Father's Day cards. One shipment may contain an order from a favorite catalog company, while another will include much-needed pharmaceuticals for a clinic located in a remote rural area.

I. USPS SHOULD BE RELIEVED OF REGULATORY CONSTRAINTS ONLY IF CONGRESS ALSO WITHDRAWS THE SPECIAL LEGAL PRIVILEGES WHICH HAVE NECESSITATED REGULATORY CONTROL

This panel has already heard from the U.S. Postal Service (USPS) regarding its concerns about operating in the nether regions between public and private sectors. USPS has told the committee about problems posed by the existing scheme of rate and service regulation and has presented appealing arguments for relief. Yet USPS has been totally silent on reforming the legal privileges that made such regulation necessary in the first place. USPS wants to have its cake and eat it too.

As a leading provider of delivery services and a competitor with USPS in a number of market segments, Federal Express believes that deregulation must be accompanied by demonopolization. The yoke of regulation should be lifted only if the public is protected from unfair practices by USPS in the same way that it is protected from harm by private sector participants, that is, by the operation of the marketplace supported by the antitrust laws.

Under the Postal Reorganization Act of 1970, USPS was created as a quasi-government corporation, neither fish nor fowl. It was moved off the government budget, lost direct subsidies, and was transformed into an institution which was expected to cover its costs with revenues. All costs were to be borne by the rate payers, with each product bearing its fair share of institutional costs without cross-subsidization. At the same time, USPS was allowed to retain its monopoly over the carriage of "letters and packets" and granted other legal benefits. These extraordinary legal privileges in turn implied a need for an independent regulator to oversee postal rates and services.

Given American traditions of open governmental processes, independent regulation of jointly produced monopoly and competitive services has necessarily led the Postal Rate Commission to scrutinize USPS's accounts in considerable detail. USPS's basic objection seems to be to this intense scrutiny. While some procedural reforms may be possible and desirable, what first cries out for comment is USPS's total failure to address the reasons for this outside scrutiny in the first place, the legal privileges enjoyed by USPS.

There is an obvious solution to USPS's problem: give up the monopoly and other special rights. Absent legalized market domination, the need for outside regulation of rates and services will end. Competition, along with the laws that govern unfair practices in the private sector, will then "regulate" the market naturally. USPS will be required by market forces to create products and adhere to prices as the public demands, like its competitors. Market forces will replace statutory constrictions, and along with those, the regulatory burdens.

Fedex as a company has long been an advocate of the level playing field. Give all parties the opportunity to compete, remove artificial barriers to fair competition, and we will accept the results. Therefore, we cannot advocate unnecessary regulation for USPS any more than we would request more regulation to be imposed upon ourselves. However, to eliminate regulation and leave the monopoly in place, or even to continue with the uneven regulation of the domestic and international mail sectors, is grossly unfair to the competitors of USPS and harmful to the public interest. If USPS truly wants to be free to act in a competitive manner, it must give up the obsolete "rights of the king and accept all the consequences of being a private company.

What would this entail? First of all, USPS would cease to have a monopoly on the carriage of letters, a statutory grant which should be repealed. Indeed, USPS has tried, by administrative means, to project this law far beyond its original intent and equip itself with all sorts of anti-competitive tools never approved by Congress. It has asserted, at the expense of customers as well as competitors, a monopoly over a much broader sector of traffic than anticipated by statute. Furthermore, it has laid claim to enforcement mechanisms which Congress never authorized. During the Depression, the monopoly was exacerbated further by a limitation on private carrier access to residential mailboxes. The provision likewise imposes considerable difficulties for private carriers. This entire regime of market control would have to end.

Additionally, USPS would need to give up its other special legal privileges. Perhaps foremost among this is its implicit exemption from the antitrust laws. As the Supreme Court has noted, the antitrust laws are not merely another law, but a legislative judgement that "the heart of our national economic policy has been faith in the value of competition."[1] If USPS is to be freed of postal regulation then it must submit to the same economic regulation faced by all other commercial entities.

USPS also avoids many of the normal costs of doing business by virtue of its special legal status. It has the right of eminent domain, a not insubstantial financial advantage given its extensive inventory of real property. It is exempt from all taxes and governmental fees ranging from income taxes to vehicle licenses. All of these charges are costs of doing business which its competitors must bear, and some are substantial.

A more subtle advantage is the indirect promotion of postal products embodied in laws and regulations. Many governmental filings are entitled to a legal presumption of timeliness based upon the postmark date rather than the actual date of receipt. This includes income tax returns, bids for government procurement, and other administrative filings. Such a rule promotes use of USPS even though the tracking and tracing systems of its competitors provide a better record of actual handling and they achieve superior on time delivery performance.

A truly competitive USPS must similarly jump the same regulatory hoops and hurdles as private companies. These can range from the mundane, such as parking tickets, which impede city delivery, to the critically important customs regimes, which shape the business of international delivery services. In the customs area,

[1] *Standard Oil Co.* v. *Federal Trade Commission*, 340 U.S. 231, 248 (1950).

USPS enjoys special treatment not only under U.S. law but also under foreign laws because of its official and exclusive access to foreign post offices. An exclusive right to resell special regulatory benefits granted foreign post offices is no less a commercial benefit because the operative language is embodied in foreign law. As nearly as possible, United States policy should foster identical treatment under all regulatory laws, foreign as well as domestic, for all American delivery services.

The prospect of a competitive USPS also implies a need to reconsider U.S. participation in inter-governmental organizations such as the UPU. Representation must be undertaken by truly disinterested governmental officials, certainly not by USPS. If USPS is just another competitor, then it should literally make no difference to the United States whether good international delivery services are provided by USPS or Fedex or UPS or DHL or any other carrier. A competitive USPS necessarily implies a basic reconsideration of the United States' participation and objectives in the Universal Postal Union.

II. IF THE POSTAL SERVICE IS TO RETAIN ITS CURRENT MONOPOLY, IMPLEMENTING REGULATIONS AND ENFORCEMENT PROCEDURES SHOULD CONFORM TO THE LAWS OF CONGRESS

Federal Express believes that such reforms to the existing postal system will lead to a more effective and efficient USPS as well as a free and open market. However, if USPS is to retain its statutory monopoly and legal advantages, Congress must insist that the Postal Service operate within the parameters of the postal monopoly statutes as written by Congress rather than the expansively reconstructed postal monopoly regulations issued by USPS. USPS must retreat from its irredentist approach to the delivery services sector and return to a clearly circumscribed monopoly affecting only the carriage of "letters," with other market segments being free. The definition of "letter" that USPS has contrived goes far beyond the understanding of that word in today's culture, let alone the understanding that existed in 1872 when the statute was enacted. The postal monopoly regulations cast too wide a shadow. Alternative delivery services are condemned even if they may limit themselves to printed matter, such as advertisements and catalogs. A proper analysis of the statute shows that a monopoly over today's third class mail was never within the intent of Congress, yet USPS vehemently argues that it alone is allowed to deliver such items. In a free market economy, a monopoly must be drawn as narrowly as possible so that its damaging effects—higher prices, lower productivity, and less creativity—do not extend further than is necessary. If USPS can show that a monopoly is truly needed to provide required universal services (and Fedex would contend that there are other more efficient ways of meeting that goal), it must be as limited as possible. As part of its oversight function, it is important that this panel remind USPS of the limitations on its monopoly grant and take such actions as may be necessary to ensure that it remains within such boundaries. USPS regulations should be examined for their statutory conformance as well as for their cost-effectiveness.

Also, if USPS is to retain its monopoly, it should be divested of enforcement authority. Indeed, all regulatory and commercial functions relating to the delivery services market should be separated, so that due process can be provided for those that compete with USPS. The danger of having a participant hold the power to create postal monopoly enforcement mechanisms becomes obvious when reviewing the regulations USPS has crafted to protect and expand its enforcement role. Under color of the Private Express Statutes, USPS has constructed extra-statutory powers and remedies—really penalties—against both customers and competitors. Business people making ordinary business judgments, selecting the appropriate service provider for their commercial needs, have suddenly found themselves confronted by USPS's own private police force.

Competitors may also face even tougher sanctions: USPS is presently suing a competitor who breached regulations on remail, alleging that its failure to pay domestic postage for international remail was a fraudulent act, entitling USPS (claiming rights provided to the federal government) to treble damages. In this case, USPS, along with its fellow foreign postal administrations, wrote the rules, and USPS persuaded a U.S. attorney to enforce them, all without any sanction by Congress.

Only by separating the competitor's role from that of the regulator can such abuses be avoided and the monopoly made less intrusive.

III. IF THE POSTAL SERVICE IS TO RETAIN A MONOPOLY, OVERSIGHT BY THE POSTAL RATE COMMISSION SHOULD BE STRENGTHENED IN CERTAIN RESPECTS

If the existing structure of third party review is retained in order to provide appropriate protections on pricing issues, the Postal Rate Commission should be given certain additional powers to make it more effective. One would be subpoena power over USPS information. At the present time, if USPS refuses a direct order of the Commission to produce information, the only remedy for the PRC is to litigate the issue in court. In the most recent rate case, USPS flatly refused to produce information sought by Federal Express and deemed relevant by the Commission. Time ran out and the decision was made without the required data.

The PRC's jurisdiction over international mail services should be clarified as well. So long as USPS is a legal monopolist and benefits therefrom in its international business, its international products should be subject to the same level of examination as are the domestic ones. Some areas for scrutiny are apparent. Recent increases in international mail rates, for example, appear to take no account of important changes in terminal dues. Many new "competitive" international products, such as the International Parcel Consignment Service (IPCS) offer suspiciously deep discounts which should be scrutinized for predatory effect or inconsistency with the standards of the Act. Yet under the present system, USPS's international prices go unreviewed. This is a dangerous empowerment of a competitor, even given the small portion of total revenues involved. The PRC should be given a clear statutory mandate to examine this hidden sector of the USPS's business.

IV. CONCLUSION

USPS delivers over 175 billion pieces of mail each year. It has a statutory monopoly over the carriage of letters and a vast array of direct and indirect advantages for the promotion of its products as well as exemptions from significant costs of business borne by its competitors. One would think that with all these advantages, the Postal Service should feel secure about its future. Yet, as the Postal Service has noted, there are indications that the future will not be like the past. Its business is under attack not only from large carriers such as Fedex but from entrepreneurial alternative delivery systems on the one side and high tech alternatives to hard copy movement on the other. The Postmaster General has been speaking out about regulatory constraints which hamstring the Postal Service's ability to compete effectively.

Federal Express submits that these regulatory constraints are a direct result of, and a necessary companion to, the 19th century postal monopoly. Federal Express would accept the proposition that USPS is as much a victim of the monopoly as are the competitors which are restrained and the customers who are penalized. But this recognition does not alter the fact that deregulation must be accompanied by demonopolization and a withdrawal of the other special legal privileges which the Postal Service has inherited.

In support of the twin goals of making government less intrusive and the marketplace more repsonsive, Federal Express believes that this may be the moment for a significant change in the mission of the Postal Service and the structure of the delivery services sector. Federal Express looks forward to the chance to work cooperatively with this Subcommittee in the future as it undertakes that task.

Thank you for your consideration of our views.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO JAMES I. CAMPBELL, JR.

Question 1. Mr. Campbell, in the testimony of Mr. DeSio of Mail Boxes, Etcetera, he states that Federal Express, DHL and UPS have abandoned plans to open new retail facilities [and] are utilizing his industry to expand your distribution. Is that an accurate statement from Federal Express' perspective and, if so, would you expand on the factors you took into consideration in making this decision.

Answer. No, it is not at all accurate. Federal Express wants to get its services as close to its customers as possible. Therefore, it has expanded the FedEx Convenience Network to go beyond FedEx-staffed facilities to even more locations. Mr. DeSio is correct only insofar as FedEx is working with packaging stores as one means of reaching its customers. These stores, located in neighborhood malls and other handy sites, can provide access to FedEx transportation and shipping supplies, along with knowledgeable people to assist in preparing a shipment or completing paperwork. This program, called "Fedex Authorized ShipCenters," has grown rapidly and now includes almost 4,000 such locations.

However, FedEx still maintains an extensive network of its own outlets, including over 32,000 Drop Boxes in office buildings, apartment complexes, commercial parks, airports and shopping malls, where customers can obtain supplies and drop off shipments. Additionally, FedEx shipments can be dropped off at over 475 FedEx retail outlets, both World Service Centers and Drive-Through Centers, as well as at our stations and ramp operations, which presently total more than 675 in the U.S.

The most exciting and last-growing program, however, is "Fedex ShipSites," in which FedEx has entered into cooperative arrangements with retail stores, making it possible for both business and individual customers to shop and ship under one roof. So far, FedEx has agreements with Kinko's, Target, Sam's Wholesale and its most recent partner, Staples office supply stores. This program, in effect for little more than one year, has put FedEx services and supplies at convenient sites for its customers in over 2,220 stores across the country. Some of these stores are open 24 hours a day, seven days a week, providing yet another breakthrough in FedEx convenience.

Other programs to make FedEx products more convenient and easy to use include an increased variety of packaging material, prepaid services using the FedEx Letter Stamp and the new FedEx Ship software. Customers can learn more about FedEx services, track their packages and download software at the FedEx Home Page on the World Wide Web.

As to factors determining what facility is appropriate, obviously there are many that are considered. Each retail site, be it a Drop Box, a FedEx World Service Center or a FedEx ShipSite, must justify the investment in terms of revenue return. FedEx wants its services to be convenient and easy to use, attracting new customers and retaining existing ones. At the same time, shipments that are dropped off generate fewer costs than shipments picked up at the customers' location. Making services more accessible also helps the company to hold down costs and thus, to continue to offer reasonable prices for its high-quality services for even the most casual user. FedEx offers discounts for drop-off for most of its services.

In order to give you more information on the FedEx Convenience Network and how FedEx strives to make its products easy to use and easy to find, I am submitting a copy of the most recent FedEx Service Guide.

[Note.—The Fed-Ex Service Guide can be found in subcommittee files.]

Question 2. You spend [spent] some time in your prepared testimony discussing the need for removal of the monopoly from the Postal Service if they [private express companies] are going to compete head-to-head. Have you given any thought as to how universal delivery can be assured without the protections of the monopoly?

Answer. As counsel to the private express industry, I am familiar with, and have participated in, many postal policy debates in the United States and other countries since 1975. The question that you pose is one that necessarily arises in any serious review of governmental policy towards the postal sector. It raises a number of issues which I would like to address one by one.

A. THE POSTAL SERVICE HAS NEVER DEMONSTRATED A CONNECTION BETWEEN UNIVERSAL SERVICE AND THE POSTAL MONOPOLY

Preliminarily, I must begin by addressing the premise implicit in the Subcommittee's question. Your question implies, or seems to imply, that the legal protection of the postal monopoly has enabled the Postal Service to provide a universal delivery service at a uniform first class postage rate. While postal officials often suggest that there is a connection between the postal monopoly and universal service, to best of my knowledge it is very difficult to find a clear explanation of this connection. In an Appendix to this answer, I briefly review the history of the ideas of the monopoly and universal service and postal explanations of the relationship between the two. In short, however, so far as I am aware, neither the Postal Service nor anyone else has ever provided Congress with any evidence to support the idea that there is a necessary economic relationship between a postal monopoly and universal service.

B. UNIVERSAL SERVICE COULD BE GUARANTEED BY MEANS OF A SMALL SALES TAX ON ALL NON-EXPRESS DOCUMENTS WEIGHING EIGHT OUNCES OR LESS

Whether or not postage rates would rise to unaffordable levels in some areas depends upon whether there are certain locales where the cost of delivery services is much higher than in the nation as a whole. In the United States, it has often been suggested that the postal monopoly is necessary to permit the Postal Service to cross-subsidize rural postage rates with revenues from urban postal services. If ac-

tually priced at cost, it is said, rural postage rates would rise to such high levels that some people could not afford them.[1]

The evidence on this subject known to me may be summarized as follows:

• As already noted to the Subcommittee, Robert Cohen et al estimated that, in 1989, the USPS lost $121 million in delivering mail to the 2.5 percent most rural addresses, or about 4 cents per item.[2] In terms of today's postage, the implication is that rural stamps might rise to 360 instead of the national rate of 320. Further, Cohen et al noted that addresses with extraordinarily high delivery costs are not concentrated in any one area of the country but scattered throughout. For this reason, they considered it unlikely that postal service would be dropped to these addressees. Looking at the situation from the mailer's standpoint, since mail is sent to these presumptively high cost addresses from all over the country, it would also seem difficult to implement a special postage rate for such areas. Recently, Haldi and Merewitz reviewed the work of Cohen et al and thought their estimate of losses on rural service to be too high.

• In Australia, the post office reports that about 1.3 percent of addresses incur delivery costs at least twice as great as the average urban postal delivery cost.

• In Sweden, in 1992, McKinsey and Company prepared a study for the Swedish Post Office that concluded the additional costs of universal service were approximately the same as the benefits derived from economies of scale.[3]

Based upon this evidence, it seems to me highly unlikely that a demonopolized USPS would abandon either universal service or implement especially high rates for rural areas. The only exception that I would make to this observation is rural Alaska, where special conditions might apply.

While such studies suggest that it is unlikely competition would threaten universal service, I do not suggest that all questions have been answered. What these studies do seem to indicate fairly conclusively is that the "problem" of ensuring universal service at affordable rates, if it exists at all, is a relatively manageable one. If a demonopolized Postal Service would not provide universal service at affordable rates, the amount of public money necessary to induce the Postal Service or a private competitor to do so will be relatively small compared to the total cost of public and private postal service.

Whatever may be the cost of guaranteeing affordable universal postal service in this sense, it is a finite amount of money. Cohen et al suggest that the amount was about $121 million in 1989 when total postal revenues were $39 billion, i.e., roughly 0.3 percent. If this estimate is roughly correct, then the cost of universal service could be paid by a sales tax of roughly 0.3 percent on the delivery of all non-express documents weighing less than a certain amount, say 8 ounces. In effect, a sales tax is similar to the current system whereby most non-express documents are charged a bit more to pay the losses, if any, incurred in service to certain areas of the country where postal service is not commercially feasible. The main difference between a sales tax and the current system would be that the amount of the subsidy would be known and that the burden would fall on documents carried by private companies as well as on documents carried by the Postal Service. Even if Cohen et al underestimate the cost of universal service by a factor of ten, the resulting sales tax would be on the order of 3 percent, still a manageable number.

Collection and distribution of the universal service sales tax would have to be assigned to an independent government agency, rather than the Postal Service itself. It would be inappropriate for a demonopolized Postal Service to tax its competitors. The logical choice for this task would be the Postal Rate Commission, whose regulation of the Postal Service, if any, would necessarily be sharply diminished in the absence of a postal monopoly.

The cost to mailers of maintaining universal service by means of a sales tax should be compared to the cost of maintaining universal service by means of the current postal monopoly. The cost of the postal monopoly borne by mailers is the difference between the postage that U.S. mailers paid with the monopoly and the postage they would have paid for the same service without a monopoly. In other words, it is the "monopoly rents" extracted from mailers by virtue of the monopoly. While it is impossible to calculate with precision what the Postal Service would have charged for the same service if it faced competition, a first approximation can be

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[1] Recently, the Postal Service has also suggested that universal service would be terminated with respect to service to some poor center city areas. So far as I am aware, there has never been a study by anyone to substantiate such a suggestion.

[2] My recollection of a $70 million figure, provided in answer to a question from the Chairman during the hearings on June 14, 1995, was thus erroneous by $50 million or so.

[3] On this basis, Sweden abolished its postal monopoly in 1993. I do not have a copy of the McKinsey report, but a copy of a good speech by a Swedish postal official is enclosed.

estimated by assuming that, under competitive conditions, USPS would be forced to keep wages to the levels paid comparable private sector workers. Postal wages are about 80 percent of Postal Service costs (i.e., about $40 billion annually) and generally considered to be significantly higher than comparable private sector wages. If postal wages are considered to be 20 percent higher than would be sustained in a competitive market (a plausible figure), then it may be concluded that the postal monopoly costs U.S. mailers an extra $8 billion annually in excess wage levels alone. Such a first approximation disregards the possibilities of additional monopoly costs ascribable to overmanning, inefficient operation, lack of motivation, inhibited innovation, and other factors. Nonetheless, such an estimate is sufficient to indicate that a direct subsidy funded from a sales tax is likely to result in a much lower universal service cost on U.S. mailers than the current hidden cross-subsidy created by the postal monopoly.

In sum, it appears that a relatively small sales tax, on the order of a few percent or less, on the delivery of all small documents, administered by an agency such as the Postal Rate Commission, will cover whatever may be the costs of maintaining universal delivery service for all retail letters at a uniform rate. Such a mechanism would cost the mailing public an amount on the order of zero to a few hundreds of millions of dollars per year. This approach would represent a great savings over the current postal monopoly, which costs the mailing public monopoly profits on the order of ten or more billions of dollars per year.

C. IMPLICATIONS OF DEMONOPOLIZATION FOR THE UNIFORM RATE

Although the Subcommittee's question does not specifically ask about the fate of universal service at a uniform rate, Chairman McHugh raised this point at the hearing. Therefore, in order to provide a complete answer, it may be helpful to consider the implications of the relationship between the postal monopoly and the uniform rate. This is a murkier area. In the absence of a postal monopoly, the price of postal delivery would be set at something close to the cost of the carrier. In different areas, the costs of delivery by one or more carriers might vary depending upon such factors as the cost of labor, the density of traffic, quality of service provided, weather, and the level of competition. I would imagine that, without a monopoly, the Postal Service would at first continue to charge a uniform rate for all retail mail. Over time, however, it may be that somewhat different local rates would emerge in different markets. Of course, the major express companies are today free to charge different rates in different parts of the U.S., but they do not do so. On the other hand, local messenger services do charge different rates in different cities. It may be that local postage rates would vary but intercity rates would tend to stabilize at uniform, nationwide levels.

With my current knowledge, I can only say that a competitive market tends to result in price competition, and therefore different rates, rather than a uniform, take-or-leave-it, rate as implied by a monopoly. Nonetheless, I would guess that the cost of administering multiple rates for individual mailers would be so high that there will be a strong tendency for a demonopolized Postal Service to maintain a uniform, or extremely simple, nationwide tariff structure for individual letters, while allowing any differences in costs to be accommodated by differences in the quality of service provided.[4]

Other countries have considered the issue of maintaining or abandoning the uniform rate. After several years of study, the European Union has apparently decided that it should define its "universal service" obligation in terms of ensuring universal service for all citizens at an affordable postage rate. The European Union will not try to guarantee a uniform postage rate throughout Europe because the post offices in the 15 Member States have never charged the same rates and their costs are apparently substantially different. Nor will the European Union try to guarantee uniform rates within individuals Member States.

In Australia, the Industry Commission suggested the universal service obligation be fixed in terms of a maximum postage rate equal to the current retail stamp price. This would allow the post office to lower rates in some places to meet competition. In order to protect universal service, the Australian Industry Commission also believed it was very important to fix appropriate rules for interconnection between various delivery services. The maximum rate concept seems to me worthy of further consideration by the Subcommittee.

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[4] A uniform rate does not imply a uniform level of service. Within the constraint of a uniform rate, the Postal Service could save costs in high cost areas by lowering its service standards somewhat. My impression is that the Postal Service does so today; indeed, it would be financially irresponsible to do otherwise.

D. OTHER ISSUES NOT ADDRESSED

Another issue presented by demonopolization is the effect on the relation between postage rates for individual mail and bulk mail. Speaking roughly, Postal Rate Commission data suggests that bulk first class mail (invoices, statements of account, individualized advertising, etc.) costs about half as much to handle as individual mail. The Postal Rate Commission, however, allows a discount for bulk mail compared to individual mail that reflects only a portion of this cost saving, primarily because it cannot explain all of the differences in costs. Thus, it may be that regulation tends to hold down the rates for individual mail and hold up rates for bulk mail. In absence of the monopoly and regulatory control, the Postal Service might increase significantly the difference between the rates for rate mail and bulk mail. On the other hand, the postal monopoly has also resulted in inflated costs for all mail. Competition would tend to force USPS to lower its costs. These forces would work in opposite directions on postage rates. I imagine that most people think of postage rates for individual mail as the rates for "universal service." I do not know what net effect these countervailing influences will have on postage rates for individual mail, but certainly these issues should be considered by the Subcommittee as an aspect of the demonopolization option.

Finally, maintenance of universal delivery service does not necessarily imply the maintenance of the current system of post offices for collecting the mail. Many service industries are finding that they have too many retail outlets. My impression is that the Postal Service spends too much money on retail stores when it would be more efficient to adopt a more flexible approach, such as described in answer to question 1 above (about 19 out of 20 retail outlets of the U.K. Post Office are franchised to small businesses). If it lost its postal monopoly, the Postal Service would presumably rationalize its system of small post offices. Some proponents of the postal monopoly argue maintaining these post offices today is a cost of "universal service" and that rationalizing such post offices should be considered a diminution of "universal service." However, even if the Congress concluded that rural post offices should be kept open, I believe that the costs could be added to the universal service fund paid for by means of a sales tax as described above.

E. SUMMARY

For the reasons given above, I think that, with the possible exception of rural Alaska, the Postal Service would probably continue to provide universal service at an affordable postage rate throughout the United States without a postal monopoly. It would do so voluntarily for sound commercial reasons. By an "affordable" rate, I mean a condition in which postage rates in the most isolated areas are not unreasonably high relative to those in major cities. To the extent that there is any doubt about the maintenance of universal service, I believe that universal service at an affordable rate could be legally guaranteed by means of a federal contracting program supported by a minor tax on the delivery of all letters by all carriers, postal and private.

I do not know whether, without a monopoly, the rate for universal service would be uniform throughout the United States as well as affordable. It seems to me that there are factors pulling both ways. I suspect, however, that the Postal Service would be very reluctant to abandon a uniform tariff structure for individual letters.

An alternative to the uniform rate requirement is the idea of a nationwide maximum postage rate. Such an approach would preserve the possibility of using a single stamp to post from anywhere in the United States to anywhere in the United States while still allowing the Postal Service to reduce local rates of lower costs and commercial conditions indicated the desirability of doing so. The economics of guaranteeing universal service at a maximum rate would seem similar to those of guaranteeing universal service at an affordable rate.

As noted above, demonopolization could also raise still other issues related to universal service which I have not tried to address.

APPENDIX TO ANSWER TO QUESTION 2

HISTORICAL NOTE ON THE RELATIONSHIP BETWEEN THE POSTAL MONOPOLY AND UNIVERSAL SERVICE

It should be noted that there is no historical connection between the postal monopoly and evolution of a universal delivery service at a uniform rate. The postal monopoly is a legal concept dating from seventeenth-century English precedents. England adopted and readopted the monopoly as (i) a fiscal device for generating general revenues (i.e., postage was set much above cost so that it was effectively a tax on communications) and (ii) a national security measure that would allow the

government to spy on its citizens. Neither rationale was favored in the United States. In the beginning of the Republic, the U.S. decided that the Post Office should not charge rates in excess of costs; in 1845, Congress decided the Post Office should charge rates below costs as a way of suppressing private competitors. And, while the Post Office has been used to gather information on enemies of the government, I am under the impression that the Post Office was never as much of an instrument of political espionage in the U.S. as in England.

The U.S. postal monopoly law was last debated in Congress in 1845, so the 1845 debate is the last occasion from which one may infer the Congressional intent underlying the postal monopoly. In 1845, Congress was reacting to the emergence of railroads and steamboats. Private carriers took advantage of these new transportation technologies more quickly than the Post Office. Early railroads were concentrated in the more developed Northern and Eastern parts of the country. Congress prohibited private messengers from using railroads and steamboats—that is, from establishing a "private express"—in order to protect the ability of the Post Office to raise postage revenues to finance the construction and operation of postal routes in the South and the West.

In 1845, the essential task of the Post Office was to arrange for transport of the mail between cities. There was no collection or delivery service and no local, intracity service. The Post Office did not begin a significant postal delivery service until 1863. Rural delivery was started in 1896. More or less universal national delivery was not achieved until about 1917.[5]

The postal monopoly was, therefore, not intended to sustain a universal local delivery service. It was intended to generate revenues to sustain expansion of what was, really. the national system of roads. Today intercity transport accounts for only a small fraction of postal costs (about 6 percent). Although proponents of the postal monopoly suggest the postal monopoly is needed to subsidize the cost of delivery (or collection) of mail in certain areas, no one argues that a postal monopoly is needed to sustain the cost of transporting the mail between the nation's post offices, which was the purpose of the 1845 postal monopoly law. In short, the last Congressional debate on the postal monopoly predated the idea of a universal delivery system by several decades.

Similarly, the idea of a nationwide uniform postage rate developed only after the last congressional consideration of the postal monopoly. The uniform rate dates from 1883, when the postage rate for intracity letters was raised from 2 cents to 3 cents, equaling the 3 cents rate for intercity letters. A uniform 3 cents rate between cities was first introduced in 1863. Before that date, intercity rates varied by distance.

Historically, the concept of a uniform national postage rate originated in England with the postal reforms of 1840. These reforms, promoted by a man named Rowland Hill, represented the birth of the modern concept of a national post office. Before Hill, English intercity postage rates varied by distance, by route used, and by number of sheets of paper (England did not achieve universal delivery service until decades later). Hill's analysis indicated that the actual transport costs between cities and towns were very small and varied so little that a uniform rate between cities and towns was economically logical. The concept of a uniform rate was therefore developed from an economic analysis that was quite independent of the postal monopoly (Hill himself opposed continuation of the postal monopoly).

In sum, it would be fair to say that Congress, in 1845, granted the Post Office a postal monopoly in order to promote the idea that, in some sense, all Americans should have the same postal service without differentiations that a competitive market would bring. Postal service at this time was not universal, not uniformly priced, and did not include collection and delivery. Thus, it would not be fair to say that Congress ever concluded that a postal monopoly was necessary to permit the Post Office to provide universal service at a uniform rate. The development of universal service at a uniform rate came much later.

Perhaps because the Post Office was the source of political patronage jobs, the postal monopoly was not a governmental idea that Congress subjected to much scrutiny. So far as I am aware, there was no Congressional consideration of the basic rationale of the postal monopoly between 1845 and 1970. The closest that Congress came to reconsidering the postal monopoly was its consideration and rejection of proposals to extend the monopoly to include telegraphic, pneumatic tube, and parcel post services in the late 19th and early 20th centuries.

When the Postal Reorganization Act was enacted in 1970, Congress requested the Board of Governors to submit a report on the postal monopoly and possible reforms.

[5] In *The United States Post Office* (1917) at 145, Daniel Roper, former First Assistant Postmaster General, estimated that 80 percent of the rural population was then served.

In its 1973 report,[6] the Board of Governors recommended retention of the postal monopoly, seemingly based on two propositions: (i) that the uniform first class tariff could not be maintained without a postal monopoly and (ii) that some portions of the country would not be served without a postal monopoly. The Board of Governors report declared as follows:

> *A prohibition on rates varying with distance creates competitive opportunities for skimming the cream of those postal operations that are most attractive from a business standpoint.* It would make little sense to allow letter mail competition without simultaneously authorizing variable rates on letters so that the Postal Service may compete equitably in the marketplace. But uniform nationwide rates for letter mail should not be lightly discarded. Rates varying with distance would be complicated and confusing for many citizens, would point to increases in regulatory red tape, and could lead to untoward political pressures for changes in zone limits and the like.
>
> *The law requires that the Postal Service serve all the nation* [quoting 39 U.S.C. 101(b)]. This is a key requirement—perhaps the key requirement—if the Postal Service is to discharge its basic function to "provide prompt, reliable, and efficient service to patrons in all areas . . . and render postal service to all communities." This means that *the Postal Service must serve those areas and customers for which operating costs are not recoverable under a uniform pricing policy.* If the Private Express Statutes were repealed, private enterprise, unlike the Postal Service, would be free to move into the most economically attractive markets while avoiding markets that are less attractive from a business standpoint.
>
> . . . Without abandoning the policy of self-sufficiency and re-introducing massive subsidies, *it is hard to see how the Postal Service could meet rate and service objectives in the face of cream-skimming competition against its major product. But abandonment of this policy would impose an unjustifiable burden of costs on the tax-paying public and might lead to the erosion of universal postal service.*
>
> We believe that the uniform rate and nationwide service requirements are sound. . . . Accordingly, the *service and financial policies that are rightly embodied in the Postal Reorganization Act require the restrictions on private letter-mail carriage be maintained.*[7]

Upon careful examination, the Board of Governors' reasoning is not entirely clear.[8] By way of substantiating and illuminating its conclusions, the Board of Governors appended an economic report by McKinsey and Company. Appendix F.II. McKinsey foresaw two types of private companies (neutrally referred to as "cream skimmers" by McKinsey) which could successfully compete against a Postal Service bound by a universal service/uniform rate requirement but not protected by a postal monopoly:

- Cream Skimmer One could divert substantial traffic from the Postal Service by providing lower rates for bulk presorted mail from large business mailers.
- Cream Skimmer Two could divert substantial traffic from the Postal Service by providing collection, sorting, and transport services for mail ultimately delivered by the Postal Service at a discount from the uniform rate.

In short, the argument of the Board of Governors was that competition would result in competitors providing rates for (i) bulk presorted mail and (ii) bulk mail that is "drop shipped" at the destination post office. The Board of Governors concluded that such competition would force the Postal Service to abandon the universal service at a uniform rate.

Viewed with the benefit of hindsight, however, this argument is unconvincing. After 1973, the Postal Service itself introduced precisely these sorts of discounts into the rate structure. That is, the Postal Service provides discounts for bulk presorted mail and discounts for third class mail that is privately transported to the post office nearest the addressee. Such variations in postage rates are no longer seen as breaches in the principle of uniform national postage rates because these discounts still do not vary according to the destination served or the mailer's origin. Other postage rates, such as parcel post and Priority Mail vary with distance, but the Postal Service is only required to provide "one or more" uniformly rated letter services. 39 USC 3623(d).

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[6] Board of Governors of the U.S. Postal Service, "Statutes Restricting the Private Carriage of Mail and Their Administration" (1973), *reprinted,* Comm. Print No. 93–5, House Comm. on Post Office and Civil Service (1973).

[7] Id. at 5–7 (emphasis added).

[8] Consider, as well, the summary and analysis of the Board of Governors' defense of the postal monopoly in A. Sorokin, *The Economics of the Postal System,* 134–38 (1980).

Today, it is generally felt that large mailers should get lower postage rates than individuals provided the price differentials are justified by the "work-sharing" done by the mailer and costs saved by the Postal Service. While such discounts are tantamount to partial demonopolization, it is generally felt that the United States still enjoys universal service at a uniform rate as those terms are currently used. Thus, the threats to the uniform rate used to justify the postal monopoly in the Board of Governors' report of 1973 have little currency today, if they ever did.

The 1973 Board of Governors' report intimated that competition would also endanger universal service. It did not, however, provide any economic analysis to substantiate this suggestion. The worst case scenario offered by McKinsey (at page 130) estimated that private competitors might divert $420 million in postal revenues, about 4 percent of Postal Service revenues in 1973. McKinsey did not claim that such diversion would reduce postal profits to the point that the Postal Service would find it unprofitable or infeasible to maintain a universal delivery service at a uniform rate. In order to make such an argument, it would have been necessary for McKinsey or the Board of Governors to develop estimates of the cost of rural postal delivery compared to the cost of postal delivery in other areas. No such analysis was done until the 1992 study by Cohen, Ferguson, and Xenakis.[9]

The only other occasion since 1970 in which the Postal Service has been called upon to defend the postal monopoly occurred in the late 1970's when Congress was considering exempting urgent letters from the postal monopoly. The Postal Service strongly opposed such an exemption, advising the Senate Governmental Affairs Committee that the bill it was considering could lead to diversions of up to $2 billion in postal business (15 percent of total postal revenues in 1978). The Postmaster General declared that such competition would jeopardize universal service or, at least, current postage rates:

> The result of this type of cream-skimming will eventually lead to larger deficits for postal operations, necessitating either additional rate increases or increased subsidies or both. The necessity of maintaining a nationwide system capable of serving both rural and urban communities results in a relatively high percentage of fixed costs. This volume diversion would not be accompanied by commensurate reductions in postal costs, leaving a higher unit cost for the remaining mailers.[10]

The Postal Service, however, provided no data to support the Postmaster General's predictions and Congress did not believe them. In order to avoid seemingly inevitable legislation, in mid-1979, the Postal Service issued a "suspension" of the postal monopoly for urgent letters.[11] In sharp contrast to his dire predictions of ruin only months earlier, in November 1979, the Postmaster General testified to Congress that exempting urgent letters from the postal monopoly had had "little or no impact on the volume of the Postal Service."[12]

In summary, the 1973 Board of Governors' report and the 1978–79 Congress hearings on the urgent letter exception constitute the only occasions since 1970 in which the Postal Service has been called upon to provide Congress with an explanation of the policy basis of the postal monopoly. On neither occasion did the Postal Service provide data indicating a quantitative relationship between the postal monopoly and the maintenance of universal service at a uniform rate.

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[9] R.H. Cohen, W.W. Ferguson, and S.S. Xenakis, "Rural Delivery and the Universal Service Obligation: A Quantitative Investigation" in M. Crew and P. Kleindorfer, *Regulation and the Nature of Postal and Delivery Services* (1993).

[10] Letter from Postmaster General W. Bolger to Senator Edmund Muskie, dated September 26, 1978.

[11] Congress has never granted the Postal Service authority to suspend the postal monopoly. The Postal Service assumed this authority in 1974 by regulation.

[12] Hearings on the Private Express Statutes before the Subcomm. on Postal Operations and Services of the House Comm. on Post Office and Civil Service, 96th Cong., 1st Sess., at 337 (1979).

EUROFORUM CONFERENCE—THE LIBERALISATION OF THE EUROPEAN POSTAL SERVICES

Amsterdam, 8–9 December 1994

SWEDEN POST—PUBLIC OPERATOR ON A DEREGULATED MARKET

Presentation by Mr. Torsten Zillén, Director, International Relations Secretariat, Sweden Post International

INTRODUCTION

It's a great pleasure for me to be able to talk to this distinguished audience today. The pleasure comes mostly from the simple fact that I represent a country which has already implemented what this conference aims to just discuss, namely the liberalisation of the European Postal Services. What I will say will probably make representatives of private postal operators and indeed some of my postal colleagues rejoice but some other colleagues confused or even worse . . .

SOME FACTS ABOUT SWEDEN

Let me just first put you into the Swedish perspective as some of you might not be too familiar with this new member of the European Union.

Sweden is the second biggest country in Europe if we consider only the surface. The distance from North to South is some 2000 km, which is approximately the double of the corresponding distance in Germany or France. Or expressed in another way: if you lay out the same distance from the south of Sweden and southwards you end up in Rome.

If we consider the population, Sweden is on the contrary one of the smaller countries in Europe with less than 9 million inhabitants. This means that the country is sparsely populated and you may have heard that Sweden is sometimes called the last remaining wilderness of Europe.

The two facts I have mentioned—the size and the thinly spread population—would of course in principle make it difficult to run an efficient postal service. However, I will come back in a moment to show you that Sweden Post is actually very successful in doing it despite the obstacles.

SOME FACTS ABOUT SWEDEN POST (LTD)

Just a few words about Sweden Post, in Swedish Posten AB. This is the limited company which the government has entrusted with operating the universal postal service in the country. It has a turnover of slightly over 20 billion SEK (2.3 billion ECU) and last year yielded a handsom profit of 1.3 billion SEK (145 million ECU). In fact Sweden Post has been profitable every year during this century.

At the end of 1993 staff numbered 50,000, down 3,000 since 1992 and down some 10,000 in the last four years.

The business concept is to provide information, goods transport and payment services all over the country and internationally so that everybody is able to reach everybody. In Sweden, Posts and Telecoms were never combined in the same administration and they are now both limited companies. Payment services within the Sweden Post Group are provided by the Postal Giro, which is now also officially a bank. The fact that we are able within the same group to provide information, logistics and payment services gives us a competitive advantage as banks do not provide transport services and delivery companies do not operate banking services themselves.

A few words about mail. Last year Sweden Post handled approximately 4.3 billion postal items of all kinds which means some 500 items per inhabitant per year which I think is one of the highest figures in Europe. Nominal first class letters are distributed overnight all over this big country. The systems are designed to do it to 100% and the actual performance is not far away: the last few years it has been a stable 96% on average, all connections taken into account. The prices have been under European average until just recently when VAT had to be put on top.

I hope that this brief overview has given you an impression of both my country and my company.

Then I turn to recent events as regards postal liberalization.

THE FIVE MAJOR POSTAL REFORMS IN SWEDEN

In the last couple of years we have seen a number of sweeping reforms in the postal field in Sweden. To start with I will just give you the list:

- the postal monopoly has been completely abolished
- a very first Postal Services Act has been promulgated
- the Post has been incorporated as a limited company under private law
- VAT has been introduced on all postal prices except on export of goods
- the Postal Giro has lost its priviledge on payments to and from the government.

Those of you who have followed the current debate on European postal policy will have noted that these reforms go far beyond what is contemplated in most other European countries.

I will now comment on each of these five points and finally say a few words about the experiences so far.

ABOLITION OF THE POSTAL LETTER MONOPOLY, 1 JANUARY 1993

Sweden Post had always had a monopoly on the handling and delivery of letters. This was of the type which is common in most countries, i.e. covering the regular transmission against a fee of sealed letters and of unsealed mail items containing personal messages.

The last legal text concerning the monopoly dated from 1947 and was just because of that no longer up-to-date. New printing methods and new ways of distributing information, e.g by means of local and even international courier firms, had in fact eroded the monopoly. The Post furthermore did not pursue those who broke the law for corporate image reasons.

The management of Sweden Post actively supported the abolition of the monopoly mainly for image reasons. In fact the public perception of the Post as a State monopoly negatively influenced our relations to customers and that also in fields where the Post did not operate with monopoly protection, such as in parcels and banking services.

The Government was of the same opinion and furthermore came under some pressure at the beginning of the 1990s as a private company started a letter delivery service in Stockholm. According to the letter of the monopoly law the activity of this company was illegal and subject to public prosecution. But the company claimed that its activity was legal because what they handled, namely computer-produced letters, did not exist in 1947 when the last legal text was drafted.

In order to get a basis for taking a decision about the monopoly the Government ordered an independent consultancy study to be carried out. It was undertaken by the internationally well-known firm of McKinsey and Company. This study showed that the Post on the one hand has to carry extra cost for delivering mail all over the country and some costs of a social character. On the other hand the Post has considerable advantages of scale and scope because of being the only company able to deliver every weekday to every address in the country. The consultant calculated the financial value of these advantages at approximately the same amount as the extra costs for regional obligations.

On the basis of these facts the Government suggested to Parliament to abolish the postal letter monopoly with effect from 1 January 1993 and the Parliament agreed. There was already at that time work going on concerning e.g. a postal law and incorporation of the Post but the Government thought that there was no reason to wait for the complete package of reforms.

I will come back later to the effects of the abolition of the monopoly but I would like to add a comment to the corresponding discussion in the European context.

In our view the Postal Green Paper and the subsequent announcements from the Commission have a big black hole. In these papers it has more or less been taken for granted that the universal service entails some costs for which the operator has to be compensated. However, no calculation of these extra costs has been made—or at least not published—and the worse is that no mention whatsoever has been made of the income side, that is what I just said about our case, that there are e.g. advantages of scale and scope on which it is possible to put a price tag. In this particular case I think that we tend to agree with some of the third party comments made in the Green Paper process that it has not been demonstrated that a postal monopoly is economically justified.

I now have to quickly go on to the next subject which is the Postal Services Act.

POSTAL SERVICES ACT (1 MARCH 1994)

In Sweden we have actually never had any postal law. The few things which during some periods required legal protection, such as the monopoly provisions, were in fact enacted in legal instruments of a lower status than an actual law.

When the postal market was completely liberalized it however became necessary to regulate some basic aspects of this market in a special law. As a difference to the postal laws in other countries, our new Postal Services Act does not apply only

to the public operator but to the entire postal market, including also possible private operators.

Although this Act is very short, in fact only some 4 pages of printed text, I have not got time here to comment in detail on it. I will just mention a few interesting facts.

The most ingenious feature of the Act is its opening paragraph by which the Parliament, the law-making body, puts the burden on the Government, the executive branch of the State, to see to it that there is a good postal service in the country. This gives the Government an unlimited freedom to contract with any company on the market which is able to provide a postal service.

The only condition attached to this obligation is that the Act defines the limits of the universal service, by the way quite simply in the same way as the UPU, i.e. letters up to 2 kg and parcels up to 20 kg.

The Postal Services Act furthermore lays the basis for a supervisory authority which has the task of monitoring the application of the Act and to intervene in case of anomalies. This body is now in operation, the National Swedish Post and Telecom Agency. Also in this respect Sweden has gone farther than required by the Green Paper, i.e. that we have both separated the operator from the regulator and furthermore separated the two governmental functions of being the owner of the main operator and the regulator of the market in two separate bodies. The owner function is performed by a special section of the Ministry of Transport and Communications.

Operators which intend to start delivering letters have to register with this Agency but there is no need for formal authorization or concession.

The Agency has taken over some tasks of a public authority character both from the Post (such as opening of undeliverable letters) and from the Government, namely to be the signatory of international intergovernmental treaties in the postal field.

Finally I would like to mention that the Postal Services Act says about postage stamps that such stamps designed according to the UPU Convention can only be issued by the operator which has been appointed by the Government to fulfill its obligations according to the UPU Acts. Indirectly this however means that all other operators are free to issue stamps with another type of design if they need to use this means of prepayment of the price of their services. The same goes for putting up mail-boxes in public places. In practice no private operator has as far as I know made use of these possibilities.

SWEDEN POST (LTD)—(1 MARCH 1994)

In comparaison with the abolition of the monopoly and the change of the legal situation, the transformation of the status of Sweden Post from a commercial state enteprise to a normal limited company was not that dramatic. Or should at least not have been.

In our case the formal change of status just represented the final step in a long development which took place mainly in the 1980s. The Post and other state enterprises with the same status were in fact during this period gradually granted more and freedom of action in areas such as fixing prices and making investments.

In the case of the Post we in fact bought all our assets from the State in the middle of the 1980s and at the same time we were authorized to decide upon and finance all investments ourselves. Also the right to set prices was gradually extended and in the last few years all power of decision in that area was within the enterprise, subject only to a limited price-cap.

The reason why the management of the Post and the Government wanted nevertheless to take the last step to the status of limited company was very briefly that in order to create the level playing field required in a market with several actors the Post had to have the same possibilities and restrictions as private competitors. This concerns e.g. the conditions for paying company tax and for concluding collective labour contracts with employees.

It was also noted that most major customers are limited companies which in fact prefer to deal with other limited companies and feel uncomfortable concluding agreements with a state enterprise with a particular legal status.

So, basically there would not be any problem to take that final step. However, I mentioned at the beginning of my presentation that in the last few years Sweden Post has had to slim its organization by thousands of employees i.e. because of sharply decreasing volumes of transactions at post office counters and of better working procedures in general, including increased mechanization. This led to a general belief among our staff and also in some political circles that the incorporation itself was the root of all the evil.

For this reason there was a big internal and public debate about the proposal to Parliament to incorporate the Post and the decision was finally taken with a rather slim margin in favor.

I have so far deliberately used the word incorporation because as the State retains all the shares in the company there is no privatization in the real meaning of the word. The Government thus appoints the Board of Sweden Post and the Board appoints the President and Chief Executive.

Finally under this heading I would like to mention especially for those who think about incorporation that there are two very crucial difficulties from a financial point of view:

- firstly the question about acquiring your own assets which I mentioned a while ago and in which respect we were lucky because we had already many years ago bought our assets
- secondly the question about how to finance your pension commitments. In this respect our position was bad as we had always only paid pensions to retired employees but not constituted any pension fund for future pension commitments. We expected the Government to fund these earlier commitments but in the end it was not willing to do so. Instead we will not be expected to pay any dividend on the State's shares in the company until a sufficient capital base has been built up again.

AGREEMENTS BETWEEN THE GOVERNMENT AND SWEDEN POST

As I said when I talked about the Postal Services Act the Government is in principle free to contract any postal operator for the universal postal service which it is obliged by Parliament to provide. However, at least now when this option had to be applied for the first time the Government of course in practice had very little choice as there was only one operator able to serve the entire country with high-quality postal services.

The fact that the Government realized that it was also the single owner of that particular company may also have helped it taking the decision.

But more seriously, there were negociations about the agreement to be signed and the first agreement is only valid for a limited period, i.e. up to the end of 1996, thus less than 3 years. After that the Government has the possibility to reassess the situation and in principle also to appoint another or several other operators.

I cannot go into the details of this first agreement but I just mention some of the aspects it covers:

- the Post accepts to provide a universal mail service without any compensation from the Government. This includes the delivery of newspapers, at present performed at prices under cost
- the universal service is defined on the basis of the Postal Services Act and with further specifications as regards e.g. the number of days per week deliveries have to take place, the quality of service (although not exactly defined) and the principles for pricing of various categories of mail items (including an index-type price cap for individual letters)
- the Post is also to provide a counter service all over the country, in principle without any particular compensation from the Government (some compensation is however paid for retaining post offices in some small localities where the population would not otherwise have any possibility of making payment transactions).

APPLICATION OF VALUE ADDED TAX, VAT (1 MARCH 1994)

European countries normally do not apply VAT on prices for postal services. As regards the EU member countries this is based on the 6th EC VAT Directive which exempts something which is called "public postal services" from VAT.

In Sweden's case, it was quite natural in the new situation with several operators competing on the same market that one of them could not be exempt while the others had to charge VAT. This would have been against all principles of fair competition which we by the way have enshrined in a new law on competition which has been copied from the Treaty of Rome. I might also add that when we introduced VAT we had expected some public debate about the price increase but actually almost no reaction came. Apparently the Swedish public is so accustomed to VAT being applied to almost all goods and services that they found it logic and acceptable.

In order to find out how this could comply with the VAT Directive, the Swedish Government sought clarification from Brussels and got the answer that VAT in our case, operating as a company under private law, did not fall under the mysterious concept of "public postal services" but that we had to apply VAT.

At the same time we also agreed with our tax authorities about the definition of a postage stamp. According once again to the VAT Directive VAT cannot be charged

on some "means of payment", including stamps. This is basically a misunderstanding as postage stamps have never had the same function as legal tender for which this regulation is understandable. We now consider stamps as a receipt for prepayment of a postal service and as such it is possible to charge VAT at the moment the stamp is bought.

Our view, which we are going to follow up in our future contributions to the discussion about the European postal policy, is that the 6th Directive is out-dated on both these points, creates market distortions and has to be amended when it anyway will come up for revision in the next future.

COMPETITION ON PAYMENTS TO AND FROM THE GOVERNMENT (1 JULY 1994)

I will not say very much about this issue as it is of a more national character.

The Postal Giro service run by Sweden Post has had a favoured position as regards these payments, taxes, VAT, pensions etc. and the interest on the float of such money has contributed to the profit of the Post and thus to support the nation-wide post office network through which many of these payments have been made.

These priviledges have been removed and all banks and other financial institutions may now compete for this business. As the Postal Giro is the normal means of payment in Sweden it keeps its very strong position and is still the main payment channel also for payments to and from the Government.

At the same time the Postal Giro service has been incorporated as a limited company under bank law and is now able to operate almost as a normal commercial bank. There are a few restrictions as regards credits but the general competitive situation of the Postal Giro has improved.

EXPERIENCES SO FAR

Of course it is yet too early to draw any firm conclusions about the effects of the five reforms I have been talking about. The incorporation is only some 9 months back but the monopoly has been gone almost two years which may make at least some comments possible.

There are at present only three companies registered as operating letter services or combined letter and parcel services. One of them is of course Sweden Post, the second is the company which I have mentioned before which delivers computer-produced letters in the Stockholm city region and the third is a company which has a big market share in the delivery of unaddressed printed matter but which might diversify into addressed mail in the future.

So on the surface almost nothing has happened. Remail from Swedish senders has increased as this is now a completely legal activity but it might have grown as much anyway as we postal operators have still not got our internal compensation systems in order and continue to make price arbitrage possible.

We have some indications that other operators are interested in doing something on the Swedish market, in a few of the traditional partner Posts in Europe and the main international integrators. This is a problem which we will have to face in the future: how to be at the same time partners and competitors.

Our customers have not reacted at all to the changes. As long as we deliver 96% of the mail according to promised standards at a price which is among the lowest in Europe they have good reasons not to complain.

On the contrary we have to accept that we are no longer protected from scrutiny from media and as a consequence of this type of publicity there has also been an increase in reactions from our own staff in the press.

A positive consequence is that we have noted that new categories of people have taken up an interest in joining our staff, in particular university graduates which we earlier had difficulties to attract. In a recent case we advertized for 25 trainees and got some 1900 candidates which meant that the ones we recruited were extremely qualified.

CONCLUSION

We are aware of the fact the two northernmost newcommers to the European Union—Finland and Sweden which are in approximately the same situation—attract some attention from the rest of Europe as regards the extent to which we have already liberalized our postal markets. I have myself heard reactions varying from pure admiration because we dare to conduct this full-scale experiment to comments that we must be complete fools.

The truth certainly lies somewhere in between. What I can assure you is that it has been an extremely interesting process in which we sometimes have had to find solutions to problems which no one had even tried to solve before.

I am sure that this presentation does not give you all the information you would like to have but I am of course at your disposal if you want to put questions either after this section of the conference or quite informally during breaks today and tomorrow.

Mr. MCHUGH. Thank you, Mr. Campbell. I appreciate your comments.

Mr. Geller, thank you for being with us. The floor is yours, sir.

Mr. GELLER. Thank you, Mr. Chairman.

