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TREASURY-POST OFFICE DEPARTMENTS APPROPRIATIONS FOR 1962

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HEARINGS

BEFORE THE

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON TREASURY-POST OFFICE DEPARTMENTS APPROPRIATIONS

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POST OFFICE DEPARTMENT

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TREASURY-POST OFFICE DEPARTMENTS APPROPRIATIONS FOR 1962

MONDAY, FEBRUARY 20, 1961.

POST OFFICE DEPARTMENT

WITNESSES

HON. J. EDWARD DAY, POSTMASTER GENERAL
H. W. BRAWLEY, DEPUTY POSTMASTER GENERAL
FREDERICK C. BELEN, ASSISTANT POSTMASTER GENERAL, BUREAU OF OPERATIONS (DESIGNEE)
RALPH W. NICHOLSON, ASSISTANT POSTMASTER GENERAL, BUREAU OF FINANCE (DESIGNEE)
ROBERT J. BURKHARDT, ASSISTANT POSTMASTER GENERAL, BUREAU OF FACILITIES (DESIGNEE)
H. B. MONTAGUE, CHIEF POSTAL INSPECTOR
LINDSLEY H. NOBLE, DEPUTY ASSISTANT POSTMASTER GENERAL AND CONTROLLER, BUREAU OF FINANCE
B. J. BEARY, DEPUTY ASSISTANT POSTMASTER GENERAL, BUREAU OF PERSONNEL
SIDNEY W. BISHOP, CONFIDENTIAL ASSISTANT TO THE POSTMASTER GENERAL
LOUIS J. DOYLE, DEPUTY GENERAL COUNSEL
L. REX LANDIS, DEPUTY DIRECTOR, OFFICE OF RESEARCH AND ENGINEERING
J. F. KELLEHER, SPECIAL ASSISTANT TO THE POSTMASTER GENERAL, PUBLIC RELATIONS, OFFICE OF THE POSTMASTER GENERAL
MICHAEL MONRONEY, EXECUTIVE ASSISTANT TO THE POSTMASTER GENERAL, OFFICE OF THE POSTMASTER GENERAL
FREDERICK E. BATRUS, EXECUTIVE ASSISTANT, BUREAU OF TRANSPORTATION
CLARENCE N. BRUCE, ASSISTANT CONTROLLER FOR BUDGET, BUREAU OF FINANCE

Mr. GARY. The subcommittee will come to order.

We will take up this morning the budget request of the Post Office Department for the fiscal year 1962.

The appropriation for 1960 was $3,859,410,000. The appropriations for 1961, including supplementals—and I believe the amended supplementals amount to $261,139,000, and if they are granted it will mean appropriations of $4,268,639,000 for 1961; and the request for 1962, as amended, is $4,424,100,000. The supplemental requests have been heard by the Deficiencies Subcommittee. If these supplementals are granted, the 1962 request is $155,461,000 over and above the appropriations for 1961.

BIOGRAPHY OF POSTMASTER GENERAL DAY

We are glad to have with us this morning our new Postmaster General, the Honorable J. Edward Day. Mr. Day, we have heard of your abilities, your capabilities, and of your previous vocation, but it is a policy of this committee to ask each new official appearing before us to place a brief biography in the record so that it will be available for the Members of the Congress.

General DAY. I am prepared to do that, Mr. Chairman.

Mr. GARY. I will appreciate it if you will insert that in the record at this point.

(The biography follows:)

J. Edward Day was born October 11, 1914, in Jacksonville, Ill., attended public schools in Springfield, Ill., graduated 1935 from the University of Chicago and in 1938 received his law degree cum laude from Harvard Law School. He was legislative editor of the Harvard Law Review.

He entered law practice in Chicago in the firm of Sidley, Austin, Burgess & Smith, the oldest and one of the largest law firms in Chicago.

During World War II, Mr. Day had 4 years active duty in the Navy, including service as commanding officer of a submarine chaser in the South Pacific. He was also an officer on a destroyer escort on convoy duty from the east coast to North Africa. He attained the rank of lieutenant. He was awarded the Navy Commendation Ribbon for service in escorting gasoline tankers in the Solomons area in 1944.

After the war ended, Mr. Day returned to practice with the same law firm in Chicago. When Adlai Stevenson became Governor of Illinois in early 1949, he appointed Mr. Day to his personal staff and 18 months later appointed him insurance commissioner of Illinois. In 1953 Mr. Day became a senior officer of the Prudential Insurance Co. of America at their headquarters in Newark, N.J. Four years later, he was made vice president in charge of the 13-State western home office area of the Prudential Insurance Co., in charge of 7,500 employees and an investment account of approximately $1½ billion.

After moving to Los Angeles to take over this new position, Mr. Day became active in many civic, charitable, and governmental groups, serving as vice president of the Los Angeles YMCA, vice president of the Los Angeles United Givers Organization, a director of Claremont College in Claremont, Calif., and by appointment of Gov. Edmund G. (Pat) Brown, as a member of the Governor's Business Advisory Council and vice chairman of the Governor's Commission on Metropolitan Area problems. He was a California delegate to the 1960 Democratic National Convention and had pledged himself to Senator Kennedy prior to his selection as a member of the delegation. During the campaign in the fall of 1960, Mr. Day was treasurer and one of the top leaders of the campaign for referendum approval of the $1¾ billion bond issue for bringing northern California water to southern California, a major program of Governor Brown. This was the largest bond issue ever submitted to the voters at any place or any time in history. Despite powerful opposition, the bond issue passed in November 1960.

Mr. Day was married in 1941 to Mary Louise Burgess, Winnetka, Ill., and has three children, Geraldine, age 17; Molly, age 14; and James Edward, Jr., age 12. Mr. Day's 91-year-old father, a retired surgeon, still lives in the family home in Springfield, Ill.

Mr. Day is a member of the governing board of the Wilshire Methodist Church in Los Angeles.

Mr. GARY. We will be very glad to hear from you at this time with reference to your budget requests for 1962, and also I am sure the committee would be interested in knowing something of your general ideas in connection with the operation of the Post Office Department. I realize that you have assumed the duties of the office of Postmaster General very recently and it may be that later on you will want to come back and make further statements to the committee. We will be glad to hear from you at any time, but we thought at this time you

might give us some of your ideas as to the policies and activities of the Department during the next year.

General Statement of the Postmaster General

General Day. Thank you, Mr. Chairman and gentlemen.

I am pleased to make my first appearance before this committee, together with some of the top management people from our Department. I have a prepared statement that I should like to read for the record before getting into the period of questions and answers.

Introduction of principal new members of staff.

First, however, before reading the statement, I would like to introduce the principal members of the new administration in the Post Office Department.

First is Mr. Bill Brawley, the Deputy Postmaster General, who for 12 years was on the staff and in the latter part of that period was the top staffman of the Senate Post Office and Civil Service Committee and is well known in postal circles as a person who has been highly familiar with Post Office Department operations.

As Assistant Postmaster General for Operations, we have Mr. Fred Belen.

Mr. Gary. Let me ask you, Mr. Postmaster General, are they going to testify later as heads of divisions?

General Day. Yes.

Mr. Gary. Then we would like to have their biographies in at that point, when they testify later; but those who are not going to testify later, if you would insert them now.

General Day. You would prefer that I not make reference to them now?

Mr. Gary. No, I would like you to introduce them, but it would seem more appropriate for those who head divisions to have their biographies placed in the record when they testify later; but as to any who will not testify later, we would like to have their biographies inserted at this point.

General Day. We will certainly do that.

Mr. Belen was for 12 years on the staff of the House Post Office and Civil Service Committee and was chief counsel of that committee. He is likewise known throughout the postal service as a person who has taken great interest in the matters of the Post Office Department.

As Assistant Postmaster General for Facilities, we have Mr. Robert Burkhardt, who originally had experience in the construction industry and was executive secretary to the Governor of New Jersey, and is a person with a wide background both in business and in government.

As Assistant Postmaster General for Finance, we have Mr. Ralph Nicholson, of New York. Mr. Nicholson was a highly successful businessman in New York City. He has discontinued all of his business connections and has come down here with us in this most important area of our Department's operations.

Mr. Henry Montague is our new Chief Postal Inspector. He has been in the Department for many years and until his appointment

10 days ago was inspector in charge of the important New York division. He is familiar with the Department's operations in general and particularly with the Inspection Service.

As my executive assistant, I have Mr. Mike Monroney, Jr., who is one of those who will not be testifying but will be heading up our legislative liaison work.

(Mr. Monroney's biography follows:)

BIOGRAPHY OF MICHAEL MONRONEY, EXECUTIVE ASSISTANT TO THE POSTMASTER GENERAL

Michael Monroney brings to the office of executive assistant to the Postmaster General in Washington, D.C., extensive experience in the affairs of the National Capital area.

From 1951 through 1956, he was a staff reporter on the Washington (D.C.) Post and Times Herald, and, in 1957 and 1958, he was director of information and research in the office of the county manager in Montgomery County, Md., adjacent to Washington.

Born in 1927, Postmaster General's Day's executive assistant is the son of Oklahoma's junior U.S. Senator, the Honorable A. S. Mike Monroney. The younger Monroney was graduated from St. Alban's School in Washington in 1945 and from Dartmouth College in 1951 with a B.A. degree, majoring in American and European history.

He served in the Navy from 1945 to 1946 and was assigned duty on the aircraft carrier U.S.S. *Franklin D. Roosevelt.*

Shortly before entering postal service he worked for 2 years on the staff of Congressman John Brademas, of Indiana. Also, during the transition period before the new administration in late 1960 and early 1961, Monroney assisted Postmaster General Day.

He is married and has two daughters, 11 and 7, and a son, 18 months. The Monroneys live at 5511 Namakagan Road, Bethesda, Md.

Mr. DAY. Assisting Mr. Monroney will be my confidential assistant, Mr. Sidney Bishop, who was a prosecuting attorney in Colorado and was thereafter with me in my private business activities in California and worked closely with me. He is a lawyer. He has eight children, although he is a very young man.

(Mr. Bishop's biography follows:)

BIOGRAPHY OF SIDNEY W. BISHOP, CONFIDENTIAL ASSISTANT TO THE POSTMASTER GENERAL

Sidney W. Bishop was born and raised in Denver, Colo. He attended Denver schools, and upon graduation from high school entered the U.S. Navy in 1944. He served in the Pacific until 1946.

Bishop was graduated with honors from Regis College, Denver, Colo., in 1949 and in 1950 from Westminister Law School, now part of the University of Denver. He was associated with a Denver law firm until he started his own law practice at Cheyenne Wells, Colo. Along with a civil practice, he prosecuted criminal cases as deputy district attorney for 6 years. In late 1956, he became associated with the Prudential Insurance Co. of America and was assistant counsel in that company's western home office in Los Angeles until he joined the staff of Postmaster General Day.

He is a member of the American Bar Association, the Colorado Bar, and the State Bar of California. Long active in civic and fraternal affairs, he has been an officer in his Veterans of Foreign Wars post, the Lions Club, Knights of Columbus, chamber of commerce, and he has served on the board of directors of the Colorado State Chamber of Commerce, and has been a city councilman.

In 1947, he married the former Betty Lou Dolan, of Denver. Mr. and Mrs. Bishop have six daughters and two sons. Mrs. Bishop and the children have remained in Van Nuys, Calif., and will move to Washington at the end of the school year.

Mr. DAY. Mr. Jim Kelleher is my special assistant for public relations. He has extensive experience in public relations work and he will have to do not only with our press activities but with our commemorative stamp program.

We are fortunate to have such a group of outstanding people. A number of them have had intensive experience in the affairs of the Post Office Department.

As you gentlemen know, the Post Office Department is confronted with a number of serious problems. My 1 month in office has served to confirm in my mind that there is no magic solution to these important problems. I can see a long hard road ahead—a road that will require every ounce of effort from every member of the Post Office Department if we are successfully to reach our objectives.

In pursuing the tasks ahead, I look forward to a close working relationship between the Post Office Department and the distinguished members of this committee. We hope we will always have the benefit of your experience and thinking and will be wise enough to make it a part of our thinking as we work out our problems.

GENERAL MISSION OF THE DEPARTMENT

I feel I have the responsibility of stating clearly to you my concept of the general mission of the Post Office Department. The mission is to serve the Nation by furnishing a postal system that is fast, reliable, and efficient—and furthermore to provide certain other nonpostal services as the needs of the people may require—all at the least possible cost.

In order to fulfill this mission I feel that it is important to do everything within the power of the Department to elevate the postal service to the point where it will merit and enjoy the full confidence and respect of the people it serves.

I realize that any organization handling the number of transactions handled in the Post Office Department is bound to make some mistakes. We shall make every effort to achieve a degree of perfection that will reduce such mistakes to a practical minimum. However, these mistakes—or the fear of mistakes—will not deter us in pursuing the main purposes that I have indicated.

REDUCTION OF TRANSPORTATION APPROPRIATION, 1961 AND 1962

In the brief time that I have been in office and that my top staff has been operative, there has not been an opportunity to become completely familiar with the details in the budget that is now before you. By and large I must rely upon the accuracy of work done prior to my administration in the support of this submission. We are, of course, conversant with the major elements and come here today prepared to discuss them.

Except for one modification that we have proposed, we are not at this time questioning the soundness of the assumptions that underlie the submission of the previous administration.

The one exception is this: We propose to modify the request for the "Transportation appropriation" by reducing it by $12 million. This reduction has been entered as an amendment to the 1961 budget and the effect will carry over to 1962.

STATUS OF FUNDS, 1961

I should like now to say a word about the status of funds for 1961.

Mail volume is running at a level very close to that which the 1961 appropriation will finance. However, the increase in wage rates and the increase in rates paid to railroads for moving the mail, both of which have been added to the cost of the Department's operation since the 1961 appropriation was passed, require supplemental appropriations totaling $261,139,000. This is the net amount needed after subtracting the $12 million savings in the transportation budget. Our request for these supplementary appropriations was made last Friday to the appropriate House Appropriations Subcommittee.

APPROPRIATION REQUEST, 1962

Now turning to the matter immediately at hand—the request for the 1962 appropriations:

Our request for obligational authority, based primarily upon the anticipated volume of mail to be handled in 1962, amounts to $4,424,100,000. (This is the adjusted total after carrying forward the $12 million proposed savings in the transportation budget into 1962 estimates.)

Accepting as we do at this time the submission of the previous administration, this means that the difference between income and outgo, before applying public service reimbursement and before any increases in postal rates, is estimated at $894 million. The difference after application of public service reimbursement but before increases in postal rates is estimated at $831 million.

This $831 million estimate of the apparent postal revenue deficiency is $12 million less than the $843 million arrived at by the previous administration because of the proposed $12 million reduction in the transportation appropriation.

POSTAL RATE INCREASES

The previous administration had proposed postal rate increases that would amount to $843 million annually. It was proposed these increased rates would be effective April 1, 1961.

No one informed as to the realities and history of postal rates can take seriously a proposal to effect increases of this magnitude in such a short time.

We are developing an overall proposal for rate increases. We expect our program both to provide needed revenues and to adjust certain inequities in the present rate structure. We expect to be able to state our position on this overall package proposal in a few weeks.

The deficiency in income facing the Post Office Department is indeed a serious one, one that we are determined to solve. Each day's operation adds about a $2 million burden on the Treasury. Thus it is important that we take action on this problem without delay.

The Department, itself, can take action by making increases in certain administrative rates. An increase of $15 million on international rates was included in the budget estimates. We are also planning increases in certain special service fees, which increases should

produce another $4 million. These additional revenues can start flowing within the next few months.

The development of a consistent and integrated rate structure that will serve the growing and changing needs of the public is a vital concern. The production of adequate revenues in order to cover the cost of postal service in accord with the Postal Policy Act is also a vital concern. That is why I have talked up until now mainly about the financial side of the Post Office operation. Lest I mislead you by this early emphasis on production of revenues, let me assure you now that I do see the problem as one of closing the gap between cost and revenue. I want to assure you that cost reduction is an equal partner with revenue increases in our plan for closing the gap.

COST REDUCTION

In considering the steps to cost reduction I find it easy to think of three words or phrases with the initial "M".

They are: management, motivation, and mechanical assistance.

MANAGEMENT

Proper management in the Department can reduce costs, increase productivity and add to efficiency. It is our purpose to unclutter the Post Office organization so as to eliminate both the confusion and wasteful duplication in management functions.

Further, in staffing the organization, we intend to utilize the best people in every job. We feel that these people at the management level must and will share the spirit and objectives of this administration. Without that, the best organization in the world would be frustrated.

It is a responsibility of good management to set correct and attainable goals. Numerous systems have been devised during the past few years for the purpose of measuring productivity of post offices and of individual employees in those offices. Some of these systems have been found wanting and have had to be discarded. Modifications of other systems are still in operation. I plan to find the right solution to this problem so that the interests of both the Government and the postal worker are respected.

MOTIVATION

The second "M" on my list is motivation. I have been impressed by the loyalty, capability, and conscientiousness of the workers in the Department. I feel sure that with vigorous management and with sincere respect and appreciation for the value and dignity of the work done by the postal workers we can so stimualte and motivate the whole organization as to make a major contribution to the productivity of the Department as a whole. To this end I intend to work as closely as I can with all levels of the postal system. To the extent that I am able, I want to meet with and know the problems of the postal worker. It is our intention to be accessible to the associations of the postal people through an "open door" policy.

The results of this belief in the value and dignity of the postal workers are far reaching. Not only do they unlock the energies of

the group today, but they provide the right climate for recruiting more able and better qualified people for the postal service tomorrow.

The amazing manpower resources of the Department are one of our greatest assets. Properly motivated this manpower can contribute greatly to the closing of the revenue gap.

MECHANICAL ASSISTANCE

With creative management and sustained motivation of the workers we also will give attention to the contribution that can be made by furnishing the workers with needed and useful mechanical assistance.

I am not interested in presiding over an organization made up of machines. I am not interested in gimmicks or gadgets for their own sake.

I am interested in furnishing those working tools that our personnel need in order to handle some 68 billion pieces of mail a year. I am interested in giving these people the best possible working conditions and working equipment that will enable them to do their job more accurately, faster, and more efficiently.

In the past the Department has had a number of special projects for the purpose of exploring mechanization of the post office. Turnkey and Gateway are the major ones. However, many others relating to particular pieces of equipment are in the process of installation or contracts have been executed for such installation.

Other projects are on the drawing board. It is these as well as other so-called mechanization plans that we will thoroughly explore. I do not know at this time precisely what our decisions will be.

TURNKEY PROJECT, PROVIDENCE, R.I.

The Turnkey project at Providence, R.I., is giving considerable trouble. We are making a complete review of the project. The Department for some months has been required to send people from Washington and regional headquarters to try to make the operation at Providence effective so that we can get maximum value for the large cost involved. There does not appear to be sufficient mail volume available for Providence to supply an installation of this size. I mention this merely as one of the problems that confronts us as we seek to provide the mechanical assistance that the workers need.

But let me say again, gentlemen, that I am not interested in machines for their own sake. The fact that a machine may be big, make a lot of noise, have colored blinking lights, does not impress me in the least. I intend to advocate spending money on machines only when they have a demonstrated practical use.

CAPITAL EXPENDITURES

As I conclude my opening statement I would like to say a word about our capital expenditure program.

Inevitably the discussion of capital expenditures at this time must take place in the context of the President's interest in accelerating desirable expenditures for the purpose of aiding the economy, particularly in distressed areas.

The Post Office Department operates in a far-flung physical plant. We cannot now, of course, purchase buildings either outright or

through the lease purchase law, which law expired on August 28, 1958.

However, we are pressing forward on plans for Post Office participation in a Federal building program with GSA. We are also accelerating our present program of authorizing the private construction of post office facilities which would be leased by the Department.

In the fiscal year that ended June 30, 1953, the cost of rents and utilities in leased space approximated $37 million. For the last fiscal year, which ended June 30, 1960, this amount had grown to $75 million. I mention this to give you some idea of the probable impact of an accelerated program involving the leasing of space.

Additionally there seems to be an opportunity to accelerate replacement of vehicles to the advantage of both the economy and the Post Office Department.

These programs—the Federal building program, the leasing program, and the replacement vehicle program—may be developed, as the needs defined by the President and Congress require, to the point where additional obligating authority will be necessary. However, no additional request is being made at this time.

Turning to another aspect of our capital program, we are taking a thorough look at the proposed Gateway project at Oakland, Calif. I am not in a position at present to give you our conclusions about the extension of such a program. But I can assure you that we will not rush ahead with any such projects unless we are convinced that we will be getting full value for the money.

Again let me express my appreciation for the opportunity to appear here today. I hope that it is the first meeting of a series in which we can work closely together in evaluating and solving the problems of the Post Office Department. Thank you.

PUBLICATION OF HEARINGS

Mr. Chairman, I understand that there is a policy—a very wise and understandable one—under which the discussions at these hearings are not publicized. I need a little education on that subject myself, because I shall of necessity be making independent statements about some of these items during the coming weeks. For example, since our program of accelerating our leasing program is a part of the administration's overall effort to aid distressed areas, I will be putting out information on that subject, and there may be some information on special projects. I want your advice and guidance.

Mr. GARY. There is absolutely no objection to your using this information in any way you see fit except insofar as it constitutes a release of information that you furnished this committee. We would not want, for example, any publicity of this statement. We would not want this statement turned over to the press as a statement that you have presented to this committee today. It will be published in full, but it will be published at the conclusion of our hearings when we submit our report to the full committee, and we would not like any information given out as to what has been said or done in this committee. In the operation of your Department, you are at liberty to make any statements that you see fit with respect to any of the

subjects that you have proposed here, but without reference to the presentation made before this committee.

That is my understanding of the rule. Is that right, Mr. Taber?

Mr. TABER. I think it is. Any information that should go out, we are accustomed to raising that question in the committee. Sometimes things do arise which should not be publicized.

Mr. GARY. Absolutely. But so far as his statement here is concerned, I see no objection—in fact I have seen references to some of the things mentioned here in his statements in the newspapers predating this statement to the committee. That is agreeable. We do not mean you are estopped from making any statements because you presented them to this committee, but we would not like them made as a program which you have presented to this committee.

General DAY. I understand.

Mr. Brawley, the Deputy Postmaster General, and Mr. Nicholson, the Assistant Postmaster General for Finance, are prepared, if you wish, to make very brief statements, not over two pages each, to follow up my opening statement, if you desire. Of course the people who will be presenting the proposals for the specific bureaus will wait until they present them, but if it is agreeable to you Mr. Brawley and Mr. Nicholson are prepared to make brief statements before you proceed with the questions.

Mr. GARY. Members of the Committee are familiar with the outstanding service rendered by Mr Brawley to the Senate Post Office and Civil Service Committee and we will be very glad to hear from him at this time

GENERAL STATEMENT OF DEPUTY POSTMASTER GENERAL

BIOGRAHPICAL SKETCH OF H. W. BRAWLEY

H.W. Brawley was born April 12, 1917, at Lockhart, S.C. He attended public schools in Chester, S. C., and in 1936 was granted the first football scholarship from the University of the South, Sewanee, Tenn., where he played end on the varsity squad. His educational background also includes studies at the University of Southern California at Los Angeles.

From 1940 to 1941, he worked as personnel assistant and research assistant at a large textile manufacturing plant at Chester.

His extensive Federal service dates back to 1941, when he worked for 2 years in cost accounting professional staff work in the executive branch in Washington, D.C. In 1943, he entered the U.S. Air Force as a cadet, and, following his graduation, he was commissioned flying officer (lieutenant), as navigator and radar bombardier.

After his discharge from the Air Force in 1946, he returned to Federal service in Washington as a member of the investigation staff of the Federal Trade Commission. In 1949, he moved to the legislative branch, where he has served since except for a period of service in 1951 as Assistant Administrator, Small Business Administration.

For most of the period since 1951 he has been the staff director and chief clerk of the Committee on Post Office and Civil Service of the U.S. Senate, directing a large and highly specialized staff activity which has dealt extensively with the postal service and other executive agencies.

Under the 83d Congress in 1953, he served also as executive director of the advisory counsel to the Senate Post Office and Civil Service Committee, and directed a year's intensive study at that time which resulted in major recommendations for improvements in postal system.

In addition to his unique background in the American postal system, he is an authority on foreign postal systems, particularly those of Europe. He has made thorough investigations in England, France, Germany, and Scandanavian countries whose postal systems have been the subjects of numerous magazine

articles and press reports of recent years reporting advancements in postal service.

The new Deputy Postmaster General is a vestryman, Immanuel Church-on-the-Hill, Alexandria; a member of the board of governors of the Alexandria Hospital and president of the National Capitol Democratic Club.

He lives with his family at 406 Skyhill Road, Alexandria, Va. He is married to the former Hazel Townsend of Aztec, N. Mex. The Brawleys have two children, Frederica Ann, 18, and Carol Lee, 12.

Mr. BRAWLEY. Mr. Chairman and members of the committee, I am very pleased this morning to make my first official appearance as a member of the Post Office Department before a House committee.

While executive director of the Senate Post Office and Civil Service Committee I observed very closely the operations of the Department. Already I find this experience and perspective helpful to me.

The Postmaster General in his opening statement already has made mention of the fact that he and his top staff had not participated in the development of the budget that is before you.

As the Postmaster General has pointed out, we have been in office less than 1 month. A good portion of our time has been spent in going over our problems and attempting to develop an organization that will provide the best solutions to these problems. It has not been possible for the new members of the Post Office administration to familiarize themselves with complete details. They have, however, naturally been satisfied by the basic soundness of the submission and the rightness of the main elements in the budget.

This budget proposes funds for the operation of the postal service for the year beginning next July 1. So far as the operating needs of this service are concerned, we must presume that the projections in this budget are based on sound economic data. If these economic projections materialize, then it is reasonable to assume that under the programs currently in existence the money requested will be needed to meet such requirements.

We are now in the process of making a most exhaustive and thorough study of every phase of the postal service. That includes capital investments, modernization, leasing, personnel relations, and every other element that could affect both the quality of the service we render and the cost of rendering that service.

We plan to strengthen the management functions of the Office of the Deputy Postmaster General for the purpose of assuring better utilization of the Department's resources, including manpower. This program will improve the overall management of the headquarters in Washington and the field. We believe that with this improvement the management will have tighter control over those who manage the work in their areas and should assure a more economic operation.

I can assure you that not one dollar will be expended beyond that which we believe, as good managers, should be spent. By the time the next annual hearing arrives we will be in a position to give a complete accounting of our stewardship.

Thank you very much.

General DAY. Mr. Nicholson has a very brief supplemental statement.

Mr. GARY. We shall be pleased to hear from you, Mr. Nicholson.

General Statement of Assistant Postmaster General, Bureau of Finance

Mr. Nicholson. Mr. Chairman, while this budget was prepared prior to my appointment as Assistant Postmaster General for the Bureau of Finance, I have reviewed it carefully. On the basis of the assumptions made, it appears to be reasonable. Modifications in procedure will no doubt be made by this administration and they will affect this budget. However it is not possible at this time to make any precise determinations as to what the projected effect will be.

MAIL VOLUME

As you know, it has been the practice of the Department to use a correlation of personal income and population to project the estimate of mail volume. This has proved to be a satisfactory base. I have no reason to believe that any variation from the volume estimate in 1962 will be substantial.

The mail volume projection for 1961 is 65.6 billion pieces. This is approximately 3 percent over 1960. Present volume growth is very close to this figure.

With the exception of the reduction of $12 million in the requirements of the transportation appropriation, I do not see at this time an opportunity for any further modifications in the 1961 appropriations. As you know, we have a supplemental request pending in the amount of $242,239,000 required to meet the pay increases directed by Public Law 86–568. As previously explained by the Postmaster General, the pending supplemental request of $30.9 million for the transportation appropriation requested to meet the cost of rate increases for railroads authorized by the Interstate Commerce Commission has been reduced to $18.9 million to reflect the $12 million indicated surplus in that appropriation resulting primarily from the continued decrease in parcel post volume and consequent decrease in cost.

Based on current economic data we believe the volume of mail in 1962 will approximate 68.1 billion pieces, an increase of 3.8 percent over 1961. This estimate has been developed by the statistical projection method which the Department has found generally accurate in the past.

The revised total estimated obligations for 1962 amount to $4,424,100,000, an increase of 3.6 percent over 1961. This compares with an estimated increase in mail volume of 3.8 percent. By way of comparison the actual operating obligations for the last complete fiscal year, that of 1960, were 4 percent over 1959, which is the exact amount of the increase in volume that year. The Department is thus projecting a lower rate of expenditure in 1962 as compared with the estimated workload. Indeed, in terms of actual employment of manpower the showing is even better than that. We are requesting funds to finance an increase in paid man-years of only 2.3 percent for 1962 to handle the projected increase of 3.8 percent in mail volume.

The capital and research obligations are estimated at $134 million, an increase of $4 million over 1961. This results from increases for research and engineering and certain plant and equipment projects that are outlined in the justifications.

LANGUAGE CHANGES

This budget submission proposes several changes in appropriation language. These changes will be discussed by Mr. Noble a bit later.

But there is one change I would like to comment on. As you have noticed, the Department is proposing a new appropriation to be entitled "Plant and equipment." This is in lieu of the modernization and improvement of buildings and equipment appropriation included in the 1961 Appropriation Act. The primary change is that the so-called standard capital and the motor vehicle purchase programs carried in the Facilities appropriation, 1961, are proposed for transfer to this new appropriation for the ensuing fiscal year. At the same time the estimate for contract research, development, and engineering, and all personnel currently carried in the modernization and improvement of buildings and equipment appropriation have been transferred to the appropriation for administration, regional operation, and research. I am in agreement that by consolidating all major capital funds in one appropriation and making the appropriation exclusively for that purpose we will have a better vehicle through which the Department's capital program can be administered.

The phrase "to remain available until expended" has been added to the language for the new plant and equipment appropriation. This would be a valuable aid in the execution of the Department's plans for capital improvements.

This, in brief, is the fiscal side of the 1962 budget proposed for the Post Office Department. We are here to answer any questions you may have concerning this budget or our program.

Mr. GARY. General, I want to say in the beginning that we appreciate your very succinct and frank statement concerning the operations of the Post Office Department. I can assure you that you will find this committee intensely interested in efficient and economic operations, and that it will cooperate with you in an effort to accomplish these objectives.

POSTAL DEFICIT

We are particularly disturbed, as you appear to be from your statement, over the deficit of the Post Office Department.

I believe you pointed out that you are now approaching a $900 million deficit for the next year—or $894 million, to be exact—which is a stupendous burden to place upon the taxpayers of the United States.

This committee has always had the feeling that users of the mail should pay for the special service they receive, and we have recommended adequate rate increases from time to time in order to bring about that situation.

We appreciate, however, that it cannot be done overnight and that too radical changes in the rate structure can bring about disruptions of service and business and have a very serious impact upon the economy. Therefore, it is a matter that should be entered into with discretion and with a reasonable approach.

In that connection, I read your press statement the other day in which you stated that you were studying the question of restoring the two deliveries of mail a day in residential sections.

The deliveries in residential sections were reduced to one delivery a day about 10 years ago. I think it was in the year 1950, or about that time. It was done upon the recommendation of this committee as an economy measure.

The committee at that time recommended that certain cuts in the appropriations be made, and we stated that these cuts could be met by reducing that service which we did not think was necessary in residential sections, particularly since there were so many areas in the United States—rural areas—that do not even receive the one delivery a day. Of course, we are remedying that to some extent now by rural delivery, but there were a great many areas where they did not get one delivery and we did not think that in the residential areas two deliveries were necessary. The Post Office Department put that into effect, and we were told at the time that the change saved approximately $100 million a year. If that is true, we have saved about $1 billion within the last 10 years, and while at first there were some complaints, I have heard practically no complaints whatever about the one-delivery-a-day service in recent years. Of course, a person can get as many deliveries as he wants today simply by putting a special delivery stamp on the letter, which is a payment for the special service.

I have a weekly radio program in Richmond in which each Saturday night I report to the people as to what has been going on in Washington and I commented on your press release and expressed the hope that your studies would lead you to the conclusion that the additional mail delivery is not necessary. I expressed my opinion very definitely that it was not, and called attention to the fact that because of the expansion of the deliveries in the suburban sections now and also because of the increased mail volume, you estimate that it would now cost $150 million a year to restore the two deliveries. That was commented upon by one of our local papers, the Richmond Times-Dispatch, and it editorially endorsed the position I had taken. I put this in the record for your information while you are studying this question, because it is an important question and one in which I am tremendously interested.

I do not think that this is the time, with the approximately $900 million deficit, to increase that deficit $150 million.

(The editorial referred to follows:)

[From the Richmond Times-Dispatch, Feb. 16, 1961]

ONE DELIVERY IS ENOUGH

Eleven years ago the Post Office Department cut mail deliveries to residential areas from two a day to one a day. The cutback was accompanied by a great howl from some politicians about how terrible it was to do this to the public.

It wasn't terrible at all. The second delivery a day was a totally unnecessary luxury. By eliminating it, the taxpayers were saved an estimated $100 million a year.

To restore the second delivery today would cost $150 million, it is estimated. Nevertheless, Postmast General J. Edward Day said last week his Department is studying the feasibility of returning to the two-a-day system.

Representative J. Vaughan Gary of the Third Congressional District is "bitterly opposed" to any change and he is right.

This is the age of speed, it is true, but there certainly is no sound reason for carriers to make two rounds a day in order to get mail into residential mailboxes faster than is now the case. Letters that are so urgent they can't wait a few hours can be sent by special delivery. And there's always the telephone and Western Union for those infrequent rush messages.

Besides, bills constitute a large proportion of the mail delivered to many homes, and they come fast enough already.

PUBLIC SERVICE ALLOWANCE

Mr. GARY. You referred to the public service item of your appropriation request in connection with the deficit. Can you tell us how you arrived at your recommendation for the public service item?

General DAY. Well, we are aware, Mr. Chairman, of the variety of sincere but conflicting attitudes toward public service allowances that currently exist among Members of the Congress. We are aware, too, of the attitudes of the users of the mail. We recognize the effects of these different points of view on the Treasury and on the taxpayer.

There is so much for us to absorb in the way of background and so much to evaluate about the implications of these different points of view that as of now we cannot give you our position; and at this time we feel our only course is to accept the value of public service allowances as stated in the submission by the previous administration.

Mr. GARY And it is my understanding that is based upon the policy that the Congress recognized last year; is that correct?

General DAY. Well, it is based upon the same pattern that was developed in the hearings before this committee.

Mr. GARY. That was my understanding; and the allowances which you requested for this year, while not exactly the same amount, because the amounts vary with the volume of free mail, are based upon the same principles that we recognized last year in making that assessment; is that correct?

General DAY. That is correct.

MANAGEMENT

Mr. GARY. You mentioned the matter of the management problem, and that is a question of very great importance and I know it is one that you are going to give a great deal of study to.

We have had many changes during the last few years. For example, we regionalized the Post Office Department and then we districted it and then the Department determined they had gone a little bit too far in decentralizing the activities and, consequently, they abolished the district offices and converted the district managers to field agents.

Frankly, I have never been able to determine just exactly what those field agents are doing, because we have the inspectors and the regional offices. I hope you are going to look very carefully into that setup, from the standpoint of the regional offices, the field agents, and the inspectors, in order to keep them from exercising overlapping duties with respect to management.

At one time it was difficult to tell just exactly who was responsible for a particular activity, whether it was the postmaster, the inspector,

the district director, the regional manager or someone in Washington.

Until we get those duties well defined, no organization is going to work and it is certainly very expensive if you have overlapping activities.

I hope you will look into that setup very carefully.

EXCESSIVE NUMBER OF POST OFFICE FORMS

In that connection I have here some information which my own postmaster in Richmond gave me just a few days ago. I have not had an opportunity to study it fully myself, but in it he is complaining of the many forms which they are required now to fill out. He says there are so many forms at the local level that they detract from the time available for the distribution and delivery of the mail. After all, that is the main function of a post office.

He called attention to the fact that under the cost ascertainment program they have approximately 45 different numbered work forms daily from the units; that they have approximately 50 different report forms (summary of work forms) each CA period—four times each year; estimated 14,000 man-hours used yearly on CA work.

What does CA mean?

Mr. BELEN. Cost ascertainment.

Mr. GARY. He says they have approximately 28,000 total of all forms, including CA time tickets each year.

Then, he says that 60 yearly forms were added in the past year (not new numbers, but additional forms required of old numbers); 130 accounting period (each 4 weeks) forms added during the past 2 years; 550 daily forms (2311 and 2312–WMS) added during the past 2 years and a total of 160 different numbered forms used in the Chief Accountant's Office during the year; 130,000 estimated all forms used, completed, or worked on during the year and includes all WMS forms, but does not include cost ascertainment forms or timecards, and approximately 36,000 timecards each year.

That would appear to be a field in which a great deal of study might be placed in order to eliminate some of these forms. He suggests that you could have fewer forms and also they could be very greatly simplified.

I was surprised when he told me that in connection with the star routes, which are contract routes, for which the Post Office Department enters into contracts with private individuals to deliver the mail for so much each day or so much each year, that they have to keep very elaborate forms on each delivery they make.

Now, it does appear to me that possibly a spot check or something of that kind could be used and a lot of this detailed form work of filling out forms could be discontinued.

General DAY. Mr. Chairman, I am acutely conscious of the fact that that is a common source of question and complaint. One of our prime objects is to try and reduce redtape and unnecessary recordkeeping to the greatest extent possible, and Mr. Belen will go into that more thoroughly when he gives his presentation before you. But, we are already working on that subject very hard.

I have heard this same problem relating to the recordkeeping in connection with star routes and the counting of the mail on each trip

and matters of that kind, and we are very conscious of that and anxious to do everything we can to reduce it.

I am sure you are conscious of the fact that in the field of cost ascertainment and cost allocation it is important to develop the most reliable figures possible on that subject, because when we get into rate increase proposals, that constitutes a large part of the discussion as to whether the costs are properly allocated between different classes of mail.

We have a large amount of testimony on that subject at any rate increase hearing and we want to have as firm a position as possible when we approach any such hearings in being as sure as we can that our figures are reliable. But, we do not want to have people in the post offices preoccupied unnecessarily with the filling out of forms, and we also are very conscious of the fact which you make that some of the postmasters feel that they may be getting directions from too many different places at one time.

MANAGEMENT THROUGH POSTMASTERS

Our fundamental approach is to have the postmasters manage the post offices to the maximum extent possible. I have been told by significant postmasters that the people from the regional offices deal directly with their staffs, giving them instructions without going through the postmaster. That is not good management practice. They, of course, come there to observe what is going on and to make observations and analyses of the operations of the office, but any direction to staff at the post office should be through the postmaster, and we are going to insist that that be done.

Mr. GARY. The reason I am not asking for your policies on these matters at the present time, General, is because I realize that there has been too little time for you to formulate your policies, but I would like your reaction to some of our thinking on them.

EMPLOYMENT OF MANAGEMENT CONSULTANTS

In connection with these studies, we ran across a situation last year right at the close of the session which disturbed us no end. We found out that in one of these studies that had been made in connection with the cost of handling mail for the purpose of supporting the postal increases the Department had employed an outside firm to make the study and had paid the directors of the study $400 a day under the contract.

Now, the Congress has fixed within certain limits the amount that can be paid consultants by the various agencies. Those fees range from $75 a day to I think the highest one is about $100 a day. The maximum allowable pay of consultants for the Post Office Department is $60.88 per day.

The Comptroller General had ruled that this limitation related only to individual consultants employed on an individual basis and did not apply to contracts with firms. According to that ruling, there is no limit on the amounts paid under contracts with firms and the Department was within the law in making these contracts, but the members of this committee felt that it was a very excessive price for the Department to pay for work of that kind.

The committee asked the Bureau of the Budget and the General Accounting Office to make a study of the situation and to make some recommendations to the committee this year as to what fees should be charged in those cases. We have not received a recommendation as yet, have we?

Mr. GUNNELS. That information, Mr. Chairman, has been sent to Mr. Andrews' Subcommittee on General Government Matters.

Mr. GARY. That is right. Since this committee acts only on Treasury and Post Office matters, we felt that this ought to be handled by a committee which had a more general jurisdiction, because any limitation adopted ought to apply to all of the Departments.

I do not know what legislation the Congress will adopt, but I hope you will bear that in mind that this committee does not approve of fees of that magnitude.

General DAY. Could I comment on that general subject, Mr. Chairman?

Mr. GARY. Yes, sir.

General DAY. I am not enthusiastic about widespread use of outside management consultant firms in connection with telling us how to run the Post Office Department.

I feel we have a tremendous amount of talent within the Post Office Department and within other Federal agencies, such as the Bureau of the Budget, the Bureau of Standards, and the other executive departments, who are people familiar with many of these subjects having to do with transportation, with accounting, with other matters of this kind. To the maximum extent possible, we plan to depend upon the use of experts who are already within the Federal Government rather than to use outside management consultant firms.

Mr. GARY. I am glad to hear that policy enunciated. I think there may be times when outside consultant firms can be of benefit, and I think they have been used to good advantage in many instances, but when they are called in, certainly, the charges ought to be reasonable. Our committee felt that the fees under the contract which we investigated were exorbitant.

General DAY. On the cost ascertainment reports, Mr. Chairman, it is my understanding that while we do need to get these reports, in order to support our position for general purposes and in connection with rate increase hearings, the pattern is that we get the detailed reports only on a spot check basis, which covers 1 week per quarter. It is not a day-to-day situation which is going on throughout the year.

WORK MEASUREMENT

Mr. GARY. Now, General, can you outline to us your mechanical operations?

You have mentioned the three M's—the management, motivation, and mechanical assistance programs.

I think under your motivation program probably would come the question of the work measurement program.

Have you given that any study so far?

General DAY. Yes, sir; I have, Mr. Chairman. We all have.

The matter of work measurements has been of concern to the Department for a good many years. One of the difficulties seems to have been that in an effort to work out an effective proven system there

have been a great many changes in the measures and in the programs which are used. The changes in the system have come along quite frequently. We want to try and stabilize the situation with a program that can have some long-term benefit, because if it changes frequently, you do not have the bases for comparisons that are necessary to get the most value out of such a system.

We understand that a report has been made to you on that subject, and we hope that it will be made officially available so that we can have the benefit of the rather exhaustive study of it that was made.

We feel that some type of a work measurement system is essential, because we need to have a basis for comparison in order to know whether we are getting a reasonable degree of productivity.

One of the difficulties in the work measurement systems, to the extent they are applied to everybody, all on one pattern, is that people in post offices who are fully familiar with and experienced with their particular schemes do not have a great deal of difficulty complying with the standards that are set for them, but people who have not become familiar with their schemes as yet do have a problem with developing that amount of output. We want to take into account any such special factors, because while we want to get reasonable productivity, we want to keep costs down.

On the other hand, we do not want to impose unreasonable burdens upon individuals who are working in the post offices, any more than would be done in any other large business or service organization.

Mr. GARY. We were very much interested in this question last year and we went into it with the Department. The Department's representatives told us that they had saved $1 million by putting the work measurement program into one particular office in the United States.

We asked them how many offices they contemplated it would work in and they said they thought it would work in all offices with gross receipts of over $1 million, and we asked them how many there were. I think there were 127 or 137 such offices. We then asked them if they had taken the savings in those offices into consideration in their budget requests and they said they had not, because they did not know what the savings would amount to.

We thought that if they had saved $1 million in one office they should save at least $15 million in the other 125. So, we cut the budget $15 million and then they accused us of wrecking the postal service. I do not know what the savings have been, but we are tremendously interested in that study.

General DAY. The current version of that general approach, which I believe is in effect now or was in effect until recently, was started in May of last year. There have been many modifications of this general approach.

Before we took office, there was an announcement made of a further change in that program. We are awaiting the analysis of the studies which have been made by the Bureau of the Budget, in order to make an appraisal of the degree to which we should go along with this revision which was proposed in December 1960, or how much value we can get out of the existing system, because it is important to have a system that can continue so that you can make valid comparisons.

Mr. GARY. Well, it was because of the experience we had last year and the testimony that we had that we made our committee investiga-

tion and study. We had members of our staff make a study of this question for the committee, and I hope that it is going to be helpful to you in working out a proper solution.

MECHANIZATION PROGRAM

Now, your third point was mechanical assistance.

Can you give us your ideas with reference to the modernization program?

General DAY. Yes, sir. There are varying degrees of mechanization that are appropriate for consideration for Post Office Department operations. There are a number of things that are rather basic to materials handling such as work flow equipment—you have trays moving automatically on conveyor equipment through a large post office; machinery to reduce some of the heavier and more onerous tasks of the workers in the post office and things of a rather fundamental nature. Those are in place and in operation in some post offices at the present time and we certainly contemplate that we will put into new installations of a substantial size such basic equipment, to the extent that it is proven that it will improve speed and service and that it will improve working conditions for the people in the post offices.

There is a second stage to any new mechanization program, and that is an attempt to have automatic equipment which goes far beyond fundamental materials handling work and workflow equipment. That is the area that we are looking into urgently at the present time.

Some of that has to do, for example, with attempting to extend the number of places to which a given clerk in a post office can allocate mail in sorting it. We hear it referred to as "extending the length of the arm of the postal clerk," where he now can sort only into as many pigeonholes as he can reach.

There have been proposals for a system involving equipment where he can sort to a much larger number of pigeonholes. That is one of the things involved in the experimental work in Turnkey.

There are other much more far-reaching experiments that are being talked about, such as a nationwide coding system, under which you would attempt to code each letter at its point of origin in such a way that it could then move automatically to the ultimate case of the carrier on the route. That is something which is being worked on or looked into.

I think there are tremendous problems in developing any such coding plan for a post office operation of the size of ours.

There are frequent references to what has been done in certain foreign countries but, as you know, Mr. Chairman, we handle just in the New York metropolitan area more mail every day than is handled daily in the entire British postal system.

We handle in our Post Office Department two-thirds of all the mail that is handled in the entire world. We have this huge number of destinations and tremendous variety of place names such as street names and so forth, and I would say that that is in a very early stage. We intend to pursue this rather quietly, but with close attention to any methods which can improve the mechanical facilities available for better service and for improved working conditions.

Mr. GARY. What is the status of the Burroughs machine?

General DAY. Is that the parcel post machine?

Mr. GARY. No; that is the sorting machine.

General DAY. Is that the one they now have in use?

Mr. BURKHART. It is nearly operational.

Mr. LANDIS. May I answer that question?

Mr. GARY. Surely.

Mr. LANDIS. The Burrough's Corp. contract originally called for some research and development and the production of 10 prototype machines. Those machines have all now been produced and there are three in service and have been in service for some time. The others are in place now. We have one in Washington, one in Detroit—at the old Roosevelt Annex—one in Flint, Mich., and the others will go into the new Detroit facilities.

Mr. GARY. You do not have one in Turnkey, do you?

Mr. LANDIS. We do not have one in Turnkey.

Mr. GARY. That is what I thought. The Turnkey sorter is a modification of the Belgian machine, is it not?

Mr. LANDIS. Yes, sir; of the Belgian machine.

General DAY. That is along the line, as I understand it, of what I am talking about, however, of extending the arm of the letter sorter.

Mr. LANDIS. Very definitely.

Mr. GARY. In that connection, General, this committee has been very interested in the modernization program, and I think the Division of Research in the Department was established upon the recommendation of this committee. However, as you suggest, there is danger of carrying mechanization too far, where it costs more than the volume of mail would justify. I think that is true particularly in the use of electronic machines that are being installed in a number of the departments. You will probably be interested to know that last year—I happen to serve also on the General Government Matters Subcommittee which passes upon the appropriations of the Bureau of the Budget, and we appropriated an additional sum of money last year for the purpose of giving the Bureau of the Budget an opportunity to make a general overall study of the use of these electronic machines.

I do not know how far they have gone with that study, but it might be that they will come up with some very useful information on that subject.

General DAY. We are equally seeking advice and information on that subject from any sources available. I know, from my own observation, that in private business there have been a great many disappointments with the actual results achieved so far by electronic equipment. There has been quite a gap between promise and performance in what some of it has actually achieved. We do not want to rush ahead with any type of equipment until we are satisfied that it is going to accomplish something substantial for us.

COMMITTEE STUDIES

Mr. GARY. We also had our staff make a study of the modernization program of the Post Office Department this past year and we have a report on that study.

General DAY. Is there something that is available to us at this point on this subject, or is that still being considered?

Mr. GARY. We have the report and, I think, before we release it we will have to have some meetings of the committee on it. The committee has not been able to discuss that as yet.

Has this report gone out to anyone other than members of the committee?

Mr. GUNNELS. Subcommittee members only, Mr. Chairman.

Mr. GARY. The members have it and I think as soon as they have had an opportunity to consider it, we may want to issue some statements in connection with it and then they will be available. The subcommittee itself has not determined yet just what action we will take on it. But, as soon as we do I am sure it will be available to you and we will try to make it available just as quickly as possible.

General DAY. What is the status, Mr. Chairman, of the Bureau of the Budget study on the work measurement program? Is that officially available to us?

Mr. GARY. The study by the Bureau of the Budget?

General DAY. Yes, sir.

Mr. GARY. Yes; that is also in the same situation. We have not yet had an opportunity to decide what the committee will do, but I think both of those reports will be available to you and we will try to make them available just as quickly as possible.

Mr. Passman, do you have any questions?

MAIL DELIVERY IN RESIDENTIAL AREAS

Mr. PASSMAN. General Day, I am certainly impressed with your statement.

I would like to join with my chairman in expressing the hope that when you have completed your study on the two mail deliveries you will reach the same conclusion that your predecessor and this committee reached, by a majority, that one mail delivery in residential areas is adequate.

I think there is an amazing record that could be put together on that subject, if you had the files of the Members of Congress.

There are in excess of 100 post offices in my district and the district covers some 10,000 square miles. Many of the post offices in many of the cities have city delivery, and when this controversy was at its height, I think I received a total of, perhaps, 20 letters—not over that amount—complaining about the fact that the Department had discontinued the second daily mail delivery.

In all probability, if the Members of Congress would take the time to search their records, I doubt if there would be 200 letters addressed to all Members in the past 5 years complaining about only one mail delivery. I have not received a single letter protesting this policy in 7 or 8 years, or since the controversy died down. So, if people are happy with it, let us leave it that way.

Mr. TABER. I wonder if we could go off the record for a moment.

Mr. PASSMAN. Surely.

(Discussion off the record.)

Mr. PASSMAN. People, by a great majority, are happy with this setup and I should think it would take some very good reasons to reinstate the old two deliveries per day, sepecially since we are operating in all probability at a billion-dollar deficit this year. I think you are conservative on the size of it as being approximately $900 million. I

also hope that along the way you will find some way—and I actually believe that the information available through Members of Congress will hlep you—to reach a favorable decision that one mail delivery is plenty adequate, especially since you would have to add $150 million to the present deficit, which will push it well over $1 billion.

So, I join with my chairman in expressing that hope.

General DAY. May I comment on that, Mr. Passman?

Mr. PASSMAN. Yes, sir.

General DAY. The updated figure on the estimated cost of a second delivery is $176 million, and I felt that it was only appropriate that I should agree to give the matter a new look, because this was pressed upon us by one of the significant and responsible associations of postal employees who asked us to consider it, and I felt that it was only fair not only that we should consider it, as we are doing, but that we should give them an opportunity to be heard on the subject in a Department conference.

I feel that it is very doubtful, whatever the decision might be, that a second delivery would ever be on the basis that it was before 1950, because there have been a great many changes in the handling of mail on the routes during that period of time; for example, a great deal more in spotting of mail in route boxes along the carrier's route by trucks so that he does not leave the post office with all of the mail that he is going to be delivering on that route.

We have also made spot checks as to the amount of mail that accumulates in the post offices which would be available for a second delivery, and our tentative findings on that are that that amount is not very large.

The fact that we are looking into it, and that we feel that we should give a fair new look to it, does not in any way indicate any advance decisions on it or any unwillingness to be advised by all sources as to what should be done.

Mr. PASSMAN. Thank you, General Day. I am sure you are going to be perfectly fair about it.

Of the 20 letters I have received complaining about only one mail delivery in cities, I am sure that at least 18 of them could be placed in the category of "inspired letters" coming either from fathers or mothers or relatives of the workers in the Post Office Department.

NEW POST OFFICE BUILDINGS

If I may, sir, on page 4 you mention the Post Office Department operates a farflung physical plant and that you cannot now, of course, purchase buildings either outright or through the lease-purchase law, which law expired August 28, 1958.

If there should be a revised plan for new Federal buildings or post offices, it would be a general, nationwide plan; would it not?

I received a letter only recently from a postmaster in one of the largest cities in the State of Louisiana, indicating that a Member of Congress had introduced a bill calling for a new post office for this city. He was greatly encouraged and wanted my support, and it read as though it was a foregone conclusion that this city would get a new post office.

General DAY. The situation, as you know, Mr. Passman, is that of federally owned buildings and those are not contracted for by the Post

Office Department, but they are multipurpose buildings that are contracted for by the General Services Administration. There are some of those in a very active stage of nearing a start on construction. However, the major part of our facilities—the overwhelming proportion of our facilities—are relatively small buildings that are contracted for by a lease arrangement whereby the building is built to our specifications and we agree to lease it for a period of years. We have a great deal of that going on, and a great deal of a highly positive and successful nature of that type of leasing has been going on for a number of years and we are continuing that.

We do hope to move up our starts on some of those leased facilities in the next few months.

(Discussion off the record.)

General DAY. Mr. Passman, we certainly intend to pursue a nationwide policy, assigning priorities on the basis of nationwide needs. There are some areas that are rather desperately in need of new facilities and we will consider those in relation to the countrywide pattern.

Mr. PASSMAN. That answers my question perfectly, General.

Mr. GARY. Will the gentleman yield?

Mr. PASSMAN. Yes, sir.

Mr. GARY. Has that Denver situation been pretty well cleaned up now insofar as facilities are concerned? I was out there several years ago and they had the mail piled up at the railroad station and a large part of it was out in the rain and subject to all kinds of weather.

I understood that the post office had been improved; is that correct?

Mr. LANDIS. Yes, sir; they have a brandnew facility out there, it is complete, it is highly mechanized, and has been operating satisfactorily.

General DAY. That is one of the most modern post offices in the country at the present time.

Mr. GARY. That is fine. They needed it tremendously. Their problem was primarily with reference to parcel post. They had a lot of parcel post piled up right at the railroad station with no top over part of it and it was exposed to the weather. It was a very bad situation. I thought it had been taken care of, and I am glad to hear that it has.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

MAIL VOLUME

Mr. PASSMAN. You mentioned earlier, General Day, that the United States handled about two-thirds of the world's mail volume. That is a lot of mail. I believe the world population is about 2.9 billion. We represent approximately 182 million. In considering the mail volume is it done by pound principally or by the number of pieces, or both?

General DAY. This is done by number of pieces, Mr. Passman—this figure of 68 billion pieces which we are using in our projections. It also includes parcel post.

INCREASE IN THIRD-CLASS MAIL RATES

Mr. PASSMAN. General, you have a lot of problems and we are going to cooperate with you. It just occurred to me that we should give more consideration to the amount of junk mail that is being handled. I think this is true with reference to most businesses and most Members of Congress.

I own two small businesses and handle some mail there, and as a Member of Congress, we handle a lot of mail, and being an early riser, the first thing I do when I get to my office in the morning is to go through the mail and I fill about two wastebaskets some mornings with junk mail, and finally separate the first-class mail from the junk.

I wondered if you had any way of checking so that businesses would know that a good part of the so-called junk mail is not being opened, because there is no doubt hundreds of thousands of tons of it immediately go in the wastebaskets. The subsidy to that class of mail is tremendous.

Are you going to make a study this year of adjusting rates on so-called junk mail?

General DAY. Any rate increase proposal and any ultimate complete proposal will have to include an adjustment of rates for third-class mail, as well as for the other classes.

Mr. PASSMAN. And, maybe, second-class mail?

General DAY. Yes. However, I am very conscious of the fact that now we have 5.5 million people unemployed and that we want to try to keep people in business and put them in business. There are many established and legitimate business operations which use third-class mail as a method of doing business and as a method of advertising. Of course, a well-run business that is doing that does it only to the extent that it believes that it is of value to them and that at least some of those items get through to the prospective purchasers and will result in some business being done.

I think that the large amount of circulars and third-class mail is only another symbol of the very aggressive and dynamic way in which business is carried on in this country.

There is another factor that has a bearing on that and that is some of the largest users of direct mail do a tremendous amount of presorting and of the handling of the mail for us.

We had a case the other day that we looked into where a small town in the Midwest had a post office with eight employees. They had had annual receipts of $100,000 a year. A very large direct mail concern moved into that town with several hundred employees and it resulted in annual receipts for that post office of $4.5 million a year. Yet, they still had eight employees in the post office, because the people in the direct mail concern did all of the sorting and preliminary packaging. There was very little increase in the workload on these employees as a result of that operation there.

COOPERATION WITH LARGE MAILERS

One of our primary programs is going to be to expand cooperative mailing efforts with large mailers in order to try and get people who mail many items, particularly many items all at one time, to work closely with us as far as making it easier and faster for our people to

handle the mail once we get it. For example, a very large corporation, one of the largest corporations, in sending out dividend checks will put 1 million pieces of mail into the post office at one time. They know they are going to be putting them in. It is a regular thing. We want to step up efforts to get them to not only help us with the sorting, but to improve the timing, because, as you gentlemen all well know, one of our great difficulties is not only in handling mail volume but in making efficient use of mechanical equipment with reference to the peakload problem, in that the normal operations of a post office are rather quiet in the morning. People are turning out the letters during the day, and it is all dumped into the mailboxes at 5 o'clock in the afternoon. So we hope to do a great deal in order to expedite handling through cooperative mailing.

INCREASE IN FIRST-CLASS MAIL RATES

Mr. PASSMAN. General, it is still possible, even though we had 5.5 million people unemployed in January, that in January you had the largest number of people employed in the history of America. So, that helps make a good record. While you have a slight increase in the number of unemployed, you have a substantial increase in the number employed simply because you have more people employed than ever in the history of America. So, at least, we have something on the other side of the ledger to offset what is on the unemployment side. But it follows, nevertheless, that we are approaching a billion-dollar annual deficit in the operations of the Post Office Department.

Now, I brought that subject up for this reason: I have heard many Members of Congress state that they were in favor of increasing first-class postage, but they would only do so if you removed the subsidy for the second- and third-class mail. Now, as long as you have a condition like that, it simply means you are not going to be able, perhaps, to increase the first-class postage to the rate that it should be. I thought it should have been increased to 5 cents several years ago and I would have supported such legislation, but you have other Members who would not vote to increase first-class postage until you have increased substantially the rates of the second- and third-class mail. That is the reason I brought that up.

When you establish the amount of the cost of operating the postal establishment, you apply against that your parallel receipts and the difference is what we refer to as a deficit, and that must come out of the U.S. Treasury in order to make up the difference between receipts and the cost of handling the mail; is that correct?

General DAY. Well, I referred to it as a gap between income and outgo.

Mr. PASSMAN. Let us call it a gap, but if it cost $4.4 billion and you only get $3 billion, that is a billion-dollar deficit and you draw that out of the general fund in order to make up that gap?

General DAY. Yes, sir.

Mr. PASSMAN. And, I think, according to all statistics, the individual puts up 68 percent of the money that goes into the Treasury and 32 percent comes from corporations. Have you heard those statistics used before, Mr. Bruce, so far as the deposits are concerned when we reimburse the general fund—that 32 percent is collected from corporations and 68 percent from individual sources?

Mr. BRUCE. I do not know exactly what the ratio is there, Mr. Passman.

Mr. PASSMAN. Does that sound reasonably correct?

Mr. BRUCE. It sounds reasonably correct; yes, sir.

Mr. PASSMAN. I have been told that 76 percent of first-class postage is used by business and 24 percent by the individual. Does that sound reasonably correct?

Mr. BRUCE. I think tests have shown it runs about 75–25, or about that ratio.

Mr. PASSMAN. So, by keeping first-class postage rates down, the individual—the little man—subsidizes the big man? Would it not naturally follow that that is the true answer to it?

If we take into account that business charges off as an expense all of its postage and the individual who uses 24 percent cannot charge it off, would it not mean that the individual is subsidizing business?

General DAY. I want to say on that, Mr. Passman, that in connection with adopting the budget that is presented and that was submitted by the previous administration, we at least for the time being included in that the $843 million rate increase proposal which was in that budget. The budget that was submitted only includes a total figure on that and does not give any breakdown, and we are having considerable difficulty in determining how you will bring about an $843 million rate increase, to be effective April 1, 1961. Only a little more than one-half of that could come from an increase in first-class rates. In some of your other classes you have a point of diminishing return as far as their use is concerned. If you have a very drastic increase, effective all at one time, even if such an increase could be brought about—and that is particularly true I think in connection with parcel post—if you have an extremely drastic increase which went into effect all at once on parcel post I think that we might well price ourselves out of the market for a large part of the desirable parcel post business.

Mr. PASSMAN. Would that not be good?

General DAY. It is a major part of the function of the Department and it is about 70 percent of the mail volume that is carried by the railroads for the Department, and I think that it is a service that the people expect to get and that we should be able to operate it, generally. I find, for example, out in my own area of California that companies that were known as parcel delivery companies—and we used to think of them as just bringing a package from a department store to a customer's door—are now operating on a statewide basis. You can send a package from San Diego to Sacramento, 550 miles, by a parcel delivery service, but what I think often is not understood there is that San Diego and Sacramento are very large cities where there would be a substantial volume generated by consumers. Where the packages are addressed to places in out-of-the-way locations—small towns and other places—where there would not be a large amount of volume and a large profit in making deliveries to those areas, the parcel delivery companies nightly bring all of those parcels down to the post office and unload it on us. I think that if our prices for parcel post were increased too drastically, it would only accelerate that sort of thing and rather than produce a large amount of additional revenue, it would actually reduce revenue.

Mr. PASSMAN. Mr. Chairman and General Day, the members of this committee are dollar conscious. I think we have reached the point in America where we are going to have to start giving some thought to a balanced budget. I was rather impressed with some figures recently—and this may be well to have in the record—that we have a Federal debt of $290 billion and if we take the statutes now on the books that call for payment at some subsequent date and project them to completion, we have an obligation of $782 billion, or $20,000 for every family in America. So, with those frightening figures, I think the time has come for all of us to give some thought to what we are going to do in the future, if we do not bring some of these expenditures under control.

You are a businessman and I am a businessman, but I have to operate at a profit and free enterprise operates businesses to earn a profit.

Here we are operating one of the largest businesses in America and we are losing about 28 percent or approximately 22 percent annually. Any time you mark up a $843 million deficit on a volume of $4,424 million, it is not a very successful operation.

Mr. PILLION. I would not want to buy it.

Mr. PASSMAN. I have always believed that the users of the mail services should pay for them.

I think you will find that each member of the committee wishes to be helpful and not to be critical, but only by discussing these things can we come up with the right solution.

RATE INCREASES PROPOSED IN 1962 BUDGET

On page 4 of your statement you say that the previous administration had proposed postal rate increases that would amount to $843 million annually and it would propose that these rates would be effective April 1, 1961. No one, informed as to the realities and history of postal rates, can take seriously a proposal to ask for increases of this magnitude in such a short time. I will certainly agree with you, provided you do not have materials in your possession or available that will support that. I was impressed by your statement on page 1 that by and large you must rely upon the accuracy of the work done prior to your administration in the support of this submission.

I certainly hope that you will apply that equally to this rate increase and, perhaps, work them both out at the same time.

General DAY. Well, we are certainly very anxious to find out in detail how this $843 million figure was derived, because as you say, only about one-half of that could come from a first-class increase—an increase in first-class rates.

There are indications that it might require as much as a 100 percent increase in certain other classes in order to get to any figure of this kind and, historically, there has never been anything of that nature to go into effect all on one date, particularly a date only 2 months away. So, that is one of our great concerns, because we are operating within the directive of the President to the effect that he wishes to stay with the budget that has been submitted, to the maximum extent possible.

Mr. PASSMAN. I certainly agree with you, General, that you could not be expected to get this legislation through on such short notice. The history of the Congress would not support any such claims, with the prior administration or your administration, to the effect that you

are going to get a rate increase of this magnitude through in any 90 days.

Off the record.

(Discussion off the record.)

Mr. PILLION. Will the gentleman yield?

Mr. PASSMAN. Yes.

Mr. PILLION. We put through the increased expenditures very fast. It is strange we can do that and cannot put the increased receipts through. If you put it on a 3- or 5-year basis you have several salary increases in that period.

Mr. PASSMAN. That has been our experience in the past, and within 1 year you are again operating with a large deficit.

Mr. PILLION. That is all. Thank you.

Mr. GARY. Gentlemen, it is 12 o'clock. The committee will stand adjourned until 2 o'clock.

AFTERNOON SESSION

Mr. GARY. The committee will come to order. Mr. Pillion.

Mr. PILLION. Mr. Postmaster General, as I said before, I do not know whether to offer you my condolences or congratulations upon the complex and difficult job that you have assumed. I am sure you are familiar with the difficulties confronting you and your staff.

TWO-A-DAY MAIL DELIVERIES TO RESIDENTIAL AREAS

With respect to the two deliveries of mail a day, I am somewhat inclined to agree with the remarks of the gentleman from Louisiana that this would be a rather inauspicious time to add another $175 million to the cost of the Post Office Department.

Off the record.

(Discussion off the record.)

Mr. PILLION. In the event that a decision were made in favor of the two-a-day mail deliveries, would that require congressional action or could you do it by executive process?

General DAY. I want to check with my associates on that. Mr. Brawley, would you speak on that point?

Mr. BRAWLEY. Would you repeat the question, sir?

Mr. PILLION. In the event your Department decided that you wanted to reinstate the two deliveries per day of mail, would that require congressional action or could it be done by departmental directive or order?

Mr. BRAWLEY. I think I have the answer, but I would like to be supported by our General Counsel, Mr. Doyle, so let me ask him to give the answer.

Mr. DOYLE. It could be done by administrative action.

Mr. GARY. Provided you have sufficient money.

Mr. BRAWLEY. I was coming to that.

Mr. GARY. I assure you I, for one, will oppose a $176 million appropriation for that purpose.

Mr. PASSMAN. If the gentleman will yield, I would like the record to show that I, also, would oppose the additional $176 million.

Mr. PILLION. I am sure you will have company on this side of the table also.

POSTAL DEFICIT

I was very much impressed, General Day, with your statement of objectives, and I am in substantial agreement with them, and I am sure the other members of the committee are. The implementation of those objectives will be the difficult problem. And I share the concern of my colleagues with respect to a business that has a gross revenue of somewhere in the neighborhood of $4 billion and is operating at a deficit of $800 million or $900 million. I realize fully that the cause of that is not entirely with your Department. A measure of the cause of this is with Congress, and I certainly think there ought to be a cooperative effort on the part of the Department and Congress to place this Department on a more businesslike fiscal standing.

REALTY OWNED BY POST OFFICE DEPARTMENT

With respect to the $900 million, the rough figure for a deficit, do you have any idea, Mr. Secretary, what the investment of the taxpayers is today in all the realty owned by the Post Office Department?

General DAY. I would like to insert a figure on that in the record, Mr. Pillion. As you know, in recent years we have not been acquiring Government-owned buildings except as they are acquired by the General Services Administration for multipurpose buildings involving other occupancy than the the Post Office Department.

Mr. PILLION. What I am getting at is that perhaps this $900 million is not an accurate figure of the deficit we are running. We are using buildings that have been paid out of tax funds in years past and I am sure if we took them on a present-day replacement value and depreciated them, I wonder if even that figure shows the correct deficit?

General DAY. We show in the annual report of the Department for 1960 that as of June 30, 1960, the value of the land was $95.1 million; of buildings and structures, $397.2 million; and of equipment, $401.6 million. If you wish us to go into that in greater detail, I would suggest that Mr. Noble might cover that for you.

Mr. PILLION. I can take it up later.

LEASE PROGRAM

Are you convinced, Mr. Secretary, that the construction and then leasing back of property is the most economical way of handling the real property of the Post Office?

General DAY. My thinking at the moment, after such study as I have been able to give to it, is that that is the preferable way to handle it. For one thing, the figures show that the cost of the buildings and the rental cost to us of the space is less in the leased facilities. Also, it gives us greater flexibility in the relocation of our postal facilities by being able to have another building built in some place that may be more logical in view of population shifts or transportation changes.

Mr. GARY. Will the gentleman yield?

Mr. PILLION. Yes.

Mr. GARY. Would you have any difference of opinion there as between the main post offices and the branch offices?

General DAY. I think, Mr. Gary, that the figures which Mr. Burkhardt can go into in detail will show that even for the larger buildings the cost to us is less. There is less of a tendency in these leased buildings to have monumental structures and to make them of a nature that adds to the expense, and I believe that we gain by the leasing program even in large installations.

Mr. GARY. The reason I asked that question, I know it was the policy of the Post Office Department at one time that the main post office buildings be owned by the Government, but that the branches should be leased because of these shifts in population and the fact you could get rid of them much more easily, but generally the main post offices have a rather fixed location.

General DAY. I think as time goes on there may be greater need for flexibility of location even of your main post offices, because of the changes in transportation patterns.

Mr. MILLIKEN. Will the gentleman yield?

Mr. PILLION. Yes.

Mr. MILLIKEN. On the leased post offices I find when they go into a town to put up a new post office or to enlarge the existing facilities or build a garage, if they say the facilities will stay on the tax rolls and will pay a part of the school and local taxes, a lot of the barriers are removed. So from where I sit I feel strongly that the Government should lease these buildings and place them in the position of being good neighbors in the regions where they operate.

General DAY. Yes. As you say, the leased facilities do stay on the tax rolls.

Mr. MILLIKEN. As education is costing more today communities welcome these leased buildings on that basis.

COST OF SECOND- AND THIRD-CLASS MAIL

Mr. PILLION. With respect to second- and third-class mail, we had a figure last year from your predecessor that the cost of mailing a magazine was roughly 5½ cents and they paid 1½ cents and there was a 4-cent deficit for each magazine. I think it is almost criminal to subsidize some of the junk on magazine racks, and in line with what the gentleman from Louisiana said, there is some resistance in Congress, I know there is on my part, to voting for an increase in first-class mail unless all portions of the mail pay their own way. To say that first-class mail should have an increase in rate and then continue a subsidy of that type on second- and third-class mail in that amount just does not seem right.

Now I am an orthodox economist and I believe the Post Office Department is not a social organization or a sociological department. It is a business that you are running, and I think the users, the consumers, will determine the value of your services by the prices they are willing to pay. The only way to determine that is if each class of mail pays its own cost. I hope when you make your recommendations, Mr. Postmaster, you will keep that in mind. The subsidies are based upon sympathetic reasons, or reasons extraneous to the economics of it. I do not think a business should be subsidized solely on the ground it will improve the economy. I think it is better to leave the money with the consumers and let them determine that. Let each class of

mail pay its own way. If we start making exceptions, we are in an economic quagmire.

MECHANIZATION PROGRAM

I am pleased to note from your remarks that you will not automate or mechanize merely for the sake of automation or because it has become fashionable today, and that you intend to take a good hard look at it and proceed only if you find it is an economic thing to do.

RELATIONSHIP OF UNEMPLOYMENT TO BUILDING PROGRAM

I note in one of your statements that you believe that a distressed area or an area where there is unemployment would be a factor in determining your building program. I hope it is not a prime factor, however. I do not think we should build post offices merely to provide employment in an area when it may be 5 years or more before the facility is actually needed.

General DAY. Our feeling on that is that it will be taken into account as a factor in the timing, but there are a great number of places where it is indicated new facilities are needed, and it is a matter of speeding up the construction of leased facilities in some of these locations.

TURNKEY PROJECT IN PROVIDENCE

Mr. PILLION. I noted in a publication of the Post Office Department relative to the Providence project a very nice, well-done, artistic piece of literature justifying the Providence project on the ground it was urban renewal. I think that is a poor way to run the Post Office Department.

Mr. GARY. I doubt they can justify that much expenditure on any other basis.

General DAY. If I may go off the record.

Mr. PILLION. Off the record.

(Discussion off the record.)

PARCEL POST BUSINESS

Mr. PILLION. Mr. Secretary, I noted in one of your statements that there was a decline in the parcel post business. Is that so?

General DAY. Yes, there is a decline in the total weight carried.

Mr. PILLION. Is that because of competition with the Railway Express or some other agencies?

General DAY. I think it is a result of competition from several sources. As I mentioned, in certain parts of the country there is a good deal of widening of the area served by parcel delivery companies.

Mr. PILLION. But parcel post is still a substantial portion of the Post Office Department's business?

General DAY. Well, as far as the volume of mail carried on railroads, it represents about 70 percent of it.

Mr. PILLION. What percentage of the total revenues from the standpoint of dollars does the parcel post business generate, roughly?

General DAY. What is that figure, Mr. Noble?

Mr. NOBLE. There is about $600 million from parcel post out of $3.5 billion.

Mr. PILLION. Are you taking any steps to stop the loss of this business?

General DAY. That is a problem I touched on this morning, Mr. Pillion. The situation on parcel post rates, as you know, is different than that on the other three classes of mail, and in deciding what should be done about the rate increase for parcel post to be sought from the Interstate Commerce Commission, we have to take into account whether we get to the point where an increase may be large enough that it will actually cut down volume to the point where we lose revenue. That is one of the numerous things we are struggling with in attempting to analyze this $843 million rate increase proposal.

Mr. PILLION. I think that is all. Thank you very much.

Mr. GARY. Mr. Steed.

NEW POSTAL ADMINISTRATION

Mr. STEED. General Day, I would like to express my personal word of welcome and good wishes to you and your staff as you embark on these new duties. I know you are taking on not only one of the largest but one of the most important functions of Government, and one that affects in some degree the lives of more people than any other function of Government.

I am glad to note you include in your staff some people we got to know on the Hill and for whom we have the highest regard. I am sure their background will be most helpful to you. And I hope you will permit me the personal indulgence of welcoming to your staff Mr. Michael Monroney, from my home State of Oklahoma. I have know him for some time and know he comes from fine stock.

CAPITAL INVESTMENT AND OPERATING EXPENSES

In regard to this deficit we have been discussing today, can you tell me what items in this budget would be considered as items of nonrecurring capital investment, if a budget of this kind were being prepared by private industry, and what part of the budget is operating expense?

General DAY. I will ask Mr. Noble to expand on my response to that question. Because of the fact most of the real estate acquisitions are made by the General Services Administration and ours is a leasing operation, we as a Department do not buy lands and buildings.

As far as other aspects of capital items, why do you not speak directly on that, Mr. Noble?

Mr. NOBLE. Mr. Steed, the figures in our budget for 1962 relating to what might be called capital expenditures amount to $122 million. That includes $97 million for improvements to Federal buildings; equipment, $13 million; and vehicles, $11.5 million.

If you want to compare that with what depreciation would be as an item of expense, we would substitute for that $122 million, in arriving at the deficit, the depreciation on our total plant and equipment, and that might amount to as much as $50 million. So the fund deficit is about $70 million more than it would be on an accrued cost basis.

That is very rough.

Mr. STEED. My purpose in asking the question is, we talk about an annual deficit for the coming fiscal year of a little over $900 million, and it seems to me that to get it in proper focus you would have to think of it without the capital investment items as well as with them. Since we are concerned, in terms of higher postal rates, with trying to do things which will make the Department more self-sustaining, it would seem to me you would have to assume that the users of the mail for 1 year would have to pay a rate that would finance a capital investment that would have to be used over many years if you were trying to wipe out the total deficit.

RESEARCH COSTS

Also, in that connection, I would like to have your feeling about whether you think it is fair, in setting postal rates, to require the users of the mail to pay through higher postal rates the total cost of the research work that is being done by the Department, whether that would be a fair chargeable cost to the users of the mail?

General DAY. I think in an operation of this size and complexity a research program is necessary and appropriate. I feel the program should be a continuing one.

Mr. STEED. I am not talking about the merit of the program but as to whom should the cost be charged, whether that cost should be charged to the users of the mail.

General DAY. My present thinking is that since it should be a continuing program, and since I feel it is for the benefit of the users in the long-term view, it could appropriately be considered one of the costs of the Department.

Mr. PILLION. Will the gentleman yield?

Mr. STEED. Yes.

Mr. PILLION. I think we ought to make clear that the work that is being done under the label of research is not what we call pure physics or pure basic research. Essentially it is a mechanical adaption and gadgetry rather than pure scientific research that might add to our knowledge.

Mr. GARY. It is a research designed to improve the service and reduce expenditures.

Mr. PASSMAN. Which reflects a reduction in cost for the users of the mail.

Mr. STEED. The reason I asked the question, when the matter of rate increases comes up all these things are used in opposition to it, and I thought there should be some discussion in the record of why the cost of research should be a logical charge against the users of the mail.

General DAY. Mr. Noble calls my attention to the fact that actual research amounts to $12 million, which is one-third of 1 percent of the total budget, but I am conscious of what you refer to and we will be pleased to discuss that in detail.

LEASE PROGRAM

Mr. STEED. Since you are going into this lease program rather than direct acquisition by the Government, could any or all of the rent which you pay under this new program be considered as a capital investment rather than a nonrecurring item?

General DAY. I hardly think so, because quite commonly the lessors of these post office facilities do not attempt to regain and to amortize their entire cost of the structures during the period that we agree to rent them. The rent, therefore, is not normally paying them back for the entire cost of the structures. I think it is strictly comparable to rent, and therefore, my information on the subject would indicate that it would not be a capital item.

Mr. STEED. As against the old lease-purchase idea, none of this program that you are involved in acquires any equity to the Government other than actual use of the property for a fixed fee?

General DAY. It does not result in any equity to the Government and does not result in property belonging to the Government after the lease expires. We do expect to get a lower rental after the initial period if we continue to occupy the building.

Mr. STEED. Several advantages have been mentioned under this program. Is not one of the advantages, especially in the smaller places, the fact that either the Department or the General Services Administration escapes the necessity of having to hire maintenance men or janitors to keep up the buildings?

General DAY. Yes. Normally the maintenance is handled by the lessors and also the insurance is handled by the owners.

Mr. STEED. And it is my understanding that in some of the smaller type buildings that the Government owns outright, the problem of getting caretakers at a reasonable cost is considerable, and that escaping that responsibility is one of the bigger advantages of this particular program, especially in the smaller places.

Mr. MILLIKEN. Will the gentleman yield?

Mr. STEED. Yes.

Mr. MILLIKEN. I know in my area—and I have the biggest congressional district in Pennsylvania with probably the biggest number of communities—janitor services were almost impossible to get. It was almost impossible to get somebody to come in and do the job. We had, unfortunately, in our town, a postmaster who almost went to jail by trying to hire somebody to clean the post office without reporting it. He is a Democrat and I am a Republican, but I feel sorry for him. This same postmaster did lose his job for telephone and janitor services. He had no payroll to pay for that.

LEASE PURCHASE LAWS

Mr. PASSMAN. Is it not true you have another type of building where the Government owns the land and an independent businessman constructs the building. Then at the expiration of a given number of years the title passes to the Government?

General DAY. Subject to correction, I think that was the program under the previous lease-purchase law which has now expired.

Mr. PASSMAN. But at some subsequent date a large number of buildings were built by private enterprise on property owned by the Government, and upon the expiration of the lease and payment of $1, the title passed to the Government?

General DAY. I believe normally we had an option to purchase it at an agreed-upon price upon the expiration of the basic lease term.

Mr. PASSMAN. Is that your understanding of the plan, Mr. Bruce?

Mr. BRUCE. We only went into that program in about a half dozen buildings. The law expired in 1958 and we have not gone into it since. There is one facet of the program you may be thinking of. We continue to purchase land, but when we make the contract for the construction of the building to be leased we sell the land to the lessor.

Mr. PASSMAN. That I am familiar with, but several years ago we passed legislation providing for a new Federal plot in each congressional district, and they purchased one in my district.

Mr. BRUCE. That is owned by the General Services Administration.

Mr. PASSMAN. That is correct.

INCREASED RENTAL COSTS

Mr. PILLION. Will the gentleman yield?

Last year I was struck with the enormity of the increase in cost of rentals per year for these post office facilities. We keep increasing the rental or leasing cost of these buildings. Where is the corresponding saving coming from? Where are we saving at the other end? For instance, on the Providence, R.I., Turnkey project, I think we were all shocked at the cost of it, $2 million a year for 20 years. If we projected that over the country we would have an astronomical situation.

What I am getting at is this: Are we to some extent living off the fat of the land in this way, that we are getting free rental on buildings owned by the Federal Government, but if we keep increasing the rental all the time I am wondering where the saving is here?

General DAY. I think it is in several areas. First, I think there is increased efficiency and better operation by having more modern buildings. I think also, with the great population growth, there is a need for an increase in post office facilities in many parts of the country, and a large part of the increase that is shown is because of a continuing program of acquiring more buildings under this lease program. I think there is already scheduled for this year, mainly for small post offices, something like 1,600 of these facilities.

Mr. PILLION. That will be owned by you?

General DAY. No, these are leased. There are very few owned buildings, and those are the General Services Administration buildings.

Mr. PILLION. That is what I am talking about. The lease cost in 1960 was $46 million. In 1962 you estimate the cost at $78 million, a differential of $32 million in the space of 2 years. That is almost a 100-percent increase in the cost of your rents and leases.

General DAY. I touched upon that in my original statement. I think the major part of that relates to new facilities that have been made available.

I wonder if I could ask Mr. Nicholson or Mr. Noble to comment on that at this point? Will you comment on that, Mr. Noble?

Mr. NOBLE. In general terms, Mr. Pillion, the growth in rents is the result of replacing outgrown Federal buildings with new facilities, the general growth in the postal service, and the effect of general inflation on rents. We have detailed schedules we are prepared to talk about when the facilities estimates come up.

Mr. PILLION. Thank you.

REDUCTION IN TRANSPORTATION REQUEST

Mr. STEED. In connection with this item of $12 million cutback which you say is due to an overestimate of the parcel post transportation needs, I am in doubt as to what brought that about. Is that because the estimate of the increase was too high, or has the actual volume of parcel post decreased, or both?

General DAY. We will go into that in detail under the Transportation Bureau. I know we have found and are in full agreement that we can absorb that reduction both for this current fiscal year and for the next fiscal year, but as to the extent to which it reflects a falling off in estimated increase as against a falling off in volume, I would like to leave that to the transportation people.

EFFECTS OF INCREASED POSTAL RATES ON VOLUME

Mr. STEED. In recent years there have been some increases in parcel post rates and I was curious to know whether these expected increases were stopped by that higher rate or whether the higher rates had resulted in loss of business. It goes very much, I think to the matter of getting to the point of no return, and I think it poses an important point to be considered in all your postal rate structures.

I know there has also been a recent increase in airmail charges, and I am wondering what effect that increase had with respect to total volume?

General DAY. The total revenue from airmail based upon total weight carried is up some.

Mr. STEED. There is no indication that the use of airmail has declined?

General DAY. There is a decline in the number of pieces.

Mr. STEED. Do you know whether that was due to a higher rate or whether the higher rate was a large factor in the decrease?

General DAY. I do not know authoritatively. I think some of it has to do with the methods that have been worked out by the major users of airmail, the way they ship them and combine the shipments so that there are not as many pieces but greater weight.

AIR TRANSPORT

Mr. STEED. For several years the Department has been doing some experimental work in transporting mail by air on a space-available basis. The committee has taken some note of that and we felt that the plan which the Department previously had to expand that activity should not be entered into until the proper legislative committee had authorized it.

Have you had an opportunity as yet to determine any policy on your part as to this point?

General DAY. Yes. Our thinking at the moment on that, Mr. Steed, is that we do not expect to expand the use of the airlift as far as an overall operation is concerned, but we may reallocate some of the routes on which it is being used within the overall total that is now in effect.

Mr. STEED. One last point: What kind of a problem does the Department find itself in on a situation like the one which has developed

this week end wherein the airlines have a strike and have been shut down?

Do you have alternate ways of disposing of this mail, or is the person who bought the airmail stamp and who is expecting to get the speed for the extra charge—does he lose it because of the strike, or just what does that involve?

General DAY. Our transportation people can give you more detail on that but, in general, as you know, we work all the time to provide alternative methods of moving mail when there is some occasion beyond our control such as the blizzard conditions in the East and so forth that prevented the moving of mail through the normal patterns. We work with immediate measures to move the mail as fast as possible, considering the problem we are faced with.

RAILROAD PIGGYBACK TRANSPORTATION

Mr. STEED. Last year we were told that the Department was cooperating with the railroads in an experiment on a piggyback idea between Chicago and New York.

Has that program gotten far enough along for you to develop any basis for policy decisions?

General DAY. I have only heard that there is such an operation being worked on, but I am not familiar with the details.

I would be glad to have our transportation people discuss that for you.

Mr. STEED. It has been my impression during the few years that I have served on this committee that one of the most inexplicable headaches which your Department has is the one of transportation, because there are so many changes in our transportation methods from day to day and it even seems to change every hour throughout the day.

General DAY. Yes; but we still have one route operating by dogsled.

Mr. PASSMAN. Will the gentleman yield?

Mr. STEED. Yes.

DEPRECIATION ON PLANT AND EQUIPMENT

Mr. PASSMAN. Mr. Steed brought up a very interesting question earlier, and that is what part of the total expenditure could be capitalized.

I believe on page 50.1 under "Plant and equipment," your estimate is $122 million.

Would that be the total for plant and equipment for fiscal year 1962?

General DAY. Yes, sir.

Mr. PASSMAN. Could you furnish for the record the total amount of the depreciation on all present equipment under your capital account and also the original acquisition cost of the equipment which will be, we will say back in the Navy, surveyed out?

General DAY. Yes, sir.

(The information supplied follows:)

Using the preliminary depreciation rates that have been established for the property accounting records, depreciation accruals on Government-owned buildings and equipment in service for fiscal 1960 amounted to $39.9 million. It is

contemplated that under the capital program presently underway that for fiscal 1962, depreciation expense will be between $50 and $55 million.

In accruing depreciation it is the intent to write off the original cost of the asset less its ultimate salvage value over its normal service life. It is believed that the various rates used for 1960 will do this overall, although exact engineering studies have yet to be made.

In installing equipment in new post offices, it is the general practice to use new equipment. Any of the equipment in the old post office which has a significant amount of remaining useful service life is transferred to other locations and used in lieu of new purchases for normal replacements. In case of removal from Federal buildings, the building is turned over to the General Services Administration for utilization by other agencies or disposal. It is, therefore, not contemplated that there will be any significant capital losses sustained in the modernization program as the accruals of normal depreciation reserves should be sufficient against which to charge off retirements.

Figures are not presently available as to the original cost of all equipment retired or to be retired in any fiscal year. This information will be available in the future under the new monetary property accounting system which was installed as of June 30, 1960.

Mr. PASSMAN. It could very easily be that you would have a minus rather than a plus there, if you go back and take the acquisition cost of the equipment which you are going to replace, plus your depreciation.

BREAKDOWN OF 1962 BUDGET

You have it so nicely broken down in your justifications I wonder if you could furnish just one list showing personnel, transportation, and all the categories through which you arrived at the total of $4,424,100,000?

General DAY. Yes, sir.

Mr. PASSMAN. Break it down on one sheet—all the categories that you have listed here.

General DAY. We will be glad to do that, Mr. Passman.

Mr. PASSMAN. Then, the individual reading the hearings could look at one sheet rather than having to do through 200, 300 or 400 pages of testimony.

General DAY. Yes, sir.

(The information requested follows:)

Obligations by category of use, 1962 estimate

	Amount (thousands)
Personnel compensation and benefits	$3,397,270
Transportation of mail	661,698
Rents, utilities, supplies, etc.	231,182
Total operating obligations	4,290,150
Capital and research	133,950
Total obligations	4,424,100

Mr. CONTE. I too want to welcome the new Postmaster General and want to compliment the President for his fine choice in your appointment.

General DAY. Thank you, sir.

Mr. CONTE. I do not know if you recall it, but when I was a State senator and chairman of the joint insurance committee of the Massachusetts Legislature I came down before your company on a legislative matter at that time and was cordially received. At that time I heard about your good character and reputation and how highly esteemed

you were by your fellow workers. I am pleased to be able to work with you here on this committee.

General DAY. Thank you, Mr. Conte.

"SPEED MAIL" PROJECT

Mr. CONTE. General, last year I discussed at great length with the former administration the development of a speed mail project. At that time they were requesting $3 million, I believe, for research and development on this contract which they had given to I.T. & T.

Could we obtain a report on that program?

General DAY. Well, the "speed mail" project presents us with a dilemma, because about $4.5 million has been spent in research on this program.

I, personally, at the present time—and it is rather early in the game—have grave doubts about this program. On the other hand, I do not want, without very exhaustive consideration, to turn my back on all that has been done in working toward its development.

I noticed in the testimony last year that there was a statement to the effect that the Department expected to have an operational example of "speed mail" going by September 1960. There is no facsimile mail operation actually operating at the present time. There is equipment in the Department's possession that has been developed at various stages, but nothing that is operating. But, it is one of the high priority things that we have to look into to see what is the best thing to do about it.

Mr. CONTE. I am pleased to hear that you have given this a high priority because I had, certainly, grave doubts last year when the administration appeared before this committee on this subject matter.

WORK MEASUREMENT SYSTEM

The other question I have and which was troublesome last year was with reference to the guides system.

Have you been able to get into the question of whether you are going to expand on the guides system, retain the system or discontinue the system? Have you been able to give this any study at all?

General DAY. Yes, sir. You have reference to the work measurement system?

Mr. CONTE. Yes, sir.

General DAY. The work measurement program has been one of the most difficult problems before the Department, and there have been a great many changes from time to time in the approach to it. In fact, it appears that the changes may have been so frequent that it has not been possible to appraise how well any one of the systems work.

The latest major one was put into effect in May of last year and in December, before we took office, an announcement was made that that was going to be substantially modified. There has been a report by the Bureau of the Budget, analyzing these work measurement programs, and we are anxious to have the benefit of that study and of any other studies that are available to determine what we should do about it.

We feel that in general the Department needs to have some effective method of measuring the efficiency of its operations, not only its individual post offices, but all major units within the post offices. That is why we are anxious to see what the experience has been and what we can salvage out of work measurement efforts in the past before we take any major additional step on it.

Mr. CONTE. You say there was a change made in May in regard to the system of work measurement?

General DAY. Yes, sir.

Mr. CONTE. Was this done at the Brooklyn post office?

General DAY. Well, this was a greatly expanded plan that was put into effect practically nationwide for all post offices of substantial size.

Mr. CONTE. I realize that some of these questions are unfair due to the short time you have been in office, but I am wondering whether you have been able to investigate the work measurement program in the Brooklyn post office?

General DAY. Well, I think the method that was undertaken originated with a pilot undertaken at the Brooklyn post office, and I think that it was felt by some—and I have not been able to make an independent appraisal of this—that substantial results were gained by that system in that post office, but I am not satisfied that I am yet in a position to endorse or deny those figures. I do not know just what the actual situation is.

RENTAL OF PUNCH CARD EQUIPMENT

Mr. CONTE. General, do you know the total amount of annual rental of punch card equipment used by the Post Office Department?

General DAY. We will be glad to supply that figure. I do not have it. But if you would like, we can insert a figure on that in the record, or the Bureau of Finance will be glad to cover that when they come up.

Mr. CONTE. And, I would also like to know how long the punch card installations have been in operation and also I would like to know how many companies are involved in this particular operation and if it has been let out to competitive bidding at all.

General DAY. We will be glad to cover that just as soon as the Bureau of Finance proceeds with its presentation.

Mr. CONTE. I think I shall withhold any further questioning at this point on that. I have some other questions on this but I think I will withhold them until the Bureau of Finance is before the committee.

NEW POSTAL ADMINISTRATION

Mr. ALEXANDER. General Day, I have been amazed at how good a grasp you have on the many problems that are involved in the operation of the postal system in the short time that you have been in office. I also would like to congratulate you on choosing so many fine people such as Mr. Brawley, Mr. Belen, Mr. Noble, Mr. Bruce, Mr. Doyle and others. These I know are experts and are very familiar with the operation, and I think it is wonderful that you have around you so many who have a grasp of this great problem, because since I have been in the Congress—and this is 8 years—I have been working with the Post Office and Civil Service Committee and then on this committee and realize that this is one of the most difficult fields in

which to render a real service. I know that you are hemmed in by laws that we pass and by civil service regulations and so many things but, certainly, I, as a member of this subcommittee want to work with you, as all of the other members do, and do the best job we can with a very difficult assignment.

RESEARCH AND MECHANIZATION

One of the things that has disturbed me a great deal and in which I have been very much interested is modernization, scientific research and so forth. We have spent a great deal of money in this field. Yet, I have not been satisfied with the savings that you have been able to actually show, or a reduction in the cost of the operation. I hope that you in your study will take a good look in order to try to promote those types of mechanizations that will show a real saving in the operation.

LEASE PROGRAMS

I realize that it is an expanding field in which the growth of the country and growth of business brings about an increase in cost, but I also am concerned with growth of cost of the leased space. I believe the figures you gave as of June 30, 1953, showed that the cost was $37 million and then about 8 years later it was $75 million. In other words, could you break that down as to how much is actually increase in rental on certain facilities and how much was the result of growth and need for additional facilities?

General DAY. Yes, sir; we will be glad to supply a figure to get to that exact point.

As you know, there was a considerable backlog which developed during the war and during the Korean situation where there were not as many new facilities being built as might have been indicated on a current basis. I think that in recent years one of the Department's major accomplishments has been to improve the facilities and to bring them up to date for better efficiency and better working conditions. But, we will supply a figure for that type of breakdown.

Mr. ALEXANDER. I would appreciate it. It seems like I saw somewhere where this has not been new facilities, but it has been built by the Post Office Department since 1938. However, there have been through the years certain additions or replacements and that kind of thing, and I realize every time you build a new modern structure and replace an old post office that the rent almost doubles, due to the increased cost of the building and probably more facilities, but I believe some thought ought to be given, particularly in the smaller post offices, as to whether the facilities that they have can be used, or what overall policy you want to follow in that field.

(The information requested follows:)

The first date for which space figures are available on the same basis as they are used today, is June 30, 1955. Therefore, we have made a comparison between that date and June 30, 1960.

The quoted figures of $37 million and $75 million include not only rent but also fuel and utilities. It is not practicable to analyze costs of the latter services as to price increases and effect of additional space and operating require-

ments. Therefore, only the rent increases which were specifically requested are analyzed for this statement.

June 30—	Interior space (in thousand square feet)	Cost per interior square foot [1]	Total annual rate (in thousands)
1960	44,370	$0.92	$48,026
1955	33,940	0.76	29,196
Increase	10,430	0.16	18,830
Increased cost of interior space occupied in fiscal year 1955 (33,940× $0.16)			5,430
Increased cost due to additional interior and exterior space			[2] 13,400

[1] Derived by using assumed allowances for cost of outside space. 1955 figures partly estimated.
[2] During the period 1,770,000 square feet of Government-owned space was vacated by the Department. Increase includes replacement of this space by leased space.

TERRITORIAL LIVING ALLOWANCE

Mr. ALEXANDER. There is one other item which I would like to inquire:

I believe that the rate of pay of the postal worker, by classifications, is uniform in the continental limits of the United States. Now, the continental limits, of course, are expanded to take in Alaska and Hawaii.

Have you given any thought to doing away with the cost of living allowance for these workers in our new States?

General DAY. I have not personally gotten into that, Mr. Alexander, but I will be glad to ask Mr. Beary to speak on that at this point, if you want him to, or in connection with the presentation by the Bureau of Personnel.

Mr. ALEXANDER. Well, at the proper time I would like to have someone give the view of the Post Office Department in regard to that. I think it is something that ought to be considered.

Mr. PILLION. Would the gentleman yield at that point?

Mr. ALEXANDER. Certainly.

Mr. PILLION. May I suggest adding on the possessions of Puerto Rico and the Virgin Islands?

Mr. ALEXANDER. Yes.

In the last year the representatives of the Post Office Department said that they had planned to standardize the pay in Puerto Rico and Hawaii, but that they at that time could not see their way clear to do it for Alaska. I do not know whether they had taken any direct steps to do that, or what the situation is.

General DAY. Mr. Beary is here and has those questions in mind and will be glad to cover them.

Mr. STEED. Off the record.

(Discussion off the record.)

PARCEL POST RATES

Mr. MILLIKEN. General Day, I want to compliment you on the wonderful grasp which you have of the Post Office Department in such a short time. You seem to be able to talk off the cuff on most any subject about which the members of the committee have asked you, and from where I am sitting, you have given very satisfactory answers.

There are just two questions that I would like to ask, and one is about the parcel post. You say if you up the parcel post price you would lose business. Do you think that the Post Office Department should compete with the Railway Express or with this service that you were speaking of in California—this delivery service?

Is it the purpose of the Post Office Department to compete with those people? You would lose business and you would lose some money, but would not that be justified if you were not going deeper into the red?

General DAY. Well, the point that I mainly wished to emphasize on that is that if the increase—and there will have to be an increase sought in parcel post rates this year—if the increase is of such a drastic nature, it might end up costing us money rather than saving us money. I assume that we will continue to be in the parcel post business and we want to balance our request for an increase to the extent we properly can, having in mind our overall financial problem, so that we do not end up losing more money rather than getting in new money. It has to do partly with that matter that I touched upon which is the extent to which the private companies in the business are often able to handle the more desirable and profitable part of carrying packages and leave a great deal of the unprofitable to us. We do not want to increase our financial load if we can help it.

Mr. MILLIKEN. I appreciate that, but I do not think the Government should compete to the extent with those companies that we are hurting them either.

I know; I have had several calls from the American Express Agency which handles a lot of parcel post and they have been complaining that if the Government increases its parcel post facilities, they are going to put that company out of business.

LEASE PROGRAM

One other question which I would like to ask has to deal with rental.

Are you going to continue the practice of getting an option on a piece of ground now and then give it to a contractor and the Government will take a bid from somebody on a monthly basis or a monthly lease?

General DAY. Well, some of those are leases for 10 or 20 years.

Mr. MILLIKEN. But is a monthly lease or it covers so many months, does it not?

General DAY. Oh yes, sir.

Mr. MILLIKEN. It is 120 months or 240 months or whatever that happens to come out at.

I know that in our locale some fellows who are bidding on these Government post offices cannot possibly come out even, unless they get another lease from the Government, and they have got to have that second lease in order to make it worthwhile. I just wondered if you were going to continue that policy of getting the option and then building those buildings on a lease basis?

General DAY. We expect to continue the general pattern of getting the new facilities built under a lease program; yes, sir.

I have not heard of any problem, as yet, of any lessor under that type of plan feeling that he was treated unfairly.

Mr. MILLIKEN. Please do not misunderstand me. I did not say "treated." I say I have been with a couple of fellows who went to the bank and got the money with which to build these buildings. In other words, if you want something for your grandchild, it might be all right, but if you want something for yourself you do not get any use out of that building for 10 years and you almost have to have a second lease in order to come out even.

General DAY. Mr. Burkhardt, I believe, can answer that question.

Mr. BURKHARDT. Even on that basis, Congressman, it is my understanding that the present arrangement has been pretty restrictive in terms of the rent that is paid to those lessors and entirely in the interest of the Government.

Mr. MILLIKEN. Yes. They are not big leases and there is not anything exhorbitant about these leases. That is what I am saying. I think it is a wonderful thing for the Government if we can get people to build these post offices and put them on the tax rolls, as I have talked about before, and I wonder if you are going to continue with that policy?

Mr. BURKHARDT. Yes, sir.

SECOND DELIVERY IN RESIDENTIAL AREAS

Mr. MILLIKEN. With regard to this question of a second delivery of mail, I have an office in a residential area and one delivery of mail seems to take care of my situation and I would oppose spending additional money for second delivery of mail.

All of the large companies in our area like the Sun Service and Sun Oil Co. and people like that go to the post office as many times as they want to a day and get any additional mail with trucks.

I have the American Motors in my area and those big outfits and they are not suffering because they get their mail only once a day.

Mr. GARY. I understand the Post Office does make special provision for these suburban business areas that are growing up now in the areas of our cities; is that not correct?

Mr. BELEN. There is a different schedule on business mail and purely residential mail.

Mr. GARY. And, wherever you change one of these business settlements, even though it is in a residential section, they are specially treated so they can get their mail promptly.

General DAY. Is that correct, Mr. Belen?

Mr. BELEN. Most of them have boxes and pick it up.

Mr. MILLIKEN. They go get it?

Mr. BELEN. And, where there is enough business, it is considered a business area with two deliveries a day.

Mr. GARY. That is what I am talking about.

Mr. PASSMAN. Is it not true that your restrictions apply to residential mail and not business mail, anyway?

Mr. BELEN. That is right.

General DAY. It is residential areas. If there should happen to be just one or two businesses in a residential area they get the same number of deliveries per day as the residents do.

Mr. BELEN. Yes, sir; that is right. My people happen to have a retail floral business in that kind of area and they have a lock box at the post office.

Mr. GARY. But, if you have a business area within a residential area, they get better service?

Mr. BELEN. Yes, sir.

General DAY. Or "more frequent" service.

Mr. PASSMAN. In the main it is residential, however?

General DAY. Yes, sir.

Mr. STEED. Off the record.

(Discussion off the record.)

AIRLIFT OF REGULAR 4-CENT LETTER MAIL

Mr. PASSMAN. In the Postmaster General's opening statement he said—

> * * * my 1 month in office has served to confirm in my own mind that there is no magic solution to these important problems.

I have been on this committee for 13 years and it has been my privilege to work with I think 4 or 5 Postmasters General and they all possessed great ability, but I do not know of any Postmaster General ever coming before this committee who had such an amazing grasp of as many problems as you have within a period of 30 days. I am thoroughly convinced that you are going to do a lot for the postal establishment.

General DAY. Thank you, sir.

Mr. GARY. There are several matters that I would like to get a brief statement from you on. One is this airlift of regular 4-cent first-class mail. We had a good deal of discussion on that last year. The Post Office Department had adopted a policy of lifting that mail by air on a space-available basis. That was upheld by the courts, as I understand it, as an experimental venture.

Then, the Postmaster General started to expand that program very materially and there was some complaint from Congress.

I would like to know if you have given any thought to that situation and what the present status of it is.

General DAY. Our thinking on that at the present time is that we do not intend to expand the airlift program on an overall basis. We may very well reallocate some of the routes on which it is being used, but as far as an overall program and the overall amount being spent on it is concerned our present thinking is not to expand it.

Mr. GARY. Thank you, sir.

PORNOGRAPHIC MAIL

Now, what is your attitude toward this pornographic mail?

General DAY. My attitude on that is that we will have a very hard hitting enforcement program and I feel that it is most effectively conducted in the same way that the FBI and other leading law enforcement agencies conduct their law enforcement programs, and that is on a basis of using your available manpower and money for actually apprehending violators. We are going to give intensive emphasis to that program. We are fully conscious of the corrupting nature of this type of traffic and we intend to make that a major matter of emphasis in our Inspection Service. Mr. Montague is highly experienced with all aspects of the Inspection Service, and I think we can

count on him to do an excellent job in following up on that program.

Mr. MILLIKEN. May I ask just one question at this point?

Mr. GARY. Surely.