My name is Harry Geller, and I am the president of Global Mail, located in Sterling, VA, at Dulles Airport. We are a company that competes directly with the Postal Service in the international mail market. I founded the company in 1987, and our annual revenues this year will exceed $25 million, and we have 150-plus employees.

I am testifying today on behalf of the Air Courier Conference of America, after having served many years as the Postal Subcommittee chairman. The Air Courier Conference is a trade association that includes the majority of courier, express, and private mail companies, companies such as Federal Express, UPS, and DHL, and scores of medium- and smaller-sized companies such as mine.

We have submitted a statement, and I will summarize the four major points that cause our organization the utmost concern:

The Postal Service's administration of the postal monopoly is unfair and inconsistent with the principle of due process. The Postal Service is acting as a judge in its own case. The combination of commercial and regulatory functions is plainly and fundamentally wrong. The Air Courier Conference submits that the authority to administer the postal monopoly be vested in a disinterested government agency and not with the Postal Service. Congress should set a price ceiling for the postal monopoly. The Air Courier Conference submits that it should be legislatively established, a more reasonable price limit for the postal monopoly.

The U.S. Government and not the Postal Service should represent the United States at intergovernmental organizations, such as the Universal Postal Union, with the authority to adopt international laws. The legal framework for the international delivery service is established by international conventions negotiated within the Universal Postal Union. Currently, the United States is represented by the Postal Service. The Air Courier Conference feels this situation is intolerable.

The United States is a world leader in the development of private international express services, yet the policy is controlled by a commercially competitive government agency with no public accountability. A similar analogy to this would be entrusting an individual airline, such as United Airlines, to establish and negotiate all international aviation policies, or entrusting AT&T for all international telecommunications policies.

Despite the constitutional and statutory requirement that the Postal Service must obtain Presidential consent before representing the United States at meetings of the UPU, the Postal Service, in fact, represented the United States without the consent of the President from 1970 until last year. Therefore, at UPU congresses, the Postal Service has agreed to, in the name of the United States, various anticompetitive measures that have hurt businesses such as mine.

The most infamous anticompetitive measure is article 25 of the current UPU postal convention. This authorizes postal administrations to intercept international mail that was not posted with the post office in the country where the mailer resided. This is a big problem for our association and companies such as mine. For example, an American bank can send its European bank statements through my company, Global Mail, that has proven over the years to offer value-added services that the Post Office does not offer, yet this mail can be intercepted for no other reason than the U.S. Postal Service did not send it, even though they are not delivering it.

With these points and others outlined in our statement, we respectfully urge the subcommittee to consider providing that the U.S. Government and not the Postal Service represent the United States at the Universal Postal Union.

The last point: International rates should be subject to the same Postal Rate Commission scrutiny as domestic rates. It has long been a suspicion of the Air Courier Conference that international rates do not comply with rate-making principles of the Postal Reorganization Act.

In 1992, the association sponsored an economic analysis that concluded the same. It showed, for example, that the Postal Service offers discounts for presorted international mail at 50 percent off the normal rates, even though the Postal Rate Commission allowed less than a 20 percent discount for presorted domestic mail.

In rates for other competitive international services, it was questionable whether there was any attributable cost coverage at all. Recently, the Postal Service announced a new service for parcels called "international package consignment service" that offers up to a 65 percent discount off normal international parcel rates. Therefore, we urge the subcommittee to consider extending the jurisdiction of the Postal Rate Commission to include international rates.

Thank you again for the opportunity to offer input into the subcommittee's deliberations, and I thank you for the consideration of these proposals.

[The prepared statement of Mr. Geller follows:]

PREPARED STATEMENT OF HARRY L. GELLER, PRESIDENT, GLOBAL MAIL, ON BEHALF OF THE AIR COURIER CONFERENCE OF AMERICA

I am the president and owner of Global Mail, Ltd., a private international mail company located at Dulles Airport in Sterling, Virginia. Global Mail was founded in 1987. Our annual revenues now exceed 25 million dollars, and we employ over 150 people in the United States. I am testifying today on behalf of the Air Courier Conference of America (ACCA). Global Mail has participated actively in the postal affairs work of ACCA for many years and, until recently, I was the chairman of the postal policy subcommittee of ACCA's International Committee. Since several of our largest members are representing themselves in the current hearings, ACCA felt it would probably be most helpful to the Subcommittee to offer a witness who could provide not only general industry views but also the perspective of a small businessman operating in the delivery services sector.

It is an honor and a pleasure for ACCA to accept the invitation of the Subcommittee to address public policies pertaining to the U.S. Postal Service. ACCA is a trade association that includes the great majority of courier and express companies operating in the United States, from the largest such as United Parcel Service and Federal Express to smaller regional, local, and specialist companies. ACCA counted 78 members in 1995 with total revenues of about $30 billion. ACCA was founded in 1975.

As a trade association, ACCA endeavors to speak for the industry on important policy issues on which a substantial consensus has developed among the member-

ship. This morning, we would like to bring to the attention of the Subcommittee specific postal policy issues which we, as an industry, have found it necessary to address in recent years. We hope that these will be taken into account in the early deliberations of the Subcommittee and that we may have an opportunity later to offer views on other issues when they are embodied in a specific proposal.

1. POSTAL SERVICE ADMINISTRATION OF TITLE POSTAL MONOPOLY IS UNFAIR AND INCONSISTENT WITH THE PRINCIPLE OF DUE PROCESS.

Over the years, ACCA has addressed postal monopoly related issues several times. ACCA was a strong supporter of a legislative exception for urgent letters in the mid-1970's.[1] ACCA also supported an exception from the postal monopoly for international remail in the mid-1980's.[2] ACCA has repeatedly urged that the Postal Service's Express Mail rates should comply with the minimum rate standards which the Postal Service, in its "urgent letter" monopoly regulation, imposes upon private express companies; alternatively, ACCA has urged the Postal Service to modify this regulation to make clear that private express companies may lawfully charge lower rates. (The "urgent letter" rule is discussed in the next section of this testimony.) In the last several years, ACCA has deplored the Postal Service's "enforcement" of the postal monopoly by harassing customers of private express companies with threats of fines[3] and "audits" of customers records,[4] both of which appear to exceed the statutory authority of the Postal Service.

The common thread running through all of these efforts has been ACCA's frustration with the fact that the Postal Service acts as both player and umpire in the delivery services sector. This combination of commercial and regulatory functions is plainly and fundamentally wrong. Quite aside from whether or not Congress should, for the public good, grant the Postal Service a monopoly over some portion of the industry,[5] it is clear that the administration of this public power should be in the hands of a disinterested agency and not a "business-like" Postal Service. USPS's administration of the postal monopoly is inconsistent with the due process principle that "no man can be a judge in his own case and no man is permitted to try cases where he has an interest in the outcome."[6]

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[1] There is no doubt that Congress would have enacted such a legislative exception to the postal monopoly in the late 1970's but for the fact that USPS undercut the legislative momentum by adopting a regulation purportedly suspending the postal monopoly for urgent letters as that term was defined by USPS and under conditions prescribed by USPS. See 39 CFR 320.6. Congress, however, has never authorized USPS to suspend the postal monopoly law. USPS's assumption of such authority appears to be a device to thwart Congressional oversight of the monopoly. See, e.g., "Legal Memorandum of Assistant General Counsel, Litigation Division, Concerning the Role of the Postal Rate Commission in the Exercise of the Legal Controls over the Private Carriage of Mail and the Postal Monopoly," at 33, Postal Rate Commission Docket No. MC 73–1 (1974). As a legal basis for its "suspension" power, USPS points to the Act of March 25, 1864, ch. 40, 13 Stat 37, codified at 39 USC 601 (b). A careful reading of the text and legislative history of this statute makes clear that it does not provide authority to suspend the postal monopoly, only authority to apply the postal monopoly by suspending the exception to the postal monopoly for the private carriage of letters in stamped envelopes now found at 39 USC 601 (a).

[2] The Postal Service "suspended" the postal monopoly for international remail in 1986. See 39 CFR 320.8 and previous note.

[3] 39 CFR 310.5(a) states that "Upon discovery of activity made unlawful by the Private Express Statutes, the Postal Service may require any person or persons who engage in, cause, or assist such activity to pay an amount or amounts not exceeding the total postage to which it would have been entitled had it carried the letters between their origin and destination." However, as both the Attorney General of the United States, 4 Ops. AG 349 (1844), and the Post Office Department, 6 Ops Sol POD 619 (1918) have ruled, it is well settled that USPS has no legal authority to collect or threaten such a fine. "Fines for shipments can not be levied by postoffice inspectors, but only by the courts in suits properly brought by the Government" where the accused is entitled to the normal procedural protections, including presumption of innocence. POD, Postal Decisions of the United States (1939 ea.) at 543. In effect, USPS is intimidating customers of private express companies with illegal fines that could never be upheld in court.

[4] Postal inspectors' search of customer records, much publicized in recent years, far exceed the limited search authority which Congress has granted USPS's agents. 39 USC 603. When questioned about its legal authority for such searches, USPS's stock answer is that the searches are "voluntary" on the part of the customer. In truth they are voluntary only because USPS has conducted them under false color of law and most citizens wish to cooperate with law enforcement officials. See United States v. Helbock, 76 F. Supp. 985 (D. Oregon, 1948).

[5] To date, ACCA has not taken a position on the appropriate scope, if any, of a postal monopoly.

[6] In re Murchison, 349 U.S. 133, 136 (1955). The "interest" required is that which is sufficient to offer "a possible temptation to the average man." Tumey v. Ohio, 273 U.S. 510, 532 (1927). An official's interest in the revenues of his agency is sufficient to create a violation of due process. Ward v. Village of Monroeville, Ohio, 409 U.S. 57 (1972). Thus, a state optometry board

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ACCA therefore submits that authority to administer the postal monopoly, if any, should be vested in a disinterested governmental agency and not in the Postal Service.

2. CONGRESS SHOULD SET A PRICE LIMIT CEILING FOR THE POSTAL MONOPOLY.

As noted above, the Postal Service has adopted a postal monopoly regulation which, in effect, sets minimum prices that express carriers must charge to avoid possible investigation under the postal monopoly. Under this rule, the shipper must pay the carrier at least $3 or double the otherwise applicable First Class or Priority Mail postage. 39 CFR 320.6.

Since this rule was adopted in 1979, express traffic has grown enormously and the actual cost of providing nationwide express service for shipments of more than a few pounds has fallen to less than double the postage rate. Fierce competition has forced prices down to costs, as it should. In the late 1980's, both the Postal Rate Commission and the Economics Bureau of the Federal Trade Commission urged the Postal Service to revise the "urgent letter" rule to reflect modern commercial realities. The Postal Service declined to do so.

If the postal monopoly has any public purpose at all, it is only to protect the basic ability of the Postal Service to provide universal service, not to guarantee to the Postal Service every single dollar of current income. A simple "price limit" for the postal monopoly would protect the vast bulk of the Postal Service's business while permitting needed flexibility for private express operations. Since the "urgent letter" rule was implemented in the United States, price limits for the postal monopoly have been adopted in a number of other countries including the United Kingdom (£1.00 or about $1.60), Canada (3 times the basic postage rate or about $1.74), Australia (4 times the basic postage rate or about $1.39), and New Zealand (NZ$0.80 or about $0.51). The European Union is now seriously considering a Europe-wide price limit of 5 times the basic postage rate.

At a minimum, the United States should adopt similar "price limit" legislation for its postal monopoly.

3. THE U.S. GOVERNMENT, NOT THE POSTAL SERVICE, SHOULD REPRESENT THE UNITED STATES AT INTER-GOVERNMENTAL ORGANIZATIONS, SUCH AS THE UPU, WITH AUTHORITY TO ADOPT INTERNATIONAL LAWS.

The legal framework for international delivery service is established by international conventions negotiated within the Universal Postal Union (UPU). In addition, the UPU coordinates and promotes the commercial activities of the various national post offices. The UPU is an inter-governmental organization headquartered in Berne, Switzerland. It meets in full congress once every five years to revise and reenact these international postal agreements. The last UPU congress was held in Seoul, Korea, in August 1994. Acts of the UPU are negotiated by "plenipotentiaries" of the member countries. According to the terms of the UPU Constitution, the Universal Postal Convention and other acts of the UPU are binding international law.[7]

Under U.S. law, acts of the UPU are viewed as "executive agreements" concluded by the President. Legal consequences flowing from acts of the UPU may be seen in instances such as the following:

- Non-postal laws give effect to some provisions of the UPU acts.[8]
- Federal agencies implicitly or explicitly give effect to some provisions of the UPU acts.[9]

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may not issue a rule defining qualifications for the practice of optometry if the board is composed of independent optometrists and the effect would be to bar optometrists who are associated with manufacturers of eyeglasses. Gibson v. Berryhill, 411 U.S. 564 (1973). The Court concluded, "the pecuniary interest of the members of the Board of Optometry had sufficient substance to disqualify them." 411 U.S. at 579.

[7] UPU Const. §22.3 ("The Universal Postal Convention shall embody the rules applicable throughout the international postal service and the provisions concerning the letter-post services. These Acts shall be binding on all member countries."). The Convention establishes the basic rules for exchanging international mail. It is supplemented by more detailed implementing provisions, Detailed Regulations of the Convention. The Constitution and the General Regulations (detailed rules implementing the Constitution) establish rules for governing the UPU and adopting the acts of the UPU. These are the four major acts of the UPU. Other acts include several agreements on the exchange of parcel post, money orders, etc.

[8] For example, the Federal Aviation Act requires the Department of Transportation to consider UPU air conveyance dues in the setting of international air transportation rates for mail. 49 App. USCA 1376.

[9] For example, special legal treatment is accorded "mail entries" in U.S. customs regulations. As discussed below, the Department of State has repeatedly cited UPU regulations as limiting

• Non-postal treaties give effect to UPU acts.[10]

• U.S. courts have given judicial recognition to executive agreements as the law of the land in some cases, although the precise legal effect of an executive agreement is not always clear.[11]

• In legal briefs, USPS and other post offices have cited the UPU acts as legal authority for non-application of other laws.[12]

While most of the Universal Postal Convention and other UPU acts are not relevant to the private express industry, the legal status of the UPU is important in areas in which acts of the UPU permit or encourage postal administrations to fix prices, refuse to deal with private express companies, or otherwise avail themselves of legal treatment that is unavailable to private industry.[13]

Under the Constitution, the President has exclusive authority to negotiate international agreements on behalf of the United States. In regard to international postal agreements, the 1970 Postal Reorganization Act specifically preserves presidential authority by providing that the "Postal Service, with the consent of the President, may negotiate and conclude postal treaties or conventions." 39 USC 407(a).

Despite the constitutional and statutory requirement that the Postal Service must obtain Presidential consent before representing the United States at meetings of the UPU and other international postal fora, the Postal Service in fact represented the United States without the consent of the President from 1970 until last year. At UPU congresses, the Postal Service has agreed, in the name of the United States, to various anti-competitive provisions. After Postal Service signature of each successive Universal Postal Convention, the President has had no practical choice but to ratify the Convention *in toto* since the UPU Constitution prohibits reservations to specific provisions.

The manner in which USPS has used this appearance of public authority may be illustrated by the story of the ACCA's efforts to reform international restraints on remail. Remail is the practice of using a private express company to forward international mail "downstream" to a post office in the country where the mail is to be delivered or to an intermediate post office that will provide good forwarding services at low postage rates. Remail provides additional services unavailable from traditional international postal services, such as collection from mailer's premises, sorting, monthly billing, greater speed, and competitive prices. Remail also takes advantage of the fact that traditionally post offices have agreed to deliver each others' mail at rates (called "terminal dues") below those charged the general public. Some post offices are more willing than others to pass on this low inter-postal rate to customers. While this economic irrationality has encouraged remail, it has also been used by post offices to justify restrictions on international remail. In response, express companies have urged the post offices to align delivery charges for international and domestic mail, permitting competition to proceed on an equal basis.

The post offices' most infamous anti-remail measure is Article 25 of the current (1989) Universal Postal Convention. This provision facilitates allocation of national markets by authorizing postal administrations to intercept international mail that was not posted with the post office in the country where the mailer resided. For ex-

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the discretion of the President to take a reservation to the UPU acts upon ratification or to add non-postal persons to the U.S. delegation to the UPU.

[10] For example, Kyoto Convention, Annex F.3 (customs simplification).

[11] See, e.g., Weinberger v. Rossi, 456 U.S. 25 (1982) (the President may enter into certain binding agreements with foreign nations and, even when the agreement compromises commercial claims between U.S. citizens and a foreign power and such agreement is not a treaty, it may have an effect similar to treaties in some areas of domestic law). A court is more likely to honor an executive agreement made by the President in accordance with existing statutory authority. International postal agreements were apparently the first example of Presidential executive agreements authorized by Congress. 1 Stat. 232, 239, §26 (1792). See generally Rest. 3d, Restatement of Foreign Relations Law of the United States §111 (effect of international agreements as U.S. Law) and §303 (authority of President to conclude executive agreements) (1987). Moreover, ACCA does not accept USPS's claims that UPU acts offer legal authority to issue regulations which further inhibit competition in international delivery services. See, e.g., 58 FR 25959 (Apr. 29, 1993) (proposing new section 790 of the International Mail Manual).

[12] See, e.g., USPS, "Defendant's Opening Brief in Support of Its Motion to Dismiss UPS's Amended Complaint" at 22 (Nov. 16, 1993), UPS Worldwide Forwarding, Inc. v. United States Postal Service, 853 F. Supp. 800, (D. Del. 1994). USPS states, "ICM service agreements are also authorized by the Acts of the Universal Postal Union." In cases brought before the European Commission, various postal administrations have likewise cited UPU acts to justify terminal dues agreements.

[13] Examples include Article 25 (a market allocation scheme), terminal dues (a price fixing agreement), preferential rates for large users (possibly predatory pricing), and UPU-generated customs forms (impossible for private companies).

ample, suppose an American bank sends statements of account for its European customers to the very efficient Dutch Post Office for distribution throughout Europe. Because the U.S. has agreed to Article 25, European post offices are authorized to intercept this American mail for the sole reason that it was not posted with the U.S. Postal Service.

In 1986, ACCA urged President Reagan to take a reservation to this provision (then numbered Article 23) in the 1984 Universal Postal Convention prior to ratification. Although the Reagan Administration was inclined to agree with the proposed reservation, USPS successfully argued that, under the terms of the UPU acts, a specific reservation could only be taken at the time of signing of the Convention.[14] In May 1986, President Reagan ratified the Convention but instructed USPS to administer it in a pro-competitive manner.[15]

Notwithstanding this Presidential directive, by April 1987, USPS and other postal administrations were engaged in meetings to develop a strategy to restrict international remail. These meetings resulted in, among other things, a new agreement on terminal dues charges designed to discourage remail.[16] When ACCA brought this anti-competitive agreement to the attention of the U.S. government, the Department of Justice urged the addition of pro-competitive conditions and a pledge of U.S. advocacy of cost-based terminal dues in the upcoming 1989 UPU congress. The Department of Commerce opposed USPS participation in these agreements in order to guarantee U.S. advocacy of terminal dues reform.[17] ACCA supported these positions. In the end, USPS joined the new terminal dues agreement without pro-competitive conditions and, in the 1989 UPU Congress, went on to advocate UPU adoption of a similarly anti-competitive terminal dues scheme, reenactment of Article 25, and other anti-remail provisions. Again, when the smoke cleared, President Bush had no practical alternative but to ratify the 1989 UPU Convention as negotiated by USPS.

In October 1990, ACCA suggested to President Bush that ACCA should, as a matter of fairness, be included in the U.S. delegation to the UPU's Executive Council. In January 1991, the Department of State denied ACCA's request, citing UPU provisions which limit the head of the U.S. delegation to postal officials. As an alternative, the DOS suggested the express industry apply for observer status at the UPU.[18]

In April 1991, ACCA and its international affiliate, International Express Carriers Conference (IECC), requested observer status from the UPU. These requests were denied by the UPU Executive Council, chaired by USPS.

As an alternative, the UPU agreed to establish a "Private Operators-UPU Contact Committee" safely outside the course of UPU proceedings. The first meeting of the Contact Committee was held in October 1992. At the second meeting, in May 1993, the express industry proposed the establishment of a working party to consider jointly ideas for reform of the UPU and international framework of postal laws, subjects that were already under active review by the UPU internally. The UPU Executive Council refused. Nevertheless, at the third meeting of the Contact Committee, held in October 1993, the express industry tendered a Six-Point Reform Plan. These proposals were generally dismissed by the UPU Executive Council in a paper presented at the same meeting. At this meeting, the express industry also renewed its request for observer status at UPU activities that concerned regulatory issues. The USPS chairman of the UPU Executive Council again rejected this request, supported by the delegates from Russia, Japan, and China.

At the fourth meeting of the Contact Committee, held in February 1994, the express industry presented a paper explaining why it felt the UPU's reasons for reject-

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[14] UPU Const. § 22.6 states, "The Final Protocols annexed to the Acts of the Union referred to in paragraphs 3, 4, and 5 shall contain reservations to those Acts."

[15] Letter from President Reagan to Postmaster General Casey, dated May 1, 1986.

[16] The majority of postal administrations were European; "CEPT" refers to the Conference of European Postal and telecommunications Administrations, a European union of postal administrations. In April 1993, in response to a complaint by the express industry, the European Commission adopted a "Statement of Objections" which condemned the CEPT terminal dues agreement as inconsistent with the competition rules of the Treaty of Rome. Case IV/32.791—Remail. Further proceedings in this case are pending.

[17] Letter from Charles F. Rule, Assist. A.G., DOJ, to Carol T. Crawford, Assoc. Dir. for Economics and Government, OMB, dated May 1, 1988; letter from R. David Luft, Dep. Assist. Sec. for Services, DOC, to Carol T. Crawford, Assoc. Dir. for Economics and Government. OMB, dated May 3, 1988.

[18] Letter from John Bolton, Assist. Sec. of International Organization Affairs, Department of State, to Peter Farkas, counsel for ACCA, dated 15 April 1991. Mr. Bolton cites UPU Gen. Reg. § 102 and Rules of Procedure of the UPU Executive Council §§ 2–4 for excluding ACCA from membership in the U.S. delegation to the UPU.

ing the Six-Point Reform Plan were unpersuasive. The USPS chairman of the UPU Executive Council criticized this paper at length and declared that:

> this forum is not an appropriate one in which to discuss—in effect—the fundamental principles on which the UPU is based as an inter-governmental organization. It is—I repeat—for governments to decide what arrangements are in the interests of their citizens in the postal sphere. I do not feel, therefore, that any useful purpose would be served by further discussion of "UPU Reform" in this Committee.[19]

Given the chilly reception at the UPU, in fall 1993, ACCA renewed its request for official participation, as an observer only, in the U.S. delegation to the 1994 UPU congress. This time, the Department of State took a new tack and disclaimed responsibility for the U.S. position or its delegation:

> As you are aware, the United States Postal Service (USPS) has the lead for the United States on UPU matters. Moreover, by law, the UPU is not one of the international organizations for which the Office of International Conferences in the Department of State has the authority to make final decisions on the composition and accreditation of U.S. Delegations. In the case of UPU meetings, USPS has this authority.[20]

From this reply and questioning of USPS, ACCA finally realized that there was no administrative machinery to control representations of the Postal Service at the UPU because the President had never authorized the Postal Service to represent the United States at the UPU in the first place. Last spring, in advance of the 1994 UPU congress, ACCA brought this anomalous situation to the attention of President Clinton and urged him to appoint someone from the Executive agencies to represent the United States at UPU meetings with international legislative authority. Four months later, on the eve of the 1994 UPU Congress, President Clinton appointed the U.S. Postal Service to represent the United States at the UPU without providing for any public input or Administration supervision of positions taken by USPS. Before making this delegation, the White House reportedly consulted with only the Postal Service and postal unions; in any case, the White House certainly did not consult with the private express industry.

ACCA submits that the present situation is intolerable. The United States is the world leader in the development of private international express services and international direct mail services, yet the policy of the United States towards international delivery services is controlled by a commercially competitive government agency with no public accountability. The governmental status of this agency does nothing to ameliorate the unfairness of the situation. It is as though the President had entrusted negotiations over international aviation policy to United Airlines and negotiations over international telecommunications policy to AT&T. The process by which U.S. international postal policy is developed is incompatible with the principle of due process (just as is USPS's administration of the postal monopoly law) and the best interests of the United States.

ACCA therefore respectfully asks the Subcommittee to consider an amendment to 39 USC 407 that would vest authority to represent the United States at meetings of inter-governmental organizations with legislative authority in an Executive Department without a direct commercial interest in the resulting international agreements.

4. INTERNATIONAL RATES SHOULD BE SUBJECT TO THE SAME POSTAL RATE COMMISSION SCRUTINY AS DOMESTIC RATES.

ACCA has long suspected that international postage rates do not comply with the ratemaking principles of the Postal Reorganization Act as developed by the Postal Rate Commission. In 1989, ACCA asked a federal court to rule on whether the Postal Service is required to submit international postage rates for approval of the Postal Rate Commission in the same manner as domestic rates, a legal point which, in the view of ACCA, was unsettled. The courts decided that, under 39 USC 407, inter-

[19] UPU, Draft "Report of the Private Operators-UPU Contact Committee, Berne, 7 February 1994," at point 23.

[20] Letter from Douglas J. Bennet, Assist. Sec. of International Organization Affairs, Department of State, to Peter Farkas, counsel for ACCA, dated 15 November 1993.

national rates (although not international mail classifications) were exempt from the requirement of prior approval by the Postal Rate Commission.[21]

In 1992, ACCA sponsored an economic analysis of certain international postage rates based upon the concededly incomplete data available publicly. This study tried to explain why, for example, USPS offered international presorted mail a discount of more than 50 percent from retail rates even though the Postal Rate Commission allowed only a 20 percent discount for presorted domestic mail. The study concluded that certain international postage rates do not comply with the policies of the Postal Reorganization Act because the differences in cost coverage between rates for individuals, which are essentially non-competitive, and rates for business services, which compete with offerings by private express companies, are much greater than permitted for comparable domestic rates. In some cases (such as rates for International Surface Airlift), it hardly seemed credible that rates are covering attributable costs. On this basis, ACCA asked the Senate postal subcommittee to investigate the matter further. The Senate subcommittee requested the Postal Rate Commission to prepare a special study on international mail rates and asked USPS to supply the necessary data. This study was thwarted because the Postal Service refused to cooperate.

In 1994, one ACCA member, UPS, and ACCA itself sued to enjoin a new international postal rate, International Customized Mail (ICM), that offered contract rates for large mailers. The District Court granted the injunction, holding that the ICM rates were discriminatory and were not approved by the President as required by law.[22] This case is now on appeal.

On December 22, 1994, the Postal Service announced that it had, on December 1, introduced a new series of international document and parcel services called International Package Consignment Service (IPCS).[23] IPCS offers large mailers discounts from normal international parcel rates of 40 to 65 percent. Initially, IPCS is to be offered to Japan. IPCS was intended to replace and remedy the legal defects in the ICM rate. To answer the legal finding of the District Court that international rates must be approved by the President, USPS persuaded President Clinton to delegate his approval authority to the Governors of the Postal Service.[24]

While the Constitution and laws grant the President broad authority to delegate tasks entrusted to him, this authority is not unlimited. ACCA believes that the President's attempted delegation to the Governors of USPS cannot be reconciled with his responsibility to review and approve international mail rates in a manner that protects the public interest and accords due process to all affected parties. The Governors of USPS are not impartial governmental officials. They are responsible for the operation of a Postal Service which competes directly against private industry and which is required by law to be run on a business-like basis. It is plainly inappropriate to vest Presidential review authority in the Governors.

In the most recent rate case, R94–1, one ACCA member, Federal Express, noted that the USPS's recent and proposed rates revealed a clear trend towards shifting a disproportionate level of institutional costs onto domestic mail, allowing USPS to price international mail as a whole at questionably low levels. This, in turn, exacerbated the problem of large differences among the rates for specific classes of international mail Federal Express also pointed out that USPS had provided even less than its traditionally minimal explanation of projected costs for international mail. Even though a rate case only results in the setting of domestic rates, it is necessary for USPS to explain its international mail costs in sufficient detail so that the costs of international mail can be separated from the costs of domestic rates. In the past, errors in this process have led to material errors in the forecasting of the costs and

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[21] In Air Courier Conference of America v. U.S. Postal Service, 959 F.2d 1213 (3d Cir. 1991), the Court of Appeals held that the International Mail rates are not subject to review by the Commission under 39 USC 3621–28.

[22] UPS Worldwide Forwarding Inc. v. United States Postal Service, 853 F. Supp. 800 (D.Del. 1994).

[23] 59 FR 65961, 65962 (Dec. 22, 1994) (emphasis added). The very low rates offered by IPCS suggest that USPS may be benefitting from special rates or services which Japan Post makes available to USPS but not to private express carriers. The possibility of USPS using its special status with foreign post offices to, in effect, resell their anti-competitive practices in the U.S. offers still additional reasons for scrutiny of international rates by the Postal Rate Commission.

[24] 59 FR 65471 (Dec. 19, 1994). The President's December 22 delegation order states in part that: by virtue of the authority vested in me by the Constitution and the laws of the United States of America, including section 301 of title 3 of the United States Code, I hereby delegate to the Governors of the United States Postal Service . . . any authority vested in me by section 407(a) of title 39 of the United States Code, with respect to mail matter conveyed between the United States and other countries.

revenues expected from international mail and thus in the anticipated cost coverages for domestic rates.

After extended procedural convolutions, the Postal Rate Commission agreed that USPS must provide basic supporting data to explain its separation of domestic and international costs. The Commission ordered USPS to disclose this information under cover of a protective order. USPS refused. Its legal authority for doing so remains a mystery since the Postal Reorganization Act clearly states that decisions of the Postal Rate Commission governing the conduct of rate cases "shall not be subject to any change or supervision by the Postal Service." 39 USC 3603.

ACCA submits that foregoing pattern of commercially aggressive, but wholly unreviewed, international ratemaking is inappropriate. As even the Postal Service has conceded, international mail rates, no less than domestic mails, are legally required to comply with the standards of the Postal Reorganization Act. The Postal Service has explained:

> The criteria of the Postal Reorganization Act (Act) that govern the Postal Service's international rate setting authority include 39 U.S.C. 101(d), which requires that *rates must apportion the costs of all postal operations to all users of the mail on a fair and equitable basis;* 39 U.S.C. 101(a), which provides that *rates may not apportion costs in a manner that would impair the overall value of the service to the people;* 39 U.S.C. 403(a), which requires that *rates be fair and reasonable and* 39 U.S.C. 403(c), which provides that *rates may not be unduly or unreasonably discriminatory or preferential. Implicit in these criteria is a requirement that international rates be set in a manner that covers variable costs and makes an appropriate contribution to fixed costs.*[25]

There is, however, no practical way to ascertain USPS's compliance with the Act if all relevant data is kept secret.

Without at this time taking a position on possible reforms to the rate regulation process generally, ACCA submits that there is no public policy reason why international mail should not be subject to the same scrutiny as domestic rates. USPS has no more won a place in the international delivery service market by thrift and entrepreneurship than it has in the domestic market. USPS's international business is due entirely to its domestic network, which in turn is the result of the postal monopoly and other public benefits, and its role as the official U.S. participant in the Universal Postal Union. USPS's need for confidentiality of truly sensitive commercial data is no greater for its international mail services than for competitive domestic services and will be protected no less assiduously by the Postal Rate Commission.

Nor is there any technical reason why the Postal Rate Commission cannot oversee international mail rates in the same manner as domestic. International mail service consists of the collection and forwarding of outbound mail destined for other countries as well as the delivery of inbound mail received from other countries. In terms of domestic operations, international mail and domestic mail are two peas in the same pod. International mail and domestic mail are physically collected, processed, and delivered by the same postal systems. They make use of the same domestic transport systems. A single management team supervises domestic operations for international and domestic mail services using the same sampling and accounting systems.[26] Of necessity, there is a high degree of congruence between international mail classes and domestic mail classes. Furthermore, it is clear that the correctness, or the lack of correctness, with which USPS accounts for and prices international mail rates, affects the correctness of domestic rates.

The joint production of domestic and international postal operations also suggests the great value of a serious comparative study of domestic and international rate-

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[25] 57 F.R 30652 (July 10, 1992) (proposing International Customized Mail) (emphasis added).

[26] Domestic costs of international mail are accounted for by the same cost systems used for the development of domestic mail costs. The In Office Cost System (IOCS), for example, apportions the costs of mail processing according to about 85 activity codes which, in turn, correspond to the various rate categories of international mail. Similarly, the Transportation Cost System (TRACS) apportions most domestic transportation costs of international mail according to several various categories of inbound and outbound international mail. The Revenue, Pieces, and Weight (RPW) system reports the volume and weight of outbound international mail according to ten types of services essentially equivalent to the class and subclass division of domestic mail. The only physically unique aspect of international mail is that outbound international mail is sent to an international gateway and given to an international airline or shipping line and ultimately delivered by a foreign post office. USPS accounts separately, in cost segment 14.2, for payments to international carriers and payments to foreign Post offices for foreign delivery or forwarding to third country post offices.

making since 1970. For 25 years, USPS has set international rates free of "interference" from the Postal Rate Commission, mailers, and private competitors, and without the "burden" of having to explain its costs and calculations. Has the Postal Service competed vigorously but fairly or has it unfairly loaded institutional costs on retail mailers who cannot protect themselves? Has the Postal Service been commercially successful or given in to the temptation to maximize market share regardless of cost? Answers to such questions would offer insight into the extent to which the Postal Service may be entrusted with special legal benefits and yet relieved of special regulatory oversight.

5. CONCLUSIONS

In light of the foregoing considerations, ACCA respectfully urges the Subcommittee to consider the four following changes in the postal laws:

- extending jurisdiction of the Postal Rate Commission to include supervision of international mail rates on the same basis as domestic rates;
- providing that the United States government, not the U.S. Postal Service, should represent the United States at inter-governmental organizations, such as the UPU, which adopt or amend international agreements and conventions having general legal effect;
- divesting the Postal Service of any administrative authority over the postal monopoly laws; and
- legislatively establishing a reasonable price limit for the postal monopoly.

In addition, ACCA urges the Subcommittee to consider a careful comparative study of international and domestic ratemaking. Such a study would provide insight into possible dangers and benefits of a Postal Service still entrusted with special legal benefits but unchecked by independent regulatory oversight.

Again, I would like to emphasize that ACCA very much appreciates the opportunity to offer input to the Subcommittee's deliberations and will be pleased to provide the Subcommittee with additional information in regard to any aspect of this testimony.

Thank you for your consideration of our proposals.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO HARRY GELLER

Question 1. As Chairman of Global Mail, would you share with the Subcommittee some of the issues that may be unique to smaller air couriers in your industry?

Answer. The international postal policy issues that affect the large private operators affect the smaller operators even more so, due to a higher percentage of our revenue being dependent on postal products. The points made in my testimony reflected positions taken by ACCA over the years. Although these positions necessarily reflect concerns of ACCA's larger members, most of the issues are of direct concern to smaller companies like Global as well. If the Postal Service can give special discounts on international services without review by the Postal Rate Commission (as the recent ICM case seems to suggest), Global will be directly affected. We will be forced to become a supplier to the Postal Service because we will no longer be able to compete for the whole "remail" service. Indeed, there is no question that our ability to sell international forwarding services for advertisements has been hurt badly by USPS's absurdly low ISAL rates. In the same way, when the Postal Service enters into an agreement on terminal dues with other post offices in the UPU (an illegal price fix when done by private companies), this directly affects Global's commercial opportunities, both on the downside and the upside. When the Postal Service and other post offices enforce Article 25 against remail (likewise a violation of antitrust laws if done by private companies), Global's ability to sell remail service is significantly hurt. For these reasons, I was glad to serve as the spokesman for ACCA.

Generally, regulatory policies affect large and small companies alike. However, in thinking about your question, it does seem to me that there are some differences in the impact on smaller and larger companies that may be worth noting.

First, regulatory barriers tend to hurt innovative companies more than established companies. Regulations are necessarily designed for past commercial situations rather than new commercial solutions. It is smaller companies that tend to be commercial innovators more than larger companies. In the 1970s, domestic express service was pioneered by Federal Express and international express service was pioneered by DHL; both were then very small companies. By the late 1980's, international remail was pioneered not by Fedex and DHL but by other, smaller firms. As a company gets larger, it finds that it has more to lose and becomes less willing to challenge political interests like the post office. Therefore, smaller compa-

nies tend to face regulatory problems which are more fundamental than those faced by larger companies. At the same time, smaller companies are less well equipped to deal with serious regulatory problems because they do not have the resources needed to oppose regulatory excesses. In a sense, regulation becomes a barrier to entry that affects small companies more than large companies.

Second, it seems to me that over the years there has been a tendency for the Postal Service to make regulatory examples of smaller companies rather than larger companies. As far as I am aware, the Postal Service has never initiated a postal monopoly case against any of the major express companies (DHL, Federal, UPS, etc.). Instead it has gone after a Christmas card delivery company in Oklahoma, Pat Brennan in New York, Robert Black in Kansas, House and Senate Delivery in Washington, etc. Similarly, USPS is now trying to restrict remail by prosecuting Quick Courier, a small company, but even the larger companies now also provide remail services.

Question 2. One of the areas the Postal Service competes, without much pricing regulation by the Postal Rate Commission, is in the area of International mail. Not so coincidentally this is also an area you have the most complaints regarding postal pricing. A recent article states that the Postal Service is offering a Worldpost Priority Letter from selected U.S. cities to selected countries at a base rate of $3.75 while private couriers start their international delivery rates at about $20. That is a significant difference in pricing, is it not? How do you believe the USPS is able to make this service available at a so much lower rate?

Answer. The Worldpost Priority Letter service does not seem to be a true express service. It is reasonable to expect that a 2–3 day service without tracking and tracing could be priced less than express service. On the other hand, as someone with years of experience in designing international delivery services, I can say that my sense is that the Worldpost rates are suspiciously low. If nothing else, differentiating a new service like Worldpost is inherently expensive for a large operation like USPS. However, I cannot comment in detail on the justifiability of the Worldpost rates, because in the last rate case the USPS flatly refused Rate Commission orders to explain international mail costs. If the Subcommittee is able to obtain even the most basic data for international mail—such as USPS's Cost and Revenue Analysis for international mail and a breakdown of international traffic by terminal dues category—then I would be very glad to offer more specific comments on what may or may not be justifiable about Worldpost rates.

More generally, if this international mail data can be obtained, I believe the Subcommittee may find an appalling lack of cost coverage for other international mail services as well. As explained in my testimony, other examples of significant anomalies in the pricing of international mail services include ISAL (International Surface Air Lift) and IPA (International Priority Airmail).

Mr. MCHUGH. Thank you, Mr. Geller. I appreciate that. We have received your written testimony.

I would say, for the record, as I did not for panel II, and I meant to and I will now, and also for panel III, that all of your written statements will be entered in the record in their entirety and considered as such.

With that, I will turn to Mr. Hiebert. Welcome, sir.

Mr. HIEBERT. Thank you, Mr. Chairman.

Good afternoon. My name is Peter Hiebert, and I am counsel to DHL Airways, Inc., the U.S. arm of the DHL Worldwide Express Network. DHL is the world leader in the international transportation and delivery of time-sensitive business documents and small packages. The network today operates in over 200 countries, employs over 30,000 people, and generates over $3 billion in revenues annually. On behalf of DHL, I would like to thank you and the members of the subcommittee for allowing this opportunity to present our ideas on critical issues facing the Postal Service.

While private international express service has become the commercial norm in the new information age, such service remains today at the sufferance of the U.S. Postal Service and postal administrations around the world. In particular, under the private express statutes, the U.S. Postal Service asserts a monopoly on the

carriage of all letters, commercial as well as personal, on any postal route, including international routes. In addition, the Postal Service asserts the right to define, interpret, and enforce the scope of its own monopoly through its own regulations.

In 1979, the Postal Service chose to suspend its asserted monopoly with respect to domestic and international delivery of extremely urgent letters by regulation, but acted only when Congress threatened to repeal the private express statutes to permit competition in this area.

While U.S. and international businesses have come to rely on international air express service in order to compete in the global marketplace, it is not as well understood that DHL and other express delivery companies are but a legal ruling or decision by the Postal Service away from being banned or eliminated from all or portions of the marketplace.

While this may be unlikely for political reasons, the ability of U.S. businesses to compete overseas, as well as domestically, through rapid communication is nonetheless held hostage to an administrative exception granted, interpreted, and enforced by a government competitor that has consistently demonstrated its inability to meet the needs of U.S. and international businesses for fast, reliable, and secure service.

The problem of sufferance is compounded by the expansive view of monopoly jurisdiction by many foreign postal administrations around the world as well. Indeed, the international air express industry has had to fight in virtually every country around the world, at some point, to gain acceptance, if not legitimacy, under foreign postal monopoly laws. While the battle for legitimacy has been largely won, the industry even today is battling foreign postal administrations intent on restricting its growth under retreaded but outmoded monopoly theories.

DHL believes that the time for reform of U.S. postal laws is long overdue. Congress last overhauled the general postal law in 1970, 1 year after DHL was founded and 2 years prior to the establishment of Federal Express. This subcommittee should begin by seriously looking at the question whether technology and the marketplace since that time have rendered the private express statutes obsolete and whether the Postal Service monopoly should finally be ended.

While this idea is not new, rapid technological change in the demands of the marketplace in the new information order make the question timely, relevant, and urgent. While DHL concedes that the elimination of the postal monopoly over domestic mail would represent a major change and would probably require some indeterminate transition period, there should be no reluctance to consider immediate reforms in the area of international service.

DHL would like to posit the following four points: One, Congress should limit any monopoly jurisdiction to, at most, first-class domestic service. DHL does not concede that Congress ever intended the private express statutes to apply outside the boundaries of the United States. Beyond any legal argument, however, there simply is no justification today for asserting such jurisdiction in today's environment.

International mail today accounts for less than one-half of 1 percent of total Postal Service volume. As the executive director of the Postal Service for international postal relations publicly stated last week, international service is "a very competitive arena. There is no monopoly in international mail." Congress should take him at his word and remove international service from the application of the private express statutes.

Two, as long as the Postal Service retains a monopoly over domestic service, the Postal Service's international rates should be subject to review by the Postal Rate Commission, in order to prevent predatory pricing in express mail service and unfair competition through cross-subsidies from the Postal Service's first-class domestic mail. The courts recently held that the PRC was not authorized by Congress to review international rates. Congress can and should fix this oversight.

Three, Congress should establish a clear trade policy for the U.S. international air express industry, particularly with respect to postal restrictions and non-cost-based fees imposed on this industry by foreign postal administrations. The industry has no recourse under the General Agreement on Trade and Tariffs. GATT, which is generally limited to international trade in goods only.

While the recently approved General Agreement on Trade in Services, negotiated as part of the Uruguay Round, attempted to fill this void, the agreement, as a practical matter, only applies to a few service sectors and a limited number of countries.

Until U.S. and international trade law catches up with the marketplace, Congress should insist on, and provide some mechanism for, bilateral negotiations whenever foreign governments or postal administrations attempt to impose unfair or discriminatory conditions on international air express companies.

Four, in recognition of the fact that international express delivery not only facilitates international trade but is international trade, Congress should, accordingly, amend the postal laws to require that the U.S. Trade Representative represent the United States at the Universal Postal Union and similar intergovernmental bodies charged with formulating international postal policies.

The Postal Service, private carriers, and users, alike, should be consulted on an equal basis in setting U.S. policy at such conventions. As a practical matter, such an amendment need not preclude the Postal Service from sending its own representatives to such gatherings, provided that the U.S. positions and strategies are vetted and approved by a disinterested agency intent on promoting rather than stifling competition in international delivery service.

Thank you very much for your consideration of DHL's views on postal reform issues. DHL looks forward to working with you and the subcommittee to reform and modernize the Nation's postal laws.

[The prepared statement of Mr. Hiebert follows:]

PREPARED STATEMENT OF PETER N. HIEBERT, WINSTON & STRAWN, COUNSEL TO DHL AIRWAYS, INC.

Good morning. My name is Peter Hiebert. I am Counsel to DHL Airways, Inc., the U.S. arm of the DHL Worldwide Express Network ("DHL"). DHL is the world leader in the international transportation and delivery of time-sensitive business

documents and small packages. The DHL network today operates in over 200 countries, employs over 30,000 people, and generates over $3 billion in revenues annually. On behalf of DHL, I would like to thank Chairman McHugh and the members of the Subcommittee for allowing this opportunity to present our ideas on current issues facing the U.S. Postal Service ("USPS").

DHL AND THE INTERNATIONAL AIR EXPRESS INDUSTRY

DHL specializes in rapid, door-to-door transmission of time-sensitive business documents and small parcels in the United States and around the world. As an integrated transportation and delivery network, DHL operates its own fleet of jet aircraft, helicopters, and ground transportation, in addition to its use of on-board couriers, scheduled commercial aircraft and charter planes. In order to facilitate clearance of international shipments, DHL maintains its own customs brokerage operation in each of its scheduled ports of entry in the United States. By exercising complete administrative control over a document or small package from the point of pick-up to the point of delivery, DHL provides a level and quality of service which, by definition, cannot be matched by the USPS, foreign postal administrations, or other entities that lack technologically sophisticated tracking systems and whose administrative control of the delivery process stops within or at a nation's boundary.

DHL provides international express service to businesses and industries that compete in the global market place—international financial institutions and corporations, legal and consulting firms, governmental entities, transportation and shipping companies, engineering and construction firms, and multinational organizations. For example, it is now standard practice for financial institutions to transport drafts and other sensitive commercial instruments from one country to another by integrated air express companies rather than by the postal service. This is done to ensure reliable and timely delivery, as well as to minimize the loss of interest which, in some cases, can amount to hundreds of thousands of dollars per day. Similarly, transportation companies routinely forward bills of lading by air express in order to expedite customs clearance in advance of cargo, thereby saving thousands of dollars in unloading delays and interest charges, while enhancing the competitiveness of companies in the international marketplace. In the same manner, multinational corporations and organizations increasingly depend on integrated air express companies to provide the international communications network necessary to coordinate complex business strategies and corporate activities around the globe. As the Business Roundtable has observed, "[w]ith the rapid growth in the use of telecommunications and information technologies, the transfer of information is becoming as significant as the transfer of goods and capital in the economic relations among nations." (Report on International Information Flow: A Plan for Action, Business Roundtable. 1985).

THE U.S. POSTAL SERVICE: A LEVIATHAN OF UNDIMINISHED APPETITE

While private international express service has become the commercial norm in the new information age, such service remains at the sufferance of the U.S. Postal Service and postal administrations around the world. In particular, under the Private Express Statutes, the U.S. Postal Service asserts a "monopoly" on the carriage of "letters"—commercial as well as personal—on any "postal route," including international routes. Any violation of this self-defined monopoly—by a carrier or by a user—can result in an injunction, fine, or imprisonment, or a combination thereof. See generally 39. C.F.R. §310.2.

The postal regulations broadly define a "letter" to include any "message directed to a specific person or address and recorded in or on a tangible object." 39 C.F.R. §310. 1(a). "Message" is also expansively defined by USPS to include "any information or intelligence" that can be recorded "on tangible objects," such as "the use of written or printed characters, drawings, holes, or orientations of magnetic particles in a manner having a predetermined significance." Id. While the postal regulations make limited exceptions to the definition of a "letter" under 39 C.F.R. Part 310, the U.S. Postal Service has unilaterally chosen to "suspend" its asserted monopoly in certain politically sensitive circumstances under 39 C.F.R. Part 320. In particular, under threat of Congressional repeal of the Private Express Statutes in 1979, the U.S. Postal Service suspended the postal monopoly for "extremely urgent letters" which meet either a "time of delivery" test or a "price" test. Specifically, the Postal Service has pronounced that it will not criminally prosecute private carriers and users if (1) letters are generally delivered within 12 hours or by noon of the addressee's next business day, and (2) if the "value or usefulness of the letter would be lost or greatly diminished" if the letter were not delivered within the specified time limits. 39 C.F.R. §320.6(b)(1). International letters are deemed "delivered" when "they

are in the custody of the international or overseas carrier at the last scheduled point of departure" from the U.S. Similarly, international letters from foreign countries to the United States are deemed "dispatched" when "they are in the custody of the domestic carrier" after Customs clearance. 39 C.F.R. § 320.6(b)(2).

Alternatively, the U.S. Postal Service has opined that it will "conclusively presume" that a letter is "extremely urgent" and covered by the suspension if "the amount paid for private carriage of the letter is at least three dollars or twice the applicable U.S. postage for first class mail (including priority mail), whichever is greater. 39. C.F.R. § 320.6(c). Regardless of the "test" used, the fact remains that the "suspension" of the monopoly requires the interposition of the USPS—a competitor by fiat—in either the content or price of time-sensitive commercial items. In short, the ability of U.S. businesses to compete overseas as well as domestically through rapid communication is precariously held hostage to an administrative exception granted, interpreted and enforced by a government agency that has consistently demonstrated its inability to provide comparable service or otherwise meet the needs of U.S. and international business.

While U.S. and international businesses have come to rely on international air express service in order to compete in the global marketplace, it is not as well understood that DHL and other express delivery companies are but a legal ruling or decision by the Postal Service away from being banned from the marketplace. This problem of sufferance is compounded by the expansive view of monopoly jurisdiction by foreign postal administrations around the world. Indeed, the international air express industry has had to fight in virtually every country around the world, at some point, to gain acceptance, if not legitimacy, under foreign postal monopoly laws. While the battle for legitimacy has been largely won, the industry even today is battling foreign postal administrations intent on restricting the growth of the private express industry under retreaded monopoly theories. Just last year, for example, the Colombian post office proposed to "regulate" U.S.-based international express companies by imposing price controls as well as a special "license fee" equal to 15 percent of gross revenues for the "privilege" of providing express service to its customers. While that proposed tax was pared back to four percent and some of the more onerous restrictions were dropped altogether after intervention by the U.S. Trade Representative, other postal administrations took notice and may well use the Colombian precedent for new restrictions on this vital industry. Indeed, proposals for new industry restrictions have recently surfaced in Latin America, the Caribbean, and certain African countries.

While it cannot be said that unfair and discriminatory restrictions of the international air express industry by foreign postal administrations are the fault of anyone other than the country imposing such restrictions, the problem, at heart, is generic to the United States as well as foreign countries: national post offices view express delivery companies as "unwanted or extra-legal competition" and often attempt to restrict such competition through enlargement of their monopoly jurisdiction. These views are often shared and reinforced by postal authorities at international congresses of the Universal Postal Union ("UPU"), an intergovernmental organization headquartered in Switzerland that promotes international postal agreements and policies.

While UPU activities would appear to concern only official postal administrations, UPU acts and policies are often anti-competitive in their impact on the international private express industry. For example, Article 25 of the UPU Convention authorizes national post offices to intercept and return international "mail" that has not posted by the country of dispatch. Other provisions permit non-cost-based interpostal charges that allow national postal administrations to manipulate international rates and thereby undermine private carriage.

Notwithstanding the obvious importance of the role of the UPU in establishing international postal policies, U.S. policy in this arena continues to be set, not by the President or by agencies with responsibility for international trade, but by the U.S. Postal Service itself with little or no executive oversight or Congressional guidance. This formula is, unfortunately, a prescription for continuing anti-competitive postal practices in the United States and around the world.

PROPOSALS FOR A CHANGE

DHL believes that the time for reform of the U.S. postal laws is long overdue. Congress last overhauled the general postal law in 1970—one year after DHL was founded and prior to the establishment of Federal Express. This Subcommittee should begin by seriously looking at the question whether technology and the market place have rendered the Private Express Statutes obsolete and whether the postal monopoly should finally be ended. While this idea is not new, rapid techno-

logical change and the demands of the marketplace in the new information order make the question timely, relevant and urgent.

The Postal Service has argued historically that universal service will suffer in the absence of the monopoly, with private companies serving profitable urban areas and leaving rural residents without access to affordable service. This argument, however, has been disproven by the development of the express delivery industry itself. Precisely because of competition, express companies that depend on the domestic market have been forced to provide effective universal service to virtually every corner and address in America.

While DHL concedes that elimination of the postal monopoly over domestic mail would represent a major change and would probably require some indeterminate transition period, there should be no reluctance to consider immediate reforms in the area of international service:

1. DHL does not concede that Congress ever intended the private express statutes to apply outside the boundaries of the United States. Beyond any legal argument, however, there simply is no justification for asserting such jurisdiction in today's environment. International mail today accounts for less than ½ of one percent of the total USPS volume. As the Executive Director of the Postal Service for International Postal Relations publicly stated last week, international service "is a very competitive arena. There is no monopoly in international mail." Congress should take him at his word and remove international service from the application of the private express statutes.

2. As long as USPS retains a monopoly over domestic service, USPS' international rates should be subject to review by the Postal Rate Commission to prevent predatory pricing in express mail service and unfair competition through cross-subsidies from USPS' first class domestic service. The courts recently held that the PRC was not authorized by Congress to review international rates. Congress can and should fix this oversight.

3. There is no discernible United States trade policy for the U.S. international air express industry, particularly with respect to postal restrictions and non cost-based fees imposed by foreign postal administrations. The industry has no recourse under the General Agreement on Trade and Tariffs ("GATT"), which is generally limited to international trade in goods only. While the recently approved "General Agreement on Trade in Services", negotiated as part of the Uruguay Round, attempted to fill the void, the agreement as a practical matter applies only to a few services sectors in a limited number of countries. Until U.S. and international trade law "catches up" with the marketplace, the United States should insist on bilateral negotiations whenever foreign governments or postal administrations attempt to impose unfair or discriminatory conditions on international air express companies.