Mr. MILLIKEN. Do you think there is any need for additional legislation with reference to that kind of mail?

I have been asked to vote for bills now to help enforce this law. Do you feel there is any need for additional legislation on this subject?

General DAY. Well, I think there is an effective law on the books to take care of genuine pornography and I think that the traffic in that clear-cut, outrageous, and hideous type of pornography is the area in which we want to hit hard. I feel that we want to avoid diverting our available manpower into close cases that may take up a tremendous amount of time without accomplishing very much, because I think there are enough of the serious cases to occupy us fully.

Mr. MILLIKEN. Off the record.

(Discussion off the record.)

Mr. GARY. That answers one question I had.

CONSULTANTS

The Department has had heretofore consultants that were used for speaking on this pornographic literature. I think they also had one or two consultants who were used to dedicate post offices. It seems to me that in the dedication of post offices the man who probably ought to have been there more than anybody else was frequently absent. That is the regional manager. If he is going to supervise the post offices it seems to me he should go around when they are being dedicated and give them information as to how they are to be operated.

General DAY. We intend to use people already in the Government for post office dedications and do not intend to use consultants on speaking tours on pornographic subjects.

Mr. GARY. I see no necessity for them on dedications either.

I can see a very great need for consultants at times. I don't believe the Department ought to hesitate to use them whenever they are necessary, but it does seem to me that was stretching the purpose of consultants allowed by law too far.

BUREAU OF PERSONNEL

Now, on your personnel can you give us some idea as to what the personnel division is going to do? The Department never had a personnel division, I believe, until the last administration. I am not certain that the division was given the opportunity to handle personnel. Every time I got any information on it somebody else was handling personnel rather than the personnel department. I would like to get some idea as to what your ideas are on the personnel problem.

General DAY. We are going to be exploring the possible reorganization of many parts of the headquarters' operations. That will be included. The Bureau of Personnel at the present time handles certain functions such as training programs, suggestion programs, and matters of that kind, in addition to what one would normally think of as straight personnel work.

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We plan to give emphasis to the functions of that Bureau so that we can divide up as much as is feasible the work of the Department among the bureaus. We are looking into that very carefully right at the present time.

Mr. GARY. I think unquestionably an operation as big as this needs a personnel division. But I have had difficulty finding out just what functions the personnel division was exercising.

In that connection the Department has had a considerable increase in personnel. The personnel increased from 562,875 in 1960 to 575,642 in 1961. You are requesting 587,764 for 1962?

General DAY. Yes, sir. I think the encouraging aspect on that subject is that while we are basing our projections upon an increase in pieces of mail of a little under 4 percent, our projected increase in man-years is a little over 2 percent.

Mr. PILLION. May I interject there, Mr. Chairman?

Mr. GARY. Yes, sir.

MAIL VOLUME

Mr. PILLION. Do we have a figure for the volume of mail for the period from July 1, 1960, to January 1, 1961? How does that volume correspond with the volume of the year before for the 6-month period? Does that volume hold up at a rate of 4 percent, the volume of mail from July 1, 1960 to January 1, 1961, the last 6 months?

General DAY. Mr. Noble has some figures that will be responsive to that.

Mr. NOBLE. According to our tests—they are based on tests—the volume through January 6 from June 25, which is our postal fiscal year, is up about 2.9 percent over last year in total number of pieces of all classes.

Mr. PILLION. Not 4.

Mr. NOBLE. No, sir; but we have in our budget this year 3 percent available for financing in the 1961 appropriation.

CHRISTMAS MAIL

Mr. GARY. So far as the Richmond Post Office is concerned—I have good opportunity to observe it because I park there at the post office when I am in Richmond—the Christmas rush was handled better this year than it ever has been before. From what I can understand that was pretty generally true throughout the United States.

General DAY. I observed the same thing in Los Angeles.

Mr. GARY. I think one of the reasons for it was that they used possibly more of their regular experienced employees in overtime than they had previously and probably did not bring in as many temporary or special employees. Is that true?

Mr. NOBLE. I believe so.

Mr. GARY. When we come to discuss that I would like to have some figures on it. I thought it was handled very satisfactorily this year.

Are there any further questions? If not, General, we thank you very much for a very intelligent, very careful, very interesting, and very informative presentation. I want to congratulate you on having surrounded yourself with what seems to be a very able group of young men to carry this work on. I am familiar with several of them. I am glad you came to the House and Senate to get some of them because

by doing so you obtained experienced men. Mr. Belen used to work right down the hall from my office I have had a great many dealings with him. I know he is competent. I feel certain after seeing the others that you have a very competent staff.

Our committee is ready at all times to cooperate with you to the very best of our ability so as to help you give the people the very best mail service possible at the lowest possible cost.

General DAY. Thank you, Mr. Chairman.

COMMEMORATIVE STAMPS

WITNESS

JAMES F. KELLEHER, SPECIAL ASSISTANT TO THE POSTMASTER GENERAL FOR PUBLIC RELATIONS

Mr. GARY. Our next subject is commemorative stamps.

Mr. BRAWLEY. We have Mr. James Kelleher, special assistant to the Postmaster General, who has under his jurisdiction the commemorative stamp program, who will make the presentation.

Mr. GARY. Mr. Kelleher, you have just recently been appointed?

Mr. KELLEHER. Yes, sir.

BIOGRAPHY OF MR. KELLEHER

Mr. GARY. Do you have a brief biography that we can have for the record?

Mr. KELLEHER. Yes, sir.

Mr. GARY. We will insert it at this point in the record.

(The biography of James F. Kelleher follows:)

James F. Kelleher, 34, of South Bend, Ind., is a magna cum laude graduate of Notre Dame University, where he received his B.A. degree in journalism. Before his studies at Notre Dame, he had attended Archmere Preparatory School, Claymont, Del.

To his assignment as Special Assistant for Public Relations in the Postal Establishment, he brings a background of experience touching every phase of public relations and informational work.

As a partner in the public relations firm of Linder-Kelleher, South Bend, Kelleher has served a wide variety of industrial, institutional, and organizational clients. In handling a wide variety of specialized public relations activities in his firm, Kelleher was responsible for the direction of special events in both radio and TV, including the Nation's first surgical operations on public TV, which were handled by Kelleher and his associates.

All phases of printed media were employed by Linder-Kelleher & Co., including layout, writing, contracting, art direction, etc. Mr. Kelleher's concern also pioneered some of the first political telecasts done outside of networks.

He also brings to his position, newspaper experience in Wilmington, Del., Philadelphia, and South Bend.

As a guest lecturer in public relations for the department of journalism at Notre Dame, he has developed and conducted credit courses in public relations techniques. He also has taught public relations in the Indiana University Center in South Bend. In the Public Relations Journal of April 1956, there appeared an article by Mr. Kelleher under the title, "TV's Perennial: the Candidate." This was an analysis of the use of TV in politics.

He is married and the father of four children.

Mr. GARY. Do you have a statement?

Mr. KELLEHER. I have a statement, Mr. Chairman, and I took the liberty of making copies.

Mr. GARY. You may proceed.

GENERAL STATEMENT

Mr. KELLEHER. Mr. Chairman, I appreciate this opportunity to discuss our commemorative stamp plans with this committee before any public announcement has been made.

I believe the issuance of fewer commemorative stamps will heighten the value of these special issues both as works of art and as symbols of an honor paid by this Government to memorable people and significant events. Too many stamps dilute the significance of each one; too many stamps make impossible the maintenance of the high standards of design and production.

We believe no more than 15 commemoratives should be issued annually. The clear intent of the Senate-House joint resolution of the 81st Congress was to sharply limit commemorative stamp issues to a number which this policy contemplates. We further believe that full utilization of the professional and technical capabilities of the Bureau of Engraving and Printing can enhance the intrinsic value and beauty of commemorative issues.

We hope to add to the symbolic and artistic value of our stamps by calling upon the services of a properly constituted Citizens Stamp Advisory Committee. We contemplate naming to that Committee one of America's most distinguished historians along with a fine artist, a commercial artist, a fine steel engraver, and three representative philatelists.

It will be our policy to consider a commemorative stamp as a unique honor to be bestowed only in memory of people and events which have the most deep and lasting significance to the Nation as a whole. In developing our program within this framework, we will continue to welcome suggestions and nominations for consideration as subjects of commemorative stamps.

We have completed the issuance of three stamps committed by the previous Administration. Their subjects were: Mahatma Gandhi, Horace Greeley, and Range Conservation.

To date, we have established a 5-year program of annual commemorative stamp issues to recognize each year of the Civil War Contennial. In this program we have had the full cooperation of the Civil War Centennial Commission.

We will soon announce a stamp to be issued in May of this year to mark the centennial of the admission of Kansas to the Union. This particular stamp carriers on a longstanding Post Office Department policy in State centennials.

We would hope that this contemplated commemorative stamp program will be realistic without constraint on imaginative and creative ideas and designs. We expect that a high caliber Citizens Stamp Advisory Committee can assure our success in this direction.

PRIOR YEAR PROGRAMS

Mr. GARY. How does that program compare with the program of previous years?

Mr. KELLEHER. The program in the past has been rather erratic from our reading of the record. There have been some years with a limited number of stamps issued, some years when that number has run rather high.

Mr. GARY. Could you give us a tabulation on that?

Mr. KELLEHER. The last 8 years saw the issuance of 118 commemorative stamps, 42 of those during the calendar year 1960.

Mr. PILLION. Forty-two in one year?

Mr. KELLEHER. Yes, sir.

Mr. GARY. How about previous to the the last 8 years, about how many did they run?

Mr. KELLEHER. The period 1945 to 1953 the average per year was 18. Again there were periods of large numbers of issues in 1 year and periods of lesser numbers.

Mr. GARY. I commend your policy of more or less unifying this program. It does seem to me that the commemorative stamp program should be fairly uniform in the number issued each year and not have high fluctuations that apparently have existed in this program heretofore.

POLICY ON NEW DETERMINATIONS

What will be your policy as to determining who will be honored by these stamps?

Mr. KELLEHER. We hope, as I mentioned in my statement, to get together a stamp advisory committee whose members will be representative in this field. The previous administration had such a committee. We propose to have one. We feel that the addition of a distinguished historian to that advisory committee could go further than any single action in assuring that we honor only those persons and events of the most significance.

The Post Office Department does have a set of basic standards which we hope to put before our stamp advisory committee for recommendations and possible revision. These include such things as the requirement that an individual should be deceased 25 years prior to the time a stamp is issued. Naturally there are circumstances that at times have required, and made obvious the requirement, for shortening that duration. There are requirements set up in the current regulations that there should be no commemorative stamp issued except on even number by 25's of the anniversary of the event—that is, the 50th, 75th, 100th anniversary of an event rather than the 28th or 33d anniversary. Such guidelines as these we hope to adopt and with the advice of our advisory committee make reasonable standards that will help guide not only our actions but also will be of intelligent guidance to those people interested in promoting the issuance of particular stamps.

Mr. GARY. This committee makes the recommendations?

Mr. KELLEHER. That is right, sir.

Mr. GARY. Are they not approved by the President then?

Mr. KELLEHER. The recommendations of the committee are acted upon by the Postmaster General, since the resolution of the 81st Congress in 1949, April 27. The resolution of the Congress gave to the

Postmaster General that authority and jurisdiction which prior to that time had often been exercised through particular individual pieces of legislation for an individual stamp.

Discussing this with the philatelic experts in the Department, we found that the procedure has been that the authorization of the stamps came through the Postmaster General and the intent, as we have learned, of the resolution in the 81st Congress—which incidentally was further reinforced by resolution in the 83d Congress—was to avoid exactly this problem of putting upon the Congress the difficulty of deciding upon each individual stamp issue.

REGULAR STAMP SERIES

The Post Office Department does have in its operation several other regular series of stamps such as the famous American series which usually is issued at intervals replacing standard stamps in circulation rather than as limited commemorative issues. Those stamps contributed another 43 to those issued during the 8 years of the last administration. They have had at times other special series of stamps limited to one or another series of events such as a series known as the American Credo. Those additional special groupings of stamps, which are put into general circulation rather than issued in limited numbers for commemorative purposes alone, brought the total number of stamps issued under the previous administration's 8-year tenure to 181.

CIVIL WAR COMMEMORATIVE STAMPS

Mr. GARY. I know there has been considerable agitation for a stamp commemorating President Jefferson Davis, the President of the Southern Confederacy. I have been importuned by a number of my constituents to recommend such a stamp, and I have recommended it to the Department. Can you tell us the status of that stamp at the present time?

Mr. KELLEHER. In the formal discussions which we have held within the Department among the philatelic people and brief conversation which General Day and I had on this informally, we feel that very definitely over this next 5-year period it should be included somewhere in the series. We did not include it in the five-stamp Civil War commenorative series which we announced because that series does not include any individuals; it includes events only of the war, which we felt, after due consideration, were symbolic of each year and each period of the war. It was felt that to include one individual in the series would not be conducive to a reasonable approach to covering the war as a panoramic event, and that it would raise legitimate questions as to other individuals who might be subject to inclusion.

We feel, however, that a stamp honoring Jefferson Davis would at some point during the Civil War observance be appropriate, since so many other people of significance during that period have been commemorated on stamps. General Lee has been, General Grant has been, President Lincoln has been, and a number of other prominent figures from both sides involved in the war.

Mr. BRAWLEY. I think the record should show no decision has been made on it.

Mr. KELLEHER. That is right, and this is a serious consideration that will go before our Stamp Advisory Committee. It is because of exactly this kind of question that we are so concerned and feel that it is necessary for proper management of this program that a prominent historian, a historian of genuine competence, be on this Committee

Mr. GARY. Did I understand you to say these programs for the centennial have been worked out with the Centennial Commission?

Mr. KELLEHER. That is right, sir.

Mr. GARY. What was their request with respect to that?

Mr. KELLEHER. Their initial request was the submission of a list of some 43 stamps, which they suggested. We took the opportunity to sit down with them and discuss that program within the context of a limited number of stamps and found their response to be very warm. When we suggested an annual stamp along the line of paying tribute to the events of a particular year through one stamp, they were more than happy to cooperate in suggesting those events to be memorialized and have publicly announced their support of this program since it has been announced.

PROFIT ON COMMEMORATIVE STAMPS

Mr. GARY. What do you estimate now is the profit of the Post Office on one of these issues?

Mr. KELLEHER. We have sought that figure, sir, and we find it a rather difficult one to determine for this reason: Many commemorative stamps are sold. To go on the assumption that all those stamps are collectors items and, therefore, are total income to the Post Office Department on the credit side of the ledger is erroneous.

Our investigations have shown that large stamp dealers, for example, might buy up to $10,000 worth of commemorative issues on the day of issue but that after taking the plate block—the four stamps in the corner of the sheet of stamps, which includes the plate block number, an item of considerable importance to the collector—they will then resell the rest of that sheet of stamps to large-volume mailers. So we cannot assume a profit figure totaling the number of stamps sold to collectors.

Trying to come to an intelligent estimate with our philatelic personnel in the Department and with the personnel of the Bureau of Finance, we feel that an estimate of approximately $3 million for the year 1960 is a reasonable assumption as to the pure profit figure. That is, the stamps that are sold which never are called upon to bear any part of the postal rate burden in carrying the mail.

Mr. GARY. $3 million for all of the issues?

Mr. KELLEHER. That is right, sir.

Mr. GARY. It is not possible that enough of those stamps will be used by these dealers you mentioned so that, with the additional cost of making these stamps, it would completely wipe out that profit, is it?

Mr. KELLEHER. No, sir; it is not. Many of the stamps do go into regular circulation. For example, there was a large quantity of Mahatma Gandhi stamps bought by the Indian Embassy. The Indian

Embassy will use that stamp in circulating its mail in the United States for many years to come. The State Department encourages our participation in such stamp issues and encourages us to offer as commemorative issues such stamps honoring such persons of prominence.

Mr. GARY. Was that a commemorative stamp or was it in the other series.

Mr. KELLEHER. It was a "Champion of Liberty" stamp, sir.

Mr. GARY. I suppose you anticipated that large purchase by the Indian Embassy?

Mr. KELLEHER. In ordering the stamps; yes, sir.

Mr. GARY. In the number of stamps that you ordered?

Mr. KELLEHER. Yes, sir. It was called to our attention by the State Department, and the Indian Embassy was contacted as to their desires in that regard.

Mr. GARY. Mr. Pillion?

Mr. PILLION. Mr. Kelleher, with regard to stamps commemorating, for instance, Mahatma Gandhi or Benes or Mazaryk or Garibaldi or Alex Kerensky, is it not possible that we may be getting ourselves into an area that perhaps we ought to stay out of? Is this another drive to internationalize this country? I can see the State Department requesting it, but I am just wondering whether this does not have possible repercussions.

Mr. KELLEHER. Previously the Stamp Advisory Committee took this action under the previous administration for a series of such stamps. This is an area which we feel would definitely need a great deal more study than merely considering such obvious American figures to be honored as some of those we discussed previously.

The action we would take there would be based on a thorough study of the background on this entire series of stamps to which you refer as well as to integrating that into our policy as to the number and types of stamps to be issued. We have tried to get a feeling for the entire program and to set up a general policy and then to form a committee which can give us proper advice and study this kind of very serious problem in the proper context.

Mr. PILLION. For instance, the Mazaryk situation and Benes situation—in that regard we wind up giving the Soviet, Czechoslovakia, a very fine arsenal that produces a lot of their armament. I do not think that is a good thing for the United States. I am just raising the question here of the delicacy of this situation. I am not at all sure that we ought to go beyond our own historic situation here in the United States. I just raise that for your consideration.

COST OF STAMP DESIGN

How are these artists paid? What does an artist get for etching or drawing one of these stamps?

Mr. KELLEHER. The prices that have been paid to various artists have varied from nothing on the part of some artists, who volunteered their services, to prices paid during the last administration up to $2,000 for an individual stamp.

In this context we feel—I mentioned this in my statement—that much more use can be made of the personnel and talents available in the Bureau of Engraving and Printing.

We will look into each recommended stamp on the basis of, first, whether or not satisfactory artwork can be done within, as the Post-

master General mentioned, talents available in the Government, and look at the possibility of outside-design services on the basis of each stamp and what its requirements might be.

Mr. PILLION. Am I wrong in my impression that prices as high as $10,000, $15,000 or $20,000 have been paid? Will you check into that? I think I heard those figures somewhere and I thought it was a little bit high.

Mr. KELLEHER. I will check into that. I have seen no such figures during the period of this Stamp Advisory Committee, sir, but I will check into it.

Mr. GARY. If you find any information as to such prices, you can insert that information in the record at this point.

Mr. KELLEHER. If such figures are available they will be included in the record.

(The information requested follows:)

The highest price ever paid for a single stamp design was $1,578.60—$1,000 to artist, Norman Rockwell, and an additional $578.60 to a second artist, Ervine Metzel, for refining the finished artwork.

TOTAL PHILATELIC STAMP SALES

Mr. PILLION. What was the total sale of these stamps in the last year available to you?

Mr. KELLEHER. We can furnish those figures for the record, sir.

Mr. PILLION. You do not have them at hand, or some rough estimate?

Mr. KELLEHER. The first-day sales and the sales of the philatelic sales agency in Washington, those alone, came to a total in 1960 of $5,508,403.50.

Mr. PILLION. And your estimate is that the actual profit to the Post Office Department is roughly $3 million a year?

Mr. KELLEHER. That is the estimate that Mr. Nicholson and I have arrived at, taking into account what the philatelic people tell us is a reasonable estimate.

Mr. GARY. Will the gentleman yield?

Mr. PILLION. Yes.

Mr. GARY. Is there a wide fluctuation in the demand for particular stamps?

Mr. KELLEHER. There is a variation, sir, based of course upon the popularity or the particular public impact of a given subject. We have already been requested, for example, to consider a larger than usual number of each of these Civil War commemoratives. In some instances a commemorative stamp is in great demand for actual postage use, as many people assume will be the case in each of the Civil War commemoratives.

Mr. GARY. How many do you print on the average?

Mr. KELLEHER. 120 million is the average run.

Mr. GARY. 120 million stamps?

Mr. KELLEHER. Yes.

Mr. GARY. Are most of these commemorative stamps of the same denomination?

Mr. KELLEHER. The majority of them, some 70 percent of them, are first-class 4-cent postage stamps. There may be some airmail stamps.

Mr. GARY. Does the demand vary much according to the type of stamp that is issued?

Mr. KELLEHER. Not to my knowledge, sir, from what we have seen.

Mr. PILLION. Why do you select 15 as a normal amount per year instead of saying 20 or some other figure? Why do you arrive at 15 as a good average per year?

Mr. KELLEHER. That figure is arrived at, sir, in relation to the basic programs of the Post Office Department for the famous Americans series, its regular postage series, and the April 1949 resolution which I mentioned previously, which said—

This committee recommends to the Postmaster General that not more than 12 commemorative stamps be issued in any given year.

Mr. PILLION. Twelve?

Mr. KELLEHER. Yes.

Mr. PILLION. I think that would be a good number instead of 15. I agree that when you start issuing more than that you have a loss of interest.

Thank you.

Mr. GARY. Mr. Steed?

Mr. STEED. Although it has not been really serious, I have had complaints from time to time from users of mail that they have been required to use commemorative stamps, which are larger than regular stamps usually are. Are there times when the user of 4-cent stamps would be required to buy at a given post office commemorative stamps rather than regular stamps?

Mr. KELLEHER. It is my understanding that a commemorative stamp is not put into general circulation to the extent that somebody would have to take them in preference to regular stamp issues. Naturally, because of the nature of commemorative stamps, honoring an individual or institution, the sale of such stamps is encouraged. However, no one is ever put into a position—unless there may be a shortage of the regular issue during a brief hour or day in a given post office—of being forced to buy commemoratives. There is never any intention of putting those commemorative stamps on sale in preference to the regular issue.

Mr. STEED. In other words, a user of mail could insist on purchasing the regular issue?

Mr. KELLEHER. Absolutely.

Mr. STEED. That is all, Mr. Chairman.

Mr. GARY. Mr. Conte.

Mr. CONTE. I am sorry our former colleague, Mr. Gordon Canfield, is not here today. This was his pet and he would have you answering all sorts of questions.

DESIGN OF STAMPS

I notice in your proposal to appoint a committee of distinguished historians, you also mention a fine artist.

Mr. KELLEHER. Yes, sir.

Mr. CONTE. I hope you will give consideration to an outstanding artist in my congressional district. I have in mind particularly Mr. Norman Rockwell, one of the greatest artists of our day. He was the artist who designed the Boy Scouts stamp.

PROFIT FROM COMMEMORATIVE STAMPS

In last year's testimony, Mr. Walter, the Special Assistant to the Postmaster General for this program, testified that they had esti-

mated that they made a profit of $20 to $25 million annually on these commemorative stamps.

Mr. KELLEHER. I am familiar with that testimony, sir. Mr. Nicholson and myself made an effort to make a realistic appraisal, and the conclusions we drew were that the commemorative stamps had been estimated on the basis of their total sale, the assumption that all of the issue went into collectors' albums. We have been told—and until we have more personal experience we feel this is the best thing we can go on—we have been told that because of the kind of situation I outlined of large purchases by collectors, that the majority of these stamps do find their way into regular postal usage. As long as that is true, it cannot be considered, in our judgment, to be profit.

STAMP HONORING NURSES

Mr. CONTE. Last year my good friend here, Mr. Pillion, asked a question in my behalf in regard to whether the Post Office Department was considering a stamp honoring the nursing profession, more particularly, Florence Nightingale. At that time Mr. Walter said they were giving very serious consideration to a commemorative stamp for the nurses. Do you know whether that has been discussed?

Mr. KELLEHER. I know that is one of some 2,000 requests that are before the Department. We would hope that as soon as we are able to form this Advisory Committee the first thing they will do is review all the pending requests in the light of the recommendations made by their predecessor committee members.

Mr. CONTE. That is all, Mr. Chairman.

Mr. GARY. Mr. Milliken.

Mr. MILLIKEN. I do not think I have any questions.

Mr. PILLION. Mr. Chairman, may I ask another question?

Mr. GARY. Yes.

Mr. PILLION. In automation will there be a time when the automatic machines could automate the processes for your mail merely by taking the color of a stamp, for instance, where all stamps for regular delivery would be one color and airmail stamps another? Is there a possibility of that coming about?

Mr. KELLEHER. Sir, this is not my field, of course. We work within the limitations imposed by the existing postal regulations.

Mr. PILLION. Would the difference in size mentioned by Mr. Steed make any difference in your automation, your machines that process these?

Mr. KELLEHER. Not our existing machines, sir.

Mr. PILLION. That is all.

Mr. GARY. As Mr. Conte said, Mr. Canfield, a former member of this committee, was not only deeply interested in the entire subject of commemorative stamps, but he was particularly interested in the matter of multicolor stamps. When the two-color stamp was first developed he was very much elated. What is the status at the present time of your two-color stamps?

Mr. KELLEHER. I mentioned that both from the artistic and technical standpoints we want to utilize the full capabilities of the Bureau of Engraving and Printing. Since 1957 the Bureau has had available to it a Giori press, which is one of the finest pieces of equipment in the world. The Bureau has been handicapped by the great de-

mands made on that press by the large number of commemorative issues, particularly in the last year. As a result, we feel that the fewer stamps to be issued under the program we have outlined here will give us the opportunity for the first time to use the capabilities of that equipment and the personnel in the Bureau to their maximum level of efficiency. The particular piece of equipment has proven in individual cases to be capable of turning out the very finest work of its kind anywhere in the world.

Mr. GARY. Any further questions?

Thank you, Mr. Kelleher, for your presentation on this very interesting phase of the postal service.

The committee will stand adjourned until 10 o'clock tomorrow morning.

TUESDAY, FEBRUARY 21, 1961.

SUMMARY FINANCIAL AND STATISTICAL TABLES

Mr. GARY. The committee will come to order.

We will take up first this morning the language changes in the bill.

REDUCTION OF ORIGINAL ESTIMATES, 1961 AND 1962

Mr. BRAWLEY. Before we do that, Mr. Chairman, I think we ought to insert for the record the changes in the table caused by reflecting the $12 million reduction in transportation requests. This replaces the original tables which did not reflect the $12 million reduction in transportation requests.

Mr. GARY. This table has not yet been inserted in the record?

Mr. BRAWLEY. We are offering it for insertion now, tables on pages 1, 2, 3, and 4 of the justification, Mr. Chairman.

Mr. GARY. Without objection, they will be inserted at this point in the record.

(The tables referred to are as follows:

Post Office Department financial and statistical summary, 1960–62

[In millions]

Item	1960 (actual)	Increase (percent)	1961 (estimate)	Increase (percent)	1962 (estimate)	Increase (percent)
Operating obligations	$3,727	4.0	$4,139	[2] 11.1	$4,290	3.6
Capital and research obligations	147		130		134	
Total obligations	3,874	6.4	4,269	10.2	4,424	3.6
Net revenue	3,277	[1] 8.0	3,442	5.0	3,593	4.4
Postal deficit (fund basis)	597		827		831	
Payment for public services	37		49		63	
Postal deficit and public services (fund basis)	634		876		894	
Volume of mail—pieces	63,675	4.0	65,600	3.0	68,100	3.8
Special services—transactions	660	−2.2	647	−2.0	635	−1.9
Employment (total man-years)	566,433	2.9	578,622	2.2	591,714	2.3

[1] Percent of increase over 1959 does not include in 1959 receipt of payment for public services as subsequent years do.

[2] If pay increases, health benefits costs, and transportation rate increases are deducted, increase in obligations would be 2.9 percent.

Obligations—Revenue—Deficit, 1960–62

[In thousands]

Appropriation	1960 (actual)	1961 (estimate)	1962 (estimate)	Increase or decrease (—)	
				Amount	Percent
Administration, regional operation, and research	$82,134	$84,371	$88,800	$4,429	5.2
Operations	3,004,980	3,354,441	3,452,000	97,559	2.9
Transportation	532,784	567,600	593,600	26,000	4.6
Facilities	122,650	142,100	167,700	25,600	18.0
Plant and equipment	131,405	120,127	122,000	1,873	1.6
Total obligations	3,873,953	4,268,639	4,424,100	155,461	3.6
Net revenue (including payment for public services)	3,276,818	3,442,000	3,593,000	151,000	4.4
Postal fund deficit	597,135	826,639	831,100	4,461	0.5

Capital and research program, 1960–62

[Obligations in thousands]

Appropriation	1960 actual	1961 estimate	Increase 1961 over 1960		1962 estimate	Increase 1962 over 1961	
			Amount	Percent		Amount	Percent
Administration, regional operation, and research: Contract research, development and engineering	$15,831	$9,960	—$5,871	—37.09	$11,950	$1,990	19.98
Plant and equipment:							
Building and equipment improvement	104,784	94,461	—10,323	—9.85	97,587	3,126	3.31
Equipment for standard program	10,593	12,540	1,947	18.38	12,913	373	2.97
Vehicle program	16,028	13,126	—2,902	—18.11	11,500	—1,626	—12.39
Total	131,405	120,127	—11,278	—8.58	122,000	1,873	1.56
Total capital and research program	147,236	130,087	—17,149	—11.65	133,950	3,863	2.97

Estimated volume of mail and special services, and postal revenue for fiscal years 1960, 1961, and 1962

Classification	1960 actual				1961 estimate				1962 estimate			
	Pieces or transactions (thousands)	Postal revenue (thousands)	Percent of increase over 1959		Pieces or transactions (thousands)	Postal revenue (thousands)	Percent of increase over 1960		Pieces or transactions (thousands)	Postal revenue (thousands)	Percent of increase over 1961	
			Units	Revenue			Units	Revenue			Units	Revenue
Domestic mail:												
First class	33,234,810	$1,500,990	2.98	5.00	34,199,054	$1,551,880	2.90	3.39	35,292,450	$1,610,530	3.20	3.78
Airmail	1,355,728	156,776	−.92	2.88	1,322,726	154,812	−2.44	−1.25	1,302,616	157,780	−1.52	1.92
Second class	7,534,502	81,191	6.13	17.53	7,565,922	93,952	.42	15.72	7,779,272	97,807	2.82	4.10
Controlled circulation publications	124,679	7,520	−.76	10.17	125,105	7,562	.34	.56	128,917	7,909	3.05	4.59
Third class	17,910,207	438,559	5.49	13.08	18,748,136	492,367	4.68	12.27	19,805,155	528,739	5.64	7.39
Fourth class	1,015,922	602,283	−2.13	5.56	990,305	634,241	−2.52	5.31	979,831	636,601	−1.06	.37
Domestic mail fees		13,553		−.43		14,154		4.43		14,790		4.49
Penalty and official mail	1,825,611	82,390	6.08	24.55	1,963,816	98,571	7.57	19.64	2,098,764	112,933	6.87	14.57
Franked mail	108,654	3,269	26.15	42.07	131,126	4,500	20.68	37.66	154,000	5,313	17.44	18.07
Free-for-the-blind mail	4,577		6.44		4,662		1.86		4,777		2.47	
Total domestic mail and revenue	63,114,690	2,886,531	3.99	6.98	65,050,852	3,052,039	3.07	5.73	67,545,782	3,172,402	3.84	3.94
International mail (originating):												
Surface mail	365,713	43,971	1.03	2.66	344,283	46,990	−5.86	6.87	344,649	60,310	.11	28.35
Airmail	194,201	45,242	1.70	6.15	204,865	47,735	5.49	5.51	209,569	52,856	2.30	10.73
Mail transit revenue		12,752		5.15		13,600		6.65		14,750		8.46
Total international mail and revenue	559,914	101,965	1.26	4.49	549,148	108,325	−1.92	6.24	554,218	[1] 127,916	.92	18.09
Total volume and revenue from mail	63,674,604	2,988,496	3.96	6.89	65,600,000	3,160,364	3.02	5.75	68,100,000	3,300,318	3.81	4.43

Special services:												
Mail connected special services	380,293	140,595	−.37	−1.92	376,873	141,019	−.90	.30	373,712	141,269	−.84	.18
Money order revenue	275,101	[2] 81,189	−4.55	21.02	266,850	64,510	−3.00	−20.54	258,850	62,430	−3.00	−3.23
Postal savings revenue	4,107	7,010	−13.88	−13.29	3,560	4,644	−13.32	−33.75	2,850	2,728	−19.94	−41.26
Box rents		28,786		3.26		29,106		1.11		29,762		2.25
Unassignable revenue		[3] 8,177		2.52		8,357		2.20		8,793		5.22
Total revenue from mail and special services		3,254,253		6.69		3,408,000		4.72		3,545,300		4.03
Deduct: Expenditures not subject to appropriations—												
Judgments		424		153.89		200		−52.83		200		
Stamp-embossed envelope purchases		7,571		−12.36		7,500		−.94		7,500		
Indemnities, claims, etc		6,840		10.29		7,300		6.73		7,300		
Total expenditures not subject to appropriations		14,835		−1.15		15,000		1.11		15,000		
Net revenue from mail and services		3,239,418		6.73		3,393,000		4.74		3,530,300		4.05
Add: Receipts for public services		37,400				49,000		31.02		62,700		27.96
Total net postal revenue		3,276,818		7.96		3,442,000		5.04		3,593,000		4.39

[1] Includes effect of anticipated rate increases amounting to $11,000,000 for surface mail and $4,000,000 for airmail.
[2] Includes $16,576,079 revenue from overage money orders written off.
[3] Includes $329,864 of reimbursements available as postal revenue.

LANGUAGE CHANGES

WITNESS

LINDSAY H. NOBLE, DEPUTY ASSISTANT POSTMASTER GENERAL AND CONTROLLER, BUREAU OF FINANCE

Mr. BRAWLEY. If it please the Chairman, Mr. Noble will direct himself to the language changes.

Mr. NOBLE. Mr. Chairman, the summary of changes that are proposed in the appropriation structure and language, fiscal 1962, are as follows.

NEW APPROPRIATION, "PLANT AND EQUIPMENT"

First, it is proposed that the appropriation, Modernization and improvement of buildings and equipment, be replaced by a new appropriation entitled, "Plant and equipment."

In fiscal 1960, an appropriation entitled "Postal modernization" was established as authorized by title III of Public Law 85–426. This appropriation provided $80 million for postal modernization and included funds for contract research, development, and engineering, building and equipment improvements, and engineering and technical services.

These funds were, in general, to augment and expedite the research and capital programs for which funds were currently provided respectively in appropriations for "Administration, regional operation and research" and for "Facilities."

Funds on this same basis were requested for fiscal 1961. However, the House Appropriations Committee in reporting out the bill, changed the title and content of the Postal modernization appropriation. The title was changed to "Modernization and improvement of buildings and equipment" and the content was changed by the transfer of the financing of certain buildings and equipment improvement activities from the "Facilities" appropriation to the "Modernization" appropriation.

While this transfer placed in one appropriation all improvements to buildings, it placed in two appropriations identical types of standard equipment. The distinction intended being between equipment procured for new buildings and that for ordinary replacement of existing equipment.

The splitting of research and capital items between two appropriations, which was begun in 1960, produces administrative problems, particularly since it becomes increasingly difficult to determine whether the items are regular or modernization activities.

In many instances, such a distinction can only be made arbitrarily. On the basis of hindsight, differences of opinion can arise as to whether or not the proper appropriation was charged in each case.

The 1962 budget therefore proposes that (1) all contract research and engineering and technical services be carried in the appropiration, "Administration, regional operation and research," and (2) all items of a capital nature whether regular replacements or improvements, be carried under a new appropriation captioned, "Plant and equipment" (except minor items of Headquarters equipment).

It seems to the Department that there is much to be gained by identifying through a separate appropriation all major capital items and carrying them in a single account. This will also have the advantage

of clearly segregating operating funds which can then be measured against the given level of activity.

It seems to us to be much more important to distinguish clearly between capital and operations than to attempt to divide capital between "regular" and "modernization," which is bound to cause confusion and uncertainty in application.

The same is true of contract research and engineering and technical personnel which it is proposed be merged with their regular counterparts in the "Administration, regional operation and research" appropriation. The split here between modernization and regular likewise has become increasingly difficult to make on any rational basis.

The proposed new appropriation structure, we feel, represents a big improvement from both the viewpoint of the Congress and the Department, and we hope that it will be adopted.

LANGUAGE PERMITTING INCREASES IN PRIOR YEAR CONTRACTS

Second, the following substantive language changes are proposed:

a. In the appropriation, "Administration, regional operation, and research" we are requesting deletion of the phrase, "made as a result of changes in plans." This language, added by the Congress last year, effectively denied for 1961 the relief which the Department sought and obtained from the Congress in 1960.

The added language had the effect of limiting prior year contract amendments that could be financed from current funds to those arising from "changes in plans." This authority the Department already had, but the added language made it impossible for the Department to finance unforeseen cost increases of prior year contracts out of current appropriations.

The adverse effect of the existing language on the Department's research program is potentially great. As everyone who has had experience in research work knows, it is not possible to estimate with exactness what it will cost to carry any given research project to conclusion. Most research contracts are therefore on a reimbursable cost basis and the best cost estimate available is used in drawing up the contracts and initially obligating the funds.

There are never sufficient funds available to cover the maximum possible cost that might be incurred for all contracts. When overruns do occur after the close of a year, it is sometimes possible to finance them with underruns from other contracts. If, however, such underruns are not adequate, and the prior year appropriation is already fully obligated, the Department, under the 1961 language, has but two alternatives. First, terminate the contract, which could involve waste of funds; or, second, delay the project while a prior year supplemental appropriation is sought and obtained from the Congress. The Department will experience difficulty in efficient utilization of research funds if this change is not made.

b. The language to permit financing of current increases in prior year contracts out of current year funds is needed in the "Plant and equipment" appropriation as well as in the "Administration, regional operation, and research" appropriation.

While the justification for this language has just been given in terms of cost-type research contracts the same sort of situation prevails in work done through the General Services Administration which is financed through the "Plant and equipment" appropriation.

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Funds for this work are obligated when firm authorization is given to General Services Administration to proceed. At that time estimates of the cost of the work are based only on preliminary plans. When detailed plans are completed and the job has been advertised, the lowest acceptable bid may be more than the estimate made when the work was authorized.

Without the language which has been requested, it is necessary to charge such increases against the appropriation originally obligated. If there are not sufficient funds remaining unobligated in that appropriation by then, serious delays in making the award may be encountered while the refinancing of the project is worked out. Deferment of currently programed projects could be involved, resulting in further disruptions of schedules.

NO-YEAR FUNDS FOR PLANT AND EQUIPMENT

c. The provision, "to remain available until expended" has again been added to the appropriation for capital equipment, "Plant and equipment." It was included in the appropriation proposed for "Postal modernization" for the fiscal year ending June 30, 1961, but was deleted by the Congress. We have had another year of experience with this capital appropriation and believe that, particularly since all of the capital funds other than engineering and research are now in this one appropriation, that possibly the Congress may hold a different view in considering this request.

The funds in this appropriation will be for capital expenditures only and the advantages of having such a fund on a no-year basis are apparent. This principle was stated by the Congress in Public Law 85–426 setting up the modernization plan for post offices. After our experience with this type of an appropriation we are fully in accord with the wisdom of the Congress in the statement of this principle and are again requesting that this appropriation provide funds that will remain available until expended.

ATTENDANCE AT MEETINGS

d. The limitation of $15,000 for attending meetings and congresses of foreign governments has been raised to $20,000. The 5-year Congress of the Universal Postal Union meets in Brazil in 1962, and this increase is to cover the additional expenses of attending that meeting.

That completes the comment on the language changes proposed, Mr. Chairman, and I will be glad to answer any questions you might have in mind.

ACTIVITIES INCLUDED IN "PLANT AND EQUIPMENT" APPROPRIATION

Mr. GARY. What are you including in this "Plant and equipment" item?

Mr. NOBLE. We are including all improvements and alterations to Federal buildings, and all purchases of postal equipment.

Mr. GARY. Does that include your light and color programs?

Mr. NOBLE. Yes, sir. And all purchases of equipment, whether it be ordinary replacement; whether it be mechanized equipment for

major installations; whether it be equipping new buildings; and the vehicle program which is a form of capital item—the purchase of vehicles.

Mr. GARY. Includes all improvements and all new buildings?

Mr. NOBLE. Correct. Except that we do not have any funds in here for the construction of new buildings.

Mr. GARY. It includes the equipment of the new buildings as well as the old?

Mr. NOBLE. We find it difficult at the time we place an order to determine whether that particular lot of equipment is going to go into a new building or replacement in an old building. Technically if there were two separate appropriations for those two obligations, we must obligate according to where the equipment is going to go. To avoid the problem of the GAO questioning the propriety of the charge, we find it is better to have one single appropriation.

Mr. GARY. Is this change of language involved in the program we adopted last year?

Mr. NOBLE. No change in the program. This is purely a language appropriation change to facilitate the accounting and financing.

Mr. GARY. Yes; but what changes does it involve in the appropriation structure? What do you take out? We made some changes in that last year.

Mr. NOBLE. Last year you changed the title of the "Postal modernization" appropriation to a new appropriation called "Modernization and improvement of buildings and equipment."

We would substitute for that the title "Plant and equipment" and bring into that appropriation the equipment that had been left in the "Facilities" appropriation, including vehicles, and take out of that appropriation the portion of the research program that was in it last year so as to put the entire research program together under the administrative appropriation.

FUNDS FOR RESEARCH PROGRAM

Mr. GARY. Last year we had the "Research" appropriation divided between administration and this modernization item.

Mr. NOBLE. That is correct. We submitted it to you in that fashion, based on the 1960 appropriation, which was the first year of financing under this modernization program that had been authorized by Public Law 85–426.

Mr. GARY. And what was the demarkation for determining into which category the research program fell?

Mr. NOBLE. The initial concept was that the additional funds provided for research under the modernization program were to be used to accelerate and augment the research program. Funds had been previously provided in the "Administration" appropriation and the concept, as originally developed in the 1960 appropriation was that the additional funds would accelerate and expand the program.

We have found that distinction very difficult to make. Research is research and to identify which you would be doing if you didn't have the additional money involves a matter of priorities and we have found it very difficult to make a logical distinction. So we recommend combining them.

In addition, Mr. Chairman, I omitted to say that we took out of your "Modernization" appropriation the additional people that were employed to implement that program and have consolidated them with the administrative personnel in the administrative appropriation, about 200 people, I think.

There again, we found great difficulty in determining whether a man was working on strictly modernization or just on the regular capital improvement program which had already started before the "Modernization" appropriation was granted. That problem will be eliminated and we think a clearer picture is shown thereby, by the consolidations we have proposed.

Mr. GARY. Then under this set up, the research strictly for modernization of the Post Office Department would not be separately shown?

Mr. NOBLE. That is correct. The entire research program would be shown as an entity with the various phases of the work being engaged in identified.

After all, research in general, is a modernization activity and a distinction between an accelerated program and a regular program is one that we found it impossible to continue.

LANGUAGE PERMITTING INCREASES IN PRIOR-YEAR CONTRACTS

Mr. GARY. In the second change, the committee added that language last year, the thought being that if the Department enters into a contract to pay a specific amount for a certain project, the contracted amount should not be increased unless there are some changes in the plans and consequently the Congress limited the additional payments to changes in the plans.

To what extent has that worked a hardship on the Department?

Mr. NOBLE. We have found contracts where the estimates were inadequate. The funds obligated to complete projects assigned were not sufficient and additional funds were required.

Fortunately, thus far we have been able to shift them around within the year. In other words, we have had contract underruns, we have, sometimes, also had some unobligated balances at the close of the year and we have not had too much difficulty. But right now we have a problem in the 1956 appropriation, for instance, where the final determination of the overhead on a contractor's contract is just being arrived at. The Army Audit Agency, I believe, completed their audit. They found some additional funds due under that contract as a result of the audit of the overhead figure and we are faced with a little problem there.

It is that type of thing that potentially could be very serious. If a major project did require substantial amounts of additional money to complete and there were not funds available for the contract, our attorneys tell us we would then have to just terminate that contract and award it to someone out of the new year's money which would mean quite a waste of the work that had been done by the first contractor.

Mr. GARY. If you enter into a contract to pay a specific sum for a certain project, what could happen to require you to pay more than that specific sum other than a change of plans?

Mr. NOBLE. These contracts of which we are speaking are based on cost. They are cost-plus-a-fixed-fee and it is an estimate arrived at

jointly by the contractor and the Department at the beginning as to how much it would take to develop a given type of machine, let us say. The Office of Research and Engineering can give you more of the technical details, but say an estimate is made of whether it will take say $100,000 or $500,000 to develop something. You don't know how much work it is going to take to get that type of thing to work. They proceed with the job. We reimburse them as they go along. We have a limit in the contract. When it appears they are reaching the limit and still haven't the breakthrough or the answer, we have to take a look at it. Do we go ahead—do we spend a little more money and come through or do we close it out?

Mr. GARY. That, to my mind, was the reason for the insertion of this language that when you reach a situation of that kind, the Congress wanted an opportunity to pass upon that reconsideration.

In other words, we authorize certain expenditures and contracts are entered into. If the contracts are not going to mean anything, if they are going to be binding on the Government and not on the contractor we are operating at a disadvantage.

Mr. NOBLE. Well, we haven't realized that it was your intent on an ordinary overrun that it was desirable to come back to the Congress.

As a practical matter, I think that would be rather difficult to administer because of the fact Congress isn't always in session. These things arise from time to time. There always has been a requirement that any new phase of work must be financed out of the new year appropriation and cannot be financed out of the appropriation under which the contract was originally executed and the language that was added before simply restated that.

That is a requirement that has long been recognized by the Comptroller General, but the overruns of estimates due to the great difficulty in anticipating in advance what it is going to cost to bring a specific piece of research to a successful conclusion are what is plaguing us.

Mr. GARY. Well now, let's be specific on this. Let's take the contract for the sorting machine. It is my understanding that a contract there provided for the payment of $12 million, and you can correct me if I am wrong, and for that $12 million, the contractor agreed to do the research work and to furnish 10 machines, complete and ready for operation.

Now has there been any increase in that contract?

Mr. LANDIS. That particular contract, for design and engineering to provide for a letter-sorting machine and the construction of the early models, I believe the number was correct, ran a little over $3 million in total. There had been numerous additions to that contract where we had to make a modification.

That contract, for all intents and purposes, has been completed.

Mr. GARY. Have all the machines been delivered?

Mr. LANDIS. The machines have been delivered, yes, sir.

Mr. GARY. And there was no addition except additions made by changes in plans, is that right?

Mr. LANDIS. I am not sure. I would get that information for you and furnish it for the record if you like.

Mr. GARY. The point we are interested in is this: if you enter into a contract and set aside a certain amount of money for a particular experiment and the law permits you to add to the amount as you see

fit, without any restrictions whatever, just keep on increasing the contract price, the initial contract wouldn't mean anything. A contract for $1 million might cost $10 million and if we had known at the beginning it was going to cost $10 million we probably wouldn't have authorized it.

Mr. NOBLE. The example you cite, Mr. Chairman, such amendment in the current year, if we were to devote that much money to an old contract, it would ruin the current year's program and you would soon hear about it. I think it is not that type of problem that we are worrying about. If we had the type of language we request, I don't think we would be able to expand a prior year contract far beyond its original justification to you because we simply wouldn't have the money in the current year's appropriation for that type of thing.

We are talking more about relatively minor types of simple overruns of estimates. "Overrun" is a misleading term, but I mean by it simply the amount to complete a given project that required more than was anticipated in funding. Any really substantial increase would require a current year's reprograming for which we would be accountable to you when we came up for our next appropriation.

Mr. GARY. You are not requesting different language. You are requesting that that limitation be omitted.

Now, what language is there to put any limitation on it at all?

Mr. NOBLE. There is a limitation on the available funds.

Mr. GARY. But if you can increase your contract price, we have no control over the amount of funds you are spending.

Mr. NOBLE. We have never considered that the estimates that we put into our budget justification for individual items were hard and fast line items and that no more could be spent on any individual item.

We present a general program and then as we get into its administration, that program is varied and then we report to you next year on the changes that develop.

The type of language to which you refer, which you gave us, is a requirement which we were already under which is that any change in scope or increase in the nature of a contract must be financed out of the current year's appropriation.

Mr. GARY. Well, could you suggest a change in this language that would give you an opportunity to accomplish some of the things that you have in mind and at the same time put restrictions so as not to permit a change of contract at will?

Mr. BRAWLEY. May I talk to that, Mr. Chairman?

Mr. GARY. Yes.

Mr. BRAWLEY. I am just listening to this and learning a lot.

It seems to me that maybe the 10 percent limit on the original contract price allowance we are asking for might be it.

Mr. GARY. I think this committee wants to be reasonable. We are in favor of this modernization program as I have said before and we don't want to handicap it.

We realize that it is not only a question of saving money, but unless we do modernize, unless we have adequate equipment, with the increasing volume of mail every year, it will be impossible to handle it properly.

Had there not been a great deal of improvement made in the field of mechanization we would not be able to handle the mail coming into the post office now. We all realize that is essential. But on the other hand, we do hesitate to say to the Department you can go ahead and enter into a contract for a certain job at a certain amount and then if the contractor finds out he is losing money all he has to do is to come in and say, "Well, I need some more money," and you just give him the additional money without any authorization from the Congress at all.

The committee felt last year that that was giving entirely too much leeway and this language was inserted by the committee to take care of that situation.

Now, if there can be some modification of the language that would take care of your situation and at the same time put some reasonable limitation on it, I think probably the committee would go along with it. But I am not at all certain that the committee will go along with simply the elimination of that language.

Mr. PASSMAN. Mr. Chairman, will you yield?

Mr. GARY. Yes.

Mr. PASSMAN. You could, under your proposal, without a limitation, where you had requested funds for three contracts, consolidate and spend all of the funds on one contract, could you not?

Mr. NOBLE. Yes, sir.

Mr. PASSMAN. Thank you, Mr. Chairman.

Mr. NICHOLSON. Mr. Chairman, I am newly involved in this particular language change, but I have had some experience with contracting for research projects.

By definition, a research project is an exploration of some ground that has never been covered before. There are no standard costs structures to follow in estimating that cost. It is not as though the supplier of the research had had production experience and knew his costs of labor and his costs of materials and his costs of overhead. Rather, it is an exploration.

Consequently, on cost-plus-fixed-fee contracts, the very reason the contractor won't enter into those arrangements except on such a basis reflects the uncertainty about the costs and about the path that he is going to pursue.

Consequently, if there is a firm cutoff point in dollars and for want of another $10,000, the sponsor could fail to capitalize his original investment. This could be quite wasteful, you see; so it is in the direction of a liberalization of that approach that we are seeking.

We would be very pleased to present an alternate proposal in which some relationship of the extra allowable costs could be suggested in the language.

Mr. GARY. I suggest this. I think it is a matter that you might give some further study to before this committee reports on it. I think you might view it from two angles.

Let me say that I am talking extemporaneously, without giving too much thought myself as to the proposed suggestions. But it seems to me it might be approached from the angle of changing the limitation and giving a little bit more leeway than you had under the old law and yet, not throwing the door wide open.

The other would be that some report to the congressional committees of any new expenditures of that kind should be made so that even

if the Congress wasn't in session, that the committees, at least, might be able to pass upon it.

Very frequently I know that the departments have come to the chairman of the committee with suggestions of transfer of certain funds appropriated for one purpose to be used for another. Whenever they are material, I have always consulted with the ranking minority member of the committee on changes of that kind and if we feel that it is of sufficient importance we will submit it to the entire committee. Otherwise, we might assume the responsibility and act on it ourselves.

I would like for you to give it a little more thought.

Mr. MILLIKEN. Mr. Chairman, might I say a word on this?

Mr. GARY. Yes.

Mr. MILLIKEN. I have worked on some of this research and development in the engineering business before I came here and it is very difficult for us to give a definite price.

Now, we could, in our business, give a definite price to complete something but we always allowed for everything that might come up.