4. In recognition of the fact that international express delivery not only facilitates international trade but is international trade, Congress should, accordingly, amend the postal laws to require that the U.S. Trade Representative represent the United States at the UPU and similar intergovernmental bodies. The USPS, private carriers and users should be consulted, on an equal basis, in setting U.S. policy at such conventions. As a practical matter, such an amendment need not preclude USPS from sending its own representatives to such gatherings—provided that U.S. positions and strategies are vetted and approved by an disinterested agency intent on promoting, rather than stifling, competition in international delivery service.

CONCLUSION

The Subcommittee's oversight hearing provides an important opportunity to re-examine the role of the postal monopoly in the life of the nation and in international commerce. DHL submits that technology and advancements in the communications and transportation industries have made the monopoly obsolete. Congress should begin to phase-out the monopoly by clearly setting out its limits in legislation rather than in regulations promulgated by the USPS. In particular, Congress should exempt from the scope of any remaining monopoly power express domestic service and all international service. At the same time rules should be included to ensure that USPS—as well as foreign postal administrations—does not abuse its monopoly power to restrict or unfairly compete with private carriers.

Thank you very much for your consideration of DHL's views on postal reform issues. DHL looks forward to working with the Subcommittee to reform and modernize the nation's postal laws.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO PETER N. HIEBERT

Question 1. What type of oversight should this Subcommittee be practicing with regard to USPS actions vis-a-vis the Universal Postal Union?

Answer. As explained in the Committee hearing, the Universal Postal Union ("UPU") is the international body which, through its regular conventions and postal agreements, establishes international postal policies for member countries. Under the terms of its constitution, the Universal Postal Convention and the acts of the UPU are deemed binding international law.

As a quasi-governmental body with legislative powers, it is essential that U.S. participation reflect the broad public interest in ensuring that international postal rules do not operate, in fact, as unjustifiable restraints of trade. Indeed, other witnesses have already provided the Subcommittee with numerous examples of UPU rules that unfairly prejudice private express companies. We continue to believe that the U.S. Trade Representative, rather than the U.S. Postal Service, can best serve the public interest in these intergovernmental settings and that the postal laws should be amended to provide for this. It makes no sense to allow the U.S. Postal Service, without limitation or effective oversight, to continue to set international rules that affect its private sector competitors.

In the absence of such a legislative change, the Subcommittee should itself conduct oversight hearings both before and after such international conventions to allow for public input into proposed USPS positions and policies. Such hearings would promote consultation and wider participation in the policy-making process than is currently the case.

Question 2. Is the current market share of total mail delivery by UPS, DHL and Federal Express a proper basis from which this Subcommittee can infer the private sector can provide universal service at uniform rates should the monopoly be repealed?

Answer. No. The express delivery industry provides a qualitatively different service than first class mail and is not intended to be a substitute for it. A careful study of the history and development of the express industry, however, may provide useful insights into how a fully deregulated postal market can be developed to provide better and more cost-efficient postal services on a universal basis. Moreover, because the express and general postal service are fundamentally separate markets, there should be no reluctance to limit the scope of the postal monopoly, by statute, to first class service. This would eliminate an unfair advantage that the USPS retains over private companies in competitive services such as express and international service.

Mr. MCHUGH. Thank you, Mr. Hiebert. I appreciate your insight.

Mr. Rogers.

Mr. ROGERS. Good morning, Mr. Chairman.

Mr. MCHUGH. Good afternoon, actually. It should be morning. I apologize about that.

Mr. ROGERS. It is a pleasure to address the committee today on an issue of great important to UPS. Accompanying me today is my colleague, Kurt Pfotenhauer, and Professor Dan Spulber, the co-author of the paper on postal pricing appended to my statement. He is available for any questions that you might want to ask. I will summarize that statement, and we will both be pleased to respond.

I commend you for the series of hearings on the mission and status of the U.S. Postal Service. At this stage in your deliberations, the postal picture must appear somewhat bewildering. You have heard that the Postal Service is doing better than ever, revenues are up, no tax dollars are being spent to deliver the mail, and volume is ever on the rise. This, you were told, is a businesslike Postal Service.

However, as a businessman, I can tell you that the Postal Service is like no other business in America today. To begin with, the Postal Service has a $6-billion negative net equity position. Any other business would have been out of business long before they got to that. This is the result of the Postal Service losing money in 17 of the last 23 years. The mountain of postal losses has devoured the

initial equity position of $1.7 billion that they started with, as well as another $1.5 billion in taxpayer infusions along the way.

Despite Postal Service advertisements to the contrary, the USPS has steadily and systematically been lowering its service standards since the 1970's when it abandoned doorstep deliveries to go first to curbside and then to cluster boxes for new homes. In 1990, the Postal Service officially lowered the standards for overnight delivery in local areas, changing the very definition of "on time" so that the Postal Service would appear to be meeting its service commitments with greater consistency.

One could question why the Postal Service is spending $1 million to brag that service will be provided to the bottom of the Grand Canyon, when most customers would undoubtedly trade Grand Canyon service for service to their doorstep. One could further question why millions of dollars of rate-payer fees are being used at all to advertise a monopoly service.

The Postal Service was endowed by Congress with over $3 billion in equity, with a government-blessed monopoly, and with relatively strong control over the price of its services. It has exemptions from every form of taxation and from a host of Federal, State, and local regulations, from OSHA enforcement to parking tickets, all of which are faced by its competitors. It has the ability to borrow money at government rates, with the full faith and credit of the U.S. Treasury to back it up.

With all these advantages, how did the Postal Service end up in such fiscal disarray? In the absence of any pressure or incentive to break even, let alone make a profit, the Postal Service has focused on building volume. Volume means a continued need for existence. Volume means the need for an ever-increasing work force. Volume justifies talk of communication safety nets, and volume justifies a continued monopoly.

If you are looking for volume and care very little about turning a profit, you have some natural allies. Big parcel mailers, for example. Such was the circumstance in the recent bulk small parcel case where, with the support of large mailers, the Postal Service attempted to create a new subclass of parcels, priced substantially below the rates for other parcel services.

The Postal Service alleged large savings through automation and centralized processing. The Postal Rate Commission found differently and identified BSPS as a money-loser.

Who else benefits? Postal labor. Thanks to the status of the USPS as a government agency, postal employment is guaranteed as long as volume justifies it, regardless of the fiscal stability of the Postal Service. So of course postal labor supports policies whose first priority is to increase volume and thus their opportunities for membership.

Now, 20 years after the Postal Reorganization Act was passed, what do we see? A Postal Service where volume has gone up and revenue has failed to recover costs.

Let's begin examining the problem by determining just where this volume-driven, revenue-negligent operation is losing money. The simplest way to do this is to compare the major Postal Service products, the classes of mail. I have a couple of charts which may be helpful in identifying the problem.

The first chart shows where the rate increases of the first-class mail monopoly products stand in relation to both the consumer price index and the rate increases in competitive fourth-class or parcel post. The clear trend here is to continually ratchet up the costs on the captive consumer of the first-class letter monopoly, while allowing the customers of the competitive parcel post service to escape such steep cost increases.

You have heard much before this committee of how much UPS does at the Postal Rate Commission. That is the result of 25 years and millions of dollars spent at the Postal Rate Commission, and I am sorry to say I think our performance is rather sad.

The second chart shows the relative contributions as a percentage of per-piece cost of first-class mail and parcel post to the Postal Service's overhead or institutional costs. The Postal Service is required by law to recover its prior year losses. When the Postal Service loses money, as it does most years, it is recovered disproportionately by first-class mail, the one product that does not lose money.

Prior year losses are deemed institutional costs by the Postal Service. Institutional costs, and therefore prior year losses, are unevenly attributed to the various classes of mail, as indicated in this chart, with a disproportionate share falling on first-class customers. This cross-subsidization is an abuse of the first-class monopoly.

Ironically, the Postal Service argues that the cure for its financial woes is increased flexibility in pricing its competitive products and less accountability to an independent regulator. Given its incentive to increase volume and ignore revenues, the USPS would undoubtedly use this flexibility to lower its rates for competitive services, thereby building volume, and shift more of the cost burden to the captive first-class consumers.

The Postal Reorganization Act created a monopoly with restraints to prevent just such a situation from developing. However, the Postal Rate Commission is not adequately empowered to protect the interests of the public. It is imperative that that commission have access to USPS accounting information and data that it needs, without the time-consuming process of discovery in each case. The commission needs subpoena power over the Postal Service, and the Postal Rate Commission should have final authority over postal rates, not the Postal Service's Board of Governors.

Alternatively, Congress could redefine the mission of the Postal Service. You could determine whether the Postal Service should provide express mail or parcel post, with the ever-present temptation to abuse its monopoly, when private sector companies like UPS, Fedex, RPS, and DHL provide these services to every address in America.

When the Federal Government performs these competitive services, there is no tax revenue for the U.S. Treasury or property taxes for local authorities. When the Postal Service loses money, it loses it primarily on competitive products.

There has been much talk lately of the Postal Service's desire to be more businesslike. However, its charge by the Postal Reorganization Act is, "The USPS shall be operated as a basic and fundamental service provided to the people by the government of the

United States, authorized by the Constitution, created by act of Congress, and supported by the people."

This charge may not be consistent with the Postal Service's desire to be more businesslike. Does "basic and fundamental" mean providing every service possible, even those available to the public from the private sector? Does it mean transporting merchandise or competing with those who do? If the USPS wants to compete like a business, should it not pay taxes like a business? Should it not have to recover its costs like a business?

Perhaps the government should provide a very basic service with its monopoly and not compete with the private sector. Volume-driven management philosophies which ignore costs and profit have led to monopoly abuse, serving neither the public, the Postal Service, nor the government well.

I hope these remarks have helped you to place some of what you have heard over the last several months into a new perspective. Thank you for the opportunity to testify, and I welcome any questions that you have.

[The prepared statement of Mr. Rogers follows:]

PREPARED STATEMENT OF JAMES A. ROGERS, VICE PRESIDENT, UNITED PARCEL SERVICE

Good Morning, Mr. Chairman, Members of the Subcommittee. I am Jim Rogers, Vice President, United Parcel Service. It is a pleasure to address the committee today on an issue of great importance to UPS. I commend this subcommittee for holding this series of hearings on the mission and status of the U.S. Postal Service.

At this stage in your deliberations, the Postal picture must appear somewhat bewildering. So far, you've been told that up is down, down is up, competition is good, competition is bad, service quality is up, and service quality is down. And everybody has a different diagnosis of the problem.

Today, I am going to add UPS's perspective to the litany of opinion. But in so doing, I will focus on a few simple facts and a few simple principles that I hope will cut through much of the confusion that generally surrounds this debate.

Let's start with the facts. We've heard that the Postal Service is doing better than ever—revenues are up, no tax dollars are being spent to deliver the mail, and volume is ever on the rise. This, we are told, is a business-like Postal Service. As a businessman, I can tell you the Postal Service is like no other business in America today.

To begin with, the Postal Service maintains a $6 billion dollar negative net equity position. Any other business would have been out of business long before reaching that state. How did this "business-like" enterprise get to where it is? It's pretty simple—the USPS has lost money in 17 out of the last 23 years. So even an initial equity position of $1.7 billion, and additional taxpayer infusions totaling another $1.5 billion dollars along the way, have been eaten up and far surpassed by a veritable mountain of Postal Service debt.

Yet, over that same period, the price of a first class stamp has increased well above the rate of inflation, volume has increased fairly steadily, service quality and standards have been lowered, and we've been treated to a steady diet of Postal Service advertising telling us how rosy things are at L'Enfant Plaza.

In fact, the Postal Service has steadily and systematically been lowering its service level to its captive customers since 1978, when it abolished mail delivery to residence doorsteps for new homes. These customers are required to pick up their mail at cluster boxes which may be as much as a half mile away from their homes. Why? Because it's cheaper. Meg Harris, a Postal Service spokeswomen was quoted in the Houston Chronicle in 1992 as saying that, "Communities are growing so large and the volume of mail increasing so rapidly that new delivery methods are essential. Over time, door delivery is going to be phased out."

When the Postal Service began to have marked and statistically noticeable difficulty in meeting its service commitments for on-time delivery at the end of the last decade, its response was to simply lower the bar. In 1990, the Postal Service officially lowered the targets for overnight delivery, changing the very definition of "on-time" so that the Postal Service would appear to be meeting its service commit-

ments with greater consistency. A 1993 Postal Inspection Service report concluded that Postal Service advertisements for Priority Mail falsely implied that two-day delivery was guaranteed when, in fact, it routinely takes three or more days.

The latest round of million dollar plus spending on postal advertisements (see appendix) in national newspapers like The Wall Street Journal brag that service will be provided to "the bottom of the Grand Canyon." Once you get past the question of why the Postal Service is spending money to advertise a monopoly service to begin with, ask many rural customers who have to pick up their mail from distant rural route boxes or postal substations in towns miles away whether they would trade service to the bottom of the Grand Canyon for service to their doorstep. No doubt, many would opt for the latter.

So how did it really happen? How did a business endowed by its creators, the U.S. Congress, with $3 billion in equity, with a government-blessed monopoly, and with relatively strong control over the price of its own services, how did such a well positioned enterprise end up in such fiscal disarray? Consider also, before you answer, that the USPS is exempt from every form of taxation and a host of federal, state and local regulations from OSHA oversight to parking tickets that are imposed upon its competitors. Also consider that the USPS can borrow money at favorable government rates, with the full faith and credit of the U.S. Treasury to back it up.

I think the answer is pretty clear—and it has little to do with competitors, or with the advent of the fax machine or electronic mail. It has to do with a Postal Service management philosophy that has been anything but businesslike.

The Postal Service has not been run to break even, let alone to make a profit or begin to return the billions of dollars it has borrowed from the Treasury. Postal Service management is under no pressure, not from the Congress or from the Public, nor from fear of competition, to turn a profit. It has, in the form of the Private Express Statutes, and its key to the Treasury, a "get out of bankruptcy free" card. Why turn a profit or pay back your debt, when you can always borrow more money? No business I know of can borrow at government rates with the kind of balance sheet the Postal Service carries. If the Postal Service were a private company it would be lucky to float a junk bond.

In the absence of any incentive or mandate to make a profit, what then is the management mission at the Postal Service? The answer is to build mail volume. Volume means a continued need for existence. Volume means a need for an ever increasing workforce. Volume justifies talk of "communications safety nets" and volume justifies a continued monopoly. And if you're really looking for volume and care very little about turning a profit, you have some natural allies.

Big parcel mailers, for instance. Such was the circumstance in the recent Bulk Small Parcel Service Case (BSPS) where, with the support of large mailers, the Postal Service attempted to create a new sub-class of parcels priced substantially below the rates for other parcel services. The Postal Service alleged large savings through automation and centralized processing. The Postal Rate Commission found differently, and identified BSPS as a money loser.

Who else benefits? Postal labor. Thanks to the status of the USPS as a government agency, postal employment is guaranteed as long as volume justifies it, regardless of the fiscal stability of the Postal Service. So of course Postal labor supports policies whose first priority is to increase volume. After all, who needs the revenue, as long as you've got an open line of credit at the best rates going?

And now we look up, 20 years after the Postal Reorganization Act was passed, and what do we see? A Postal Service where volume has gone up, and revenue has failed to recover costs, and we wonder why.

Let's be clear—this problem is an abuse of the public trust, in the immediate form of an abuse of the monopoly. Congress did not grant the Postal Service a monopoly so that it would build ever-increasing volumes through rates that fail to recover its costs.

So if it's the incentives to which management responds that have caused the Postal Service so much trouble, how can we fix the problem? Let's begin by focusing on just where this volume-driven, revenue-negligent operation is losing money. The simplest way to do this is to look comparatively at the major Postal Service Products, the classes of mail. Permit me to state up front, that UPS has never, nor will it, seek to shift a disproportionate share of costs to any other class of mail, particularly third class. UPS has consistently advocated that each class of mail be made to recover its own, fairly attributable, costs.

I've brought along a couple of charts which I think this committee will find helpful in identifying the problem we're dealing with.

The first chart (see appendix) shows where the rate increases of the first-class mail monopoly product stand in relation to both the consumer price index and the rate increases in competitive fourth class, or parcel post. The clear trend here is to

continually ratchet up the costs on the captive consumer of the first-class letter mail monopoly, while allowing the customers of the competitive parcel post service to escape such steep cost increases. It is important to remember here that the USPS generates over 80% of its revenue from its monopoly classes, a portion of which is used to subsidize their competitive classes.

This second chart offers some insight into just how this cross-subsidization is achieved. It shows the relative contributions, as a percentage of per piece cost, of first class mail and parcel post to the Postal Service's overhead or institutional costs.

This second chart (see appendix) makes clear how the monopoly is abused when the Postal Service loses money. The Postal Service has a statutory obligation to recover its prior year losses under the Postal Reorganization Act. The problem is that those prior year losses, to the extent that they are ever recovered at all, are recovered disproportionately by first class mail, which is the one service that doesn't lose money. Ask yourself, why? It is because prior year losses are counted as an institutional, or overhead, cost by the Postal Service. So if, in a given year, the Postal Service loses money across all other classes of mail, the burden of those losses will fall most heavily in subsequent years on first class mail, which contributes a disproportionate share of its price per piece to postal overhead than any other class.

These rate setting trends are perfectly in line with the incentives which guide Postal Service management—increase volume and ignore revenue. And what does the Postal Service propose as a cure for the Postal Service's woes? More flexibility in the pricing of competitive services, less accountability to an independent regulator. Does it want flexibility to raise prices at a greater rate in competitive classes?

Not likely. The Postal Service wants more flexibility to continue to depress prices in competitive mail categories, in order to maintain volume at the price of continued financial loss. Or worse yet, the Postal Service wants to avoid the effect of losses from competitive services by shifting even more of the cost burdens on to captive first-class monopoly customers.

You don't need a Ph.D. in economics to predict that this is how monopolies will behave. The question is what do you do about it. While deregulation is often a wonderful thing for competitive markets, deregulation and monopolies are an uneasy combination. And public monopolies, advantaged by their government status, are in particular need of oversight and accountability. We are not talking here about public control of private enterprises, or federal control over state activities. We are talking about the accountability of an agency of the federal government to the public interest.

In the 1970 Postal Reorganization Act, an attempt was made to create a monopoly with certain restraints to protect against a situation like today's. Unfortunately, that system of restraints was not strong enough. The Postal Rate Commission is not adequately empowered to protect the interests of the general public. Its decisions are not final. It does not have access to the accounting information it needs for quick and informed decisions, and it has no subpoena power over the Postal Service. The Postal Board of Governors, which ostensibly submits its case to the PRC for approval, has the final authority over the rates it sets. Congress should correct this in the public interest.

A PRC without final decision authority, subpoena power, and some other tools I would be happy to discuss in the Q & A, is simply not capable of restraining a monopoly with total revenues of $54 billion a year.

We need to strengthen the PRC so that it becomes a more efficient, capable organization. Access to accurate and timely accounting information would improve both the speed at which the PRC renders its decisions and the quality of the decisions. Subpoena power would give the PRC access to information in a forthcoming manner, dramatically reducing or even eliminating the time-consuming process of discovery in each new rate case. Final decision authority and other powers would give the PRC the teeth to prevent abuse of the postal monopoly. This would mean the ability to ensure fair prices among all classes of mail and adequate cost recovery so that the Federal Treasury would no longer be floating multi-billion dollar postal debt. There would finally be some real accountability to the public interest on the part of the Postal Service.

Of course, there is an alternative to increasing the oversight and accountability placed on the bureaucracy. That would be to make a new, clear definition of the Postal Service mission. Should the Postal Service even be involved in businesses like Express Mail or Parcel Post, with the temptation to abuse its monopoly ever present, when private sector companies like UPS, FedEx, and RPS provide these services to every address in America, every business day?

Keep in mind that when the Government performs these services, there is no tax revenue to be gained by the federal treasury and there are no local property taxes

paid by these competitive arms of the Postal Service. Keep in mind also that when the government loses money on the Postal Service, it loses money primarily on these competitive products. Yet the USPS wants to be treated like a business while maintaining its first class monopoly.

There has been much talk lately of the Postal Service's desire to be more business-like. Nowhere in the statutory language of the Postal Reorganization Act does such a notion appear. Rather, the statute says, "The USPS shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people."

What does the term "basic and fundamental service" mean? Does it mean providing every service possible, even those provided to the public by private sector service providers? Or does it mean what it says—basic and fundamental? It seems to say nothing about transporting merchandise, or competing with those who do.

If the Postal Service wants to compete like a business, why should it not pay taxes like a business? Why should it not have a pressure to recover all of its costs like a business? Perhaps we need to take a long hard look at alternatives which simply get the government out of the business of competing with the private sector, and maintain a very basic role for a government monopoly. Again, these are details I'll be happy to expand upon should you have questions.

But the bottom line is fairly straightforward. We have a set of significant problems with today's Postal Service that follow naturally from today's postal laws. Volume-driven. not cost or profit-driven management philosophies have led to monopoly abuse, serving neither the public nor the Postal Service well.

The Congress must choose between having a monopoly that is truly held accountable to its mission or a truly free competitor—free to pay taxes, for instance, and even free to fail when it goes billions of dollars into debt.

I hope these remarks have helped you to place some of what you've heard over the last several months into perspective. I thank the committee for the opportunity to testify and I welcome any questions you may have.

Please Note: Since its publication in March of 1992, we have been very concerned about the General Accounting Office (GAO) Report titled "Pricing Postal Services in a Competitive Environment." Rather than simply criticize based on our own beliefs and understanding of economics, we asked two scholars in the field of competition economics to prepare a report on this subject. A copy of this report is attached to this testimony. A longer edition of this paper will be published later this year. We expect a lively debate to ensue over the differing points of view laid out in the two reports. We strongly support the views of Professors Sidak and Spulber.

POSTAL NOTES

First class postage 32¢ – mules, boats and bush pilots included free.

The 32¢ first class stamp you stick on an envelope imposes an obligation on the U.S. Postal Service to get your letter from wherever you are to wherever it's going, whatever it takes. To fulfill this mission "to provide uniform service throughout the nation," occasionally it takes quite a lot.

Mules carry mail to the bottom of the Grand Canyon. Bush pilots deliver mail above the Arctic Circle or in the Alaskan wilderness. We use mailboats to deliver to ships on America's rivers, and along the bayous of Louisiana. And we do it six days a week. 580 million pieces of mail a day.

But, you say, if the USPS could do all that for 29¢ last year, why is it 32¢ this year? Because, unlike many other government services, the USPS is a self-supporting business, not funded by tax dollars. So when the price of gasoline goes up a penny a gallon, for instance, it costs us more than $1 million extra in operating costs. We don't have exact figures on mule food, but that probably costs more too.

On the other hand, through high-tech equipment and automation, the USPS continues to have the lowest-cost rates for first-class mail of any industrialized nation in the world.

And with the USPS you can count on getting the same service everywhere, from our biggest office (the one in Manhattan) to our smallest, the 61 square foot office at Ochopee, Florida.

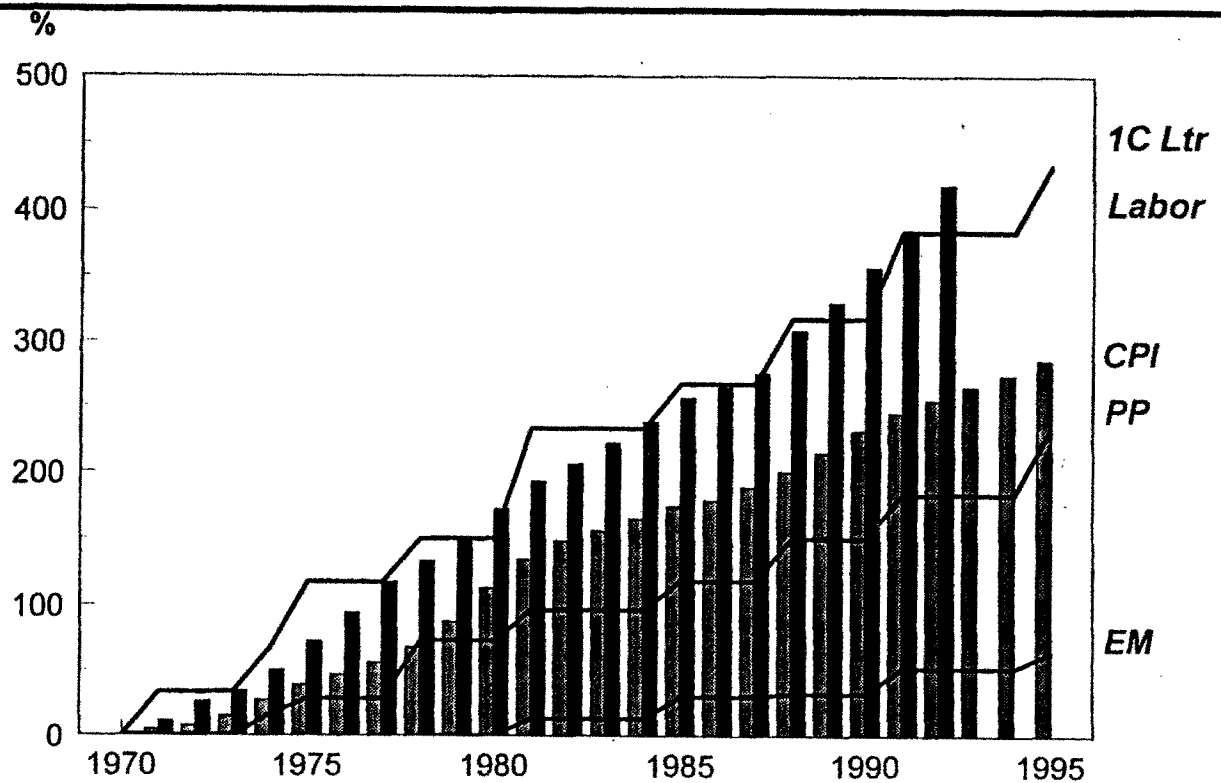
UNITED STATES POSTAL SERVICE.

We Deliver For You.

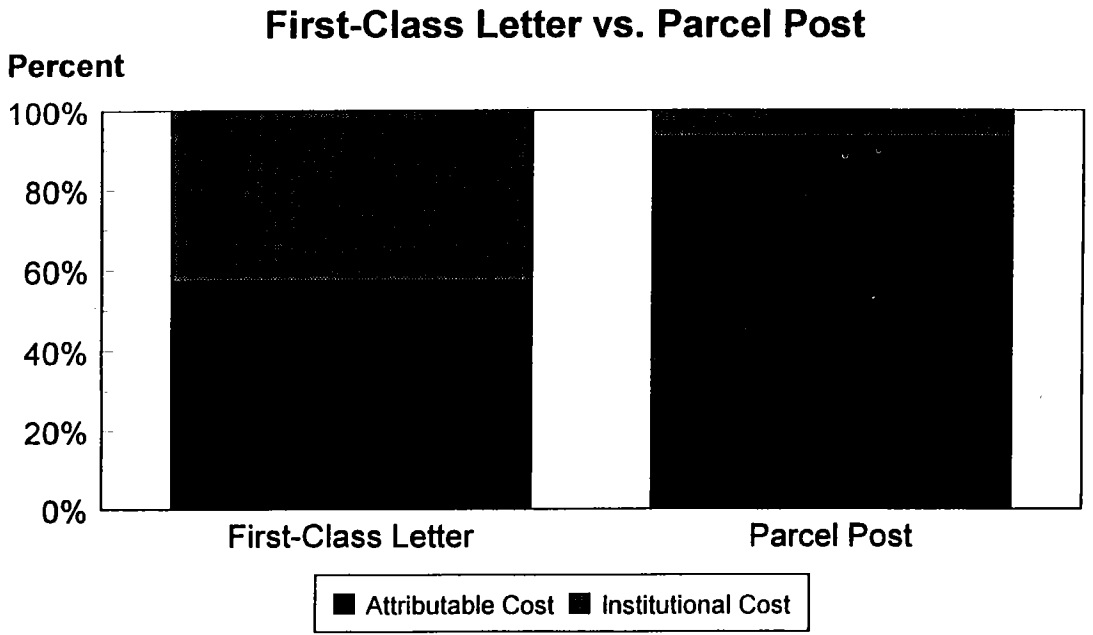
THE WALL STREET JOURNAL WEDNESDAY, MAY 3, 19

(Original was 14"x9½" on Op-Ed Page)

Percentage Rate Increases



Cost Distribution



Why the Postal Service Should Not Employ Inverse Elasticity Pricing

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June 14, 1995

This report was prepared at the request of United Parcel Service and is based on a longer manuscript by the authors entitled, "Protecting Competition from the Postal Monopoly."

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Mr. Sidak has served as Deputy General Counsel of the Federal Communications Commission from 1987 to 1989, and as Senior Counsel and Economist to the Council of Economic Advisers in the Executive Office of the President from 1986 to 1987. As an attorney in private practice, he worked on numerous antitrust cases and federal administrative, legislative, and appellate matters concerning regulated industries.

Mr. Sidak is co-author, with William J. Baumol, of *Toward Competition in Local Telephony* (MIT Press 1994) and *Transmission Pricing and Stranded Costs in the Electric Power Industry* (AEI Press 1995). He is the editor of *Governing the Postal Service* (AEI Press 1994). He has published articles on antitrust, telecommunications regulation, corporate governance, and constitutional law in the *Journal of Political Economy*, *California Law Review*, *Columbia Law Review*, *Cornell Law Review*, *Duke Law Journal*, *Georgetown Law Journal*, *Harvard Journal on Law & Public Policy*, *New York University Law Review*, *Northwestern University Law Review*, *Southern California Law Review*, *Yale Journal on Regulation*, and elsewhere.

Mr. Sidak received A.B. and A.M. degrees in economics and a J.D. from Stanford University, where he was a member of the *Stanford Law Review*, and served as law clerk to Judge Richard A. Posner during his first term on the United States Court of Appeals for the Seventh Circuit.

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Professor Spulber has conducted extensive research over the last fifteen years in the areas of regulation, industrial organization, microeconomic theory, and energy economics. His scholarly research and consulting have addressed issues of regulation and competition in network industries. He is the author of the textbook *Regulation and Markets* (MIT Press 1989) and has published more than fifty articles on regulation, pricing, and related topics in numerous academic journals, including the *American Economic Review*, the *Journal of Economic Theory*, the *Journal of Law and Economics*, the *Quarterly Journal of Economics*, the *RAND Journal of Economics*, and the *Yale Journal on Regulation*. He is the founding editor of the *Journal of Economics & Management Strategy*, published by MIT Press.

Professor Spulber received his B.A. in economics from the University of Michigan, and his M.A. and Ph.D. in economics from Northwestern University.

EXECUTIVE SUMMARY

The General Accounting Office (GAO), the Postmaster General, and the Postal Service have recently advocated that Congress or the Postal Rate Commission grant the Postal Service greater pricing flexibility with which to compete against private firms. We show that the Postal Service's current pricing and regulations cause competitive problems for private firms because of incorrect measurement and misallocation of attributable costs and because of misuse of Ramsey-pricing principles. On the basis of our analysis, we make seven policy recommendations, the most significant being that the Postal Service should be expelled from competitive markets for mail delivery and should be prohibited from adopting the pricing recommendations advocated by the GAO, the Postmaster General, and the Postal Service.

INTRODUCTION

By any measure, the United States Postal Service is immense. As of 1994, it had 728,944 career employees and 123,101 non-career employees, annual sales of $49.4 billion, nearly 40,000 post offices, and 207,000 vehicles.[1] If ranked among the *Fortune* 500, the Postal Service would appear ahead of such corporations as Du Pont, Texaco, and Citicorp.[2] The Postal Service is larger than the three largest airlines—American, United, and Delta—*combined*.[3] It is larger than all five of the *Fortune* 1,000 package and freight companies combined.[4] Indeed, as the Postal Service itself notes in its 1994 annual report, "Each of the Postal Service's seven product lines would qualify as a *Fortune* 500 company on its own."[5]

More than size distinguishes the Postal Service. Its privileges and immunities make it unique among economic enterprises. The Postal Service pays no taxes;[6] pays no dividends or return of invested capital to its owners;[7] may be entitled to have its leases and commercial contracts interpreted under federal common law rather than state law;[8] has the priority of the U.S. government with respect to the payment of debts from bankrupt estates;[9] has, pursuant to the Private Express Statutes, a monopoly over the delivery of letters;[10] and may engage in searches and seizures when it suspects that a competitor is transporting mail in contravention of that monopoly.[11]

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1. U.S. POSTAL SERVICE, COMPREHENSIVE STATEMENT ON POSTAL OPERATIONS, FY 1994, at 10, 14, 17, 38 (1995) [hereinafter 1994 COMPREHENSIVE STATEMENT]; U.S. POSTAL SERVICE, 1994 ANNUAL REP. 3, 37 (1995).

2. *The Fortune 500 Largest U.S. Corporations*, FORTUNE, May 15, 1995, at 165.

3. *Id.* at F44.

4. *Id.* at F58. In declining order of size, they are United Parcel Service, Federal Express, Pittston, Airborne Freight, and Air Express International.

5. U.S. POSTAL SERVICE, 1994 ANNUAL REP. 9 (1995). The product lines and their sizes, in terms of annual sales, are as follows: correspondence and transactions ($24.5 billion), business advertising ($12.7 billion), expedited delivery ($2.9 billion), standard package delivery ($2 billion), international mail ($1.4 billion), publications delivery ($1.7 billion), retail ($3 billion). *Id.*

6. The statutory definition of "total estimated costs" of the Postal Service, which is used for ratemaking purposes, makes no mention of taxes. 39 U.S.C. § 3621.

7. *See id.*

8. *See* Powers v. United States Postal Serv., 671 F.2d 1041 (7th Cir. 1982) (Posner, J.).

9. 39 U.S.C. § 401(9).

10. 18 U.S.C. §§ 1693-99; 39 U.S.C. §§ 601-06.

11. 39 U.S.C. §§ 603-05; *see also id.* § 404(a)(7).

In 1992, the General Accounting Office (GAO) issued a report to Congress advocating legislation to grant the Postal Service greater pricing flexibility "to maintain the long-term viability of the Postal Service as a nationwide full-service provider of postal services."[12] At the heart of the GAO's analysis were issues of cost allocation across classes of mail—issues so obscure and technical in appearance that they would put to sleep all but the most dedicated industrial organization economists and aficionados of postal rate regulation. The implication of the GAO report, however, was anything but dull, for the GAO was in effect recommending that the Postal Service be granted the freedom to be a more aggressive competitor of private firms in those classes of mail that are not currently guaranteed monopolies of the Postal Service under the Private Express Statutes.

The GAO's 1992 report found renewed relevance in 1995, when Postmaster General Marvin Runyon stated in a speech to the National Press Club that the only kind of postal privatization he favored was that which, rather than selling off the Postal Service to private investors, would grant the public enterprise greater flexibility to cut prices to customers of competitive mail services—which include parcel post and overnight mail—and to introduce new products:

> With changes in the law, we can get the pricing flexibility we need and the latitude to bring new products to market faster . . . . Some say the solution is to privatize the postal service. Well that depends on what they mean. If it means putting for sale signs in our lobby windows and selling off the mail to the highest bidder, that's a bad idea. No private company accountable to Wall Street can carry out our national mandate. America needs the communications safety net that the Postal Service provides . . . . On the other hand, if they mean freeing the Postal Service to become more businesslike and market driven, we have something to talk about.[13]

If Congress and the Postal Rate Commission would grant the Postal Service such pricing power and freedom to enter new markets, the Postmaster General said, this traditionally nonprofit enterprise "could become a profit center for the federal government" and "out-deliver any competitor."[14] The GAO's 1992 report looms prominently in these proposals. In March 1995, the new chairman of the House Subcommittee on the Postal Service wrote to the Comptroller General, asking whether the GAO continued to adhere to the recommendations contained in its 1992 report to Congress.[15] Regardless of what the GAO might think about its 1992 report three

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12. GOVERNMENT ACCOUNTING OFFICE, U.S. POSTAL PRICING: PRICING POSTAL SERVICES IN A COMPETITIVE ENVIRONMENT 8 (1992) [hereinafter GAO REPORT]. The GAO report followed by five months a consulting report commissioned by the Postal Service that warned of the adverse consequences for the Service of losing market share in parcel post and overnight mail. INSTITUTE FOR PUBLIC ADMINISTRATION, THE RATEMAKING PROCESS FOR THE UNITED STATES POSTAL SERVICE 28-33 (report to the Board of Governors of the United States Postal Service, Oct. 1991).

13. Address by Postmaster General Marvin Runyon to the National Press Club (Jan. 31, 1995) [hereinafter *Runyon Speech*] (available in LEXIS News Library).

14. *Id.*

15. Letter from John M. McHugh, Chairman, Subcommittee on the Postal Service, House Committee on Government Reform and Oversight, to Charles A. Bowsher, Comptroller General of the United States, United States General

years later, the Postal Service in April 1995 reaffirmed its position by petitioning the Postal Rate Commission to grant it the pricing flexibility recommended in the GAO's 1992 report.[16]

In this report, we explain that Postal Service pricing and regulations cause competitive problems for private firms because of incorrect measurement and misallocation of attributable costs and because of misuse of Ramsey-pricing principles. We make seven policy recommendations, the most significant being that the Postal Service should be expelled from competitive markets for mail delivery and should be prohibited from adopting the pricing recommendations contained in the GAO's 1992 report and again urged in 1995 by the Postmaster General and the Postal Service.

I. Postal Service Pricing and Regulations Cause Competitive Problems

Unlike private firms in regulated industries, the Postal Service is not subject to the demanding oversight of a state public utility commission or federal regulatory agency. The Postal Rate Commission—an organization of only fifty employees, including its five commissioners[17]—is ineffectual for legal and political reasons.[18] The Postal Service in essence regulates itself—which is to say that it is unregulated.

A. *The Absence of Price Caps Increases the Postal Service's Incentive and Opportunity for Anticompetitive Cost Misallocation*

From a competitive perspective, the principal harm that regulatory oversight can prevent is the misallocation of costs by the Postal Service from competitive classes of mail to first class mail, which is protected by a statutory monopoly. In regulated industries, one way of reducing the incentive and opportunity for anticompetitive cross-subsidization is to replace cost-of-service regulation with price caps.[19]

Price caps build on a virtue that derives from the phenomenon of regulatory lag—that is, the general delay in the responses of regulators to changes in cost or market conditions. The pertinent delay here is the regulator's time lag in adjusting permitted prices to changes in costs.

Suppose that the firm's prices are set on the basis of current costs, and the firm succeeds

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Accounting Office, Mar. 7, 1995 (copy on file with author).

16. Petition of United States Postal Service to Initiate Rulemaking (filed before the Postal Rate Commission, Apr. 10, 1995).

17. *Hearings before the Subcomm. on the Postal Service of the House Comm. on Government Reform and Oversight*, 104th Cong., 1st Sess. (Mar. 2, 1995) (testimony of the Edward J. Gleiman, Chairman, Postal Rate Commission).

18. *See* R. Richard Geddes, *Agency Costs and Governance of the United States Postal Service*, *in* GOVERNING THE POSTAL SERVICE 114, 129-33 (J. Gregory Sidak, ed., AEI Press 1994).

19. *See* BRIDGER M. MITCHELL & INGO VOGELSANG, TELECOMMUNICATIONS PRICING: THEORY AND PRACTICE 167-75, 276-85 (Cambridge University Press 1991); Ronald R. Braeutigam & John C. Panzar, *Effects of the Change from Rate-of-Return to Price-Cap Regulation*, 83 AM. ECON. REV. PAPERS & PROC. 191 (1993); Ronald R. Braeutigam & John C. Panzar, *Diversification Incentives Under "Price-Based" and "Cost-Based" Regulation*, 20 RAND J. ECON. 373, 387-90 (1989); Tracy R. Lewis & David E.M. Sappington, *Regulatory Options and Price Cap Regulation*, 20 RAND J. ECON. 405 (1989).

in reducing those costs substantially. Suppose further that, say, two years elapse before regulators require the firm to cut its prices correspondingly. Then the firm will enjoy two years of superior profits as its reward for improved efficiency. That process mimics a competitive market, where a cost-cutting innovator enjoys superior but temporary profits. Those higher profits end when rivals introduce their own cost-reducing innovations, wiping out the competitive advantage temporarily enjoyed by the earlier innovator.

Price caps eliminate the incentive for the firm to cross-subsidize new lines of business through the misallocation of costs, for the firm may charge up to its maximum price whether or not its accounting costs for the regulated service change. In this manner, price caps sever the link that rate-of-return regulation creates between the regulated firm's realized production costs and its allowed earnings. Under rate-of-return regulation, the firm can raise its allowed earnings whenever it can mischaracterize costs incurred in the production of unregulated products as having been incurred in the production of regulated products. Under price-cap regulation, however, the firm is not allowed higher revenues from regulated services when the costs of those activities rise; thus, the firm cannot increase its earnings by assigning accounting costs from its unregulated services to its regulated services. This inability to profit from cost misallocation correspondingly reduces the firm's incentive to attempt cross-subsidization.

The Postal Service has both a large incentive and a good opportunity to engage in anticompetitive cross-subsidization, for the enterprise is not subject to any explicit price-cap regulation and its rate proceedings occur relatively quickly.[20] Indeed, the statutory requirement that the Postal Rate Commission issue recommended decisions in rate proceedings within ten months,[21] while desirable on grounds of administrative efficiency, incidentally contributes to the inability of postal rates to resemble price caps. Under these lax circumstances, not only is the Postal Service likely to allocate common fixed costs arbitrarily across classes of mail, but the Postal Service is more able than a regulated private firm (such as a local exchange carrier) to fail to attribute costs that can be causally traced to a particular class of mail—particularly a class of mail, such as parcel post or overnight mail, for which the Postal Service experiences substantial competition.

The Postal Service maintains that the price of each class of mail covers all costs attributable to that class. Economic analysis suggests, however, that cost misallocation by the Postal Service will be an increasing function of the share of total costs that the Postal Service asserts that it cannot attribute to any particular class of mail.

B. *Incorrect Measurement and Misallocation of Attributable Costs*

The Postal Service has five major classes of mail: (1) letters and postcards, (2) newspapers and periodicals, (3) bulk business mail, (4) parcels, and (5) express mail. Such product categories are an arbitrary segmentation of the mail market based on the characteristics of the mailer, the type of package being sent, and the speed of delivery. The categories exist to facilitate

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20. For a proposal to subject the Postal Service to price caps, see Michael A. Crew & Paul R. Kleindorfer, *Pricing, Entry, Service Quality, and Innovations under a Commercialized Postal Service*, *in* GOVERNING THE POSTAL SERVICE, *supra* note 18, at 150, 161-67.

21. 39 U.S.C. § 3624(c)(1).

regulatory ratemaking and thus do not necessarily conform to market segments that might be identified today for pricing and marketing purposes. Indeed, in March 1995 the Postal Service initiated a proceeding before the Postal Rate Commission to reclassify the mail—only the second such reclassification proceeding since postal reorganization in 1970.

1. *Cost-of-Service Regulation of the Postal Service*

A competitive firm sets price on the basis of its customers' willingness to pay and the anticipated prices that the firm's actual and potential competitors will charge for their products. Unlike competitive firms, a firm subject to rate-of-return regulation sets price on the basis of accounting measures of operating costs and capital expenditures, and the allowed rate-of-return on capital. In the case of the Postal Service, the Postal Rate Commission begins by determining the revenue requirement based on projected levels of demand for the various classes of mail. Costs for a "test year" in the future are estimated on the basis of those estimated demand levels and the expected inflation rate. If estimated total costs would exceed estimated revenues in the test year, using existing rates, the Postal Rate Commission authorizes a rate increase. The higher rates that would enable the Postal Service to break even reflect the fact that demand would fall (and hence total costs would change) as rates rise in accordance with the relevant price elasticities.

The prices established by a regulated firm that offers multiple products and services, or that distinguishes between multiple customer classes, are referred to as its *rate structure*. After the Postal Rate Commission determines the Postal Service's revenue requirement, it addresses rate design and cost attribution. Each class must cover its attributable costs and make at least some contribution to the recovery of institutional costs. Understandably, great controversy surrounds the determination of whether a cost is attributable to a particular class of mail and how institutional costs should be apportioned among the various classes of mail.[22]

2. *Tests for Cross-subsidies in Multiproduct Firms*

A break-even regulated rate structure is said to be free of cross-subsidies if and only if the prices satisfy the *stand-alone cost test*.[23] Stand-alone cost refers to the firm's long-run total cost of

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22. For a discussion of the mechanics of Postal Rate Commission case, see Michael A. Crew & Paul R. Kleindorfer, *Pricing, Entry, Service Quality, and Innovation under a Commercialized Postal Service*, *in* GOVERNING THE POSTAL SERVICE, *supra* note 18, at 150, 160. Because the Postal Service has no shareholders, the form of cost-of-service regulation to which it is subject differs somewhat from the cost-of-service regulation applied to private firms:

> The testimony on the allowed rate of return, which is paramount in traditional utility regulation, is not part of postal rate hearings. If the utility regulator allows a higher rate of return, the stockholders potentially stand to benefit. In postal service regulation, however, there is not the same direct concern with rate of return. The Postal Service has a break-even requirement, which includes covering interest payments on its borrowing. The requirement to establish an opportunity cost of capital, the basis of most rate-of-return testimony in utility cases, is not present in postal rate cases.

Id. For a discussion of cost-of-service regulation of private firms, see DANIEL F. SPULBER, REGULATION AND MARKETS 271-79 (MIT Press 1989).

23. *See, e.g.*, WILLIAM J. BAUMOL & J. GREGORY SIDAK, TOWARD COMPETITION IN LOCAL TELEPHONY 81 (MIT

each service operated separately. The stand-alone cost test requires that the revenues generated from either of two services not exceed the stand-alone cost of providing that service. If the revenues from one service do exceed its stand-alone cost, then that service is providing a cross-subsidy to the other service.[24] The test for cross-subsidization demonstrates that the customers of the service providing the cross-subsidy would be better off if that service could be obtained independently of the other service.

A regulated firm's rate structure also can be said to be free of cross-subsidies if and only if the prices satisfy the *incremental cost test*, which is equivalent to the stand-alone cost test for a regulated rate structure.[25] Applying the incremental cost test, revenues generated by each service cover the incremental cost of providing that service.[26] The rationale for the incremental cost test is the requirement that each service must generate revenues that at least cover the additional cost of producing that service. If not, the other service is providing a cross-subsidy, and the customers of the other service would be better off receiving their service independently, at its stand-alone cost.

If a firm is regulated, it is desirable to design a rate structure that is free of cross-subsidies. Otherwise, the economic incentives can lead to allocative inefficiency. Customers receiving the subsidy do not observe the full economic costs of their service and consequently demand an inefficiently high amount; customers providing the subsidy demand an inefficiently low amount or seek bypass alternatives that may be uneconomic under some conditions.

The Postal Service's rate structure includes various types of cross-subsidies. The primary method of cross-subsidization is by uniform pricing of postal delivery regardless of origin or destination. The differences in transportation and delivery costs thus are not reflected in the postal rates. Since postal rates are set to enable the Postal Service to break even, it follows that some mailers are subsidizing others. Other types of subsidies exist, including franking privileges and targeted discounts.

3. *Attributable Costs and Institutional Costs*

Putting aside explicit discounts, the method by which the Postal Rate Commission sets postal rates may contain a number of implicit cross-subsidies. These types of cross-subsidies result from incorrect measurement of costs. We distinguish two types of costs: *attributable costs*, which can be identified with the costs of specific services, and *indirect costs*, which refer to joint and common costs that cannot be attributed to any specific service. In postal rate proceedings, indirect costs are also called *institutional costs*.

Attributable costs generally are variable or "volume-sensitive" costs, such as labor and vehicles that can be assigned to specific types of sorting, collection, or delivery. Indirect costs

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Press & AEI Press 1994); WILLIAM J. BAUMOL, JOHN C. PANZAR & ROBERT D. WILLIG, CONTESTABLE MARKETS AND THE THEORY OF INDUSTRY STRUCTURE 352-53 (Harcourt Brace Jovanovich 1982; rev. ed. 1988).

24. The definition of the stand-alone cost test is given in terms of two services. In the case of more than two services, the test requires that no group of services subsidizes any other group of services.

25. *See* BAUMOL & SIDAK, *supra* note 23, at 57, 81-83; WILLIAM J. BAUMOL, SUPERFAIRNESS: APPLICATIONS AND THEORY 113-20 (MIT Press 1986).

26. The incremental cost test is defined here for only two services. In the case of more than two services, the revenues generated by each group of services must cover the incremental cost of providing that group of services.

are fixed overhead and capital costs that are not volume-sensitive and do not correspond to any specific sorting, collection, or delivery activities. If attributable costs are correctly determined and prices for each service reflect those costs, arbitrary allocations of joint and common costs (that is, institutional costs) yield subsidy-free rate structures.[27] This proposition means that there is generally a wide range of subsidy-free rate structures. However, if regulators incorrectly classify some attributable costs as institutional costs, then accounting rules for allocating indirect costs can easily produce cross-subsidization.

4. *Institutional Costs of the Postal Service*

The Postal Service counts about $16 billion (or about 35 percent) of its total costs as institutional costs.[28] In other words, the Postal Service believes that it cannot attribute over a third of its costs to any specific service. So large a share of institutional costs appears open to question based on a cursory observation of Postal Service activities. Unlike the joint and common costs of facilities used to produce joint products, as in the case of a local telephone exchange network or an electric power transmission grid, it should be possible in the case of the Postal Service to attribute labor costs to distinct activities. In fiscal year 1994, however, compensation and employee benefits amounted to $39.6 billion, or over 82 percent of the total expenditures of $48.455 billion.[29] It is evident that some proportion of the remaining 18 percent of expenditures—such as vehicles and sortation equipment—are dedicated to certain classes of service. This suggests that the proportion of institutional costs are exaggerated and do not accurately describe the activities of the Postal Service.

Amid significant controversy, the "estimates" of nonattributable costs have decreased somewhat since the reorganization. In the 1972, 1975, and 1976 postal rate hearings, the Postal Service used a short-run cost attribution system that included in institutional costs:

> all cost for the purchase and lease of buildings, the purchase of equipment and vehicles, expenses for vehicle drivers, vehicle maintenance, building and equipment maintenance and custodial cost, the cost of a mailman's driving or walking his route to deliver mail, one-third of purchased transportation, most supplies including gasoline and oil, and a considerable portion of clerk's time (including window service).[30]

This approach left slightly more than *half* of Postal Service costs unattributed with allocation subject to Postal Service discretion.[31] In the 1994 rate case, the Postal Rate Commission estimated institutional costs to be 34.91 percent, while the Postal Service estimated them to be

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27. SPULBER, *supra* note 22, at 129.

28. GAO REPORT, *supra* note 12, at 7.

29. U.S. POSTAL SERVICE, 1994 ANNUAL REP. 38 (1994).

30. Action of the Governors under 39 U.S.C., Section 3625, and Supporting Record in the Matter of Postal Rate and Fee Increases, Initial Decision, Dkt. No. R74-1, vol. 1, at 3 (Postal Rate Commission 1974), *quoted in* JOHN T. TIERNEY, THE U.S. POSTAL SERVICE: STATUS AND PROSPECTS OF A PUBLIC ENTERPRISE 157 (Auburn House 1988).

31. TIERNEY, *supra* note 30, at 157.

36.75 percent.[32]

The exaggeration of the proportion of institutional costs also leads to incorrect conclusions about the Postal Service's production technology. These costs appear to be fixed costs—that is, they are presumably not volume-sensitive. Therefore, if institutional costs do not depend on volume, an increase in mail volume reduces unit costs and appears to imply the presence of economies of scale. In turn, economies of scale are a sufficient condition for natural monopoly. Therefore, a high proportion of institutional costs can be used—incorrectly—to buttress continuation of regulatory barriers to entry to protect the statutory monopoly in first class mail on the grounds that the Postal Service is a natural monopoly.

In addition, since the institutional costs are represented as joint and common for all postal services, the presence of these costs implies that substantial economies of scope are present. Thus, a high proportion of institutional costs can be used to justify expansion of Postal Service activities into other markets—such as parcel post and express mail—in the name of exploiting economies of scope. For example, the GAO states in its 1992 report that, in comparison with the natural monopoly technology, "[t]he question of whether the Postal Service exhibits 'economies of scope' seems less open to doubt."[33] In short, to recognize that much of institutional costs are attributable is to refute the "cost-efficiency" justification for the statutory monopoly over first class mail and the Postal Service's expansion into new lines of business.

Another important consequence of high institutional costs, whether or not they are overestimated, is that the relative prices in the Postal Service rate structure are very sensitive to cost allocation schemes, for a high proportion of total costs is shifted around. Moreover, inefficiencies in Postal Service operation that inflate overhead costs increase the impact of cost allocation schemes on prices. Because the Postal Service is not a profit maximizing enterprise, one cannot expect that its managers keep overhead costs to the level that would be observed for private companies carrying out similar tasks, nor would one expect that the relative proportions of institutional and attributable costs correspond to efficient levels.

5. *The Difficulty of Preventing Cross-subsidization by the Postal Service*

The Postal Service is concerned that its prices are not competitive with parcel post and express mail. Postmaster General Runyon stresses the need for "price flexibility" as a means of responding to competitive pressures.[34] Essentially, price flexibility of this type requires a shifting of institutional costs away from markets in which the Postal Service faces competition and toward markets where it holds a statutory monopoly. Given the high likelihood of incorrect measurement of institutional costs and cost inefficiencies, such cost shifting can easily lead to cross-subsidization of competitive activities by the Postal Service's captive customers.

There are few safeguards against such cross-subsidization. As we have already observed, the Postal Service can carry out a cross-subsidization program by following standard cost

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32. Postal Rate and Fee Changes, 1994, Dkt. No. R94-1, App. D (Comparison of Costs Attributed by Cost Segment and Component) at 4 (Postal Rate Commission 1994).

33. GAO REPORT, *supra* note 12, at 60 (citing Melvyn A Fuss, *Cost Allocation: How Can the Costs of Postal Services Be Determined?*, in PERSPECTIVES ON POSTAL SERVICE ISSUES 30 (Roger Sherman, ed., AEI Press 1980)).

34. *Runyon Speech*, *supra* note 13.

allocation rules if it can inflate the proportion of institutional costs. Moreover, since the Postal Service already has a presence in the competitive markets for parcel post and express mail, it is difficult for regulators to distinguish incremental costs devoted to these activities from growth in institutional costs.

Market safeguards against cross-subsidization also are absent because of the Postal Service's statutory monopoly. Competitive firms generally cannot cross-subsidize because it induces competitive entry. If a service offered by a firm is contributing greater revenues than its stand-alone cost, and if entry barriers are not too large, then competitors will enter the market and profitably supply that service. If the markets providing subsidies are protected by statutory entry barriers, however, such competition cannot occur. The statutory monopoly over first class mail delivery makes it relatively easy for the Postal Service to engage in cross-subsidization of competitive activities (such as parcel post and overnight mail) and to pass the cost along to captive customers.

A profit-maximizing firm generally does not have an incentive to cross-subsidize. It is doubtful, however, that the Postal Service maximizes profit. Instead, the Postal Service's behavior suggests that it maximizes volume and employment, which would rise as the Postal Service expanded into new services. Indeed, the Postal Service has shown a willingness to suffer significant losses to enter or remain in markets that private, competitive firms have proven can be profitably served without government intervention. Such behavior by the Postal Service is not consistent with profit-maximizing behavior (or, for that matter, its statutory mandate) but is consistent with the objective of volume or employment maximization.

6. *Remedies for Cost Misallocation by the Postal Service*

There are three principal remedies to prevent cost misallocation by the Postal Service. The first is to open all postal markets to competition. This policy would quickly eliminate cross-subsidies in the rate structure of the Postal Service and wring out any of its economic inefficiencies because both of these conditions would create profitable opportunities for firms to enter the market and offer lower prices.

A second remedy, not mutually inconsistent with the first, would be to break up the Postal Service along product lines to avoid any incorrect identification of attributable costs as being joint and common.

A third remedy would be an alternative to the first two: banish the Postal Service from all markets but those in which it has a statutory monopoly to avoid the possibility of subsidies going from protected to competitive activities.

C. *Misuse of Ramsey Pricing Principles*

A misuse of Ramsey pricing principles underlies the GAO's recommendation that Congress grant the Postal Service the freedom to price according to the inverse elasticity rule. The same deficiency implicitly underlies Postmaster General Runyon's call for greater pricing flexibility. We begin by reviewing the concept of Ramsey pricing and then show where errors of economic reasoning arise in the arguments of the GAO and the Postmaster General.

1. *Ramsey Pricing*

Ramsey pricing is a method of allocating nonattributable costs for a regulated firm or public enterprise. If it were feasible financially, economic welfare would be maximized by setting the price of each product equal to its marginal (or incremental) cost. If there are economies of scale, however, marginal cost pricing yields insufficient revenues to cover the firm's total cost. Prices must therefore exceed marginal cost for the firm to recover joint and common costs and thus continue to supply the goods in question.

But every deviation of price from marginal cost creates some inefficiency—first, because it provides an incentive for consumers to switch to those goods whose prices are raised only modestly relative to their true marginal cost, and second, because every rise in price restricts demand by cutting into consumer purchasing power. Ramsey pricing denotes those second-best prices that are Pareto-optimal, subject to the requirement that they yield revenues sufficient to cover the total costs incurred by the supplier of the products in question. The damage to welfare is minimized if the firm's revenue shortfall is covered through smaller increases in the prices of the goods whose demands are elastic, and larger increases in the prices of goods whose demands are comparatively inelastic.[35]

Ramsey prices are usually obtained by maximizing the sum of consumer surplus and producer surplus subject to the constraint that the revenues generated by the firm must cover its costs. The standard approach to deriving Ramsey prices is itself subject to theoretical dispute, however, because it ignores effects on the distribution of income and assumes that the income effects of price changes are insignificant.[36] Moreover, if the firm incorrectly characterizes attributable costs as joint costs (or vice versa), it will bias the Ramsey prices and preclude the welfare-maximizing result. As we noted earlier, the apparent need to allocate institutional costs by the use of demand factors grows in importance the more the firm is able, through questionable accounting practices, to count attributable costs as overhead. If instead such costs were correctly attributed to specific activities of the Postal Service, many problems of cost allocation would disappear.

2. *The Error Underlying the GAO's Recommendation That the Postal Service Employ the Inverse Elasticity Rule*

The GAO's recommendations that the Postal Service use the inverse elasticity rule are theoretically flawed because the GAO would have the Postal Service use estimates of the price elasticity of demand for first class mail that are predicated on regulatory barriers to entry into postal markets. According to the GAO, "The Postal Service believes that demand factors should play a major role in overhead cost allocation, whereas the Commission places less weight on

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35. *See* Frank P. Ramsey, *A Contribution to the Theory of Taxation*, 37 ECON. J. 47 (1927). For a review of the subsequent literature, see William J. Baumol, *Ramsey Pricing*, in 4 THE NEW PALGRAVE: A DICTIONARY OF ECONOMICS 49-51 (John Eatwell, Murray Milgate & Peter Newman, eds. 1987); William J. Baumol & David F. Bradford, *Optimal Departures From Marginal Cost Pricing*, 60 AM. ECON. REV. 265 (1970).

36. *See* SPULBER, *supra* note 22, at 166-68.

demand factors in its pricing decisions than the Postal Service does."[37] In its report to Congress, the GAO recommends the following:

> . . . [T]o give the Postal Service more competitive flexibility, GAO believes Congress should reexamine the nine ratemaking criteria set forth in the Postal Reorganization Act and consider amending them to state that (1) in allocating institutional costs, demand factors—including elasticities of demand—are to be given a weight that takes into account the need to maintain the long-term viability of the Postal Service as a nationwide full-service provider of postal services and that (2) such use of demand factors will not be inconsistent with the rate criterion requiring the establishment of a fair and equitable rate schedule as long as each mail class recovers the direct and indirect costs attributable to that service and makes some contribution to institutional costs. Congress should also consider reexamining the provisions of section 403(c) of the Postal Reorganization Act to determine if volume discounting by the Postal Service would in fact result in "undue or unreasonable discrimination" among mailers and "undue or unreasonable preference" to a mailer.[38]

Even if a legitimate need for overhead cost allocation exists, the GAO has applied demand-based pricing rules with deceptive oversimplification to the operations of the Postal Service.

The demand for a firm's good is always more price elastic than the overall market demand for that good—unless the firm is a monopolist protected by entry barriers, in which case the price elasticities of demand for the firm and the market closely correspond. Generally, the firm faces a demand function that reflects the reactions of competitors and potential entrants, which increase price elasticity.[39]

The application of demand-based pricing yields the familiar inverse elasticity rule for all services:

$$(P_i - MC_i)/P_i = K/\eta_i,$$

where $i = 1,2,3,4,5$ is an index representing the five classes of postal services. The other terms are defined as follows:

P_i	=	price of service i.
MC_i	=	marginal (attributable) cost of service i.
K	=	a constant reflecting the shadow price of the break-even constraint.
η_i	=	the price elasticity of demand for service i.

37. GAO REPORT, *supra* note 12, at 4.

38. *Id.* at 8-9.

39. *See* William E. Landes & Richard A. Posner, *Market Power in Antitrust Cases*, 94 HARV. L. REV. 937, 945 (1981).

The ratio relative markups for any two services is governed therefore by the inverse ratio of elasticities of those two services. for any two services i and j:

$$\frac{\frac{(P_i - MC_i)}{P_i}}{\frac{(P_j - MC_j)}{P_j}} = \frac{\eta_j}{\eta_i},$$

The elasticity of demand is defined as the percentage change in quantity demanded divided by the percentage change in price. Let $D_i(P_i)$ represent the demand function for service i, which depends on the price of service i. Then, the elasticity of demand is defined by:

$$\eta_i = \frac{dD_i(P_i)}{dP_i} \frac{P_i}{D_i(P_i)}, \qquad i = 1,2,3,4,5.$$

The elasticity of demand is negative since a price increase lowers the quantity demanded.

The current approach to calculating elasticities of demand for postal services is based on estimates of the effect of a percentage change in postal rates on the percentage change in postal volume for a given class of mail. Professor George S. Tolley of the University of Chicago, whose testimony the Postal Rate Commission has relied upon in ratemaking proceedings, had used this method to estimate that the long-run elasticity of demand is -0.188.[40] This general type of estimation provides a reasonably accurate description of the elasticity of the Postal Service's demand, although it has engendered some disagreement about the econometric methodology used.[41]

The larger problem with the GAO's approach is that its estimates of the price elasticities of demand for the various classes of mail are contingent on the statutory barrier to entry that the Postal Service enjoys with respect to first class mail. The price elasticity for first class mail is consequently lower than it would be if there were no statutory monopoly. Professor William J. Baumol and one of the present authors have written about this same problem in telecommunications regulation:

> Application of Ramsey analysis to regulation is subject to [an] important caveat because feasibility of the calculations is likely to require them to take the pertinent demand elasticities as a given. In the language of economics, these elasticities are then treated as exogenous. But regulators considerably influence the firm's demand elasticity by their decisions and policies that affect the firm's

40. Direct Testimony of George S. Tolley on Behalf of the United States Postal Service, Postal Rate and Fee Changes, 1994, Dkt. No. R94-1 (Postal Rate Commission 1994).

41. GAO REPORT, *supra* note 12, at 74–78.

> actual or potential competitors. Clearly, severe constraint of firms' entry and pricing will somewhat immunize each enterprise from the competitive pressures of others. That immunity from competition will reduce the elasticity of each supplier's demand—that is, it will reduce the loss of business that results from a rise in its prices. The firm's price elasticity of demand thus must be said to be endogenously determined by the regulatory process itself. With such regulatorily influenced demand elasticities, it is not clear that Ramsey prices calculated *ex ante* will be those necessary for economic efficiency.[42]

When one applies this same reasoning to the Postal Service, it is clear that demand-based pricing simply reflects the statutory monopoly over first class mail and thus conveys little information about either consumers' willingness to pay for postal services or the opportunity costs of alternative suppliers. These elasticity estimates have precision without rigor. The Department of Justice recognized this problem as long ago as 1977:

> First class mail users have the most inelastic demand; by eliminating competitive options through enforcement of the express statutes, this inelasticity of demand is maintained. Therefore, the lion's share of common costs is assigned to first class.[43]

Given these "cooked up" elasticities, demand-based pricing rules are an unreliable way to determine the most efficient means of allocating joint and common costs across postal customers.

The GAO also recognizes this problem, for it states that it has "assumed that First-Class Mail is the most inelastic class because it has stronger monopoly restrictions than the other classes of mail."[44] Nonetheless, the GAO asserts—erroneously—that "the fact that elasticities may differ for different classes of mail because the law allows for different amounts of competition in those classes does not negate the validity of [the inverse elasticity rule] for ratemaking in the Postal Service."[45] Instead, the GAO argues that these elasticities should simply be taken as a given for pricing purposes "[g]iven the market structure within which the Postal Service must operate."[46] The GAO makes this assertion despite its observation that the econometric estimates of demand elasticities omit a number of factors:

> The omitted variables might include private competitors' price, the quality of Postal Service products and services relative to those of its competitors'

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42. BAUMOL & SIDAK, *supra* note 23, at 40–41 (footnote omitted).

43. U.S. DEPARTMENT OF JUSTICE, CHANGING THE PRIVATE EXPRESS LAWS: COMPETITIVE ALTERNATIVES AND THE U.S. POSTAL SERVICE 12 (1977).

44. GAO REPORT, *supra* note 12, at 66. *See also id.* at 30–31 ("Because of historical experience and First-Class Mail protection from unrestricted competition by the Private Express Statutes, postal ratemaking experts believe that this service has a relatively inelastic demand—i.e., the demand for the service is not greatly affected by changes in postal rates."); *id.* at 64 ("[T]he relative inelasticity of First-Class Mail may be largely due to the legal monopoly granted to the Postal Service.").

45. *Id.*

46. *Id.*

entrepreneurship, product and marketing innovations (e.g., advances in computers and telecommunications), and exogenous changes in market conditions and in consumers' tastes and needs.[47]

Even if additional variables were included, as the GAO implies that they should be, the estimation of demand elasticities still would fail to give an accurate representation of competitor responses in the absence of the regulatory barriers to entry enjoyed by the Postal Service.

3. *The Correct Demand Elasticity for Computing Ramsey Prices for the Postal Service*

When the firm price elasticity of demand for the Postal Service is correctly assumed *not* to equal the market price elasticity of demand, it becomes immediately apparent where the fallacy of the GAO's analysis lies concerning the suitability of the inverse-elasticity rule. To illustrate this point, suppose that entry were permitted into first class mail and that the new entrants' actions could be described by a supply function $S(P_1)$ that depended on the Postal Service's price for the service, P_1. Then, the Postal Service's residual demand for the service would equal the difference between the market demand $D(P_1)$ and the supply response of competitive firms:

$$D_1(P_1) = D(P_1) - S(P_1).$$

Therefore, the firm price elasticity of demand for the Postal Service for first class mail η_1 can be expressed in terms of the entire market's price elasticity of demand η, the Postal Service's market share s and the (positive) price elasticity of supply of the other firms on the competitive fringe of the market η^s,

$$\eta_1 = \frac{\eta}{s} - \frac{\eta^s(1-s)}{s}$$

By statute, s must equal 1 because the supply of competing firms is held at zero. In general, competition affects the elasticity of the firm's demand in a more complicated manner—that is, it cannot simply be subtracted. A complete analysis would need to take into account the costs of entry and operation for competitors. In any case, competition will increase the Postal Service elasticity of demand, as it has clearly done in parcel post and express mail.

In other words, the Private Express Statutes require that the Postal Service have *all* the market for the delivery of first class mail. This requirement causes the second term in the numerator to become zero—which prematurely ends any inquiry by the GAO into the extent to which a fringe of competing suppliers would enter the delivery of first class mail *if allowed to do so*. The price elasticity of demand for first class mail is artificially low because the Private Express Statutes forbid competition and thus arbitrarily drive down to zero the price elasticity of fringe supply (which affects the relevant price elasticity of demand). The low elasticity of

47. *Id.* at 74.

demand that the GAO asserts to exist for first class mail is then seen to be a regulatory contrivance—one preordained by the Postal Service's historical resistance to allowing competitive entry into first class mail through relaxation or repeal of the Private Express Statutes.

Although the GAO report acknowledges that the price elasticity of demand for first class mail is pushed down by the statutory monopoly over the delivery of such mail.[48] the GAO nonetheless fails to recognize that this critical fact invalidates the reasoning by which the GAO reaches its conclusion that the inverse-elasticity rule should govern the allocation of institutional costs to the various classes of mail. There is no reason to suppose (as the GAO evidently does) that pricing according to the inverse-elasticity rule would maximize consumer welfare when the Postal Service's price elasticity of demand for first class mail is artificially understated by ignoring that η^s could be a large number.

D. *Summary and Implications*

Since regulators first addressed Ramsey pricing in ratemaking proceedings several decades ago, the concept has invited the recurrent but uninformed criticism that it is tantamount to a rule allowing the supposedly regulated monopolist to charge whatever the traffic will bear.[49] That criticism is incorrect because it ignores that Ramsey prices are constrained to yield profits no higher than the competitive earnings level, while the profits of a price-discriminating monopolist are unconstrained. Prices that are set subject to a profit constraint will be considerably lower than those adopted in the absence of such a constraint.[50]

The irony of the GAO's 1992 report on postal pricing, and of the Postmaster General's 1995 call for greater pricing flexibility, is that they are in essence recommendations for the Postal Service to approximate not Ramsey pricing but rather the pricing of an unconstrained price-discriminating monopolist. The Postal Service has demonstrated a proclivity to characterize, through incorrect measurement or misallocation, an inordinate share of its total costs as institutional costs. The GAO would then place a greater share of those inflated institutional costs on customers of first class mail—based on the GAO's specious interpretation of the inverse elasticity rule, which fails to adjust for the fact that the price elasticity of demand for first class mail is artificially low because the statutory monopoly on the delivery of first class mail excludes any possibility of competitive entry.

In short, the economic essence of what the GAO and the Postmaster General advocate is that the Postal Service should be allowed to charge first class customers whatever the traffic will bear (thus generating monopoly profits for the federal government) and charge other customers of other classes of mail prices that undercut private competitors (thus generating supracompetitive profits for the federal government over the near term if attributable costs can be misallocated to first class mail, and potentially generating monopoly profits over the long term if the private firms are ultimately driven from the market). This set of outcomes would comport with the Postmaster General's prediction that, if the Postal Service were granted greater

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48. GAO REPORT, *supra* note 12, at 62-63.

49. *See* BAUMOL & SIDAK, *supra* note 23, at 52-53 & n.2 (citing American Tel. & Tel. Co., Dkt. No. 19129, 64 F.C.C.2d 131, 469-70 ¶¶ 1121-24 (1976)).

50. *Id.*

pricing flexibility and freedom to enter new markets, the enterprise "could become a profit center for the federal government."[51]

II. POLICY RECOMMENDATIONS

Seven principal policy recommendations emerge from our analysis of the Postal Service. Although the adoption of any one of them would improve consumer welfare, in some cases dramatically, these seven recommendations are better viewed collectively as a plan of action for Congress for the comprehensive reform of the Postal Service.

A. *Expel the Postal Service from Markets That Are Demonstrably Competitive*

In any market where private firms already provide mail services, there is no need for the Postal Service. Congress should expel the Postal Service by statute from any such market, for no market failure is present that could justify government intervention, let alone intervention in the extreme form of a publicly owned enterprise. The antitrust laws are sufficient to ensure that postal markets that are demonstrably competitive today will not be monopolized or cartelized by private firms when the Postal Service exits the field.

Moreover, the process of expelling the Postal Service from competitive markets would help to establish one or more additional private competitors. For example, the assets that the Postal Service uses to provide overnight mail service in competition with Federal Express, United Parcel Service, and other private firms obviously would not evaporate if Congress were to expel the Service from that market. The Postal Service has twenty-nine aircraft and a hub in Indianapolis that it uses to deliver Express Mail.[52] Before resorting to piecemeal liquidation of these aircraft and hub assets, the government surely would explore with its investment banker the possibility of selling Express Mail intact as a viable product line. Potential buyers would include the smaller package and freight companies and the airlines. If no buyer could be found for Express Mail as a going concern, that fact would powerfully imply that the Postal Service wastes resources when its provides overnight mail service.

B. *Immediately Commercialize the Postal Service*

A public enterprise can be commercialized even if it is not privatized. Congress should specify by statute that, for as long as the Postal Service remains publicly owned, it shall be subject to all laws generally applicable to private firms and shall have no special privileges or immunities arising from its public ownership. The Postal Service should be subject to all of the antitrust, employment, environmental, securities, and tax laws with which any *Fortune* 500 company would have to comply. It should not be allowed to borrow from the Treasury, nor should its debt be backed by the full faith and credit of the U.S. government.

For guidance, Congress might examine Telstra Corporation Limited, a

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51. *Runyon Speech*, *supra* note 13.

52. 1994 COMPREHENSIVE STATEMENT, *supra* note 1, at 13.

telecommunications company with annual revenues exceeding $13 billion (Australian).[53] The Australian government owns Telstra and is represented on its board of directors by the Minister for Communications and the Arts.[54] Despite Telstra's public ownership, the company faces not only competition, but also the ordinary legal obligations of any private corporation, including taxation, financial disclosure, and conformity with antitrust statutes. Telstra paid over $800 million (Australian) in taxes in fiscal year 1994.[55] It also paid the Australian government a dividend of $738 million (Australian).[56] Telstra's annual report for 1994 contains thirty-four pages of detailed financial statements and notes,[57] compared with twenty-one pages in the Postal Service's 1994 annual report and eleven pages in its 1994 *Comprehensive Statement on Postal Operations*.[58] Under the current wireline duopoly in Australia, Telstra faces competition from Optus Communications Limited, which is 49 percent owned by two large foreign telecommunications firms, BellSouth Corporation and Cable & Wireless plc.[59] Telstra is subject to antitrust laws and specific competition legislation concerning telecommunications.[60] Indeed, in March 1993, Optus sued Telstra on the grounds that its pricing and product bundling of long-distance services for large customers were anticompetitive.[61]

Telstra is not an isolated example of a commercialized public enterprise. The largest telephone company in the world, Nippon Telegraph and Telephone, though still substantially owned by the Japanese government, pays taxes and dividends and is subject to the Telecommunications Business Law, which requires that the Japanese telecommunications services industry be open to competition.[62] The examples of Telstra and NTT raise the embarrassing question of why Congress has never subjected the publicly owned Postal Service to all the laws that its private competitors must obey.

C. *Subject the Postal Service to the Competitive Oversight of the Antitrust Division*

The Postal Rate Commission is an inadequate regulator for the Postal Service. It is a recognized danger that an industry-specific regulator will become captured by the companies it regulates.[63] The PRC faces this risk with three additional handicaps. First, it is not merely an industry-specific regulator, but a firm-specific one. Even in the days of the Bell System, the Federal

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53. TELSTRA CORP. LTD., 1994 ANNUAL REP. at inner cover (1994).

54. *Id.*

55. *Id.* at 39.

56. *Id.* at 5.

57. *Id.* at 30–63.

58. U.S. POSTAL SERV., 1994 ANNUAL REP. 17–37 (1995); 1994 COMPREHENSIVE STATEMENT, *supra* note 1, at 37–47.

59. BELLSOUTH CORP., 1994 SEC FORM 10-K, at 11 (1995); CABLE & WIRELESS PLC, 1994 SEC FORM 20-F, at 38 (1994). Australian law provides that the current duopoly will be opened to full competition in 1997. MINISTRY FOR COMMUNICATIONS AND THE ARTS, BEYOND THE DUOPOLY: AUSTRALIAN TELECOMMUNICATIONS POLICY AND REGULATION (1994).

60. *Id.* at 33.

61. TELSTRA CORP. LTD., 1994 ANNUAL REP. 51 (1994).

62. NIPPON TELEGRAPH & TELEPHONE CORP. (NIPPON DENSHIN DENWA KABUSHIKI KAISHA), 1994 SEC FORM 20-F/A, at 2-3, F-20 (1994).

63. George J. Stigler, *The Theory of Economic Regulation*, 2 BELL J. ECON. & MGMT. SCI. 137 (1971).

Communications Commission's agenda was not dictated by AT&T alone. Second, the Postal Service in effect has by statute the right to disregard the PRC's decisions. Third, the PRC is fundamentally a ratemaking body expert in issues of revenue adequacy and fairness across classes of customers, not an antitrust enforcer expert in measuring competition and assessing the effect of strategic behavior on consumer welfare.

Congress should explicitly subject the Postal Service to the antitrust laws and to the competitive oversight of the Antitrust Division of the Department of Justice. The Division has expertise in competitive analysis. Furthermore, it has independence because it enforces statutes that apply to all industries. Finally, the Division has special experience in dealing with antitrust problems concerning regulated network industries, such as telecommunications.

If Congress declined to repeal the Private Express Statutes, the Antitrust Division's review of the Postal Service would consist of whether it was using its lawful monopoly over letter mail to reduce competition in a different class of mail. In principle, this role for the Division would resemble its frequent examination under the Modification of Final Judgment of whether a particular Regional Bell Operating Company (upon which state law may continue to confer a statutory monopoly over local exchange service) is using that lawful monopoly to reduce competition in a different product market, such as long-distance service, that the RBOC seeks to enter or in which it already operates.

On the other hand, if Congress repealed the Private Express Statutes, the Antitrust Division's role would be considerably broader. The Postal Service's history of suppressing competition in letter mail, and its use in 1993 and 1994 of its search and seizures powers to dissuade large business customers from using Federal Express for mail that the Service did not regard as "urgent," suggest that this public enterprise would aggressively oppose new entrants.

D. *Decouple Universal Service from Other Delivery Functions*

Universal service is the Postal Service's last line of defense of the Private Express Statutes. Congress should reject that defense by funding universal postal service in a way that does not depend on the artificial creation of a monopoly. From the perspective of maximizing consumer welfare, it would be regrettable if the commitment to providing mail service to rural segments of the population were to have the effect of denying *all* segments of the population the substantial benefits that would flow from having multiple providers of letter mail rather than one.

The cross-subsidies in postal rates are an implicit regime of taxes and appropriations. Taxing and spending is properly the role of Congress under Article I of the Constitution.[64] Congress should not delegate these decisions to the Postal Rate Commission and the Postal Service, neither of which has any real political accountability to the electorate. The magnitude of the subsidy to rural recipients of mail should be apparent from an explicit line item in the budget; it should not be an amount that could be inferred only by undertaking extensive economic analysis of the cross-subsidies effected by the monopoly over letter mail.

There are at least two general means by which Congress could decouple universal service

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64. U.S. CONST. art. I, § 8, cl. 1, § 9, cl. 7.

from the Private Express Statutes. First, Congress could send postal subsidies directly to consumers in rural areas—even on a means-tested basis, if one's low income is considered to be more important than one's rural address. These customers would then be billed directly by the carrier of last resort for the high cost of what might be called "terminating access," to borrow a telecommunications concept. The lower basic stamp price that would result would not include the surcharge for delivery to costly, remote areas. A second means would be for the government to solicit bids from private firms to deliver mail to remote areas for a specified contract term. The winning bid would be that which proposed to provide service at the lowest subsidy from the government. If Congress were to adopt either approach, it could end the false rhetoric that American consumers must tolerate monopoly prices in order to have universal service.

E. *Do Not Attempt to Make the Postal Service a Profit Center for the Federal Government*

Congress should repudiate the Postmaster General's call for the Postal Service to be made a profit center for the federal government. Even taken at face value, this proposed mission is especially questionable in light of the many reasons that exist to doubt that the Postal Service currently acts as a profit maximizer.

The economic justification for public enterprise is either natural monopoly or externality. Neither is present in the case of postal services, or at least present in sufficient magnitude to necessitate public ownership of enterprise as the form of government intervention. Economic theory does not justify public enterprise on the ground that the government can make a profit competing against private firms. The government's source of funds is better confined to its taxation of the private economic activity of firms and households.

F. *Deregulate the Customer's Mailbox*

Congress should end the Postal Service's monopoly access to the customer's mailbox. One way to do so, though not the only way, would be to enact legislation declaring a mailbox to be a public forum. Such legislation would expressly overrule the Supreme Court's 1981 *Greenburgh* decision, which found a mailbox not to be a public forum.[65] The deregulation of mailbox access would increase competition across various existing and future classes of mail by lowering costs for competitors of the Postal Service and lowering the consumer's cost of switching from the Postal Service to a private express firm.

G. *Eventually Privatize the Postal Service*

The preceding six recommendations are attempts to achieve, in the absence of privatization, the major benefits that would accrue to consumers if the Postal Service were privatized and denied its monopoly. Stated differently, if Congress were simply to privatize the Postal Service and repeal the Private Express Statutes, the problems of anticompetitive cross-subsidization would

65. United States Postal Serv. v. Council of Greenburgh Civic Ass'n, 453 U.S. 114 (1981).

disappear. The Postal Service's reservoir of monopoly rents earned from letter mail would dry up, denying the firm the ability to cross-subsidize competitive services like overnight mail and parcel post. Privatization would force the Postal Service to maximize profits rather than employment or some other objective, and competition would force this multiproduct firm to adopt subsidy-free prices for its various services. In short, although the six preceding recommendations do not necessarily imply that Congress must take the final step of privatizing the Postal Service, they would greatly facilitate the transition to that state of affairs, should Congress embrace it.

CONCLUSION

The General Accounting Office, the Postmaster General, and the Postal Service recommend that, while retaining its statutory monopoly over letter mail, the Postal Service receive greater latitude to cut prices for those postal services that private firms currently provide on a competitive basis. Rather than subject this government-owned enterprise to the rigors of competition over all classes of mail, the GAO, the Postmaster General, and the Postal Service would, if their recommendations were followed, increase both the incentive and opportunity for the Postal Service to engage in anticompetitive cross-subsidization of its provision of competitive services, such as parcel post and overnight mail.

The Postal Service would accomplish this result in two steps. First, it would distort and misallocate the attributable costs of providing competitive service, characterizing these costs instead as institutional costs that should be spread across all classes of mail according to Ramsey pricing principles. Second, the Postal Service would distort the inverse elasticity rule, which follows from Ramsey pricing analysis, and would overstate the proportions of institutional costs of the Postal Service that should be allocated to first class mail. This overallocation of institutional costs to first class mail occurs and would continue to occur because the price elasticity of demand that the Postal Service estimates for first class mail fails to control for the fact that a statutory barrier to entry artificially prevents competitive firms from entering the delivery of letter mail under any circumstances—even when the Postal Service sets a price for that service far in excess of marginal cost. The Postal Service's inference of price inelastic demand for first class mail is the direct consequence of the monopoly enjoyed by this public enterprise.

The path to more competitive and innovative mail service in the United States is not to facilitate predatory cross-subsidization by a government-owned monopolist. Rather, it is to eliminate the monopoly over letter mail, subject the Postal Service explicitly to the antitrust laws and all other laws of general applicability to private businesses, contract out delivery to high-cost areas on a competitive basis, confine the Postal Service to the provision of services over which some demonstrable form of market failure exists, and eventually place the Postal Service under private ownership and control. The Postmaster General's observation that the Postal Service could become a profit center for the federal government is an admission that it is time to protect competition from the postal monopoly.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO JAMES A. ROGERS

Question 1. At a recent hearing one of our witnesses expressed concern that UPS, through the assistance of the Postal Rate Commission, has established a de facto monopoly over the carriage of small parcels for residential delivery. He further stated that UPS, in an effort to destroy its only competitor—the Postal Service, petitions the Postal Rate Commission to inflate the rate for parcel post in order to create a floor for UPS rates. Could you comment on this testimony?

Answer. I was not present to hear these statements. I was very surprised when they were reported to me. Any definition of monopoly includes the power to exclude competition. Competition for the delivery of parcels to residences for the members of the Parcel Shippers Association is anything but exclusive. Members of this association use parcel post, Third class mail—the Postal Service carries more than four times as many parcels in third class mail than in parcel post—Airborne, Federal Express, Roadway Package Service as well as United Parcel Service and regional and local carriers. A quick review of the catalogs published by the different members of PSA shows that they exercise their choice of a wide variety of carriers to deliver their merchandise. The notion that parcel post is UPS's only competitor in this market is given short shrift by the catalogs of Mr. May's own members.

The position of PSA is further eroded by the June 19, 1995, Parcel Shippers Association Information Letter 95–6, which tells PSA members on page 5 of the letter how to get a free copy of the 1995–1996 Service Directory of the Express Carrier Association located at the headquarters of the American Trucking Associations in Alexandria, VA. A copy of this directory is attached as Appendix 1. The Directory is 82 pages long and lists 79 different companies, the areas they serve and their features of service.

UPS participates at the Postal Rate Commission for one purpose and one purpose alone. That purpose is to assure that all of the ratemaking standards contained in the Postal Reorganization Act are complied with. Over the years, the Postal Rate Commission, even though handicapped by its inability to get complete information from the Postal Service, has done a fairly good job of enforcing this statute. Attached as Appendix 2 is a graph showing the increases sought by the Postal Service in first class and parcel post and the actual rates recommended by the PRC. This graph shows that the PRC has prevented even greater abuse of the Postal monopoly and the citizens subject to it by restraining repeated Postal Service attempts at cross subsidies from first class mail to parcel post. The PRC would have been even more successful had the Governors of the Postal Service not overruled the PRC's recommendation of an 18 cent first class stamp in 1981 in favor of the 20 cent stamp proposed by the Postal Service.

I am also confused by the statement that UPS seeks to have the Postal Rate Commission create a floor for parcel post rates on residential deliveries by inflating parcel post rates. UPS asks only that parcel post rates cover the costs caused by parcel post and a reasonable contribution to postal overhead. If by floor, the PSA witness means that the Postal Service's parcel post rates establish a "lower limit" for UPS rates, then we must point out that the current rate chart comparison between UPS residential ground rates and parcel post rates show that UPS has lower rates in 39% of the rate cells. Obviously, this so called "floor" has some serious holes in it.

Question 2. Mr. Sidak and Mr. Spulber conclude in their report attached to your written testimony that Congress should privatize the Postal Service and repeal the Private Express Statutes. Do you agree with their conclusion? Why or why not?

Answer. I do not read the Sidak-Spulber report to conclude that Congress should privatize the Postal Service and repeal the Private Express Statutes. The report states that there no longer is any compelling technological, economic, or public policy reason to continue the Postal Service's monopoly over the delivery of letter mail, but then goes to make six policy recommendations should Congress decide not to truly privatize the Postal Service and repeal the Private Express Statutes. Mr. Sidak and Professor Spulber note that true privatization and repeal of the Private Express Statutes would achieve the same result as their first six policy recommendations.

Sidak and Spulber recommend eventual repeal of the Private Express Statutes if that is necessary to prevent predatory cross subsidization by a government owned monopolist.

We strongly support the full package of policy recommendations and the conclusions of the Sidak-Spulber report. If Congress feels it is essential to maintain a monopoly over addressed letters and the use of the destination mailbox, the first six policy recommendations are essential to protect the public and competitors for non-monopoly service from abuse of the monopoly. Even if the Private Express Statutes

were repealed, as long as the Postal Service is a governmental or even a quasi-governmental entity there would still be a need for some body to insure Postal Service accountability to the public interest because of the Postal Service's government status and in light of its mammoth size and resources. At the very least, there would be a continuing need for the PRC during a transitional period after privatization while the market adjusted to a private Postal Service which starts off with some $55 billion in revenues and the tremendous advantages of having 40,000 outlets where its services are offered.

Question 3. Mr. Rogers, in an article from last February in Industry Week entitled "Shape up and Ship out—How Kent "Oz" Nelson is repackaging UPS for the future", I found many items that correlated with what the Postmaster General has been saying he needs to do as well. Two of the axioms quoted in the article are that UPS had to serve customers the way they want to be served and, secondly, identify what the true costs of providing the services were. I was also intrigued by the statement that as long "as competition was a monolithic post office that provided one level of service at one rate, that our (UPS) focus was fine." Are those recommendations you would make to the Postmaster General or is the USPS different because of its quasi-government status? How important is knowing your costs and knowing your competition?

Answer. The Postal Service's status as an instrumentality of the government certainly makes it different from private enterprise and requires that it be accountable to the public interest in a different way than in private enterprise. However, I agree that the Postal Service and the PRC should identify the true costs of providing each of the Postal Service's various services. I also agree that in fulfilling its core mission—providing a class of mail for the delivery of correspondence nationwide at a uniform rate—the Postal Service should provide its customers with the quality service they want. But the Postal Service should not lose sight of this basic mission by focusing on ancillary services and attempting to take business away from private companies which are doing the job in rendering other services..

The primary responsibility of the Postal Service is to provide delivery of letter mail at a uniform rate to the citizens of the United States. The Postal Service receives 80 to 85% of its revenue from this monopoly. The remaining portion of its revenue comes from services for which the private sector may compete. Even this remainder is not truly competitive since the private sector may not use the consumer's mailbox and it includes services (such as overnight delivery and the delivery of addressed publications) which may only be provided by the private sector as long as the Postal Service continues to waive the monopoly it claims in those respects.

The Postal Service does not have "quasi-government" status. It is clearly a part of the Executive Branch of the Government (see 39 USC 201). Delivery of addressed letter mail to consumer mail boxes in every portion of the country at a uniform rate is a government function. Congress and the public may wish the Postal Service to be more business like, but it clearly remains a government agency whose primary obligation is to provide a government service and which has advantages (such as not paying taxes) which result from its governmental status.

In the private sector it is important to know your costs. Any firm having the market position of the Postal Service must cover its costs. Failure to do so risks liability under the anti-trust laws, and could subject the firm to onerous penalties, both criminal and civil. Even aside from the antitrust laws, if a private company continually fails to cover costs, it inevitably goes bankrupt.

It is equally important to know your competition. If your competitors have structural advantages over you, perhaps that is a market in which you should not compete. Without such knowledge of both competitors and costs, you will soon be out of business. You could not survive in the private sector with the Postal Service's track record: cumulative losses of $9 billion accumulated in 17 of 23 years and a $6 billion negative net worth.

Question 4. You state clearly in your testimony that you believe that the Postal Rate Commission is at a disadvantage by being able to be overruled or by not being able to get the most up-to-date information and say you believe it needs to be strengthened. Do you feel that more stringent reporting requirements provided to the Commission could coexist with a shorter time-frame for its decisions?

Answer. Yes, we feel eliminating the device of permitting the Governors to approve, reject, or modify the PRC's decision, coupled with more stringent reporting requirements and PRC authority to compel the Postal Service to provide data could lead to a shorter time frame for decisions on postal rates. Even under the current circumstances, the Commission acts quickly on complex rate requests involving tens of billions of dollars—much more quickly than other similar agencies. The Postal Rate Commission is the only body we are aware of that has ever had to police a monopoly without having the ability to compel the monopolist to provide the infor-

mation the Commission needs to perform that function. If such information were provided to the PRC and the public on a regular basis, some of the discovery conducted in the current ten month process could be eliminated or reduced.

This problem can be explained by a few examples. There is no mechanism in place that makes the Postal Service file its financial and cost data on the same basis as the most recent PRC recommendations. In fact, the Postal Service does not always even apply the same costing principles that were adopted by the PRC in the preceding case. This makes it difficult to analyze postal data between requests. Inconsistencies of this kind in Postal Service requests for rate or classification changes cause confusion and lead to extensive, time consuming discovery that could easily be avoided if the PRC could set forth the requirements for reporting.

Although the need for cooperation between the US Postal Service and the PRC has been stressed in the past by mailers, Congress and even at times the Postal service, the Postal Service continues to protect and use their every prerogative under the current system. The PRC clearly needs both the necessary information, and a consistent format for both the filing of the information and its regular submission if they are ever to successfully speed their review of rates proposed by a $40 billion dollar plus monopolist that aggressively competes with the private sector in non-monopoly services.

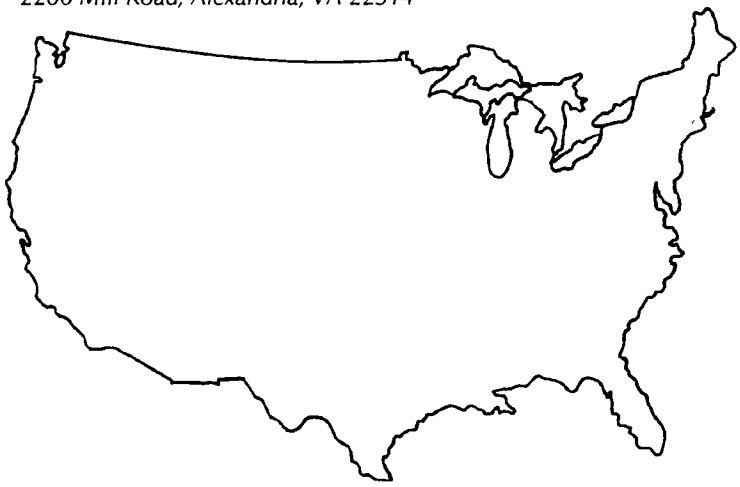
APPENDIX 1
Response of UPS

EXPRESS CARRIERS ASSOCIATION

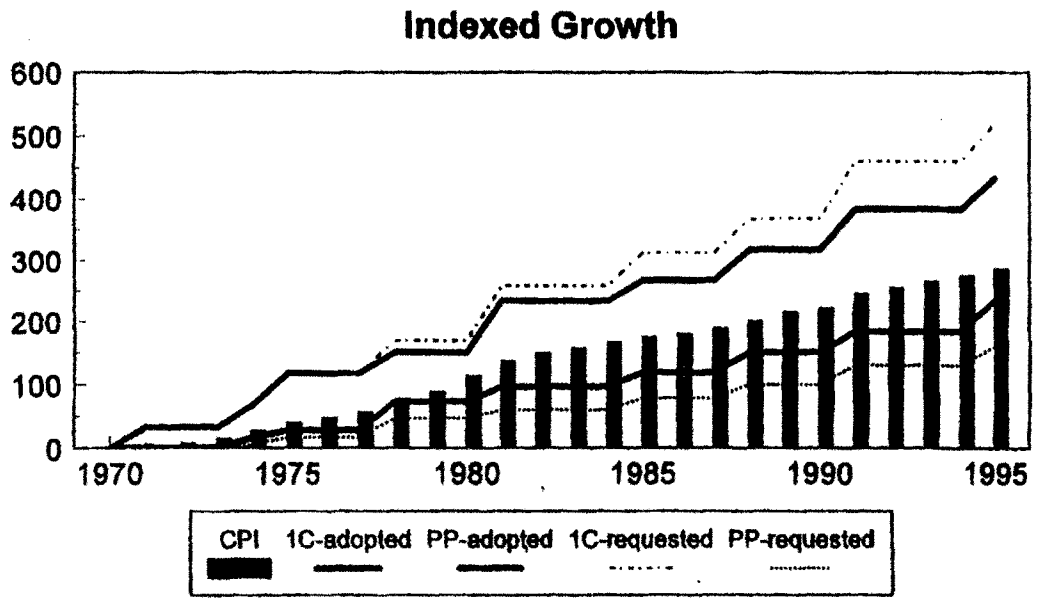
Service Directory 1995–1996

EXPRESS CARRIERS ASSOCIATION

2200 Mill Road, Alexandria, VA 22314



Postal Service Rates



Mr. MCHUGH. Thank you, Mr. Rogers.

Gentlemen, thank you all again.

Mr. Campbell, you spent some time in your prepared testimony discussing the need for the removal of the monopoly from the Postal Service if they are going to compete head-to-head. I think that's probably a theme amongst all of the gentlemen at the table with you there today.

What we hear time and time again is universal service. That is the thing that either challenges or burdens the Postal Service, and it is in many ways the reason that all of these other protections, as you might view them, procedures, as others might view them, exist.

How do we meet the universal delivery requirement if we begin to dismantle the Postal Service?

Mr. CAMPBELL. Mr. Chairman, you should understand that there is no connection, really, between universal service and the monopoly. They were born centuries apart in the development of the Post Office. The monopoly in the United States dates from the very beginning of postal service. Universal service in the United States dates from only about 1910. The two have nothing to do with each other.

A man at the Postal Rate Commission, Bob Cohen, not long ago did an analysis of the cost of providing rural service and what losses the Post Office might sustain. His conclusion, if I remember correctly, was that the Postal Service might lose about $70 million out-of-pocket in delivery of the mail to rural areas, which is essentially nothing.

There was a recent paper at a conference I attended last week in Finland, by another American economist, John Haldi, who has been involved in this for a long time. His estimates were, in fact, that the $70 million could be cut to nothing by just minor changes in the service.

Really, this is not a serious argument. The people who have been doing this a long time don't believe that universal service depends upon a monopoly in any way, shape, or form.

[Note.—The information referred to can be found in subcommittee files.]

Mr. MCHUGH. Well, let me add another phrase: universal service at a uniform price.

Mr. CAMPBELL. "At a uniform price" makes it more difficult, and that may be—it could be that a uniform price would not be sustained in a competitive market, but it is unlikely, I think. It's difficult—that's a close question which requires economic analysis.

Let's think, just for a moment, about a uniform price. In fact, most of the mail, about 90 percent of the mail, is business mail, and it's not really clear why businesses shouldn't pay the proper rates for the distribution of their mail. If the real issue over a uniform price is to make it convenient for average citizens, a uniform price for retail mail would be a very simple thing to maintain in a competitive market, I believe.

One last point in terms of universal service: How I got started in all this stuff was airline deregulation. Of course, we have virtually universal airline service. The way that is maintained is by direct subsidy. If you wanted somebody to fly where he otherwise

wouldn't fly, we just paid him to do it. "We," the government. It's not at all clear why universal postage service, at whatever rate, couldn't be sustained by direct subsidy.

Mr. MCHUGH. Well——

Mr. CAMPBELL. You could turn around and—I'm sorry. Go ahead.

Mr. MCHUGH. I was just going to interject, I'm fighting the loss of essential air service subsidies right now. I understand what you are saying, but in my own opinion, the budget reality, at least for the moment, makes that kind of approach virtually impossible. But that doesn't take away from the intellectual perspective that you have, and I appreciate that.

Mr. CAMPBELL. I don't mean to speak for everybody here, but I think that Federal Express would not be opposed to considering some sort of a fund that would basically pay for itself. Let us assume that the Rate Commission or somebody decides that in fact the Postal Service does lose $70 million in service to small towns.

Mr. MCHUGH. But that wasn't at a uniform price.

Mr. CAMPBELL. No, it is at a uniform price. Service today is at a uniform price. The out-of-pocket cost for rural service, when the study was done, which—the date was a few years ago. If that is, in fact, the loss, then it would be much more efficient to pay the Postal Service that amount of money and collect it in some type of a tax on the whole delivery system, public and private operators.

Mr. MCHUGH. I need a bit of clarification. I understood you to say that the $70-million figure was an estimate given by a member of the Postal Rate Commission. I did not understand it to be a study, and I did not understand it to be universal service at a uniform price. You are saying it is a study?

Mr. CAMPBELL. It's a study that was done by a staff member, not a member of the commission, but a staff person.

Mr. MCHUGH. If we could be supplied a copy of that.

Mr. CAMPBELL. Of course.

[Note.—The information referred to can be found in subcommittee files.]

Mr. MCHUGH. I personally am not aware of it. I'm not sure if the staff is.

Mr. CAMPBELL. It was an analysis of data, of actual data from a few years ago. So it was based on existing conditions: a uniform price, universal service.

Mr. MCHUGH. If you have a copy—I'm sure, if it's from the PRC, we could get it, but I obviously would be interested in seeing that.

I pose this whole genre of questions to the other gentlemen.

Mr. HIEBERT. Well, DHL would like to emphasize that regardless of whatever decisions are made with respect to the postal monopoly applying to domestic service, we feel that there is absolutely no justification for asserting monopoly jurisdiction on international service. There is no, in our view, legal basis for doing so, and also no real economic basis for doing so either.

The total Postal Service volume on international mail is barely one-half of 1 percent. The U.S. Government depends largely on private international express carriers to carry its urgent documents overseas. We don't think that there should be any impediment or reluctance to taking action, at least in this area, right now.

Mr. MCHUGH. So you are not in a position to respond to the argument that we have heard repeatedly—at least the argument that is being made to us. I don't want you to think that I'm making it necessarily.

The argument that is being made to us, that the universe of the Postal Service, as it currently exists, and that includes, I presume, international mail in those circumstances, is there to protect that core function, that irreplaceable function of universal service at a uniform price. And if you begin to peel off the layers of that entity, you then ultimately jeopardize, through a sort of Postal Service domino effect, for lack of a better description, that universal service at a uniform price.

Mr. HIEBERT. Well, we would not propose that the Postal Service be prohibited from providing international service, just that they have removed the protection of the monopoly in this area. As a practical matter, there is already a suspension for virtually most of international service. We would like that recognized by the Congress in the form of a statutory limit, rather than an administrative exception that is interpreted, defined, and enforced by a competitor, by an agency that admits that it's a competitor in this area.

Mr. MCHUGH. I want to give Mr. Geller and Mr. Rogers a chance to talk about that first-class, that universal delivery.

But I wanted to spin off for a moment. You mentioned what you felt was an illegal interpretation by the Postal Service of the regulations protecting its position. One of the other presenters mentioned the questionable constitutionality of the agreements, under UPU, the Postal Service has negotiated, claiming that that's the exclusive domain of the President.

Have any of these questionable regulations, in your view ever been challenged legally? Has anyone ever gone into a court and said the Postal Service is acting illegally, in terms of its negotiations with UPU, or with respect to its extension of the 1970 Act and the private express statutes to international mail?

Anybody. Sure, Mr. Rogers.

Mr. ROGERS. We have not gone to court to challenge the acts of the UPU, but we have gone to court challenging freedoms that the Postal Service claims it has in the area of international mail. We currently have a major case pending in the Circuit Court in Philadelphia, where the U.S. Postal Service was enjoined from offering international contract mail services.

First, they were enjoined because they don't have the authority to offer contract services. Second, they were enjoined because the rates were probably predatory.

Mr. MCHUGH. But that decision has not been final?

Mr. ROGERS. No.

Mr. MCHUGH. Probably enjoined because you were able to show loss.

You were going to make a comment?

Mr. ROGERS. I was just going to say, the showing of loss was not a question.

Mr. MCHUGH. Not a question.

Mr. CAMPBELL. In answer to your——

Mr. MCHUGH. One moment.

I'm interested in that. Have there ever been any other—you mentioned you brought other cases—any of them ever been adjudicated to the end, and what have the findings been?

Mr. ROGERS. We have never taken a case beyond the Circuit Court of Appeals. There have been cases—Mr. Campbell has been directly involved in cases taken to the Supreme Court on this issue.

Mr. MCHUGH. How did we do?

Mr. CAMPBELL. We won.

Mr. MCHUGH. OK. What was the——

Mr. CAMPBELL. That was a case involving the Post Office's suspension, so-called suspension, for international remail. The Postal Service, in the end, bowed to political pressure and granted the suspension, but then the postal unions challenged the suspension as arbitrary and capricious.

It went up to the Supreme Court. The Supreme Court threw out the suit based on a finding that the unions did not have standing to enforce the monopoly. So the final decision really doesn't throw much light on the scope of the monopoly.

Mr. MCHUGH. Right.

Mr. CAMPBELL. In answer to your direct question, there have been no cases challenging the Postal Service's representation of the United States at the UPU. In fact, it has been kind of a mystery. The ACCA paper details ACCA's efforts to find out if the President authorized the Postal Service and how we could get involved in that process. We didn't find out until last year that the Postal Service was never authorized by the President. So, no, there have been no cases.

On the question of the scope of the monopoly, there really is only one serious case on the scope of the monopoly since the current law was adopted in 1872, and the case was in 1979. It involved printed advertisements which the Postal Service claimed were "letters", but which I think are clearly not "letters", if you look at the history of the monopoly.

The case was brought by the Associated Third-Class Mail Users. Their lawyer was, in fact, an ex-Postmaster General, J. Edward Day. The D.C. Circuit Court upheld the Postal Service in a split decision, two to one. This case turned very much on historical information, and I would suggest to you that the D.C. Court really did not have key facts that they should have known about. But, in any case, that's an opinion that certainly you should study.

That's the only significant case. I mean, there was a case saying that cash was not a letter, back in 1915, or so.

Mr. MCHUGH. Yes, sir.

Mr. ROGERS. Let me speak just to the question of the monopoly.

Mr. MCHUGH. Sure.

Mr. ROGERS. We are not espousing an end to the monopoly in our testimony. Our complaint is abuse of that monopoly. If Congress decides that they want the Postal Service to maintain a monopoly, that's all right. But if you're going to have a monopoly in this day and age, you had better have it very successfully regulated, very successfully overseen, because otherwise it will act like a monopolist, and that is to the detriment of anybody who has to compete in areas that the monopolist chooses to compete in but that are not subject to the monopoly.

Mr. MCHUGH. How would you suggest we put into place that oversight?

Mr. ROGERS. I think that the best way to do that is to increase the independence of the Postal Rate Commission, to give them more authority, not less, to disabuse this notion of partnership that the Postal Service tries to sell. The Postal Rate Commission has no more business being a partner of the Postal Service than the sheriff does with Jesse James. They have a completely different function in the world, and its function is to keep alive and to protect the public from abuse of the biggest monopoly in the United States.

The $40-plus billion that the Postal Service takes out of its monopoly products is the largest single monopoly left in the country. And I don't think that you can just simply say, in the absence of real competition, that that monopoly should be allowed to go unfettered.

Mr. MCHUGH. Well, I can tell you, we had the PRC before us, and certainly the words they spoke that day didn't sound very harmonious. There was quite a bit of acrimony, both during the presentation and in follow-up correspondence between the PRC and the postmaster general's office.

Mr. Gleiman, when he was here and testifying in response to my question about subpoena power, said he didn't want it; didn't need it. What can I tell him to convince him differently? You obviously feel quite differently.

Mr. ROGERS. That you could give him more responsibility, that you would be saying, "Postal Rate Commission, you, like every other real regulatory commission would have final responsibility over the rates. You would not be subject to overrule by the Postal Service Board of Governors acting unanimously. Your decision would go directly to court, and it would be your duty to defend it. It wouldn't be second-guessed by some people who meet once a month in the gentle arms of the Postal Service."

Mr. MCHUGH. How many times has that happened? How many times has the Board of Governors overruled?

Mr. ROGERS. It has happened in one major case, and I believe it has happened several times in minor issues. But when the Postal Rate Commission recommended the 18-cent stamp, the Postal Service said, "No, we want the 20 cents we asked for," and they got the 20 cents.

Mr. MCHUGH. And subpoena power would have made a difference in that?

Mr. ROGERS. Subpoena power means that you would have more and better information as you make the decision. Right now, the only sanction that the Postal Rate Commission has against the Postal Service is to suspend the 10-month rule. But by the time the Postal Service comes to the commission with a rate case, they are so far in the red that nobody wants to suspend for a minute the ability of the Postal Service to get some new revenue.

So they are really denied the opportunity to get the information they think they need to make the judgment.

Mr. MCHUGH. You heard the previous panel. In the testimony, one speaker mentioned that it had been stated earlier that your company has been given a de facto monopoly by the Postal Rate Commission. And you heard, I'm sure, the previous panelists sug-

gest that, indeed, the PRC gives far too much weight to what your company says. Who's right?