Now, you could get a cheaper price by negotiating from us when we were doing this business. You could get a cheaper price if we knew that we weren't going to lose anything. But if we had a concrete price we always added enough in there to take care of it and sometimes, we made a bonanza and I think there ought to be some limitation maybe on what you are talking about, maybe a 5-percent overrun or 10-percent overrun, and then its always been my experience that we knew long before the end of this contract or before this money was out that we weren't going to accomplish what we had set out to do for this much money, and at that time they could come back to the committee and talk.

Now it never was 2 or 3 months in the work that I did. I don't know about these machines, but other kinds of equipment they could come back to the committee or at least come back to the chairman and he could contact the committee by telephone or wire, or something.

Mr. GARY. That was my thought, that some reasonable solution can be worked out without throwing it wide open. I think that is what the committee was fearful of, opening up the flood gates so to speak.

Mr. PILLION. Mr. Chairman, will you yield?

Mr. GARY. Yes.

Mr. PILLION. May I ask what is the magnitude of the problem involved here? This deals purely with your research program, this language change?

Mr. NOBLE. We have a smiliar change in the "Plant and equipment" appropriation. At the moment we are dealing with the research contracts and are limited to those.

Mr. GARY. Yes.

Mr. PILLION. How many research contracts are now pending, in force, and what is the magnitude?

Mr. LANDIS. I believe we have about 30 research and development contracts underway at this time.

Mr. PILLION. Thirty?

Mr. LANDIS. Yes.

Mr. PILLION. And what is the estimated cost of them?

Mr. NOBLE. Our program for 1961 involves about $10 million in the research work of which $6.8 million is for this type of contract.

Mr. LANDIS. The contracts run as much as 6 months to 3 years.

FINANCING OF INCREASES IN PRIOR YEAR CONTRACTS OUT OF CURRENT FUNDS

Mr. GARY. This language also applies to plant and equipment?

Mr. NOBLE. Yes, Mr. Chairman. I would like to speak to that briefly.

In the "Plant equipment" appropriation, as we have proposed it, we have alterations and improvements to Federal buildings. This work is done by the General Services Administration and upon completion of preliminary plans by the Office of Research and Engineering, an order is given to the GSA to proceed with the project and an amount developed from these preliminary plans, the amount which they are authorized to spend. That is the amount that is obligated at that time.

The General Services Administration then proceeds to work out the detailed design and engineering, on the basis of which invitations to bid may be circulated, specifications put out, in other words, and when those bids are opened, it sometimes happens that the low bidder is higher than the amount that had been preliminarily estimated. If the year is passed and we have no more funds in the appropriation, the project would have to be refinanced out of the new year's appropriation and thus disturb the whole program.

In other words, the funds provided for the earlier year would lapse and the new year's money would be used for items for which it was not intended.

Mr. GARY. Well now, you are speaking with reference to money available until expended.

Mr. NOBLE. No, sir, I am speaking to the change in language that would permit the financing of current increases in prior year contracts out of current year funds, referred to on page 4 of my statement under item "b."

Mr. GARY. And that is the same language change you have with reference to research?

Mr. NOBLE. That is correct, and it would be used here in this type of case only. It would not be used for equipment bought through competitive bids, where we make a straight purchase and there is no such problem. Once such an award is made, that is it and whether the contractor makes money or loses money becomes irrelevant to us and the amount obligated is firm.

It is where we are doing alterations to buildings through the GSA and obligate funds in advance on a preliminary estimate basis that we run into trouble.

Mr. PILLION. Would your language be restricted to only the matter that General Services is performing?

Mr. NOBLE. In the "Plant and equipment" appropriation, yes. The discussion on this point this morning has been very helpful.

Mr. PILLION. You left it wide open here and then you have another matter.

Mr. NOBLE. We had not seen it from the committee's viewpoint and I think with this discussion in mind, we can develop some language that would overcome the committee's concern. We would like to submit some revised language for this appropriation as well as the other.

(See page 263 for revised language proposals.)

NEW APPROPRIATION "PLANT AND EQUIPMENT"

Mr. PASSMAN. On page 1 of your statement, Mr. Noble, you say:

While this transfer placed in one appropriation all improvements to buildings, it placed in two appropriations identical types of standard equipment, the distinction intended to be between equipment procured for new building and that for ordinary replacement of existing equipment.

By having two appropriations, would it necessitate your asking for two separate bids?

Mr. NOBLE. No; not necessarily. It simply necessitated at the time we went out to bid, a determination as to whether the equipment was going to be used for new buildings or for replacement in order to know which appropriation to obligate and that is the condition that exists under the 1961 appropriation.

Mr. PASSMAN. But you should have to coordinate in advance to ascertain what you would need for existing buildings and new buildings?

Mr. NOBLE. We develop overall plans for both requirements; that is correct.

Mr. PASSMAN. Could there be any conflict if you didn't advertise for equipment in quantity so as to get the best prices?

Mr. NOBLE. Yes; but actually we have capital warehouses. We buy this equipment in advance and we carry some stocks so as not to delay the opening of new post offices. If we followed this literally under the present laws the pieces in the warehouses bought under one appropriation could only go to one type of post office whereas an identical piece bought under another would have to go to another post office.

NO-YEAR FUNDS FOR PLANT AND EQUIPMENT

Mr. GARY. What is the need for the other change, the provision to remain available until expended?

Mr. NOBLE. In the capital program it is very difficult for us to hold closely to schedule and we find ourselves toward the end of the year very frequently with some slippage and we are not quite ready to go out to bid on some particular project, and yet, if the award is not made before June 30 the money lapses.

Now, that in itself is not bad. We are not trying to spend money in order to just spend it, but it does mean it then has to be financed out of the next year's appropriation which has already been passed and on the books, but which was planned for other projects and it thus disrupts your whole programing. If you had no-year money and you were not ready to go out for bid you would not have to be faced with the alternative of a crash invitation to bid or disrupting next year's program. You would simply defer the award until you were ready to go out and the money would still be available.

Mr. GARY. This is in direct conflict with the bill that we had a tremendous fight over in the Congress last year, is it not?

Mr. NOBLE. The proposal to limit appropriations on the basis of accrued expenditures?

Mr. GARY. Yes; the accrued expenditure bill.

Mr. NOBLE. Well, we wouldn't ask this type of thing for an operating program. There, if the money had been provided for operations and is not used, it should properly lapse. You shouldn't use it to aug-

ment your operating program next year. But we feel in the capital program, the situation is different. There does appear to be some conflict with that proposal that was developed by the administration a few years ago, but as a practical administrative matter, we feel it will enable us to make better use of the capital funds and by having a separate capital appropriation, it eliminates the possibility of using that money to augment an operating program.

Mr. GARY. But didn't the Hoover Commission recommend and the last administration approve the recommendation that all appropriations expire at the end of the fiscal year for which they were made?

Mr. NOBLE. In effect, I believe so. You make an annual limitation on accrued expenditures. That is what happens.

Mr. GARY. And the Congress, over the protest of the vast majority of the Appropriations Committee, disapproved of that recommendation but nevertheless, the Congress adopted it.

This was asked for last year. The administration recommended on the one hand that we end all appropriations at the conclusion of the fiscal year and then in individual appropriations, ask that they be extended.

How are we going to know what to do on these matters if such conflicting recommendations prevail?

Mr. STEED. Mr. Chairman, I can give you a specific case to show you how unwise that is, in the case of the Federal building in my hometown in Wyoming where it was 5 years from the day the contract was made until the contract was completed because the acquisition of land had to be done by the Department of Justice and the GSA was helpless to move until they had moved. Then the matter of closing an alley had to be worked out with the city government along with the reopening of another alley. The removal of utilities had to be worked out with several crews working under franchises, the electric company, gas company, and telephone company and when all those matters had been gotten out of the way, then the GSA was ready to let a contract.

Well, after they let the contract, then the Indian Office came in and wanted additional space in the building and it had to be amended to take care of that.

Then when they got into the addition to the old building and tore into this thing, they found that the roof was in such bad condition that the roof on the old part of the building needed to be replaced. If they didn't do it then it would cost three or four times to do it at a latter date.

Those are things that could not be anticipated.

Mr. GARY. And they couldn't start until they had the funds appropriated.

Mr. STEED. That is right. They had to get the appropriation before they could buy the land and couldn't start to work until the land was bought and that involved a real estate matter that the Deparment of Justice couldn't work out for months and months. How in the world you are going to do any of this work if you put it on a fiscal year basis is open and shut? It's stupid. It's impossible.

Mr. GARY. I agree with the gentleman.

Mr. PILLION. On the other hand, while it is a disruption for the Department, it is a rather loose arrangement for this Congess to have

all this money outstanding without an accounting each year as to the appropriation.

In other words, you have $5 million or $10 million left over from an appropriation of 1955 and "X" number of dollars from 1956 and you have a constant backlog of commitments upon this dollar and that means it is a question of who is going to be disrupted—is it going to be the Congress and its appropriations and its fiscal responsibility, or is it going to be the Department's disruption?

That is the question here, and I think this Congress has the prime responsibility for fiscal sanity around here. If we have all these tail ends left over for a period of 5 or 10 years, they have power to spend it even though we appropriated 5 or 10 years ago. I realize there is a lot of merit to what the gentleman has said here, however.

Mr. STEED. Here is the point you ought to keep in mind. Congress made the decision to spend $900,000 when it put up the money for it at the beginning. The detail of carrying that out, since it involved all these other things, is something you just can't make cut and dried in advance. All the time this is going on and all this money, although it hasn't actually been spent yet, is under the surveillance of the General Accounting Office under competitive bid; it is under every kind of audit, survey, and control that you want Government money to be under.

It is a matter of fiscal necessity of requiring that much time to work out all the different phases and wrangles and redtape involved in doing a piece of work.

Now, if that had been done by private industry, it would have been done exactly the same way the Government did it. Any corporation would have earmarked the money in advance and gone ahead with the accomplishment of the project.

It's not like having money lying around loose. The Congress decided to do this job when it gave the money in the first instance.

Mr. PILLION. I realize perfectly well from the standpoint of getting the job done the theory that the gentleman expounds is a correct one.

However, if you are trying to say that Congress wants this much money spent this particular year regardless of how many buildings you put up or do not put up, then the other language is better.

If we want to keep a rein and check upon the amount spent each year, then this language is necessary. If you say the prime consideration is that we shall get these buildings done on such and such a program, then your language is better. You are thinking of the operation first and this language is all right. You are thinking of Congress and how much it will spend each year and keeping a check on it, then, of course, this is the language you would want.

Mr. STEED. Yes. If the Government tries to do everything on a fiscal year basis, it will cost twice as much to do anything that it is already costing. No private industry in the world does that.

Mr. GARY. Do the no-year funds you are recommending apply to both research and plant equipment?

Mr. NOBLE. No, sir, only to the "Plant and equipment" appropriation.

If I may speak to Mr. Pillion's point, concerning accumulation of large balances which Congress would lose control over, each year we would have to report in our budget estimates the amount carried forward.

Anytime the Committee felt that was excessive they could cut down the current appropriation or rescind a prior appropriation if it hadn't been obligated. There would be an accounting every year. In other words, it would not be under the table.

Mr. MILLIKEN. On these appropriations that are earmarked for a specific job and the job is finished, I think where there is money left over from a job, that money should go back in the General Fund.

In other words, if you put a job out for a half million dollars and you only spend $450,000 and you have $50,000 left over that was earmarked for that job, that ought to go back into the fund or be abolished at that time when that job was completed.

Mr. GARY. Well, it is earmarked by the Department and that is the reason I frankly can't see why they need these no-year funds because we appropriated a lump sum for modernization or for plants and equipment.

Mr. STEED. Gentlemen, there is one thing to remember, that the year I was able to get the money for my hometown Federal building, Congress didn't get the bill to the President's office until September.

Mr. GARY. I understand.

Mr. STEED. You lose 3 months of the fiscal year before the thing was available.

Mr. GARY. If we were appropriating money for each specific project, I think it would have tremendous merit.

Mr. PILLION. That is right.

Mr. GARY. But since we appropriate this money in a lump sum, and the Department apportions it to individual projects I don't see why they can't go ahead and make contracts within the scope of the appropriation and then pay as they go along.

Mr. PILLION. Yes; if there were were no appropriation for the next year or if there were some uncertainty about it. But here you appropriate a lump sum again the next year out of which these contracts can go forward.

Mr. GARY. That is right.

Mr. PILLION. If you had just one contract, you would have a difficult time operating.

Mr. STEED. They had some appropriation of $4 million, and out of that they set up five projects, and they were only able to take care of that many projects out of that money. If for any reason like the Nashville or Shawnee project had been out of the picture, maybe they could bring in three small projects of that kind. If you don't give them some leeway, they can't have any continuity or system to the way they are set up to do their work.

They may decide that they would rather do a Buffalo job this year which is $2 million more than any other; something might come up that would delay it a year, and then they could go ahead with five smaller projects that are ready and sitting behind the Buffalo project.

They try to plan in advance so that these things are possible. They can take advantage of whichever is the best job to be done, and I just think that the Government gets a better deal with a certain amount of flexibility so that the people who plan these things, since there is such a long leadtime in it, can do their work. I don't know how in the world you are ever going to get any work done otherwise.

Mr. PILLION. That would be exactly true where you have a line item or two or three specified projects you are dealing with and then you go on to find changes, and so forth. You should carry them through, but here where you have a lump sum, they do it allocating within the overall amount that you give them, there ought to be no problem that I can see, but just a matter of them shuffling this money.

Mr. BRAWLEY. I might say, Mr. Chairman, that the new administration very strongly endorses this proposal. They feel that it will assist in better planning of the programs.

Sitting here on the Hill for a number of years, I have heard rumors many times during the last 30 days of a fiscal year of hurried, frenzied planning to spend money that has been appropriated.

I want to make it clear that as long as I have anything to do with the Post Office Department that this will not happen under this administration. It will give us a better opportunity for better planning.

Mr. STEED. A tornado last Friday night tore down a post office in my district. Where is the Department going to get any money to put that post office back in operation? They didn't know this tornado was going to happen when this year's appropriation was passed.

You gentlemen are going to have a problem getting the mail to the town in my district.

Mr. PILLION. They won't have any trouble with that, Tom.

Mr. STEED. The post office there is a bunch of bricks laying on the ground today. That is a matter I have to leave the committee today to go see about. The whole town is blown down. If the radar warning hadn't alerted the people, it would have been 200 or 300 dead. As it was, they had 20 minutes warning time to flee and only five people were hurt.

The post office there just doesn't exist.

Mr. GARY. Well, if that is to be rebuilt by the Government, it will have to be specifically authorized anyway, and I don't see that that would affect it at all.

It probably will be handled on a rental basis. Most of the new post office buildings are now being handled on a rental basis.

Mr. STEED. There is an emergency.

Mr. PILLION. That is a little bit different, Tom.

Mr. GARY. It will have to be taken care of.

Mr. PASSMAN. I believe it was Mr. Stans, the Director of the Budget, who compiled a list last year showing from the statutes presently on the books that we had an obligation of $780 billion. I am sure that a great many of my constituents feel that when you make an appropriation it is immediately entered upon the books. That isn't so. The entry is made only after you spend the money. If you had too many items on a no-year basis, there could be an accumulation of tens of billions of additional bills to be met in addition to the regular annual appropriation.

Mr. Steed. I am not opposed to having congressional control over this. This is a field where there is some logic in continuity whereas you wouldn't have any in this military stuff and these other things.

I think there is always an exception that proves the rule and having had this experience in my own town, I believe the flexibility they need here just makes good sense.

Mr. PASSMAN. It may be in this particular instance you should have some flexibility, but if we should start appropriating on a no-year basis, we could get in trouble.

We had that one time; the departments were allowed contract authority.

Mr. PILLION. In general, there is no question that is wrong in principle so far as Congress is concerned in keeping a check and rein upon appropriations.

It may be that in one individual instance there may be some hardship, but it is the old situation in law that hard cases make bad law and hard cases make bad financing, too, at times.

Mr. ALEXANDER. Mr. Chairman, I wonder if it would be possible to work out this problem possibly following the same solution on this that you did on others where they were to have perhaps 10 percent or some percentage.

Mr. GARY. I hope the Department will, in view of the discussion we have had here today where we have their point of view and they have ours. It seems to me there ought to be some way of working it out satisfactorily. If you will give it some study and see if you can present us something more in line with the committee's thoughts before we complete our hearings, we would appreciate it.

Mr. BRAWLEY. We will do that, sir.

Mr. GARY. Any further questions?

If not, we will now take up the public service item.

Mr. BRAWLEY. Mr. Chairman, I think in view of the fact that this amount was tabulated by his division, we would like to have Mr. Noble explain the public service items in this.

Mr. GARY. That is agreeable to the committee.

SEPARATION OF CAPITAL AND RESEARCH FUNDS

Mr. PILLION. Mr. Chairman, may I go back to this other matter for just a moment?

Mr. GARY. Yes; sure.

Mr. PILLION. Mr. Noble, to go back to the first suggestion in your statement, is it my understanding now that you are going to put all capital funds, all capital investments into one category—that of "Plant and equipment," which will include buildings and all your equipment and all capital investments, whether personal or real; is that the idea?

Mr. NOBLE. That is correct. It was practically that way—the 1961 appropriation; and we are just giving the final touches and eliminating items of a noncapital nature back into the administrative appropriation.

Mr. PILLION. Noncapital?

Mr. NOBLE. Yes; the modernization appropriation for 1961 included research work.

Mr. PILLION. I see.

Mr. NOBLE. And some technical personnel. And we are proposing to put those in the administration appropriation.

Mr. PILLION. Then, as I understand, along these lines, you will have three different categories; one will be "Plant and equipment," which includes all your plant expeditures or capital investment. You will have, No. 2, all research, regardless of modernization or any

other type of research. That will be all lumped in one under "Research, engineering," et cetera.

Mr. NOBLE. Under the administrative appropriation.

Mr. PILLION. Yes, under the administrative appropriation.

Mr. NOBLE. Not in the "Plant and equipment" appropriation.

Mr. PHILLION. That leaves "Facilities." Now, what will be under "Facilities"?

Mr. NOBLE. Facilities will cover the operating expenses of "Facilities"; that is, it will include rents——

Mr. PILLION. Yes.

Mr. NOBLE. Supplies, utilities.

Mr. PHILLION. Well, now, take a supply like a machine that lasts 3 years. Will that be under supplies as a facility or will it be under equipment? In other words, what type of number of years life will go under facilities and how many years will go under "Plant and equipment"?

Mr. NOBLE. There is obviously an area there where there is a gray area. But it is our intention to put in the "Plant and equipment" appropriation those postal items which, under our accrual accounting, we will capitalize. And that would represent items of substantial values. They would have to last more than 1 year, and they would have to involve sufficient cost to justify keeping property records.

Mr. PILLION. Yes.

Mr. NOBLE. For instance ash trays and desk sets and things of that nature, which last more than a year, are not of sufficient intrinsic value to have property records. We would treat those as supplies.

Mr. PILLION. As facilities.

Mr. NOBLE. That is right, under the "Facilities" appropriation.

Mr. PILLION. Then your modernization programing——

Mr. GARY. Will the gentleman yield?

Mr. PILLION. Yes, sir.

Mr. GARY. Vehicles, as I understand it, are being switched to "Plant."

Mr. NOBLE. We consider vehicles as equipment, and they would go in the "Plant and equipment" appropriation as a separate item.

Mr. PILLION. Anything that has a substantial value over a course of years would be in the "Plant and equipment" appropriation.

Mr. NOBLE. Yes, sir.

Mr. GARY. Now, does that apply to your mailsters?

Mr. NOBLE. Yes, sir.

Mr. GARY. All vehicles would be under that item?

Mr. NOBLE. Right.

Mr. GARY. You have had them divided before, I think.

Mr. NOBLE. We started initially with some mailsters in the two appropriations, and then, at your recommendation, they were put, along with other vehicles, in the "Facilities" appropriation in 1961. Now, since they are of a capital nature, under ordinary business concepts, we would put them in the "Plant and equipment" appropriation.

Mr. PILLION. Now, what do these new headings here, new categories, what does this do with your modernization program, since you have eliminated modernization as a separate concept; is that not just about what you are doing?

Mr. NOBLE. We have eliminated it in terms of language in appropriation structure.

Mr. PILLION. Yes.

Mr. NOBLE. But the program itself we hope will go forward with new vigor.

Mr. PILLION. That is right.

Will the language make any difference in the fact that you have got a $500 million authorization and you have spent $80 million one year and $80 million another, roughly? Will there be any difference in that?

Mr. NOBLE. I think——

Mr. PILLION. Will it have any effect upon it?

Mr. NOBLE. You have reference to the original legislation for the modernization program——

Mr. PILLION. That is right.

Mr. NOBLE. That was in Public Law 85–426?

Mr. PILLION. That is right.

Mr. NOBLE. That was stated in the terms of a 3-year program. And the third year expires in this fiscal year. So the significance of that language no longer exists.

Mr. PILLION. I see.

Well, may I say this, that I would like to congratulate you upon this new setup. I think it will be easier for you, and I think it will be easier for us to accomplish and I think it is good accounting.

Mr. NOBLE. Thank you.

Mr. ALEXANDER. When you speak of modernization, do you mean the improvement of existing facilities by improvement of accepted machinery, buildings, or are you talking about this new scientific study in equipment that we are going through? Just what do you mean by modernization?

Mr. NOBLE. When we have reference to modernization in the "Plant and equipment" appropriation, we refer to actual modernizing of specific facilities by the installation of the latest type of equipment and improvement of the building. It has nothing to do with the developmental or research aspect, which is under the "Administrative" appropriation, where these things are developed.

Mr. ALEXANDER. That is what I wanted to get clear.

Mr. NOBLE. That is the clear distinction between the two. And only the tangible purchase of equipment or the actual remodeling of a building goes in the "Plant and equipment" appropriation. All development work, all research work goes in the "Administrative" appropriation under the research program.

Mr. GARY. Any further questions?

(No response.)

66934—61——6

PAYMENT FOR PUBLIC SERVICES

WITNESS

LINDSLEY H. NOBLE, DEPUTY ASSISTANT POSTMASTER GENERAL AND CONTROLLER, BUREAU OF FINANCE

Payment for public services, 1962, out of the general fund—Analysis of appropriation request

[In thousands]

Activity	1960 actual	1961 estimate	Increase	1962 estimate	Increase
(1) Revenue loss on free and preferred rate mail	[1] $48,474	$58,653	$10,179	$61,850	$3,197
(2) Excess rates paid to foreign air carriers	850	850		850	
Total (object class 41)	49,324	59,503	10,179	62,700	3,197
Variation in estimate	−11.924	−10,503	1,421		10,503
Appropriation or estimate	37,400	49,000	11,600	62,700	13,700

[1] Based on 1960 preliminary cost ascertainment data.

Mr. GARY. Now we take up the request for "Public services." The appropriation for 1960 for this item was $37,400,000. The appropriation in 1961 was $49 million. The request for 1962 is $62,700,000.

Of course, this is an item over which the House and Senate have disagreed in the past. I think it was 3 years ago, the Senate tacked onto one of the rate increase bills or salary increase bills, I do not remember which, the requirement for a "Public service" appropriation. It came back to the House in the last few days of the session. The House was more or less put in position that it was forced to accept the bill with the amendment in it, but it did accept it with the express understanding that the amount to be appropriated would be determined under the usual appropriation procedures.

For the fiscal year 1960 the Department recommended, I think, something like one hundred and some odd million dollars which was based upon the actual cost of handling the favored mail. The House felt that that was unfair, so we threw out the entire appropriation. It went to the Senate, and the Senate put $37,400,000 in the bill, which represented, rather than the total cost of handling the mail that is favored, the difference between the cost that mail would have paid if it had not been favored and the amount that it actually did pay.

That same principle was followed in 1961 and the increase from $37,400,000 to $49 million was the result of increased volumes.

The request this year is for $62,700,000. And we ask Mr. Noble to explain the reason for that increase and the basis upon which the request of this year is founded.

Mr. NOBLE. Mr. Chairman, the estimates before you are based upon two things—first, the revenue loss on free and preferred-rate mail; and, second, the excess rates paid to foreign air carriers. Those are the two items in the Postal Policy Act enumerated as public services, as interpreted by the Senate Appropriations Committee, being subject to appropriation in their action on the 1960 appropriation, as you have just stated.

REVENUE LOSS ON FREE AND PREFERRED-RATE MAIL

The first item, the revenues lost on free and preferred-rate mail, is the difference between the revenue that would have been received had this class of mail moved at regular rates and what was actually received. It does not represent the total loss on which basis, as you indicated, the original estimates were submitted for 1960.

The increase in 1962 in this type of loss arises from two things: First, an increase in the volume of this type of mail; and second, an increase in the basic rate. There have been rate increases in second-class mail that became effective on January 1 of this year and January 1 of the year before which served to broaden the gap between the regular rate and the special rate and, hence, increase the loss attributable to the special rate. That is, basically, the reason for the increase in estimates.

Actually, we have experienced difficulty in arriving at sound estimates for this type of thing. You will notice in the justification that, whereas the Congress appropriated $37,400,000 for public services on this revenue foregone basis in 1960, our actual calculations, when the year was over, came out about $12 million more than that.

This is partly due to the fact that there tends to be a growth in this type of mail because of the concessions, and as more people find out about them and qualify as nonprofit organizations entitled to them, the growth is out of all proportion to the normal mail growth; and, in addition, it is a little hard to pinpoint with accuracy a small segment of the mail in the sampling process.

We anticipate no increase to be paid to foreign air carriers in excess of U.S. rates, and have requested the same amount there of $850,000 for 1962.

That completes the presentation of this, Mr. Chairman, unless there are questions which the committee may have.

Mr. CONTE. Mr. Chairman——

Mr. GARY. Excuse me just one moment.

Then, as I understand it, the same basis is used for determining this request for 1962 as was used in determining the appropriations for 1960 and 1961.

Mr. NOBLE. That is correct.

Mr. GARY. Any questions? Mr. Passman.

Mr. PASSMAN. I do not know whether it would apply here directly or not. We have many preferred classes of mail, such as that used by nonprofit organizations. Is that also true in most of the other large countries? Do they have a special rate for book mailings, nonprofit organizations, newspapers, and magazines?

Mr. NOBLE. I believe they do, Mr. Passman. I know that they have reduced rates for their second-class publications, for instance, well below the level of the first-class rate. And as far as I know, they have special further concessions for particular items considered in the public interest.

Mr. PASSMAN. That is all.

Mr. PILLION. Will the chairman yield?

Mr. GARY. Yes.

Mr. PILLION. Practically. What difference is there between giving $62,700,000 of service in this way by reduced mail and if Congress were to just call upon these nonprofit organizations and have them send

us a bill at the end of the year and say: We estimate that we ought to have that much in mailing, and send them a check? What is the difference in philosophy, in concept, that we are giving them a subsidy in a round about method?

Mr. NOBLE. I am not sure I can answer that question in full. But one thought that occurs to me, I heard recently of a publication, which does not use the mails, maintain that it should receive such a subsidy, that its competitors, who do use the mails, have.

Mr. PILLION. That is right; same theory, exactly.

Mr. NOBLE. And this is a matter of subsidy policy, which is up to the Congress.

Mr. PASSMAN. Will the gentleman yield?

Mr. PILLION. I yield to Mr. Passman.

Mr. PASSMAN. Have you ever had an opportunity to study a financial statement of one of these nonprofit organizations so as to ascertain the amount of their operating expense, and what percentage postage represents of the total?

Mr. NOBLE. As far as I know, we have made no such study of nonprofit organizations.

Mr. PASSMAN. This subsidy is growing by leaps and bounds, is it not?

Mr. NOBLE. Yes.

Mr. GARY. The situation is that, so far as the preferences are concerned, free mail and preferences, that is fixed by substantive law, and we have no control over it. The question here is merely a bookkeeping entry, in which we put in an appropriation of so much money to reimburse the Post Office Department for the loss on that mail, and from a bookkeeping standpoint it simply reduces the Department deficit by the amount of the loss.

BREAKDOWN OF REVENUE LOSSES

We will insert at this point in the record, page 1.4 of the justification, which shows the various classifications that enter into the computation of the $62,700,000.

(The justification referred to is as follows:)

Estimated revenue loss from rate concessions and cost of excess rates paid foreign air carriers, fiscal years 1960, 1961, and 1962

[Thousands of dollars]

Class of mail	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962
1. Revenue loss on free and preferred rate mail:			
Second-class mail:			
(a) Reduced rate mailings: Newspapers and periodicals	$4,500	$6,080	$7,323
(c) Free-in-county mail	880	884	905
(i) Reduced rate mailings: Second-class publications for religious and classroom use	343	499	630
Total second class	5,723	7,463	8,858
Third-class mail: [1]			
(j) Reduced rate third class mailings of nonprofit organizations	18,838	24,960	26,356
Fourth-class mail:			
(l) Reduced rate mailings:			
Books	19,063	21,102	21,248
Library books	3,355	3,556	3,689
(f) Publications for blind at reduced postage rates	69	73	73
Total fourth class	22,487	24,731	25,010
Penalty and official mail:			
(b) Official mailings: Pan American Union	74	77	80
(g) Free mailing privileges: To Pan American sanitary bureaus	4	5	6
Total penalty and official	78	82	86
Franked mail:			
(e) Free mails, diplomatic corps of Pan American Union countries	55	55	55
(h) Free mailing privileges to: (widows of Presidents)			
Total franked	55	55	55
(r) Free mailing privileges: Absentee ballots			
(d) Free for the blind matter	1,293	1,362	1,485
Total revenue loss on free and preferred rate mail	48,474	58,653	61,850
2. Cost excess rates paid to foreign air carriers	850	850	850
Total revenue loss and additional cost	49,324	59,503	62,700

[1] Based on fiscal year 1960 volumes.

Mr. ALEXANDER. Mr. Chairman, while we are at this particular point, I would like to ask Mr. Noble to insert in the record, if he would, under "Third class mail, reduced rate, third class mailings of nonprofit organizations"; to list for us, if he would, about 15 or 20 of the largest nonprofit organizations and the amount that is given free to them under this classification.

Would that be possible?

Mr. NOBLE. Well, Mr. Alexander, these figures are developed on a sampling basis, and once a quarter we make counts of mail and include in it things of this nature. And hence, our figures are blown up from small samples; and I do not believe we could develop the names of individual organizations and the amounts of their mailings.

We could determine the permit holders who are entitled to these reduced rates by going back to some of our larger post offices and getting some statistics there, but it would require some research to develop.

Mr. PASSMAN. Would the gentleman yield?

Mr. ALEXANDER. Certainly.

Mr. PASSMAN. I requested that information a few years ago and, within 15 days, I had a complete list of every publication in my district such as newspapers and church publications that enjoyed this special privilege. I am sure that within 15 days you could again furnish me that list.

Mr. NOBLE. We could do it for districts; but it would be a big job nationally—in other words, I presume you want simply the post offices within your district?

Mr. PASSMAN. I do not know where you got that information, but I accepted it as accurate, and it was a very complete list.

Mr. ALEXANDER. Off the record.

(Discussion off the record.)

INCREASE IN FREE AND PREFERRED MAIL

Mr. PILLION. I would like to point out the increases here in newspapers and periodicals. You have a 50 percent increase in the space of 2 years. You have almost the same thing with the second-class publications for religious and classroom use. I think you have another item there in the third-class mailings of nonprofit organizations which have gone up from $18 million to $26 million in 2 years, a 50 percent increase.

Mr. NOBLE. Part of that difference, Mr. Pillion, is due to the fact that there have been rate increases in second-class mail which, without any other change in volume, for instance, could raise the amount of the concession. And the same thing is true of third-class mail.

Mr. PILLION. Yes, but it is still a lot of money.

Mr. NOBLE. It is a large amount of money, yes, sir.

Mr. PILLION. Regardless.

Mr. GARY. Any further questions?

Mr. CONTE. Mr. Chairman.

Mr. GARY. Yes, sir.

Mr. CONTE. In regard to that $61,850,000 estimate that you have there for public services, could you break down the revenue loss on the free and preferred mail rate under categories for us? How do you arrive at the figure of $61,850,000?

Mr. NOBLE. On page 1.4, there is a breakdown by class of mail.

Mr. GARY. Page 1.4 is the page we just inserted in record.

Mr. CONTE. Thank you. That is clear now.

Mr. Chairman, did we not have $49 million in there last year and the Senate accepted that figure?

Mr. GARY. Yes, that is right. And the difference is the increase in volume.

Mr. PILLION. Volume, yes.

Mr. GARY. There has been no change in the basic determination.

Mr. CONTE. The facts are the same?

Mr. GARY. Yes.

Mr. NOBLE. Actually, Mr. Chairman, since we made these estimates and put them into print, our latest cost studies indicate we may have underestimated the figures by several million dollars.

Mr. PILLION. Of course, the only purpose of this is a determination as to whether or not this amount of money should be paid for, in theory, by the users of the mail as a whole or whether it should be borne by the taxpayers as a whole. That is the question involved here.

Mr. GARY. That is right.

Mr. PILLION. That is a bookkeeping situation.

Mr. ALEXANDER. Actually, under our situation today we are running into a strong deficit and the taxpayers are footing the bill at about $2 million a day. It really is entirely bookkeeping.

Mr. PILLION. That is right. It is entirely an arithmetical situation.

Mr. CONTE. As I recall, Mr. Corbett, of Pennsylvania, raised this issue, and he felt that under the Postal Policy Act that this item should not be included at all in the budget.

Mr. GARY. Oh, no.

Mr. CONTE. Just the opposite?

Mr. GARY. Just the opposite. He wants to include the cost of second- third- and fourth-class post offices, which is ridiculous. Why is it any more public service to deliver mail to a third- or a fourth-class post office then it is to a first-class post office? Then, in addition, instead of taking the difference between the amount that the Government loses on this class on mail by giving it a preference, he wants to take the total cost of handling it as the measure of public service. If that is the proper measure, then the total cost of handling all so called junk mail is a public service, because we lose money on all of it.

If you carried this theory to its logical conclusion, you would just charge off all of the losses of the Post Office Department as a public service.

Now, I can see some justification for saying: Well, we give preferred treatment to certain classes of mail and the Congress, to that extent, has recognized a public service, and we will allow an appropriation for public service to that extent.

The best example I know of is the free distribution of county newspapers within the county.

Mr. CONTE. That is right.

Mr. GARY. Now, that free distribution started many years ago when we did not have the transportation we have now, we did not have radio, we did not have television; it was allowed to encourage the dissemination of news so as to keep the people informed. It is a free service decreed by the Congress and I imagine that it is probably true that some of these county papers would not be able to operate if they had to pay for that service.

So we have recognized that as a public service; an educational service that is given the people.

If, however, those papers were not delivered free but were required to pay the regular rate that is charged to other newspapers, they would not pay the full cost of handling. All the Congress gives them is the preferred rate. But advocates of the larger appropriation for special service want to add to it the total cost of handling that item. I see no justification for that at all. If you are going to put it on the basis of preferred treatment, then the appropriation should only cover the preference.

Mr. CONTE. The preference alone?

Mr. GARY. Yes. And not the total cost of handling the preferred mail.

Mr. PILLION. That whole theory has been rather perverted too. Instead of having these county newspapers now, you have these advertising sheets. You have this much news, and the rest of it is plain advertising.

Mr. GARY. That is right.

Mr. PILLION. It is an advertising subsidy.

Mr. CONTE. Off the record, Mr. Chairman.

Mr. GARY. Off the record.

(Discussion off the record.)

Mr. GARY. This subject was explained very fully in the hearings of 1961.

Mr. NOBLE. It was the 1960 action where the Senate committee reported its position very fully.

Mr. GARY. That is right.

Mr. NOBLE. I think there was more of that in 1960, the Senate report.

Mr. GARY. But was it not discussed by the Department, in 1961, in explaining the basis upon which its amount was arrived at?

Mr. NOBLE. Not as fully as in 1960, the first appropriations, when both methods of interpreting the law were presented to Congress.

Mr. GARY. Well, could you insert a statement in the record that would show that difference of treatment?

Mr. Brawley; would you do that for us?

Mr. BRAWLEY. Yes, sir; I will.

(The statement supplied follows:)

The new administration of the Post Office Department is aware of the sincerely held, but conflicting, points of view about public service allowances expressed by different Members of the Congress. It has not had an opportunity fully to evaluate either the content or the implications of these differing points of view. Our approach at this time to the 1962 appropriations insofar as they are affected by public service allowances must necessarily be simply an extension of the work done by the previous administration.

A review of the justification submitted for the 1960 appropriations indicates these differences in the approach to public service allowances:

The Postal Policy Act identifies five categories of public service for which allowances are established. According to one approach only two of these categories are used in establishing such allowances; namely, loss on free and reduced-rate mail and the additional cost of transporting mail by foreign air carriers. According to the other approach two additional categories out of the five are used in setting such allowances; namely, loss on nonpostal services rendered to other agencies and loss on special services.

The fifth category, namely, the loss on star route system and third- and fourth-class post offices so far is not susceptible to valid measurement, so no public service allowance has been calculated.

Of the five categories, one, namely the loss on free and preferred-rate mail, accounts for the preponderant portion of the total public service allowances identified in the Postal Policy Act.

Again there is a difference between the two approaches in the calculation of the dollar value of this loss.

The one group states the loss as the difference between the rates, if any, actually charged to the free and reduced rate users and the postage they would have paid if they had been regular commercial mailers. This may be referred to as the "revenue foregone" approach.

The other group holds that, inasmuch as the Postal Policy Act specifically refers to "the total loss" on this type of mail, the allowance should be stated as the difference between the revenue received from the free and reduced rate

mailers and the total cost of providing such postal services to them. This may be referred to as the "total loss" approach.

To indicate the impact of these differing approaches the estimate of public service allowances for this category on the "revenue foregone" approach would be $61,850,000 in 1962, whereas on the "total loss" approach it would be $175,614,000.

This difference between revenue foregone and total loss accounts for the major part of the total difference in the two approaches. The other differences involve $18,656,000 for nonpostal services rendered to other agencies by the Department and $39,880,000 loss on special services. These items are omitted under one approach on the grounds that services to other agencies are more than offset by services which other agencies render to the Department without charge, and that special services should be self-supporting.

The dollar values of the two approaches for public services as a whole are as follows:

Using the revenue foregone approach and applying only the two categories of loss the total public service allowance estimated for 1962 is $62,700,000.

Using the total loss approach and applying the four categories of loss the total allowance estimated for 1962 is $235 million.

INCREASE IN FREE AND PREFERRED MAIL

Mr. PASSMAN. Mr. Chairman, would there be any objection to inserting in the record a chart for 1952 to 1962, inclusive, just to give a general idea of how rapidly this one item is growing?

You have furnished it to us for a 3-year period.

Mr. BRAWLEY. That is when we first started it.

Mr. PASSMAN. Oh, you first started this for keeping an account for reimbursing the departments. But you had it on the other classes of mail; did you not?

Well, I withdraw the request, anyway.

Only that one category did not start last year.

Mr. BRAWLEY. This is the first time the law required it.

Mr. PASSMAN. Oh, you did not have any records? I see. But you do have prior records, do you not?

Mr. NOBLE. That is right; we have the annual cost ascertainment report.

Mr. PASSMAN. That is what I would like to have in the record. It would at least give an indication that this category in increasing by leaps and bounds.

Mr. NOBLE. Yes.

Mr. BRAWLEY. Well, sir, it is going to increase even more if we have, we hope, a rate bill. Every time you pass a rate bill, this amount of public service will naturally increase.

Mr. PASSMAN. Yes.

Mr. ALEXANDER. Actually, the public service question only becomes important when you are determining, by a rate bill, what users of each class of mail should pay in order to pay their proper share of the load.

Mr. BRAWLEY. That is right.

Mr. ALEXANDER. Then this becomes important?

Mr. BRAWLEY. That is right.

Mr. ALEXANDER. Otherwise, it is just a bookkeeping function?

Mr. BRAWLEY. That is right.

Mr. PASSMAN. You are mixing several different categories together; are you not? You have the Congress in here, you have other special privileges under this same item.

Mr. NOBLE. The Government and the Congress reimburse the Department for their mail.

Mr. PASSMAN. Yes; but nevertheless, it requires an appropriation.

Mr. BELEN. Yes.

Mr. GARY. Not for the Post Office; money is appropriated to each department with which it reimburses the Post Office Department for the handling of its mail.

Mr. PASSMAN. I am not worried too much about the Government; that is necessary. I am thinking about all the others. But I do not think that will serve a useful purpose, so I withdraw the request.

Mr. BRAWLEY. May I go off the record, Mr. Chairman?

Mr. GARY. Yes, sir.

(Discussion off the record.)

ADMINISTRATION, REGIONAL OPERATION, AND RESEARCH

WITNESSES

RALPH W. NICHOLSON, ASSISTANT POSTMASTER GENERAL FOR FINANCE
FREDERICK C. BELEN, ASSISTANT POSTMASTER GENERAL, BUREAU OF OPERATIONS
L. REX LANDIS, DEPUTY DIRECTOR, OFFICE OF RESEARCH AND ENGINEERING
B. J. BEARY, DEPUTY ASSISTANT POSTMASTER GENERAL, BUREAU OF PERSONNEL
HENRY MONTAGUE, CHIEF POSTAL INSPECTOR
BERT B. BARNES, FIRST DEPUTY ASSISTANT POSTMASTER GENERAL, BUREAU OF OPERATIONS
STANCIL M. SMITH, DIRECTOR, INTERNAL AUDIT DIVISION

Object classification

[In thousands of dollars]

		1960 actual	1961 estimate	1962 estimate
11	Personnel compensation:			
	Permanent positions	54,215	61,619	63,262
	Positions other than permanent	210	190	190
	Other personnel compensation	1,002	919	792
	Total personnel compensation	55,427	62,728	64,244
12	Personnel benefits	3,726	4,681	4,787
21	Travel and transportation of persons	3,952	4,153	4,412
22	Transportation of things	96	103	94
23	Rent, communications, and utilities	250	303	334
24	Printing and reproduction	98	70	70
25	Other services	4,122	3,284	3,173
26	Supplies and materials	244	219	191
31	Equipment	12,602	7,055	9,550
42	Insurance claims and indemnities	1,617	1,775	1,945
	Total obligations	82,134	84,371	88,800

Personnel summary

	1960 actual	1961 estimate	1962 estimate
Total number of permanent positions	8,056	8,196	8,212
Full-time equivalent of other positions	46	43	43
Average number of all employees	8,042	8,293	8,304
Number of employees at end of year	8,056	8,196	8,212
Average GS grade	8.6	9.0	9.0
Average GS salary	$7,197	$8,069	$8,174
Average postal field service level	4.5	4.5	4.5
Average postal field service salary	$5,035	$5,463	$5,482
Average salary of ungraded positions	$4,413	$4,858	$4,922

Program and financing

[In thousands of dollars]

	1960 actual	1961 estimate	1962 estimate
Program by activities:			
1. Executive direction and administration	16,855	18,604	19,560
2. Field inspection service	13,887	15,528	16,300
3. Contract research, development, and engineering	15,831	9,960	11,950
4. Regional operation	35,561	40,279	40,990
Total obligations	82,134	84,371	88,800
Financing:			
Comparative transfers from (−) other accounts	−11,364	−6,451	
Unobligated balance lapsing	805		
New authority	71,575	77,920	88,800
New authority:			
Appropriation	71,750	73,300	88,800
Transferred (73 Stat. 69) from—			
"Operations"	1,300		
"Facilities"	325		
Transferred (73 Stat. 69) to "Transportation"	−1,800		
Appropriation (adjusted)	71,575	73,300	88,800
Proposed supplemental due to pay increases		4,620	

Mr. GARY. We will next take up administration, regional operation, and research. The appropriation for this item for 1960 was $71,750,000; the appropriation for 1961, $73,300,000; the request for 1962, $88,800,000, which is an increase—allowing for a comparative transfer of approximately $8.8 million in this appropriation, due to proposed change in budget structure—of $6,700,000 above 1961. Of course, any additional supplementals granted would reduce that difference.

JUSTIFICATION OF THE ESTIMATE

In this connection, we will insert pages 10.1, 10.2, and 10.3 of the justifications, together with the page preceding those pages, into the record at this point.

(The matter referred to follows:)

Statement relating 1960, 1961, and 1962 programs

[In thousands]

1960 appropriation adjusted		$71,575
1961 appropriation in annual act		73,300
Proposed supplemental due to pay increases, Public Law 86-568		4,620
Adjusted appropriation, 1961		77,920
Comparative addition for proposed transfer in the estimate, 1962, from "Modernization and improvement of buildings and equipment":		
Headquarters modernization personnel	$630	
Field modernization personnel	1,361	
Contract research, development, and engineering	4,460	
		6,451
Comparative appropriation, 1961		84,371
1960 program (obligations incurred)		82,134
Increase or decrease due to:		
Salary increase, Public Law 86-568	$4,745	
Within-grade and automatic salary increases	1,085	
Training and other grade promotions	177	
Filling vacancies	759	
Filling modernization positions	676	
Additional inspectors and clerks	224	
One less paid day	−145	
Other personnel compensation	76	
Health insurance	469	
Retirement fund and group life insurance	190	
Reduction in fidelity bond premium	−347	
Headquarters supplies and services	−134	
Damage claims	157	
Contract research, development, and engineering	−5,871	
Miscellaneous items	176	
		2,237
1961 program (obligations incurred)		84,371
Increase or decrease due to:		
8 days additional pay cost	$110	
Within-grade and automatic salary increases	876	
Training and other grade promotions	165	
Carryover cost of vacancies in 1961	237	
Additional administration personnel	53	
Additional modernization personnel	218	
Reduction in money-order-center personnel	−200	
Additional inspectors and clerks	188	
One less paid day	−197	
Reimbursement to Treasury Department for processing paid money orders	60	
Other personnel compensation	12	
Personnel benefits	100	
Inspectors travel and miscellaneous expense	210	
Fidelity bond premium	400	
Damage claims	170	
Contract research, development, and engineering	1,990	
Miscellaneous items	37	
		4,429
1962 program (obligations incurred)		88,800

Analysis of estimated increases or decreases in obligations, 1960–62

[Dollars in thousands]

Account	1960 (actual)	1961 (estimate)	Increase or decrease (−) due to—				1962 (estimate)	Increase or decrease (−) due to—			
			Leap year day in 1960	Pay and health increase	All other cost			Mandatory item	Workload	Net total increase	
					Amount	Percent				Amount	Percent
Average number of positions:											
Headquarters	1,420.5	1,490.0	−5.6		75.1	5.31	1,511.3		21.3	21.3	1.43
Field	6,621.5	6,802.6	−21.9		203.0	3.08	6,792.2		−10.4	−10.4	−0.15
Average compensation:											
Headquarters	$7,326	$7,986		$545	$115	1.57	$8,159			$173	2.17
Field	6,782	7,453		534	137	2.02	7,613			160	2.15
Executive direction and administration:											
Executive direction and administration, headquarters	14,520	15,931	−$44	940	515	3.56	16,998	$509	$558	1,067	6.70
Internal audit, field	994	1,154	−3	78	85	8.58	1,179	20	5	25	2.17
Money order center	1,341	1,519	−5	127	56	4.19	1,383	24	−160	−136	8.95
Subtotal	16,855	18,604	−52	1,145	656	3.90	19,560	553	403	956	5.14
Field inspection service	13,887	15,528	−40	1,044	637	4.60	16,300	339	433	772	4.97
Contract research, development, and engineering	15,831	9,960			−5,871	−37.09	11,950		1,990	1,990	19.98
Regional operation [1]	35,561	40,279	−113	3,025	1,806	5.09	40,990	706	5	711	1.77
Total administration, regional operation, and research	82,134	84,371	−205	5,214	−2,772	−3.38	88,800	1,598	2,831	4,429	5.25
Total increase over prior year	14,017	2,237					4,429				

[1] 1960 includes $62 for awards and training.

Mr. GARY. This item will be presented by Mr. Ralph W. Nicholson, one of the new Post Office Department officials whom we are very glad to welcome. We would like for you at this point in the record, Mr. Nicholson, to insert a brief biography, if you will, please, sir.

Mr. NICHOLSON. I will appreciate the privilege of doing that, Mr. Chairman. Thank you.

Mr. GARY. We will be glad to hear from you with reference to this item.

Mr. NICHOLSON. Thank you.

GENERAL STATEMENT

BIOGRAPHY OF RALPH W. NICHOLSON, ASSISTANT POSTMASTER GENERAL FOR FINANCE

Ralph W. Nicholson is a former World War II Marine Corps major and New York advertising executive with extensive experience in management and financial operations.

He was born January 30, 1916, in Chicago, where he attended public schools. He was graduated from the University of Chicago in 1936 with an A.B. degree in the humanities.

His early work experience includes a post as editor in the public relations department of General Electric Co. in 1936 to 1939 and work on the staff of the University of Chicago. President from 1939 to 1941.

He enlisted in the Marine Corps in 1941 and was commissioned a second lieutenant in 1942. He was relieved from active duty in 1946, and served in the Reserve until 1957. His combat assignments included operations officer of antiaircraft artillery battalion in the Pacific in 1944 and 1945. He holds a letter of commendation for services in the Okinawa operation.

In 1946, he went with the Fuller & Smith & Ross Advertising Agency in New York City, one of the Nation's largest. Starting as a copy writer, he rose to become a director of the firm and manager of its large New York office. As a top executive in this firm, with a gross business of $50 million annually and 500 employees, his principal responsibilities have included analysis of business problems for the company's large clients, studies of their financial position, market position, competitive situations, manufacturing capabilities, and related responsibilities. These client firms have included Borden Chemical Co., Remington-Rand Univac, Raytheon, and many others.

He also brings to the postal service an extensive background in the fields of personnel recruitment and training, organization, policy development, and financial analysis of operational procedures.

He was married in Washington in 1942 to the former Rosemary Kleutgen of Chicago.

He has made his residence in New Rochelle, N.Y., at 180 Wilmot Road.

As head of the Bureau of Finance of the Post Office Department, he will head one of the largest monetary operations in the world.

EXECUTIVE DIRECTION AND ADMINISTRATION

Mr. NICHOLSON. The first activity listed under the appropriation for "Administration, regional operation, and research" is that for executive direction and administration. This activity covers the cost of all bureaus and offices at the Washington headquarters including the headquarters engineering and modernization staffs, but not contract engineering. It also covers the field personnel of the internal audit division and the money order center at Kansas City. In addition to personal services, the expenses include claims settled administratively under the Federal Tort Claims Act, compromise settlements and damage suits, the biennial fidelity bond premium, rents, communications, utilities, supplies, and equipment.

The estimates call for 10 additional positions in the Bureau of Operations and 29 in the Office of Research and Engineering. A reduction of 56 positions is shown for the money order center. However, there has been a new development in that work since the budget went to print which would call for a temporary increase in the estimated requirements there. I shall call upon Mr. Belen, Mr. Landis, and Mr. Noble to explain these position requirements upon the conclusion of my general remarks.

INCREASE IN FUNDS, 1962

Overall, for this activity we are requesting a net increase in funds of $956,000. Of this, $553,000 is mandatory and consists principally of $400,000 for the biennial fidelity bond and $150,000 for within grade and longevity promotions. Most of the remainder consists of $271,000 for new positions, $110,000 carryover costs for positions filled in 1961 and $170,000 for anticipated increases in the number and average amount of damage claims.

Following the explanations to be given on our proposed personnel changes we shall be glad to answer any questions which the committee may have on any of the items in this activity.

INCREASE IN POSITIONS, BUREAU OF OPERATIONS

Would it be your pleasure, Mr. Chairman, for Mr. Belen at this time to discuss the position changes in the Bureau of Operations?

Mr. GARY. Yes. You may have all the time you need.

Mr. BELEN. Mr. Chairman, sir, as we have indicated all along, the justification is based upon the position of the administration that submitted the budget. And this is the basis for the justification of the 10 positions that will increase us to 228 positions under the Bureau of Operations here in Washington.

The 10 additional positions consist of 3 GS–13's, 3 GS–11's and 4 GS–4's; these positions are being requested because of the increased workload at headquarters that has been generated by the inauguration and continuance of such programs as improvement in analysis of distribution procedures, work measurement system, standardized letter mail, patron-operated vending machines, and mechanizing the permit mailing procedures.

Mr. GARY. Do you contemplate that there may be changes in the budget insofar as that personnel is concerned?

Mr. BELEN. The only thing that I would see is that we are probably going to have to use these people for more than that, because there is going to be a real tightening up of supervision of the field activity; and that certainly with respect to work measurements, you have cut out a pretty big road for us right here during these hearings. And that is, I believe, one of the main avenues of savings, of how that is handled and finding the proper criteria for the measurement of mail.

Mr. GARY. Are you going to add to that, Mr. Landis?

Mr. LANDIS. Yes. I will justify the 29 additional engineering positions. They are all for field followup on the projects developed thus far under the postal modernization program. The many designs produced are now resulting in contract awards and a major construction program is underway. Six of these positions will field-follow during the construction phase; 13 will field-follow to assure a correct installation of the mail processing machinery in the construction phase; and the remainder (10), will assist the local management in getting the new facility underway and make sure that the new plant starts in operation corrected and as originally designed.

That is all.

Mr. GARY. Mr. Noble, do you have any comments?

MONEY ORDER CENTER

Mr. NOBLE. Mr. Chairman, my comments deal with the Money Order Center, in which, for the budget now before you, there was projected a reduction of $136,000 and 56 positions. The reason I am required to comment on this is because there has been a new development in this area which may involve the expenditure of additional funds but which, overall and in the long run will result in a saving to the Government.

On January 11, 1961, the Secretary of the Treasury and the Postmaster General announced the completion of an agreement between the two Departments under which the Treasury Department would take over the work of the mechanical processing of paid money orders, an operation which is very similar to the check reconcilement process

which the Treasury now does. And by the use of the very large computer which they have, the operation can be very much expedited and will provide numerous operational advantages and, in addition, ultimately result in the annual saving in cost of about $650,000 for the Government.

The installation change of such an operation will take a couple of years to effect, and there will be a period during which there will be some overlap. In other words, we will have to continue the operation of the Kansas City Money Order Center, where the money orders are now being audited, up through 1962—calendar year 1962, and possibly into 1963. But we will begin the programing and the procuring of the magnetic tapes and the establishment of a small staff here in Washington to take over the new type of operation, with the result that there will be additional costs in this initial transition period not provided for in these estimates and requiring additional funds.

Now, it is our hope to be able to finance this additional cost out of the appropriation estimates now before you, as a result of savings in other areas, and that we will not have to come in for a supplemental appropriation.

I did want to state for the record, however, this condition; and also to let the committee know of this very new and interesting development. The Director of the Bureau of the Budget claimed this as an outstanding example of effective cooperation in two governmental departments where identical type operations were being carried on and, through their merger, a substantial saving can be made to the Government. I would be glad to insert this press release for the record. We have a detailed feasibility study of the project that was made by Mr. Stickney and a number of others. You probably know Mr. Stickney of the Treasury Department, who is an outstanding expert in computers as they apply to this type of operation. He has done such a magnificent job in handling the Treasury check reconcilement problem. It will mean ultimately closing the Kansas City money order center completely, and effect a saving in our budget of approximately $500,000 and save the Treasury $150,000 a year ultimately by spreading the cost of their machine over a larger volume of work.

Mr. GARY. Thank you, Mr. Noble. We will put the——

Mr. NOBLE. You can have the study, too.

Mr. GARY. Thank you, sir. I do not think we will insert that.

Without objection, we will insert the newspaper release of January 11 in the record; and the study will be with the clerk; so, if anyone wants to look at it, it will be available to them.

(The press release referred to is as follows:)

TREASURY DEPARTMENT, WASHINGTON, D.C.

(Release a.m. newspaper, Wednesday, January 11, 1961)

Treasury Secretary Anderson and Postmaster General Summerfield announced today that the Treasury's electronic facilities used in the payment and reconciliation of Government checks here in Washington will be expanded to include the processing of about 275 million postal money orders a year. Combining these two functions will save the Government about $650,000 in cost annually after the changeover is completed.

The electronic system in the Treasury is capable of paying and reconciling over 3 million checks and money orders each working day.

The decision to bring these two comparable functions together followed a study during the past year by the Treasury and Post Office Departments. Both Secretary Anderson and Postmaster General Summerfield characterized the decision as an outstanding example of how two Government agencies can work cooperatively together toward a common objective to achieve savings and improved services in the conduct of Government operations.

Conversion to the new system will require considerable advance work and the rental of additional specialized equipment before the new system can be placed in operation. The estimated savings takes into account the cost of this additional equipment. It is estimated that the new system will become operative in January 1962 and will require about a year to become fully effective.

Within the next 24 months, it is expected that use of electronic equipment will cause a net reduction of about 200 employees in the Post Office Department staff that is now processing the money orders in the audit office at Kansas City, Mo.

It is expected that much of the reduction over the next 24 months will be achieved through normal attrition and transfers to continuing Government functions in the Kansas City area. Postmaster General Summerfield stressed that every effort would be made to assist the remaining employees in finding suitable employment.

The new system will not affect individuals, post offices, or banks in the issuance and handling of money orders. "Data Processing" by the electronic computers will produce most of the economies by rendering unnecessary the recording and auditing procedures now followed by the Post Office Department in paying, verifying, and reconciling money orders.

Under the new system, data concerning money orders issued, such as serial numbers and amounts, will be "fed" into the computer. When a money order is received for payment it will go through the computer and will be either verified or rejected as incorrect. Over 1 million money orders a day will be handled under the new system. The machine will provide information at any time on money orders paid and outstanding. This will simplify the reconciliation of the accounts of over 35,000 postmasters and will provide more timely information for the adjudication of claims relating to stolen, destroyed, and lost money orders.

Mr. GARY. The committee will now recess until 2 o'clock.

AFTERNOON SESSION

Mr. GARY. The committee will come to order, please.

ANALYSIS OF OBLIGATIONS

We will insert at this point in the record, pages 11.1, 11.2, and 11.3 of the justifications.

(The pages referred to are as follows:)

Executive direction and administration, increase $956,000—Analysis of obligations

[In thousands]

Item	1960 actual	1961 estimate	Increase or decrease (−) due to—			1962 estimate	Increase or decrease (−) due to—		
			Leap year day in 1960	Pay and health increase	All other costs		Mandatory items	Workload	Total increase or decrease
Average number of positions:									
Headquarters:									
Administration personnel	1,388.3	1,419.9	−5.5		37.1	1,419.1		−0.8	−0.8
Modernization personnel	32.2	70.1	−.1		38.0	92.2		22.1	22.1
Subtotal	1,420.5	1,490.0	−5.6		75.1	1,511.3		21.3	21.3
Internal audit, field	98.6	106.1	−.4		7.9	106.4		.3	.3
Money Order Center	293.0	294.5	−1.0		2.5	249.4		−45.1	−45.1
Total	1,812.1	1,890.6	−7.0		85.5	1,867.1		−23.5	−23.5
Average compensation:									
Headquarters:									
Administration personnel	$7,344	$8,002		$545	$113	$8,147			$145
Modernization personnel	6,547	7,660		539	574	8,341			681
Subtotal	7,326	7,986		545	115	8,159			173
Internal audit, field	8,174	8,860		622	64	8,985			125
Money Order Center	4,283	4,784		361	140	4,924			140
Total	6,880	7,536		521	135	7,774			238
Personnel compensation:									
Headquarters:									
Administration personnel	10,195	11,362	−$40	774	433	11,562	$90	$110	200
Modernization personnel	211	537	−1	38	289	769	7	225	232
Subtotal	10,406	11,899	−41	812	722	12,331	97	335	432
Internal audit personnel	806	940	−3	66	71	956	20	−4	16
Money Order Center personnel	1,255	1,409	−5	107	52	1,228	24	−205	−181
Reimbursement to Defense Department for audit of CPFF contracts	7	11			4	16		5	5
Reimbursement to Treasury for processing paid money orders						60		60	60
Total personnel compensation	12,474	14,259	−49	985	849	14,591	141	191	332

Executive direction and administration, increase $956,000—Analysis of obligations—Continued

Item	1960 actual	1961 estimate	Increase or decrease (−) due to—			1962 estimate	Increase or decrease (−) due to—		
			Leap year day in 1960	Pay and health increases	All other costs		Mandatory items	Workload	Total increase or decrease
Personnel benefits:									
Health insurance		96		96		97	1		1
Group life insurance	42	48		3	3	48			
Retirement fund contribution	781	897	−3	61	58	912	6	9	15
Social security tax	5	5				6		1	1
Total personnel benefits	828	1,046	−3	160	61	1,063	7	10	17
Travel and transportation of persons:									
Headquarters personnel	437	490			53	518		28	28
Internal audit, field	121	125			4	129		4	4
International Postal Congresses	4	15			11	20	5		5
Carfare and taxicab expense	5	4			−1	4			
Total	567	634			67	671	5	32	37
Transportation of things:									
Household goods and effects:									
Headquarters	17	17				22		5	5
Internal audit, field	5	6			1	6			
Freight on equipment and supplies	3				−3				
Total	25	23			−2	28		5	5
Rents, communications, and utilities:									
TWX, cablegrams, telegraph, and teletype	8	9			1	10		1	1
Telephone and other communications	158	120			−38	150		30	30
Rental of equipment	79	170			91	170			
Total	245	299			54	330		31	31
Printing and reproduction	92	64			−28	64			
Contractual services:									
Emergency and miscellaneous expense	5	10			5	10			
Liaison expense	43	39			−4	33		−6	−6
Fidelity bond premium	347				−347	400	400		400
Repairs and services	287	130			−157	130			
Total	682	179			−503	573	400	−6	394

Supplies and materials	215	200			−15	170		−30	−30
Equipment	184	200			16	200			
Damage claims	1,543	1,700			157	1,870		170	170
Total obligations	16,855	18,604	−52	1,145	656	19,560	553	403	956
Breakdown of obligations:									
Headquarters:									
Administration personnel	14,283	15,301	−43	896	165	16,086	502	283	785
Modernization personnel	237	630	−1	44	350	912	7	275	282
Subtotal	14,520	15,931	−44	940	515	16,998	509	558	1,067
Internal audit, field	994	1,154	−3	78	85	1,179	20	5	25
Money Order Center	1,341	1,519	−5	127	56	1,383	24	−160	−136
Total executive direction and administration	16,855	18,604	−52	1,145	656	19,560	553	403	956
Increase or decrease (−) over prior year	1,293	1,749				956			

CHANGES IN BUDGET ESTIMATES FOR 1962

Mr. GARY. Mr. Nicholson, have you had time to determine what, if any, changes you will recommend or request in the budget appropriations now before us?

Mr. NICHOLSON. No, sir; our determination indicates that the reduction in the transportation budget—I am speaking of the overall budget now—is the only change of significance to report.

We are prepared to go right through our series of justifications as the committee wishes.

Mr. GARY. I understood that but I wondered if you have reasonably satisfied yourself that no subsequent changes will have to be made.

We will put it this way, that you will not make any substantial changes other than the transportation.

Mr. NICHOLSON. The way you have stated it, Mr. Chairman, is correct.

Mr. GARY. Thank you, sir.

Well now, will the general scope of operations be about the same or do you plan to decentralize further?

Mr. NICHOLSON. I believe that is a question that should best be answered by Mr. Belen, for the Bureau of Operations.

Mr. BELEN. Would you like that answered now, sir?

Mr. GARY. I expect we will take that up in operations and probably wait and take it up then.

Mr. BELEN. Yes, sir.

CARRYOVER COSTS

Mr. GARY. Will you explain just what you mean about the $110,000 carryover for positions filled in 1961?

Mr. NICHOLSON. May I ask Mr. Noble to give you that information, Mr. Chairman?

Mr. NOBLE. During 1961 there was some increase in employment. I believe it was primarily in the inspection service and the full year effect of that carried into 1962 and it is $110,000 additional money.

Mr. BRUCE. The actual number of people in 1962, Mr. Chairman, is approximately 17 less than in 1961 in this activity, executive direction, and administration, which is what you have reference to.

The carryover charge is a normal charge in personnel costs created by turnover. We have that each year. They are not necessarily new people at all. What new people we had, as far as inspection services are concerned, was for the number that was actually authorized by the 1961 appropriation. There was very little carryover. They were appointed pretty close to the beginning of the year.

The $110,000 carryover is the normal turnover of people we appoint this year, not offset by turnover.

As far as the headquarters number of personnel is concerned, without regard to the modernization program, there is no increase overall, as such.

We had changes and requests for operations, but it is more than offset by reductions in other accounts.

Mr. GARY. Do you mean that the additional positions that you filled will cost $110,000 more during the next fiscal year than they are costing during this fiscal year?

Mr. BRUCE. It means the cost in 1962 for the full year effect of those positions will be that amount.

You see, where the problem arises is that, so far as the actual year is concerned, we never show vacancies in the budget. We treat them as though they do not exist. When we fill the vacancies the money is included in both the actual year and the year in which you operate as well as the budget year coming up. However, we do not count a vacancy as a position for the actual year. We used to, but that caused more misunderstanding than this system.

By direction of the Bureau of the Budget, some 10 years ago, we changed to this system. Thus, so far as the budget year is concerned, you always have a difference for the filling of the vacancies because we do not count vacancies as positions until they are actually filled. This increases the cost for the next year.

Mr. GARY. Wouldn't that average out?

Mr. BRUCE. It all depends. For example, if you come to the end of a year with 100 vacancies and if you wind up the next year with 50 vacancies, you have picked up 50 people in the meantime. They are in your base appropriated money and not necessarily "new" people. That is a fluctuation that goes on constantly.

Mr. GARY. Well, what is the personnel situation now?

Mr. BRUCE. With respect to the number provided in the budget, the number of positions at the end of 1960, again without regard to modernization, for the overall administration appropriation was 7,884.

At the end of 1961, 7,983, which includes a few additional inspectors, very few, only a difference of nine for additional inspectors and clerks.

For 1962, it is 7,970, a reduction of 13. Now these are actual positions filled or included in the base appropriation.

Mr. GARY. Be less in 1962?

INCREASE IN PERSONNEL FOR MODERNIZATION PROGRAM

Mr. BRUCE. That is with respect to the modernization group.

In that particular group we have asked for 29 additional people and that pushes the overall total, including modernization which for this particular year 1961 is included in the modernization which is buildings and equipment appropriation, but for 1962 is in the new administration appropriation, that is new alinement, that would increase the number of positions from 8,197 to 8,213, an increase of 16. But so far as the headquarters group is concerned, without regard to the modernization, there is an actual reduction proposed of 13 people.

Mr. PILLION. Would the gentleman yield.

Mr. GARY. Yes.

Mr. PILLION. The 243 that I see listed there under modernization to be added to your regular makes a total of 8,213. Is the 243 subtracted somewhere else?

Mr. BRUCE. No, sir; the 243 are part of the overall headquarters group, divided primarily between the Bureau of Operations and the Office of Research and Engineering.

We itemized it this year, Mr. Pillion, because it is a new treatment of the modernization personnel. We wanted to set it out separately so you can see precisely.

Mr. PILLION. It is taken from some other part, isn't it?

Mr. BRUCE. "Modernization and improvement of buildings and equipment."

Mr. PILLION. It is subtracted from that; it is transferred over rather than subtracted.

Mr. BRUCE. It is a complete subtraction.

Mr. GARY. How many modernization personnel did you have in this administration program?

Mr. BRUCE. For 1960, 182.

Mr. GARY. You have transferred those over to the "Plant and equipment" program, is that right?

Mr. BRUCE. No, sir; transferred them from the current "Modernization and improvement of buildings and equipment" appropriation. In 1962 they will be in the "Administration" appropriation. No personnel whatever in the proposed "Plant and equipment" appropriation.

Mr. GARY. Switching it all over to the administration program.

Mr. BRUCE. Yes, sir.

Mr. GARY. Why then are you differentiating between the headquarters and the modernization?

Mr. BRUCE. Only for the purpose of continuity of this particular budget submission because for the last year, the year before, we had them set out separately.

This year we are proposing to combine them and in order for this committee to understand precisely where we will put them, we have itemized them separately in this particular submission.

Mr. GARY. What is the $88.8 million request? Does that include them?

Mr. BRUCE. Yes, sir it would.

Mr. GARY. That includes the modernization?

Mr. BRUCE. Yes, sir, personnel—modernization personnel.

Mr. GARY. Is the increase in that personnel the reason for a part of the increase in the appropriation over 1961?

Mr. BRUCE. Yes, sir, that is part of it.

Mr. GARY. What is the rest of it?

INCREASE IN ADMINISTRATION, REGIONAL OPERATION, AND RESEARCH

Mr. BRUCE. The remainder of the entire appropriation increase covering the entire appropriation, $1.990 million is for contract, research and development engineering, approximately $203,000 for the additional inspectors and clerks; approximately $638,000 for miscellaneous changes, damage claims and small item for equipment and supplies, the normal, routine change, and $1,598,000 includes mandatory personnel costs including $400,000 for the biennial bond premium.

The total of that is $4,429,000 which is the overall increase for the entire appropriation.

Mr. GARY. That is over and above the amount including the supplemental?

Mr. BRUCE. Yes, sir, there is no connection with that at all.

Mr. GARY. It is 5.2% I believe, if you exclude the supplemental which has not yet been granted.

Mr. BRUCE. That is correct, sir.

INCREASE IN DAMAGE CLAIMS

Mr. GARY. Why do you anticipate increases in damage claims?

Mr. BRUCE. I will ask Mr. Doyle to answer that.

Mr. DOYLE. It has been a normal trend, Mr. Chairman, in this respect over the years. Our claims are steadily increasing.

As of the current time this year we are about 200 claims in excess of the same time in 1960.

Our average settlement has increased and this includes compromise settlements, settlements by the U.S. attorney—increased from $190 a claim to $197 a claim.

As I say, we are a little over 200 ahead now of last year and computing this out, including the compromise settlements by the U.S. attorney, has led us to conclude we would need about $170,000 more in 1962.

We had, in 1960, 8,512 claims. The average settlement was $181.

In 1961, at our present rate projected through the year, we have 9,392 claims at $190 a claim and our estimate for 1962, going along in that progression, is a total of 9,201 claims. That is without consideration of the court settlements because we have no formula by which to calculate what they will be. We anticipate an average claim of $197, which will bring us to $1,870,000.

We do know that today in the courts we have about 125 more cases pending than were pending at this time last year.

Our experience has been that those court settlements, not all of those cases will be settled, some will go to judgment, of course, but some will be settled and on the basis of past experience, the court settlements—that is by the U.S. attorney with the approval of the district court judge, is approximately $2,500 a case.

Mr. GARY. Do most of those claims arise out of automobile accidents?

Mr. DOYLE. The vast majority of them do. Some few result from slipping on the floor in the post office. The vast majority are auto accidents.

Mr. GARY. Are they employee claims?

Mr. DOYLE. No, they are claims by private citizens against the U.S. Government resulting out of our operation. We do not have statistics yet, but we anticipate that, because of the weather period we have recently gone through, our claims will far exceed in the past 2 months those which have been produced in a comparable month of last year.

Mr. GARY. On account of driving conditions?

Mr. DOYLE. Yes, sir.

Mr. PILLION. Will the gentleman yield?

Mr. GARY. Yes.

Mr. PILLION. Do you have the exact amount that has been paid out in the past year; that is, the year ending July 1 last?

Mr. DOYLE. For the fiscal year 1960 that would be July 1, last, my figures show $1,542,714.

Mr. PILLION. And what is the request for next year?

Mr. DOYLE. It is $1,870,000. Our estimate for 1961 was $1,700,000.

Mr. CONTE. Will the gentleman yield?

Mr. GARY. Yes.

Mr. CONTE. Has a study ever been made of the possibility of insuring these vehicles or having some type of self-insurance?

Mr. DOYLE. No, we haven't given any thought to that, Mr. Conte because the Federal Claims Act is a self-insurance act itself. The Government is self-insured in this respect. I doubt if any study has been made on buying liability insurance.

RESPONSIBILITY OF POSTAL EMPLOYEES

Mr. GARY. In this connection, I remember that one of my constituents who is not connected with the Post Office Department, and I don't know just what his interest was, but he wrote me some time ago, first he spoke to me and I asked him to write me a letter about it. He wasn't talking only about the Post Office Department, but was talking about Government employees in general. He said that he did not think that sufficient care was given to informing Federal employees of their personal liability for claims when driving these Government vehicles and, therefore, at times some of them were caught with heavy judgments against them that were a severe tax on their financial resources.

Can you give me any information as to what you do with respect to notifying the employees of their personal responsibility?

Mr. DOYLE. Sir, I don't know what instructions are issued other than the Postal Manual. Instructions have been given to these drivers. It could be that our training people in the Bureau of Personnel can do more along these lines. There is an accident prevention group there that has done something along this line. We do recognize the fact that the driver himself is subject to civil suit in the State courts.

While we have this Claims Act under which the Federal Government will assume responsibility for damages incurred during the scope of an employee's employment, we can't force a person injured to sue the United States. He can elect to sue the driver in the State court.

This is done on many occasions and many judgments have been rendered against the driver. This results, as a general rule in a private relief bill before the Congress. I don't know of any case where the Department has opposed the relief.

But it is a lot of work for the Judiciary Committees of both the House and Senate to go through these relief bills and to determine whether or not they should be approved.

Recently, at the Department's suggestions, a bill was introduced to automatically require the Federal Government to take over responsibility in these cases where the driver was sued in the State courts. That bill passed the House last year.

Mr. GARY. Beg pardon?

Mr. DOYLE. A bill was passed to automatically require the Federal Government to take over responsibility in those cases in which the drivers are sued.

That bill passed the House in the last Congress and passed the Senate with an amendment which removed from the bill the real important part of it. That was a mandatory removal of the case from the State to the Federal court.

Based on an opinion of the Department of Justice, President Eisenhower vetoed that bill. It has been again introduced both in the

House and Senate with this objectionable feature removed and there seems to be no reason why it will not now be approved by the Congress.

If approved, it will spare the driver from all financial responsibility in these accidents in the future. It could increase the cost to the Post Office Department in some cases, but not the cost to the Government, as a whole.

We eventually pay these judgments by a private relief bill. A judgment of $400 say is rendered against the driver and his Congressman or Senator introduces a bill for his relief which generally passes. So the cost to the Government as a result of this legislation will not be increased.

We do attempt to get the Attorney General to defend those fellows in every possible case and they do defend them, but sometimes unsuccessfully.

Mr. GARY. They are not supposed to use Government vehicles except on Government business.

Mr. DOYLE. That is true. We only accept responsibility when they are within the scope of their employment.

Mr. GARY. Off the record.

(Discussion off the record.)

Mr. GARY. On the record.

I have seen some of those problems.

INCENTIVE AWARDS PROGRAM

What is the current status of your incentive awards program?

Mr. BRAWLEY. Mr. Beary will address himself to that, Mr. Chairman.

Mr. BEARY. Mr. Chairman, I should like to give you some figures on the fiscal year 1960 experience.

There were 50,992 suggestions submitted. There were 7,575 adopted for an adoption rate of 14.8 percent.

The cost of the cash awards for the suggestions that were given was $90,532 for that period.

There were also some cash awards for superior accomplishments totaling 1,626 during 1960 and the dollar value of those awards was $75,045 for a total amount paid out in awards of $165,578.

Mr. GARY. What was the maximum award?

Mr. BEARY. I don't have that information at hand, but I can get it for the record if you like.

Mr. GARY. Insert it at this point in the record, if you don't mind.

(The information supplied is as follows:)

The largest single cash award paid in fiscal year 1960 was in the amount of $1,000 and went to Mr. Carl R. Peterson, Traffic Management Officer, Bureau of Facilities, as a Superior Achievement Award.

Through Mr. Peterson's efforts, railroad companies were persuaded to convert 85-foot flatcars (designed for another purpose) to haul our mail trucks. As a result, a lower tariff rate was available and our average shipping costs per vehicle dropped from $143 in fiscal year 1956 to $79 in fiscal year 1959. Prior shipments had been made in boxcars.

Not only the Post Office Department but other Federal agencies and private industry have benefited from this new method.

The award was paid on February 18, 1960.

Mr. GARY. Will you tell us, in general, how that program is working?

Mr. BEARY. In the larger post offices, some 500 post offices, we have incentive awards committees which review the suggestions submitted and pass upon them.

Within the authority of the postmaster a decision is made locally—or if the postmaster doesn't have the authority, they are forwarded to the regional office for approval of the award.

The regional office has extensive authority to approve or disapprove suggestions, but the higher amounts of award are for those suggestions which have national application submitted to the Department for review and decision.

Now, within the last year authority was delegated to the postmaster in the regional office city to pay up to $100 for locally applicable suggestions and up to $50 for superior accomplishment awards without referral to the regional office and we are now reviewing the experience under that rather limited delegation to see if it might be extended further.

There is a good bit of interest on the part of the postmasters to have that extended to other large post offices.

Mr. GARY. Do you think the program is working out satisfactorily?

Mr. BEARY. Yes, sir, it seems to be well worthwhile in terms of producing some good suggestions, some good ideas.

It produces a number of them which aren't very good, but it provides a general climate for employees to give their ideas and suggestions for improving the service.

We have felt and feel strongly now that there are many ideas in the postal service among the people who are actually working at the equipment and procedures, that it can pay big dividends.

Mr. GARY. Suppose an employee while working in the postal service were to develop an invention that would be of use outside of the postal service. What would be the situation with reference to that invention?

Mr. BEARY. Beyond $5,000 a suggestion that has application in other agencies of the Federal Government, is referred to the Civil Service Commission and there is a limitation of $25,000 in an award that the Civil Service Commission can approve.

Mr. GARY. But if the device was patented, to whom would the patent belong?

Mr. BEARY. Possibly Mr. Doyle can answer that. I don't know.

Mr. DOYLE. If developed—and I am not too fresh on this, Mr. Chairman—but if he developed it during the course of his employment, we would not take title to the patent, the Government would.

Mr. GARY. You mean during working hours.

Mr. DOYLE. During work hours.

Mr. GARY. If he developed it outside of work hours?

Mr. DOYLE. Then we would take the matter up with the Department of Justice to find out whether it was a patentable invention, and if it were, Justice would procure a patent for him.

Mr. STEED. Is that in line with what the military does with their proprietary rights?

Mr. DOYLE. That I know nothing about, Mr. Steed.

TRAINING OF PERSONNEL

Mr. GARY. What progress are you making on your training program now?

Mr. BEARY. A good deal of emphasis on the training program in recent months has had to do with the new mechanical equipment, primarily the letter sorter equipment and the maintenance in connection with the new equipment and the progress on that appears to be satisfactory.

Letter sorters are needed who are trained to operate the equipment. They are in sufficient quantity and the people who repair that equipment are available in sufficient quantity.

There is also a good deal of training being done in connection with the supervisory management program in the Post Office.

Mr. GARY. How many different kinds of sorter machines do you have?

Mr. BEARY. We have three that I know of—three makes, but basically the same sort of device.

Mr. GARY. You've got the Bell, the Burroughs, and then there was another.

Mr. BEARY. Transorma in Silver Spring and the Pitney Bowes.

Mr. PILLION. Is the chairman talking about sorting machines?

Mr. GARY. Yes.

Mr. PILLION. What is the other one?

Mr. BEARY. Transorma.

Mr. BELEN. Here is just a brief statement on the sorting machines and their status.

Mr. GARY. Does that come in here or under operations?

Mr. BELEN. Wherever you want it.

Mr. GARY. I think we will take that up when we come to operations. But he mentioned training for these machines, and that is the reason I asked about it.

SAFETY PROGRAM

Tell us something about your safety program.

Mr. BEARY. The safety program functions in two main areas. One is the motor vehicle safety program, and the other is what might be termed the industrial safety program.

In the motor vehicle safety program there has been a steady progress in reducing the number of accidents per 100,000 miles driven, although we still need to move further on that.

The rate is, I believe, about 4 to 100,000 miles driven in city truck operations.

In the industrial safety program which concerns slips and falls, lifting injuries, and things of that nature which contribute by far the greatest number of accidents and injuries that occur in the Department, we have made considerable progress. That rate is being reduced, but it is not at all satisfactory from our standpoint.

Mr. GARY. What kind of a program do you have to promote that?

Mr. BEARY. We have a safety officer in the post offices with 1,000 or more employees.

We have one safety officer in each of the regions who, in each case, is an engineer and in smaller offices that do not have as many as 1,000 employees, a supervisor is designated either as a safety officer, mostly

full time, or if it is a small office, just in addition to his normal supervisory duties, and he would be looked upon by the postmaster as the focal point for matters concerning safety and would be expected to educate the other supervisors and the workers with respect to safe practices.

There is a good deal of promotional work that is done to encourage people to think in terms of safe practices, to point out the hazards that they should avoid and to do everything that they can to cut down on the accident record of the Post Office.

Mr. GARY. Do you participate in local area safety programs?

Mr. BEARY. Yes, sir, there is very extensive participation, and more and more the Post Office safety people are represented on the local or county or State or Federal safety council's and occasionally, our postmaster will be the president of such a council.

We also have had very extensive participation and received three awards in connection with the Department's participation in the national safety check, which is conducted across the board, and not confined to Government people, Government drivers.

Mr. GARY. I have been interested in the awards program and have presented awards from time to time in safety programs in my district and I know the Post Office Department has always been very well represented in those meetings and also in the number of those who were among the recipients of the awards.

Mr. BEARY. Yes, we subscribe to the National Safety Council Safe Driver Award program and there are approximately 55,000 drivers who, last year, received the award for safe driving during the year.

EMPLOYEE RELATIONS PROGRAM

Mr. GARY. What is the status of the employee relations program?

Mr. BEARY. Employee relations program is directed out of the Office of the Special Assistant for Employee Relations in the Bureau of Personnel which is really a very small staff.

Employee relations are primarily handled at the post office level by the postmaster and his personnel staff.

At the regional level it is handled by the employment officer and the regional personnel manager.

The contacts deal with individual grievance matters as well as matters of policy, but in connection with policies and programs, the contacts are primarily on the national level.

There are about 30 visits or consultations if you want to call them that, with employee organizations, on the average, each week at the national level.

There will be much more of that. There is, in this present administration, emphasis placed on close dealings with the employee organizations, employee groups, and an open door policy.

Mr. GARY. Mr. Beary, you are the new Deputy Assistant Postmaster General in charge of the Bureau of Personnel, is that correct?

Mr. BEARY. That is my position, sir. I am not exactly new in it. I was appointed to it in October of 1959.

Mr. GARY. You have been in that position since October of 1959?

Mr. BEARY. I have been in the Bureau longer than that, but in that position since that date.

Mr. GARY. Did you succeed Mr. Lyons?

Mr. BEARY. No, sir, Mr. Lyons was Assistant Postmaster General.

Mr. BRAWLEY. Mr. Chairman, the announcement was just made by the White House this afternoon of the appointment of Mr. Dick Murphy of North Carolina who will succeed Mr. Lyons as Assistant Postmaster General for Personnel.

Mr. GARY. Mr. Lyons hasn't been in but a couple of years. He was transferred from the Post Office Department to the White House.

Mr. BRAWLEY. To the White House staff.

Mr. GARY. A year ago.

Mr. BRAWLEY. Yes, sir.

Mr. GARY. Thank you.

RECRUITING AND PLACEMENT OF PERSONNEL

Are you experiencing any problems in recruiting and placement of personnel in the postal service?

Mr. BEARY. There has been no general problem, Mr. Chairman, in recruiting during the past year.

You will recall there was a pay increase passed, effective last July 9, and that evidently had a good deal to do with easing up recruitment difficulties. That isn't to say that in some isolated situations there would be difficulty but in part, because of last year's pay increase and in part, without any question, because of the unemployment situation, no serious recruitment difficulties have come to light or have been reported to us recently.

(Additional information was furnished later, as follows:)

TERRITORIAL LIVING ALLOWANCE

It will be recalled that Mr. Alexander raised a question during the Postmaster General's testimony as to the present Post Office Department view on cost of living allowances in Puerto Rico, Hawaii, and Alaska. Mr. Pillion, I believe, asked also about the Virgin Islands. It was agreed that this would be commented upon during my testimony.

Pursuant to section 207 of the Independent Offices Appropriations Act of 1949 and Executive Order 10,000, the Department is required to pay the allowances which are established for those areas by the Civil Service Commission. The allowances presently in effect are 25 percent in Alaska, 17½ percent in Hawaii and the Virgin Islands, and 12½ percent in Puerto Rico.

Other Departments of the Government are, of course, affected by the same requirements, most notably the Defense Department. Relatively, the Post Office Department is a small employer. The matter is therefore one which involves the executive branch as a whole and one in which the Post Office Department would be unable to take unilateral action. We have not yet received instruction or direction from the Budget Bureau or the White House with respect to this matter.

Mr. PILLION. Off the record.

(Discussion off the record.)

Mr. PILLION. To get back on the record I would like to ask this question.

DAMAGE CLAIMS

The amount of claims being paid: You stated that the figure 2 years ago was $1,543,000, roughly.

Mr. DOYLE. Yes, sir.

Mr. PILLION. And 2 years later, in the 1962 budget, you are asking for $1,870,000.

Mr. DOYLE. Yes, sir.

Mr. PILLION. That is an increase now of $327,000. This is just about 20 percent for an average of the 2 years, or 10 percent a year.

That is way beyond our calculations. It is way beyond our growth and production; way beyond our economy and just way beyond a normal growth situation, the cost of living, et cetera.

If we project this in all of our costs—10 percent a year—it will only take 6 or 7 years to double the whole Federal budget.

What can we do about cutting down so we are not increasing at the rate of 10 percent a year in a matter such as this?

What do you suggest? I mean it is all right to just say it is happening, but what are we doing to prevent it from happening? That is what I would like to know and what can we do to cut it down?

Mr. DOYLE. I suppose to cut it down requires further success of the safety program discussed by Mr. Beary.

Sometimes it is difficult to explain that our accident rate for 100,000 miles is being reduced, but the amount of claims annually is going up. I think there are two reasons for that. Today a dented fender costs quite a bit more than it cost 10 years ago.

Mr. PILLION. That is true, but it's not going up at the rate of 10 percent a year.

Mr. DOYLE. Additionally, in the past 2 years we have been authorized to administratively settle claims up to $2,500. Our prior limitation was $1,000. This has brought in claims which generally were higher.

A claim, prior to the increase in the maximum, might have been filed for $900 whereas now it is filed for $1,400 or $1,500. We think we give adequate attention to the estimates of cost of repair. We require three estimates on each claim.

But, in general, I think the cost of repairing a motor vehicle—and most of these accidents do involve another vehicle—has gone up so that we find our average claim, as I say, since 1960 went up to $181 a claim and, in 1961, our present experience indicates $190 per claim. That is $9 more per claim.

On that same basis, projecting it forward in 1962, it would be $197 and the amount we pay for compromise settlements in the Federal courts—and this is beyond our control when a suit is started in Federal court—the U.S. attorney, with the approval of the court, may settle a case. When that settlement is effective, we have no alternative but to pay.

Now, our cases settled in the courts in 1960 have averaged $2,263.

Our current experience in 1961 is $2,500 a claim and again projecting that on to 1962, because we know we have several hundred more cases pending in the Federal courts today, many of which will be settled, we calculate that the settlement in the Federal courts will be about $2,700.

Mr. GARY. Will the gentleman yield?

Mr. DOYLE. The only thing we can do is reduce our accidents.

Mr. GARY. If the case goes on through trial to a judgment, then it has to be settled.

Mr. DOYLE. The General Accounting Office and the Department of the Treasury take care of that, sir, the judgments.

Mr. GARY. But that requires a special act of Congress; does it not?

Mr. DOYLE. To my recollection, the Treasury procures a separate appropriation to cover those judgments.

Mr. GARY. Each year?

Mr. DOYLE. Yes; although General Accounting has a maximum fund of $100,000 a year to take care of it. That is replenished from time to time.

Mr. PILLION. I am sorry to say that I still do not find too much hope in the statement you gave me for cutting down, other than deciding that it is happening.

Mr. DOYLE. Yes.

Mr. PILLION. But I hope that you will give it some attention.

With respect to an employee being sued that works for the post office, sued personally; in the practice of law, of course, we always sue the corporation and the employee in the event of an accident; is there any difference between that and a claimant suing a post office employee and the U.S. Government? It is the same thing, is it not?

Mr. DOYLE. Well, if they sue the Government, they would have to sue in the Federal court, in the Federal district courts.

Mr. PILLION. Yes.

Mr. DOYLE. This the citizen is inclined to try to get away from. He would much prefer to sue in his local court, where he could get his case tried before a jury. And under the Tort Claims Act, when you sue the United States, the decision is not made by a jury; that is by a Federal court judge alone, who determines the amount of damage.

(Discussion off the record.)

Mr. DOYLE. In those circumstances, Mr. Pillion, I believe the U.S. attorney who would be handling the case probably would contend, and maybe successfully so, that the employee was outside the scope of his employment and therefore the Government would not be responsible. And I think probably in most of those cases he would be sucessful; we have been.

Mr. PILLION. Nothing further, Mr. Chairman.

Mr. GARY. Any questions? Mr. Conte.

DEPARTMENTAL POLICY REGARDING REGIONAL DIRECTORS

Mr. CONTE. Mr. Brawley, what policy, if any, will the Post Office Department take in regard to regional directors? Just exactly what will be under their jurisdiction?

Mr. BRAWLEY. Mr. Conte, we are in the process now of studying this matter very thoroughly. We have many ideas about the regional setup. We have reached no firm conclusions yet; we have thought and are thinking of reorganizing it, of maybe bringing it into the Deputy Postmaster General's operation instead of in Operations. We are even studying the advisability of combining the regions and making maybe 11 instead of 15. We are firmly convinced at this point that there is a duplication of management. Just where it is and how much exists, we do not know, but we are making a very thorough study of that whole operation right now. And we hope that before long we will have some recommendations on it.

Mr. CONTE. Fine.

AUTHORITY OF POSTMASTERS

Also, in that field, have you set up any policy in regard to what extent of participation postmasters will have in regard to appointments in their post office?

Mr. BRAWLEY. We are inclined to believe that they will have more authority than they now have. We feel the postmaster should be allowed to, as much as possible, run his own shop. If he is capable and we know he is capable, he ought to be allowed to run his shop. We hope the function of the region will be to assist and to advise rather than direct.

Mr. CONTE. I am pleased to hear that.

POST OFFICE DEDICATIONS

One thing I read the other day in the paper was that all post office dedications have been put off into some future date.

Mr. BRAWLEY. That was just a temporary freeze until we could find out what was going on, just to convince ourselves of what the operation was like.

Mr. CONTE. You still maintain a policy of letting the Congressman from the district know of the dedication?

Mr. BRAWLEY. Surely.

Mr. CONTE. Well, I am pleased to hear that you are giving this entire regional setup a good thorough look, with the possibility of making some changes.

I have no further questions.

AUTOMATIC DATA-PROCESSING EQUIPMENT

Mr. NICHOLSON. Mr. Chairman.

Mr. GARY. Yes, sir.

Mr. NICHOLSON. In the discussion yesterday with the Postmaster General, some interest was shown in the Post Office's handling of data-processing equipment. If you wish, perhaps this is a proper time to answer any questions on the data processing the Department is undertaking.

Mr. GARY. I think Mr. Pillion was asking about that.

Mr. CONTE. I asked them, Mr. Chairman.

Mr. GARY. Mr. Nicholson says now is the time to take that up.

Mr. CONTE. The question I had asked yesterday was the total annual rental of punchcard equipment used by the Post Office Department.

Mr. NICHOLSON. Mr. Noble has those figures with him, and he will give them to you.

Mr. CONTE. Very well.

Mr. NOBLE. We have in our budget for 1962 a total of $2,820,000 for that type of equipment, both in the field and at headquarters.

Mr. CONTE. Mr. Noble, how long has the printed punchcard installation been in operation?

Mr. NOBLE. The IBM punchcard equipment, I understand, in one form or another, has been in use in the postal service for many, many years; but it was in 1956 that we first introduced the computer type

or machines with memory for handling payroll and financial accounting work.

Mr. CONTE. Have you made any study in regard to the adequacy of punchcard equipment for the purposes for which it is used in recent time?

Mr. NOBLE. Before installing this type of equipment, studies were made, Mr. Conte. And at the time that the initial installation was made at the Richmond regional controller's office of an IBM-650 machine, considerable study had been given to the question of the type of equipment that could most adequately handle or meet our needs.

The reason we needed this type of equipment with a memory device was because, primarily, we were taking the payrolls out of the post office and centralizing them in our regional offices, where they could be more effectively and efficiently handled. And the 650 machine was the first one tested. It worked so well that it was decided to use it generally in other regional offices; but, feeling the need and the desirability for keeping competition alive in the tabulating equipment field in the Department, we also chose two other makes for installation in New York and Chicago—the Remington-Rand file computer was chosen for those offices, and the Burroughs datatron computer was chosen for San Francisco.

After about a year's experience, however, we were unable to get those machines to produce at the level that the IBM–650 would. We had difficulty in preparing uniform programs and instructions for new procedures as they came out. And during that last year, those machines were withdrawn, so that we have now the IBM–650 in our 11 largest regions.

In the four smaller regions, we do not have any memory-type machine; we have the 604 IBM punchcard calculator machine.

Mr. CONTE. In other words, the only equipment you have in regard to punchcard equipment is IBM?

Mr. NOBLE. That is correct.

Mr. CONTE. And when was the last time that an analysis was made or a study made on this equipment?

Mr. NICHOLSON. Could I break in here, please?

Mr. CONTE. Surely.

Mr. NICHOLSON. I would say, from my experience, that study is continuously being undertaken, Mr. Conte. There are in conversational stages at the moment considerations of a still more sophisticated level of processing equipment, which is one of the projects I am very interested in and want to look into with considerably more thoroughness.

Mr. CONTE. Have you called in any other manufacturers to assist in making this analysis besides IBM?

Mr. NICHOLSON. We are in the process of doing that.

Mr. CONTE. Which ones are you calling in?

Mr. NICHOLSON. We are going to start with Univac.

We are going to test a Univac solid state device in Denver, paralleling the existing installation there. The Remington-Rand Co. has undertaken to make this device available to us, either on a no-rental or a very, very low rental basis in order that, while work is being conducted on the present machine, we can test the capability and feasibility of the Remington-Rand solid state machine.

Mr. GARY. I believe I mentioned yesterday, Mr. Conte, the Government Operations Subcommittee, of which I am also a member, last year appropriated an additional sum for the Budget Bureau for a study of this use of electronic equipment. They were planning to make an overall study to see whether the equipment is being used in operations which really justify the expense. I do not know how they are coming on with that study.

But I mentioned that, I think, the other day.

Mr. NICHOLSON. In that connection, perhaps it is worth noting that the Post Office Department is privileged to have a member of the Inter-Agency ADP Committee that the Budget Bureau has organized. Our selection of equipment and the application of that equipment, in other words, is undertaken with complete availability of help within the Government from experts such as are present in the Bureau of the Budget, Defense, Treasury, and the General Accounting Office.

Mr. CONTE. Well, in regard to the present status, then, in selecting this electronic equipment, do you solicit written requests from different manufacturers of electronic equipment?

Mr. NICHOLSON. We have not done it in exactly the way that you speak of, Mr. Conte, inasmuch as this is not an off-the-shelf kind of piece of equipment. The programs must be designed or modified for certain application but once that program and system has been accomplished, it could, I believe, correctly be said that the system involved is a one-of-a-kind.

We have, as Mr. Noble indicated, worked with the engineering resources of, at the time, all the leading manufacturers—IBM, Remington Rand, Burroughs, more recently some experience with RCA, in eliciting their guidance and help in developing the specific types of machines that we needed. But it cannot be said that we have solicited bids in the sense that we have shopped for an existing piece of equipment.

Mr. CONTE. When you solicit their help, how far do you go in this thing?

Mr. NICHOLSON. The manufacturer of this type of equipment makes a proposal as to the capabilities and costs of the kinds of equipment that their circuitry and their knowledge could provide.

Mr. CONTE. It is a written proposal; have you received that proposal from anyone else besides IBM?

Mr. NOBLE. We had such proposals from both the Burroughs and the Remington Rand Cos., on their installations that we attempted. I am not sure whether we have any others or not.

RENTAL COSTS OF ELECTRONIC DATA EQUIPMENT

Mr. CONTE. What is the present rental costs of your electronic data equipment?

Mr. NOBLE. The total is, for the 1962 budget, $2,820,000.

Mr. NICHOLSON. And because I think we are just as concerned as is this committee in what this means, as a result of this annual rental of equipment, we have reduced the ratio from 1 payroll clerk per each 255 employees to 1 payroll clerk to each 800 employees, for IBM box machines and 1 payroll clerk to each 1,000 employees for 650 machine payrolling procedures. Thus, there is a saving in manpower that is five times our annual rental cost.

Mr. CONTE. Is all this equipment on a rental basis? Is there any outright purchase of equipment?

Mr. NICHOLSON. No, sir.

Mr. CONTE. Is it feasible to purchase any of this equipment from IBM or any other electronic company?

Mr. NICHOLSON. The nature of this art is such, Mr. Conte, that the equipment becomes obsolete very rapidly. Consequently, should a user purchase the equipment, he could well find himself in the position of retaining the use of that equipment in order to amortize its capital cost far beyond the point at which some alternative equipment could do the job at lesser cost.

For example, although the 650 model that we presently have in 11 regions has been on the market since 1956, I believe there is considerable reason for examining the beginning of the replacement of those machines, which program, if pressed, might be accomplished by 1963. This is less than 10 years' duration, or 10 years' life of the machine with the sophistication of the 650 machine. If the Government owned those machines, I believe it would have a more difficult time justifying the savings by purchase of a different and more expensive group of machines.

So the rental basis, while the art is so rapidly changing, is actually a safer approach to the use of this type of equipment than an outright purchase.

Mr. PILLION. Will the gentleman yield?

Mr. CONTE. Yes.

Mr. PILLION. That conclusion may or may not be true, as the gentleman knows, depending upon the cost of the leasing. It may very well be that the 650 has been paid for in the first 5 years of your lease. I do not suppose that you have any figures as to the cost of that machine to start with, would you?

Mr. NICHOLSON. No, sir, I do not have.

Mr. PILLION. I am certain that the IBM is not going to lose too much money on the leasing to you either.

Mr. NICHOLSON. May I have your permission to answer there, Mr. Pillion?

Mr. PILLION. Surely, I would like to have your answer.

Mr. NICHOLSON. The reason that IBM can do a leasing arrangement is this: After a major user, such as the Post Office potentially is, has used the machine for 4 or 5 years but whose skills and whose needs have outgrown the capacity of that machine, the IBM Co. can take the machine back and re-lease it to a user of lesser needs, either in volume or in complication; so that IBM is able to keep the machine fully utilized over its entire useful life.

Mr. PILLION. Yes. Well, would the same apply if you were to buy it and then you would trade it and get a trade-in value on it; would not the same reasoning apply?

Mr. NICHOLSON. Yes, sir. This perhaps could be developed.

Mr. PILLION. I am trying to justify here Mr. Conte's reasoning, and I think it is this; and I am not so sure I disagree with it: That, certainly, the Government ought to use every care, exercise every possible care that we are not in the same position that we have been in with the recent exposure of the tactics and the practices by Westinghouse and General Electric and that sort of thing. And is there any suspicion that any time on the part of your Department as purchasers that there are any arrangements between any of these companies?

Mr. NICHOLSON. To the best of my knowledge, no, sir.

However, if I may look back in history a little, originally when IBM and Remington Rand began the production of these machines, they marketed them only on a lease basis.

Mr. PILLION. That is right.

Mr. NICHOLSON. Subsequently, it was found that they must develop alternate ways of serving their market. They have developed a purchase arrangement, and they also have greatly accelerated the development of service centers. They retain title to the machines they are using, and users bring the work to the service center and get it processed.

Mr. CONTE. I am not too clear, Mr. Nicholson, in regard to my earlier question: I believe you answered that you had now solicited from different companies besides IBM your needs in the particular machine that you want to fill the particular job; is that correct?

Mr. NICHOLSON. Yes, sir.

Mr. CONTE. This is all in the process of being done. And when you receive these letters back, and if more than one company should be able to fill your order with the specified machine, at that point would the Post Office Department let this out on competitive bids?

Mr. NICHOLSON. I would prefer not to answer that categorically at this time. I think we would like to consult with the Bureau of the Budget and our own technicians on the practicability of doing so. It would be our intent, of course, to find the best equipment which does the job fastest and most efficiently and at the lowest cost.

At present, we have found that having one type of equipment in the field is a great ecoonmy and, I believe, accomplishes the job better than having a variety of machines in the system. This is because programs can be studied and developed at headquarters. Programs are very complicated technical things. Once the programs have been developed, consisting of a thousand or more steps, wiring and connections in the various circuits of these equipments, once those programs have been developed and de-bugged for one location, then the programing work can be carried over and applied in each of the other 10 regions that have the same type of machine. That saves thousands of man-hours of programing work.

So that, from that point of view, assuming that we start with the right equipment in the first place—and perhaps this is what you want to be sure of—once we have selected the best possible combination of machine and cost for the job to be done, then I believe that there should be a uniform application of that machine throughout the regions where they are used.

Mr. PILLION. Will the gentleman yield?

Mr. CONTE. Yes.

Mr. PILLION. If there were only one corporation in this country manufacturing this machine, and no other corporation could compete, eventually that becomes an economic power that, of course, becomes corrupted, no matter how good intentioned you are from an economic point of view.

Mr. GARY. A monopoly.

Mr. PILLION. Yes, a complete monopoly in the area. I think that is what the gentleman was driving at.

Mr. CONTE. That was going to be my next question.

Mr. PILLION. It may be that, technically, mechanically, you may be better off temporarily once everybody is out of that field and they

reign supreme. Then you have no one to go to except that one corporation, and they charge you whatever they want. But experimentation, the competition, the benefits that the consumer gets—and the Government here is a consumer—are lost for all time.

So the gentleman's argument may be perfectly all right in the short run, for an immediate effect, immediately accomplishing things, but for the long economic run I agree with what the gentleman's point; what he is driving at is that you are then creating a monopoly. And that I think is—I am sure is contrary to the policy of our Government and contrary to everything that Adam Smith taught as the fundamental economist in our competitive system: You lose the competitive values that the consumer obtains through competition. If all the Government, all of the departments take the same attitude and only buy from one company and keep doing that as a practice, I do not think it is in the ultimate interest of the country as a whole.

Mr. NICHOLSON. Mr. Pillion.

Mr. PILLION. Yes.

Mr. NICHOLSON. I completely subscribe to what you have just said. I think you have described it very well.

It is true, however, that the competition in this field is intense and separate. There is, to my knowledge, to the best of my knowledge, no gentlemanly dividing up of this market between IBM and any other manufacturer. The nature of the art and the rapidity of development of the art is such that the major manufacturers in the industry are constantly trying to leapfrog each other. As soon as IBM comes out with a machine of certain capabilities, it then becomes the objective of their competition not to bring out an equal machine but one which is better. So that while IBM is devoting its productive capacity to a design that is on the market, the other manufacturers are constantly striving, as quickly as possible, to bring one out which is better.