Mr. ROGERS. I think first I would point to that chart. If you look at the top line, you see where the monopoly goes. If you go to the line down there, the third line, I believe it's colored black, you see parcel post. Now, if we have been so wonderfully successful at the Postal Rate Commission, why aren't those two lines the same? Why has the monopoly rate gone up so enormously much more than has the competitive rate for parcel post, despite our enormous participation at the Postal Rate Commission?

Mr. MCHUGH. Well, they didn't say you were good; they just said—[laughter.]

Mr. MCHUGH. Where would your rates be on that line? And I'm being very serious now.

Mr. ROGERS. Our rates would be a little above parcel post.

Mr. MCHUGH. You see the dilemma of the panel. We had before us—and I don't want to single out one, because I don't want to find myself in an advertisement someplace—particularly UPS. We have four interests here that are worldwide leaders in business expertise and achievement.

It is frustrating to someone like myself, who has so much respect for everyone who comes forward, to hear such totally contrary statements about this system. When I ask these kinds of questions, I'm really just trying to get a response that will help me and, ultimately, as we prepare our reports, help others to forge a path that we can take that will do the right thing and will do the best thing.

I consider myself an ardent capitalist. There are many conceptual things that occur here that are kind of contrary to what we all believe, as capitalists. Yet, I also come from Pierpont Manor, NY, and many of your trucks have been there, but the Postal Service is there every day with that 32-cent stamp on the envelope, and I receive my mail. So I have conflicting interests as well, and this is an enormously complex process. We want to make sure that we do something, yes, but what we do is correct. Your participation in that process is, obviously, vital.

Let me ask you, if we were to remove by statute or some other action, jawboning, or whatever it might be, the extension of the private express statutes to international mail, would you feel it would be equitable thereafter to remove the Postal Rate Commission from any oversight activities?

Some of you have called for PRC involvement in international mail. Let's just say we make the Postal Service what I think most of you would agree is totally free and competitive, so we get the PRC out of it, as well, on the international side. Would that be a fair trade?

Mr. GELLER. No.

Mr. CAMPBELL. No.

Mr. MCHUGH. Why?

Mr. GELLER. I don't believe it would be, from my perspective, because they still have the monopoly that they could potentially cross-subsidize the rates.

Mr. CAMPBELL. Right.

Mr. MCHUGH. So you just want them out of international mail?

Mr. GELLER. I'm sorry. I didn't hear you, sir.

Mr. MCHUGH. You just want them out of international mail, on any basis?

Mr. GELLER. What we want, as far as that term goes, is, we want the Postal Rate Commission to oversee the rates, to ensure that there is some cost coverage there. Because where they can compete with a company such as mine, they might be subsidizing that with a 32-cent stamp, where the real cost of the stamp could be 31 cents.

Mr. MCHUGH. Isn't the PRC supposed to make sure that doesn't happen?

Mr. ROGERS. They don't get the data on the international mail. Federal Express, represented by Mr. Campbell, went through a great deal of agony in the last rate case seeking that, and ran into a Postal Service stonewall, which there was no way to subpoena around or over.

Mr. MCHUGH. The reason, I recall, was that they felt you were asking for proprietary information.

Mr. CAMPBELL. It's difficult to know what the Postal Service thought. We made the argument to the Rate Commission that, before you set the domestic rates, you have to separate the domestic costs from the international costs, and that that separation needs some substantiation.

After a great deal of writing of briefs, we persuaded the Rate Commission that that was so. The Postal Service claimed that this would hurt them commercially. The Rate Commission ordered the information disclosed, under a protective order, and the Postal Service said no.

Mr. MCHUGH. And then?

Mr. CAMPBELL. And that was that. There's not much we can do about it short of going to court and having yet another case.

Mr. MCHUGH. And you chose not to do that?

Mr. CAMPBELL. Right.

Mr. MCHUGH. Expensive.

Mr. CAMPBELL. In fact, my advice to Federal was that we should hope that you would do something.

Mr. MCHUGH. In what? I'm sorry.

Mr. CAMPBELL. We were hoping that you might do something here.

Mr. MCHUGH. I wasn't here.

Mr. CAMPBELL. No, I mean the Congress.

Mr. MCHUGH. Apparently that didn't work?

Mr. CAMPBELL. Well, no, we still have hope.

Mr. MCHUGH. Well, then let's turn naturally to the next thing, things we can do to toughen the reporting requirements in the compiling of data. I should say that Chairman Gleiman was very critical of the Postal Service's compilation of data. And I don't think I'm too far wrong from a direct quote when he said it was "abysmally done, and no other business in America could get away with not doing what they don't do."

Any suggestions, specifically? If you could think about it and get back to us on how we could reasonably put into place requirements for the Postal Service to accrue better data. I would argue to the Postal Service, perhaps, that that could even help shorten the rate case window, if the data is there and is available.

Yes, sir.

Mr. ROGERS. A couple of things. One, there are very few monopoly organizations in this world that are not required to be transparent. More and more you see, in both the telecommunications area, the natural gas transmission area, that those monopolies must be transparent. You have to be able to see all the way through them. This is not just in the United States; this is other places in the world, as well.

So if you have a monopoly, you're getting 80 percent to 85 percent of your revenue from the monopoly, your argument that you have so much proprietary data that you can't afford to risk it is really a price of having that monopoly. To keep that monopoly, you had better stay transparent. That's the way it is in every other area of monopoly operation.

Going further, if you look at what we have to do to get more data for the Rate Commission, what you need to do is give the Rate Commission the authority to set requirements for the supply of the data it needs. The Rate Commission knows better than anybody else what they need in order to do the job more quickly than 10 months, not less. They can tell you exactly what they need.

They could use their rulemaking process to come up with rules that would require the Postal Service to provide the data on a regular basis, which would allow them to accelerate the rate-setting process enormously. But if every time you have a rate case you must start from the beginning, go through discovery, reinvent the wheel and not get comparative figures to your last efforts, it becomes very difficult to finish the case in 10 months.

Mr. MCHUGH. So you would agree.

That's all I had.

Yes, sir, Mr. Campbell.

Mr. CAMPBELL. UPS is the expert on all the details here, but I would just make a suggestion on two sorts of studies that I think the committee ought to consider somehow doing or getting somebody to do.

The first goes back to your point about universal service and the monopoly. The link or the lack of link between the universal service and the monopoly is something that a lot of people have thought about, not only in this country but in other countries. I think that there are answers that you can find if you go through the literature.

The second suggestion is the question of the effects of regulation on the Postal Service and how they have done and how burdened they are. You ought to think about the differences between international and domestic services. Now, international should, we feel, have been part of the jurisdiction of the Rate Commission, but it has not been.

So, in effect, what you have is a system of mail which is essentially identical to the domestic mail stream but unregulated. The Postal Service has set the prices and done whatever they wanted in international service for 25 years. Nobody has gone back and looked at, well, how has the absence of regulation affected their commercial success or their profitability or, you know, their loading the prices on grandmothers as opposed to cutting prices to the bone for businesses?

What have they done in the international compared to the domestic? In effect, you have a control. The international mail is handled in the same systems. It is accounted for with the same cost systems as domestic mail. You basically have the same situation, but you have one that is regulated by the Rate Commission and one that has not been regulated for 25 years.

Now, you have to get the information from the Postal Service. It's not publicly available, but it would be a very interesting comparative study.

Mr. MCHUGH. Mr. Rogers, you stressed that the Postal Service has put its entire focus on volume not revenues. But I don't have the background to understand why that is so bad. Then, UPS, Fedex, DHL, are not concerned about volume?

Mr. ROGERS. Volume without sufficient revenue paying the cost of handling the volume is very bad. And that is what has been happening. That is why, in 17 of 23 years, you don't recover your cost.

If volume is your goal, and you don't have to worry about covering the cost because you operate with the full faith and credit of the government behind you, then you will get lots of volume, and you will have lots of happy mailers who know they are getting below-cost service and who know that when those debts are recovered through the Postal Service by the prior year losses, the great majority of the debt is going to be recovered from first-class users.

First-class always makes a contribution to institutional cost. All of the debt, all of the recovery of prior year losses goes into institutional cost. It doesn't go into a cost allocated to a class.

Mr. MCHUGH. So you are telling me first-class rates are too low or too high?

Mr. ROGERS. Too high, because you're paying all of the recovery of prior year losses, when you didn't cause any of the prior year losses.

Mr. MCHUGH. What do you think the cost of a first-class stamp in the United States should be today?

Mr. ROGERS. I believe, and we put into the last rate case, that it should be 31 cents, based on the evidence in that case.

Mr. MCHUGH. Thirty-one cents?

Mr. ROGERS. Thirty-one cents. That's a $1 billion difference.

Mr. MCHUGH. Can UPS deliver anywhere in the world on that, anywhere in America?

Mr. ROGERS. We do deliver anywhere in America.

Mr. MCHUGH. Thirty-one cents? If you were in the business. This gets back, obviously, to the argument of universal delivery.

Mr. ROGERS. Let me just say this: You heard a number from Mr. Cohen's study, which I remember reading but I don't remember in depth. Nobody knows how much it costs to provide rural service to the United States. You only know how much it costs in mega numbers that don't break out how much the service to the rural quadrants of the country is. If you knew that, then you might decide what you could do about that. But you don't know that specific cost.

Mr. MCHUGH. You said that it should be 31 cents for first-class. What did you argue on the other classes, higher or lower than what the Postal Service was asking?

Mr. ROGERS. In some classes, we argued lower; in most classes, we argued higher. We argued higher in competitive classes, with one exception.

Mr. MCHUGH. What was the exception?

Mr. ROGERS. Boy, that's a tough one. I know we had one exception.

Mr. MCHUGH. That's all right. This is not a pop quiz.

Mr. ROGERS. I will supply that to you.

Mr. MCHUGH. That's fine.

Mr. ROGERS. Priority mail. I'm sorry. Priority mail is the——

Mr. MCHUGH. Listen, I wouldn't even have attempted it. I appreciate your effort.

How do you respond to those who, as I said in my opening statement—it is merely a repetition of what we have heard—others who have called you all cream-skimmers?

Mr. CAMPBELL. Federal Express provides express services. Federal Express basically invented express services in the United States. Private express services, by Federal and others, serve much more extensively than the Postal Service's express mail, which was started between major cities. The Postal Service skimmed the cream in the express business.

Mr. ROGERS. Basically, if we don't go everywhere, our customers don't give us the business. It's as simple as that. We get the business from the customers because we will go every place the Postal Service does and more. When we deliver in rural America, we deliver to the houses, not to boxes by the roadside.

Mr. HIEBERT. We provide a service that the Postal Service simply, by definition, cannot provide. We provide integrated, closely supervised and controlled delivery from the point of pickup to delivery at the end point. And that may go through two or three or several countries. The Postal Service keeps control up until the water's edge.

I mean, one point, one anecdote I think can highlight why we provide a service that the Postal Service cannot provide. During the Gulf war, the Defense Department sent many of its documents and communications via DHL. They did not rely on the Postal Service for this mission, and they felt it was necessary to utilize a private service because that service could not be replicated by the U.S. Postal Service, period. International businesses, you know, make the same kinds of decisions every day.

Mr. GELLER. The cream-skimming isn't really relevant to international mail, because the Post Office doesn't control the end-to-end delivery of the product. So we're doing, logistically, the exact same move the Post Office is, which is contracting out to a foreign post office to deliver the mail. And we provide universal coverage similar to the post office, so there is no cream-skimming as far as we are concerned.

Mr. MCHUGH. The last question: Mr. Campbell, how much do you pay in parking tickets in a year?

Mr. CAMPBELL. I'm very sorry, sir?

Mr. MCHUGH. How much do you pay in parking tickets in a year?

Mr. CAMPBELL. I don't know. I'll be happy to try to find out.

Mr. MCHUGH. No, no.

Mr. ROGERS. I think they have that number.

Mr. MCHUGH. I wasn't aware that the Postal Service didn't do that. So when I'm stuck behind a Postal Service truck—or behind your truck, at least I know that if there's a police officer, we're going to get some money from that.

Mr. CAMPBELL. You would be surprised how much——

Mr. MCHUGH. There's some solace there. I'm not sure what it is.

Mr. CAMPBELL. You would be surprised what a nuisance that is, parking tickets.

Mr. MCHUGH. Well, I can imagine. I won't say that.

Gentlemen, it has been a long day already. I appreciate your being here very much. As I've tried to make clear through all of these hearings, this is going to be an ongoing process. We're trying to do the best we can, as I mentioned earlier this afternoon, in formulating a mass of information and seeing what we can do. The road to hell is paved with good intentions. We have a pocketful of good intentions here. We hope that, at the end of the day, we will do some good things that will allow everyone to benefit.

Certainly, you are extraordinary companies—and I mean that from the bottom of my heart—because you have all shown remarkable gains and remarkable skills in a very competitive environment. Thank you for your expertise and your insights.

I would now request unanimous consent that the Contract Services Association testimony be included in its entirety for the record.

[The prepared statement of Mr. Engebretson follows:]

PREPARED STATEMENT OF GARY D. ENGEBRETSON, PRESIDENT, CONTRACT SERVICES ASSOCIATION OF AMERICA

Mr. Chairman and Members of the Postal Subcommittee:

The Contract Services Association (CSA) appreciates the opportunity to present testimony in conjunction with the Subcommittee's oversight hearing on postal-dependent businesses and competitors. CSA is the oldest association of government services contractors. Our more than 200 member companies perform support services of all kinds—from basic maintenance to sophisticated technical functions—for virtually every federal agency, including the United States Postal Service (USPS). Toward this goal, CSA strongly believes that contracting-out can play a major role in supporting Postal Service efforts to become more businesslike by reducing operating costs.

USPS is a valued customer to many CSA-member companies, and we are thus honored to be part of the dialogue initiated by the Subcommittee that will hopefully lead to enhanced USPS efficiency and effectiveness. Our testimony will convey CSA concerns regarding the lack of contracting for services at USPS, and will offer suggestions as to how contracting-out can further USPS' mission of delivering quality services at the lowest price.

Let me start by clarifying some of the terms of the discussion and debate. The terms privatization and contracting-out or outsourcing are being used more frequently now than ever before, sometimes as if they are synonymous . . . but they are not. When we speak of outsourcing or contracting-out, we are speaking of a procedure whereby the government contracts with a private entity to provide services that would otherwise be performed by government personnel. In such cases, all control and ownership remains with the government. When we speak of privatization, we are typically speaking of a process by which the government divests itself of basic control—and sometimes ownership—of an asset or function, effectively turning that asset over to the private sector through any one of a number of methods. CSA does not view contracting-out at USPS as leading down a slippery slope toward privatization. Rather, we view contracting-out as an alternative to privatization consistent with existing USPS statutory and operational constraints.

CSA's principal interest in contracting-out at USPS is through the Remote Bar Coding System (RBCS) initiative. Several CSA-member companies were awarded contracts for RBCS services, which CSA believes is the most significant USPS contracting-out initiative to date. As part of a broader USPS automation program,

was designed to convert hand-written addresses on envelopes to machine able 11 digit bar codes. USPS stated in 1990 that the decision to contract out RBCS services was "in the best interest of the public and the postal service," and would result in a $4.3 billion savings over 15 years.

RBCS was designed to be performed by private contractors to maximize savings to the USPS. Through imaging and fiber optic technology, contractors could locate their facilities in economically depressed regions of the country. By locating RBCS hundreds of miles away from USPS mail processing facilities, USPS had an opportunity to significantly lower mail processing costs with no risks whatsoever to mail security.

In 1992, eight contractors from the private sector were selected after two competitive procurements to operate a group of 25 sites. After three years of debugging and financial losses, the General Accounting Office recently reported that the contractor RBCS sites are achieving the major cost savings originally forecasted.

In 1993, under pressure from the postal labor unions, Postmaster General Marvin Runyon signed a Memorandum of Understanding with the American Postal Workers Union (APWU) to establish new RBCS sites and implement a transition of the contractor-managed RBCS sites to the Postal Service. USPS acknowledged the decision to bring RBCS in-house would increase postal operating expenses. Postmaster General Runyon based his decision on expected improvements in labor-management relations. Based on the recent public demonstration of 5,000 APWU workers in front of L'Enfant Plaza, and derisive comments toward USPS by APWU President Moe Biller, USPS relations with the APWU continue to deteriorate and show no signs of improvement.

CSA stated at the time of Mr. Runyon's decision to take RBCS away from contractors that it was a grave mistake which represented a serious disservice to the nation's postal customers and contractors operating RBCS sites. Postal customers, we felt, would be denied an important opportunity to streamline Postal Service operations. Contractors, who had invested much of their own time, money and manpower in the start-up and debugging of RBCS, would have no opportunity to recover their investment.

In CSA's view, the decision by USPS to bring RBCS in-house directly contradicts Mr. Runyon's current pleas for statutory remedies that will enable USPS to be more businesslike and competitive. Ironically, at the same time Mr. Runyon is lobbying the Congress for measures that will make USPS more businesslike, USPS is terminating contracts with RBCS contractors and transitioning these contracts to postal workers. USPS is terminating most of these contracts for the convenience of the government with minimal consideration for the significant additional cost of performing RBCS in-house, the costs associated with these transitions (e.g. union-directed upgrades to contractor facilities) and the financial impact on the involved companies.

We would like to offer Mr. Runyon a specific suggestion for helping USPS to become more businesslike; USPS should reconsider its decision to bring RBCS in-house. No one will dispute that performing RBCS in-house will increase postal operating expenses by hundreds of millions of dollars over the life of the RBCS program. GAO has already found that in-house barcoding costs more than contracting-out, and that labor-management relations at USPS are not improving.

CSA does not view the existing Memorandum of Understanding with the APWU as an impediment to reconsidering the USPS decision to bring RBCS in-house. We understand that postal officials concluded that satisfying the terms of the arbitration agreement could be accomplished through the operation of ten RBCS sites by postal employees. Postal employees presently operate 14 RBCS sites. USPS has thus far exceeded the terms of the arbitrator's decision, and yet continues to take the more costly route of in-house barcoding—with no improvement in labor-management relations. The APWU has already broken the MOU by negotiating for benefits for the transitional employees; postal management is thus free to break its agreement with the APWU to give all RBCS sites to postal employees.

CSA urges the Postal Subcommittee to pursue this issue as part of its oversight of USPS. In light of the ongoing termination of contractor operated RBCS sites, we specifically recommend that the Subcommittee support a six month moratorium on the termination of RBCS contracts pending the completion of a thorough GAO evaluation of the RBCS program.

Mr. Chairman, your leadership of the Postal Subcommittee coincides with an historic opportunity to exercise Congress' oversight responsibilities to make our nation's postal service more businesslike. In the spirit of change that so predominates, not only on Capitol Hill but across the nation, I urge you to push forward and not let this opportunity pass.

On behalf of the entire CSA membership, we greatly appreciate the chance to present our views to the Subcommittee on the Postal Service.

Mr. MCHUGH. We will stand in adjournment until next Tuesday, when we will conduct a legislative markup on budget reconciliation measures and we also consider two post office-naming bills. Third, the subcommittee's next hearing will be Wednesday, June 28, when Postmaster General Marvin Runyon will return in the last of a series of events.

Thank you for your patience and your presence here today. The subcommittee stands adjourned.

[Whereupon, at 2:05 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

GENERAL OVERSIGHT OF THE U.S. POSTAL SERVICE

WEDNESDAY, JUNE 28, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE POSTAL SERVICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2247, Rayburn House Office Building, Hon. John M. McHugh (chairman of the subcommittee) presiding.

Members present: Representatives McHugh, Sanford, Green, and Meek.

Staff present: Dan Blair, staff director; Jane Hatcherson, Robert Taub, Heea Vazirani-Fales, and Steve Williams, professional staff members; Meryl Cooper, clerk; and Jean Gosa and Denise Wilson, minority professional staff.

Mr. MCHUGH. If we could come to order.

As we have done in the past, we are going to show enormous flexibility here, with the cooperation of the minority, and begin, given particularly the demands on the time of the Postmaster General.

Let me now welcome everyone here today as the subcommittee receives testimony from Postmaster General Marvin Runyon. As perhaps most, if not all, of you are aware, this is Mr. Runyon's second appearance before the subcommittee this year, and his presence I believe will serve as an appropriate wrap-up to the subcommittee's general oversight hearing agenda, which is now, today, entering its seventh session.

I want to thank General Runyon for being here with us, and we look forward to his testimony regarding the progress of the Postal Service over the last few months.

The purpose of this admittedly rather lengthy set of oversight hearings has been to educate the subcommittee members, and myself foremost amongst them, on the issues confronting the universe of postal-interested groups. The subcommittee has heard from Postmaster General Runyon, the Postal Board of Governors, the Postal Rate Commission, the General Accounting Office, commercial mailers and publishers, labor unions and management associations, as well as postal-reliant businesses and competitors.

All the witnesses were asked to share their views of the Postal Service and ways in which they believe service and delivery could be improved. As expected, each witness provided his or her own perspective on the ills confronting the Postal Service, with the var-

ious prescriptions for the cure as varied as the several groups represented themselves.

We have heard a diversity of messages from a variety of groups. For example, one witness said the subcommittee should eschew its oversight responsibilities and strictly focus on legislative reforms. Other witnesses, however, have said the subcommittee should avoid legislative undertakings entirely and instead focus on the oversight responsibilities with which we are entrusted.

We were told that the Postal monopoly should be repealed, that the Postal Rate Commission should be abolished. On the other hand, we were told the Postal Rate Commission should be retained, if not strengthened, with subpoena authority and an independent right to judicial action. And so it has gone.

Despite the conflicting messages sent by many witnesses, I do believe we have found some constant themes that merit enumerating. The Postal Service does face competition, despite a legal monopoly over letter mail. Electronic messages, by way of e-mail and faxes, and emerging technologies are slowly eating away at the volume of messages the Postal Service delivers.

While the Service's finances may seem rosy at this junction in the rate cycle, competition will eventually impact operating revenues to the point that somewhere into the perhaps not so distant future the Postal Service may need to ask Congress for taxpayer-financed appropriations in order to supplement its operating revenues.

The Postal Service's labor-management relations are at a nadir, with yet another round of contract negotiations to be decided by an outside arbitrator whose decision directly affects Postal Service expenses and rates. The rate process itself has been roundly criticized as too long, too cumbersome, and too inflexible to respond to changing market forces. Given these criticisms, the subcommittee must now move forward in an effort to comprehensively review the current Postal Reorganization Act.

Last winter, when the subcommittee first heard from Mr. Runyon, the Service was emerging from a service and delivery debacle, and calls for privatization of the Postal Service were coming from a variety of sources. New rates had just taken effect, and a new majority in Congress had just taken control. Today, we see service and delivery standards vastly improved. Postal finances appear to be on the mend, at least temporarily, and calls for privatization have, for the moment, become somewhat muted.

It was at that time, during the first hearing with Mr. Runyon, that I stated what I thought then and I continue to believe should be the cornerstone of this subcommittee's policy toward addressing all reform proposals. To repeat: the burden should be upon those advocating reform, to the extent that such changes should be clearly shown to improve delivery and service for all customers.

I urge all interested parties to recognize that this is a new day in addressing postal issues. This is a new committee and a new subcommittee of jurisdiction, willing to entertain old as well as new ideas, including some proposals that may in the past have not enjoyed formal review.

It is our collective obligation to work together in an attempt to pursue our mutual goal of developing and effectively implementing

those policies that will provide the citizens of this Nation and the patrons of the Postal Service with the most efficient and productive system possible. Toward that end, it is the intent of the subcommittee to work with all interested parties in effecting that goal.

As I have said, it is with great pleasure that I welcome the Postmaster General before the subcommittee this morning.

Again, Mr. Runyon, welcome. I look forward to your comments. Before we turn the podium over to you, it is my honor to acknowledge, gratefully, the presence this morning of the gentleman from Texas, Mr. Green, for any comments he may wish to make at this time.

Mr. GREEN. Thank you, Mr. Chairman. I will be very brief. I would like to associate myself with your remarks.

These last oversight hearings, at least for those of us who are new members of the committee, have given us a depth into the Postal Service that a lot of us didn't have. It showed the diversity of the Postal Service, both the diversity of the opinions on how to modernize it, but also I think it showed the depth of support that the Postal Service has, not only with people who are directly involved, but I know, in working in my own district—and the postmaster who was there 2 or 3 months ago—in the depth of support that I think there is for the Postal Service.

Like the chairman, we have hopefully finished our learning curve, to try and come up with some ways that we can both safeguard the employee benefits and the rights, but also give the Post Office some ability to compete along with the private sector competitors, so you actually are on the same playing field.

I just appreciate Postmaster General Runyon being here today, and thank you, Mr. Chairman, for these 3 or 4 months, or however long—I've lost count of the oversight hearings—because it has been needed for those of us who are still learning about the Postal Service. And I don't think we are through yet. We still have a long way to go.

[The prepared statements of Hon. Gene Green and Hon. Major Owens follow:]

PREPARED STATEMENT OF HON. GENE GREEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Thank you Mr. Chairman, I would like to commend you on the series of hearings that we have held relating to areas of concern surrounding the United States Postal Service. I would like to thank and welcome Postmaster General Marvin Runyon for once again coming to testify on the status of the U.S. Postal Service. There have been several issues of concern that have been brought to my attention during this series of hearings, by other individuals who have testified here before the Subcommittee and also through constituents, postal employees, letter carriers and customers affiliated with the postal service back in my district, Houston. We have heard concerns on everything from privatization of the postal service, classification reform, postal reorganization, need for a competitive postal service, percentage rate increases, to labor concerns within the USPS. This series of hearings has been very enlightening and educational and I look forward to the testimony of the Postmaster General, Mr. Runyon and to working with my colleagues on the subcommittee and all involved parties on establishing a plan that is equitable to all concerned. Thank you Mr. Chairman.

PREPARED STATEMENT OF HON. MAJOR R. OWENS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

The enormous responsibility of the United States Postal Service (USPS) must be admired and respected. USPS delivers 177 billion pieces of mail annually, serves 123 million homes and businesses 6 days a week, and employs more than 700,000 career level employees. It is no surprise, therefore, that an organization of this magnitude has some internal management problems.

While this seven-part exhaustive review of postal operations was successful in enabling Members to understand effective ways to resolve such problems, one question looms prominently in my mind: What mechanism can the major stakeholders of the Postal Service employ to serve customers well?

Officials at USPS insist that the organization has achieved the highest performance level for the delivery of first class mail service. However, the perception of customers, especially in my district, is that service delivery has not improved. When there are town meetings in Brooklyn, whether or not the topic happens to be the United States Postal Service, people offer unsolicited comments about their disgust with service delivery.

I appreciate that postal officials have cooperated with me as a Member of Congress. Meetings have been set up including the Postmaster General, local postmasters, regional directors, legislative staff, and myself.

Based on the Price Waterhouse study and the Opinion Research Corporation survey, I believe that service delivery and customer satisfaction have improved. However, my constituents do not believe it, for when I refer to these studies they accuse me of whitewashing the postal problem.

It is important that the Postal Service be more responsive to the perceptions of consumers. The facts of service delivery are meaningless if no one accepts them. Officials at USPS must go to town hall meetings to alleviate the fears and mistrust of so many people. Additional customer service centers must be established and staffed with courteous, respectful USPS employees.

As a Member of the Postal Service Subcommittee, I am charged with the duty of understanding the tensions and frustrations held by unions, management, the Board of Governors, the Postal Rate Commission and the Postmaster General. But, customers and constituents are not charged with the same duty. It is not required that they be sympathetic to internal management problems.

The Postmaster General contends the Postal Service must operate like a business to compete in this age of advancing communications and information technology. Businesses brainstorm and pay particular attention to what their customers think. Businesses do not dismiss perception because it does not match reality. Likewise, the United States Postal Service must improve not only service delivery, but the delivery of the message that it cares about customer satisfaction.

Mr. MCHUGH. I thank the gentleman for his comments. The Chair wants to gratefully acknowledge his consistent presence here. It has been much appreciated.

As in the past, under the rules of the full committee, I would ask that you rise, and I will administer the oath. And given that Mr. Michael Coughlin, Deputy Postmaster General, may join in comments, I will also swear him in. Mr. Coughlin, we gratefully acknowledge your presence here at this time, as well.

[Witnesses sworn.]

Mr. MCHUGH. The record will show both witnesses responded in the affirmative.

With that, Mr. Postmaster General, welcome, and the floor and the microphone and all of our collective ears are yours.

STATEMENTS OF MARVIN RUNYON, POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER, U.S. POSTAL SERVICE, ACCOMPANIED BY MICHAEL COUGHLIN, DEPUTY POSTMASTER GENERAL; MARY ELCANO, SENIOR VICE PRESIDENT AND GENERAL COUNSEL; AND JOSEPH J. MAHON, JR., VICE PRESIDENT, LABOR RELATIONS

Mr. RUNYON. Thank you, Mr. Chairman, and good morning.

With me today is Deputy Postmaster Mike Coughlin. Seated behind us are Mary Elcano, senior vice president and general counsel, and Joe Mahon, vice president of labor relations.

We are delighted to be here this morning to continue our discussion about the Postal Service and changes that can make this vital organization more businesslike and competitive for the American people.

Quite a lot has happened since we were here in February. I am proud to say that we have continued to raise the bar on overall performance. Financially, in the first 9 months of the year, we have had a record net income of $1.5 billion, money that is going to help us pay down our debt and put us on solid financial footing.

We are breaking ground electronically. We just announced that we are experimenting with Premenos, Inc., the leading provider of electronic data interchange services, to authenticate e-mail messages on the Internet.

Hard copy mail volume continues to set records, running 3 percent higher than the same timeframe last year, despite the January increase in postage rates. And in the quarter just completed, postal employees achieved a new all-time high in service performance. According to independent measurements, 87 percent of local First-Class Mail was delivered overnight nationwide. That is a 2-point improvement on the record we set the previous quarter and 4 points better than the same timeframe last year. We made gains virtually coast to coast, with 85 of our 95 performance clusters showing at least fractional improvement.

Our performance tells me several things. First, it tells me that pride pays off. In the last employee opinion survey, 75 percent of our employees said they are proud to work for the Postal Service. That pride is showing through in their performance.

Second, if you give good people the tools and support they need to do the job, they will get it done for you. Since 1992, we have deployed 3,200 new pieces of automated equipment, with another 1,100 on the way this year. Our performance clusters, the cross-functional field management teams we created last summer, are doing a better job each day. And our employees are finding that they really can improve service and finances at the same time.

Third, it also tells me that listening to customers works. Even before I accepted the job as Postmaster General, I was out talking with mailers and employees, people who have a stake in the continued success of the Postal Service. Mostly, I have tried to listen and act on their ideas. With their help, we have been able to accomplish most of what they asked for. We kept rates stable for 4 years. When it finally came time to raise rates, we held them two points below inflation. And we focused our efforts on service and customer satisfaction. Now we are seeing the results.

Over the past 4 months, this subcommittee has gone to great lengths to do the same thing: to listen to postal stakeholders. I applaud your efforts to reach out to the people who depend on and contribute to this organization, to get their thoughts on ways to improve the Postal Service. And, Mr. Chairman, I am sure you got an earful.

A broad range of actions have been suggested, and that is to be expected from such a diverse audience. But there has been a pretty

clear consensus on the need for legislative reform of the Postal Service, and there is growing consensus on the steps that we should take.

The Direct Marketing Association has called postal reform a life-and-death issue for many businesses. It recommends simplifying the cumbersome, time-consuming rate-setting process, making structural changes to help the Postal Service compete and operate more like a business, adjusting Federal personnel management restrictions, and correcting the collective bargaining process to stimulate mutual agreement.

The Advertising Mail Marketing Association says that the Postal Service must compete and become a market-driven, flexible, cost-effective provider of timely mail delivery services. They recommend we be allowed to customize new products and be given pricing freedoms that reflect the competitive market that we are in.

The Association of American Publishers has come out in favor of greater pricing and product flexibility, noting the wide business latitude that other postal administrations have around the world. A Price Waterhouse study shows that at least 10 foreign postal administrations have significantly greater market freedom and business flexibility than the Postal Service. For example, last month, Royal Mail received additional financing and investment freedoms to fulfill its wider business potential. Two weeks ago, it announced a partnership with Donnelley Marketing to accept mail produced here in the United States and deliver it in England, effectively bypassing the U.S. Mail.

Murray Comarow, the executive director of the 1968 Kappel Commission and one of the founding fathers of today's more businesslike Postal Service, has recommended broader financing freedom. He has also called for the removal of binding arbitration from the postal collective bargaining process to make postal management and the unions more accountable to postal customers.

Last month, I spoke at the Mailers Council. They held a "Summit on Privatizing the Postal Service." As you know, the Mailers Council represents businesses and associations that generate 75 percent of the Nation's mail. Normally, I take questions from the audiences when I speak. This time, though, I did the asking, and their answers were enlightening.

In a show of hands, the audience unanimously said that universal service was important and should be continued. And many felt it was worth limited monopoly protection to ensure its continuance.

There was broad dissatisfaction with the collective bargaining process at the Postal Service, with mailers pointing out that postal wages are the main reason for rising postal prices. Several customers said both the unions and management would benefit from a greater sense of uncertainty in negotiations, to prompt good faith bargaining and a negotiated agreement.

There was wide support for product and pricing flexibility. Two customers, almost in conversation with each other, recommended that the Postal Service be given complete freedom to test any new product, for a year or even two, within a revenue generation cap, after which the PRC could consider the product for approval.

Public opinion data also supports a case for measured change. A Harris poll commissioned by the Mailers Council found that 81 per-

cent of its members rated postal reform a high priority. The poll says that competition is good for the Postal Service, and I agree. Our customers are enjoying the benefits of competition today, in terms of better service quality and lower postage rates. However, the survey results also found that 76 percent of American business executives feel that, despite some flaws, the Postal Service is the "the best way to provide mail delivery for everyone at a reasonable price."

A recent national survey by Opinion Research Corp. reaffirms that point. It found that the majority of Americans don't want to privatize the delivery of the mail. Seventy-six percent favored keeping the current organization but making it more flexible. I heard the same thing at the May National Postal Forum from business customers from a variety of sectors and parts of the country.

In meetings with Members of Congress and representatives of the administration, the answer is the same. America doesn't want a different Postal Service; it wants the one it has to be more businesslike and responsive to its needs.

We have come a long way in a year. We have achieved a delicate balance between good service and strong finances, driving down costs and improving revenues. We are delivering the mail, but we are hitting a wall of red tape and regulations. We face the demands of a private sector company, yet we are hamstrung by Federal restrictions that put a stranglehold on our progress.

We are losing market share in four of our six product lines. Losing share in one market puts pressure on the others, threatening our ability to hold prices low. Higher prices will drive customers away, a vicious downward spiral of losing business. Further erosion could one day affect universal service. It could threaten our infrastructure and our ability to deliver to everyone, everywhere, every day.

That's where we draw the line. Universal service, mandated by Congress, is a sacred trust, a fundamental principle that, in the words of the law, "binds the Nation together." The Nation cannot afford for these bonds to be weakened. That's why we need change.

Over the past year, as we have listened and asked questions, one thing has become crystal clear: There is a powerful consensus for change among those who count, the people who rely on the mail all across America. The voice of the customer has come through loud and clear.

Congress also recognizes the need for change in the Postal Service. Mr. Chairman, I look forward to moving ahead with you and this subcommittee, as we join with our customers to deliver a Postal Service that is ready for the 21st century, one that keeps American citizens and businesses in touch at home and around the world.

Mr. Chairman, that concludes my prepared remarks.

[The response to written questions of Mr. Runyon follows:]

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN M. MCHUGH TO MARVIN RUNYON

Question 1. Assume for a moment that Congress was unwilling to continue the Postal Service's monopoly over the carriage of *any* mail. Assume also that Congress wanted to direct the Postal Service to continue universal service. What sorts of

changes do you believe Congress would also have to provide to ensure that the Postal Service could satisfy this mandate within a competitive environment?

Answer. With the complete elimination of the monopoly, the Congress would have to truly free the Postal Service of the price, product, and service regulation now performed by the Postal Rate Commission. At the same time, we would have to be freed from the forms of regulation and control now exercised in the areas of financial management, personnel operations, transportation, etc., that are applied to the Postal Service, but not to private sector competitors. In other words, the "playing field must be leveled." There may be a need to retain some form of oversight on the universal service mandate.

Under the circumstances described—a truly competitive environment—serious thought must be given to the governance structure, the public service responsibilities of the United States Postal Service and the collective bargaining mechanism. In the case of governance, there may be a need to rethink how the U.S. Government, as sole owner of the enterprise, is represented and what the ongoing obligations of both the United States Postal Service and the government would be.

Today, the United States Postal Service performs a number of "public service" roles, the most common of which is the maintenance of an extended network of small post offices and retail facilities that would not normally be retained in a truly competitive environment. How such public service roles would be handled in the future would need to be addressed.

Finally, the collective bargaining mechanism would have to be designed to put both parties "at risk." A dispute resolution process, perhaps including the right to strike, would have to be fashioned to result in a proper balance of interests.

Question A. I understand that the Postal Service has commissioned Price Waterhouse to evaluate the potential impact of repealing the Private Express Statutes. What is the status of this study and when do you expect it to be completed?

Answer. Price Waterhouse conducts a number of costing analyses for the Postal Service. As an adjunct to these activities, Price Waterhouse is assisting in the development of forecasting tools to assess the impact on postal revenues given changes in such variables as mail volumes, mail mix, and postal productivity.

"Study" is probably an inappropriate word to describe the Price Waterhouse work. They have been engaged for some time now with USPS staff in building a model to evaluate the effects of various factors that could have a major impact on the financial success of the Postal Service. They include such factors as labor costs, regulatory process changes, market and technology diversion, and revisions in the monopoly. There is no definitive answer to the question of the financial impact of a relaxation of the monopoly. The model allows us to test various assumptions.

Question B. Under what circumstances would you agree to a relaxation of the monopoly?

Answer. Only with a reasonable chance that USPS could continue to meet its universal service mandate, would I "agree" to a relaxation of the monopoly.

Question C. Can the Postal Service—or any service provider for that matter—render universal mail service in an openly competitive environment? If not, why not?

Answer. The answer to this question really has not yet been determined, at least from the experiences of postal administrations in other parts of the world. An increasing number of foreign posts are liberalizing or even privatizing their postal systems, but only two, Sweden and Argentina, have actually abandoned the monopoly. The circumstances in these two countries, as well as the relatively short time in place, probably make it too early to judge the impact of the change.

If the Postal Service were to face a fully competitive environment, then there are some basic conditions that would have to exist to ensure its success with a universal service mandate:

- Freedom from all regulation, not now applicable to private sector firms.
- Freedom from governmental restrictions on personnel, financial, and operations management.
- Conditions which put labor as well as management at risk in the collective bargaining arena.
- A transition period to adapt to the new conditions.

A fully competitive environment is uncharted territory for USPS and it is not possible to determine the eventual outcome with certainty. As we move forward in this discussion, there will have to be careful assessment of the risks and rewards associated with various change proposals.

Question 2A. I am aware of your effort to move the Postal Service into a Total Quality Management organization by undertaking the Baldrige Assessment. In that regard: How do you reconcile measuring the Service's profitability as an indication of success under the Baldrige criteria with the statutory mandate to break-even?

Answer. Before undertaking a Baldrige Assessment, our senior leadership reviewed the Baldrige criteria for their relevancy to the Postal Service and our particular issues and condition. While there are some specific differences for government agencies, in general we found a great deal of relevance to our situation. We recognized that the task before us was to exploit the commonalities to learn from them.

More specifically, the Baldrige criteria (1995) are "designed to help companies enhance their competitiveness"; and they do this through a focus on "delivery of ever-improving value to customers, resulting in marketplace success, and improvement of overall company performance and capabilities" (emphasis added). For purposes of winning the Baldrige award, the 1995 criteria have placed greater emphasis on marketplace success than in the past. The Postal Service is not eligible for the award, and our emphasis has been on delivering ever-improving value to customers and improvement of overall company performance and capabilities. While winning the award may depend more on marketplace success, this does not diminish the value of using the criteria to improve postal performance.

Still more specifically, the relevant criterion is item 6.2, "Company Operational and Financial Results." Given the non-prescriptive nature of the criteria, it is basically up to each company to decide the key measures it wishes to report when applying for an award. The notes for this item indicate that the following areas should be addressed: productivity; cycle time and responsiveness; financial indicators such as cost reductions, asset utilization, and benefit/cost results from improvement efforts; human resource indicators; public responsibilities; and company-specific indicators. We feel that all of the areas listed are appropriate areas of attention for the Postal Service and do not in any way conflict with our mandate to break even. If we are successful over time with efforts to improve productivity and cycle time, to reduce costs and improve our benefit/cost ratios, etc., we will be contributing to rate stability.

Question B. What is the status of the Baldrige Assessment? What was the outcome of the action plan presentations on June 12, 1995; which plans were approved? Which plans were rejected and why? When will you begin implementing any of the Baldrige measures? Which measures will you implement?

Answer. The Baldrige Assessment was completed in February of 1995. Based on the results, we formed several action-planning teams. As you mention, they made their presentations to the Executive Committee of the Postal Service on June 12, 1995. Our original intent was to seek approval on that date for the plans. However, it was clear prior to that meeting that any meaningful consideration of the action plans would not be able to take place during the presentations, due to the complexity of the plans and the number of teams presenting. The outcome of the June 12 meeting was that the Executive Committee gained a basic understanding of the content of the plans.

Overall coordination has been assigned to the Quality department, to ensure that the plans as developed and implemented are consistent with the overall strategies approved by the Executive Committee. The Quality department has established an "integration" team consisting of the plan "owners," who meet periodically to ensure that the cross-functional issues among teams are addressed and specific items needing higher approval are taken to the Executive Committee.

There is an overall bond holding all of these plans together which has been approved by the Executive Committee. We have approved the development of a "management system" based on the principles of the Baldrige criteria. The management system provides an integrating mechanism by setting goals for the organization based on customer requirements; deploying those goals through a set of performance measurements to all levels of the organization; implementing actions, programs, and projects which contribute to the goals; regular reviews of progress; aligning the compensation systems; providing training in data collection and problem solving; and enabling employees to contribute to process improvement.

The Baldrige action planning teams' efforts fall within this management system, and we are concentrating on implementing first those actions most needed for the beginning of the new fiscal year. Beginning in September of 1995, the following are major components of the management system to be implemented. (The most closely related Baldrige item—not necessarily the Baldrige team—is indicated in parentheses following the description.)

- The goals, performance indicators, and targets established by our senior leadership team will be deployed to the entire organization (item 1.1).
- We are aligning the compensation system for Postal Career Executive Service employees, and eventually, as pay consultations and negotiations allow, we hope to align the other compensation systems (item 4.2).

• We will be providing training in the management system in the Fall of 1995 to managers in headquarters, area offices, plants and districts (item 4.3).
• We also plan to begin a new performance review process (not an individual evaluation, but group performance toward the goals) (items 1.2 and 4.2).
• Later in the Fall of 1995, we will begin implementing local level "process management" in several sites. This is a problem-solving methodology designed specifically to make improvements in our customer satisfaction performance indicators (item 5.2).
• As we begin our cycle of planning for Fiscal Year 1997 later in the Fall of 1995, we will be using a newly designed planning process from one of the teams which we are integrating with our regular budget process (items 1.2 and 3.1).

We also have active efforts proceeding in our new product development process (item 5.1), our customer requirements process (item 7.1), and in our customer satisfaction determination (item 7.3 in the 1995 criteria). These plans will come on line in Fiscal Year 1996.

Question 3. What is the status of developing the strategic plan required by section 2802 of title 39, U.S. Code? To what extent, if at all, does the Baldrige Assessment relate to this initiative?

Answer. Our last strategic plan covered years 1990 through 1995. A new strategic plan covering the years 1995–2005 has recently been developed. This plan sets the direction into the next century and establishes 10 areas of Strategic Focus, following from statements of our Vision, Mission and Guiding Principles.

We are following a five-step strategic growth process in which we:
• Describe the relevant environment,
• Conclude about our situation,
• Commit to a future direction,
• Create action plans, and
• Integrate with operations.

The Strategic Focus areas were identified after completion of a Business Environment Assessment (BEA) and an evaluation of our Strengths, Problems, Opportunities, and Threats (SPOT) with respect to the marketplace for our products and in consideration of our mission to bind the nation together through universal service. Each Strategic Focus broadly identifies our areas of priority concentration and each is focused on key aspects of our business—from the customers and markets we serve—to the latitude we need to better manage our people, prices, and products.

We continue to move forward by taking our strategic plan to all levels of the organization with both the creation of action plans and the integration with all operations. Much of our plan has been included as part of the 1996 budget process. This multilevel, integrated implementation takes time and will be reviewed, with action plans revised periodically.

The Baldrige Assessment recently led to the development of a performance management system, which we call CustomerPerfect! The Strategic Planning and CustomerPerfect! processes are mutually linked through the Baldrige category 3.0 (Strategic Planning). CustomerPerfect! assures that the Baldrige criteria for Strategic Planning are in fact accomplished, while quality service and performance indicators are one of the 10 key areas of Strategic Focus. Both processes, among others, will play important roles in delivering the requirements under this legislation for the Postal Service.

Question A. Relatedly, what is the status of the performance plans and program performance reports also required by this part of title 39?

Answer. Specific performance plans and program performance reports are currently under consideration for all aspects of the strategic plan. We have been using many of these reports, such as those for the budget and customer satisfaction, for some time. These measurements and others, such as internal operations indicators, are in the process of either being revised or newly developed, with a time frame well within the legislative requirements.

As mentioned above, the new strategic plan, including CustomerPerfect! initiatives, continues to be taken to all levels of the organization and will be further integrated with the Fiscal Year 97–98 budget.

Question 4. You have testified in the past that the Postal Service ought to have its own independent right of action in appealing cases in court rather than having to rely on the Justice Department. Chairman Gleiman of the Rate Commission indicated a similar sentiment when he told the subcommittee that the Commission ought to have the right to defend its rate decisions in court, rather than relying on the Postal Service to perform that role. Do you agree with Mr. Gleiman's sentiment?

Answer. The Commission's right to self-representation in cases to which it is a party has not been a problem. In fact, in appeals from the 1990 rate case in which the Governors petitioned for review of the Commission's recommendations regarding

the Public's Automation Rate, the Commission represented itself in court. Apparently, the Commission filed its own pleadings without soliciting permission to do so from the Department of Justice, and the Department did not object. By contrast, even after the 1993 D.C. Circuit decision in the *Mail Order Association of America* case (986 F.2d 509), in which the court of appeals recognized the Postal Service's right to represent itself in certain limited circumstances, the statute still requires the Postal Service to seek consent from the Department of Justice prior to taking any unilateral action in court.

Apart from instances in which the Governors themselves petition for review of a Commission recommended decision, the statute makes very clear that it is the Governors' decision alone that is subject to judicial review. This is consistent with the role the Commission plays in the ratemaking scheme, which is similar to the functions of an administrative law judge in other regulatory contexts. Since the Governors are ultimately responsible for postal policy, and since the Postal Service must implement and administer rate and classification changes, it is appropriate that the Governors defend the final decision in court, even if they decide to rely on the Commission's reasoning. Accordingly, the Postal Service continues to believe that the Commission has no formal role in litigation to which it is not a party.

Over the past 20 years, except for appeals from the 1990 rate case when the Commission sought to influence the Department of Justice to deny the Postal Service's request for self-representation authority, the Department has typically granted such authority. That practice was again followed most recently in the pending appeal from last year's rate case. When that practice has been followed, the Postal Service has been willing to confer with the Commission's lawyers when preparing its briefs as respondent in suits in which private parties have appealed a decision of the Governors. In the currently pending suit, for example, in which third-class nonprofit mailers have challenged the presort rates for nonprofit mail, the lawyers for the Postal Service and the Commission met to discuss the brief filed by the mailers and the best arguments to make in response. The Commission's lawyers reviewed a draft copy of the brief prior to filing, and submitted their comments. In this instance, the current arrangement seemed to be satisfactory to both agencies.

Question 5. One criticism of the current rate setting structure is the length of time needed to process a rate case. You have even commented that it takes less time to bring a child into the world than it takes to change postal rates. How much time does it take the Postal Service to prepare for a rate case before it is formally initiated? Why should it take that much time when that information should, in theory, be readily available to postal management by virtue of its oversight of its own daily operations?

Answer. It normally takes six months for the Postal Service to prepare a formal rate case filing. With respect to why it takes six months to prepare for an omnibus rate case, Postal Rate Commission rules and precedents require substantially more than the functional operating and financial data that are used by postal management to oversee the postal system on a day-to-day basis. Perhaps most importantly, the Postal Rate Commission's rules impose exacting documentation and support requirements that result in the Postal Service preparing and filing literally hundreds of substantial and involved supporting computer files (tapes and floppy disks) and documents (workpapers, computer documentation, exhibits to testimony, and library references) with a Postal Service omnibus rate request. Each of these documents must be meticulously cross-referenced with the other documents, and the initial filings themselves amount to more than 10,000 pages of documents.

Moreover, these documents and the supporting testimony must withstand the scrutiny of the 50 to 70 parties that intervene in rate proceedings along with that of the Postal Rate Commission, itself. The task of producing, coordinating and reviewing thousands of pages of cross-referenced documents along with supporting computer files and providing a product that will withstand substantial criticism during a protracted adversarial proceeding has proven to be a time-consuming task.

Question 6. In June 1992, the Joint Task Force on Postal Ratemaking submitted a report to the Rate Commission and the Board of Governors. This report listed a number of recommendations and suggestions for implementation by the Postal Service. I know that the Rate Commission has opened a rulemaking on a Postal Service petition to implement some of these recommendations regarding more limited rate cases. However, in written responses to this Subcommittee following your first appearance, you noted that the Task Force's primary recommendation regarding general rate proceedings (i.e., adoption of a four-year rate cycle with an abbreviated midcycle case for adjustment purposes) has not moved forward because the Commission was unwilling to adopt the Postal Service's proposed rules in this regard.

Although your recent proposal focused on reforms for more limited cases, when, if at all, are you going to resubmit a proposal on the Task Force's primary recommendation for chances to the general rate proceedings?

Answer. Progress in considering the various Joint Task Force recommendations has not advanced as quickly as the Postal Service would have preferred. In the time between issuance of the Joint Task Force Report and the present, the Postal Service had to litigate a general rate case (Docket No. R94–1), and it formulated and is currently litigating the pending classification reform case (Docket No. MC95–1).

The Postal Service believes that fundamental reform of the process for general rate changes is a very important goal. Accordingly, we are studying alternative procedures, and we will submit appropriate proposals to the Commission for changes in its rules for general cases as soon as they are formulated and the press of pending litigation before the Commission will permit. It must be understood that the main problem with the four-year cycle (with rate cases every two years), as the Commission proposed to implement that recommendation, was that it amounted to an elaborate regulatory scheme that provided less, rather than more, ratemaking flexibility. At the same time, the Commission rejected a relatively simple revision to its rules proposed by the Postal Service that would have provided more flexibility. In fact, the most recent general rate case, Docket No. 94–1, in which the Postal Service was able to follow an unprecedented four years of rate stability with a relatively simple proposal to adjust rates by a modest amount across-the-board, would have been inconsistent with the two-by-four scheme as proposed by the Commission.

Question. Have *any* of the Task Force recommendations been implemented? If so, which ones?

Answer. To date, circumstances have not led to the implementation of any of the major recommendations for procedural and substantive reform contained in the Joint Task Force Report. The Commission has conducted one rulemaking which produced constructive debate, even if it did not result in adoption of the Commission's proposed rules. Furthermore, as you note, the Postal Service has proposed several revisions to the Commission's rules that were designed to create flexible mechanisms for expedited consideration and limited review of different types of rate and classification change proposals, principally those that might pertain to changes in rates for competitive services. From the start, the Postal Service has emphasized that consideration of the Joint Task Force recommendations pertaining to competitive services should be given priority. The rules that the Postal Service has proposed in the current rulemaking are intended to provide practical flexibility and expedition, while ensuring adequate review and procedural fairness. We are waiting for the Commission's response to the first round of comments on the Postal Service's proposals.

Question. The Task Force mentioned four proposals requiring legislation. This included 1) redefining the role of competitors in the ratemaking process, 2) redefining "break-even," 3) eliminating the second round of rate case reconsideration, and 4) providing the Rate Commission subpoena and final decision powers. (In regard to the last legislative proposal, some members of the Postal Rate Commission favor Congress granting the Commission subpoena power to compel production of documents and information during a rate hearing.) What are your views of these four legislative proposals?

Answer. 1) Redefining the role of competitors

The Joint Task Force Report identified redefining the role of competitors as a recommendation made by the Institute of Public Administration (IPA) in its October 1991 Report to the Board of Governors. The IPA was reacting to the situation in the postal ratemaking scheme where the fundamental purpose of regulation is to compensate for the lack of competitive economic forces in areas where the Postal Service enjoys a monopoly, yet the ratemaking framework does not "deal discerningly with differences between competitive and protected services or with interdependent dimensions of mixed enterprise." The IPA reacted critically to circumstances in postal ratemaking litigation where much of the challenge and debate, and accordingly the contention and delay, comes as a result of competitors seeking to further their own competitive interests. The IPA also observed that many of the competitors who "participate in postal ratemaking process to probe for further market advantage, themselves are subject to more flexible forms of regulation that have been developed by the FCC, FERC, ICC, and state public utility commissions."

The Postal Service agrees generally with the IPA in this regard. At the same time, it recognizes that it would be difficult to limit the rights of competitors in postal ratemaking litigation in a procedural sense, i.e., to deprive them of the full due process protections afforded under administrative law, in relation to mailers and others who participate in Commission rate and classification cases. Nor do we believe that was the intention of the IPA. Rather, the IPA was suggesting that the

competitive services in which the Postal Service engages need not be subject to the same degree or type of regulation that apply to the monopoly services. In this regard, the Postal Service would support legislation that created more flexibility and more limited review with regard to the rates and fees of competitive services.