So that the position that I feel we must take as a realistic position is that in year 1 perhaps we are with manufacturer A; in year 5, because manufacturer B has made great progress in the meantime, manufacturer B's project is then best for us. Perhaps 5 years later C comes in. Perhaps next A comes back in.

So that I see, at least theoretically, a leapfrogging of the whole system from one manufacturer to another.

One other aspect of this, because of the very praiseworthy objective that you have indicated, of keeping strong competition and keeping these manufacturers striving perhaps is this: the Government as a whole is already a major user of these devices and, I am sure, will be increasingly so. Through the Bureau of the Budget or through some centralized intelligence in this field, perhaps the separate departments could each tend to be users of one manufacturer's product. For the sake of argument, let us say that at this time the Post Office Department is using IBM's; perhaps some other department could be working intensively with Remington Rand; and perhaps some other department with Philco or RCA; so that each of these important factors in the growth and development of our technology has the Government's support, with the purchasing power of the Government helping it improve its products and make better products.

Perhaps you can see that my own attitude is one of trying to do the most efficient job I can for the Post Office Department, which sug-

gests to me at the moment that we do better with one make of machine at a time.

Mr. PILLION. May I ask this? How do your lease-purchase costs compare with other bureaus?

Mr. NICHOLSON. I am sorry I started to answer too soon.

I cannot answer the question on the basis of our prices versus the prices of the other parts of the Government. However, GSA negotiates contracts with ADP manufacturers. I would like to say that, to the best that I am able to reply at this time, our Government prices are better than the best commercial prices, for two reasons. One is that Government is a very big potential customer. Therefore, GSA negotiates very excellent terms.

Secondly, in a very honest way, as best I can measure it, these manufacturers have a pride in serving the Government and in making a contribution to the development of an ever more efficient Government operation.

Mr. PILLION. Not at a loss, though, I am sure.

Mr. NICHOLSON. In some cases I would say that it is at a loss; yes, sir. I think Remington Rand invested—I had better not even estimate a figure; but I believe, I am confident that Remington Rand lost substantial sums of money in its efforts to apply its file computer in our New York and Chicago offices. At present they are making available to us free, or at some very nominal cost, the use of their new medium-sized computer, the solid-state device in Denver. They are hopeful that they will learn with us so that, as a result, they will have a piece of equipment which is economically so overwhelming in its desirability that we will ultimately lease or purchase this equipment. They have no such assurance yet, but they are spending thousands of dollars and have also spent thousands of dollars to this end.

Mr. STEED. Will the gentleman yield?

Mr. PHILLION. Surely.

Mr. STEED. Off the record.

(Discussion off the record.)

Mr. STEED. Sorry to interrupt.

Mr. PILLION. I am through.

Mr. CONTE. Mr. Noble, in selecting the electronic data equipment which you now have, what manufacturers were requested to furnish written proposals at that time?

Mr. NOBLE. I would have to obtain that information. I was not familiar with the details of the program at the time. But I am sure they have, because at the time that IBM was selected at Richmond our people were looking to Remington Rand for a computer, and then at a later date Burroughs were invited to make a proposal. I know there were also conversations with National Cash Register Co.

Mr. CONTE. I would like to get for the record any written proposals to any company besides IBM. I think we have an unhealthy situation here, and I appreciate what Mr. Nicholson said. No doubt, some of these companies may lose some money in research and development; and I am sure IBM is not losing any money in this $2,820,000 rental. This is not your fault. You have just taken over. I want to compliment you, though, for getting written proposals from other companies, and we will follow this one up in next year's hearings.

(The information requested follows:)

ADP Research, Post Office Department

National Cash Register No. 304 machine

In December 1956 the top ADP staff and the Assistant Controller spent considerable time investigating the capabilities of the National Cash Register No. 304 machine which, on paper, looked very good and they had a unique program procedure. However, the computer did not appear on the market until over 2 years later. The first models were not satisfactory.

Honeywell H–400 machine

The top ADP staff investigated the Minneapolis-Honeywell Corp. machine in the spring of 1960 several times and it also looked good but it was not on the market at that time. The rental price was in the price range of $8,000 per month and at the time no smaller models were contemplated so it was beyond our range.

RCA 501 model

Many times during 1959 and 1960 the top ADP staff and the Assistant Controller looked at the models of the RCA machines. At that time their 501 model was ready for production, but it was in the high range of $15,000 per month and was too large and not economical for our regions. Later they have come out with a model 301 machine which is in the $7,500 to $8,000 class, which is still too large capacity and too high rentals to be economical for our use.

Remington Rand file computer

We liked the file computer tape machine model and worked out a commitment with Remington Rand which would make it economical for our two large regions—New York and Chicago. Our people were trained and we programed our city payroll procedures for the two machines which were ordered for New York and Chicago. However, we could not reduce the timing on 9,900 payroll accounts in New York to 4½ hours and, in addition, Remington Rand could not guarantee us with the backup machine usage of two installations at the 1st Army Headquarters and the Naval Medical Center who were having operational trouble so that we could not take any further chances on producing our 80,000 checks at New York and 60,000 checks at Chicago each 2 weeks by Wednesday noon.

Datatron 205, Burroughs

This we considered a good machine, and it was slightly above the middle rental field or a total of $10,000 a year more than the middle ADP class, but we trained our people and programed the machine and installed it at San Francisco, close to their factory at Pasadena, as insurance against the rapidly increasing requirements in the San Francisco region. The company was not able to provide proper service and we were not able to make the personnel reductions contemplated, so the machine was removed.

Our needs are in the middle ADP class which places quite a restriction on selection of machines. Many of the new manufacturers are putting out new models but they are in the high capacity class and the rentals are above $7,000 per month.

As prescribed by GAO's policy, we endeavored to explore the capabilities of various manufacturers' machines in our range of requirements and at the same time select an overall machine accounting system best suited to our needs.

While we have solved our problems in 11 regions with a satisfactory and economical machine, we still have not solved our needs for our 4 smaller regions. We are, however, intending to experiment with a Remington Rand modified SS–80 in Denver in September 1961. At the reduced rental price we hope to be able to program it on the same logic as we used for our IBM 650 machines used in the other 11 regions.

Mr. Gary. Any further questions?

If not, we will now take up the "Field inspection service."

Field Inspection Service

Mr. Brawley. Mr. Chairman, we have a new Chief Inspector, Mr. Henry Montague, who was formerly the inspector in charge of the New York Division, New York City.

Mr. Gary. We will insert at this point in the record page 12.1 of the justifications.

(The information referred to follows:)

Analysis of obligations

[In thousands]

Item	1960 actual	1961 estimate	Increase or decrease (−) due to—			1962 estimate	Increase or decrease (−) due to—		
			Leap year day in 1960	Pay and health increase	All other costs		Mandatory items	Workload	Total increase or decrease
Average number of positions:									
Inspectors	945.1	978.5	−3.1		36.5	999.8		21.3	21.3
Clerks	422.1	426.4	−1.6		5.9	437.0		10.6	10.6
Average compensation:									
Inspectors	$9,303	$10,131		$698	$130	$10,368			$237
Clerks	$5,820	$6,332		$457	$55	$6,330			−$2
Personnel compensation:									
Inspectors	$8,792	$9,913	−$29	$684	$466	$10,366	$298	$155	$453
Clerks	2,457	2,700	−9	195	57	2,766	18	48	66
Chemical and other investigations	29	31		2		31			
Confidential fund	17	20			3	20			
Expert services	9	20			11	25		5	5
Rewards	50	50				50			
Total, personnel compensation (11)	11,354	12,734	−38	881	537	13,258	316	208	524
Personnel benefits:									
Territorial cost-of-living allowance	8	8				8			
Health insurance		103		103		106	2	1	3
Group life insurance	38	44		3	3	46	1	1	2
Retirement fund contribution	729	818	−2	57	34	851	20	13	33
Total, personnel benefits (12)	775	973	−2	163	37	1,011	23	15	38
Other costs:									
Travel (21)	1,690	1,740			50	1,962		222	222
Household goods and effects (22)	38	48			10	34		−14	−14
Communications (23)	3	4			1	4			
Photographs, cuts, etc. (24)	6	6				6			
Test material (26)	18	19			1	21		2	2
Test money (42)	3	4			1	4			
Total, other costs	1,758	1,821			63	2,031		210	210
Total obligations	13,887	15,528	−40	1,044	637	16,300	339	433	772
Total increase over prior year	808	1,641				772			

BIOGRAPHY OF HENRY MONTAGUE

Mr. GARY. Mr. Montague, we are very happy to have you with us, sir. And in accordance with the policy of this committee, for the benefit of the Congress, some of whom may perchance read our hearings, we would like to have you insert at this point in the record a short biographical sketch.

Mr. BRAWLEY. May I assure you, sir, that your hearings are well read?

Mr. PILLION. Intensely read by an awfully few people?

(Henry B. Montague's biography follows:)

Henry B. Montague, age 49, born Beacon, Duchess County, N.Y., November 28, 1911. Graduated from Beacon High School, Beacon, N.Y., June 1930. Took postgraduate course, high school, and business courses at night school in Newburgh and Poughkeepsie, N.Y.

Accepted position in office of Dairymen's League Co-op Association, Beacon, N.Y., November 1930. Later transferred to Poughkeepsie branch, where he became assistant office manager. Served as president of employees' association.

Appointed substitute post office clerk, Poughkeepsie, N.Y., February 17, 1937. Had experience in most of the clerical assignments in post office, including some part-time work as supervisor. Served as president of Local Post Office Clerks' Association.

Appointed post office inspector September 16, 1942, and assigned to New York division. Gained experience in all phases of postal inspection work, and was given a number of special assignments in various parts of the country by chief post office inspector. For a time was assigned as instructor of newly appointed classes of post office inspectors.

Promoted to postal inspector in charge, New York division, May 16, 1951.

Promoted to chief postal inspector, February 14, 1961.

Mr. Montague is married and has two daughters. The family lives at 84–25 Elmhurst Avenue, Queens County, Long Island.

INCREASE IN BUDGET FOR 1962

Mr. GARY. Now, referring to the inspection system costs, there was appropriated $13,887,000 in 1960, $15,528,000 in 1961, and you are requesting $16,300,000 in 1962. So apparently these costs continue to rise.

Mr. Montague, do you have an opening statement?

Mr. MONTAGUE. Yes, I have, sir.

Mr. GARY. We will be glad to hear from you at this time.

Mr. MONTAGUE. Yes, sir.

The figures that you just read do not include internal audit. Do you want those in there too, sir?

Mr. GARY. Yes, sir. If you would, please, sir.

Mr. MONTAGUE. For internal audit, $994,000 in 1960, and estimates of $1,154,000 in 1961, and $1,179,000 in 1962.

Mr. GARY. That is not an inclusion figure but in addition?

Mr. MONTAGUE. Yes, sir.

Mr. GARY. Thank you, sir.

GENERAL STATEMENT

Mr. MONTAGUE. Mr. Chairman and members of the committee, it is a pleasure to appear before this committee in support of the postal inspection service budget request for fiscal year 1962.

As you know, the Inspection Service is charged with the responsibility for the detection, investigation, and prevention of violations of postal laws and for the periodic audit-inspection of all postal installations. The Service is also responsible for advising the Postmaster General and other management officials as to the condition and needs of the postal service.

The scope of this responsibility continues to undergo significant change in the face of a rising crime index, an increasing population, and record breaking mail volumes creating postal problems of increasing complexity.

In the area of criminal investigations, the Inspection Service closed over 78,000 cases in fiscal 1960 and made 9,113 arrests, a 12 percent increase over the previous 3-year average and an all-time high for the sixth consecutive year.

Over the past several years this committee has been kept informed as to the progress and results obtained from our special program for the handling of the mounting volume of major mail frauds. In fiscal 1960 nearly 10,000 mail fraud investigations were initiated. Through national coordination and close liaison with the Attorney General arrests for such violations increased 33 percent over the prior year. Fraudulent schemes in the insurance field are on the rise; work-at-home schemes, oil lease, and false merchandising promotions attempt to bilk the public of millions annually. While the results obtained are gratifying, we want to do even better. Fraudulent enterprises through which promises are made to small businesses to obtain loans or provide services in consideration of a fee collected in advance have inflicted losses of as much as $50 million annually on victims. The public expects the fullest enforcement of mail fraud laws and we should initiate some 5,000 additional fraud investigations. Statistics indicate that over 40 percent of these investigations are of sufficient complexity to require assignment to inspectors specializing in this area of work. Many are complex and require months or sometimes years to prepare for prosecution. Additional manpower is needed to pursue this program in the positive manner it warrants.

One of the most serious and troublesome offenses facing this service is the theft of mail from residence mail receptacles and the subsequent forging and cashing of money orders and checks, many representing pension money relied upon by disabled and retired persons for basic needs. Arrests for such violations for the past 2 years were the highest in history. These thefts, the number of which rise with an increase in mail volume, have shown a trend over the past 6 years which would indicate that by 1966 some 6,800 arrests will be made for such offenses, a 118-percent increase over 1960. Robberies of postal installations and holdups of postal employees are on the increase so far this fiscal year.

Obscenity in the mails continues to be the basis for a significant percentage of the investigative workload of the Service. During the past fiscal year some 70,000 complaints were received from parents and civic and religious organizations bearing on the use of the mails for the distribution of obscene matter. Arrests in 1960 for this offense exceeded the prior year's figure by 23 percent and through January of this year an additional increase of 27 percent has been recorded. Postmaster General Day has promised the toughest crackdown yet on

this type of violation, and the Inspection Service intends to follow through on that promise.

A fundamental responsibility of the Inspection Service is the periodic financial examination and inspection of postal installations. These audit-inspections have as major purposes to determine whether revenues are properly accounted for, appropriated funds are being conserved, and proper service is being rendered. They provide the basis for detecting the condition and needs of the Service in order that dependable, impartial, and timely information may be furnished administrative officials. A total of 53,410 such audit-inspections were conducted in fiscal year 1960.

In other areas of investigative responsibility, postal inspectors conducted investigations in nearly 4,000 accident cases involving personal injury or where damage to private property exceeded $500. As an imperative element in providing adjudicating authorities with impartial data on which to evaluate claims, these investigations assisted in the settlements of claims, in and out of court for $10,500,000 less than claim by plaintiffs.

In 1960 during the conduct of investigations involving mail losses and financial offenses postal inspectors collected over $800,000 which was turned back to the public or paid over to the United States.

Substantial inspector time has also been devoted to protecting the mail during such casualties as hurricanes, blizzards, fires, floods, train wrecks, and plane crashes.

INTERNAL AUDITING

The organization and staffing phases of the Department's internal audit program were largely completed last year. On February 15 of this year there were 115 audit personnel on duty under an authorized ceiling of 119. This represents 108 auditors and 7 stenographers, with 103 of the staff located in field offices and 12 in Washington. The four vacancies are in the trainee grades and represent normal turnover.

For the past few years we have mentioned to you that one of the objectives of the Department's audit program is to render an annual statement to the Postmaster General as to the integrity and fairness of the Department's annual financial statements. We are glad to be able to report that the first such certification was presented on October 21, 1960. It is published on page 122 of the Postmaster General's Annual Report for Fiscal 1960.

During the past and present fiscal years the Division of Internal Audit has been giving increased emphasis to broadening the scope of its activities and to making its audits more comprehensive. This effort is producing beneficial results to operating officials particularly in areas involving the negotiation and administration of transportation contracts and building leases.

Increased activity under the Department's mechanization and modernization programs during fiscal 1960 necessitated the assignment of a considerable amount of audit effort to contract audit work. The Division performs the necessary cost determination work on all cost-type contracts executed by the Department. In those cases where Department of Defense auditors have been assigned audit cognizance for a particular company we coordinate the work and advise and

assist the contracting officers concerning audit reports, overhead problems, disallowances, et cetera. Our representatives make the complete onsite audit in all instances where Defense auditors are not currently engaged in auditing the contractor's operations.

The Division also renders advisory services to the Department's contracting officers in connection with the negotiation and administration of contracts. Representatives of the Division make onsite reviews and evaluations as necessary, to (1) establish the reliability, accuracy, and propriety of contractors' cost estimates or proposals and (2) determine whether contractors' cost accounting systems are adequate for accumulation of costs under cost-type contracts.

REVIEW OF INSPECTION SERVICE

At the direction of the Postmaster General a review of the operation of the Inspection Service is in process. We will cooperate in this study which is designed to result in action to prevent duplication of effort and better equip us to carry out our fundamental functions.

Mr. Chairman, the request for funds for 1962 contemplates a modest increase of 22 inspectors and 11 clerical employees. This inspector manpower will be used to replace an equivalent number of experienced inspectors who will be assigned to give badly needed relief in the major areas of criminal investigations which I have discussed. Thank you.

ADDITIONAL INSPECTORS REQUESTED

Mr. GARY. What is the need for these 22 additional inspectors, Mr. Montague?

Mr. MONTAGUE. As we point out, Mr. Chairman, our programs in the area of criminal investigations are successful, and we want to do better. We have quite a backlog of work of various types. Those 22 will enable us to do it that much better and that much more currently.

DUPLICATION OF EFFORT

Mr. GARY. There has been a feeling of this committee that each year the Inspection Department has come in and justified more manpower and greater expenditure of the basis of its criminal activities, and then the money has been used largely in noncriminal activities and we have a suspicion that there is—and not only suspicion, but we had an investigation made by our staff last year, and they reported to us that there was considerable duplication of effort between the inspectors and management personnel.

I am delighted to hear that you are going to make a study on this, and I hope that you will cooperate very fully in a joint program to detect and eliminate any duplication as much as possible. But certainly there has been widespread duplication between the Division of Operations, the Inspection Division, the regional offices, and what were the district offices and are now the field offices. I believe that by eliminating that duplication, we can save considerable money.

Mr. MONTAGUE. Mr. Chairman, may I say that the Postmaster General is well aware of the views of this committee. Yesterday he said that he is very anxious to cooperate with the committee. I can tell

you that one of the first orders he issued was for this study to, among other things, eliminate duplication and backlogs.

Mr. GARY. I am very happy to hear that.

Off the record.

(Discussion off the record.)

Mr. GARY. I cannot say to you that I can put my finger on specific examples of duplication, but we have evidences of it, and we are going to leave it to the Department to eliminate that duplication. But we certainly hope that it will be done.

Mr. MONTAGUE. Mr. Chairman, may I also say that time devoted to service work last year by the Inspection Service decreased and that devoted to criminal investigations increased.

Mr. GARY. I am glad to hear that, because our investigation showed that a considerable percentage of the time during the year previous had been devoted to service work rather than criminal investigations.

Mr. MONTAGUE. Of course, we have taken that trend into consideration in our computations. The Postmaster General yesterday said that in closing the gap between income and outgo, he is not going to rely only on increased receipts; he also has some cost reductions in mind. We plan on doing the same thing. In taking care of our problem, we are not just relying on additional inspectors; we also expect to recapture some manpower from other areas.

Mr. GARY. The information in the testimony last year shows—but I hesistated to use the figure——

Mr. MONTAGUE. Yes.

Mr. GARY. But less than 50 percent of the man-hours of the Inspectors Bureau was devoted to criminal investigations; and more than 50 percent was devoted to management. We though that percentage should be reversed.

This committee never has attempted to run the departments; but we do try to point out any conditions which, in our judgment, need correction.

I am certainly glad to know that you are going to study this situation this year, because you do have a tremendous criminal duty to perform. And as the mail volume increases, I know that your thefts from the mail increase and various other criminal violations of the postal laws.

I was very much pleased with the Postmaster General's outline of what he intends to do so far as this pornographic literature is concerned. The Inspection Division can devote its attention to that to much better advantage than some of the management activities which are already covered by other divisions.

INCREASE IN COST OF INSPECTION SERVICE

Do you anticipate that the cost of the Inspection Service will continue to rise in future years as the postal volume increases?

Mr. MONTAGUE. I would think, Mr. Chairman—I have not had an opportunity to study all of the implications—but based on my experience in the Inspection Service, the trend of the crime rate over these last few years has been on the increase, and I see no reason why the trend in postal violations should be any different. Naturally, with the increase in population, the increase in the number of pieces of

mail handled, and so on, the work will increase. I would expect that the cost of the Inspection Service would increase, yes.

ARRESTS AND CONVICTIONS

Mr. GARY. Do you have some statistics on the violations and convictions?

Mr. MONTAGUE. Yes, sir.

Mr. GARY. Will you insert them at this point in the record, showing your workload?

Mr. MONTAGUE. For 1960?

Mr. GARY. Well, for 1960, 1961, and estimates for 1962, if you have them available.

Mr. MONTAGUE. We will prepare those and have them inserted in the record.

(The information requested follows:)

	1960 (actual)		1961 [1]	
	Arrests	Convictions	Arrests	Convictions
Burglary of post offices, stations, etc	474	414	510	404
Holdup and robbery	34	25	38	36
Theft and rifling of mail by:				
Postal employees	618	565	611	443
Railroad employees	14	9	9	16
Others from mail receptacles	3,119	2,966	3,135	2,900
Interception	492	450	457	466
Other—miscellaneous	343	296	392	322
Possession of stolen checks	1,113	916	923	950
Possession of stolen goods	63	44	67	39
Willful injury of mail receptacles	1,019	922	1,340	1,287
Theft of Government funds or property	77	55	68	65
Fraudulent use of the mails	594	366	660	378
Lottery	4	4	3	2
Obscene mail	389	306	456	310
Poisons	1	2	1	5
Explosives	10	8	9	10
Scurrilous and defamatory	7	4	15	12
Extortion	25	21	30	28
Impersonation of postal employees	5	4	12	7
Embezzlement of funds	162	134	169	132
False claims against United States	60	14	37	113
Forgery of money orders and postal savings certificates	349	334	432	341
Miscellaneous	141	108	127	90
Total	9,113	7,967	9,501	8,356

[1] Based on 7 months' actual, 5 months' estimate. The same trends are expected to continue through fiscal year 1962.

Mr. GARY. Thank you, sir.

We would like to show the number of cases that you have, the number disposed of, the number of arrests, and number of convictions, and statistics of that nature.

Mr. MONTAGUE. Do you want the number of cases of all types?

Mr. GARY. Criminal cases, yes. If you have them broken down into classifications, of course, we would rather have them by classifications, such as mail frauds.

Mr. MONTAGUE. Yes.

Mr. GARY. And pornographic literature, and so on.

Mr. MONTAGUE. Yes, sir. We will supply those.

Mr. GARY. General classifications.

Mr. MONTAGUE. You want 1960, 1961, and 1962?

Mr. GARY. If you have them available.

Mr. MONTAGUE. We will do our best; 1962 will be an estimate.
Mr. GARY. Of course. That is just an estimate for 1962.
(The statistics referred to are as follows:)

Postal Inspection Service—Workload

Classification of work	Fiscal year	Cases pending July 1	Cases issued	Cases closed	Cases pending June 30
Mail fraud, obscene matter, and other prohibited mailings	1960	6,859	19,868	18,168	8,559
	1961	8,559	21,708	21,634	8,633
	1962	8,633	25,398	25,231	8,800
Theft of mail, burglaries and other mail losses	1960	19,291	51,577	52,808	18,060
	1961	18,060	55,473	53,010	20,523
	1962	20,523	58,801	57,283	22,041
Embezzlements and forgeries	1960	5,625	12,938	13,116	5,447
	1961	5,447	12,340	12,437	5,350
	1962	5,350	12,023	12,090	5,283
Accidents	1960	1,952	5,464	5,429	1,987
	1961	1,987	5,353	5,303	2,037
	1962	2,037	5,246	5,197	2,086
Service operating problems	1960	3,441	13,657	14,369	2,729
	1961	2,729	12,095	12,218	2,606
	1962	2,606	11,097	11,200	2,503
Investigations of personnel (suitability, security, charges)	1960	2,340	13,730	13,828	2,242
	1961	2,242	12,156	11,704	2,694
	1962	2,694	12,056	11,634	3,116

NOTE.—1960 figures, actual; 1961 figures, 7 months' actual; 5 months' estimate; 1962 figures, estimated.

OVERLAPPING OF INSPECTION WORK AND ACTIVITIES OF FIELD OFFICES

Mr. GARY. What impact has the establishment of regional offices had on the Inspection Service?

Mr. MONTAGUE. In what way, Mr. Chairman?

Mr. GARY. Has it decreased your activities any, or——

Mr. MONTAGUE. The record shows that in fiscal 1960, we had fewer cases of a service nature than we had in the prior year, which would indicate that probably the regions were doing more of that type of work last year.

Mr. GARY. Well, frankly, we had hoped that when these regions were set up that they would take over a large part of the management functions and that that would relieve the Inspection Service of those activities. And we had hoped, for that reason, to see some decrease in the personnel of the Inspection Service. But apparently it has not operated that way.

I would like to know whether the establishment of these regions has affected your service. First you had regional and district offices, and then they were supposed to have abolished the district offices, but it appears that the name has changed rather than the activities abolished.

Mr. MONTAGUE. The number of men that they had in the field on a continuing basis, was not too large; and they were charged principally, according to my understanding, with seeing that the mail was handled properly, that it was dispatched expeditiously, and so on, and that if the region ran into a situation where it would take a longer study, they would ask the Inspection Service to investigate and make a report.

Mr. GARY. Well, that is what I am gettting at. Do you not all do the same thing, same type of work, investigation?

Mr. MONTAGUE. You mean——

Mr. GARY. Does the Inspection Service not do the same type of investigation of trying to speed up the mail and provide better service?

Mr. MONTAGUE. Our duty is to observe the conditions in line with our regular work. If we see anything wrong, we report it to the region or to the Department, depending on the circumstances, so that appropriate action may be taken.

Mr. GARY. Suppose there is a question, as frequently occurs, of revising various rural routes in a county?

Mr. MONTAGUE. Yes, sir.

Mr. GARY. And of eliminating post offices. Are not the investigations in that instance made by the Inspection Service?

Mr. MONTAGUE. Generally, yes, sir.

Mr. GARY. And they report to the——

Mr. MONTAGUE. Regional offices.

Mr. GARY. Does the regional office have men for that too?

Mr. MONTAGUE. No.

Mr. GARY. What about the field offices; does that not overlap with their duties?

Mr. MONTAGUE. No, Mr. Chairman. They would not become involved in that particular investigation. What happens is that when a rural route becomes vacant, it is only at such time, as you are probably well aware, that a consolidation is considered and the request comes from the region to the inspector to make this investigation; the field services officer does not become involved in it. The inspector takes into consideration all the factors involved and based on findings of his investigation, makes his report. It goes to the region, and a decision is then made as to whether the consolidation is feasible or whether the route should be continued. But the field services officer does not become involved.

ABOLITION OF POST OFFICES AND RURAL ROUTES

Mr. GARY. Mr. Brawley, in that connection, I do not believe we have had any statement of policy, and I do not know whether you have determined the policy as yet, but I ask, simply for the sake of information, have you determined a policy as to the abolition of post offices and rural routes?

Mr. BRAWLEY. No, sir, I do not believe we have. We are studying that problem now, but we have no firm policy on it as yet.

Mr. GARY. Of course, there are thousands of post offices in the United States that are not needed. The postal system was established during the "horse and buggy" days, and if a person had to go more than 3 or 4 miles for his mail, he could not go there and get back in the same day. So we had to have a great many post offices. But with the advent of the automobile and rural delivery a great many of the post offices today have been outmoded.

There have been various policies in the past, but usually, I think for the most part, the policy has been followed that whenever there is a vacancy in the postmaster's position, a study is made with reference to abolishing or consolidating or changing the service.

Mr. BRAWLEY. This is our practice at the present time, but not our firm policy. There is one additional policy, and that is that the postmaster could retire.

Mr. GARY. Whenever there was a vacancy, I said.

Mr. BELEN. Or if he is eligible to retire.

Mr. GARY. Yes.

Mr. BELEN. In other words, if he can leave and draw retirement. There may not necessarily be a vacancy.

Mr. GARY. Even though there is not a vacancy, that is right.

Mr. BELEN. Yes, sir. They used to inquire ahead, but now we are trying to see how well ahead we can get without making an initial inquiry as to whether it should be closed.

Mr. GARY. Well, now, are you permitted——

Mr. ALEXANDER. Mr. Chairman, I would say that in my district, over the past 8 years the Post Office Department has done a pretty good job in eliminating post offices.

Mr. BELEN. I believe it started in your district, did it not, Mr. Alexander?

Mr. ALEXANDER. Yes; in the western part of North Carolina. And I might say they did a pretty good job.

Mr. GARY. How many were closed last year? Maybe we can get some statistics on that.

Mr. BELEN. 522.

Mr. BARNES. About 6,000 in the last 8 years.

Mr. GARY. I know the previous administration started out on a wide-open policy, and they found out they ran into a lot of difficulty, so they finally came around to the policy of——

Mr. BELEN. I believe they started out on the practical basis of, does the post office pay or not?

Mr. GARY. That is right.

Mr. BELEN. Of course, all the fourthclass postmasters draw more salary than their revenue; and they found it was a pretty big bite.

Mr. GARY. I agree. I was not critical. I think they did a pretty good job at it.

But is there not a law against consolidating rural routes?

Mr. BARNES. Yes, sir, except when there is a vacancy.

Mr. BELEN. Unless there is a vacancy?

Mr. GARY. That, therefore, is a definite policy established by the Congress.

Mr. BARNES. By law.

Mr. GARY. Insofar as the rural routes are concerned?

Mr. BELEN. Yes, sir.

Mr. GARY. The law does not apply to post offices but that same principle has been applied to the post offices.

Mr. BELEN. Yes, sir.

AUDIT INSPECTION

Mr. GARY. What is the trend of postal violations uncovered by audit inspections of postal installations?

Mr. MONTAGUE. Based on personal experience, I would say that the trend is up.

You are talking about embezzlements incident to inspections?

Mr. GARY. Yes, sir.

Mr. MONTAGUE. I would say the trend is up; yes, sir.

Mr. GARY. What is the scope of such audit inspections, and how are they scheduled and conducted?

Mr. MONTAGUE. The procedure we used in my division—I speak from personal experience, because I have not been here in Washington too long; and I think this same procedure is followed in other divisions—is that the first-class offices are scheduled by division headquarters, because they normally require the services of two or more inspectors.

On second-class offices, inspectors are teamed up where two men are necessary, and they make their own arrangements. Each inspector makes his own arrangements on the second-class offices, which can be done by one man and on the third- and fourth-class offices; and those inspections are done concurrently with other work to reduce travel and save wherever possible.

The scope of the inspection, of course, covers the financial activities of the office; inspectors also go into the mail-handling features to determine that good service is being rendered to the public; that the mail is being processed properly; that the proper dispatches are being made; and so on.

Mr. GARY. It seems to me that a postmaster told me some time ago that when his branch offices were inspected, one of his men was assigned to work with the inspectors, and that, after the inspection was over, he got a first report from his own employee with recommendations which had resulted from the inspection; then a short time after that he got a recommendation from the chief inspector, telling him, or rather giving him the same recommendations; and then a short time after that he got the same recommendations from the regional office. So that it seemed to be a considerable duplication of effort there.

Mr. MONTAGUE. If I may explain that, Mr. Chairman, the reason why the postmaster's own station examiner is used when his stations are inspected is to prevent and eliminate duplication. The inspector goes in with the station examiner. The station examiner makes his financial audit as he would normally; and this could be his regular quarterly audit of the office. The inspector observes the examiner's cutoffs of the accounts, the way he counts the cash, and so on, to determine whether or not he is doing his job properly. The inspector, when he is satisfied on that score, then checks into the mail handling, which the station examiner does not do. The station examiner submits his regular report to the postmaster, as he would ordinarily do if he were making the examination by himself. The inspector advises the postmaster that the station examination was made along with the station examiner and that the station examiner will submit his report. Then the inspector details the other items to which he gave his attention and which would not normally be covered by the station examiner. So that arrangement was made——

Mr. GARY. Then the regional manager comes along and includes the whole thing.

Mr. MONTAGUE. There would be no reason for the regional manager to write about it, unless there were something that the regional office wanted to check into. If the inspector shows that there were unsatisfactory conditions, the region may want to check into it; or if exceptionally good conditions were reported it is possible the regional office might want to say something good about them. But otherwise——

Mr. GARY. Well, these were recommendations. And I imagine practically always you have some recommendations to follow those audits.

Mr. MONTAGUE. That is the procedure that the inspector would follow. If he finds something that should be changed by the operating people, he would make his recommendation and they would give instructions.

Mr. GARY. Well, he told me at times he would get the same recommendations three different times, and by the time he got the second, the conditions would have been remedied, because he always remedied them immediately, if possible, after the first recommendation.

TIME SPENT IN CONNECTION WITH CASUALTIES

Will you elaborate for the record on your statement that considerable inspector time is required in connection with casualties?

Mr. MONTAGUE. Yes.

We mentioned blizzards. Throughout the East this year, we have had very heavy snow. When anything like that occurs, the Post Office always has trouble with transportation, in which case the matter of protection and security also becomes a problem; as well as assisting in any way that we can to help move the mails.

That requires during these last snowstorms, quite a bit of our manpower. Whenever there is a train wreck, the inspector has to get out to see that the mail is properly protected, that the mail is sent on, that it is returned to normal channels as soon as possible, and that it is expedited.

When there is an air crash—and we had a very unfortunate situation in New York, just before Christmas this year, when we had a dual crash. One plane came down in Staten Island, and the other came down in Brooklyn. We had inspectors out to the scenes immediately in both cases. In the Staten Island crash, all the mail on the plane was recovered and immediately restored to regular channels. In the other crash, about 50 percent of the mail was recovered, and it had to be repaired and returned to normal channels.

In hurricanes, such as the hurricane that we had here in the fall, you have high tides, and so on; there was one station in Far Rockaway that was practically washed away. You have to get men out to see that the mail is brought back to a post office from which it can be delivered.

Arrangement have to be made for temporary facilities, as in the case of a tornado. Some arrangements will have to be made in that case.

All of these casualties require immediate attention by inspectors, to see that the mail is returned to regular channels, to see that it is protected, to do what we can to help restore regular service.

Mr. CONTE. Mr. Chairman.

Mr. GARY. Yes, sir.

Mr. CONTE. Will the chairman yield?

Mr. GARY. Yes, sir.

Mr. CONTE. Did you suffer a great casualty in that New Haven post office fire?

Mr. MONTAGUE. I am not familiar with that.

Mr. CONTE. Before the first of the year.

Mr. MONTAGUE. I am not familiar with that.

Mr. CONTE. I know we received some letters from our constituents that they had not heard from us, and we found out that they were in that fire.

Mr. MONTAGUE. In any casualty like this, we have teletype facilities in our headquarters, and we immediately let the Department know what is going on. If there is a crash, a storm, the Department will know about it immediately.

For example, with the current airline strike, inspectors will be checking to see what lines are out and to see that the mail is not lying out in places where it should not be; that it is not turned over to lines not operating; and there will be teletypes to the Department on those situations every day.

INCREASE IN INTERNAL AUDITORS

Mr. GARY. In 1959 the Congress authorized 17 additional internal auditors, increasing your ceiling to 119. Do you consider that this increase has proved advisable?

Mr. MONTAGUE. May I have Mr. Smith answer that?

Mr. GARY. Yes, sir.

Mr. MONTAGUE. Mr. Smith is the Director of the Internal Audit Division. Stancil M. Smith.

Mr. SMITH. Mr. Chairman, we do consider that the increase has been advisable. We have recruited those 17 men with the exception of 4 vacancies which exist in the office now and which are in the training grades. In fact, we have recruited right up to strength, but there is always some slight turnover.

I am glad to be able to report that we have been able to maintain our high standards and that about 30 percent of our men are still CPA's. We believe that these additional people are producing several times their cost, several times a year. I think the Bureau of Finance and the other bureaus feel that the work is beneficial to them.

We have made this year the first certification, as Mr. Montague mentioned, and, in general, we think considerable progress is being made in the internal audit program.

Mr. GARY. In other words, you think that the increased work has more than justified the additional expense?

Mr. SMITH. I do, sir.

INCREASE IN INSPECTION AND CLERICAL EMPLOYEES

Mr. GARY. How did you decide on 22 additional inspectors and 11 clerical employees?

Mr. MONTAGUE. Of course, with our workload, 22 would not be sufficient. What we would like to do, at the minimum, is give each of our divisions one inspector whom they could immediately assign to fraud work and/or obscene work, and to give our larger divisions two or, in one or two cases, perhaps—perhaps three. As I said before, we also expect to recover some manpower from other areas, which will help the situation.

WORKLOAD

Mr. GARY. Well, may I ask what is the typical caseload of a postal inspector, and how do you measure his performance or production?

Mr. MONTAGUE. Mr. Chairman, that varies according to the type of assignment that he has. A man on complex fraud work, for example, may be tied up for as much as 2 years on one case. We had a case of that type where we had two men on it for 2 years. Naturally, while those men are on a case of that kind, there is very little other that you can give them to do. On the other hand, if an inspector is handling a minor type of fraud investigation, he may be able to handle a caseload of 40 cases and turn out 15 or 20 a month.

In the average field territory, where an inspector handles his district office inspections plus miscellaneous cases, he would ordinarily turn in perhaps between 25 and 30 cases a month. His inspector-in-charge knows what he has, and knows what production he should expect out of the man. He knows it from his own personal experience, and knows it too from comparisons with what other men are producing. A production record of each man is maintained for each accounting period. If you see an inspector has overdue cases, or if his production is not keeping pace with the other inspectors, you talk to him about those things and get them corrected.

Mr. GARY. I believe you will include some workload figures, caseload figures?

Mr. MONTAGUE. I am advised that the national average is 45 cases per inspector. That is miscellaneous investigations?

Mr. ANDREWS. That was our national average.

Mr. MONTAGUE. That was not including inspections?

Mr. ANDREWS. No, sir.

Mr. MONTAGUE. Forty-five, not including inspection cases; that is, cases outside our regular audit inspections.

Mr. GARY. You will give us some statistics in those I asked for a little while ago?

Mr. MONTAGUE. Yes; we will give you information on caseloads.

Mr. GARY. Thank you, sir.

Now, I expect this next one probably ought to be asked off the record.

(Discussion off the record.)

Mr. GARY. Do you consider the existing laws give you sufficient authority or do you need additional legislation?

Mr. MONTAGUE. The present laws are sufficient for our needs.

SENTENCING OF POSTAL VIOLATORS

Mr. GARY. Are you presently pretty well satisfied with the sentences that the courts impose for violations of criminals that you apprehend and prosecute?

Mr. MONTAGUE. No. I would say that, in the opinion of the investigating officers, courts are too lenient, particularly with repeat offenders; that such offenders do not get sufficiently drastic sentences, and they are back at the same business of stealing again or doing whatever they do within a relatively short time.

Mr. GARY. The Federal Government does not have a repeater law, does it?

Mr. MONTAGUE. There is now in the obscenity statute double the penalty if it is a second offense. That is my recollection of it.

Is that correct?

Mr. DOYLE. I think that is correct.

Mr. MONTAGUE. Yes. But not otherwise.

Mr. GARY. In the State of Virginia we have a law that automatically imposes additional time for second offenses, and then the third criminal offense is a lifetime sentence. I think a good many of the States have adopted similar laws. Also they have been adopted in some of the narcotics laws. They are effective in dealing with confirmed criminals.

Mr. MONTAGUE. Yes. In New York State convictions for four felony offenses call for a lifetime sentence.

Mr. GARY. Mr. Steed.

Mr. MONTAGUE. Mr. Chairman, I would like to say just one thing.

Mr. GARY. Yes, sir.

Mr. MONTAGUE. Mr. Chairman, when I mentioned New York, it is only because that is where my recent experience has been. It is typical of what is done in other divisions.

Mr. GARY. That is all right, sir. We understand that. I have frequently referred to my congressional district, and of course I think it is the best district there is; but I refer to it because I am more familiar with it than the others, and not for publicity purposes. I understand that.

Mr. MONTAGUE. That is right.

PROGRAM TO PREVENT POSTAL VIOLATIONS

Mr. STEED. Mr. Montague, I am a member of the House Select Committee on Small Business and, among other problems that we get on that committee, is that the small businessman is plagued with what seems to be a rather late and increasing effort on the part of some to prey upon small businessmen on this loan and savings thing you mentioned here. You know, we have in some activities the so-called better business bureau. We have any number of small business organizations in the country; and on the philosophy that an ounce of prevention is worth a pound of cure, has any thought been given to an educational program or warning program or anything of that sort that the Department might work with through these various organizations to make this sort of fraud less likely?

Mr. MONTAGUE. There have been releases on that from the Post Office Department and the better business bureau. It is a well-coordinated campaign at the moment; but I am sure that the Postmaster General would want to give that consideration.

Mr. STEED. I think that these national small business organizations could do some service in that field, too, since some of them seem to have contact with a larger number of businessmen throughout the country than any of the other active groups today.

The problem of this increase in the theft of money orders and checks is rather startling when you look at the way it is growing. And since we now are in the business of issuing some 409 million Government checks a year, and since we are now in the business of having so many millions of people who are regular recipients of checks, there again, if

some workable plan could be devised, an ounce of prevention would be worth a lot of cure.

I know that, for instance, in some of your large department stores they have a charge plate that, if you have credit established there, you can only have something charged if you have a charge plate. I was just wondering if somebody had given any thought to some method of the like in the case of a person eligible to receive regular Government checks. If they could not have some sort of an identification where the check could not be cashed unless this type of identification was available. In other words, if you could work out a system where the theft of the check did not do the thief any good because he could not cash it, it might serve as a preventive against this thing.

I do not know whether it might be entirely practical to do anything in that field, but obviously the Government is going to be issuing checks by the hundreds of millions from now on, and perhaps some requirement that the recipient, or that type of recipient of a Government check, to have identification to cash it, or unless it was a check that was put in the bank for deposit only, might make this less attractive as a source of easy money for this evergrowing group of thieves who rob these mailboxes.

I do not know whether anything like that could work or not, but it seems to me it is in such volume right now—and the temptation is not going to get less but greater—that maybe some sort of means like that might be devised to combat it.

Mr. MONTAGUE. We cooperate with the Secret Service in such cases. The forgery of a Treasury check is a violation coming under their jurisdiction. We work closely with them and with local police authorities. Many warning notices have been issued to "know your endorser"—know the person who is trying to cash the check. When a person with a stolen check goes to a merchant and places an order, the merchant sees the possibility of a profit and frequently takes a chance when he does not know the person.

Mr. STEED. That is why I say if that type of check could only be presented for cashing at a place other than a bank by someone who had some means of identification like the credit plate such as the big department stores use, then the merchant would be equally liable for having cashed one without that.

I do not know whether that is practical or not, but there must be some reason why these big stores giving credit require the person getting that credit to have this credit plate before they will charge something to you. And it just seemed to me that something like that could be devised. Because certainly the Government is going to be issuing more and more checks and not fewer checks. And the Treasury tells us now we are already in the 400-million-check-a-year category, and it is getting larger. So this temptation for all sorts of people to steal these checks out of mailboxes is going to continue at least as high as it is now, if not more so. So unless some preventive plan can be devised, your problem is going to get much larger.

Mr. MONTAGUE. Yes.

The increase in checks by the Treasury holds true throughout the other agencies too—unemployment, welfare, and so on, and most people have checking accounts today. All of that has contributed to more checks being mailed, more opportunity for this kind of theft.

Mr. STEED. We have had some discussion in the hearings up to now about the unprecedented large number of forms that postmasters and postal workers are required to fill out. Has this internal auditing and other activities of your Department—are you one of the creators of these new forms that they are required to fill out?

Mr. MONTAGUE. No, sir.

VIOLATION OF THE HATCH ACT

Mr. STEED. In the discussion of the different functions of your Department, there is no mention of one activity that I am told falls upon you now and again, and that is investigation of charges of violation of the Hatch Act.

Mr. MONTAGUE. No.

Mr. STEED. Does your department do that?

Mr. MONTAGUE. No. The Civil Service Commission does.

Mr. STEED. Well, 8 years ago there were some postal inspectors who were active in my area on Hatch Act charges, and the method they used were such that if those two inspectors are still working for you, they ought to be fired; and if they were carrying out orders, whoever gave them such orders ought to be fired.

Now that we have had another change of administration, I hope nothing that reprehensible will come along to blight this.

Mr. MONTAGUE. The Civil Service Commission investigates that type of violation. We do not get into it.

Mr. STEED. That is all.

Mr. GARY. Mr. Conte.

OBSCENE MAIL

Mr. CONTE. Chief, I am very pleased to hear that you are going to step up your program against obscene literature. I think this is one of the worst preys upon our youth here in the United States. I inform my people continually that, if they come across any of this obscene literature sent to their children, they send it immediately to me, and I would get in touch with the postal inspectors. Last year the postal inspectors were able to convict a sender of obscene literature to one of my constituents as a result of working quickly and sending me this literature and in turn I contacted your Department.

I think this is a terrible thing, and I am pleased to hear that you are going to step up enforcement on this program.

In regard to obscene material in the mail, this is illegal by law?

Mr. MONTAGUE. Yes, sir; that is correct.

Mr. CONTE. And recently we have read a great deal in the paper, I think a week ago, about Communist propaganda within the United States.

Mr. MONTAGUE. Yes.

Mr. CONTE. That is not illegal by law?

Mr. MONTAGUE. That is correct.

Mr. CONTE. And that is the reason why the Post Office Department cannot do anything about that?

Mr. MONTAGUE. That is right, yes, sir.

Mr. CONTE. What policy are you going to take in regard to the swearing-in of postmasters? Is that still going to be the duty of inspectors?

Mr. MONTAGUE. That is one of the things to be studied in connection with the Postmaster General's instructions.

Mr. CONTE. Have you read the hearings of last year?

Mr. MONTAGUE. I did.

RECOMMENDATION OF INSPECTORS IN POSTAL VIOLATION CASES

Mr. CONTE. There seems to be certainly an infringement upon management.

Also, in the hearings last year it was brought out by the investigating committee, as authorized by our chairman and the committee, that when a person in the postal service had committed some infraction of the law or rule or regulation and the postal inspector made an investigation, he went one step further; he also recommended the penalty that should be imposed upon that individual.

Mr. MONTAGUE. Yes, sir.

Mr. CONTE. Have you studied this; have you decided on any policy on it?

Mr. MONTAGUE. That is the practice up to this time. I do not know what the policy may be in the future. But I would say that of letters of charges given by inspectors on which they make recommendations, that by far the majority involved criminal features, such as taking an employee into custody for an embezzlement. At the present time we are looking into that feature. But based on personal knowledge, the majority have criminal features where the inspectors give letters of charges.

Mr. CONTE. Yes, but after you have made your investigation, is it your intention also to recommend the penalty that should be imposed? There is a question here of whether the inspector has taken on the duty of being the prosecutor and the judge all at the same time.

Mr. BRAWLEY. If I may——

Mr. GARY. And also as to whether or not the actual dealing with the employee is not a prerogative of management.

Mr. CONTE. That is right.

Mr. GARY. Rather than the inspection service.

Mr. BRAWLEY. This is a part of the study that we are conducting right now.

INCREASE IN WORKLOAD

Mr. CONTE. Chief, you are requesting 22 additional inspectors in this budget?

Mr. MONTAGUE. Yes, sir.

Mr. CONTE. Could you submit the increase in the workload of your Department percentagewise to justify those 22 additional inspectors?

Mr. MONTAGUE. I can tell you rather quickly. We intend to give you figures on the caseload; but so that you will have some idea, cases issued last year in the obscene category increased 32 percent. They went from 7,747 in 1959 up to 10,226 in 1960.

And in fraud cases, there was an increase of 17 percent, from 8,242 up to 9,642.

Those are just two categories of cases, fraud and obscene, where we had an increase of better than 3,800 cases.

Mr. CONTE. When submitting these figures, I think it would be well to submit the number of complaints received, the number of cases under investigation, number of cases on which investigations have been completed and how many cases are pending before the courts at the present time; and also the age of those cases and how long they have been pending before the court.

Mr. MONTAGUE. I do not know whether we can do that in every case; that is, how long the case has been before the court without a lot of detailed work and using a lot of manpower to get it. But we will get just as much of that as we can for you, yes.

Mr. CONTE. That is all.

Mr. GARY. Mr. Alexander.

Mr. ALEXANDER. Mr. Montague, the type of work an inspector does is very broad. He inspects the postal installations and also undertakes to prevent and to detect fraud and crimes of all kind against the postal service and postal work. What kind of qualifications do you have for a postal inspector?

Mr. MONTAGUE. He must have 4 years full-time successful experience in a certain postal position; however, degrees in business administration and accounting may be substituted for 3 years of that service, and other types of degrees may be substituted for 2 years. I would say that all of our inspectors have at least high school and some education beyond that, in university or business school, business administration of some kind or another; and that a fairly good percentage of them have degrees in one subject or another.

Mr. ALEXANDER. Well, primarily, then, they go into the postal inspection service just with a background and knowledge of the postal operation, rather than any training in detection work or police work or anything of that kind, is that true?

Mr. MONTAGUE. That is right; yes, sir.

TRAINING PROGRAM

Mr. ALEXANDER. Now, what kind of training program do you have to get the greatest good out of these young men that have had no training other than learning the civil service laws and the postal regulations to do the type of work that is needed in postal inspection?

Mr. MONTAGUE. We have an excellent training program. When the man is first appointed, he is brought into the Department, and is under training here for a month. We instill in him the principles and the standards of our service, and instruct him on what the Inspection Service is and how it operates. He then goes out to the field for 5 months, where he works with experienced inspectors. The first 6 months comprise his probationary period. During that time, his inspector-in-charge gets a report from a different inspector instructor about once a month; so that in the 6 months period we have the evaluation of four or five different experienced inspectors on the student. Also, in each division we have a training counselor, and he keeps close contact with the trainees.

After the 6 months, if the appointee completes his probationary period successfully, he comes back to the Department and is here

another month. During that month he gets advanced training on criminal law and how the courts operate. He is given firearms training and other training in the criminal categories of investigations at that time. He then returns to the field, where for about 2½ years or so, while actually working, he is under guidance. We assign him with experienced inspectors to get experience on the different types of cases—fraud and obscene, and so on; the whole category of cases that we handle.

Actually, during this first 3 years and in some cases longer, the newly appointed inspector is under guidance and instruction, although he is actually working. It is on-the-job training. We are getting full value out of him, but at the same time he is under guidance.

Mr. GARY. Would the gentleman yield?

Mr. ALEXANDER. Yes, sir.

Mr. GARY. Do the inspectors carry firearms?

Mr. MONTAGUE. Yes, sir.

Mr. GARY. All of them?

Mr. MONTAGNE. Yes, sir. And they are trained in the use of firearms.

Mr. ALEXANDER. Are they trained in fingerprinting and handwriting expert work of any kind?

Mr. MONTAGUE. Yes. We have our laboratories, one in Washington and three others—San Francisco, Cincinnati, and Chicago, where we have document examiners. Our laboratories are excellent, and because of the nature of our work, the mail, they excel in handwriting analysis. However, they handle any kind of document examination.

For example, in a burglary case, if the inspector in the field comes up with certain exhibits he wants to have analyzed, he can send them to one of our laboratories. They will make the analysis in short order and get the answer back very quickly. These document examiners are often required to testify in court.

Mr. STEED. Will the gentleman yield?

Mr. ALEXANDER. Yes.

Mr. STEED. Is it not true that inspectors, of their own accord or in teams of other agencies and local officers, participate in some quite dangerous criminal work?

Mr. MONTAGUE. Yes. As you know, two of our investigative aides in Chicago were murdered last year by people who had stolen mail.

In connection with crimes we were talking about before, thefts from mail boxes, we found in New York that about 37 percent of those people are addicted to narcotics, and they are potentially dangerous. Our men in that type of investigation, naturally have to be prepared to defend themselves at any time. In criminal work, I do not think there is any other agency that has any closer cooperation with other investigative agencies than postal inspectors have. We work with the local police, with every other Federal agency, with State agencies, with every law enforcement agency.