2) Redefining "break-even":

The proposal to redefine break-even is another IPA recommendation that the Joint Task Force Report concluded would require legislation. In commenting on the break-even standard, the IPA was reacting to the inflexibility inherent in the Commission's rules, which translate the statute's general break-even requirement (39 U.S.C. § 3621) into a requirement that break-even be demonstrated in each rate and classification case by estimating costs, volumes and revenues for a single fiscal year (test year). The IPA noted that this requirement could be inconsistent with business planning geared for longer periods, and that it might be inappropriate for assessing proposals for new products and services.

The Postal Service agrees that greater flexibility is needed in establishing periods of time as references for evaluating proposals for new and existing rates and services. In fact, the proposal that the Postal Service advocated as an alternative to the Commission's proposed four-year cycle, two-rate case mechanism consisted of modifying the Commission's procedural rules to accommodate test periods of varying lengths, depending on the nature of the proposed rate or classification changes. At the time, the Postal Service believed that this change could be accomplished without legislation. The Commission, however, concluded that it was unwilling to create this flexibility without the four-year cycle that ensured a rate case every two years. To the extent that this change cannot be accomplished administratively, therefore, the Postal Service would favor a legislative clarification that would enable the Board of Governors to adjust the length of the rate cycle for proposed changes on a case-by-case basis. The standard for evaluating Postal Service proposals should be flexible enough to accommodate the establishment of schedules for phased or staggered rate increases for different postal products over longer periods of time than the theoretical one-year break-even standard in the Commission's existing rules. The new standard should also make clear that new products could be evaluated over a longer period of time that might be necessary to establish viability, and that the standard would not necessarily be distorted by penalizing the new product unduly for less-than-break-even performance during an appropriate start-up period.

3) Eliminating the second round of rate case consideration:

This is also an IPA recommendation that the Joint Task Force Report concluded would require legislation. The IPA expressed the opinion that a second round of consideration by the Commission lengthens the ratemaking process, aggravates contention among parties, and increases uncertainty. It is not clear from the IPA report the specific problems that the IPA believed would be avoided by this measure, or even specifically what the legislative change would entail. If the basic structure of the ratemaking scheme is retained, the Postal Service believes that some provision for Commission reconsideration of its initial recommended decisions would continue to have utility. In the most recent rate case, for example, the Commission reconsidered its recommendations for Priority Mail rates, and modified them in a way that was beneficial to certain mail users and that was acceptable to the Governors. We can foresee other situations in which it would be advantageous for the Commission to correct an error made in its initial recommended decision or to provide additional support or reasoning for its recommendations.

In one respect, the statutory scheme could be improved by eliminating the need for a second round of consideration. The statute currently requires the Governors to first reject a recommended decision, and the Postal Service to resubmit its request, before the Governors can modify Commission recommendations. 39 U.S.C. § 3625(d). In the relatively few instances in which modification has been considered, the Governors have elected to first allow under protest and send back for reconsideration, in order to benefit from the additional revenue provided from the newly recommended rates. The statute would then require rejection of the second recommended decision, leading to a third recommended decision, before the Governors could modify. In the past, this second round of reconsideration has been unnecessary and wasteful. The Governors should be able to exercise their authority to modify without going back to the Commission more than once. Furthermore, the modification authority itself would benefit from eliminating the requirement that the Governors' decision be unanimous, and from expanding the scope of the reasons justifying modification. For example, the Governors should be entitled to modify whenever a Commission recommendation interfered with postal operations or fundamental policy judgments by the Board of Governors, regardless of whether a specific revenue deficiency would result.

4) Subpoena power and final decision-making authority:

The Postal Service does not believe that the Commission should be authorized to issue subpoenas. The experience of recent rate cases does not demonstrate a need or justification for subpoena authority. The existing statute, moreover, already authorizes the Commission to extend its ten-month deadline in rate cases when it finds that it has been delayed by failure of the Postal Service to comply with a lawful order of the Commission. Although from time to time parties in Commission proceedings have suggested that it would be appropriate for the Commission to invoke this extension authority, the Commission has only once, over fifteen years ago, concluded that it was necessary to do so.

The suggestion that the Commission be given final authority to establish rate and classification changes has been repeatedly suggested, usually by the Commission, since 1971. The Postal Service continues to believe that amending the law to create such final authority would be unwise and extremely counter-productive. What is needed is more, rather than less flexibility in ratemaking, and greater freedom from regulation that interferes with efficiency and the ability to act in accordance with sound business principles. As the courts have often recognized, rate and classification decisions have great potential to interfere with postal operations and other policy objectives. Moreover, the Postal Service, rather than a bureaucracy disconnected from postal business and its customers, is in a better position to know and appreciate the Postal Service's financial requirements and the details of day-to-day operations. One of the main problems that postal reorganization was initially designed to solve—namely, that the postal system had no control over the various factors that influenced it—would be intensified, rather than alleviated, by giving the Commission final ratemaking authority.

Question 7. Chairman Sam Winters, before this Subcommittee, criticized the recently reissued expedited Express Mail rules as "too cumbersome." Governor Norma Pace called them "meaningless." In your own response to a question on the Express Mail rules from this Subcommittee, you noted that the rules that now exist fall far short of the original request of the Postal Service for much more flexibility and expedition on Express Mail changes. If these characterizations are accurate why did the Postal Service petition the PRC to reissue these rules without any change? If there was some other approach, why didn't postal management submit its views to that effect during the thirty-day public comment period this past January?

Answer. The Postal Service does indeed consider the Express Mail rules to be problematic, and in an ideal world, might have elaborated upon its concerns during the comment period. However, at that time, the technical and legal resources of the Postal Service which would have been used to formulate such comments were fully occupied in the development of important initiatives such as the current classification reform proposal. Given this shortage of resources, it was considered prudent to preserve the status quo and aim for future revision of the rules, rather than let the rules simply expire and have to attempt to rebuild them from the ground up in a future rulemaking proceeding. It must be remembered that in order to place the current rules into effect, the Postal Service had to endure an extremely protracted hearing process, lasting 15 months, only to end up with a less-than-satisfactory result. In addition, it was felt that the existing rules, despite their limitations, may create the potential for a more credible market response by the Postal Service than would exist otherwise, and thus create some additional competitive pressure in the marketplace for expedited delivery services, to the benefit of consumers.

Question 8. During the rate setting process, not all Postal Service information is made available because discovery of such information would require the Service to divulge information deemed "proprietary" in nature. Is there any information of a proprietary nature which only affects monopoly protected classes? If so, is it appropriate for the Postal Service to refuse to disclose information of this sort when the Service enjoys monopoly protection in that area?

Answer. The answer to both questions is affirmative. For purposes of answering these questions, it is assumed that "monopoly protected classes" are those current mail classes and subclasses which contain significant percentages of matter which, for purposes of the regulations which implement the Private Express Statutes (18 U.S.C. § 1693–99; 39 U S.C. § 601–06) would be defined as "letters."

See 39 C.F.R. § 310.1(a). Although First-Class Mail and third-class mail primarily consist of letters, a significant portion of both Priority Mail and Express Mail also consists of letters. It is worth emphasizing that the Private Express Statutes do not establish a "monopoly," i.e., an *exclusive* grant of authority to carry letters, but impose restrictions upon the private carriage of letters to ensure that postal revenues are sufficient to support the Postal Service's universal delivery service obligations.

Because of the competitive advantage conferred by the restrictions on the private carriage of letters, the Postal Service recognizes its obligation to inform the public about its operations and costs on a higher level than would apply if it were a private

entity. Accordingly, the Postal Service routinely publicly discloses a wealth of information about its services, operations, and costs.

Outside of the ratemaking context, in carrying out its responsibilities to permit public access to information, the Postal Service is entitled, by grant of authority from Congress, to limit such access to protect its proprietary commercial interests. As a part of postal reorganization, Congress recognized that certain proprietary postal information should not be routinely publicly disclosed. Accordingly, notwithstanding the wide variety of agency records the Freedom of Information Act (FOIA), 5 U.S.C. § 552, requires the Postal Service to disclose, the FOIA, by operation of 39 U.S.C. § 410(c)(2), does not require the disclosure of information of a commercial nature which under good business practice would not be publicly disclosed.

Outside of the FOIA context, when necessary in Federal court litigation, the Postal Service asserts proprietary privilege claims which are available to all litigants under the Federal Rules of Civil Procedure to protect against unwarranted disclosure of sensitive commercial information.

In support of its requests for changes in rates or classifications, the Postal Service is required by the Postal Rate Commission's Rules of Practice and Procedure (39 C.F.R. § 3001) to provide considerable information about each mail class and service. See 39 C.F.R. § 3001.54. Even when there are no ongoing Postal Rate Commission proceedings, the Commission's rules require the periodic reporting of certain information. See 39 C.F.R. § 3001.102.

Discovery in Postal Rate Commission proceedings is limited by the Commission's rules to information which appears reasonably calculated to lead to the discovery of admissible evidence, if that information is not privileged, and if it is relevant to the subject matter involved in the proceeding. See 39 C.F.R. § 3001.26(a). The Commission's rules and the particular issues in a given rate or classification proceeding govern the nature and scope of information required to be disclosed by the Postal Service in discovery. In instances where the Postal Service asserts a proprietary privilege claim which is challenged by an intervenor seeking access to postal information, the Commission is in a position to hear both sides of the dispute and determine whether the assertion of privilege is warranted. The Commission has more than two decades of its own evidentiary rulings to rely upon for precedent. It is not uncommon for the Commission to also seek guidance by reference to the resolution of analogous issues by Federal courts interpreting the Federal Rules of Civil Procedure.

The Postal Service generates considerable operational and market research information, some of which is, by any objective standard, commercially-sensitive, proprietary, or privileged. If some of this information were publicly disclosed, and thus made available to postal competitors, that disclosure would permit those competitors to gain an unfair advantage in competition for the delivery or transmission of messages which could otherwise be mailed as letters, either in First-Class Mail or third-class mail. There are occasions when proprietary postal information requested in discovery relates to "monopoly affected" mail as well as that which is not "monopoly affected." Even in cases where it is clear that the requester is not seeking to exploit the discovery process for competitive purposes, safeguards have to be exercised to accommodate both that party's litigation interests and the Postal Service's proprietary interests. The Commission's rules provide a framework for the resolution of such issues.

When fairly applied, the Commission's rules strike a balance between its need for information necessary to discharge its limited statutory functions and the Postal Service's need to protect its proprietary interests. On their face, the Commission's rules apply the same standard to the Postal Service as they do to its competitors and others who intervene in Commission proceedings. In response to discovery requests, these intervenors also seek the protection of the Commission's rules in order to limit or prevent access to privileged information they generate, when public disclosure of such information would permit the Postal Service or other competitors to unfairly gain a competitive advantage against them.

Under appropriate circumstances, it is the practice of the Postal Service and parties who intervene in Commission proceedings to fashion (either between themselves or under the direction of the Commission) protective conditions during discovery which can permit a litigation adversary's consultants or a neutral third party access to proprietary information for limited purposes related to the pending rate or classification proceeding. At the same time, these protective conditions can prohibit access to or use of that information for competitive purposes unrelated to resolution of the issues before the Commission.

For all of its major mail classes (including First-Class Mail, third-class mail, Priority Mail, and Express Mail), the Postal Service periodically conducts market research, some of the results of which are made available to the public or to interested

or affected mailers. Other information collected during the course of such research is utilized internally to determine how to make postal services more attractive to customers who are faced with a variety of alternatives to First-Class Mail or third-class mail. As an example, such research might indicate the likelihood with which the mail generated by certain customer groups might be diverted to other media. The research might lay out marketing strategies which can be pursued to retain or expand postal business. Such research, if required to be disclosed to firms in competition with First-Class Mail and third-class mail delivery, would give those competitors, who jealously guard their own market research, an unfair advantage in efforts to compete with mail delivery.

Some postal market research information is proprietary to the mailers who consent to participation in postal market research studies. Effective research sometimes requires that survey participants disclose proprietary information to the Postal Service about their own operations which they do not want publicly disclosed. Such information is often provided only with an express guarantee of confidentiality and may underlie market research testimony sponsored by the Postal Service in a Commission proceeding. The raw data underlying that testimony could include proprietary information about various mailers' use of First-Class Mail, or Express Mail, or Priority Mail, or third-class mail. A discovery request by a competitor of a survey participant may seek access to raw data which would reveal that proprietary information. In such a case, the Postal Service could assert a privilege claim and ultimately pursue the use of protective conditions to accommodate the intervenor's litigation interest while safeguarding the proprietary nature of the requested information

The Postal Service recognizes that there is a high interest in the nature and quality of First-Class Mail service. For this reason, it routinely publishes data from its External First-Class (EXFC) service performance measurement system and makes the same data available in Commission proceedings. At the same time, the Postal Service routinely publishes quarterly Origin-Destination Information System (ODIS) operational data which are aggregated on a management area and national basis. These *aggregated* data are also routinely provided in response to discovery in Commission proceedings. However, the Postal Service regards *disaggregated,* point-specific ODIS time-in-transit and volume data to be proprietary in nature. Disaggregated ODIS data have been disclosed in Commission proceedings, subject to protective conditions which prohibit public disclosure, in accordance with the Commission's rules. Subject to similar protective conditions, these same disaggregated data have been made available to the Congress and the General Accounting Office.

Question 9. The Washington Post reported this past April that more than 13,200 postal workers earned in excess of $20,000 in overtime pay last year. For the same period, almost 1,600 workers earned more than $30,000 in overtime pay. These amounts are paid on top of a base salary of approximately $35,000. Overtime payments seemed the highest in the New York City and Mid-Atlantic areas, regions that experienced some of the worst on-time mail delivery scores in the nation last year. What is management doing to curtail the use of overtime?

Answer. Through a combination of judicious hiring and focusing field attention on the issues of overtime and high earners, overtime usage in general has improved a great deal when compared to last year's rates of use—we are currently at 6.8 percent overall, as compared to 8.8 percent in 1994. The following demonstrates a consistent downward trend in overtime ratios:

Accounting Period	FY 95	FY 94
01	8.9	10.2
02	9.2	10.0
03	9.5	10.1
04	11.6	11.7
05	8.4	9.4
06	7.5	8.9
07	6.6	8.0
08	6.9	8.2
09	6.1	7.5
10	6.2	7.5
11	7.1	8.3
12	6.8	8.1

These overtime reductions have occurred in conjunction with improvements in service performance. EXFC has gone from 82.8 percent in overnight on-time delivery in Quarter 111 of Fiscal Year '94 to 86.8 percent in Quarter 111 of Fiscal Year '95.

Since we began distributing reports to the field in June 1995, which provides paid hour analysis for individual "high earners," i.e., bargaining employees projected to earn in excess of $55,000 this year with overtime pay, the number of these high earners has diminished by 48 percent nationwide:

	Nation	NY Metro Area	Mid-Atlantic Area
June	10,509	1,319	1,250
July	9,007	1,180	1,063
August	7,313	892	871

We are in the process of developing an easy-to-use reference guide on overtime control for field managers which will address best practices and reduce the language on contractual obligations to more simple terms.

Question 10. One of the first laws signed by former President Bush was the Whistleblower Protection Act which provided comprehensive whistleblower protection to civil servants who disclose waste, fraud, or abuse in a federal agency. The Postal Service was not among the agencies covered by the Act. Do you think the Postal Service employees need similar protection? Would you support legislation granting similar protection to Postal Service employees?

Answer. The Whistleblower Protection Act (WPA) gives federal employees the right to appeal Agency actions to the Office of Special Counsel (OSC) and then to the Merit Systems Protection Board (MSPB) when they believe that the Agency action was an act of reprisal for whistleblowing activities by the employee. While the WPA does not cover postal employees, postal employees who already have a right to appeal adverse actions to the MSPB may raise whistleblowing as an affirmative defense and thus receive protection for whistleblowing. Additionally, postal employees have several other avenues of appeal for personnel actions, including the Equal Employment Opportunity administrative process and the negotiated grievance process.

The Postal Service is concerned that expansion of MSPB jurisdiction will undermine the intent of the Postal Reorganization Act (PRA). In an attempt to make the Postal Service more like a private corporation than a federal agency, the PRA put the Postal Service under the jurisdiction of the National Labor Relations Act (NLRA). A vital part of the NLRA collective bargaining system is the grievance procedure. Under the WPA, the MSPB may grant a stay of the pending adverse action. It is the availability of this stay that gives employees a strong incentive to forsake the grievance process in favor of the MSPB. Consequently, application of the Whistleblower Protection Act (WPA) to the Postal Service is likely to lead to many more contractual issues being brought before the Board as employees choose MSPB over the negotiated grievance process. To have the Board making determinations on contract issues will cause distortion in the negotiated grievance process, and the costs of resolving those contractual issues will be shifted from the Postal Service to the MSPB. Under the negotiated grievance process in the Postal Service, grievances go before third-party arbitrators and the cost of arbitration is borne by both the Postal Service and the unions. If more grievances are routed to the MSPB through application of the WPA, those costs will be borne by the taxpayers.

The Postal Service is unique among government entities in that only a relatively small number of postal employees (veterans and supervisors) currently have access to the MSPB. Making the Postal Service subject to the WPA would effectively open the MSPB to all 700,000+ postal employees. Such an expansion of MSPB jurisdiction would greatly increase the MSPB and OSC case loads and would no doubt require significant additional funding for those organizations.

Question 11. Vince Palladino, President of the National Association of Postal Supervisors, testified during our labor and management hearing that management training involving conflict resolution and addressing problems on the workroom floor has suffered and is practically nonexistent. Continuous and uniform employee education and training are vitally important to the Total Quality Management concept. What kind of training programs are available for supervisors and postmasters in order to address problems on the workroom floor? Are supervisors given any formal training in conflict resolution? If so, how many hours are mandated and is there any attempt to continually train managers in addressing workplace conflict?

Answer. As part of corporate efforts to respond to issues raised in the 1994 Employee Opinion Survey, the Postal Service developed two courses aimed specifically

at helping first-line supervisors. *Managing Work Performance* provides tools for rewarding and reinforcing good performance, in addition to recognizing and dealing with poor performance. To date, approximately four thousand supervisors and managers throughout the Postal Service have participated in this training. *Improving Workplace Communications* provides methods and practices to increase the effectiveness of communications on the job. Both courses are delivered via the Postal Satellite Training Network (PSTN), with local audience interaction and local facilitation of exercises and simulations. *Workplace Violence Leadership Awareness* was added to the growing number of distance learning courses available for postal managers throughout the United States. This trend is expected to continue and accelerate next year. Additionally, the following courses, which address interpersonal skills and effective handling of problems in the workplace, are provided to supervisors and managers on a recurring basis: *Effective Communication Skills, Managerial Leadership, Supervisory Leadership, Security and Violence Prevention and Supervising the Emotionally Charged Employee.*

Training which focuses specifically on techniques for dealing with conflicts in the workplace is provided to Postal Service supervisors and managers on a continuing basis. These courses include *Constructive Conflict Resolution, Situational Conflict, Security and Violence Prevention, and Supervising the Emotionally Charged Employee.* Additionally, external vendor programs have been utilized to refine interpersonal skills and increase effective handling of adverse behavior, including *How to Handle Difficult People and Managing Conflict.* Course length is divergent, usually ranging between eight and twenty-four hours.

Major initiatives for Fiscal Year 96 include completion of a process for acting supervisors, designed to identify and obtain the best possible candidates for supervisory positions and allow them to learn and demonstrate necessary leadership and people-handling skills, prior to permanent assignment as a supervisor.

Question 12. During the recent oversight hearings, the Subcommittee heard from postal competitors. One witness urged Congress to modify the urgent letter rule which requires alternative carriers to charge at least $3 or double the otherwise applicable First-Class or Priority Mail postage. What is the rationale for the $3 or double postage rule? Isn't it true that since this rule was adopted in 1979, the actual cost of providing nationwide express service for shipments of more then a few pounds has fallen to less than double the postage rate?

Answer. The "Extremely Urgent Delivery" suspension came about because of a widespread perception that First-Class Mail, combined with the limited Express Mail network which the Postal Service offered in 1979, did not fully address customers' needs. For business and other reasons, some letter materials required access to urgent, highly expedited, guaranteed service assuring delivery by next morning. Mostly, the postal system could not provide it. Of course, all mailers expect timely, reliable delivery, and the Postal Service, in fact, delivers most mail in a day or two. So, to implement the urgent letter suspension, it was necessary to have a way to distinguish between the truly urgent letters and others which are also important and need to be delivered on time.

In a public rulemaking, the Postal Service created the $3 or double the postage rule as a simple, definitive, "bright line" test to demonstrate that the customer genuinely considers the piece "extremely urgent." If the sender is willing to pay that much of a premium over regular postage to get urgent private delivery, then the urgency of the shipment can simply be presumed. And in fact, as the question suggests, published rates offered by the principal private delivery companies for the non-letter material which they had been carrying well exceeded the $3 or twice postage measure.

It is difficult for the Postal Service to know what the actual charges are for most private carriage today, since the carriers extensively discount their prices to their most favored customers, which are business users shipping in bulk. Our impression is that increasing competition has tended to drive prices downward. But we doubt that a member of the public can very often send a single piece to arrive by next morning for less than $3 or twice postage, even if the piece doesn't contain a letter and so is not affected by the Private Express Statutes.

Our impression is that much of the impetus for relaxation of the $3 or twice the postage rule comes from those who would like to expand the suspension into an area it was never imagined to cover—namely, second-day delivery services. In 1979, no one contended that a shipper who was willing to settle for a two-day delivery schedule had "extremely urgent" business which the postal system was ill equipped to handle. But as the overnight market has become more mature, and profit margins apparently have been reduced by increasing competition, private carriers understandably have been looking for fresh fields to plow. They have expanded their ef-

forts internationally; but domestically, it appears they may see the Postal Service and its revenues as the best available target for further inroads.

Question A. What would be the effect on the U.S. Postal Service's revenue and market share if the double postage rule for extremely urgent letter mail were suspended or modified by Congress?

Answer. If the double postage rule for extremely urgent letter mail was suspended, all Postal Service letter and flat mail potentially could be diverted. This would jeopardize the Postal Service's mandate to provide universal service at uniform rates. Private competitors may elect to only serve high volume, lower cost business traffic. Competitors may also decide to serve only high density business and residential areas in cities and suburbs. This would have the potential of leaving the Postal Service with servicing only households and small businesses in rural areas at substantially higher costs.

Any revenue and market share estimate is speculative and depends on several factors. First, the diversion would be different if the double postage rule were modified as opposed to suspended. Second, competitors' reaction to the modification or suspension is not known. However, in the ground parcel market where the Private Express Statutes are not in effect, UPS surcharges residential delivery and charges extra for deliveries to Alaska, Hawaii, Puerto Rico, and other U.S. territories and possessions. RPS has decided only to serve the business-to-business market.

The Postal Service has steadily lost market share in most of its principal markets for some time. If the Private Express Statutes were substantially weakened, so that more direct competition could be offered for two-day or regular services, that trend could be expected to accelerate, so long as the Postal Service is not allowed to use the same aggressive pricing and marketing techniques that are available in the private sector.

In 1979, in accordance with their authority under 39 U.S.C. §601(b), the United States Postal Service Board of Governors authorized adoption of 39 C.F.R. §320.6, the "extremely urgent" suspension of the Private Express Statues. Enacted at the conclusion of a public notice and comment rulemaking proceeding, the suspension strikes a balance between the public interest in a financially viable national postal system and the public interest in access to non-postal delivery of "extremely urgent" letters. The purpose of the suspension was not to permit competition for the general delivery of letters, but to carve out a narrow exception for the limited circumstances where the nature of a letter was such that its value would be lost or greatly diminished if it did not receive expedited delivery. 39 C.F.R. §320.6(b).

For the purpose of administrative convenience, the "double postage" rule or the "cost" test, 39 C.F.R. §320.6(c), is an objective alternative to the subjective "value" test for extreme urgency. The "cost" test establishes that if the sender of a letter pays a certain price for its private carriage (the greater of three dollars or twice the applicable postage), there is a conclusive presumption that the letter is "extremely urgent," *i.e,* of such a nature that its value would be lost or greatly diminished if not delivered expeditiously.

Any objective "cost" test for extreme urgency, to be true to the purposes of the suspension, must establish a benchmark which conclusively differentiates *"extremely* urgent" letters from those which (with all due respect to the senders and recipients) are subjectively less "urgent" or "important" or "valuable." The "twice the applicable postage" standard fairly distinguishes "extremely urgent" letters from those which are not.

Even assuming that some postal competitors currently charge less than twice the applicable First-Class Mail or Priority Mail postage for the private carriage of overnight and two-day express shipments of more than a few pounds, it should be emphasized that the "cost" test applies only to privately carried "letters" (as defined by 39 C.F.R. §310.1(a)), and not to variety of other materials carried by private expedited shippers. No analysis of the impact of the suspension on private expedited delivery services would be complete without a determination of the proportion of their express shipments which actually consist of letters.

To be responsive to your question, such analysis also would be materially flawed if it did not measure the proportion of private express shipments *of more than a few pounds* which actually constitute letters. Generally, in Express Mail and Priority Mail, there is a very significant drop-off in the proportion of letters among items which exceed the two-pound weight increment. A similar trend is likely to be true of privately carried expedited materials. If so, the "extremely urgent" suspension has an impact on only a relatively small portion of private expedited delivery shipments which weigh more than a few pounds.

We note that long after the adoption of the suspension, the major private carriers began to highlight the availability of two-day delivery at prices lower than those charged for their overnight services. One of the benefits of the "cost" test in 39

C.F.R. § 320.6(c) to the public and to postal competitors is that, unlike the "value" test in § 320.6(b), it allows letters to qualify under the "extremely urgent" suspension without regard to the degree of urgency employed by the private carrier in delivering the letter. Thus, there is no expedited delivery requirement for "extremely urgent" letters which meet the "cost" test.

To fairly gauge the impact of the suspension on private expedited delivery providers, one also would need to consider such non-postal factors as the advent of facsimile and electronic information transmission services which now provide the public with alternatives to overnight delivery of letters, making the expedited letter delivery market less robust than it was when the suspension was adopted in 1979.

If the "cost" test in 39 C.F.R. § 320.6(c) were eliminated by Congress (and assuming the application of no other suspension or exception), then all private shipments of "extremely urgent" letters would be required to meet the subjective "value" test for "extreme urgency" in 39 C.F.R. § 320.6(b) or a comparable subjective standard adopted by the Congress, in order to avoid the payment of postage required by 39 U.S.C. § 601(a). To the extent that letters are now privately carried, because such carriage qualifies only under the "cost" test and not the subjective "value" test under 39 C.F.R. § 320, the elimination of the "cost" test could result in some of those letters resuming to the mailstream or being diverted to alternative media (such as facsimile service or electronic transmission). The diversion of any such volume to the mailstream could be expected to have a positive effect on postal market share and revenues.

If the Congress eliminated the "extremely urgent" suspension altogether (and assuming the application of no other suspension or exception), an alternative result would be that some letters would still be privately carried, but that postage would be affixed, as required by 39 U.S.C. § 601(a). Such a consequence would not improve postal market share, but would have a positive impact on postal revenues.

If the "cost" test in the "extremely urgent" suspension were modified by the Congress in a manner which lowered the objective benchmark to some point significantly below "twice the applicable postage," the purposes of the suspension would be undermined and the degree of the adverse impact would depend upon the extent of the modification. The impact on postal market share in the delivery market for Express Mail and Priority Mail and First-Class Mail could be adverse and severe. The rates charged for Express Mail, Priority Mail, and heavier-weight First-Class Mail reflect relatively high per-piece contributions to postal institutional costs. If such mail were diverted from the mailstream, the institutional cost burden of the mail remaining in the system—primarily lighter-weight First-Class Mail and third-class mail—and the rates for this remaining mail would have to be increased. Upward pressure on the price of First-Class Mail and third-class mail would hasten the diversion of such mail from the mailstream and increase the institutional cost burden on the mail which remains. This would have a negative effect on postal volume and would accelerate postal rate increases.

Amendment of the suspension in a manner which allowed relatively unrestricted private delivery of letters without postage effectively would repeal the Private Express Statues and seriously jeopardize the financial well-being of the Postal Service.

Notwithstanding the general revenue protection purposes of the Private Express Statutes, it is clear that the Board of Governors did not adopt the suspension or its "cost" test component to increase Postal Service revenue or to protect Express Mail from competition. It is safe to say that adoption of the suspension surely has not decreased available alternatives to postal delivery of "extremely urgent" letters. It seems to have had the opposite effect, which is consistent with the public interest determination made by the Board of Governors in 1979 to allow private carriage of "extremely urgent" letters without postage under circumstances where such activity, at the time, was not permitted.

With the exception of the most remote corners of the nation to which the expedited delivery of a letter (by the Postal Service, Federal Express, United Parcel Service, or others) is logistically difficult, the general public has access to a variety of non-postal alternatives for the delivery of its "extremely urgent" letters at prices which are primarily governed by market forces, or in the case of the Postal Service, regulated by the Postal Rate Commission. The "cost" test continues to be a fair and simple standard for separating "extremely urgent" letters from all others. The rule continues to equitably balance the important goals of maintaining a financially viable national postal system and promoting access to non-postal "extremely urgent" letter delivery services.

Question 13. The Postmaster General suspended the Private Express Statutes for international remail back in 1986. Given that international rates are not subject to PRC review, what checks and balances exist in order to prevent the Postal Service from engaging in price gouging of international mail customers? Or alternatively,

from engaging in pricing practices whereby other monopoly protected classes cross subsidize international rates? Is this an area where the PRC should be reviewing the rate-setting procedure?

Answer. Since the Private Express Statutes were suspended to permit international remail, the international mail market has become very competitive. Participants in that market include private companies such as TNT Mailfast, which is jointly owned by TNT of Australia and the government postal administrations of Canada, France, Germany, The Netherlands, and Sweden; Global Mail, a U.S. company; and other postal administrations including The Netherlands and Great Britain. With the advent of competition, international mail customers have more options and can select any service provider they choose, and prices are held in check because charging too high a price loses customers. The market sets the price, and that is how customers are protected from paying prices that are too high.

Competitors are protected from unfair pricing by the law and by the courts. The Postal Service is obligated by law to charge reasonable, non-discriminatory rates that do not unfairly apportion the cost of postal operations. 39 U.S.C. §§ 101(a), 101(d), 403(a), 403(c). These legal requirements clearly prohibit charging rates that are below cost. Competitors have shown no reluctance to seek redress in the courts if they believe that rates are below cost. In addition, while there is a controversy with the PRC over the level of detail of cost, revenue, and volume data about individual international services that the Postal Service provides, the Postal Service provides adequate information separating aggregate international costs, revenues, and volume from domestic. These data show clearly that international mail covers its costs and makes a contribution to overhead comparable to or higher than other postal services that are provided in competitive markets.

There is no need for the Postal Rate Commission to review international rate-setting procedures.

Question A. While the Rate Commission does not set international mail rates, international mail cost, volume and revenue data are of significance to the Commission in omnibus rate proceedings. The Commission told us that it needs the data to be assured that the Service's customers in the U.S. do not subsidize its overseas customers. Until last year's omnibus rate filing, the Postal Service had provided some data concerning international costs, volumes, and revenues as part of its filings and responded to questions concerning them. However, in last year's filing the Postal Service took the position that any supporting information on its forecast of total international mail costs, volumes, and revenues is irrelevant and qualifies for trade secret privilege. Must Congress and the public now accept on faith that international mail is covering its attributable cost? *Should Congress completely exempt international mail from monopoly protection?*

Answer. Neither Congress nor the public must accept on faith that international mail is covering its attributable costs. In its filing in the last rate case, the Postal Service provided adequate information on international mail service as a whole. Nothing material was withheld. What was not given was detailed information on individual services that could be used by competitors to take business away from the Postal Service. Having gotten all the information on international mail service as a whole, this level of detail is irrelevant for the purpose of setting domestic rates.

Congress should not completely exempt international mail from the Private Express Statutes because that would undermine the restrictions on competing with the Postal Service for the domestic delivery of letters. The purpose of having restrictions on competition is to allow the Postal Service to carry out its mission of providing universal service at uniform rates. Without those restrictions, mailers would pay different rates for letter mail service depending on where they live, where they are mailing letters to, and how many other service providers are interested in their business. This would be true regardless of what the Postal Service did in the way of rates, because competitors would get the low cost mail and rates for everyone else would have to go up, creating a price spiral that would leave the Postal Service with only the highest cost customers. At this point, the only international mail subject to protection is inbound letter mail. If that were exempted, domestic letters could be created or taken across the border and brought back for private delivery with no one knowing whether those letters were truly international or were domestic letters made up to look like international letters. Moreover, there would be no way to know whether any particular letter was ever anywhere but the United States.

Question 14. The Postal Service has "suspended" the postal monopoly for newspapers, magazines, checks sent between banks, certain data processing materials, urgent letters, international remail, etc. Under what legal authority can the Postmaster General suspend the monopoly?

Answer. The principal civil provision of the Private Express Statutes is 39 U.S.C. 601, which enumerates six conditions under which letters may be carried outside

the mails, including the payment of postage by affixing stamps. Congress has included in 39 U.S.C. 601(b) authority to suspend "any part of" section 601 where required by the public interest. The Postal Service has considered that the plain meaning of this language permits it to suspend one or all of the conditions for outside carriage, including the requirement to pay postage. The section has been applied both in fairly narrow ways, for example, by permitting postage to be paid in bulk by check so that stamps do not have to be placed on letters carried privately, and more generally, by suspending all six conditions for certain categories of items such as those described in the question.

Question A. If the Postal Service believes that Section 601 of title 39 (U.S. Code) provides the legal authority to suspend the monopoly, how do you respond to concerns raised by the testimony of Federal Express before this Subcommittee on June 14, 1995? Specifically, the witness stated that based on the legislative history of the cited provision (rooted in a 1864 postal act), Section 601(b) was never intended to confer authority to suspend the postal monopoly. According to this witness, the gist of section 601(b) is to allow the Postmaster General to *reapply* the postal monopoly by suspending, on a selective basis, an exception to the postal monopoly allowing private carriage of letters in stamped envelopes (found at 601(a)). How do you respond?

Answer. This argument was offered by the same witness in Congressional hearings on the urgent letter suspension in 1979, but did not draw any support there, or in the very open public rulemaking process, in which all interested parties participated. We find it interesting that Federal Express was among the participants that did not support this argument at the time, and since then and to this day has apparently sheltered itself extensively under the umbrella of the suspension in order to expand its business.

It should be recognized that the "extremely urgent delivery" suspension is only one of the most recent suspensions added to the regulations. When the Congress considered the reforms enacted in the Postal Reorganization Act in 1970, it was unsure whether the Private Express Statutes, most of them unchanged since the 19th century, should be revised. It decided, in section 7 of the Act, Public Law No. 91–375; 39 U.S.C. 601 note, to require the Board of Governors to undertake a study of the matter and to submit "recommendations for modernization" to the Congress and the President. The Board issued a formal report, *Statutes Restricting Private Carriage of Mail and Their Administration; A Report by the Board of Governors to the President and the Congress, Pursuant to Section 7 of the Postal Reorganization Act* (1973). The report concluded that modernizing changes in administration of the Statutes were needed, and recommended that these updates be made by administrative action, including several suspensions under 39 U.S.C. 601(b), rather than by legislation. See especially pages 11–13, 68.

The text of certain proposed suspensions was included in the report. See pages 198–200. The Postal Service then proceeded to air these proposals through a public rulemaking, first seeking comments, 38 F.R. 17512 (July 2, 1973); then summarizing the comments and requesting further input, 39 F.R. 3968 (January 31, 1974); and subsequently publishing the final regulations, including suspensions, 39 F.R. 33209 (September 16, 1974). In the meantime, six days of Congressional hearings had considered the Board's report. While the hearing elicited extensive debate about the details of the proposed regulations and suspensions, the general approach recommended by the Board, to address needed reform or relaxation by administrative suspension under section 601 rather than through legislation, found broad support. *The Private Express Statutes, Hearings Before the Subcommittee on Postal Service of the Committee on Post Office and Civil Service, House of Representatives,* 93rd Cong., 1st Sess., Serial No. 93–32 (1973).

Afterward, growth of the expedited delivery business brought additional pressures to relax the reach of the Statutes for urgent letters, by law or by administrative suspension. The Postal Service initiated further public rulemaking proceedings, and new Congressional hearings focused on the matter. Most of the testimony favored additional relaxation, either legislatively or by suspension. One witness made the argument embodied in your question, that 39 U.S.C. 601(b) authorizes suspension only in the direction of tightening, not relaxing, the statutory restraints. *The Private Express Statutes, Hearings Before the Subcommittee on Postal Operations and Services of the Committee on Post Office and Civil Service, House of Representatives,* 96th Cong., 1st Sess., Serial No. 96–39, p. 203 (1979) (testimony of James I. Campbell, Jr.). Unswayed by that contention, the chairman of the House postal oversight subcommittee left no doubt that his oversight recommendation to the Postal Service was to resolve the matter administratively, by adopting a suspension relaxing the sweep of the monopoly. *Id.,* at pp. 6, 13; *Status Report on the Operation of the United States Postal Service and the Postal Rate Commission, Hearings Before the Com-*

mittee on Post Office and Civil Service, House of Representatives, 96th Cong., 1st Sess., Serial No. 96–21, pp. 45–47 (1979). That is what the Postal Service did.

The Private Express Statutes are very old laws, changed very infrequently, with roots antedating the Constitution. Like the Constitution, they have had to stand the test of two centuries of the country's growth. While the Statutes have not performed perfectly, or fit perfectly every new development, they have proved adaptable in some respects. The suspension authority has helped meet that challenge, and its application as a safety valve to relax what came to be universally understood as unnecessary overreach of the monopoly in limited situations has been broadly accepted.

Question 15. During the Subcommittee's oversight hearing with labor and employee organizations, Scottie Hicks, President of the Rural Letter Carriers' Association called on you to summon a legislative conference to include mailers, postal officials, and union and employee organizations' Representatives. Mr. Hicks suggested that under your leadership the collective group could agree on 75 percent or more of the subjects for reform proposals. He further stated that such a group would ensure that all would have a stake in passage of reform which ensures everyone's input as a stakeholder. What do you think of this proposal? Would you call such a "summit?"

Answer. I appreciate Mr. Hicks' interest in postal reform and am encouraged by his assessment of agreement among all of the stakeholders in this goal. The Postal Service has discussed our concepts for postal reforms separately with the stakeholder groups, and I have conveyed the Postal Service's vision of reform in many public forums, including Congressional oversight hearings. I believe that the dialogue with stakeholders and inquiry into the benefits and risks of postal reform which is taking place the Congressional hearing process is the best approach to arriving at our mutual goal of being the nation's premier communications service.

Question 16. You have stated that the Postal Service needs greater authority in introducing and marketing new products in the various markets. The Postal Service has a number of market research efforts underway that could result in new product offerings. For example, in your written responses to questions posed after your last appearance before us, you described your efforts to develop the Electronic Postmark. In some areas of the country, the Postal Service will be offering what it calls "Fastnet," which is next-day delivery of parcels ordered over interactive television (the home shopping network).

A. What is the Postal Service's rationale and need for developing new products, such as those being tested in the electronics communications arena?

Answer. In keeping with our statutory mandate to bind the nation together through the correspondence of the people, we are building products and services that provide the necessary infrastructure for the electronic commerce needs of our customers. Customers of new services are concerned with issues of privacy, security access, and universal service—all core areas of USPS competence. The infrastructure elements are very similar to those currently in place for traditional commerce and correspondence and provide legal protection, trusted third-party services privacy, convenient access, and universal service.

Question 1. In your testimony you note that Premenos, Inc. and USPS will begin testing an electronic commerce service that can authenticate E-mail messages on the Internet. How is this different from the Electronic Postmark being developed by the Service?

Answer. The electronic postmark provides a trusted time stamp and protection from alteration of electronic documents. Additional services provide nonrepudiation and confidentiality. These services are valuable for all types of electronic files, including electronic documents, audio files, graphics, video files, Electronic Data Interchange (EDI), business transactions, electronic correspondence, Internet transactions and E-mail. While our focus is on providing services for electronic correspondence and transactions, it does not limit the uses to which our customers might apply our services.

Question B. What role do you see for the Postal Rate Commission in the introduction and pricing of the new services, including Fastnet?

Answer. The Postal Service is required by the Postal Reorganization Act to seek a recommendation from the Postal Rate Commission on changes in mail classification and rates and fees for postal services. The Postal Service would therefore expect that the Commission would play its statutory role under 39 U.S.C. § 3624 whenever the Postal Service requests a recommendation from the Commission concerning the introduction and pricing of a new postal service. New services involving only operational changes, which can be provided under current classifications and rates, or new services that are not postal services, do not require a recommendation from the Commission. "Fastnet" involves only operational changes; it utilizes the local hold-

out and delivery of parcels entered at the processing plant(s) that serve the local delivery area to which the parcels are addressed. The current rates and classifications for fourth-class parcel post would apply to "Fastnet" parcels. With respect to the "Electronic Postmark," we have not yet determined to what extent certain proposals in the electronic area involve postal services requiring Commission review. Normally, however, new services do involve changes in rates and classifications and the Postal Service would request a recommended decision from the Commission in accordance with the Act.

Question C. Given your core service of hard-copy mail delivery, which generates about $50 billion of revenue annually, how much added revenue will be required from new products or services to make the expansion or diversification worthwhile?

Answer. Every additional dollar of contribution earned by a competitive product reduces the institutional cost burden borne by the letter mail services. Thus, developing new competitive services and improving existing competitive services are ways to reduce price increases for the monopoly products. For example, in FY 1994, Priority Mail and Express Mail contributed approximately $1.5 billion to institutional costs, eight percent of the total. While a significant portion of Priority Mail is hard copy, there is also a large amount of parcels in this category that compete in the two- and three-day expedited parcel markets. Because of the urgent letter exemption to the Private Express Statutes, Express Mail also faces fierce competition in the overnight market.

Although it is not a simple matter to determine how much added revenue is "worthwhile," as an illustration, if diversion of First Class Mail to electronic communications were to result in a leveling off of First Class Mail volume (no volume growth instead of the recent increases of approximately 1.5 percent per year), the Postal Service would earn between $400 and $500 million less in revenues per year. In this example, if the Postal Service were able to increase revenues from new services and from other existing services to match this loss, it might be able to avoid deficits caused by the diversion of letter mail

Question D. What consideration is being given to dropping old products that appear to generate little if any net revenue due to the handling cost and limited sales volume, such as money orders, packaging materials, etc.?

Answer. The Postal Service is mindful of the needless drain on resources—people, finances and management attention—incident to the continuing support of marginally profitable or declining products. Some we continue to offer for public policy reasons (i.e., library rate, rural post office box delivery, etc.). There are, on the other hand, other products and services that are diverting resources away from more economically deserving applications. The Postal Service has not in the past been as aggressive as it might be in reassessing the continuing viability of marginal or low yield products and services.

With the development of the Strategic Growth Plan, we now have processes in place to evaluate and, as warranted, withdraw support from products and services which fail to meet threshold revenue or customer satisfaction criteria. The marketing organization is in fact presently reordering its priorities to better ensure that our focus remains locked on to only those opportunities where significant growth can be realized. Examples include financial service, electronic products, and merchandise delivery.

Some products and services have growth potential beyond their current trend lines subject to the addition of some enhancing features or more effective marketing support. Money orders and packaging materials, both cited in the question above, fall within this category. We are now reviewing options on how best to exploit the revenue opportunities they represent.

Due to the competitive sensitivity of possible actions the USPS might further take with respect to individual products and services, we cannot responsibly reveal specific intentions beyond the statements cited above.

Question E. Have strategic alliances with private sector business been formed or planned by the Postal Service for the introduction and delivery of new or existing postal products?

Answer. The Postal Service has formed marketing alliances with firms jointly to sell services. For example, the Postal Service has an agreement with USCO, a national warehousing and order fulfillment firm, to jointly sell order fulfillment and package delivery services. This agreement was developed through a rigorous, competitive process. In this agreement, neither organization pays the other for services. The sales organizations simply share leads and attempt to sell services jointly to prospective customers. We are exploring partnership arrangements with other major corporations in the private sector, including, for example, American Express, Coca Cola, and AT&T.

Question 17. From your written responses to the Subcommittee's questions following your last appearance, it appears that USPS's advertising budget is increasing from $73 million in fiscal year 1995 to $144 million in fiscal year 1996. What accounts for this large increase?

Answer. The increase in the advertising budget for 1996 will allow us to increase awareness of our core offerings and improve how customers view us. Currently, both businesses and consumers have a very basic view of the Postal Service. They see us always being there and take us for granted. We intend to focus our advertising toward improving our image as an up-to-date company providing solutions for today's business. By doing so, we expect to significantly increase customer use of our products and service.

Question 18. The Subcommittee has been contacted on several occasions by interested Members concerning the procurement procedure employed by the Postal Service. The biggest complaint seems that the Postal Service will ask for requests for proposals in a seemingly open manner only to find out that the procedure is pro forma and a contractor had been preselected. Another problem involves the time and expense these companies put forth in a good faith effort to attract the business of the Postal Service only to see the contract lost to another competitor. What should the Subcommittee tell these disgruntled contractors? Procurement reform is one area currently being reviewed by the Full Committee. Should reform of Postal contracting and procurement be included in these reform measures?

Answer. The policies set out in our Procurement Manual (PM), which was issued in 1988 and is periodically updated, are intended to get the best value for our procurement dollar by ensuring that we contract with firms likely to succeed in performance of contract and by streamlining our procurement process. The PM authorizes, under proper circumstances, the prequalification of contractors, so that only those that are most highly qualified for a particular acquisition or to provide services throughout a defined geographic area are asked to submit proposals. The acquisition process itself is made leaner by the use of simplified purchasing techniques, and by authorizing local postal officials to buy small dollar or standard goods and services locally. Although these policies may limit the openness of competition, at least for facilities-related projects, they also increase the likelihood that the Postal Service will receive high quality, on-time performance, with minimal likelihood of contractor default. From the contractor's perspective, these procedures can reduce the costs of preparing and revising proposals that are not reasonably likely to be successful. It is not possible, however, to maintain competition in complex procurement without significant costs for unsuccessful participants. The best value approach to procurement is sometimes misunderstood by contractors who are accustomed to seeing contracts awarded to the lowest-price bidder. Our approach, sometimes called negotiated procurement, gives the contracting officer the flexibility to consider and select offers based on factors in addition to price, specifically to increase the likelihood of successful performance. For example, in soliciting proposals from general contractors for the expansion and updating of a mail processing facility that must continue to operate throughout the construction period, the contracting officer might include among the non-price selection criteria "experience in performing comparable work in facilities that were occupied and operational facilities."

The procurement flexibility authorized by the Postal Reorganization Act and the Postal Procurement Manual has not yet been put to full use, although the results of our efforts to date in the area of simplified purchasing, contractor pre-qualification, and best value procurement generally have been favorable. We would support reform of requirements that do not contribute to the economical and efficient procurement of goods and services (e.g., the Davis-Bacon Act). We believe, however, that the independence and flexibility granted to the Postal Service under Postal Reorganization are critical to its success in the competitive business world.

Question 19. The Postal Service will be completing a new post office on Polk and Canal Streets in Chicago, Illinois. The initial budget was $267.6 million. The projection is presently $300 million and it is reported that some USPS governors believe it will go even higher. Would you share the details of this post office with the Subcommittee? When will the facility be complete? What are the plans for the old post office? Is $300 million the total cost, including equipment? If not, how much more will the equipment cost? Is the equipment being transferred from the old facility? What was the purpose of the new facility (which is in close proximity to the old facility)?

Answer. We are unaware of a $300 million projection for the project. At their June 1995 meeting, the Board of Governors approved total funding of $316.9 million for the new Chicago Processing and Distribution Center. The increase in cost over original projections was due to unanticipated difficulties with the site, which involves construction over active railroad tracks, and changes in operating concepts during

the design and construction. The project will be completed within this funding, which includes the construction, material handling systems, and furniture and small equipment needed for the new facility. Mail processing equipment, such as optical character readers, bar code sorters, etc., is not included in the cost of any of our buildings, since the equipment is justified separately. The mail processing equipment to be installed in Chicago will come from the existing facility, from current equipment deployments, or from other facilities. This project, and the Irving Park Road (North Chicago) Processing and Distribution Center, were designed to replace the aging and inefficient Chicago Post Office. The new 965,000 square foot Chicago facility will process mail for the majority of the 606 delivery area (with Irving Park Road processing the volume for the northern section of the city). There will also be retail service in the new facility, replacing the retail unit in the existing facility. Administrative staff for the Chicago Processing & Distribution Center and Chicago District will also be housed in the new facility. The new facility is scheduled to be completed in the Spring of 1996. Following phase-in of operations to the new building, we will pursue developmental opportunities for the old facility; however, we have no specific timetable for this effort.

Question 20. The Postal Service spent about $7 billion in fiscal year 1994 for purchases of equipment, supplies, transportation, etc. and for acquiring real estate. Under the 1970 act, the Service exercises much greater discretion over its purchases than most other federal entities. GAO has reported in several instances that the Service's contracts were flawed, sometimes resulting in substantially increased costs to the Service. What steps have been taken by the Service to ensure that the problems reported by GAO will not be repeated in future contracts?

Answer. We have not yet received GAO's final report regarding its audit (we expect the report by the end of Fiscal Year 1995) Nevertheless, for the past two years, we have taken several significant steps to both improve and enhance our purchasing policies and procedures, and we would like to take this opportunity to discuss them.

Foremost among these steps has been the consolidation of all purchasing and policy development authority under the Vice President, Purchasing and Materials (VP, P&M). Until 1993, that individual had such authority for the purchase of supplies, services, and equipment only; the Vice Presidents of Transportation and Facilities had such authority for purchases of mail transportation and design and construction and real estate, respectively. The Postmaster General consolidated all of these authorities under the VP, P&M, in November 1993. (The VP, P&M, subsequently delegated these responsibilities as they relate to the purchase of real estate to the VP, Facilities.)

The major rationale for consolidation was to promote as much uniformity and consistency as possible throughout all of our buying organizations. This was due to a number of factors: (1) clear, consistent application of standard policies and procedures fosters better understanding and communication between both Postal Service buyers and our contractors and potential contractors; (2) consolidation promotes better use of best business practices which previously had been used solely in one of the particular commodity areas; and (3) uniformity and consistency should result in many business efficiencies and allow a more concentrated focus on our business objectives.

As a result of consolidation, during Fiscal Year 1994 two new buying organizations—one devoted to the purchase of mail transportation and the other to the purchase of major facilities—were established in Purchasing and Materials. Additionally, in July 1995, a new edition of the Postal Service Procurement Manual (PM) was issued. The new PM sets forth new authorities and responsibilities while also establishing uniform experiential, educational, and training standards for all Postal Service contracting officers, regardless of their commodity orientation. Also included in the new PM are requirements that all Postal Service contracting officers maintain professional proficiency through continuous professional development.

Uniformity and consistency have also been promoted in the area of ethics training and process oversight. Under Office of Government Ethics (OGE) guidelines, the Postal Service provides all employees designated as Confidential Financial Disclosure Report Filers with an annual 1-hour (minimum) Ethics Training Update. In Fiscal Year 1994, Purchasing and Materials designed a 2½ hour course to ensure that all such employees are kept aware of their duties and responsibilities regarding ethical conduct.

We have also instituted a Purchasing Process Assessment Program designed to ensure a sufficient amount of oversight, while simultaneously improving purchasing performance and providing feedback on best practices and lessons reamed. Highlights of the program include new procedures for reviewing individual purchasing organizations' practices and procedures and sharing and communicating among other organizations the best practices found. In addition, we have established proce-

dures for presolicitation and preaward higher-level management review of particularly sensitive and high-dollar-value contracts, and we have also established new review and approval levels before high-dollar-value or particularly sensitive contracts may be terminated.

In conclusion, Postal Service Purchasing and Materials has taken significant and important strides to ensure that all of our purchases, regardless of the commodity being bought, are done in an open environment, that our contracts are awarded under policy and procedures that are uniform and easy to understand, that our contracting officers and purchasing specialists are held to the highest levels of ethical conduct, and that our Purchase actions are reviewed, and, when necessary, approved.

Question A. What role does the Board of Governors play in the approval and post-review of major purchases and acquisitions of the Postal Service? How does the Postal Inspection Service help the Board and postal management in assessing and improving controls in this area?

Answer. Pursuant to the Bylaws of the Board of Governors [39 C.R.R. 3.3(e)], the Board approves the Postal Service's "Five-Year Capital Investment Plans, including specific approval of each capital investment project, each new lease/rental agreement, and each research and development project" exceeding an amount specified by annual resolution, currently $10 million. (Board Resolution No. 95–2)

The Postal Inspection Service assists the Board by 1) performing developmental audits on major projects; 2) verifying projections and costs in projects proposed for approval; 3) evaluating whether the capital investment process was followed on facility projects requiring Board approval; and 4) performing Post-audits of major facility projects, comparing planned results to actual results.

Question 21. Postal Service regulations prohibit the individual ownership of a postage meter for reasons of control and security. However, in testimony before this Subcommittee, meter manufacturers stated that they believe current technology can provide a level of security that would allow the sale of postage meters and would foster the introduction of new innovations. They noted that only the U.S. and France require that meters be rented and that in the rest of Europe they have been available for outright sale for many years. In your testimony, you noted that you still have concerns about meter control and security. Could you explain those concerns? Is the technology not available to permit the sale of postage meters? As agreed at the hearing, please share with us the experience with security and control of meters in the many countries that permit their sale.

Answer. Postage meters are, in essence, "money printing machines." There are almost 1.5 million postage meters in the United States, and they account for 38 percent of our total revenue—almost $20 billion. Meters have security mechanisms that are designed to prevent them from printing postage after the prepaid amount of postage has been used. Regrettably, over the years, many ways have been found to disable these security mechanisms in order to cheat the Postal Service out of revenue. Knowing who holds meters and being able to inspect them is one of our key control procedures. If meters were owned, there would be no practical way of preventing possession of a meter from passing indiscriminately from owner to owner.

Two years ago we discovered ways of tampering that left no apparent signs. Because the meters were owned by the manufacturers, we were able to work with them to withdraw the most vulnerable meters and modify the less vulnerable. If meters had been privately owned, we would have had to work with hundreds of thousands of individual owners.

It is true that some countries permit ownership of meters. These countries have also become aware of meter fraud in the last two years and have a difficult task before them. For example, Royal Mail discovered last year one of their approved meters can be easily manipulated to print unaccounted postage. Because these meters are privately owned, the only way Royal Mail can remove them from the market is through individual legal actions. Royal Mail envies our ability to control meters through the manufacturers.

We have seen prototypes of new postage meters and other postage payment systems in which the "postage meter," i.e., the postage accounting and printing controls, is a small removable unit. Our revenue security needs with respect to these kinds of meters would seem to be served by requiring the manufacturer to retain ownership of the "small unit," while allowing their customers to rent or own the rest of the machine. We have also had discussions with the meter manufacturers that suggest new security technology may be incorporated in electronic, remotely-set meters to disable any meter that is used in a possible fraudulent manner. Here again, technology may provide an alternative to the leasing of meters.

Question A. In response to written questions to the meter manufacturers following their June 14 testimony before the Subcommittee, one of the meter manufacturers

detailed its concern that some of the new regulations for meters appear to increase costs and liabilities to manufacturers. Please respond to these specific concerns which are the following:

I. DMM 501.28—Computerized Remote Postage Meter Resetting (CMRS): The manufacturer noted that it made a substantial investment in the hardware and software for the system of resetting postage over the telephone versus the local post office. Although it discussed with the Postal Service fair compensation for the costs associated with the technology, the manufacturer stated that the CMRS' customer funds will be held by the Postal Service with all interest earned being credited to the Service. Why should control of the CMRS system be transferred to the Postal Service? Doesn't this transfer of control and reduction in profits discourage manufacturers from enhancing this system and expanding usage?

Answer. The Postal Service believes that the safest place for customer advance deposits is the U.S. Treasury, a view supported by the U.S. Department of the Treasury. In a letter to the Postal Service, dated October 4, 1994, Treasury Fiscal Assistant Secretary Gerald Murphy wrote, "We, at Treasury, commend you for these improvements in both cash management for government and better service for your customers." Consistent with that viewpoint, the Postal Service does not believe it should continue to have approximately $8 billion of its revenue be held at and flow through an unnecessary third party.

The Postal Service believes strongly that the cash management and payment methods of CMRS need to be modernized, and it therefore has agreed to pay for barricaded envelopes, deposit tickets and for multiple lockbox bank locations. A key component of the new regulations is extensive use of the most modern collection methods available in the commercial, private sector banking system. The modernized cash management will encourage meter manufacturers to promote payment methods for customers that encourage the customers to reduce or eliminate funds held in trust account deposits, in accordance with commonly recognized, prudent business cash management practices.

The Postal Service believes that customers will prefer the availability of modernized cash management procedures that make customer funds available as soon as possible, and it believes that the initiative will promote the wider use of the more secure CMRS meters. After reviewing manufacturers' CMRS costs and pricing behavior, the growth in the use of CMRS meters, the increase in competition in providing remote meter resetting services, and the savings that customers should realize as a result of the proposed changes, the Postal Service believes that the changes can be made without necessarily increasing costs. The Postal Service will continue to work with the manufacturers in helping to identify additional ways in which costs can be controlled.

Question 2. DMM 501.25—Inspection of Meters in Use: The manufacturer stated that the definition of a high volume meter as using more than $12,000 per year is far too low a definition, and will increase the cost and frequency of "ineffective" inspections. The manufacturer suggested that protection of revenue could be greatly enhanced by expanding the ODIS testing for metered mail, thus reducing the number of on-site inspections. How do you respond?

Answer. The manufacturers' inspection of installed postage meters is intended to identify electrical and mechanical weaknesses of the individual models of the manufacturers. The service technicians employed by the meter manufacturers have been trained to identify unique problems, including some forms of tampering. Postal Service employees are not trained in these areas, and ODIS testing would never identify tampering. The Postal Service is currently re-visiting the $12,000 per year definition. We have invited the manufacturers to submit their definition of high volume user limits, which we will consider for future changes.

Question 3. DMM P030.2.0—Meter License: Although expressing support for the Centralized Meter Licensing System, the manufacturer stated that the Postal Service's push to get it implemented by January 1996 seems to be more important than "doing it right." Also, it was stated that the system's costs (e.g., capital investment, operations, and personnel) are being borne primarily by the manufacturers. Are these concerns accurate? In contrast to sound business practice, is the Postal Service "implementing this system first and fixing it later?"

Answer. The control of postage meters requires the immediate implementation of a licensing system. The new centralized licensing system requires the submission of an application which will be approved and a subsequent license granted. The manufacturers have been provided a means by which they can submit applications electronically to the Postal Service. All of the manufacturers are currently submitting various forms of postage meter related data to the Postal Service electronically. Therefore, there should be no additional investments by the manufacturer. This program is entirely voluntary and is not a mandatory requirement. If a manufacturer

wishes, they can submit a paper application for their customer. The USPS has promised a 24-hour turnaround for electronically transmitted applications' but not for paper submissions.

As with any new system, we expect refinements to be made along the way. However, delaying implementation prolongs the opportunity for more postage meter fraud. The lack of a centralized system to control Postage meters was a major criticism of the General Accounting Office.

Question 4. DMM 501.22—Distribution Control: The manufacturer described the requirement that manufacturers must distribute meters exclusively via USPS "Registered Mail" as opposed to private carriers. Why has the USPS mandated this requirement? According to the manufacturer, it will increase costs with no incremental benefit.

Answer. The USPS mandated the distribution of postage meters via USPS Registered Mail to control and prevent the loss of meters while in a transit mode. Past audits of meter manufacturers have disclosed serious problems with security when private carriers are used. The USPS currently allows any manufacturer to propose a plan to use an alternative delivery firm, which must be approved by the USPS. To date, the USPS has approved three plans for alternative delivery.

Question 5. DMM 501.12 and 501.14: The manufacturer is concerned with the possibility that the USPS may arbitrarily impose sanctions under its claim to levy administrative sanctions on manufacturers, without any grace period, from the time they ". . . knew or should have known of a potential security weakness. . . ." in the security and design of its meters. With the USPS claiming these broad judicial powers, why should the manufacturers not be concerned with the possibility of arbitrarily imposed sanctions?

Answer. The administrative sanctions contained in the new regulations are designed to encourage each manufacturer to establish an internal control process whereby they solicit feedback from their employees and agents concerning security and design deficiencies of their meters. The manufacturers are in the best position to identify these problems, since they build and repair the meters. Information which has come to our attention over the past two years suggests some manufacturers have had knowledge of security problems but have failed to advise the USPS, resulting in millions of dollars lost to fraud.

Question 22. The nonprofit organizations testified before this Subcommittee about their concern about being left out of the Reclassification case and the possibility that this is illegal under the Revenue Forgone Act. Can you respond to these concerns? Can you provide some guarantees that nonprofit reclassification will take place prior to the next general rate increase? Under what legal authority can the Postal Service exclude specific groups or classes from a general reclassification or rate case?

Answer. We understand the concern of nonprofit organizations regarding reclassification, and we are currently working with their Representatives in developing a reclassification proposal we intend to present in early 1996. Relatively early in developing our reclassification proposal, we realized that we did not have the resources to develop proposals for all classes of mail that could meet all of the filing requirements of the Postal Rate Commission. Rather than delay all of the proposals and postpone their benefits for customers and the Postal Service, alike, we chose to move ahead with as much of the reclassification program as possible and develop the remaining proposals as soon as practical under the existing system.

We see no conflict with current reclassification proposal and the Revenue Forgone Reform Act of 1993. That Act specifies the relationship of revenues to costs that the designed rates for nonprofit mail should produce and says nothing about the particular rates, themselves. The specified relationships of revenues to costs are retained under our Proposal.

Question A. In regard to pricing and ratemaking issues, how do we protect the interests of publishers, nonprofit organizations and small businesses who are so dependent on the mail system, yet oftentimes cannot meet the requirements of your work sharing programs?

Answer. The Postal Reorganization Act already provides sufficient consideration for those mailers who rely upon the Postal Service. Section 3622(b)(5), which calls for the consideration of those mailers who do not have other alternatives, specifically contemplates the concerns voiced in the question. The Postal Service gives careful consideration to this pricing criterion and balances it with 3622(b)(6) in the same section of the Act that calls for reflecting the cost of the mail and the mailers' efforts in reducing the costs.

Question 23. The Association of American Publishers (MP) testified before the Subcommittee about their concern that content considerations should not be lost in postal reclassification. Although the first phase of reclassification does not address the parcel classes, MP noted that this first phase cited the bulk mailing of books

as an example of the undue complexity of current classifications, and reportedly blamed content restrictions in the current classification schedule for this alleged complexity. Does the Postal Service expect that the choices available for the mailing of books will diminish as reclassification Proceeds?

Answer. No, the Postal Service does not expect that the choices available for the mailing of books will diminish as reclassification proceeds. The Postal Service believe that working with all of its mail constituencies can produce service offerings that are relevant to today's mailing needs and the requirements of our customer groups.

Question A. Although the Postal Service proposals for second class mail preserve a subclass based on content, this subclass would reportedly experience a rate increase of 17 percent on top of the increase of 14 percent in the rate case that ended late last year. How will reclassification likely affect the mailing of books and other materials which promote literacy and educational improvement?

Answer. While the development of the reclassification proposal for books and related materials is far from complete, we can say that it will be consistent with the premise that rates better reflect cost. Consequently, those books and related materials which are less costly to handle will receive lower rates. Conversely, those that are more costly to handle would be charged higher rates.

To the extent possible, mailers of higher cost pieces will be encouraged to change their mailing practices to avail themselves of lower rates. We realize that this is not possible at all times and some mailers will receive higher rates. While we will mitigate these rate increases, it should be recognized that reduced rates for higher cost mail come at the expense of those customers whose mailing practices reduce Postal Service costs.

Question B. AAP asserts that the criteria set forth in section 3622 (b)(8) of title 39, U.S. Code may be ignored by the Postal Service when it formally submits its "phase 2" of the reclassification case to the Postal Rate Commission. Will the Postal Service consider this specific criterion when it files its reclassification case for fourth class mailers?

Answer. The submission by the Postal Service of any rate or classification to the Postal Rate Commission does not relieve the Service from complying with the statute. The assertion that the criteria set forth in § 3622(b)(8) of title 39, US Code may be ignored by the Postal Service when it formally submits its phase 2 reclassification is untrue. The educational, cultural, scientific, and informational value of mail matter has always been a factor relied upon by the Postal Service when formulating and submitting proposals to the Postal Rate Commission. Almost twenty years of postal rate and classification history has produced an evidentiary record fully documenting the Postal Service's commitment to criterion 8 of the Act. This is supported by the fact the classification used most often by book publishers has consistently received the lowest markup of rates over the cost of providing the service.

Question 24. According to the National Star Route Mail contractors, the Postal Service decision in 1980 to eliminate the requirement that newly-bid highway contracts be backed by a performance bond, "threatens . . . the heart of the industry." The association believes that the Postal Service is simply not equipped to judge the financial stability and reliability of each of its bidders. According to the Star Route Contractors' testimony, this policy has doubled the default rate on contracts. Is this accurate? What has been the default rate since this policy was adopted in 1980?

Answer. During the late 1970s and early 1980s, the Postal Service made a decision to eliminate performance bonding as a requirement for newly bid highway transportation contracts. At the time, there were solid business reasons for the elimination of performance bonds. Among the compelling reasons was the shortage of qualified bonding companies. Our experience indicates that minority- and women-owned businesses have difficulty in getting the required bonds. The net effect is that a small number of bonding companies were controlling the vendors who are awarded highway transportation contracts. In our view, the award of contracts should be dictated by the Postal Service and governed by the competitive forces of the market. We want to maintain a competitive environment.

Impact on Default Rate:

At this time, we do not have ten years' worth of default data. However, based on our most recent data, the Postal Service has approximately 15,500 highway transportation contracts. During the most recent year (Fiscal Year 1994), the default rate was less than one percent. If we make the comparison using newly awarded contracts, the rate is approximately four percent. In both comparisons, the contractor success rate is well above 95 percent. In short, we do not believe we have a problem.

As we have discussed with the star route association during the past few months, National Mail Transportation Purchasing is planning to implement a supplier prequalification program. This program will allow the contracting officer, in selected

cases, to identify and prequalify a group of qualified vendors and accept bids/offers from those prequalified vendors. In our view, this program should eliminate most of the defaults that we currently experience.

Question A. The association offered some alternatives to the current policy on which I would appreciate your feedback:

1. Require a cash bid bond of 10 percent of annual rate, refunded upon contract approval, or withhold 50 percent of the first two payments as a bond. They note that the cash bid bond approach is used by the USPS Real Estate Department and the performance bond process is used by the Department of Defense for trucking companies;

Answer. For the reasons discussed above, we do not believe a contract bonding program is in the best interest of the Postal Service. We appreciate the suggestion made by the Association but respectfully reject it at this time.

Question 2. Require a Corporate surety bond covering only the expense of obtaining new service under a default, rather than a bond covering the entire contract's terms.

Answer. For the reasons discussed above, we do not believe a contract bonding program is in the best interest of the Postal Service. We appreciate the suggestion made by the Association but respectfully reject it at this time.

Question 25. I would like you to respond to the following concerns raised by Newspaper groups who testified before our Subcommittee last month:

"The Postal Service has been freed of many constraints generally imposed on government agencies while retaining significant advantages unavailable to private sector businesses."

Answer. This statement does not fully comprehend the statement of mission and vision that Congress wrote for the Postal Service in 39 U.S.C. 101(a):

"The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people."

Congress understood that achieving these lofty goals would be impossible if the new Postal Service were wrapped in the same bureaucratic coils that had strangled the old Post Office Department. Thus, in its report on the Postal Reorganization Act, the House Committee stressed the need to "[eliminate serious handicaps that are now imposed on the postal service by certain legislative, budgetary, financial, and personnel policies that are outmoded, unnecessary, and inconsistent with the modem management and business practices that must be available if the American public is to enjoy efficient and economical postal service." H.R. Rep. No. 91–1104, 91st Cong., 2d Sess. 2 (1970).

The Senate Committee, for its part, attacked the phenomenon of "no control" that tended "to foster drift and to inhibit innovation and imagination in the management of the Post Office even under the leadership of strong Postmasters General." Part of the remedy was to grant the Board of Governors broad authority to direct postal operations, free of "Federal laws dealing with contracts, property, the civil service system, the Budget and Accounting Act of 1921, apportionment of funds, and other laws which in most instances apply to Government agencies and functions." S. Rep. No. 91–912, 91st Cong., 2d Sess. 5 (1970).

This broad grant of authority to the Postal Service brought with it extraordinary responsibilities. Although Congress structured the new Postal Service along corporate lines, and intended it to operate in a businesslike manner, Congress left no doubt that "the Postal Service is in fact and shall be operated as a service to the American people, not as a business enterprise, designed to provide excellent postal service." S. Rep. No. 91–912, at 4. The House Committee likewise pointed out that independence had been granted to the Postal Service for a very specific reason—to endow it with "the means of building a truly superior mail service." In return, the Committee expected nothing less than "a modem, dynamic, and viable postal institution that is both equipped and empowered at all times to satisfy the postal requirements of the future technological, economic, cultural, and social growth of the Nation." H.R. Rep. No. 91–1104, at 1, 2.

Thus, the Postal Service has been freed of many constraints generally imposed on government agencies, and as a Federal establishment it does retain certain advantages that private businesses do not have. The sole purpose of this freedom, how-

ever, is to enable the Postal Service to fulfill its awesome responsibilities to its only stockholders—the American people.

Question. The Service's focus on automation is wrongheaded and "bound to fail since it reflects . . . false expectations of the world in which it operates." The USPS "doesn't really know where it wants to go nor how it expects to get there."

Answer. We do not agree that our focus on automation is wronghead. Our focus on automation is intended to help us control postage costs. Our customers tell us that affordability is one of the key "expectations" they have for our services, and the automation program is a key strategy to continue to meet that expectation. We estimate that since 1989, the automation program has saved amounts approaching $5 billion in direct distribution labor. This contributed to our ability to hold our rates steady for the four years between 1991 and 1995—and to then proceed with a rate filing below the average rate of inflation for that period.

We know where we want to go and we know how we expect to get there. The Corporate Automation Plan (CAP) remains the statement of our strategy to achieve the goals of the automation program. Although this plan has not been formally updated since 1992, we continue to follow through on its strategies. Between 1992 and the present, we have pursued the following elements of the CAP:

1) Additional deployment of Remote Bar Coding Systems,

2) Implementation of Delivery Point Sequence sortation,

3) Enhancements to Multiline Optical Character Readers,

4) Reform of the mail classification structure to create cost- and market-based subclasses that encourage customer preparation of mail, permitting the Postal Service to use advanced technology to accept, process, and deliver the mail, and

5) Deployment of Postal Business Centers to support small and medium businesses in using postal products, including participation in the automation program.

In addition to these specific programs, customer participation in the automation program has continued to grow. Customers have responded to our automation program by pre-barcoding over 30 percent of all the letters and cards mailed. This exceeds what we expected to achieve prior to the reform of the mail classification structure. That reform will encourage mailers to contribute an even greater volume of barcoded mail.

Thus, while the timing of some of the elements of the automation program has changed, the basic strategies and tactics remain the same.

Question. "[M]any newspapers believe that the Postal Service consciously has sought to drive advertising dollars out of the pages of newspapers into direct mail." "The Postal Service bureaucracy, supported by a handful of very large mailers, assumes that it is a proper function of government to consciously take business away from private enterprise."

Answer. The Postal Service does not view newspapers as a competitor in the advertising market. Run of press advertising is usually bought by the same advertisers who also use direct mail. The two advertising media compliment one another. Many newspapers have had declining ad sales as large local and regional retail stores have closed in major cities and suburbs. At the same time, advertising mail has increased as more advertisers use Ad Mail to target their customers.

The shift in marketers' practices from general, broad reach vehicles to more targeted media is evidenced in the use of advertising mail, regional issues of magazines, spot versus network TV, and the growing use of cable which promises to soon offer address specific advertising. These phenomena are driven by broad economic considerations, not by anything the Postal Service is doing. Just as we benefit from this in the case of Ad Mail, we suffer when technological innovations divert mail to electronic alternatives.

Question 26. Since assuming Chairmanship of the Subcommittee on the Postal Service, I have received correspondence from numerous individuals around the country regarding commemorative stamps. I am aware of the thousands of requests being handled by the Citizens' Stamp Advisory Committee which was established to provide expert judgment in the selection of commemorative stamps. However, the people who contact the Subcommittee have a concern regarding the choice of stamps by the Advisory Committee. These constituents cannot understand the rationale for a preference for recreational sports, Elvis Presley, Marilyn Monroe, pets, comics, carousels, cars, etc., over military service academies for instance. How do we justify to these citizens that Elvis Presley or Marilyn Monroe are appropriate stamp selections while military service academies are not? Is it time to reevaluate the 12 basic criteria for considering commemorative stamp subjects or are the current criteria appropriate for guiding stamp selections and design?

Answer. The United States Postal Service is very proud of the American history and culture that is reflected each year in our stamp program. The Citizens' Stamp Advisory Committee plays an important role in assuring that the yearly stamp pro-

grams are not only diverse, but also reflect a good mix of subjects, both interesting and educational. The subjects selected for the annual stamp program are suggested by the general public. Each year, we receive more than 40,000 letters nominating hundreds of different subjects for postage stamps. It is the Citizens' Stamp Advisory Committee's role to balance these requests and to develop a diverse stamp program that will not only appeal to business and personal mailers, but also to serious as well as casual stamp collectors. This is not an easy job when we only have approximately 30 to 35 commemorative stamp issues each year.

In addition to the thousands of letters we receive each year, we also conduct market research to ensure a balanced program. Market research is conducted to determine what subjects appeal to mail users as well as to casual and serious collectors. Several years ago, the American public told us that the top three people that they would like to see on stamps were Elvis Presley, Marilyn Monroe and Louis Armstrong. As much as some people may or may not appreciate the contributions of these figures, they have all played diverse roles and had a significant impact on American culture.

As one of many channels for interpreting and popularizing significant aspects of the American experience, both past and present, the USPS stamp program is designed to appeal to the many spectrums of our society. It is this intent, if not obligation, that drives our annual selection process.

Regarding the issue of military academies on stamps, in the past, the Postal Service has issued several stamps honoring military academies, as well as numerous other stamps with military-related themes. In October of this year, we issued yet another military academy stamp, the U.S. Naval Academy. The U.S. Naval Academy is celebrating it 150th anniversary this year.

In addition to the U.S. Naval Academy stamp, other military related stamps being issued this year include: the final series of World War II (consisting of ten stamps); the Civil War series (sheet of twenty stamps); the POW & MIA stamp; and Eddie Rickenbacker. The designs for these stamps, except for POW & MIA and Eddie Rickenbacker, were unveiled in November of 1994.

In answer to your question on whether the current criteria are appropriate for guiding stamp subject selections and design, we believe they are. The Postal Service along with the Citizens' Stamp Advisory Committee continuously reviews the criteria to assure they are appropriate and fair.

Question 27. H.R. 1464, legislation pending before this Subcommittee, would require the Postal Service to accept change of address forms from customers of Commercial Mail Receiving Agents (CMRAs) like Mail Boxes Etc., and Parcel Plus. What is the rationale for the policy behind the refusing to accept change of address requests from customers of CMRAs? How much would it cost the Postal Service to forward such mail?

Answer. Change-of-address forms are not accepted for single-point deliveries. CMRAs are not an exception in this regard; the same policy applies to hospitals, universities, etc. Because mail for such address is delivered in bulk (usually in very large numbers), it is not feasible to cull out selected addressees' mail or to maintain forwarding orders for large, single-point deliveries where turnover is routine. It is important to note that private postal retail stores such as Mail Boxes Etc. and Parcel Plus represent only a fraction of the total number of CMRAs. In fact, many CMRAs exist expressly to redirect mail for customers such as recreational vehicle owners, who move from place to place and are willing to pay CMRAs to ensure that their mail follows them. We cannot say how much it would cost to change this policy for the more than 10,000 CMRAs nationwide.

Question 28. The Postal Service has stated in the past that it refuses to accept change of address requests from not only CMRAs but also from residents of hotels, colleges, universities, hospitals, or the employees of an organization or business. However, the CMRAs state that their customers are the only ones from which the Postal Service refuses to accept a change of address request, or to return mail to the sender when the CMRA's customer moves or discontinues his or her mail receiving service. What are the facts; are CMRAs' customers being treated differently from all other Postal customers?

Answer. We recognize your concern about our policy on forwarding mail for CMRA customers. The Postal Service delivers mail in bulk to the CMRA for distribution by the agency to each individual customer. When mail is delivered to a CMRA, delivery service is completed, and the agency assumes responsibility for the mail. Both the agency and its customers must sign an agreement that no change-of-address order will be filed with the Postal Service when the agency relationship is terminated. The CMRA is responsible for forwarding/redirecting mail intended for its former customer. All individuals who receive mail delivery service are responsible

for notifying their correspondents of any change of address. To accomplish this notification, the Postal Service provides change-of-address cards.

We have considered modifying the forwarding policy on several occasions. In fact, it was suggested that we charge CMRAs a fee to forward their customers' mail; however, this was not adopted. Nationwide, the Postal Service makes bulk delivery to CMRAs and many other central delivery points, such as colleges, universities, and hospitals, where designated individuals distribute mail to customers. With this type service, we do not identify or verify individual residential mail prior to delivery. It would be impractical and costly to accept change-of-address orders from individuals who formerly received bulk delivery. In such cases, postal officials would be required to sort through several hundred pieces of similarly addressed mail, to locate specific pieces that require forwarding.

For these reasons, it is neither reasonable nor appropriate for the Postal Service to forward mail from CMRAs. Over 2 billion pieces of mail are forwarded each year from over 41 million change-of-address orders. To consider expansion of forwarding services, we must ensure that such a proposal is manageable, cost-effective, and adaptable to customers' needs. The Postal Service will accept change-of-address orders from former CMRA customers if the agency is no longer doing business.

Question 29. In regard to the financial management of the Postal Service, you indicated that the current arrangement with Treasury is a burden. Why is this arrangement such a burden? How does it impact the customers of the Postal Service?

Answer. Our current arrangement with Treasury is a burden largely because there is often fundamental conflict of interest, in which one agency's gain is necessarily the other's loss. Even a process of good faith negotiation can take far too long, or break down entirely. Furthermore, Treasury is not staffed or otherwise equipped to provide the full range of investment banking and lending services required by a $55 billion business. The Treasury's Federal Financing Bank (FFB) has a small staff, and transactions must be approved by several Treasury officials. The result is that when the Postal Service requests financing service from the FFB, it often must wait while officials address other apparently more urgent issues, such as financing for the District of Columbia, or compliance with the federal debt ceiling. Transactions that would take one day in the market can take months at Treasury.

Specific examples of delay include the negotiation process for our first issue of floating rate debt, and for a line of credit. The floating rate debt was issued in August 1994, two and one half months after we and the Treasury had reached agreement in principle and five months after we proposed a memorandum of understanding in March 1994. Adjustable rate debt is commonly available to borrowers in the market, and it has served the Postal Service very well. We have been talking with Treasury about a line of credit since March 1994, when we offered them a written proposal, and we still have not reached final agreement. Virtually all large companies use short term daily borrowing to manage their cash position efficiently. It is a standard product in the marketplace, and many financial institutions in the private sector would compete to offer the Postal Service this important tool.

In the investment area, Section 2003 of the Postal Reorganization Act requires that we receive Treasury's approval for any investment of cash in excess of current needs. Since our interest revenue is Treasury's interest expense, Treasury limits available investments to low yielding Treasury bills and notes in a system designed to benefit primarily the Treasury. Recently, we have been exploring the types of business partnerships that are necessary to remain competitive in today's market. We decided to join most of the major postal administrations in a research and development consortium on hybrid mail (electronic and hard copy delivery). Full participation in International Data Post required a small purchase of shares by each postal administration (approximately $2 million). Although eight other postal services had purchased or agreed to purchase shares, we were legally required to obtain Treasury's approval to participate. We do not believe the public or the ratepayers are best served by such a restriction on Postal Service decision making.

In banking and cash management, the Postal Reorganization Act requires Treasury approval of where we deposit our cash. That means they require all of it to go into our account at Treasury. None of our competitors have this limitation.

We believe that to most effectively keep postal rates low for our customers. we need access to the full range of business financial services available to our competitors.

Question A. What are the risks and benefits associated with an "unfettered" Postal Service? How could we be assured that "Orange County" wouldn't happen all over again at USPS? What would be the liability of the U.S. Government?

Answer. The Postal Service seeks to manage its financial affairs in a manner consistent with the intent of the Postal Reorganization Act of 1970, which transferred

postal responsibilities from an tax subsidized department of the government to an independent establishment of the Executive Branch, self-financed with a break-even mandate. However, the full exercise of powers and responsibilities set forth in the Act has not been accomplished. Specifically, the Postal Service has not been able to borrow, invest, and bank independent of restriction by the Department of the Treasury, even though such independence would not conflict with the financial activities of the Department of the Treasury itself or other federal entities.

Concerning benefits and risks associated with a less restricted Postal Service, from a financial point of view, the major benefit that the Postal Service can obtain derives from the Postal Service's ability to satisfy its financing needs more quickly, more flexibly, and therefore more efficiently in the credit markets, instead of through Treasury's Federal Financing Bank (FFB). In many cases, the Postal Service would be able to achieve lower financing costs.

A second benefit would redound to the Postal Service based upon its investment policy. The reduction in restrictions (although the type of securities in which investment could be made would remain circumscribed to Federal Agency securities) would benefit postal ratepayers since the Postal Service could obtain higher yields in its investment in federal agency securities than in non-marketable Treasury securities (in which the Postal Service must currently invest). If all of the investment restrictions were eliminated, and the Postal Service invested in the government securities market, almost all of the benefit would come from the marketplace, rather than from the Department of the Treasury's (taxpayer's) pocket. In addition, given the Postal Service's history of earning a decent return, the Department of the Treasury might actually lower its borrowing costs in the process, to the benefit of the taxpayer. Finally, it is very unlikely that the Postal Service portfolio could disrupt the $3.2 trillion annual Treasury securities market, in which more than $150 billion is traded on an average day. A third benefit concerns the restrictions imposed by the federal government on the banking activity of the Postal Service. The Department of the Treasury currently determines where the Postal Service deposits its funds. These restrictions preclude the Postal Service from fully utilizing modern cash management techniques to get the complete benefit of its extensive deposits. Moreover, the Department of the Treasury is also the current disbursing agent for our payroll. The current system does not permit the Postal Service to obtain daily statements, information concerning individual checks, protection against fraud, or computer capability to access accounts from the Postal Service facilities; to order stop payments; or to issue replacement checks. These facts alone would argue in favor of the benefits inuring to the Postal Service, since it would be obtaining a significantly higher level of service than currently offered by the Department of the Treasury. To mitigate certain of these circumstances with the current system, the Postal Service has switched all two million non-payroll checks ($8 billion annually) to commercial banks, and we are realizing better control through timely account reconciliations, stop payment, and positive pay fraud prevention. The banks do not require us to leave any money on deposit with them, and our overall cost is much lower than with Treasury checks. Indeed, this practice is win-win for the Postal Service, because it has both improved controls and reduced banking costs. The conversion of non-payroll check disbursement from Treasury to commercial banks has been commended by our external auditors.

Question 30. You also mention some problems you face with the Workers' Compensation Program. Can you describe more specifically the problems you face with the Workers' Program and multiple appeal processes? Why not go under the private sector system for Workers' Compensation? What would be the impact?

Answer. The Postal Service has several problems with the current federal worker's compensation system under the Federal Employees Compensation Act (FECA). First, the entire process is considered non-adversarial, meaning that the Postal Service is not a party to the proceedings and therefore is not allowed to be present at hearings to offer evidence and testimony regarding whether an employee's injury is work related. The Postal Service believes that this situation contributes to the fact that almost 95% of all FECA claims are approved, and these claims are very costly for the Postal Service.

Second, many employees use the worker's compensation system as an alternative to the retirement system rather than a rehabilitation program. Legislation that automatically shifts an employee from the FECA rolls to the OPM retirement rolls within two years of reaching retirement age would be very cost effective. FECA benefits are much more generous (75 percent of pay, tax free) than retirement benefits (only about 50 percent of pay and taxable); therefore employees have an incentive to try to obtain FECA benefits rather than retirement.

Third, the system is too generous even to those who have been convicted of FECA fraud. The Postal Service believes that those convicted of FECA fraud should not

be allowed to receive benefits at all. Currently, employees can continue to receive benefits unless they are incarcerated for FECA fraud.

Converting the Postal Service to private sector workers' compensation does not appear to be the answer. The impact of such a conversion would increase the tort liability of the Postal Service.

First, the Postal Service would be subject to "dual capacity" in at least six states. This means that an employee can recover twice—from the state and from the employer. In all six of those states, the courts allow the employee to pursue a tort claim against the employer when the employer has a "dual capacity" in relationship to that employee, e.g., employer and manufacturer of a harmful product. For example, in Arkansas an employee was allowed to pursue a negligence action against the employer where the employer was also the manufacturer of the asbestos product that injured the employee. Dual capacity could present a problem for the Postal Service to the extent that the Postal Service designs and builds some products or equipment internally. Thus, a change to state law coverage is likely to increase liability and litigation.

More broadly, such a change may have a substantial impact on our general defenses in tort cases. The Postal Service, like the rest of the federal government, is covered by the Federal Tort Claims Act (FTCA). The FTCA prohibits the imposition of liability without fault and makes punitive damages unavailable. 28 U.S.C. 2674. The basic standard of liability imposed by Congress under the FTCA is that which local law imposes on a private individual similarly situated. However, private individuals under state law may enjoy a broader scope of damages, including not only compensatory but also nominal and punitive damages as well as injunctive and declaratory relief. Additionally, the "discretionary function" exception under the FTCA provides a broad basis for justifying and insulating actions of postal officials from tort claims. 28 U.S.C. 2680. The protections of the FTCA remain a significant benefit to the Postal Service. Absent very carefully crafted legislation, the current exclusivity of FECA and FTCA as remedies for postal employees and others suing the Postal Service in tort probably could not be maintained under state law coverage.

The proposal to convert the Postal Service to the private sector workers' compensation system also presents legal concerns because of the current battle being waged in the federal courts about the limits of sovereign immunity and insulation from state regulation of various federal agencies, including the Postal Service. While the Postal Service has been able to defend against most attempts to require compliance with state regulation in a variety of arenas, it is becoming more difficult for both the Postal Service and the Department of Justice to successfully prevent federal judges from treating the Postal Service and other federal entities like private enterprises in disadvantageous ways. For the Postal Service to opt out of FECA in order to become subject to state workers' compensation laws would diminish further our ability to argue that we are quasi-federal and should be granted all of the defenses and immunities that are attendant to that status and would likely have an effect on the Department of Justice's ability to defend other agencies as well.

Question A. Why should long time employees feel good about giving up the protections of these appeals processes and veterans' preference after fighting so hard to obtain them?

Answer. The Postal Service is under increasing pressure to be competitive with enterprises in the private sector. It is believed that such competition is beneficial to the U.S. economy and postal customers. And, in the long run, improved competitiveness will enhance the viability of the Postal Service as an organization, to the benefit of its employees. In order for the Postal Service to be competitive in the marketplace, it must be on equal footing with respect to how its workforce is managed. Several factors are currently hindering the way in which the Postal Service manages its workforce. For example, postal employees have several, often overlapping, appeal procedures which requires the Postal Service to expend considerable resources to process complaints in multiple forums. Additionally, the fact that the Postal Service must adhere strictly to RIF procedures makes it difficult for the Postal Service to respond swiftly to changes in the marketplace.

Question 31. Unlike other countries across the world, the United States has given the Postal Service exclusive rights over the mailbox. These other countries have a long experience with competitive access to the mailbox, and none have reported any particularly unfavorable experience. Given that you stated in the hearing your belief that the Postal Service should maintain its exclusive rights to citizens' Mail Boxes, how do you justify this belief in light of the reportedly different experiences of other countries?

Answer. The fact that other countries have adopted a particular policy does not necessarily indicate that similar action would be right for the United States. The United States is a large and geographically diverse nation, and has more mail mov-

ing through its system per capita than other countries do. It is also home to an uncommonly large number of people who receive their mail in open, unlocked Mail Boxes. In Great Britain and Scandinavia, for example, individual Mail Boxes—when they are used—are equipped with a lock that can be opened only by the addressee. The Postal Service has tried to make full use of our Mail Boxes by fuming them into opportunities for two-way communication. In many situations, they serve as collection boxes, in which the customer can deposit outgoing mail to be picked up by the carrier while serving the route. On rural routes, where people find it less convenient to get to a post office, they can use their Mail Boxes to buy stamps, pay postage due, and conduct other transactions, sometimes leaving money for the carrier to pick up. These services would become much more difficult to provide, and could conceivably die out, if the boxes had to be shared with all comers. Apart from the obvious security considerations, it would not be practical for the postal carrier to sort through the material other persons had placed in Aunt Minnie's mailbox to find the letter she wanted to mail to her nephew.

It is also our understanding that other countries do not routinely provide universal access to all mail delivery boxes. For example, Canada Post, which faces some of its most heated competition for delivery of advertising in urban areas, has strenuously and successfully opposed its competitors' efforts to gain access to apartment boxes and other locked Mail Boxes for the delivery of advertising materials. Our impression is that where other postal systems face the same kinds of logistical issues that our system has in getting mail delivered to people in this country, they have similar concerns.

The prohibition against the deposit of unstamped mailable matter in letter boxes is contained in 18 U.S.C. 1725. This statute, enacted in 1934 to protect postal revenues and avoid the "cluttering" of letter boxes with non-mail matter, authorizes the imposition of fines for the deposit of unpaid matter in any approved letter box for the purpose of avoiding payment of postage. Most recent criticism of the statute is based on the assertion that the statute gives the USPS an unfair competitive advantage over private carriers. However, the statute was challenged in the late 1970s on the basis that it infringed the free speech guarantees of the First Amendment. In United States Postal Service v. Council of Greenburgh Civic Associations, et al., 453 U.S. 114 (1981), the Supreme Court rejected these claims. In upholding the constitutionality of the statute, the Supreme Court noted that it served the following important purposes:

- It protected postal revenue;
- It prevented overcrowding of letter boxes that might leave no room for the mail;
- It preserved mail security by denying unauthorized persons any reason for access to the mail.

We believe that the statute continues to serve these important purposes.

Question A. As agreed in the hearing, please provide me your assessment of the idea of providing citizens with the ability to waive the prohibition in order to receive their local newspaper in the mailbox.

Answer. Delivery organizations, public and private, build much of their productivity around standardized methods and procedures. Allowing a customer option, in which some would choose to allow newspapers in their Mail Boxes and some would not, would be a nightmare to administer. Furthermore, newspapers are bulky, and may take up much needed space. The Postal Service has long had two special accommodations for newspaper delivery. On rural and highway contract routes, we permit newspapers to be placed in the mailbox on Sundays and holidays, so long as they are removed from the box before the next delivery day. Also, we permit newspaper receptacles to be attached to the post of a curbside mailbox, in a manner that does not impede the mail carrier. Any delivery service, moreover, is free to ask its customers to erect their own box, as we have. Anecdotal evidence suggests that even where newspaper receptacles are provided, the newspaper carrier may prefer to throw poly-wrapped newspapers onto the subscriber's driveway rather than stop to place them in the box. It would seem unrealistic to expect these carriers, at least, to share the administrative burden of sorting out who has and who has not individually consented to having the newspaper left in the mailbox. and to deal with any disputes or changes of mind about it.

Question 32. In your testimony Mr. Runyon, you mention the comments made by witnesses in the Subcommittee's previous hearings supporting the Postal Service position. However, other witnesses voiced different views about the Postal Service's reform proposals. I would like your reaction to the testimony of some of these other witnesses such as the Postal Service's competitors.

Answer. It is understandable that our competitors would be less than enthusiastic about legislative changes that would allow us to provide better services, at lower prices, and with less red tape. They are in business to make money, and their pri-

mary duty, after all, is to look after the welfare of their stockholders. Our duty is a little different—to provide adequate, efficient, universal postal services at fair and reasonable prices. Our "stockholders," in other words, are the American people, and we make no apology for seeking reforms that will enable us to provide them with truly superior service.

Question 33. The Postal Service has "intervention teams" available to quickly respond to serious workplace problems in a given facility. Please provide more detail on these intervention teams. For example, who are the members of these teams, what are their qualifications, and where have they been dispatched over the last 2 to 3 years?

Answer. The intervention teams are not a centralized effort. Each performance cluster has assessed its circumstances and designed a program to fit its own unique needs and abilities.

There is one team managed by the National Joint Committee on Behavior in the Workplace. Its members were selected by each of the unions and management organizations because of their skills in dealing positively with people and workplace problems. Team members were brought to the Bolger Academy for a week of Intensive training from professionals in the fields of psychology, social work, workplace violence, and labor/management relations. This particular team was deployed to Dearborn, MI, to assist that site in bringing some closure to the problems resulting from the 1993 incident.

Teams across the country vary in their makeup and in purpose. Some are called intervention teams while others are called threat assessment teams, critical incident teams, or crisis management teams. The intent of all teams is to take action to prevent violence from occurring, to lessen and manage the effect of violence if it does occur, and to recommend changes that will reduce the level of dissatisfaction that may lead to violent behavior. It is important to note that these teams do not deal with violence in progress, nor do they attempt to provide therapy to troubled individuals. Those activities are left to professionals. The teams are generally led by the EAP coordinator in each district who is a highly trained professional with at least a Master's level degree in counseling, psychology or organizational behavior.

Summarized below are some examples of how typical teams are configured:

The Akron Performance Cluster has two different levels of teams. They utilize five Crisis Management Teams (at each of the five major facilities) which react to behavior/events that disrupt normal business. Team members include the EAP Coordinator, union leaders, human resources staff, and operations managers. External resources such as local police and emergency services are included when appropriate. The Cluster has also assembled an Organizational Design Intervention Team which has flexible membership that includes the EAP coordinator, appropriate top management officials or supervisors, and postal inspectors. The purpose of this team is to respond proactively to reports of issues, incidents or problems that have the potential for violent outcomes. Akron reports that the team has been activated in Medina. Louiseville, Canton, Minerva, and Delta, OH among others.

The Albany Performance Cluster has a Crisis Intervention Team comprised of Representatives from each of the unions and management organizations, as well as staff from safety, maintenance, upper level management, EAP counselors, labor relations, and the Inspection Service. The team is led by the EAP coordinator. Members of the team participated in a three-day training program conducted by a contractor specializing in intervention techniques. Albany reports that the team has responded to about fifty situations in the past year, ranging from suicide to physical/verbal threats or "strange" behavior.

The Cincinnati Performance Cluster established a Threat Assessment Team composed of the manager of human resources, the EAP coordinator, and all the senior specialists in human resources. This team provides support and consultation to supervisors and managers when there is a threat in the workplace. The team assesses the threat and provides appropriate recommendations. Outside experts such as forensic psychiatrists are consulted as needed.

The Honolulu Performance Cluster formed a Pre-crisis Intervention Team as early as 1988 in response to an incident in that year. The team consists of the manager of human resources, the EAP coordinator/medical Director, a postal inspector, and senior operations manager. The team provides careful fact-finding, mediation, and on-going follow-up on each case. They make an effort to discover problems early when intervention is most effective. The team reports significant cases over the last few years in Guam, Kauai, Pearl City, and Waialae-Kahala Station.

The Central Florida Performance Cluster has two intervention teams, one of which was formed recently to meet needs in the southern end of their area. The teams are composed of management officials, union Representatives, postal inspectors, labor relations specialists, and the EAP coordinator. They have all received

conflict resolution training from a professional training firm and are scheduled to receive additional training in the near future. The team noted that violence often occurs when an individual perceives no other available option. They therefore describe their mission as the prevention of violence through education and "expansion of options," and they consult with any individual or work unit who calls seeking assistance. They have accomplished about 35 interventions, mostly dealing with conflict between individuals.

The Long Beach Performance Cluster has a Crisis Assessment Team made up of the manager of human resources, the EAP coordinator, labor relations specialists, safety and health personnel, management officials, and a postal inspector as advisor. They bring in other personnel as dictated by the specific situation. The team describes its role as threefold: to manage potentially dangerous incidents in order to prevent harm; to effectively lead the administrative response if an incident does occur; and, to assess the local organizational environment and develop preventive measures in the area of violence.

The Los Angeles Performance Cluster Threat Assessment Team includes members from EAP, injury compensation, operations management, safety and health, labor relations, and the Inspection Service. To date, the team has dealt with approximately 110 incidents. This Cluster also has an Employee Opinion Survey (EOS) Intervention Team. The team has variable membership and uses the annual EOS to identify opportunities for improving workplace climate. They then take action in work units that have demonstrated problems, conduct extensive interviews, and make recommendations for change.

The Northland Performance Cluster (Minneapolis/St.Paul) has assigned a multifunctional, labor/management task force to develop an intervention team and a mutually agreed upon zero tolerance policy. The group has selected team members and is currently working with a professional vendor to provide a 40-hour training course for them. The task force itself has conducted approximately ten work climate surveys and interventions.

The Phoenix Performance Cluster Threat Assessment Team is comprised of the manager of human resources, an area medical director, the EAP coordinator, a labor relations specialist, and operations managers. It includes union Representatives and postal inspectors as appropriate. All members have been trained in threat assessment by Dr. Anthony Baron, a nationally known expert in the field. The team also has a board certified psychiatrist available to assess the possible dangerousness of individuals when needed. This team has assessed threats at distribution plants, airport mail centers, remote post offices, and downtown stations. Phoenix also does work unit interventions. These involve an on-site evaluation of workplace environment, usually at the suggestion of senior managers who have identified problems. They include face-to-face interviews with employees and supervisors, written surveys, and a formal report back to both the employees and management.

Mr. MCHUGH. I thank you very much, General Runyon.

I want to get the questioning over to Congressman Green, because I'm sure he has other places to be at some point. I, on the other hand, have an open dance card, and I can stay here for some time.

Let me just throw out one question. Let's start at the top; let's talk about you, or at least your position. One of the things that I have heard about, not just in testimony presented, but in conversations all over this town and back home, is the frustration of the rapid and seemingly incessant overturn of top management, including the Postmaster General.

As I look through and see how certain organizations, from the General Accounting Office on down to others, have made recommendations, and your predecessors have made proposals and requests before the Postal Rate Commission and others, they seem to just dissipate in the afternoon sun because the next day there is a new management team.

How do you feel about that? And do you see a need, perhaps, of considering some sort of longer set term for the Postmaster General? The Comptroller General of the United States, for example, has a 15-year term. Is this a serious problem? Do you think there

is a way we can work around that, or is it just something we should live with?

Mr. RUNYON. I think the facts are the facts, Mr. Chairman, and the fact is, there have been a lot of Postmasters General.

When I came to the Postal Service, I was asked if I would serve at least 4 years. I found out later the reason for that. One Postmaster General had come to work, and they didn't ask him that question. And he went to a press conference, and he was asked the question by the media, and he looked at his watch and he said, "I think I will be here 7 months, 14 days, and 22 hours." He had another job. He had already figured that out.

So they asked me if I would stay at least 4 years; I said, "Yes, I will." Now, as you know, our board serves 9-year terms, so there is very little change in the board. There is change, one person a year, so that keeps a continuous focus on what the policy and practices of the Postal Service are.

I have started a lot of programs in the Postal Service. When I start something, I like to see it finished. There is no limit to what I could serve. As to whether it should be mandated or not, I guess that it really would be up to the Governors to answer that question, because they hire and fire the Postmaster General. They might not want to be limited by the inability to fire somebody.

Mr. MCHUGH. I'm really wondering what you think.

Mr. RUNYON. Well, I like the way I am, because I can go on for 15 years easily. I've got two more careers I'm going to do after I finish this one, and I'm in no hurry to finish this one. But I don't believe that fixed terms work really well, because when you have fixed terms you become a lame duck. If it were 15 years, you know, the 15th year nothing would happen.

Mr. MCHUGH. Well, I don't disagree with that. But if the past Postmasters General haven't been lame, they have been pretty sore, because they have been turning over like jumping beans.

Mr. RUNYON. Well, I've been here nearly 3 years, and I expect to be here many years more. So that's not something I've really considered. I'll think about it and get back with you.

Mr. MCHUGH. OK. Well, let's talk about pay, then, as it relates to your management people, as it relates to the Postal Board of Governors. They are still receiving the same compensation of, I believe, $10,000 that they did with the Reorganization Act put them into place. Is that problem attracting quality people?

Mr. RUNYON. It's a very big problem. When postal reorganization happened, as you say, the Governors received $10,000. The Postmaster General at that time was making $60,000. My pay is higher now; it's up to $148,000. Theirs is still at $10,000, and it should be changed.

Having the pay—and by the way, no one in the Postal Service can make more than the Postmaster General. That's a very serious problem in bringing people into the Postal Service from outside at the upper levels. We've got, probably, 150 people in the Postal Service that, when you compare them to outside, they are grossly underpaid.

A chief financial officer, for example, in the top 20 of the Fortune 500—and we would rank 12 in that Fortune 500, by the way—makes an average of $670,000. We are able to pay ours $148,000.

So when we go into the market to find a chief financial officer, we have to find someone who has another interest other than money, because we can't compensate them for that job.

We have to find someone who is interested in the Postal Service or interested in paying something back to the government and feels that public service is a good thing to do. You can find some of those people. It's getting harder and harder, however, to find people because of some of the things that happen when they get into the job.

So it's a very real problem for us. I think the pay cap should come off. The law itself stated that people in the Postal Service should receive comparable wages to the outside industry, to whom we are competing with. That's what the law says. But then it put a cap on it, at the Postmaster General's pay.

So at that time it was OK, but now it's not. Because the pay of the Postmaster General has been kept low, in comparison to what CEOs of the Fortune 500 make, and so therefore all of the jobs underneath him have been kept low. So it's a real problem in attracting people.

Now, another problem that occurs, as we get more successful—and we're beginning to be successful when we have a quality rating at 87 percent, which we have now, and we're making money like $1.5 billion now—if we do that 2 or 3 years in a row, you will find that postal employees will become very popular with executive recruiters, because each person in the organization gets a benefit from that, and they should.

So we will start finding our people leaving us because we can't afford to pay what they are offered outside. An outside company—when we go to find somebody, and we find somebody we really like, and they are making what we can afford to pay them, we make them an offer, their pay doubles, and then we have no way to move.

So, yes, it is a real problem. Both the Governors' pay and the cap on management pay is a very real problem to the Postal Service. And it really should be—something should be done about that, legislatively.

Mr. MCHUGH. We will get back to many of the things that the people who appeared here suggested, accused, and other such terms. But I do want to yield to the gentleman from Texas, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman.

I have a number of questions. But in that last response, and because of the turnover in Postmasters General—we heard, during the testimony, we have a semi-militaristic organization. Maybe we ought to reinstitute the draft and say you have to serve so many years, and then, you know—with the Fortune 500 companies—to get CFOs who will stay, maybe we could do that—with a little tongue in cheek.

But I understand the frustration when you're dealing with the size of the organization you have and the competitiveness in the private business. The testimony we have heard for the last few weeks and your testimony today, it's amazing we have the post offices seeing such a growth in hard copy delivery, that I will call it, as compared to the growth in the high-tech communications, e-

mail, faxes, and everything else. You are to be congratulated on that. Obviously, you have a market there that shows the growth.

The 87 percent overnight first-class is, again, the number that—I know the public relations department is trying to talk about it—but we need to have that talked about even more in all parts of the country, because I think people will be much better satisfied because you just tell them what you're doing.

I've found, over the months, in talking with a lot of postal employees, you have a great deal of pride from everyone in the Postal Service. Although, on the other hand, we have—it's almost a joke that you don't want to be in a post office when somebody comes in as a disgruntled employee—some of the most tragic incidents we have.

It's a dichotomy, the differences. There's such a great deal of pride that I see in Houston, particularly, and they are proud to be a part of it. I know, in working with your office on some issues in our local Houston district, I appreciate your help. We have, I know, some more work to do.

From the hearings, we had some other questions. Let me actually get to those questions. One of them, from UPS, talked about—and, again, a very definitely aggressive competitor—talked about the Post Office has a $6-billion negative equity position.

I know you heard that, and if you could respond to that, but also the concern about the cost-shifting issue, that to give you more flexibility in the competitive markets, that you would just shift that cost to the market that you have no competition in, you know, everyone else's post office box from Alaska to Key West, FL, that you would just shift that cost. If you could address that.

That was from UPS. Also, the Contractors Association talked about the concern about the elimination of performance bonds, that the Postal Service is losing money because of the default rate on that. If you could, or maybe later on even address that from someone else, because that looks like a way that—you know, even though you say you may make a profit, it's a business technique that you have applied in other areas, in other careers you have had.

So if you could just address those two, although there are lots of questions, I know, and I would like to turn it back over to the chairman.

Mr. RUNYON. Well, to speak to the $6 billion of negative equity, that's a fact; we have that. We are $1.5 billion ahead right now. That will write off $1.5 billion of that negative equity. We hope that will grow higher before the year is out. We're looking forward next year to reducing the negative equity even more. We are taking all the steps we can to become more productive, more cost-effective, and to do the kinds of things that are necessary to write off that negative equity. We recognize that. It's part of our plan to reduce it to zero, and we will accomplish that over time.

As far as cost-shifting is concerned, that's nice for somebody to say. We don't have the benefit of looking at our competitors' costing or pricing. We see the pricing but not the costing. We see the prices that are listed; we don't see the prices that are charged the customers, because sometimes they are different.

Sometimes you have posted prices and then you have discounts, customer to customer. We don't do that. We're not allowed to do that under the present system. Our costs are fairly well examined by the PRC at the present time, and each one of our products pays for itself. That's a matter of record.

As far as performance bonds, they were stopped, I think, in 1970. Is that right, Mike?

Mr. COUGHLIN. It goes back about 15 years, Congressman.

Mr. GREEN. Oh, really.

Mr. COUGHLIN. Yes, they've been gone a long time.

Mr. GREEN. OK. You can tell we're new members on the subcommittee.

Mr. RUNYON. No, that's fine. But the fact is, we haven't had any big losses because of the performance bond problem. There are a few people who bring that in, for a competitive advantage, to talk about that. That's OK to talk about it, but the fact is, we haven't had big losses because of not having performance bonds.

Mr. COUGHLIN. One of the things that got us out of the business, too, Congressman, was that there weren't insurance companies willing to write the bonds. That created some real problems at the time, and that's when we made the decision, back in the early 1980's, to just get out of the business. And it hasn't had a serious effect on our default rate.

Mr. RUNYON. You also alluded to violence in the opening remarks there. The fact is, you're twice as safe working in a post office as you are in the average business in the country. We have 40,000 retail stores, and if something happens in a retail store—and we have 800,000 employees.