ORGANIZATION OF INSPECTION SERVICE

Mr. ALEXANDER. Would you describe for the committee the organizational setup of your Inspection Service? What I have in mind is that the FBI, for example, have their district offices with certain people working out of there, that handle the usual type of investigations.

Then when something unusual happens, like a bank robbery, immediately they bring agents from any place for additional help. Describe your organizational setup.

Mr. MONTAGUE. We have our chief inspector and his deputy at Washington. At our headquarters we have five sections each covering a different type of work such as fraud and obscene matter, mail losses, service investigations, etc. Each section has a director. Below the chief inspector in the field, we have our 15 divisions.

A division may cover just one State, or it may cover three or four States, depending on how big those States are. There is an inspector in charge of each of those divisions, and he has inspectors working for him. He may have a number of inspectors in a large city where they work all or most of the time, and the remainder will be in field territories. A field inspector may have a half county, one county, or two or more counties, depending on the size and population of those counties. And he will handle all the work in those counties. If a matter requiring investigation occurs, the inspector in charge will get in touch with the inspector who has that territory and get him to handle it. If it is a serious violation the inspector in charge will, depending on the circumstances, decide whether the territory inspector needs help from outside, and, if so, will get that help out to him.

Mr. ALEXANDER. In other words, you have expert specialists who have to do a certain type of work, like working on fraud?

Mr. MONTAGUE. Yes, sir.

Mr. ALEXANDER. These particular people have no particular duties, we will say, for investigating post offices as such, but are specialists in one particular field, that would go wherever they are needed, and possibly in other fields too?

Mr. MONTAGUE. That is right.

Mr. ALEXANDER. Now, how many specialists of this particular type do you have?

Mr. MONTAGUE. Are you talking just about fraud?

Mr. ALEXANDER. Well, no; fraud or any other phase that you have got particular trained personnel that handles that particular type of crime.

Mr. MONTAGUE. Again I shall have to draw on my own experience. For example, in a city the size of New York almost every man would be a specialist, because there is a volume of all types of work where you need specialization, and the crime rate is so high in such places that you need specialization. But when you got into other areas, take a city like Syracuse, for example, you would have a man handling the work in the city plus the work in one county. You might also have a man working out of Syracuse who would handle the work in three other counties. It all depends on the size of the city.

I would say that about half of our men in a large division specialize.

Mr. ALEXANDER. How would you describe the portion of time that an inspector, or an average inspector uses in regard to just inspection of postal operations?

Mr. MONTAGUE. Overall, inspections take about 25 percent of our time.

Mr. ALEXANDER. About 75 percent for other duties, other than postal inspection.

Mr. MONTAGUE. That is correct; yes, sir.

NUMBER OF INSPECTORS

Mr. ALEXANDER. How many postal inspectors do you have?

Mr. MONTAGUE. We have 978 at the moment including 8 vacancies.

Mr. ALEXANDER. And you are requesting 22 additional?

Mr. MONTAGUE. That is right. If the 22 were granted, we would have 1,000. That includes the inspector in charge, also.

Mr. ALEXANDER. Are all of your head people that you mentioned a minute ago located in Washington?

Mr. MONTAGUE. The Chief Inspector and the Deputy are, but the inspector in charge of each division is in his own division.

Mr. ALEXANDER. That is all, Mr. Chairman.

Mr. GARY. Mr. Millikan?

Mr. MILLIKAN. No, I do not believe I have any questions.

Mr. STEED. Mr. Chairman.

Mr. GARY. Yes, sir.

Mr. STEED. Could I ask a question off the record?

Mr. GARY. Yes, sir.

(Discussion off the record.)

Mr. GARY. Gentlemen, we are running behind. But we have decided that the contract research, development, and engineering item should go over until after our inspection in Providence. So that will go over until next Monday. And we will next take up regional operations. But it is 5 o'clock.

Would you rather start tomorrow morning with operations, and then take up regional operations, or do you want to take up regional operations?

Mr. BELEN. I have a brief statement. It may be well to start tomorrow morning with the statement, and then we can handle both.

Mr. GARY. That comes under operations anyway, does it not?

Mr. BELEN. Yes, sir; it does.

Mr. GARY. Although it is a separate budget.

Mr. BELEN. Yes, sir.

Mr. GARY. Well, maybe we will take up regional operations first tomorrow and then take up operations.

Mr. BELEN. All right, sir. Fine.

Mr. GARY. I do not like to go beyond 5 o'clock. From 10 to 5 is long enough, particularly when we have all our regular work to do between now and 10 o'clock tomorrow morning.

Thank you, gentlemen.

The committee will adjourn until 10 o'clock tomorrow morning.

WEDNESDAY, FEBRUARY 22, 1961.

REGIONAL OPERATION

Mr. GARY. The committee will come to order. We will take up first this morning the request for regional operation. The appropriation for this item was $35,499,000 in 1960, $40,279,000 for 1961. The request for 1962 is $40,990,000. In this connection we will insert pages 14.1 and 14.2 of the justifications at this point in the record.

(The pages referred to follow:)

Administration, Regional Operation, and Research, 1962

Analysis of obligations

[In thousands]

Item	1960 (actual)	1961 (estimate)	Increase or decrease (−) due to:			1962 (estimate)	Increase or decrease (−) due to:		
			Leap year day in 1960	Pay and health increase	All other costs		Mandatory items	Workload	Total
Average number of positions:									
Regional office personnel	4,761.0	4,853.0	−15.5		107.5	4,854.0		1.0	1.0
Field modernization personnel	101.7	144.1	−.3		42.7	145.6		1.5	1.5
Average compensation:									
Regional office personnel	$6,508	$7,131		$517	$106	$7,263			$132
Field modernization personnel	6,047	7,835		555	1,233	8,029			194
Personnel compensation:									
Regional office personnel	30,984	34,606	−$104	2,503	1,223	35,226	$628	−$8	620
Field modernization personnel	615	1,129	−2	80	436	1,169	27	13	40
Total personnel compensation	31,599	35,735	−106	2,583	1,659	36,395	655	5	660
Personnel benefits:									
Territorial living allowance	6	6				6			
Health insurance		270		270		276	6		
Group life insurance	104	118		8	6	120	2		
Retirement fund contribution	1,996	2,255	−7	163	103	2,298	43		
Social security tax	11	13		1	1	13			
Total personnel benefits	2,117	2,662	−7	442	110	2,713	51		51
Other costs:									
Travel	1,680	1,779			99	1,779			
Transportation of household goods	32	32				32			
Adjusted losses	71	71				71			
Total other costs	1,783	1,882			99	1,882			
Total obligations	35,499	40,279	−113	3,025	1,868	40,990	706	5	711
Total increase over prior year	922	4,780				711			

JUSTIFICATION

General.—This estimate provides funds for the salaries, travel, and related expenses of the 15 regional offices and for the payment of adjusted losses in the field. Beginning with the fiscal year 1962 the field employees formerly carried under the "Modernization and improvement of buildings and equipment" appropriation will be merged with those at regional headquarters. No additional employees or expanded program is planned for 1962.

Personnel.—During the fiscal year 1960, 55 positions were eliminated in the regions, reducing the number in the complement to 4,772. This same number is contemplated in the programing for 1961 and 1962. The inclusion of the 145 positions budgeted for postal modernization will bring the total complement in the regions to 4,917.

Increases for 1962.—An additional $711,000 will be required for this activity in 1962. There follows an itemization of this additional amount (in thousands of dollars):

[In thousands]

	Regional operations personnel	Modernization personnel	Total
(*a*) Eight additional days' pay cost in 1962	$55	$2	$57
(*b*) Automatic step increase	609	28	637
(*c*) Turnover saving	−36	−3	−39
(*d*) Carryover cost filling vacancies (1961)	123	17	140
(*e*) One less paid day in 1962	−131	−4	−135
(*f*) Personnel benefits	47	4	51
Total	667	44	711

Mr. GARY. Mr. Belen, are you going to speak to this item?

Mr. BELEN. Yes, sir; I thought it might be well with your permission to make a brief summary of the situation. My brief formal statement that I will make at the proper time will relate primarily to our operations.

ESTABLISHMENT OF REGIONAL ORGANIZATION

With respect to the regional organization the budget provides for no increases in positions during the 1962 year. The regional organization plan had no real basis in legislation as you know, but there was the Reorganization Plan No. 3 in 1949 that gave the Postmaster General the authority to delegate responsibility. It was this authority which was the general legal basis for setting up the regions. There were a number of suggestions. As a matter of fact, our House Committee on Post Office and Civil Service had suggested that the regional setup be explored as early as 1948. Subsequently there was the Hoover Commission recommendation and Cincinnati was then established as the first region November 24, 1953. The last region, the 15th, Wichita, was established February 6, 1956. The regions were made up primarily of three elements.

Mr. GARY. You had regional accounting prior to that?

Mr. BELEN. Yes, sir. I was going to suggest they were made up of three elements: The regional transportation organization with 15 regions already in existence, 12 regional accounting offices, and then there was a large group of people engaged in accounting and payroll activities within the post offices. They were all brought in to make this first original cadre of the regions. At that time there were engaged in those functions 8,080 people. I thought it well to mention this, because of the view of the Post Office and Civil Service Committee—I have difficulty getting my hat changed around, in fact, it

isn't completely changed yet—that the big savings were in the people brought in from the post offices. In other words, it was a centralization program really as far as these people were concerned. You will find these people engaged in the payroll activities. A large amount of the savings was made there. Today in 1961 we have gone from 8,080 to 4,772, which seems to be a fairly stable situation and one we are attempting to justify before this committee today. I believe this might be helpful to put a table showing this in the record as a basis of what our situation is.

Mr. GARY. Without objection, this will be placed in the record at this point.

(The table referred to follows:)

Regional organization

	Jan. 1, 1953	Jan. 1, 1957	Jan. 1, 1958	Jan. 1, 1960	Jan. 1, 1961
Regional and district transportation offices	1,746	1,417			
Regional accounting offices	977				
Finance functions in post offices	5,357				
Regional controller offices		2,583	2,525	2,394	2,390
Other regional personnel		1,289	1,942	[1] 2,277	[1] 2,293
Field services officers			343	264	234
Total	8,080	5,289	4,810	[1] 4,935	[1] 4,917
Modernization positions				−145	−145
Net total				4,790	4,772

[1] Includes 145 modernization positions.

NOTE.—1962 same as 1961.

DUTIES OF REGIONAL OFFICES

Mr. GARY. Just what are the duties of these regional offices?

Mr. BELEN. The regional offices actually are the headquarters, formerly Washington headquarters, operating and seeing to the operation of the postal service. At one time they were operating, as you know, through district offices. There were district transportation offices and there were district operation offices. At the suggestion of committees of Congress, these were cut back and the personnel was put in the regional office. Then they created field service offices and mobile service officers. The mobile service officers have now disappeared and now there are field service officers who go around to the field offices working on problems.

Mr. GARY. Was any personnel cut when they did away with the district offices?

Mr. BELEN. Yes, I believe about 400 have gradually come out of that.

Mr. BARNES. About 400.

Mr. BELEN. They tried to cut that back by attrition, not filling positions. They have cut them down, but it has not been as rapid as it possibly might have been at the beginning.

Mr. GARY. You were telling us just exactly what these regional offices did.

Mr. BELEN. The regional offices, of course, have a regional real estate officer, they have a man in charge of operations, a man in charge of distribution and traffic which is one of the main functions of working out the metro plan and the different ways of distributing the mail. There has been a tremendous change in our transportation pattern.

One of the activities of the regional office is to see that we have the most efficient means of moving the mail.

Mr. GARY. In those activities they are supervisory; is that correct?

Mr. BELEN. Yes, sir.

Mr. GARY. In the accounting offices that is a part of the regional operation?

Mr. BELEN. It is a big part of the personnel; yes, sir.

Mr. GARY. They handle all of the paychecks for the entire region?

Mr. BELEN. Yes, sir.

Mr. GARY. The checks are made out in the regional accounting office and distributed from that office?

Mr. BELEN. That is right.

STAMP DISTRIBUTION

Mr. GARY. Why is it that the stamps, for example, are distributed from one of the post offices rather than from the regional office?

Mr. BELEN. I would like to ask Mr. Barnes to answer that question.

Mr. BARNES. This is due to lack of suitable space in the regional quarters.

Mr. GARY. The Postmaster in Richmond tells me he distributes stamps for the entire region.

Mr. BARNES. That is right. Part of the region, the Controller's Office is there.

Mr. GARY. I am wondering why it is done by the Richmond Post Office. I am not criticizing, I am asking for information.

Mr. BARNES. The main reason is the equipment was not safe in the regional headquarters. You have safes in the post offices and a place to protect the stamps, which you could not have at regional headquarters without tremendous expenditure for vaults, et cetera. That is actually why it is in the post office. It is on account of protection.

Mr. GARY. In how many regions do you have that situation?

Mr. BARNES. Now, we have one at each regional headquarters post office.

Mr. GARY. In the other regions does one post office handle it just as in Richmond?

Mr. BARNES. Yes.

Mr. GARY. Is the same pattern followed out in all the regions?

Mr. BARNES. That is right.

Mr. GARY. It is under one post office rather than the regional office?

Mr. BARNES. That is right.

AUTHORITY OF REGIONAL DIRECTORS

Mr. GARY. What authority do the regional directors have?

Mr. BELEN. Their authority is within limits. They approve certain promotions that are recommended by the Postmaster. They have authority within limits to make certain leases, the exact limits we can obtain for you. In general, they have the management of the postal service in their region. They do not check back in Washington as frequently as possibly they should unless it is something unfavorable, and then they ask Washington to make the decision.

Mr. GARY. I wonder if they have any final authority at all?

Mr. BELEN. Oh, yes, they have final authority.

Mr. BARNES. Yes, they have final authority. For example, on employee disciplinary cases, unless it is a case where through the grievance procedure it comes up to the Department. In other words, they normally settle all personnel matters, make the appointments of the clerks, carriers, mail handlers, and so on. They have final authority on all things of that nature unless, of course, there is an appeal. Employees always have had the right to appeal to the Department here. Other examples are extensions of city and rural service after the policy has been set.

Mr. GARY. Do you think that has improved the service in any way or speeded up procedures or reduced the cost of handling those functions?

Mr. BARNES. On the chart there, Mr. Chairman, you will note we were using 8,080 people to perform the functions now being performed by 4,772 people. We do know the service can be given much quicker when you are closer and can make the decision on the spot.

FIELD SERVICE OFFICERS

Mr. GARY. Are these field officers under the regional director or are they separate offices?

Mr. BARNES. They are under the regional operations director. They used to be separate.

Mr. GARY. They were the District offices?

Mr. BARNES. Yes.

Mr. GARY. You abolished the district offices but changed these men to field agents. I want to know if they are still operating independently. They are under the regional office.

Now, the inspectors do not come under the regional office?

Mr. BARNES. No, sir.

Mr. BELEN. There was a lot of complaint for a while concerning the field service officers actually getting in and supervising in certain post offices. I think a lot of that has been eliminated. There have been certainly suggestions from your area and from other areas of Congress that the postmasters should be running their post offices. The Postmaster General has emphasized, and Mr. Brawley, too, that we are going to be pretty strict on the fact that they are not operating the post offices or supervising the supervisors.

The number of them is not as great. There were 182 as of January 1, 1961, permanent field service officers, and 52 that were there on a temporary basis, which is a pretty small amount compared to the total regional staff.

The big regional staff really is in that controllership function of 2,390, and that is where there has been the biggest savings because they had so many other people making the payrolls and things of that sort.

Mr. GARY. Then, too, by consolidating those payroll activities it did give you an opportunity to use electronic machinery and other improved methods for speeding up the issuance of those checks.

Mr. BELEN. Yes.

Mr. GARY. I can see that, and I think it is well worthwhile. I think it is desirable always to consolidate activities of that kind to the point that you can use time-saving machinery and methods.

Frankly, I think theoretically the regional setup is a good idea. I did think you were overorganized when you had the district offices and the regional offices, but I have never opposed the regional setup. I have inquired into it from time to time to see how it is being operated, but if it is operated properly and if it exercises only supervisory powers and does not interfere too much with the actual internal management of the post office, I think it is all right.

MANAGEMENT OF POST OFFICES

However, some of the postmasters have complained to me. Naturally as chairman of this subcommittee I get complaints from various sections of the United States. The major complaints were received when the district offices were in operation. They complained that the district offices, the regional offices, and the inspectors were all trying to run the post office and that they could not operate properly with everybody having a finger in the pie.

I think the trouble has been in the overlapping of activities, the tendency of some of these regional offices to step in and exercise the management functions.

I want to say, however, that has not been true of our region. I think we have one of the best regional directors in the service. He has been thoroughly cooperative, he has cooperated with the Post Office Department, and he has cooperated with me. He is thoroughly efficient, a very competent man, and he has done a good job. He has the good will of the postmasters in the district.

Mr. BELEN. I feel, Mr. Chairman, that people that were staffing in the regional offices are human beings, just as we are, and their activities were conditioned a lot upon their backgrounds. We drew a lot of them from post offices and we drew a lot from the Inspection Service. Some of them were initially hesitant about taking the jobs because they thought maybe the regional organization would not work out. Some stayed in the post offices and did not take a regional job, feeling it might disappear. That made a difference. Here is a man somewhat junior to the men in the post office operating as a supervisor. The inspectors were operating as they had as inspectors. I think there has been quite a bit of shaking down, and we are going to give this a thorough look.

Mr. GARY. I hope you will do that because I personally am convinced that the regional office can be made a very effective part of your organization.

Mr. BELEN. We hope you will tell us when we are missing on this, and we will check the instances that are reported to you pretty quickly.

Mr. GARY. I have had very little complaint from that standpoint in my district. Most of the complaints in my district were on the district offices. They would take men below the postmaster, and put them over the postmaster. I had a great deal of difficulty until the district offices were abolished, but there has been very little difficulty since then, and we have had very few complaints on the regional office in my district.

Do you plan any further decentralization of authority and control to the regional directors?

Mr. BELEN. Not at this time, sir. We just have not had a chance to look at it.

VARIANCE IN REGIONS' POLICIES

Mr. GARY. Under the decentralization program, how can you be sure that all postal patrons nationwide are receiving equal treatment and service from the Post Office Department?

Mr. BELEN. One of the things we want to do is to be in closer contact with the regions and to be sure there is that uniformity, but my observation has been that the public pretty quickly gets in touch with the Post Office Department or people who can get in touch with the Post Office Department. We are in the process of making a study now, as General Day indicated, with respect to how much mail might be held over as between when the first delivery goes out and when a second delivery might go. The metro plan, which was followed through by people here in Washington, did bring about a certain amount of uniformity. When you really get these problems where someone said, "I got terrible service," they do not usually complain unless it is 2 or 3 days late, and that is because someone tossed the letter in the wrong slot and it has gone off to San Francisco instead of New York or something like that.

We want to emphasize the need of employees to give the public that service, to learn their schemes, and to get the mail sorted with the highest efficiency we can.

Mr. GARY. I will say that if the people do not complain to the post office when they get bad service, they do complain to their Congressmen.

Mr. BELEN. Usually it winds up down at the post office.

BENEFITS OF REGIONALIZATION

Mr. GARY. Can you give us some concrete or specific benefits which have resulted from the establishment of the regional system?

Mr. BELEN. One benefit, of course, has been a reduction in personnel, but again that was because of the centralization. I think almost any area in Government will show when you decentralize, you add people. We have added 15 headquarters by the regional setup. So you have to look for other advantages. One of the main advantages mentioned before is in the national defense area where we have established areas that can operate very much independently. All of the Government agencies have done the same thing.

Certainly, one thing in just the short time I have been here that is evident to me has been the responsiveness of the regional organization to weather conditions and to things of that sort, where it takes high-level management to move in and make some decisions. Just in this short time we had the tugboat strike up in New York, which created a lot of decisions as to what type of transportation to use, getting trucks and things of that sort to move the mail.

We have had this airline strike, which is a matter of very great shift of mail. Most all of the airlift is now having to be moved by surface, etc. That has been worked out with a minimum of disruption here in Washington. I think that is certainly one indication.

Mr. GARY. Through the regional offices?

Mr. BELEN. Yes, sir.

Mr. GARY. Mr. Steed?

NUMBER OF DAYS OF PAY IN 1962

Mr. STEED. On page 14.2 of the justifications could you explain in that tabulation items (a) and (e)?

Mr. BARNES. It is because the law went into effect on July 9 last year instead of the first. That is why it is 8 more days this year than last.

Mr. BELEN. And 1 less paid day in 1962.

Mr. BARNES. That is correct.

Mr. BRUCE. Concerning item (e) it is because of a combination of Saturdays and Sundays. The base year is 260 days. Some years run 261, others 260. In 1961 it is 261 days and 1962 will be 260, or 1 less paid day.

Mr. GARY. It was 9 days that you had to add because the law did not go into effect, and then you subtract 1 day because of leap year, which gives you a net of 8 days more; is that right?

Br. BRUCE. Not necessarily leap year. That can appear any year because under the law you are paid for 5 days each week, 260 days a year. A combination of Saturdays and Sundays can increase the total paid days to 261 in a year. The 8 days referred to in item (a) relate only to the effective date of the pay increase on July 9, 1960.

Mr. STEED. In this connection, you are talking about people who are on an annual salary basis rather than on an hourly basis?

Mr. BRUCE. Yes, and all these are on an annual basis in the regional offices.

Mr. GARY. Does not leap year affect it to some extent?

Mr. BRUCE. Not for 1962. It did for 1960. It washes out for comparative purposes in 1961; but 1961 and 1962 are comparative in that respect.

Mr. ALEXANDER. Will the gentleman yield?

Mr. GARY. Yes.

Mr. ALEXANDER. Why is the distinction in the amount of money, one less paid day, $135,000 and the 8 days is only $57,000?

Mr. BRUCE. Those are two different things, Mr. Alexander. The 8 days relates only to the money for increases in pay while the one paid day is for total salaries for 1 day.

Mr. GARY. Mr. Pillion?

Mr. PILLION. Off the record.

(Discussion off the record.)

INCREASE IN AVERAGE SALARY

Mr. PILLION. I note here that the average salary has increased from $6,508 in 1960 to $7,263 in 1962. I do not suppose you have any control over that? That is purely congressional?

Mr. BELEN. Yes, such as within-grade steps.

Mr. PILLION. This is a matter for my own information: Do you have any ideas or studies or estimates of the comparable wage scales for similar duties in other fields, or is that something you probably would not know?

Mr. BELEN. We would not have that at this point. This list is not in the GS grades. It would be covered actually in our field service. The regional director fits in at a salary less than the grade 18 in the Federal Government, and the others would probably be scaled down less.

REGIONAL DIRECTORS

Mr. PILLION. My thoughts on the subject of decentralization are pretty much the same as those of the chairman. You have 15 regional offices and 15 regional directors?

Mr. BELEN. Yes, sir.

Mr. PILLION. Whom do they report to?

Mr. BELEN. They report to the Assistant Postmaster General for Operations as of now.

Mr. PILLION. And in reporting, do you meet with them personally at stated intervals?

Mr. BELEN. They have had meetings that have been running about twice a year, but as soon as we get oriented a little more we will have more frequent meetings and more frequent contacts with the regional directors.

It has been my own view that many times they do not realize the full impact of why things are done the way they are done, and one way of getting that over to them is meeting with them across the table. I think people work better if they get the background rather than getting an order to do this or that.

Mr. BRAWLEY. And, I might add, we fully intend in the future to let the regional directors assist us in formulating policy.

Mr. PILLION. I agree with both of your views. I think it would serve a very useful purpose to meet with these men more often.

COMPARISON OF REGIONAL OPERATIONS

Do you compare the operations of one region as against another? Is it possible to do that?

Mr. BELEN. Certain standards have been set up that go to the post offices as to efficiency, but the regions vary and it is pretty hard to compare a small operation with a large one insofar as manpower is concerned.

Mr. PILLION. There is no way of comparing efficiency and productivity of one region as against another, it is more by post offices?

Mr. BELEN. That is right.

Mr. PILLION. Is there any basis for comparison between the efficiency of one region as against another?

Mr. BELEN. I suppose one basic thing with me will be if you get a lot of complaints from one you will go out and take a look.

Mr. PILLION. I mean actual operations, is one post office producing more per hour than another?

Mr. BARNES. We do grant each region an allowance of manpower to use and we know the volume of mail in that region. We can compare the volume against expenditures and man-hours used and in that way we can judge which region is doing a better job.

Mr. PILLION. Except if they have a low volume of mail the man-hour productivity is not as efficient?

Mr. BARNES. If we determine we have a low volume of mail nationwide and one region reduces manpower and the other does not, we want to know why.

Mr. BELEN. I would say, speaking for myself, you compare how they are doing as compared to the year before.

Mr. PILLION. Take a post office as large as the New York City Post Office. Does the efficiency of that operation come under you directly or under the regional manager?

Mr. BARNES. That comes under the regional director. However, going back to what I said awhile ago, if we note a region is apparently not doing a good job then we, for example, would call for the New York postmaster to send us a report directly and we might then be able to tell the regional director, that his region is apparently not doing the job it should do because of deficiencies at New York, Buffalo, or some other place.

Mr. PILLION. Off the record.

(Discussion off the record.)

TELEPHONE CONFERENCES WITH DIRECTORS

Mr. BELEN. We are contemplating a daily, or if that proves impractical at least two or three times a week, conference by a conference telephone system with all regional directors to go over the problems as we in Washington understand them, to get their reaction to proposals we are considering and also to have individual conferences. We will have our staff in this conference room to take care of day-to-day problems in a particular region. We would discuss such things as weather conditions, what mail has not been cleaned up, what is the problem as far as public relations are concerned, what are the newspapers complaining of, and so forth. If we can get the facts it will be to everybody's advantage.

Mr. GARY. This is a telephone conference you are speaking of?

Mr. BELEN. Yes, in which we will have representatives of each bureau so it will be a productive conference and everyone will know what today's situation is.

Mr. PILLION. I certainly agree with that proposed policy. I think there should be a closer check and a greater degree of cooperation between the regional offices and your office.

Mr. GARY. Then in addition to that I assume you will continue the policy of having joint meetings periodically?

Mr. BELEN. Yes. We will have a regular program for those meetings.

Mr. GARY. Excuse me, Mr. Pillion.

INDEPENDENT REPORTING OF INSPECTION SERVICE

Mr. PILLION. The inspection service, they do not report to the regional offices, they report directly to the postmaster or to you?

Mr. BELEN. No. They report to the chief inspector.

Mr. PILLION. Where there is mismanagement in a local office, where an inspector finds some mismanagement or wastage, do they report that to you? How do you get that information? You are in charge of operations and there must be some way by which you receive that information.

Mr. BELEN. Presently it goes to headquarters and then to us. But the line of communication along the management level is something that will be studied. We are interested in knowing what action did the postmaster take.

Mr. PILLION. I think the idea of having someone independent report to you if there is mismanagement or inefficiency or incompetence is important, because you are in charge of operations and somehow you must have a line of communications that gives you that information without going through the regional office, because the regional office will have a tendency to hide from you inefficiency and you would not have that independent criticism—I am talking now about constructive criticism—that comes to you immediately of any breakdown in operations. I do think you ought to be able to have that information so that you can act on it as soon as possible in the event the regional office is not doing it.

Mr. BELEN. Yes, sir.

Mr. PILLION. I have nothing further.

Mr. GARY. In all cases those reports come first to the Chief Inspector in Washington?

Mr. BELEN. That is right.

Mr. GARY. And he can report them either to the regional office or the national office, as he sees fit?

Mr. BELEN. Copies go to each. What we are exploring is getting it quicker. In my own experience in security work I find it most helpful if the man who finds something wrong discusses it with the people who can correct it and can even say it has been corrected in the report.

Mr. GARY. I think that is a good program and, like Mr. Pillion, I heartily agree with that policy.

Mr. PILLION. I wish every department had an inspection service for reviewing operations and efficiences in operation.

Mr. BRAWLEY. If I may go off the record.

(Discussion off the record.)

Mr. PILLION. I have nothing further.

Mr. GARY. Mr. Alexander, do you have any questions as to regional operations?

Mr. ALEXANDER. Yes.

Mr. Belen, I realize the complexity of the regional operations setup and I, for one, am delighted to see a man of your great experience as head of operations.

Mr. BELEN. Thank you, sir.

COMPARISON OF REGIONAL SETUP WITH PREVIOUS SETUP

Mr. ALEXANDER. This regional setup has been in operation for a number of years and you have had some experience prior to that time in the old setup operating out of Washington. Do you have anything by which you can compare the cost of travel under the regional setup and the cost of travel under the old setup?

Mr. BELEN. I have no way of doing that. I think one thing is that they were quite understaffed when it was just the Washington operation. I know in some of the surveys I made for the committee I was amazed at the improbability of a postmaster going anywhere to see what was going on unless he went on his own. You hear talk about a postman on vacation going on a hike. That is the way the postmaster did.

As you know, as far as travel is concerned in the Post Office Department, it goes by commission, and Mr. Brawley is reviewing that. But

the actual travel itself is pretty much done over the transportation facilities that the Post Office Department uses. I think there is an insignificant use of other travel.

Mr. ALEXANDER. In other words, you think it would cost less for your officials to travel in a regional setup than under the old system?

Mr. BELEN. They travel more and there are more people. There is a much greater liaison between the operating people now than there ever was before.

Mr. ALEXANDER. But it is your feeling that the overall efficiency of the operations work of the Post Office Department is more efficient under the regional setup than under the old setup?

Mr. BELEN. We are taking that position. We are not recommending any changes as of now. I think one of the reasons that we are getting pretty good mail service even with the elimination of the two deliveries a day is the fact there has been a close supervision of when trips leave and when mail gets there. There has been a real effort put on that through the regional organizations.

Mr. ALEXANDER. Do you have any comparisons of the overall cost under the regional setup as against the system prior to that time?

Mr. BELEN. Well, of course there are more people engaged in management now than there were before. I think that is a natural thing when you decentralize. But the question is, are there more people in the entire postal service than under the old system? From what I can see at this point I know regionalization has been helpful.

PROPOSED CLOSED-CIRCUIT TELEVISION

Mr. ALEXANDER. I notice here on page 1.9 an item for closed-circuit television for surveillance and control of mail processing, and the figure is $575,000. Is that experimental or is that actually in operation?

Mr. BELEN. That is just experimental. We have none in operation now.

Mr. ALEXANDER. Is that a request for this year?

Mr. BRUCE. That comes up Monday, Mr. Alexander.

Mr. BELEN. That is research and development.

Mr. ALEXANDER. Does that not come under operations?

Mr. BELEN. No. That is administration and comes under the research and development program.

Mr. ALEXANDER. Well, we will take that up Monday.

That is all, Mr. Chairman.

Mr. GARY. Mr. Conte, do you have any questions on regional operations?

Mr. CONTE. Yes.

JOB STATUS OF REGIONAL DIRECTORS

Are these 15 regional directors under civil service?

Mr. BELEN. Yes, sir.

Mr. CONTE. The directors themselves?

Mr. BELEN. Yes, sir.

Mr. CONTE. This may be a lot of hearsay, but the newspapers have stated that these 15 regional directors are being requested to resign. Is there anything to that?

Mr. BELEN. I do not think they have all been asked to resign.

Mr. CONTE. It has been reported in the newspapers. So the only way they could be thrown out would be if they committed some infraction?

Mr. BELEN. I will ask Mr. Brawley to answer that.

PROPOSED SCHEDULE C FOR REGIONAL DIRECTORS

Mr. BRAWLEY. I would like to say we do have plans to place the position of regional operations director under schedule C. We are firmly convinced that this should be a top policy making position, and that it should be responsive to the leadership in the Department. We think this is one place where a schedule C designation would be appropriate.

Just the fact that we ask that these positions be placed under schedule C does not necessarily mean we will force all of the 15 incumbents to resign or retire. We intend to make a thorough study and a review of the qualifications of all 15 of these people, because we think these are the 15 key positions in the whole Postal Establishment and we want top people who at all times will be responsive to the leadership in the Department in Washington. We think placing them under schedule C would help us greatly.

Mr. BELEN. I think where the discussion came about, when this was in the planning stage—and it is still in the planning stage—the regional directors were asked, if their position were vacated, would they prefer reassignment or to resign or retire as career people. We asked what their choice would be if these jobs should be placed under schedule C. They were asked if they would prefer to take another position or what their feeling was, but it was still in the discussion stage.

Mr. MILLIKEN. If I may interject, it seems to me there must be more to it than what you say, because I read the Philadelphia papers every day and there is a headline every day on whether you will keep Greene. There is a story about whether you will keep him or if he will be fired. I have not talked to Greene or discussed it with him since the first of the year, but I wondered what his status is. His status is not what the newspapers say if what you say is true.

Mr. BELEN. Mr. Greene is not a career post office employee. I am speaking in terms of those who are generally considered postal career employees. Mr. Greene has only been there 2 years, as I understand.

Mr. MILLIKEN. I understand, but he is still in the job.

Mr. BELEN. Could we go off the record?

Mr. MILLIKEN. Yes.

(Discussion off the record.)

Mr. CONTE. In other words, Mr. Brawley, at the present time you are studying the possibility or the probability of changing the status of regional directors from civil service to schedule C. Is that right?

Mr. BRAWLEY. That is right, sir.

Mr. CONTE. Could you explain to the committee just what schedule C entails?

Mr. BRAWLEY. Schedule C was created, I think, in 1953, late 1953 or early 1954, by the administration then in power, in order for that administration to bring into Government people who would set the policy for the new administration and people who would work closely with the people who set the policy. They were called policymaking

and supporting positions of a confidential nature. Actually, there had been in existence for quite a long time the schedule A category. Schedule A is very similar to schedule C. The Civil Service Commission approves the qualifications of only the supergrade positions in schedule C.

The fact that you place a position in schedule C does not necessarily mean the incumbent is automatically out of a job or has to retire or resign. If he is a veteran in a schedule C position he has to have at least 30 days' notice, or if he has status he must have reasonable notice before you can replace him.

We are firmly convinced that regional directors' jobs in the post office are of such unique nature that it is for the good of the service to place those positions in schedule C.

Mr. BELEN. And we intend to bring these regional directors into policymaking situations, and it is the confidential nature of the job, the fact the man knows he is either going to be on the team or will not be there tomorrow, and you are not faced with a long civil service proceeding where there is only one job. If you have six men you can say, "Fine, you will sit on the job but we will have another man do the job." But you have only one job here.

Mr. CONTE. I can see where the regional directors would be the hard core of the Department.

Mr. BRAWLEY. It might interest you to know that our Department of 560,000 employees has only 60 positions, which includes the 15 regional directors, as a total under schedule C.

QUALIFICATIONS FOR SCHEDULE C POSITIONS

Mr. CONTE. Have you set up any minimum qualifications for these people under schedule C?

Mr. BRAWLEY. The Civil Service Commission, of course, will approve the minimum standards and will have to approve the qualifications of any person we choose for these positions.

Mr. CONTE. Will the Postmaster General recommend to the Civil Service Commission that they have certain minimum qualifications, for instance, have a college education or a certain number of years in the postal service?

Mr. BELEN. I am sure we will. I think we have qualification standards now, do we not, Mr. Barnes?

Mr. BARNES. Yes, we have some standards now and they have to be approved by the Commission.

Mr. BRAWLEY. They will be reviewed.

LOCATION OF POSTAL REGIONS

Mr. CONTE. Could you for the record breakdown the 15 regions that we have in the United States?

Mr. BRAWLEY. Including the States in each region?

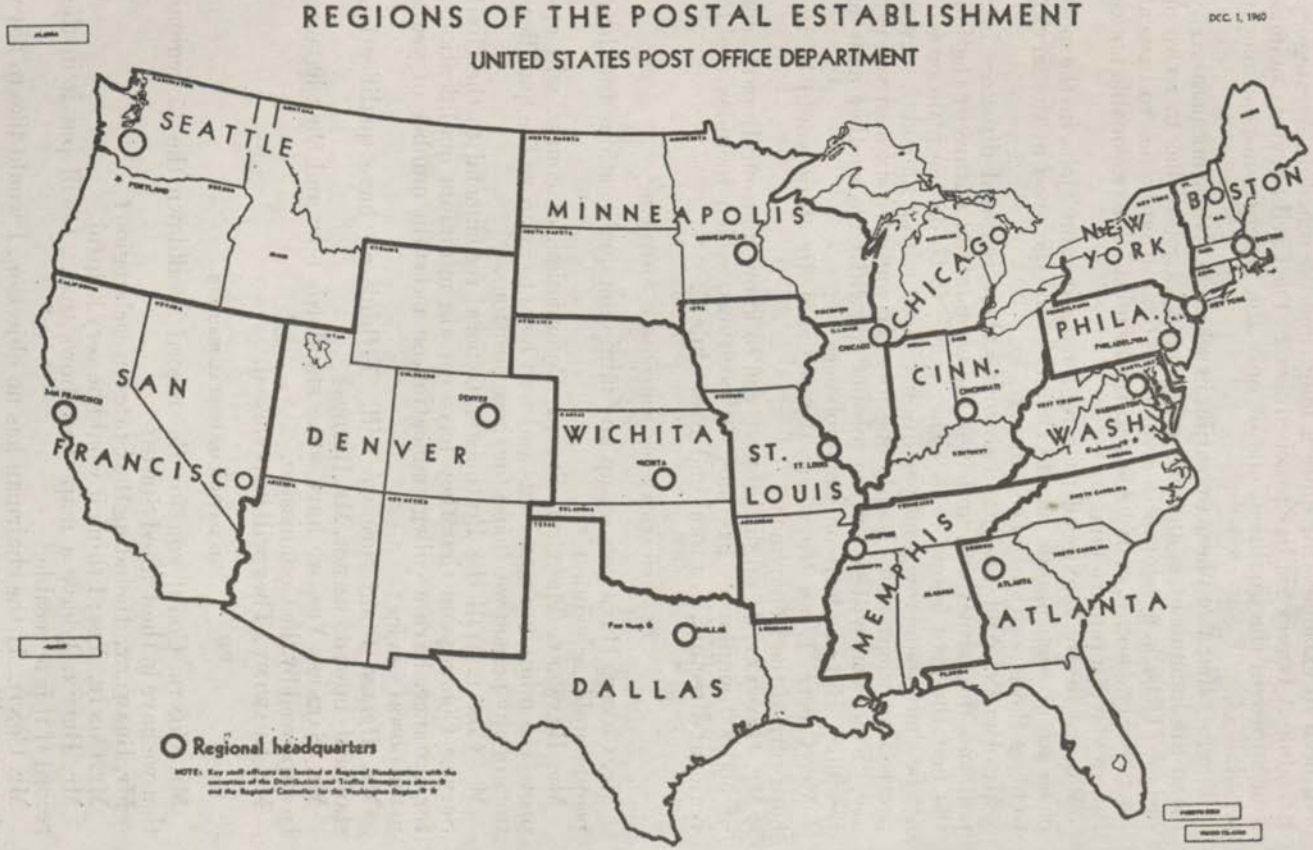
Mr. CONTE. Yes; I think it would be very helpful.

Mr. BELEN. I have a map that shows that. I will put it in the record if it is agreeable.

Mr. CONTE. If the chairman has no objection, I would like to have that placed in the record.

Mr. GARY. Without objection it will be inserted at this point in the record.

(The map referred to follows:)


REGIONS OF THE POSTAL ESTABLISHMENT
DEC. 1, 1960
UNITED STATES POST OFFICE DEPARTMENT
SEATTLE
PORTLAND
MINNEAPOLIS
CHICAGO
NEW YORK
BOSTON
PHILA.
CINN.
WASH.
SAN FRANCISCO
DENVER
WICHITA
ST. LOUIS
MEMPHIS
ATLANTA
DALLAS
Regional headquarters

PAY SCALE OF REGIONAL DIRECTORS

Mr. CONTE. Would the pay scale remain the same if these were transferred from civil service?

Mr. BRAWLEY. Under schedule C, the pay scale is, of course, set by the limits of the postal field service schedule. They are all PFS–20, with an annual salary of $17,200 annually. This, as you know, is $1,300 below the top pay scale in the Civil Service Act. We, frankly, think it ought to be raised. We also believe that the restrictions on the number of people in the entire postal field setup that can be in these top three grades should be liberalized. Under the present law we can only have a total of 15 people in the entire service in PFS–20. We are restricted to only 4 in the next grade, which is PFS–19 and, I think, at the third level, PFS–18, we are restricted to about 12. It should be liberalized because it is demoralizing to our entire group of management people.

Mr. CONTE. One other question:

REASSIGNMENT OF CAREER DIRECTORS

If this is approved and these 15 regional directors are placed under schedule C and if some of these present regional directors do not resign, will they be moved over into another job?

Mr. BRAWLEY. We plan to do that; yes, sir. Where a man has demonstrated ability over a period of years and is a good postal employee, we plan to give him another assignment.

Mr. GARY. That was the reason, as I understand it, for the interviews.

Mr. BELEN. Yes; for the interview.

Mr. GARY. And for the Department asking these directors if a change should be made whether or not they would prefer to resign, retire or accept another job?

Mr. BELEN. That is right, sir, because you see when a man retires his insurance stays on at the higher rate, and if a man has a lot of years service, he would prefer that, possibly, rather than taking a job at less.

Mr. GARY. Off the record.

(Discussion off the record.)

Mr. GARY. Mr. Milliken, do you have any questions?

Mr. MILLIKEN. I do not believe I have any question, Mr. Chairman.

Mr. GARY. If there are no further questions on regional operations, we will take up the appropriation "Operations."

OPERATIONS

WITNESSES

FREDERICK C. BELEN, ASSISTANT POSTMASTER GENERAL, BUREAU OF OPERATIONS
BERT B. BARNES, FIRST DEPUTY ASSISTANT POSTMASTER GENERAL, BUREAU OF OPERATIONS
PETER A. DEL GROSSO, SPECIAL ASSISTANT FOR FISCAL CONTROL, BUREAU OF OPERATIONS
LESLIE E. BOWMAN, BUDGET AND ASSISTANT CONTROL OFFICER, BUREAU OF OPERATIONS

Object classification

[In thousands of dollars]

		1960 actual	1961 estimate	1962 estimate
11	Personnel compensation:			
	Permanent positions	1,961,828	2,179,960	2,241,473
	Positions other than permanent	627,962	697,456	716,631
	Other personnel compensation	112,302	116,159	119,302
	Total personnel compensation	2,702,092	2,993,575	3,077,406
12	Personnel benefits	184,761	235,377	243,054
21	Travel and transportation of persons	16,323	16,836	17,398
22	Transportation of things	63,404	65,869	68,098
23	Rent, communications, and utilities	4,026	4,218	4,049
25	Other services	12,891	14,758	16,124
26	Supplies and materials	21,483	23,808	25,871
	Total obligations	3,004,980	3,354,441	3,452,000

Personnel summary

	1960 actual	1961 estimate	1962 estimate
Total number of permanent positions	399,265	408,486	417,658
Full-time equivalent of other positions	149,970	153,956	157,802
Average number of all employees	556,996	568,885	581,982
Number of employees at end of year	553,037	565,691	577,797
Average postal field service level	4.5	4.5	4.5
Average postal field service salary	$5,035	$5,463	$5,482
Average salary of ungraded positions	$4,413	$4,858	$4,922

Program and financing

[In thousands of dollars]

	1960 actual	1961 estimate	1962 estimate
Program by activities:			
1. Administration of postal installations	384,770	427,745	438,344
2. Mail handling and window service	1,348,496	1,503,144	1,545,053
3. Collection and delivery service	1,130,572	1,262,402	1,295,780
4. Custodial service	86,085	97,865	104,269
5. Vehicle service	55,057	63,285	68,554
Total obligations	3,004,980	3,354,441	3,452,000
Financing: Unobligated balance lapsing	3,220		
New authority	3,008,200	3,354,441	3,452,000
New authority:			
Appropriation	3,003,000	3,117,500	3,452,000
Transferred (73 Stat. 69) from—			
"Facilities"	7,400		
"Postal modernization"	800		
Transferred to—			
"Administration, regional operation, and research" (73 Stat. 69)	−1,300		
"Transportation" (73 Stat. 69)	−1,700		
"Facilities" (74 Stat. 288)		−100	
Appropriation (adjusted)	3,008,200	3,117,400	3,452,000
Proposed supplemental due to pay increases		237,041	

Mr. GARY. For "Operations" the appropriation for 1960 was $3,008,200,000, and the appropriation for 1961, including proposed supplementals, is $3,354,441,000. The request for 1962 is $3,452 million. If the supplementals for 1961 are granted, the request for 1962 represents an increase over the current year of $97,559,000.

JUSTIFICATION OF THE ESTIMATE

We shall insert at this point in the record the budget tables and pages 20.1, 20.2 and 20.3 of the justifications.

(The matters referred to follow:)

Statement relating 1960, 1961, and 1962 programs

[Thousands of dollars]

1960 appropriations (including supplemetals)		$3,008,200
1961 appropriations in annual act	$3,117,500	
Functional transfer to "Facilities"	100	
		3,117,400
Proposed supplemental due to pay increases, Public Law 86-568		237,041
Adjusted appropriation, 1961		3,354,441
1960 program (obligations incurred)		3,004,980
Increase or decrease due to—		
Administration of postal installations: Increase in average salary of postmasters and supervisors, and 3 percent increase in supervisor employment	$42,975	
Mail handling and window service: Increase of 2.4 percent in clerk employment to handle an estimated 3.3 percent increase in mail volume	154,648	
Collection and delivery service: Increase of 3.4 percent in carrier employment to service the 3.5 percent increase in stops; a 1.5 percent increase in special delivery employment due to expanding service area; and an increase in obligations in rural service primarily for the estimated increase in average length of routes	131,830	
Custodial service: Increase of 3.4 percent in employment to care for the increase of 3.4 percent in square footage of space occupied, together with an increase in the mechanization maintenance employees	11,780	
Vehicle service: Increase of 5.4 percent in employment and $4,762,000 additional for parts, gasoline, etc., for the estimated 7.2 percent increase in average number of vehicles	8,228	349,461
1961 program (estimated obligations)		$3,354,441
(The above increases in 1961 include $237,041,000 for additional pay costs and $30,569,000 for health benefits program.)		
1961 program (estimated obligations)		3,354,441

Statement relating 1960, 1961, and 1962 programs—Continued

[Thousands of dollars]

Increase or decrease due to—		
Administration of postal installations: Increase of $2,179,000 in postmasters for salary increases; increases of 2.5 percent in supervisor employment	$10,599	
Mail handling and window service: Increase of 2.6 percent in employment to handle the estimated 3.8 percent increase in mail volume	41,909	
Collection and delivery service: Increase of 2.5 percent in carrier employment to handle the estimated 3.5 percent increase in stops to be served; 1.5 percent special delivery employment increase; and an increase in rural carrier obligations for service extensions	33,378	
Custodial service: Increase of 4.9 percent in employment to provide maintenance, protection, and cleaning of the estimated 5.3 percent in additional areas, and further increases in mechanized maintenance employees	6,404	
Vehicle service: Increase of 6 percent in employment, and $3,482,000 increase in the cost of parts, gasoline, etc., to service the estimated 8 percent increase in average number of vehicles	5,269	97,559
1962 program (estimated obligations)		3,452,000

NOTE.—Included in the above 1962 increases are (1) carryover pay cost of $4,957,000; (2) carryover health benefits cost of $728,000; and (3) mandatory salary increases of $16,187,000, leaving a net increase of $75,687,000 for workload requirements.

Analysis of estimated increase in obligations, 1961–62

Activity and account	1960 (actual)	1961 (estimate)	Increase or decrease (−) due to—				1962 (estimate)	Increase or decrease (−) due to—			
			Leap year day in 1960	Pay and health increase	All other costs			Mandatory items	Workload	Net total increase	
					Amount	Percent				Amount	Percent
Average number of positions	556,996	568,885	−1,671		13,560	2.4	581,982		13,097		2.3
				[In thousands]							
Administration of postal installations:											
Postmasters	$185,025	$202,657	−$555	$15,989	$2,198	1.2	$204,836	$3,349	−$1,170	$2,179	1.1
Supervisors and technical personnel	199,745	225,088	−599	17,509	8,433	4.2	233,508	3,437	4,983	8,420	3.7
Subtotal	384,770	427,745	−1,154	33,498	10,631	2.8	438,344	6,786	3,813	10,599	2.5
Mail handling and window service:											
Clerks	1,348,288	1,503,144	−4,045	125,478	33,423	2.5	1,545,053	7,303	34,606	41,909	2.8
Suggestions awards and training instruction	208				−208						
Subtotal	1,348,496	1,503,144	−4,045	125,478	33,215	2.5	1,545,053	7,303	34,606	41,909	2.8
Collection and delivery service:											
City delivery carriers	849,138	956,687	−2,547	77,372	32,724	3.9	985,692	5,701	23,304	29,005	3.0
Special delivery messengers	28,667	31,750	−86	2,559	610	2.1	32,486	211	525	736	2.3
Rural delivery carriers	252,767	273,965	−758	18,800	3,156	1.3	277,602	1,014	2,623	3,637	1.3
Subtotal	1,130,572	1,262,402	−3,391	98,731	36,490	3.2	1,295,780	6,926	26,452	33,378	2.6
Custodial service	86,085	97,865	−258	7,760	4,278	5.0	104,269	521	5,883	6,404	6.5
Vehicle service:											
Vehicle service personnel	22,476	25,942	−67	2,143	1,390	6.2	27,729	336	1,451	1,787	6.9
Vehicle maintenance	25,308	28,571	−76		3,339	13.2	31,350		2,779	2,779	9.7
Contract vehicles	7,273	8,772	−22		1,521	21.0	9,475		703	703	8.0
Subtotal	55,057	63,285	−165	2,143	6,250	11.4	68,554	336	4,933	5,269	8.3
Total operations	3,004,980	3,354,441	−9,013	267,610	90,864	3.0	3,452,000	21,872	75,687	97,559	2.9
Total increase over prior year	104,099	349,461								97,559	

ASSISTANT POSTMASTER GENERAL BELEN

Mr. GARY. The chairman is very happy to welcome as the new Assistant Postmaster General in charge of operations, Mr. Fred Belen.

Mr. Belen was the top man on the staff of the Committee on Post Office and Civil Service of the House of Representatives, and his offices were right down the hall from my office in the House Office Building. Consequently, we worked very closely together on postal matters. I always found him to be very efficient and dependable, and I was delighted when the Post Office Department selected one of the House staff members for this important assignment. Although I realize that the House committee will be the loser, I feel that the Government will be the gainer because he has a wider field within which to operate now and can use his full talents to better advantage for the Government than he could in his previous position. But, notwithstanding my long acquaintance with him, I am going to ask Mr. Belen to insert at this point in the record a biography for the benefit of the Members of the House.

Mr. BELEN. Thank you, sir. We submit that biography at this time.

(The biography referred to follows:)

BIOGRAPHY OF FREDERICK C. BELEN

Frederick C. Belen, 47, is a native of Lansing, Mich. He attended Lansing schools and was graduated in 1937 from Michigan State University. In 1942 he also received an LL.B. degree from George Washington University, and was admitted to practice before the Michigan, District of Columbia, and Federal bars.

Shortly before receiving the LL.B. degree, he entered the Army July 6, 1941, as a first lieutenant. He served as Deputy Chief of the Intelligence and Security Division of the Army Transportation Corps, where he was in a key role in establishment of national security responsibility for all Army ports of embarkation (New York, Philadelphia, Boston, and Baltimore), including security for British troop transports while in port. He also established the wartime security system for the Pentagon (War Department and Chief of Staff Headquarters). In 1946, he left the Army as a lieutenant colonel.