And think about how many employees we've had over time. I mean, if you go over the past 20 years, there are a lot of ex-postal workers, retired postal workers, spouses of postal workers that exist. There are some even on our committee who are related to postal workers or have been at one time or another.

So the media picks up on that pretty quick when something happens in a post office, and then the wires pick up on that, "another post office incident." You don't see that in any other business in this country, that it's another one of those things happening.

But we are very pleased. We have done a lot. We've had a couple of symposiums on violence in the workplace. We're very progressive in that. We have a lot of people who attend those symposiums and compliment us on what we're doing to stop violence in the workplace. So we're really addressing that problem.

Mr. GREEN. Mr. Chairman, I appreciate your courtesy.

One last issue—because I know you're in the middle of collective bargaining—one of the questions or one of the comments from one of the employee groups, I believe it was APWU, said that if they would have the right to strike, they would be willing to give up the binding arbitration.

If you could just address that, because, again, if we're going to do some comparative—although we have binding arbitration that can be negotiated in private sector contracts every day, and it's typically successful, particularly with government or quasi-governmental agencies—if you could just address that, on how we can

maybe get off of dead center on some of the problems we see with the contract negotiations.

Mr. RUNYON. We have a real problem in how we negotiate contracts, too. The system that we have now really inhibits agreement between the union and management. If you look at going in with a high offer, or a low offer and a high asking, I mean, you've got to negotiate that out.

Arbitration sort of encourages passing the buck, because, you see, to take an agreement to your membership that's not as good as they think it should be, it's not a matter of whether they will disagree with it and say, "Let's go on strike." They can't do that. They say, "That's not very good. Maybe the arbitrator will do better than that." So they won't ratify an agreement that they are not happy with, because the arbitration is always sitting back there waiting. So that's a problem.

So there's a lot of political risk within the union because of the arbitration. It's easier to go to arbitration than to run that risk.

Another problem about it is that the arbitrator has no accountability; none. Now, think about this, we've got 14 Presidential appointees, 9 Governors and 5 Commissioners on the Postal Rate Commission, who monitor the revenue and determine what it should be, and we have 1 person, with no accountability, who actually determines our cost, which, by the way, is 80 percent of our cost.

That's a little out of whack, all these Presidential appointees who are helping us to run this business and monitor what we do, and then we have one person who can come along and upset that whole thing.

The rate process that we have now is a real problem, because in the rate process we have to forecast—well, we have a forecast year that we set the rates on, and that's a year in the future. So now we have to put in what our labor cost is going to be a year in the future. We have to estimate that and tell the Postal Rate Commission what that is, and the world, of course.

Not many companies negotiate like that, that they telegraph what they think it's going to be a year in advance, but we have to do that. So when we put that in, that becomes the floor for the negotiations for unions, and it's up from there. Then you go to an arbitrator, and they have to make an agreement. They very seldom go below what either party is offering.

So a lot of the negotiations, then, happen off the record. On the record, you've got certain things, but off the record you have to do a lot of negotiating. So the public really never knows exactly what is being said. When I'm questioned in the committee, I say, "I can't talk about that because we're in negotiations." And we have agreements with the union that that's the way we do it. NLRB says that's quite all right. There's nothing wrong with handling negotiations like that.

Also, when you go to arbitration, there are really no breakthrough things that happen. For instance, if we wanted to take to arbitration some method of our operation, such as incentive pay or evaluated routes, the arbitrators don't want to talk about that. They say, "That's something for you all to settle." They kick that back to us. So there's a real problem in that.

Now, one other thing in the arbitration process that we have is the number of times we go to the arbitrator. I did some checking in the automobile industry recently. Ford, General Motors, and Chrysler, in this country, have about the same number of people as the Postal Service, somewhere around 800,000 people. In the last 2 years, they have had 10 cases go to arbitration: 1 for a contractual dispute, and 9 for disciplinary reasons.

We've had over 3,000 go in the first 9 months of this fiscal year, and we've got literally thousands that are sitting that could be moved into that system. And they are for not only disciplinary cases but to go back each time and test the rule and try to find an arbitrator who will change the rule.

So there's a difference in how that's used, and our system is not working. We need to fix that system some way.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman.

I would like to acknowledge the gentlelady from Florida, Carrie Meek.

Mrs. MEEK. Thank you, Mr. Chairman.

Good to see you again, Mr. Runyon, and the rest of you.

About 2 weeks ago—I sit on the Government Reform full committee, as everyone does who is on this subcommittee—there was quite a bit of debate and discussion on the transitional appropriation to cover the Workmen's Compensation Fund.

There seemed to be some type of negotiation that had gone on and people who may have been uncomfortable with it. Something had been worked out. Deep in my heart I did not agree with this, but because this had been worked out with the agreement of both sides, I felt that it should go on.

I understand that you would like to see some revision in the current Workmen's Compensation program. Could you explain that to me, telling me what recommendations you would make to make this program better?

Mr. RUNYON. Well, first, I would like to make sure that the record is straight. I went on the record against removing that money from our budget. That has been in there since the act went into effect in 1970, and we were against that. And that is going to—probably that will all end in about 12 years, we think, based on life expectancy.

But there are changes that could be made to Workmen's Compensation that would be beneficial to us. There are several ways. I understand that—what committee is it, Mike, that's working on the Workmen's Comp?

Mr. COUGHLIN. Well, I'm not sure. I think it's a subcommittee of this overall Government Oversight here.

Mrs. MEEK. Of Government Oversight.

Mr. RUNYON. They are working on that. But there's another aspect of that, and we're looking at the possibility—we're not ready to do it yet, because we're waiting for more information—of going as a private company would, and handle Workmen's Comp through States, as opposed to through the Federal Government.

You see, the way Workmen's Comp is handled right now is, the Labor Department handles that. We have very little to say about that. At the least, we would like to be able to handle our own, as

opposed to having a third party handle it, because we've got a very real interest in watching that and keeping our costs down.

We have done a very good job on that, by reducing accidents and things of that nature, and it's a large cost in the Postal Service that we would like to have better control of.

Mrs. MEEK. Mr. Chairman——

Mr. COUGHLIN. If I might add, Mrs. Meek, on the transitional appropriation—and I think somebody apparently tried to explain it to you and the members of the other committee—in 1970, at the time the Postal Reorganization Act was passed, in that process there was a form of negotiation that went on to try to—and it was not unlike the diversification of a company where a piece of a business is split off. You come to some agreement about what goes and what stays.

In that case, it was a decision about what liabilities would stay with the U.S. Government, flowing from the old Post Office Department, and which would be carried forward with the new U.S. Postal Service at that time. It involved Workers' Compensation liabilities. It involved the splitting up of the real estate that the Postal Service occupied—some was shared with GSA—and some other kinds of issues. There was a whole series of issues. This was one of them.

The outcome of that and the intent of that was to try to build a fire wall between the old and the new.

Mrs. MEEK. Yes. We broke our promise.

Mr. COUGHLIN. Pardon?

Mrs. MEEK. We broke our promise on that one.

Mr. COUGHLIN. Well, I don't know that you have yet. But we have consistently, in the management of the Postal Service, tried to point out that that agreement was reached at that time, and that's why we have objected to a breach of that, recognizing, at the same time, the kinds of issues that you're facing here.

Mrs. MEEK. If I may go a little bit further, Mr. Chairman.

I'm from Miami, the south Florida area—and we have a diversity of ethnicities there. People from all over the world live in south Florida. And you have already announced that you are going to increase the international rates as of July 6 of this year. There are people in the area who would utilize your international mail service, if you had one going to those countries.

And it looks like to me, from what I'm hearing, that there are some renegades—I guess that's what I would call them—there are couriers who get around people using the international mail service. And they take this, as fresh entrepreneurs, and they deliver the mail to those countries, particularly countries like Cuba, Haiti, Nicaragua, Guatemala, and El Salvador, and all of those countries.

Would it be a feasible thing for the Postal Service to think about extending some of its operations into those areas, or are you budget stricken by the constraints?

Mr. COUGHLIN. In terms of our international operations, if I understand what you're talking about, there are couriers operating from the Miami area into these countries.

Mrs. MEEK. Yes.

Mr. COUGHLIN. I can tell you that there is postal service available from the United States into every one of those countries. OK.

I will also acknowledge that there have been some security problems at the other end, in a number of those countries that you've mentioned. And the Postal Inspection Service heads a group called the Postal Security Action Group, a collection of international law enforcement agencies associated with postal operations, and they're trying to do something about that.

The fact is, though, that we have no monopoly, virtually no monopoly, on outbound international mail. So, generally speaking, the couriers you're talking about are not doing anything in violation of a monopoly, at least that we've been able to see.

Mrs. MEEK. All right.

Mr. COUGHLIN. But if there are other needs that maybe we're not understanding, maybe we need to——

Mrs. MEEK. I guess what I'm saying is that they are underselling you, and they are delivering the product faster than the Postal Service is doing. In that way, you are losing revenue because they are out there doing that.

Mr. COUGHLIN. Well, they are leveraging against something called "terminal dues" in the international mail exchange process.

Mrs. MEEK. I see.

Mr. COUGHLIN. And that's how they're able to do that.

Mrs. MEEK. Thank you.

Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentlelady.

I would just comment, without defending, per se, the $37 million in transition payments that we're talking about in the Reconciliation Act. We are kind of like the bookie that comes in and hurts your feelings when you don't pay up. From 1985 until this year, there was $14 billion taken. Now, that's like your bookie breaking both your arms and both your legs. So, relatively speaking, we're trying to be nice people.

Mr. RUNYON. So if you're talking about agreements, I would buy that in a minute.

Mr. MCHUGH. Yes. With that, let me gratefully acknowledge the vice chairman of the subcommittee who has joined us, the gentleman from South Carolina, Mr. Mark Sanford.

Mr. SANFORD. It's a pleasure to be here. I'm stepping in late in the debate, so I'm going to listen at this point.

Mr. MCHUGH. Well, I thank the gentleman for being here.

Let me go back to the questions that Mr. Green posed, because I'm not sure I heard what I was listening for. He posed a question about, yes, the difficulties—and you enumerated them I thought very eloquently—about binding arbitration. He then asked, in response to some of the comments we received from a number of the labor organizations who testified a willingness to consider voluntarily giving up binding arbitration for, in turn, the right to strike, how does that strike you?

Mr. RUNYON. Well, that certainly is on the table. I think the right to lock out would also be inclusive in that. You need to put both sides on an equal basis. If you went under strict NLRB rules, it's certainly something that could be considered.

Mr. MCHUGH. The right to striker replacement, you mean?

Mr. RUNYON. Yes, I'm familiar with the right to striker replacement, and that's the way private companies handle some of those situations.

Mr. MCHUGH. Is it possible that you could handle that situation not using striker replacement but your right to remove the mail monopoly, which would allow, in the interim, private carriers to come in and fill that void, or do you think that's too chancy?

Mr. RUNYON. Well, when you say "chancy," see, I don't think the mail would get delivered. I mean, if you did that abruptly, that wouldn't happen. And it would happen abruptly.

Now, there's another sort of halfway house to that, and that's the Railway Labor Act, which gives the workers the right to strike. It also gives the President the authority to issue a cooling off period and then to appoint a Presidential commission to study the problems. That might be an alternate solution, too.

Mr. MCHUGH. So in your view, binding arbitration isn't necessarily a sine qua non, an absolute necessity on anything. You're willing to talk about it.

Mr. RUNYON. I would like to find a way to put the parties at risk—put the parties at risk—which means that you have some way that there can be people who have to really take a risk, if they are going to go. I don't know what that might be. It might be that you could—the law also says, by the way, that wages should be comparable to the outside sector. We're a little above that right now. Our wages are about 20 percent higher, in the craft area, than outside wages are.

If you could somehow limit that, so that, in time, that evened out, and you could say to an arbitrator, "This is something that you can't go above," then something like that might be another solution to that.

Mr. MCHUGH. OK. The other thing, in responding to the gentleman from Texas' question, you mentioned the discrepancy that you saw between the utilization of binding arbitration on grievances. In the Postal Service, 3,000, I believe you said, in the first 9 months.

Mr. RUNYON. 3,212, exactly.

Mr. MCHUGH. Versus Ford, GM——

Mr. RUNYON. Versus Ford, GM, and Chrysler combined.

Mr. MCHUGH. At nine.

Mr. RUNYON. For 2 years, at 10; 1 contractual and 9 for discipline.

Mr. MCHUGH. Why? Why does that happen? We understand it does, because numbers don't lie, necessarily. Obviously, Ford, GM, and Chrysler employees have the opportunity to utilize binding arbitration in those instances.

Mr. RUNYON. One of the things that they do is, they have an understanding that once they go to binding arbitration on a contractual matter and get an agreement or settlement from the arbitrator, that's it. You don't go back again for that reason.

Mr. MCHUGH. Is that different from Ford?

Mr. RUNYON. That's different.

Mr. MCHUGH. How so?

Mr. RUNYON. Well, they go back for contractual obligations all the time. I mean, the grievances in the Postal Service can continue

to go back for the same contract re-reading and a new ruling; whereas, they settle for one. So the number—now, I should mention that the rural letter carriers, we don't have much of a problem with arbitration there.

With the rural letter carriers, we have an agreement that the loser pays, and that might be a way to help solve part of this problem, for the loser to pay. Right now, we both pay our own expenses. With the rural letter carriers, in our contract, the loser pays. We don't have very many go to arbitration. Of course, they've got some different work rules in the rural areas.

One of the places that we have a lot of disagreements is about overtime. In the rural contract, we have evaluated routes, which means that the management and the union decide how much time it takes to do that route and how much can be done in 8 hours. So then that's an 8-hour workload.

If, in fact, the workload on any particular day is less than 8 hours, the carrier completes the work in 7 hours, they go home. They don't have to go back and work somewhere for an hour, doing something, maybe make-work, if nothing else. Whereas, if they get 10 hours of mail in a day, they deliver 10 hours of mail that day, they don't get overtime for it.

One of the sources, a large source, of our disagreements is in overtime, and whether we followed the contract, and whether we picked the right person to follow the contract. And then, every morning in a post office, when the carriers start out, the supervisor has to meet with each carrier and determine how many hours or minutes it's going to take to deliver that mail.

It's sort of a confrontation usually. "Well, I think it's going to be 8 hours and 15 minutes." "Well, I think it's 7 hours and 45 minutes." And, you know, that's a big debate that has to take place. We don't have that with the rural carriers. There's no debate. You come to an agreement, you settle it, and that's it.

Mr. COUGHLIN. Mr. Chairman, I might just add, briefly, a couple of things that might contribute to this, as well, is a difference in the union structure and governance procedures between the auto industry and the postal industry. There may well be a difference in the way they handle grievances as a union in that set-up. And they may have a far tougher standard for their own people, in terms of what they do in terms of representation.

The second is, it may simply be a maturity issue. And I'm not sure I wouldn't apply that to both our people as well as our union people. There may be some differences there. That may be part of—in fact, I'm sure it is a major reason why Mr. Runyon called for that labor summit last fall.

Mr. MCHUGH. Oh, yes, that was the publicity stunt one.

Mr. RUNYON. Well, I don't know that it was exactly a publicity stunt. Two weeks before——

Mr. MCHUGH. Well, I read it. It's right here.

Mr. RUNYON. I read that too.

Mr. MCHUGH. It was in the testimony.

Mr. RUNYON. But you should know that 2 weeks before I made that statement before the committee, we had laid that proposal on the bargaining table of each union. So it wasn't something we just dreamed up all of a sudden. Two weeks before we had asked to do

that and had not received acceptances, which we still haven't, although the rural letter carriers have agreed and the management associations have agreed, but the other three unions that we're in negotiations with now have not agreed.

Mr. MCHUGH. Let me ask you then, seeing as how you brought it up. Mr. Quinn of the Mailhandlers Union, who used that terminology, "publicity stunt," also told the subcommittee that they had made an offer, during their collective bargaining, to adopt the GAO recommendations for delivery employees, "which provides greater independence and incentives for fast, reliable mail delivery." And they said that you rejected that recommendation.

How would you respond to that? In other words, he would argue, I think, were he here—he would probably allude to some movie. He did that a lot. He would probably say that, you know, if you were truly serious about the GAO report, and if you thought it was reasonable in its provisions, why, when they took a very important part of it and laid it out on the table as a potential acceptance under collective bargaining, did you out of hand reject it? It seems inconsistent. I think he may say that.

Mr. RUNYON. Mr. Chairman, I don't sit in those negotiations. However, Joe Mahon, who is vice president of labor relations, is behind me. If he could be allowed to answer that question, he might be able to give you a more definitive answer.

Mr. MCHUGH. Does he swear to tell the truth, the whole truth, and nothing but the truth?

Mr. MAHON. I do.

Mr. MCHUGH. You may.

Mr. MAHON. I think, if you will look at the record, it wasn't Billy Quinn who said that, because that didn't happen at the Mailhandler table. It was Vince Sombrotto.

Mr. MCHUGH. Oh, that was the National Association of Letter Carriers. It was reported to us by Mr. Quinn.

Mr. MAHON. And the proposal on the table was to adopt the words of the GAO report, not the substance of it. We also had a proposal from Vince Sombrotto to do a Saturn agreement. We said, "We'll do a Saturn type agreement." We were offered the words, but not the different pay systems, not the incentive pay, not the employees taking on responsibility for the poor performers.

All of the proposals that were put on the table were for fancy words and maybe the addition of nonproductive jobs, like more facilitators in our EI process, but nothing that would constitute a breakthrough and achieve real change in postal bargaining relationships. Those issues are still on the table and still could come out of the interest arbitration.

Mr. MCHUGH. I appreciate that. I understand, or I think I understand, your comments with respect to the Saturn agreement. What were the differences between the words and what you envision to be the substance of the GAO proposal? The words were offered but not——

Mr. MAHON. Well, the GAO proposal, for example, was highly supportive of the evaluated route system. It pointed out that evaluated routes get rid of grievances. It gets rid of confrontation between supervisors and employees. It gets rid of stress. The NALC has stiff-armed us on evaluated routes. They have done a 180-de-

gree turn because it would be inconsistent with the portion of their constituency that wants all the overtime that they can get. Evaluated routes, as Marvin said, would do away with overtime.

That part of the GAO recommendation was ignored. The fancy words, like "Let's put together teams and talk and talk," was what was proposed.

Mr. MCHUGH. Thank you.

Mr. MAHON. You're welcome.

Mr. MCHUGH. Are you still trying to convene the GAO summit, for lack of a better description of that proposal?

Mr. RUNYON. Yes, sir, we would still be glad to convene that at any time. We haven't gone back and said—you know, we don't do it on a weekly basis, but it's open.

Mr. MCHUGH. Well, that's good to hear. I think talking is always good. That's why I do it so much.

But there was an indication during the testimony that we received that they had—"they" being at least some of the unions—had intended to put off any kind of meeting in that regard until after their contract had been completed. Will you offer, after that contract completion, again, to get together with them?

Mr. RUNYON. Absolutely.

Mr. MCHUGH. You will?

Mr. RUNYON. Yes, sir.

Mr.. MCHUGH. OK. I think that would be positive. All right. Thank you.

I would yield to either of my esteemed colleagues.

Mr. Green.

Mr. GREEN. Mr. Chairman, I will yield to my colleague, Mrs. Meek. I know she has a question that's pertinent.

Mrs. MEEK. Yes. Mr. Runyon, in I think it was either our last hearing or the one previous to that, there were some independent haulers here. They were saying that they were having difficulty obtaining the bonding that's needed to do business with you. And these were small business people.

Would you mind explaining to me what it takes to—sort of clarify the bonding procedure? I understand the government procedures. Are you under those same regulations?

Mr. COUGHLIN. The testimony involved our contract highway transportation operations, and we have not had a performance bond requirement on highway contract transportation for—going back to at least the early 1980's. At that time, the insurance companies who had traditionally written performance bonds began to phaseout that business. It became very expensive.

We did an evaluation internally, on our own, as to what the effect of that would be on, first, the default rate, and second, on competition in that industry. And we concluded that there was little risk of a serious problem with a higher default rate, and it would enhance competition in that industry. And that has been our experience in the period of time since then.

Mrs. MEEK. How does one get into the hauling business?

Mr. COUGHLIN. You get yourself the appropriate vehicle, licensing——

Mrs. MEEK. I understand the easy part of it.

Mr. COUGHLIN. Pardon?

Mrs. MEEK. I understand the easy part of it. I'm trying to find out, how does one get a chance to do business with you, a small and independent businessperson?

Mr. COUGHLIN. You go to one of our distribution network offices, and there are—I don't know—15 or 20 of them around the country. You can get that information from nearly any post office, if not Postal headquarters, and get yourself on a bidders list. And you will be sent any solicitations for transportation routes in the areas you say you're prepared to serve.

Mrs. MEEK. All right. Thank you.

I have one other question that's not related, Mr. Chairman, to this one.

I notice, Mr. Runyon, that you did your very best—I'm sure it was a morale function, as well as letting the public know what the Postal Service is doing. But on the ads you recently took out in a lot of large newspapers across the country—my local newspaper excluded, Mr. Runyon, not that I feel badly about it—why did you spend so much money on these ads? Was there an easier way of doing this?

I applaud your rationale, but was there an easier way or a less expensive way of doing this?

Mr. RUNYON. We could have——

Mrs. MEEK. You spent almost—well, I embellish everything—so you almost spent $1 million, even though you didn't spend $900,000. So would you explain that expenditure?

Mr. RUNYON. It wasn't $900,000.

Mrs. MEEK. No, it was not.

Mr. RUNYON. It was less than that.

Mrs. MEEK. Yes.

Mr. RUNYON. It would have cost us in excess of $300,000 to just write a personal letter to our employees. We have a lot of employees, 805,000 employees. And if I had written a personal letter to each of them, it would have cost in excess of $300,000. We felt it was better to put it in the paper, as we did, because we're not only telling the employees we appreciate what they are doing; we're telling their barber, their grocer, their next-door neighbor——

Mrs. MEEK. The American public.

Mr. RUNYON [continuing]. The pastor of their church, and everybody else that, "Hey, they did a good job." So that person then gets more commendations from their neighbors. "Hey, John, you did a really good job, and we appreciate what you did." "Mary, we really appreciate you doing a good job here."

Also, it said to large customers and business customers—when I say "large," we have small businesses, what, 8 million of them, at least. Said to them, "The Postal Service is doing better. Maybe you ought to use the Postal Service." And it's a way of complimenting our employees, No. 1—that was the No. 1 message. We wanted our employees to feel good about what they have done, because they have done a good job.

And by the way, the newspapers don't necessarily take out front page stories when we go up 2 points. They do if we go down 2 points in Chicago or someplace like that. But they don't do that, so we have to do that ourselves. And that's why we did it.

I got a lot of good comments back from that, by the way.

Mrs. MEEK. Good. It is a very good ad. I just questioned the cost-effectiveness of it, and you seem to have a strong rationale for spending that amount of money.

Mr. RUNYON. Well, in our advertising—to tell you a little bit about our cost—in 1994, we spent $80 million in advertising, $80 million. Our revenues were $49 billion. So we spent .16 percent of our sales in ads. AT&T spent .76. IBM spent .63. UPS spent .33. And FedEx spent .55. So we were below any of our competitors out there in money we spent on advertising.

We are re-looking at what we're spending on advertising. We may budget more money next year for advertising than $80 million.

Mrs. MEEK. Thank you.

Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentlelady.

Let me just follow up on a couple of things. And let me play the proverbial devil's advocate, because I think if Fed Ex or UPS or DHL, or any number of others, were in the room and had access to a microphone, they might at this point say, "Your statistics are mathematically correct but somewhat misleading," because, of your revenues, 80 percent is in the protected monopoly mail class, and that no amount of advertising of that is going to change that data. You have exclusive market over that.

So, indeed, when you talk about $80 million, you're really assessing that only against the competitive classes of mail, and therefore your advertising rates are truly much higher. And then I think they would say, what you're doing is shifting the cost of that advertising into protected classes, and that's a disproportionate allocation, as well.

If they said such a thing, what might you say to them?

Mr. RUNYON. They probably would say that.

Mr. MCHUGH. I have a hunch.

Mr. RUNYON. And they are in the room.

Mr. GREEN. They just don't have a mike.

Mr. RUNYON. First, I would say that we have more competitors in this business, even in the monopoly businesses, than I ever had at Ford Motor Co. This is a very competitive business. In those areas that you're talking about, in the correspondence and transactions, which, you know, is First-Class Mail you're talking about, our share of that market is only 62 percent. You might think it's 100 percent; it's 62, and it's going down. We're losing share in that market.

Whether it's protected or not, there are people who can come in and take that business from us, UPS being one of those who can take part of that business from us in their way of doing business. There are many, many other competitors out there, such as e-mail. Now we've got this on-line computer stuff that's taking that business, and we're very concerned about that.

We want to keep our business that we've got and make sure people understand that what we do, we do well. Because even if we had a monopoly, if we were to fail to do a good job, other competitors would come in and figure out how to do that job better.

So I think the answer to that is, we have to continue to improve. We have to continue to let people know what we're doing, so that we can stay in the business. And if we don't stay in the business,

if we continue to lose share, then the price of stamps is going to go up, and that's going to be a real problem.

Because the more we go up, the more business we lose. The more business we lose, the more we go up. And the first thing you know, we're back to where you mentioned in your opening remarks, that, God forbid, we would be back to Congress to ask for money to run the Postal Service. We don't want to do that.

Mr. MCHUGH. I don't blame you.

Mr. COUGHLIN. I would add, too, Mr. Chairman, I would reject the argument, if they were at the microphone, particularly as it applies to the monopoly. I think we have an obligation to keep the people who are subject to the monopoly and who continue to use it informed about what is available and what the quality of the service is.

The ad that was referred to earlier, I think an important part of the audience of that ad, in addition to our employees, was the American public out there and the message it was sending them indirectly about the quality of service and the fact that they could count on this organization. I believe that's important, that we not keep our customers in the dark about what we are and what we're doing and what we're capable of.

Mr. MCHUGH. Thank you.

A second point of follow-up, and it really plays off a question that Mr. Green asked earlier and Mrs. Meek reposed, with respect to star route contractors. When Skip Maraney appeared before us, his comments suggested that since 1980—since the removal of the bond requirement—your default rates on contracts have doubled.

Now, what my dad used to say about statistics, "They're a wonderful thing, you know. If you stick one foot in a bucket of ice water and the other foot in a bucket of boiling water, on average, you're comfortable."

He didn't say that they have doubled in real numbers or as a percentage of your contracts. So I don't know that. And I don't expect you to—if you wish to respond, fine. But the reason I am posing it for the record is, there is a discrepancy here as to how you and he and his organization are interpreting it.

And I think it's important to someone who lives in a lot of star route country. So if we could receive some data on that as a follow-up, it would be helpful.

Mr. COUGHLIN. We will get you the numbers.

Mr. MCHUGH. I thank you.

Let me talk a bit about—or let's all of us talk a bit about data. Mr. Green mentioned it as a question on, do your protected monopoly classes underwrite the international rates, for example. That was certainly a suggestion by some of your major competitors when they were here.

The thing that most intrigued me is when Chairman Gleiman of the Rate Commission appeared. He said some pretty tough things with respect to how you collect, maintain, and share data. And let me just quote here. He said that "The commission—" the Postal Rate Commission—"is concerned that data deficiencies in the Postal Service filings reflect a reduced commitment to the task of developing and providing reliable data for parties in commission proceedings."

We noted that these deficiencies have been emphasized by many of the parties to this proceeding. What can you tell us about a process by which we can get a data collection system that, if not more reliable, meets the concerns of both your competitors and the Rate Commission?

I understand the possible conflict of motives when your competitors come in and say the data stinks. When the Postal Rate Commission suggests that you may not be doing this as well as you might or should, that puts a different light on it. How can we work around this? It seems to be a real problem.

Obviously, it has implications into what do we do on possible changes to give you flexibility on introduction of new products, on pricing in the future. Because if people are able to legitimately question the data, it is more difficult to extend you flexibility that you have repeated here today and said previously that you would like to have.

Mr. COUGHLIN. If I could comment on that or respond to that, Mr. Chairman, in two ways. In the last rate case, first of all, there were a couple of data issues that arose, and I will comment on those in a minute.

First of all, in every rate case since postal reorganization, general rate case, there has been put forward by the Postal Service one or more witnesses to testify to the processes and the validity of our data collection systems. And those witnesses are subject to extensive discovery and cross-examination, during that process, about the systems themselves. While there have been a number of improvements made to those systems over the years, the fact is that none of those systems, over that period of time, has been found in serious fault. OK.

Now, in the last case, there were two data issues that arose. One involved, as I remember, specifically involved in-county newspapers and the rates that were charged to those people at the time. And I know within the Postal Service, just shortly before we filed the rates, we saw the rates that were proposed for them, and even in our own minds there were some questions there.

We went ahead and filed the case, and I think it called for something like a 17 percent rate increase for those people at the time.

Mr. RUNYON. Thirty-four.

Mr. COUGHLIN. Was it 34? And there was obviously a lot of concern. Mr. Runyon himself went, within 2 or 3 days of our filing that case, before the National Newspaper Association to speak to them about it and promised, based on their reaction, to come back and find out what the problem was.

And we went in and found a mistake had been made, not a system mistake, but within our—the way we had pulled the data together and addressed it. And we did fix it. OK. There was considerable comment that came out of the commission at that time about the data systems, but we remain confident in the data systems themselves.

Now, we have since put in place a series of quality checks, internally, to try to prevent that kind of thing from happening again. But the fact is, in a process that is this big, this complex, with the thousands and thousands of pages of pleadings and data and work

papers that are in there, I think some mistakes are almost inevitable on both parties.

Mr. MCHUGH. It's interesting you used that particular example to illustrate how the system works. When the newspaper associations were here, they used it as a perfect example of how it doesn't work, in that the data was bad. If they didn't have what you might argue is a very extensive, very burdensome rate-setting process, they would have been stuck with those 34 percent increases, and they therefore say you can't change it, because even if it's a rarity, you've got to protect those of us who are subject to this very, very important process.

Mr. RUNYON. Mr. Chairman, they did a good job of protecting themselves.

Mr. MCHUGH. Because the process was available.

Mr. RUNYON. I spoke to their convention in town here, and they told me, in no uncertain terms, that it was impossible that that could happen. They convinced me that we were wrong. I went back and said to our people, "We have to find out what we did wrong." And we did. We found out and resubmitted to the Postal Rate Commission. The Postal Rate Commission didn't have to make a decision based on that first data we gave them.

As a result of their comments to me, and the fact that we listened to them and went back, we resolved that problem before the Postal Rate Commission had to even consider those numbers.

Mr. MCHUGH. Is there a way that you see that we can protect people, such as the association, such as the not-for-profits, someone else who had a great deal of concern, of course, about your new petition, but as well on the process, still providing you flexibility? That may be a more rhetorical question than a hard question, but that's the challenge.

Mr. RUNYON. We know that we need regulation on the rate-setting process. We understand that. But we need flexibility. We're not unhappy with the Postal Rate Commission; we're unhappy with the process, a process that takes us several months to prepare a case, with the complexity that Mike is talking about here. And then 10 months of intervention and testifying, and so forth, is too long to make changes in rates.

We need to have some way so that we can come out with a new product and go forth with it without having to expose it to our competitors. The way it is now, we get a new product, and then we have to expose it to our competitors. They can put the new product in place while arguing we're not charging enough for it, and then trying to plead with the Postal Rate Commission we're not charging enough. So that's a problem.

We had a case, some time ago, right after I came here, of a small parcel bulk rate request that we made. What we wanted to do is was that parcels, I think that were below 5 pounds, 250 in a lot, we would accept those and deliver them at a 27 percent discount. We sent that to the Postal Rate Commission and asked for a—what is it—a 3-month ruling, what do we call that?

Mr. COUGHLIN. Expedited proceeding.

Mr. RUNYON. Expedited proceeding. So that could happen in 3 months. We can ask for an expedited proceeding and get it in 3

months, although I'm not sure that that has ever happened. But in this case we thought it could happen.

Well, it took 10 months to get that ruling. And when we got the ruling back, they said, "OK. You can do this, but you can only discount 7 percent." Well, that means that 7 percent is going to come right off our bottom line. Our volume is not going to increase, so we're just going to give away money. We decided not to do that.

Under the way that we would rather see that happen—that was a very small part of our business, not a large part of our business—we would like to be able to put something like that in place, try it out for a year or 2 years on a test run, and then go back with really good data on, "Here's what has happened in this particular case," and go to the Postal Rate Commission and say, "Now we would like to have this price." But we would still have to wait 10 months to get it under those situations.

So those are the kinds of things that are a problem. The system is not flexible at all, and we need flexibility. When we go to bid on a contract—well, take the government contract, for example, there's a request out now for expedited delivery mail with the Federal Government. GSA has it. Originally, it was for mail that would fit in our priority mail category. So we were working a deal to figure out how to bid that.

All of a sudden, it got lumped together with express mail. We can't change the price on express mail without first going to the Postal Rate Commission and getting them to approve it. Well, once you do that—I mean, most of these requests are handled by sealed bids. It's very difficult for us to make a sealed bid when we have to go to the Postal Rate Commission, expose everything that we're planning to do, and the best we could get, under an expedited system, is 90 days, and usually the bids are up in 60. So, you know, we're out of the game.

What we're saying is, we need to have some system, within parameters, where there is regulation over us by some party, that would let us be able to set rates, come out with new products, and actually compete in the markets that we are in.

Mr. MCHUGH. When UPS was here, in that regard—and I'm quoting directly—they said, "USPS wants to be treated like a business while maintaining its monopoly. If the Postal Service wants to compete like a business, why should it not pay taxes like a business? Why should it not have a pressure to recover all of its costs like a business?" Et cetera.

What would happen, General Runyon, if tomorrow morning we woke up and all of the inhibitive regulations that you are concerned about—and whether it be labor relations requirements, binding arbitration; whether it be pricing, whether it be new product introduction—are taken away. You are not privatized; you are still who you are, but you are allowed to compete in every way that you feel you should be able to. Your letter monopoly is gone, as well, but you are required to do universal service.

What happens?

Mr. RUNYON. I've never thought about that. It's something I would like to think about and come back and tell you. The first thing I think is, you know, that heaven has opened up all of a sudden.

Mr. MCHUGH. Or hell.

Mr. RUNYON. Or hell; right. And that's the competitive business. That's what competition is all about. It's heaven or hell. That's the way it works. It's sink or swim.

Mr. MCHUGH. Yes.

Mr. RUNYON. We might find a strong reaction of our employees to that, that all of a sudden they realize that they don't have protected jobs anymore.

Mr. MCHUGH. Well, I understand their point. I can kind of visualize what they would say.

Mr. RUNYON. But they are the people who work with us.

Mr. MCHUGH. I know. I'm trying to assess what the impact is, as we contemplate going down a particular road of commercialization, or whatever term you may care to append to it, and as we contemplate ways in which we might respond to what I think are legitimate concerns posed by UPS, DHL. I hate to keep pulling those good folks in the barrel.

You know who the interests are who feel that the competitive class—or excuse me—the monopoly class of mail totally skews everything else you do, puts them at an enormous disadvantage from which they can never recover or compete. And they answer your calls for commercialization, flexibility, however you wish to term it, with saying, you know, "If you want it, take it, including let us compete, or at least removing your monopoly mail protection."

Now, I think we have to at least contemplate what would happen if we went that far. I would be happy to have your reflection on it, as you have some time to think about it. We would appreciate that.

Mr. RUNYON. I will do that.

Mr. MCHUGH. At any time, if the gentlelady from Florida wishes to jump in, I wholeheartedly encourage her to do that.

Mrs. MEEK. Thank you.

Mr. MCHUGH. I just want to meander around a bit and ask you some things about comments that were made during the previous six hearings, and just kind of see where we are. There's not a lot of rhyme nor reason nor sequence here, but I think there were a number of interesting points raised that I would like to hear your comments on.

When we had the folks from Pitney Bowes and other meter companies before us, they noted that, in practical terms, with the exception of France, the United States is the only Nation that requires meters to be rented rather than allowing them to be available for outright sale. They would argue that the technology available today is sufficient to protect the integrity of the meters, therefore making sale possible.

They also expressed a great deal of concern about the patent protections that Pitney Bowes enjoys and felt that, if the Postal Service were somewhat more flexible in writing their regulations and bids, they might be able to compete more effectively.

What about the sale rather than the rental of meters? Has that time arrived?

Mr. RUNYON. I don't think the time has arrived. The time may arrive, but right now I don't think it's there. We don't have in use, in all the meters, in all the places that they are used now, the lat-

est technology. And I'm not sure that we've got technology that can't be defeated by some other people right now.

The fact is, the way it is now, the meter manufacturers are responsible for knowing where every meter is and responsible to know that that meter is being reported properly. If they sold them, meters would just kind of wander around, and people could use them any way they saw fit. We would have no control over that, nor would they have control over that.

Since a large part of our revenue comes through those meters, we really need to have control over them and know that nobody is messing around with them. Now, we have recently found—"recently," in the last couple of years, I guess—that there has been meter tampering, where people go in and fix meters so that they run forever with not having to be reset or anybody having to pay any money for them.

They are money machines. They just make money. We can't have that. So we need the protections we've got. And I don't know that a time will ever come when we shouldn't have those protections.

Now, I hear what you're saying other people do. I don't know how they protect them, but I will certainly get our inspection service to working with them to find out what they do.

Mr. MCHUGH. I think that would be important. Because, again, the devil's advocate would say, every other nation but France, and they did indeed report that there were no discernible instances or significant instances of meter fraud in those other nations.

I think what they might suggest, in the instances that you just mentioned, is that, under the current system, there is not a lot of incentive to adapt such new technology. Rentals don't bring the kind of return that would encourage you to replace them with the new technology. But if they are allowed to purchase, their profit margin over a term would increase, and therefore they would go out and buy the new technology.

Mr. RUNYON. You mentioned the technology, and you mentioned patents. That's a big part of this situation.

Mr. MCHUGH. I understand.

Mr. RUNYON. There are some smaller meter manufacturers that are not sure they want to come out with a meter with the latest technology, because they are infringing on somebody's patents that they don't really know about.

I will tell you one thing, we found the meter tampering was a problem working worldwide with people. And we went to Europe, to a national convention they had. Those people over there had the same kind of meters; they didn't know that they were being tampered with. And we set up a whole group to really look at that problem worldwide.

Now they realize they've got a lot of tampering. But I'll get him back with that group and find out if they think they've really done the right thing by turning those meters loose.

Mr. MCHUGH. I would appreciate it.

Mr. RUNYON. We don't think it is the right thing.

Mr. MCHUGH. I would appreciate that information.

I mentioned earlier, with respect to the not-for-profits, their concern about the current classification case. When the National Asso-

ciation of Presort Mailers was here, the spokesman commented that:

> The reforms in the current classification reforms case are more operations driven than ever before and will place our industry's very existence in jeopardy. The small and mid-range volume mailers cannot comply with these requirements and will be forced to forego the little postage savings they share with service bureaus and letter shops today, because their national density mail is insufficient to qualify for work-sharing incentives.

Where are you headed with work-sharing? Is this a legitimate concern, or are they overreacting?

Mr. COUGHLIN. I suppose it depends on which end of the spectrum you're on within that industry. Where we are headed is toward the most efficient mail streams we can derive. And we believe we need a rate and classification structure that encourages the most efficient behavior on the part of our mailers. That's the fundamental philosophy that underlies the proposal that now sits before the Postal Rate Commission.

I think the comment that is made there is probably true, that within this classification case, there are some presort mailers who will thrive and have opportunities. There will be business opportunities created by this change, and there will be some who, if they cannot adapt, will not thrive in that environment.

Mr. MCHUGH. Well, that's not very encouraging to them, is it?

Mr. COUGHLIN. Well, I guess I'm not sure what our obligation is to retain a less-than-efficient mail operation because others will not adapt. We're not in the business of putting people out of business. There's no question about that. But we do believe that the greater good in this situation is the most efficient mail stream we can derive.

Mr. RUNYON. Actually, I believe that there will be new businesses organized who will help those people that you're talking about band together and consolidate their mail so that they can actually enjoy the benefits.

Mr. MCHUGH. That was the area I was going to venture into next, because it seems to me that if the ultimate impact of a classification case is to all of a sudden put a lot of small and independent users of the mail off by themselves, I'm not sure that that helps your efficiency. If indeed there is a way to reconfigure how their mail is handled, so much the better. Is that something we're hoping will happen or we have solid reason to think it will?

Mr. COUGHLIN. Mr. Chairman, these are service companies who gather mail from the actual originators, pull it together, and leverage the difference in our work-sharing rates to generate a profit for themselves. They are not the origin mailers themselves.

Mr. MCHUGH. Well, no. I understand that. But I also understand that generally they service areas where the larger companies do not. Are you saying it's not to your benefit to have these companies come in and to bundle the mail and to have it prepared for your utilization?

Mr. COUGHLIN. It is, in today's environment, yes. And I would submit that a good many of those will adapt to the system and will find a way to adapt. At the same time, what Mr. Runyon said I think is very true, that the history of work-sharing has been the

creation of new jobs and new business opportunities in a whole variety of service industries out there.

Mr. RUNYON. Actually, the advent of automation in the Postal Service—and you will have to correct me if I'm not right in this—is what created those companies in the first place. What we're doing now is going to the next step of automation, and they will, I believe, band together with other entrepreneurs—and I've already heard of several people, who are entrepreneurs, who see a way they can start a business helping these people consolidate their mail so that they can enjoy the same rates. Then we all benefit.

Mr. MCHUGH. I don't disagree with a word you've just said. The concern they are expressing and I am reflecting—and I don't know if the concern is justified or not—you're saying they will adapt. I don't know if they can or they will. I'm not arguing with your view; I'm saying I have no knowledge that they will or, more importantly, that they can.

It seems to me a rate classification case that has that ultimate effect, if indeed they can't or they won't, is not necessarily in the interest of the Postal Service. It's certainly not in the interest of those small and mid-sized mailers who are able to access the discounts.

Those smaller mailers are generally in smaller areas that I represent, and that becomes a concern for me. So I'm merely saying that, if they are worried about it, I'm worried about it. And we're certainly going to try to keep an eye on that.

With respect to reclassification, the not-for-profit organizations expressed a great deal of concern, being left out of the current petition, the current case. They even suggested it might be illegal under the revenue foregone act. What is the status of that? How would you respond to those concerns?

Mr. COUGHLIN. First of all, on the legal issue, our people have looked at that issue and assure us that it is legal, in the sense of what we are doing. It is our intent, over time, to include all of the classes of mail. This first effort at it includes first- and third-class mail, primarily. It represents about 90 percent of our revenue out there. It is what we want to focus on first, in terms of making the mail stream the most efficient.

At the same time, we have other segments of the mail stream, nonprofits being one of them, who represent about 1.5 percent to 2 percent of our revenues; we have the expedited services, which represent 7 percent or 8 percent of our services; and we have fourth-class; none of which are included in the current reclassification proposal.

It is our intent, as we go down the road, to make proposals affecting each of those classes. It is our intention to include the nonprofits in the next phase of that.

Mr. MCHUGH. The reason they were left out is simply one of time and ability to handle it all at once?

Mr. COUGHLIN. Basically, yes. I know they were disappointed. I think all of us.have met with them on several occasions on the thing.

Mr. MCHUGH. There have been some comments, and, frankly, I have had a number of Members approach me with respect to—for the purposes of this morning—let's call it the sanctity of the mail-

box. Other countries, apparently with, again, not a great deal of discernible disruption, allow more open access to the mailbox. We do not. We have not.

What would happen, in your opinion, if we eliminated that exclusive right to citizens' mailboxes, if we allowed local newspapers to be delivered to that mailbox by hand, or another service? How do you feel about that particular regulation at this time?

Mr. RUNYON. I feel very strongly about that, because today there are two hands that go in the mailbox: one is the letter carrier's hand, and the other is the owner's hand. We deliver things of tremendous value, such as retirement checks, Social Security checks, all kinds of information, both financial and personal, and we don't think that there should be any other hands going in that mailbox and taking something out.

As it is now, our inspection service has control over that. If someone does that, it is a Federal offense. So we think that it is much better for our customers, for the people of this country, to not have other people going into their mailboxes.

Mr. MCHUGH. Again, I would ask that perhaps we could check the assertions that we have received as to the experience in other countries that have opened it up with what we are being told is not a great deal of disruption.

Mr. RUNYON. OK.

Mr. MCHUGH. But one step beyond that—and you may not have had time to consider it, but if you would and perhaps get back to us—what about providing people with the opportunity to sign a waiver that says:

> I want my local newspaper to be able to—I don't like that little blue or green or yellow tube they put out in front of my house, and I want it right in my mailbox. I'll sign. I understand what I agree are legitimate concerns, but I'm going to accept that?

Mr. RUNYON. I have not investigated——

Mr. MCHUGH. I understand.

Mr. RUNYON. I know that if the little tube is there, it's only, you know, 5 inches away. But I understand what your question is, and we will respond to you.

Mr. COUGHLIN. My immediate reaction would be the administrative problem of sorting out one mailbox from another, and where you have a waiver and where you don't, those types of things. But I think we need to look at it further.

Mr. MCHUGH. I would appreciate your looking at it.

As you were reading your opening statement and as I have followed—I don't mean to hurt your feelings, but I didn't read a lot of your speeches before January. I'm sorry, but I've tried to read a lot of them since—I am continuously struck by the genuine effort you make to praise the Postal Service's employees, and it was evidenced here today. In response to Mrs. Meek's question, you noted that a great deal of the intent behind the advertisement is to let those employees know and let others know that, in your opinion, you have the best in the world.

Given all that, what happens; where does the breakdown occur? Because when the unions are here, not directed at you, but directed at the Service, the animosity was palpable, and perhaps, in many instances, for good reason. Who is at fault? How can we fix it?

That's an awfully general question but what a problem. I was stunned after that presentation, not because of anything they said as being untoward or unacceptable, but rather at the very genuine and the very heartfelt emotion that they brought to that table. And I know it's a concern of yours. You and I have talked about it. I know you're a man of the caliber who wouldn't just throw that kind of stuff in repeatedly on a gratuitous basis.

Mr. RUNYON. Joe Mahon said he would like to respond to that. If it's OK with you, I will let him.

Mr. MCHUGH. Sure.

Mr. RUNYON. I would like to say a few things first.

When I first came to the Postal Service, the first group I met with, before I met with the management of the Postal Service, was the leaders of the unions and organizations, immediately following my press conference, before I was the Postmaster General. I met with them and talked to them and told them how I wanted to work together with them. And that was sincere; I meant it.

The day I came to work, I guess it was the 7th of July, I had breakfast with them before, because I had been thinking for a couple of months about the kinds of things that I was going to have to do. And I told them the kinds of things that I thought that we would be getting into, and they appreciated that. I think that, from a personal standpoint, my relations with them have been fairly good.

After that, I invited each of them to attend our leadership meetings, which is all of the officers of the Postal Service, and they are members of our leadership team and are free to come and attend that. For example, many of them were present when we decided how we were going to do our rate case, and we put into the rate case the amount of money that would be available for increases in pay at the negotiations which we are now going to the arbitrator with.

So we are not withholding information from them. We are providing them with information. We are trying to work very closely with them. Those are some of the things that we have done to try to get them included. We've tried to include them in all of the meetings that we have in the area and in the performance clusters that we have, but we're not getting good acceptance of that.

There's a situation that—I would like to find out the answer. That's why I wanted the summit and why I still want the summit and, you know, hopefully get these arbitrations done so we can go to that summit, and we can sit and talk to each other very openly about what we think the problem is.

Having said that, I will let Joe speak.

Mr. MAHON. I think Marvin covered it very well. But we have all been agonizing over this issue. There are some kind of anomalies, and one was the notion that why wouldn't an extremely well-paid work force be happy. Actually, in some circumstances, it can work to the opposite, because not everybody is fit for every job.

We have often had focus groups; we have often had interviews with people who really came out and said, "I can't stand my job. I dread coming to work every day." "Why don't you go find a different job?" A lot of people in the private sector do that. The private sector is much more mobile than the Federal sector. The re-

sponse: "Are you kidding? Where would I ever get the pay and benefits I get here."

Another problem that I think is at the root of the situation is another difference between the Postal Service and the private sector. In the Postal Service, postal unions and management organizations every day are competing for members. They are trying to convince nonmembers to join. I think they spend an awful lot of time, as their constituents tell them, concentrating their time and their resources on the 10 percent of the people that the 90 percent don't think carry their load.

There are very complex issues at play; they do deserve a great deal of debate. It's very hard to have the debate in public, because, as you can see from my comments, there are some very fundamental institutional interests that play here.

Mr. MCHUGH. Yes.

Mrs. MEEK. Mr. Chairman.

Mr. MCHUGH. Yes, Mrs. Meek.

Mrs. MEEK. I think, with all respect to the gentleman's response, I think it's a lame response to the problems that you seem to be having. I think that it requires, whenever there is that kind of—I guess, in any organization, it would require an in-depth look or an in-depth investigation to pursue that kind of thing. And it's very easy to blame the victims. I think you should look a little bit closer.

I felt like the chairman did during that hearing, that they feel this. I don't think they came before this committee with any kind of vendetta but more or less to tell the committee how they felt. I think just that, in itself, the perceptions that they have should be investigated and they should be worked on, in terms of a human resource function of the Postal Service.

I think that's one area of your whole service that needs to be looked at and worked on.

Mr. MAHON. I agree with you totally, and I think Marvin's point that it can't be a "we versus them"; it has to be an "us."

Mr. MCHUGH. We probably—as I know the gentlelady is suggesting—would be interested in knowing why that well-paid, "best job in the world" person hates that job. I mean, obviously, there are some real problems there that just can't be explained away by saying, "Gee, go work at J.C. Penney's," or wherever. I think we have to try to get to the root of that, and I know that the Postmaster General feels that way, as well.

It has been nearly 2 hours.

Mr. COUGHLIN. Mr. Chairman.

Mr. MCHUGH. Yes, Mr. Coughlin.

Mr. COUGHLIN. Could you bear with me just for one moment?

Mr. MCHUGH. Sure.

Mr. COUGHLIN. I have been thinking about the question you asked a few minutes ago about what would happen to the Postal Service if we were given all those freedoms and that monopoly disappeared tomorrow. And I've given that question a lot of thought, not just today, but over the 20-some years I've been in this Service.

While I strongly endorse the need, because of the competitive environment we operate in, for the freedoms we have talked about here today and at other times, the fact is that I don't think we know what the impact would be of a drop in the monopoly, a

change in the monopoly overnight. If it was changed overnight, I'm pretty well convinced it would have a devastating impact on the universal delivery capability of this organization. And that, in the final analysis, is what we are all about, the universal service capability.

I know that it has been postured that this organization doesn't pay taxes and it has this advantage and that advantage.

Mr. MCHUGH. Or parking tickets.

Mr. COUGHLIN. Some of that is simply not the case. We do pay real estate taxes. We do pay, in some instances, fuel taxes. There are significant burdens we do carry. Do we carry them in the same way that some of our private sector competitors do? No. But they don't carry the universal service burden, as well.

Is the basic question worth examining over time? As Mr. Runyon said, "Yes, probably." But let's not forget what this organization really is all about and why that monopoly is there. An overnight change in that I think would be devastating.

Mr. MCHUGH. I appreciate knowing that. I would also, as we indicated, like to, upon further reflection, have any other thoughts you might have.

As I have said repeatedly, we really view this as the beginning, the first steps. We have already indicated that we are going to, this fall, give Congressmen Rohrabacher's and Crane's privatization bill an opportunity to be heard and its proponents as well as its opponents to talk about it. In the interim, we're going to be looking at hopefully developing some responses, legislatively, to some of the issues that have arisen here.

So we are looking forward to working with you, General Runyon, and of course all of the interested groups that are involved in this very delicate and very massive system known as the United States Postal Service. I appreciate your being here.

After seven hearings, I feel like I ought to give a big, long speech, but I have to go vote on something that is almost as old as the Postal Service, and that's the American flag. So I had better get over there.

With that, the subcommittee stands adjourned.

[Whereupon, at 11:55 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

[Additional material submitted for the record follows:]

PREPARED STATEMENT OF HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I thank you for calling this seventh and final meeting in a series of hearings to address the issues that the Postal Service must confront in the coming years. I wish to commend the chairman and his staff for successfully assembling these oversight hearings especially during a period when we have all been under tremendous time constraints. This series of oversight hearings has enabled us to gain the perspectives of every individual and business entity directly affected by their dealings with the Postal Service, as well as, the views of our dedicated postal employees and management representatives. From the onset of these hearings I had said that it was my hope that in this subcommittee we would engage in a constructive dialogue which would provide a basis of information which can be utilized to improve the efficiency and customer service of the Postal Service. In this respect I believe these hearings have been extremely successful.

Today we will come full circle and hear testimony from our first witness Postmaster General Marvin Runyon. I wish to welcome Postmaster Runyon to our subcommittee and I look forward to hearing his testimony with regard to concerns

raised by other hearing panels. The labor situation and the lessons learned by the improvement in delivery services in large metropolitan areas. Thank you Mr. Chairman.

PREPARED STATEMENT OF HON. CARDISS COLLINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Chairman, I am looking forward to the testimony of Postmaster General Marvin Runyon as well as the opportunity to explore with him, a number of issues which have arisen since his first visit on February 23, 1995. Since that time, Subcommittee members have become much more acquainted with postal operations and services, employee and management issues, the status of automation and postage meter security.

We have also been introduced to the mailing community, and postal related businesses and competitors. In short, we have covered much ground in a relatively short period of time.

As might be expected, each and every group has raised concerns and shared their views—many which I plan to ask the Postmaster General for a response.

In closing, let me say that I am pleased with the approach this Subcommittee has taken and look forward to today's dialogue.

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