Before his military service, it should be noted, he had begun his experience on Capitol Hill in 1937 where he served as secretary to Congressman Andrew Transue and subsequently as secretary to the late George D. O'Brien, both Democrats of Michigan.

As counsel and chief counsel for the House Post Office and Civil Service Committee since 1947, he has participated in the development of Federal policy in the fields of personnel administration and postal operations. He has headed the staff of four major permanent investigating subcommittees of the House committee during this period.

He and his wife, the former Opal Sheets, of Parsons, W. Va., and their son, Frederick, Jr., 12, reside at 2658 North Upshur Street., Arlington, Va.

Mr. GARY. Mr. Belen, we will be very glad to hear from you now as to the operations in the Post Office Department.

GENERAL STATEMENT

Mr. BELEN. Thank you, Mr. Chairman, for your kind remarks and, certainly, it has been one of the real pleasures of my life—the relationships that I have had here in the House of Representatives—and I hope your door will continue to be open to me as it was when it was just down the hall.

Mr. GARY. Well, it certainly will, I can assure you of that.

Mr. BELEN. Thank you, sir.

Mr. Chairman and members of the committee, it is a great pleasure for me, in my first appearance here, to tell you of our plans to handle a record volume of mail with increased efficiency.

As you know, the President and the Postmaster General in their budget statements have made it clear that we do not propose revision to the earlier budget estimates for the Bureau of Operations, but that we do intend to have our own vigorous new programs within that framework.

During the fiscal year 1962 we anticipate significant increase in mail volumes, expansions of city and rural delivery services, and important gains in efficiency. I would like to explain further.

The 1962 budget estimate for the appropriation for the Bureau of Operations totals $3,452 million, including $21,872,000 for mandatory increases and $75,687,000 for increases attributable to workload.

However, during the 1962 fiscal year, it is estimated that the postal service will handle approximately 68.1 billion pieces of mail—an all-time record—and an increase of 3.8 percent over 1961.

This unprecedented volume of mail we expect will be handled with 274,665 clerical man-years, an increase of 2.6 percent in man-years to handle a mail volume increase of 3.8 percent.

This means, of course, an efficiency gain of 1.2 percent built into the budget estimate. Average productivity per clerical man-year is estimated to increase from 245,046 pieces of mail in fiscal year 1961, to 247,938 pieces in fiscal year 1962.

This, incidentally, bears out the philosophy which I have about this job: that the greatest asset the postal service has is the people in it. We want to recognize them as individuals and to let them know that we are aware at all levels of their efforts toward improved service and greater efficiency.

Our budget estimate also provides for extending city delivery service to approximately 1½ million additional delivery points, an increase of 3.5 percent.

To provide for this additional service, carrier man-years of employment will be 176,035 in fiscal year 1962, an increase of only 2.5 percent over fiscal year 1961, providing still another benchmark of efficiency in delivery services.

Rural carrier employment in 1962 also will increase slightly over 1961, with an estimate of 35,702 man-years, or 29 more than in 1961. This is based on an increase in the number of routes in 1961 and 1962, primarily due to splitting high-mileage routes. The total mileage of rural routes will increase 2.6 percent with this very slight increase in man-years.

Due to the discontinuance anticipated in the smaller fourth-class post offices, which are discontinued only when patrons are assured as good or better service, a reduction of 346 postmaster man-years is anticipated in fiscal 1962.

The projected number of post offices at the close of fiscal 1962 is 34,506, which is 322 less than at the close of fiscal 1961. The estimated reduction in the number of post offices during fiscal 1961 is 410. The cost reduction related to the reduced employment is more than offset by increased compensation required by automatic salary increases and reclassifications due to the steady increase in size of offices.

The budget as submitted provides for maintaining the same ratio of employees to supervisors and technical personnel as is estimated for 1961. This results in a 2.5 percent increase in employment, representing 741 man-years, over 1961 employment of 29,158 man-years.

The estimate for the regular custodial service employment, 18,765 man-years, is 4.9 percent, or 883 man-years over 1961. This increase is based on the 5.3-percent increase in space occupied. In addition to the regular custodial service, this account includes the maintenance service for major mechanized installations for which 561 man-years are estimated in 1962, an increase of 152 man-years over 1961.

Included in this submission is a request for 4,776 man-years for vehicle maintenance, an increase of 6 percent, or 270 man-years over 1961. This is based on a projected increase of 12.2 percent in the average number of vehicles in operation in 1962 and an increase of 9.4 percent in miles operated.

The estimate for repair, maintenance, and operation cost provides for maintaining the 1960 average cost per mile of 6 cents for these items.

Mr. Chairman, with your approval, we would like to insert at this point in the record, the tables comparing the amount requested for 1962 with the 1961 appropriations. The tables are taken from the Post Office Department justifications and are shown on pages 20.1, 20.2, 20.3, 21.1, 22.1, 23.1, 24.1, 25.1, 26.1, 27.1, and 28.1.

Mr. Chairman, I have observed that you have already placed in the record pages 20.1, 20.2, and 20.3. Do you propose to place these others in at an appropriate time, or might we request that they be put in at this time?

Mr. GARY. Yes, sir.

Mr. BELEN. In that event, sir, I respectfully request that pages 21.1, 22.1, 23.1, 24.1, 25.1, 26.1, 27.1, and 28.1 be placed in the record, sir.

Mr. GARY. We will be very glad to have those pages placed in the record at the conclusion of your statement.

Mr. BELEN. Thank you, sir.

Mr. Chairman, if I may, I would like to express my thanks for this opportunity to outline the program of the Bureau of Operations to you, within the budget policies of the President and the Postmaster General.

As I have indicated, we look forward, with the cooperation of the Congress, to an unprecedented year of service to the people. Members of my staff who have participated in the development of these programs and estimates, as well as myself, are present and will be available to answer further questions.

Thank you, Mr. Chairman.

ANALYSIS OF OBLIGATIONS, 1960–62

(The pages referred to above follow:)

Analysis of Obligations

Postmasters, increase, $2,179,000

Item	1960 actual	1961 estimate	Increase or decrease (–) due to—			1962 estimate	Increase or decrease (–) due to—		
			Leap year day in 1960	Pay and health increase	All other costs		Mandatory items	Workload	Total
Average number of positions	36,916	36,356	–111		–449	36,010		–346	–346
Average compensation	$4,593	$5,070		$360	$117	$5,179			$109
[In thousands]									
Personnel compensation:									
Productive employment	$153,301	$166,610	–$460	$11,841	$1,928	$168,538	$2,775	–$847	$1,928
Paid absences	16,257	17,727	–49	1,258	261	17,969	296	–54	242
Total, personnel compensation (11)	169,558	184,337	–509	13,099	2,189	186,507	3,071	–901	2,170
Personnel benefits:									
Territorial cost-of-living allowance	366	310	–1	22	–77	298		–12	–12
Health insurance		1,717		1,717		1,743	40	–14	26
Group life insurance	568	608	–2	43	–1	615	10	–3	7
Retirement fund contribution	10,088	10,968	–30	779	131	11,104	182	–46	136
Social security tax	336	406	–1	29	42	429	23		23
Total, personnel benefits (12)	11,358	14,009	–34	2,590	95	14,189	255	–75	180
Other costs:									
Travel (21)	83	93			10	91		–2	–2
Rental allowance, 4th class offices (23)	4,026	4,218	–12	300	–96	4,049	23	–192	–169
Total, other costs	4,109	4,311	–12	300	–86	4,140	23	–194	–171
Total obligations	185,025	202,657	–555	15,989	2,198	204,836	3,349	–1,170	
Total increase over prior year	2,557	17,632							2,179

Analysis of Obligations

Supervisors and technical personnel, increase $8,420,000

Item	1960 actual	1961 estimate	Increase or decrease (−) due to—			1962 estimate	Increase or decrease (−) due to—		
			Leap year day in 1960	Pay and health increase	All other costs		Mandatory items	Workload	Total
Average number of positions	28,394	29,158	−85		849	29,899		741	741
Average compensation	$6,590	$7,166		$498	$78	$7,249			$83
			[In thousands]						
Personnel compensation:									
Productive employment	$154,552	$172,610	−$463	$11,986	$6,535	$179,028	$2,627	$3,791	$6,418
Paid absence	30,302	33,832	−91	2,351	1,270	35,091	515	744	1,259
Nightwork differential	2,250	2,516	−7	175	98	2,624	39	69	108
Total, personnel compensation (11)	187,104	208,958	−561	14,512	7,903	216,743	3,181	4,604	7,785
Personnel benefits:									
Territorial cost of living allowance	183	184	−1	13	−11	182		−2	−2
Health insurance		2,037		2,037		2,143	49	57	106
Group life insurance	616	690	−2	48	28	715	10	15	25
Retirement fund contribution	11,547	12,914	−34	899	502	13,413	197	302	499
Total, personnel benefits (12)	12,346	15,825	−37	2,997	519	16,453	256	372	628
Other costs:									
Travel (21)	292	305	−1		14	312		7	7
Transportation of household goods (22)	3				−3				
Total, other costs	295	305	−1		11	312		7	7
Total obligations	199,745	225,088	−599	17,509	8,433	233,508	3,437	4,983	
Total increase over prior year	10,505	25,343							8,420

Analysis of Obligations

Clerks, increase $41,909,000

Item	1960 actual	1961 estimate	Increase or decrease (−) due to—			1962 estimate	Increase or decrease (−) due to—		
			Leap year day in 1960	Pay and health increase	All other costs		Mandatory items	Workload	Total
Average number of positions	262,190	267,705	−787		6,302	274,665		6,960	6,960
Average compensation	$4,776	$5,173		$395	$2	$5,181			$8
			[In thousands]						
Personnel compensation:									
Productive employment	$1,058,332	$1,169,703	−$3,175	$89,224	$25,322	$1,201,754	$5,533	$26,518	$32,051
Paid absence	157,846	175,578	−474	13,469	4,737	180,386	852	3,956	4,808
Night work differential	35,915	39,413	−108	3,066	540	40,880	194	1,273	1,467
Clerical allowances, 4th-class offices	18	16			−2	16			
Total, personnel compensation (11)	1,252,111	1,384,710	−3,757	105,759	30,597	1,423,036	6,579	31,747	38,326
Personnel benefits:									
Territorial cost of living allowance	1,211	1,191	−4	9	−25	1,167		−24	−24
Health insurance		13,278		13,278		13,910	320	312	632
Group life insurance	4,102	4,597	−12	351	156	4,724	22	105	127
Retirement contribution	68,137	75,329	−204	5,753	1,643	77,411	361	1,721	2,082
Social security tax	3,663	4,293	−11	328	313	4,411	21	97	118
Uniform allowances	6	6				6			
Total, personnel benefits (12)	77,119	98,694	−231	19,719	2,087	101,629	724	2,211	2,935
Other costs:									
Travel (21)	9,990	9,745	−30		−215	9,743		−2	−2
Transportation of household goods (22)	13				−13				
Contract stations (25)	7,998	8,832	−24		858	9,482		650	650
Reimbursement to Federal Reserve banks (25)	1,057	1,163	−3		109	1,163			
Total, other costs	19,058	19,740	−57		739	20,388		648	648
Total obligations	1,348,288	1,503,144	−4,045	125,478	33,423	1,545,053	7,303	34,606	
Total increase over prior year	40,606	154,856							41,909

Analysis of Obligations

City delivery carriers, increase $29,005,000

Item	1960 (actual)	1961 (estimate)	Increase or decrease (−) due to—			1962 (estimate)	Increase or decrease (−) due to—		
			Leap year day in 1960	Pay and health increase	All other costs		Mandatory items	Workload	Total
Average number of positions	166,463	171,711	−499		5,747	176,035		4,324	4,324
Average compensation	$4,680	$5,057		$369	$8	$5,077			$20
			[In thousands]						
Personnel compensation:									
Productive employment	$676,715	$753,843	−$2,029	$54,989	$24,168	$775,719	$4,445	$17,431	$21,876
Paid absence	99,294	111,275	−298	8,079	4,200	114,690	665	2,750	3,415
Nightwork differential	2,971	3,306	−9	247	97	3,344	20	18	38
Total, personnel compensation (11)	778,980	868,424	−2,336	63,315	28,465	893,753	5,130	20,199	25,329
Personnel benefits:									
Territorial cost of living allowance	526	521	−2	38	−41	501	2	−22	−20
Health insurance		9,951		9,951		10,455	234	270	504
Group life insurance	2,545	2,866	−8	209	120	2,949	17	66	83
Retirement fund contribution	43,839	49,860	−132	3,639	2,514	51,830	300	1,670	1,970
Social security tax	2,492	3,022	−7	220	317	3,119	18	79	97
Uniform allowance	14,630	15,129	−44		543	15,608		479	479
Total, personnel benefits (12)	64,032	81,349	−193	14,057	3,453	84,462	571	2,542	3,113
Other costs:									
Travel (21)	58	60			2	60			
Carfare (21)	5,830	6,608	−17		795	7,166		558	558
Tolls and ferriage (22)	238	246	−1		9	251		5	5
Total, other costs	6,126	6,914	−18		806	7,477		563	563
Total obligations	849,138	956,687	−2,547	77,372	32,724	985,692	5,701	23,304	
Total increase over prior year	32,904	107,549							29,005

Analysis of Obligations

Special delivery messengers, increase $736,000

Item	1960 (actual)	1961 (estimate)	Increase or decrease (−) due to—			1962 (estimate)	Increase or decrease (−) due to—		
			Leap year day in 1960	Pay and health increase	All other costs		Mandatory items	Workload	Total
Average number of positions	5,418	5,485	−16		83	5,569		84	84
Average compensation	$4,777	$5,209		$401	$31	$5,252			$43
	[In thousands]								
Personnel compensation:									
Productive employment	$22,884	$25,226	−$69	$1,943	$468	$25,814	$173	$415	$588
Paid absence	2,705	3,017	−8	233	87	3,101	21	63	84
Night work differential	295	328	−1	25	9	335	2	5	7
Special delivery fees	299	298	−1			297		−1	−1
Total, personnel compensation (11)	26,183	28,869	−79	2,201	564	29,547	196	482	678
Personnel benefits:									
Territorial cost of living allowance	48	49		4	−3	47		−2	−2
Health insurance		242		242		251	6	3	9
Group life insurance	66	71		5		73		2	2
Retirement fund contribution	1,221	1,355	−4	104	34	1,381	9	17	26
Social security tax	34	40		3	3	41		1	1
Uniform allowances	342	350	−1		9	360		10	10
Total, personnel benefits (12)	1,711	2,107	−5	358	43	2,153	15	31	46
Other costs:									
Travel (21)	1	1				1			
Equipment maintenance allowance (22)	772	773	−2		3	785		12	12
Total, other costs	773	774	−2		3	786		12	12
Total obligations	28,667	31,750	−86	2,559	610	32,486	211	525	
Total increase over prior year	606	3,083							736

Analysis of Obligations

Rural carriers, increase $3,637,000

Item	1960 actual	1961 estimate	Increase or decrease (−) due to—			1962 estimate	Increase or decrease (−) due to—		
			Leap year day in 1960	Pay and health increase	All other costs		Mandatory items	Workload	Total
Average number of positions	35,775	35,673	−107		5	35,702		29	29
Average compensation	$5,202	$5,692		$440	$50	$5,741			$49
			[In thousands]						
Personnel compensation:									
Productive employment	$160,405	$175,038	−$481	$13,521	$1,593	$176,643	$781	$824	$1,605
Paid absences	25,695	28,007	−77	2,165	224	28,318	126	185	311
Total, personnel compensation (11)	186,100	203,045	−558	15,686	1,817	204,961	907	1,009	1,916
Personnel benefits:									
Territorial cost of living allowance	14	12		1	−3	12			
Health insurance		2,135		2,135		2,187	50	2	52
Group life insurance	545	589	−2	45	1	595	3	3	6
Retirement fund contribution	10,252	11,213	−31	864	128	11,357	50	94	144
Social security tax	750	893	−2	69	76	903	4	6	10
Total, personnel benefits (12)	11,561	14,842	−35	3,114	202	15,054	107	105	212
Other costs:									
Travel (21)	1				−1				
Equipment maintenance allowance (22)	55,105	56,078	−165		1,138	57,587		1,509	1,509
Total, other costs	55,106	56,078	−165		1,137	57,587		1,509	1,509
Total obligations	252,767	273,965	−758	18,800	3,156	277,602	1,014	2,623	
Total increase over prior year	7,764	21,198							3,637

Analysis of Obligations

Custodial service, increase $6,404,000

Item	1960 actual	1961 estimate	Increase or decrease (−) due to—			1962 estimate	Increase or decrease (−) due to—		
			Leap year day in 1960	Pay and health increase	All other costs		Mandatory items	Workload	Total
Average number of positions	17,552	18,291	−53		792	19,326		1,035	1,035
Average compensation	$4,293	$4,650		$349	$8	$4,677			$27
			[In thousands]						
Personnel compensation:									
Productive employment	$63,134	$71,539	−$189	$5,364	$3,230	$76,021	$394	$4,088	$4,482
Paid absences	10,919	12,026	−33	901	239	12,775	67	682	749
Nightwork differential	1,296	1,481	−4	113	76	1,589	6	102	108
Unclassified personnel (job cleaners)	5,480	5,942	−16		478	6,565		623	623
Total, personnel compensation (11)	80,829	90,988	−242	6,378	4,023	96,950	467	5,495	5,962
Personnel benefits:									
Territorial cost of living allowance	102	102		8	−8	108		6	6
Health insurance		947		947		1,019	23	49	72
Group life insurance	252	281	−1	21	9	298	1	16	17
Retirement fund contribution	4,573	5,162	−14	387	216	5,486	29	295	324
Social security tax	205	255	−1	19	32	271	1	15	16
Uniform allowances	101	106			5	112		6	6
Total personnel benefits (12)	5,233	6,853	−16	1,382	254	7,294	54	387	441
Other costs: Travel (21)	23	24			1	25		1	1
Total obligations	86,085	97,865	−258	7,760	4,278	104,269	521	5,883	
Total increase over prior year	3,695	11,780							6,404

Analysis of Obligations

Motor vehicle service, increase $5,269,000

Item	1960 actual	1961 estimate	Increase or decrease (−) due to—			1962 estimate	Increase or decrease (−) due to—		
			Leap year day in 1960	Pay and health increase	All other costs		Mandatory items	Workload	Total
Average number of positions	4,288	4,506	−13		231	4,776		270	270
Average compensation	$4,950	$5,380		$394	$36	$5,425			$45
			[In thousands]						
Personnel compensation:									
Productive employment	$17,656	$20,170	−$53	$1,478	$1,089	$21,557	$261	$1,126	$1,387
Paid absences	2,865	3,274	−9	241	177	3,496	42	180	222
Night work differential	706	800	−2	58	38	856	10	46	56
Total, personnel compensation (11)	21,227	24,244	−64	1,777	1,304	25,909	313	1,352	1,665
Personnel benefits:									
Territorial cost of living allowance	5	5				5			
Health insurance		262		262		287	6	19	25
Group life insurance	68	73		5		78	1	4	5
Retirement fund contribution	1,119	1,285	−3	94	75	1,372	16	71	87
Social security tax	57	73		5	11	78		5	5
Total, personnel benefits (12)	1,249	1,698	−3	366	86	1,820	23	99	122
Total obligations, vehicle personnel	22,476	25,942	−67	2,143	1,390	27,729	336	1,451	1,787
Vehicle repair, maintenance, and operation (25) (26)	25,308	28,571	−76		3,339	31,350		2,779	2,779
Contract vehicles (22)	7,273	8,772	−22		1,521	9,475		703	703
Total obligations	55,057	63,285	−165	2,143	6,250	68,554	336	4,933	
Total increase over prior year	5,364	8,228							5,269

INCREASES REQUESTED FOR 1962

Mr. GARY. Mr. Belen, will you give us some elaboration on the increases requested for 1962 over 1961, which are listed on page 20.2 of the justifications?

Mr. BELEN. The first one, Mr. Chairman, is the administration of postal installations. There is an increase of $2,179,000 for postmasters for salary increases.

There is an increase of 2.5 percent in supervisory employment. As I indicated, that is in relation to the increase in personnel, the 2.5 percent for supervisors.

Mail handling and window service reflects an increase of 2.6 percent in employment to handle the estimated 3.8 percent increase in mail volume. That is $41,909,000.

Collection and delivery service reflects an increase of 2.5 percent in carrier employment to handle an estimated 3.5 percent increase in stops to be served.

There is a 1.5 percent special delivery employment increase and an increase in rural carrier obligations for service extension. That is $33,378,000.

In custodial service there is an increase of 4.9 percent in employment to provide maintenance, protection, and cleaning of the estimated 5.3 percent in additional areas, and there is some increase for further increases in maintenance employees for mechanization, for a total of $6,404,000.

For vehicle service there is an increase of 6 percent in employment and an increase of $3,482,000 in the cost of parts, gasoline, and so forth. This is to service an estimated 8 percent increase in average number of equated vehicles. The total for that is $5,269,000.

The total of these figures is $97,559,000.

The 1962 estimated obligations total $3,452 million as compared to the 1961 figure of $3,354,441,000.

Mr. GARY. An increase of——

Mr. BELEN. In percentage it is a 2.9 percent increase.

Mr. GARY. Do you have statistics on mail volume by classes for the last few years as well as your estimates for the foreseeable future which could be inserted in the record?

Mr. BELEN. Yes, sir; we have the last cost ascertainment report that is available and those statistics, I believe, would be what you would want.

The last one—and this is one of the faults I have always found, a little bit antiquated—is for fiscal year 1959, but it will give the proportion, sir. Those two tables, I believe, are significant.

Mr. NICHOLSON. Mr. Chairman, at a previous sitting of the committee the chairman did insert page 2 of the justifications in the record, which does show the 1960, 1961, and 1962 actual or estimated volumes by class of mail.

Mr. BELEN. That would probably be preferable to these tables I have just given.

Mr. GARY. At what page?

Mr. NICHOLSON. At page 2 at the beginning of the book.

Mr. GARY. That table has been inserted?

Mr. BARNES. Yes, sir.

Mr. GARY. Thank you, sir.

Mr. BELEN. That would be preferable; yes, sir.

Mr. GARY. And page 2 shows the basis for your estimated volume for 1962 also?

Mr. NICHOLSON. Yes, sir.

Mr. GARY. Thank you, sir.

VALUE OF COST ACCOUNTING IN COMPARING POST OFFICES

Mr. Belen, several years ago we were giving very great consideration to the question of cost accounting, and the Congress authorized or approved at least the installation of cost accounting in the Post Office Department.

We were told that by cost accounting we would be able to measure the work of one post office against the other and have comparative figures which would enable us to find out which post offices were being operated effectively and which were not.

What is the situation with reference to that program at the present time?

Mr. BELEN. Well, I would like to call on Mr. Barnes for that, because he knows just what that situation is.

I do recall that initially they made some studies sometime before and they reflected quite a disparity between post offices. A lot of it was because of facilities, but the whole operation has been improved. You will find in the type of mail such as in the example that the Postmaster General gave the other day where almost all of the mail was third-class mail which reflects large gross receipts, but really there is not too much work there at that post office. I think the main use of the figures is what is the trend in a particular post office compared to the trend in others. In other words, we are now sorting more mail per employee than we were 10 years ago, but has it all been due to one post office or several post offices?

Mr. BARNES. Mr. Chairman, the information we are furnished now makes it possible for us to determine in a general way what a post office is doing. Each office is so different from another that you cannot always exactly say from looking at a record whether one is better than the other, but it does show when there is much difference. Then, when it appears that an office is doing a poor job we make a visit and see what is the trouble. It has helped us, definitely, in a general way.

Mr. GARY. That is what I was getting at. I do not think it was ever claimed that you would be able to make an exact comparison because post offices have different situations and operate under different conditions. But, it was pointed out that it would furnish a general guidepost.

Mr. BARNES. And, it has.

Mr. GARY. So that you can know whether a post office is functioning efficiently and economically.

Mr. BARNES. It definitely has helped.

Mr. GARY. You think it has helped in that respect?

Mr. BARNES. Yes, sir.

Mr. BELEN. That has been supplemented too, Mr. Chairman, by the work measurement system.

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AVERAGE CLERICAL PRODUCTIVITY

Mr. GARY. Is there a national average or yardstick on the number of pieces of mail per clerk, or some such criterion, which could be used in determining or implementing your work program?

Mr. BELEN. Yes, sir. This chart on page 23.2 shows the average number of pieces per man-year. That has constantly gone up since 1958, from 239,149 to 247,938. So long as that is going up, we feel that we are in pretty good shape.

Mr. GARY. Has that been put in the record?

Mr. BELEN. No; I do not believe that was put in, but I think it would be desirable.

Mr. GARY. Was that one of yours that you listed?

Mr. BELEN. No, sir.

Mr. GARY. Insert at this point in the record, without objection, page 23.2 of the justifications.

(The page referred to follows:)

CLERKS

Workload.—The estimated volume of mail and related man-year requirements are shown in the statement below. The extra leap year day in 1960 has been deducted from the volume and man year data. Also the man-years are adjusted for functional transfers in 1960 and prior years to provide comparable percentage increases.

Fiscal year	Clerk man-years	Percent increase	Mail volume (millions)	Percent increase	Average pieces per man-year
1958	251,433	2.4	60,130	1.8	239,149
1959	254,359	1.2	61,247	1.9	240,790
1960	261,403	2.8	63,484	3.7	242,859
1961 (estimate)	267,705	2.4	65,600	3.3	245,046
1962 (estimate)	274,665	2.6	68,100	3.8	247,938

Mr. PILLION. Will the gentleman yield to me at that point?

Mr. GARY. Yes, sir.

EFFECT OF MECHANIZATION ON PRODUCTIVITY

Mr. PILLION. The mere fact that there is an increase in the handling of mail per employee does not necessarily mean increased efficiency, however, does it, or less cost, because as you mechanize and automate you put in a great deal of investment and there should be a natural increase in the amount of mail handled by an employee. So, that is not in itself an indication or an indicator of increased efficiency?

Mr. BARNES. That is true, Congressman. However, we do not feel that we have mechanized to the extent that this would have too much bearing on this operation.

Mr. PILLION. I was going to ask how much bearing the mechanization may have had upon your increased efficiency figure which is, roughly, something near 1 percent over last year.

Mr. BARNES. Yes, sir. As far as our mechanization program is concerned letter sorters for example—we only have them at a very few places such as Washington and the one at Flint and we are putting in a few in Detroit. So, we have not gotten far enough along to judge what they are accomplishing. It should increase this number of pieces per man-year.

SELECTION OF MACHINE OPERATORS

Mr. GARY. Well, I well recall that on one visit which our committee made to one of the larger post offices in the country we found that they had just recently established the card punch system for handling money orders. It was a much more effective system than the previous one and was operating very efficiently, except that in the installation of these machines they had followed the seniority rule and, since it was supposed to have been comparatively easy work, they had selected employees with the greatest seniority to operate the machines for punching these cards. The machines work something like a typewriter, and these top seniority people had had no experience in that field at all. They were the top clerks in the post office and, consequently, when they put them on those machines, they were losing the services of top postal clerks and putting them in a job for which they were not competent. They could have gotten girls—most of those machines are operated by girls—to operate the machines much more effectively and efficiently at a much smaller pay scale.

We brought that to the attention of the Post Office Department and it was corrected.

Since you are just beginning work with these new machines, I just want to call your attention to the fact that if you follow the seniority system in selecting operators, you might lose some good postal employees and find yourself saddled with poor machine operators.

Mr. BELEN. I feel that some progress was made, Mr. Chairman, when we passed Public Law 68, although we recognized that the big bulk of the employees were put in at level 4. There was quite a dispute over that, but I do not know which post office you are referring to. However, Chicago is one where I saw a similar situation when we were out there.

Mr. GARY. The post office to which I am referring was the New York Post Office and this was some years ago.

Mr. BELEN. When we passed the Financial Control Act in 1950 and gave the Post Office Department control over these accounts, they moved them into the first regional organization, which then placed the employees into the Classification Act pay system. I think they corrected a lot of that.

Our suggestion was that while seniority might obtain, they possibly ought to require that the individual be qualified before he was assigned the job.

Mr. GARY. That is the point I am making. The seniority system is all right. I am not complaining about the seniority system at all, but I do not think any person ought to be put in any position for which he is not technically qualified.

The operation of a machine is a technical job and it requires certain technical qualifications. When you take a man who is technically qualified for postal service and put him to operating a machine for which he has no qualifications whatever, you lose a good postal employee and gain a poor machine operator.

Mr. BELEN. And, frequently, you find that the grass on the other side is greener. The man goes and tries it for a period of 60 days and says, "I am going back to my other job." We had a tremendous turnover in that operation.

Mr. GARY. I think that is very probably true. I knew it had been corrected and I merely mention it as a situation to be watched in the future.

Mr. BELEN. Yes, sir; we will do so.

Mr. PILLION. Mr. Chairman, I think your point has been proven very much in the operation of some of these sorters where you have a tremendous difference in the operation that one person is capable of doing as against another. However, I do think they have common standards, which proves your point.

Mr. BELEN. We will watch that, Mr. Chairman.

Mr. GARY. I think that has been corrected to a very large extent.

Mr. BELEN. The principle still lives.

Mr. GARY. Yes, sir; that is right. It is something to be watched.

SUPERVISORS AND TECHNICAL PERSONNEL

NUMBER OF SUPERVISORS

In the operations part of the postal service what percentage of your personnel are supervisors?

Mr. BARNES. About 28,000 supervise 424,000 employees—about 6.5 percent.

Mr. GARY. And, what has been the trend in that respect?

Mr. BARNES. It is about the same, Mr. Chairman, that it has been for the last few years. For example, it is 1 supervisor to 15.3 employees and has been that in 1960 and 1961—1 supervisor to 15.26 employees is estimated this year, and that is the same as last year.

In 1960 it was 1 to 15.29 and the previous year it was 1 to 15.42, and prior to that it was 1 to 15.97.

That appears on page 22.2 of the justifications.

The saturation point seems to be about 1 supervisor to each 15¼ employees.

Mr. GARY. Without objection, we will insert page 22.2 of the justifications at this point in the record.

(The page referred to follows:)

JUSTIFICATION

Service rendered.—Supervisory duties are performed by post office supervisors, including assistant postmasters, and supervisors located at railway terminals, airmail facilities, transfer offices, truck terminals, and vehicle fleet offices. Supervision is provided for the processing of incoming and outgoing mail, financial and related postal services, and the administrative control and dispatching of the vehicle fleet. This account includes, in addition to assistant postmasters, assistants to the postmasters, assistants to station superintendents and vehicle dipatchers, all other supervisory, clerical, specialized, and technical positions in level PFS–6 and above, except those supervisors in the custodial service, vehicle maintenance, and mobile mail handling units.

Functional transfer.—Effective July 1, 1960, there was transferred to this account, the vehicle fleet administrative supervisors and dispatchers. This involved 394 man-years. For the purpose of comparability fiscal year 1960 has been adjusted to include the above transfer.

Workload.—The estimated number of man-years to be supervised and the related man-years of supervision to be required are shown in the statement below. The extra leap year day in 1960 has been deducted from the man-year data in addition to making adjustments to include functional transfers to provide comparable percentage increases.

Fiscal year	Clerks, carriers, and special delivery messengers (man-years)	Percent increase	Supervisors and technical personnel (man-years)	Percent increase	Supervisors and technical personnel ratio
1958	412,352		25,821		15.97
1959	420,292	1.9	27,251	5.5	15.42
1960	432,769	3.0	28,309	3.9	15.29
1961 (estimated)	444,901	2.8	29,158	3.0	15.26
1962 (estimated)	456,269	2.6	29,899	2.5	15.26

Mr. GARY. We will recess until 2 o'clock this afternoon.

EFFECT OF MECHANIZATION ON SUPERVISORY RATIO

Mr. GARY. The committee will come to order. I believe just before we recessed we were discussing the percentage of personnel who were supervisors. What impact, if any, has mechanization had on this ratio?

Mr. BELEN. I think the answer is about what impact it would have on the number of letters sorted per clerk, but there really is not enough mechanization in to make that much difference.

The ratio is apparently a little bit less than it was in 1959, but seems to be stabilized at about 15.26.

METRO PLAN

Mr. GARY. What is the status of the metro plan now?

Mr. BELEN. The metro plan is complete as far as we plan to go. It covers 81 areas now, and I believe it is 168 million patrons expected to be served by it. The metro plan really is something, as I envision it, that we have to constantly work on because the pattern of distribution is changing. I think the last census indicated how people had moved out into the suburbs, and it was really a sort of house cleaning in a way. What happened was there had been so many changes in transportation, individual postmasters would see their transportation change, but it required a complete look over the whole picture. I believe it is one of the things where the regional setup has been helpful, plus headquarters. We followed through on this quite a bit. Headquarters provided some good personnel to go along and educate the public and our own people as to what was happening.

Our figures on the points you raised the other day on Chirstmas mail indicate that the metro plan, by trapping a lot of the mail and not having it go through the big post offices was one of the reasons for a good operation.

Mr. GARY. I judge then it is your purpose to continue that plan in operation with such modifications as you may deem necessary from time to time; is that correct?

Mr. BELEN. Of course, the people that have been here may not agree with me, but in my view the metro plan is just a name like you would have a slogan. I think it is just the idea that we have to constantly have teams going out to see what has happened to transportation, what we can do to improve the flow of mail to have it coincide with our carrier delivery. It is something we should be doing all the time.

Mr. GARY. It refers primarily to the urban areas?

Mr. BELEN. That is right. What had happened is there had been a sharp change in the distribution and transportation, and they had not kept pace. I do not mean we would have all 81 areas reviewed at the same time, but I would certainly expect that we would have teams of people, who understand the problem, continually go from one area to the other to be sure that we had made the necessary changes as transportation changed.

MAIL PASSING THROUGH NEW YORK CITY POST OFFICE

Mr. GARY. I know from experience that you have had at times a very substantial delay in mail passing through the city of New York post office.

Mr. BELEN. Yes, sir.

Mr. GARY. In other words, mail collected in the city of New York would get to Richmond very promptly, but mail coming from beyond, for instance, out in Long Island, that had to pass through the New York City post office was usually several days reaching Richmond. Have you given any study to that situation?

Mr. BELEN. Not specifically between those two points.

Mr. GARY. I do not mean between the two points, but I mean the mail generally going through New York.

Mr. BELEN. That has been one of the advantages of the metro plan, the amount of mail you keep from going through the big post offices. Then you can handle the mail that is going through it better. They say that facility is quite overtaxed. We are being asked to at least consider a very large mail-sorting plant over the railroad tracks up there. That is one of the things being considered now as far as space is concerned.

One thing we plan to do—and we are trying to emphasize this—is to eliminate the peakload period as much as we can through the cooperation of large mailers. My observation in the post offices I visited is the efficiency drops down as you get such a tremendous number of parcels, so many trucks backed up and other things, which you do have in New York, when it has to go through that kind of a situation.

Mr. GARY. Is there not some way that mail coming from beyond New York, instead of coming through the city, can be routed around it?

Mr. BELEN. It would have to be north.

Mr. BARNES. It is being detoured around New York wherever possible. In other words, it does not go into the city of New York unless it absolutely has to. It is being given study. It may go through northern Jersey or some other points, but as far as possible it is being kept out of the New York office.

Mr. GARY. I had reference to that and not the city mail itself.

Mr. BELEN. The through mail.

Mr. GARY. The through mail from other points that ordinarily passes through the city. Apparently when it had to go through the New York office, it was delayed very materially. If it could be routed around, like highways around congested areas, it would be preferable. If you have to go through a city, it takes a lot of time. If you can get a road around it, it does help.

STAR ROUTES

What will be the policy regarding star routes?

Mr. BELEN. We do not expect to change the policy any.

Mr. BARNES. There is no contemplated change, I do not think, Mr. Chairman, on star routes. Of course, when train service is discontinued, it becomes necessary either to put in a truck route, highway post office, or a star route. Of course, wherever we can feasibly do so we do go to the star route because it is much more economical than to put in a highway post office.

Mr. GARY. How many new highway post office routes have you installed last year?

Mr. BARNES. That is under "Transportation." We would have to get that for you.

Mr. GARY. We will take that up with transportation.

Mr. PASSMAN. Would you yield at this point, Mr. Gary?

Mr. GARY. Yes.

RENEGOTIATION OF STAR ROUTE CONTRACTS

Mr. PASSMAN. You mentioned star routes. I think in recent years it has been the policy to renegotiate contracts with the bidders if they could establish that they had submitted an unprofitable bid. What is the policy?

Mr. BELEN. There has been that policy if there were changed conditions that could not have been foreseen.

Mr. PASSMAN. What is the policy? Will you continue renegotiating these contracts where a carrier establishes that his bid was too low and he has suffered a loss?

Mr. BELEN. As far as I understand it, it is the law, and there is no reason to change it. The law authorized that about 4 or 5 years ago.

Mr. PASSMAN. I know it is the law, but I am speaking of the policy. To what extent are you going to continue renegotiating these star route contracts?

Mr. BELEN. This presentation here does not anticipate any change from the present situation, as far as I know.

Mr. PASSMAN. Do you think the time is possibly here when you should have a good close look at that? In my candid opinion, there are instances where maybe these star routes are bid in cheap with the understanding—maybe this is not with the Department—the understanding of the individual, that at some future date he may move in and get a better contract, maybe even better than he would have gotten in the beginning had he bid higher.

Mr. BELEN. I would say we had an obligation to have open competitive bidding where it was to the advantage of the Government, and the reason we extend these contracts is because we felt it was to the advantage of the Government to retain good reliable star route contractors.

Mr. PASSMAN. I think most of them are good and reliable. I am trying to establish in my own mind that this privilege is not being abused by individuals who would purposely submit a low bid and at a subsequent date, maybe a very early date after the award of the contract, ask for an increase and submit what would be acceptably sound justification for it.

Mr. PILLION. Will the gentleman yield?

Mr. PASSMAN. Yes.

Mr. PILLION. Does the gentleman mean that any justification for the reopening and renegotiation of the contract would have to be then based upon facts that occurred after the bidding that he had no control over so that it would then avoid the situation that you are referring to, Mr. Passman, in which a person would deliberately come in and bid low with an understanding that later on the Post Office Department would raise his contract price?

Mr. PASSMAN. Off the record.

(Discussion off the record.)

STAR ROUTE FORMS

Mr. GARY. Mr. Belen, as I stated the other day, it has been suggested to me that a great many unnecessary forms are being required of the operators of these star routes, which put an additional burden on the post office in handling these forms. Have you had an opportunity to look into that?

Mr. BELEN. We have a study going on now, Mr. Chairman, with respect to that in some detail, but we did make a preliminary check in connection with the transfer of the star route operation to the postmaster.

Since that time there has been no increase in paperwork as a result of this transfer. Obviously, the postmasters have new responsibilities that they did not have before, so they see this new form now.

Two new forms have been developed, but they are used only when it is necessary to report changing conditions, and they replace former forms. Only one form, as far as we can see now, could be reduced to reports on an exception basis, but they are making this detailed study of all forms. This is given a high priority with respect to these forms the postmasters now fill out, sir.

RURAL CARRIERS

Mr. GARY. Do you have any figures to show the number of patrons served or the percentage of mail handled by rural carriers?

Mr. BARNES. About 9 million families served, but we do not have the percentage of mail.

Mr. GARY. Could you provide for the record some statistics concerning the rural carriers showing the number of carriers and the mileage, the routes, and the patrons served, and so forth?

Mr. BARNES. Yes, sir.

Mr. GARY. Possibly for the last 2 or 3 years if you have it.

Mr. BARNES. Yes.

Mr. GARY. That figure of 9 million people served by them was very interesting.

Mr. BARNES. That is families. It would be about 35 million people.

Mr. GARY. Give us some statistics on the number of carriers, the mileage of the routes, and the patrons served and any other helpful information as to the rural carriers.

(The information supplied follows:)

Rural delivery service (end of fiscal year)

	1958	1959	1960	1961 (estimated)	1962 (estimated)
Number of routes	31,465	31,377	31,379	31,384	31,392
Number of carriers	31,411	31,296	31,296	31,301	31,309
Total length of routes—miles	1,615,994	1,734,506	1,768,476	1,816,000	1,863,000
Average length of routes—do	51.36	55.28	56.36	57.86	59.35
Individuals served	33,316,947	34,090,208	34,111,799	34,130,000	34,150,000

AIRLIFT OF FIRST-CLASS MAIL

Mr. GARY. What is the status of airlift of first-class mail?

Mr. BELEN. This is a bad day to ask. As of now, it is practically all grounded because of the airlines strike.

Mr. BRAWLEY. I wonder if that is not a subject for the Transportation Bureau.

Mr. BELEN. It is.

Mr. GARY. Off the record.

(Discussion off the record.)

NUMBER OF EMPLOYEES BY CATEGORIES, 1960–62

Mr. GARY. Can you provide for the record a table showing the trend of personnel employed by the Post Office say for 1960, 1961, and an estimate for 1962 broken down by classes to cover postmasters, clerks, city delivery, rural carriers, supervisors, and technical personnel?

Mr. BELEN. We shall be pleased to provide that for the record.

(The information requested follows:)

Employees on rolls at end of fiscal years 1960, 1961, 1962

	1960			1961 (estimated)			1962 (estimated)		
	Regulars	Hourly rate	Total	Regulars	Hourly rate	Total	Regulars	Hourly rate	Total
Postmasters	35,165	----------	35,165	34,782	----------	34,782	34,484	----------	34,484
Supervisors	27,460	----------	27,460	28,508	----------	28,508	29,235	----------	29,235
Clerks and mail handlers (including mobile units)	171,978	88,217	260,195	175,715	90,227	265,942	180,280	91,773	272,053
City delivery carriers and drivers	113,119	46,650	159,769	116,933	47,954	164,887	119,963	49,216	169,179
Special delivery messengers	2,282	1,707	3,989	2,312	1,727	4,039	2,342	1,747	4,089
Rural carriers	31,296	[1] 13,391	44,687	31,301	[1] 13,400	44,701	31,309	[1] 13,400	44,709
Custodial service	14,969	3,110	18,079	15,736	3,147	18,883	16,640	3,202	19,842
Vehicle service	3,263	806	4,069	3,439	850	4,289	3,645	901	4,546
Total positions	399,532	153,881	553,413	408,726	157,305	566,031	417,898	160,239	578,137

[1] Substitute rural carriers.

TWO DAILY MAIL DELIVERIES TO RESIDENTIAL AREAS

Mr. PASSMAN. Mr. Belen, in your opening statement you said, "During the fiscal year 1962 we anticipate significant increase in mail volume, expansion of city and rural delivery services, and important gains in efficiency."

With respect to that part of the statement as it would apply to expansions of city delivery service, that does not necessarily have to do with two mail deliveries daily in residential sections?

Mr. BELEN. No; that is because of additional patrons, expansion of the cities.

Mr. PASSMAN. Not to the extent of reinstating two mail deliveries a day until after the study? We hope not then.

Mr. BELEN. That is right.

DISCONTINUANCE OF FOURTH-CLASS POST OFFICES

Mr. PASSMAN. On page 166 you speak of the discontinuance anticipated in the small fourth-class post offices, which are discontinued only when patrons are assured as good or better service.

I certainly want to commend the prior administration and this administration for taking this businesslike approach to this matter. There are those who endorse programs that would continue a fourth-class post office, maybe taking in $150 a year when the cost of operation is $2,900 a year, using as an excuse that it keeps the community together.

As far as I am concerned, representing a rural district with many fourth-class post offices, I hope you close as many as you can if they are operating at a substantial loss. It is a businessman's approach, and I am certainly glad to see you are going to continue that policy.

I believe you anticipate a reduction of 346 postmaster man-years during fiscal 1962?

Mr. BELEN. Yes, sir.

Mr. PASSMAN. How many fourth-class offices do you anticipate closing?

Mr. BELEN. Those would be fourth-class offices.

Mr. PASSMAN. It says man-years.

Mr. BELEN. It is just expressed that way.

Mr. BARNES. 410 in 1961 and 322 in 1962.

Mr. PASSMAN. Then you would have 346 postmaster man-years but you would close 322 post offices in 1962?

Mr. BARNES. Right.

Mr. PASSMAN. So that the membership of the House may have information on this matter, could you furnish for the record a list of say 15 fourth-class post offices selected at random, the revenues accruing to the 15 offices and the cost of operation per post office per year?

Mr. BARNES. Do I understand you want 15 of those that have been discontinued?

Mr. PASSMAN. Yes, 15 of the most recently closed offices selected at random. You may find many fourth-class offices with revenues of $100 a year with the cost of keeping them open $2,896 per year.

Mr. PILLION. At random?

Mr. PASSMAN. Yes.

Mr. BELEN. We will take a period and say these were all the post offices closed during this period and this is the picture.

Mr. PASSMAN. Yes, a 30-day or 90-day period, because I am of the opinion that too few Members realize that some post offices are operating at a tremendous loss.

This information will be very helpful to those of us who like to operate on a business basis in defending the action in closing fourth-class post offices operating at the expense of the taxpayer and at the expense of the Post Office Department.

(The information supplied follows:)

4th-class post offices discontinued, Dec. 31, 1960, to Jan. 31, 1961

Post office	Annual receipts	Annual cost of operation	Annual service replacement cost	Savings (see note)
Old Joe, Ark.	$600	$2,906	$1,480	$1,426
Pittsville, Calif.	987	2,698	1,800	898
Spring Garden, Calif.	285	2,176	1,000	1,176
Fort Green, Fla.	655	4,935	1,200	3,735
Johnson, Fla.	519	2,165	860	1,305
Fry, Ga.	149	1,117	804	313
Drummond, Idaho	478	2,116	86	2,030
Judyville, Ind.	329	2,000	1,200	800
Latimer, Kans.	353	2,118	1,250	868
Waunetа, Kans.	600	3,122	950	2,172
Ellen, Ky.	88	836	590	246
Arnold, Mich.	324	1,900	1,000	900
Mason, Nev.	462	2,346	1,200	1,146
Ira, N.Y.	931	3,942	356	3,586
Rosedale, Okla.	447	2,538	480	2,058
Wila, Pa.	533	2,354	1,200	1,154
Erica, Va.	584	2,481	1,000	1,481
Kidds Fork, Va.	121	1,013	393	620
Penola, Va.	974	3,445	848	2,597
Total	9,119	46,208	17,697	28,511

Total 4th-class post offices discontinued	19
Total savings	$28,511
Average savings	$1,501

NOTE.—"Savings" show the difference between "annual cost of operation" and "annual service replacement cost." "Savings" indicate the reduced cost of operation but do not indicate the "loss" if any on postal services involved in the operation of 4th-class post offices.

Mr. PASSMAN. Mr. Pillion?

ECONOMIC BASIS FOR VOLUME OF MAIL ESTIMATE

Mr. PILLION. I have been looking for a table in here that I thought appeared in last year's hearings, which gives the date and which furnishes the basis for your projection as to the increases in the volume of mail. I cannot seem to find it here.

Mr. BELEN. I believe that is your table 2 that we put in the first day.

Mr. NOBLE. Economic data?

Mr. PILLION. Economic data upon which you project and base your prospective increase in volume which is based upon the current personal income, that is one factor, and the consumer price index and gross national product, personal consumption expenditures.

There has been some variance since these figures were gotten together with the present conditions now that we have a full-fledged recession or depression.

I assume that the new data would tend to decrease the projected 3.8 percent volume increase. Who can answer that question?

Mr. NOBLE. Mr. Pillion, it is our belief that the percentage increase for 1962 will still be the same as was projected when these estimates were prepared. There has been in this last accounting period a

falling off in the rate of growth of the mail volume, but as far as we know the steps being taken to restore the economy will be effective as far as fiscal year 1962 is concerned and will have no appreciable effect for that year as a whole. So that we have no reason to believe but what our estimate of 68,100 million pieces is still sound.

Mr. PILLION. I had the figure yesterday of the volume of mail betwen July 1, 1960, and January 1, 1961. May I have the volume there in millions?

Mr. NOBLE. The rate of increase was 2.9 percent, and, as I think I indicated at the time we gave the percentage, this is a very rough current statistical figure which will be later firmed up through the regular cost ascertainment process.

Mr. PILLION. Mr. Noble, the 2.9 percent increase in volume for the period July 1, 1960, to January 1, 1961, is based upon what other comparable 6-month period, the previous or the year before?

Mr. NOBLE. The year before, the same period a year ago.

Mr. PILLION. As versus July 1, 1959, to January 1, 1960?

Mr. NOBLE. That is correct.

It is actually a 28-week period, Mr. Pillion, not exactly calendar months, because our current accounting is in a 4-week basis.

Mr. PILLION. Last year the percentage of increase in volume of mail that you estimated was what?

What was the estimate for the whole year, fiscal 1961, compared to 1960?

What was your projected increase in volume?

Mr. NOBLE. Our initial submission in the 1961 estimate was for an increase of 5.2 percent or a total of 66.3 billion pieces.

Mr. PILLION. Your estimate at that time was 5.2?

Mr. NOBLE. Yes.

Mr. PILLION. Your actual increase for the half year is 2.9?

Mr. NOBLE. Yes.

Mr. PILLION. What did this committee decide to give you?

What was the basis upon which we made our appropriations? We cut that down, I think.

Mr. NOBLE. Yes, as a result of your cut it was equivalent to a 3.02 percent volume increase, or 65.6 billion pieces. It appears the committee's guess was better than ours in this year.

Mr. PILLION. I realize the uncertainties that exist in these statistics and I am trying to establish a margin of error that could be 2 or 3 percent. just like in an overall budget. With the best brains down in the Bureau of the Budget, we can still be off anywhere from five to six or seven billion dollars per year. I am just trying to show that these figures, with all sincerity, and all your good intentions, are still liable to the variations of our economy and sometimes even human errors.

So that the figure of 3.8 that is projected here is not necessarily an indisputable percentage rate that is completely binding upon either your department or upon this committee?

Mr. NOBLE. Unfortunately not. It can go either way.

Mr. PILLION. If the gross national product continues at its present rate and our recession continues to—I hope not of course—if it continues to slip, then of course that ought to have some effect upon the volume of mail that you will be handling; is that right?

Mr. NOBLE. Yes, I believe so.

Mr. PILLION. As the economy goes down, the volume goes down?

Mr. NOBLE. There is a general relationship.

Mr. PILLION. There is a general parallel there?

Mr. NOBLE. This table you have, Mr. Pillion, was up-dated as of February 1 according to the latest economic data we could get. At that time the changes in personal income, which are tied to gross national product, had not varied sufficiently to change our statistical projection for 1962, which was my reason for saying we still believe that our estimate is fairly reliable.

VOLUME OF "JUNK" MAIL

Mr. PILLION. What part of the volume of mail is so-called junk mail?

Can anyone tell me what percentage that is of the total 68 billion or whatever?

Mr. NOBLE. The table we have on page 2 shows the number of pieces for each of the major classes of mail and for 1962 we estimate that third-class mail will be 19,800 million out of the 68,100 million total. That is a little less than one-third.

Mr. PILLION. That is what is called third-class mail?

Mr. NOBLE. That is correct.

Mr. PASSMAN. Would the gentleman yield?

Mr. PILLION. Yes.

Mr. PASSMAN. Could you estimate the weight percentage?

Mr. NOBLE. I can develop that from some cost ascertainment figures on a historic basis.

Mr. PASSMAN. That is important because many times a piece of junk mail may weigh 15 times as much as a piece of first-class mail. Will you try to establish that for us?

Mr. PILLION. The gentleman makes a very pertinent point there.

Mr. NOBLE. I believe I have here a table that will give that for 1960 and the projected relationship should presumably be about the same.

Mr. PASSMAN. Will the gentleman yield further?

Will you read it into the record at this point?

Mr. NOBLE. For fiscal year 1960, by weight third-class mail comprised 10.9 percent of the total weight of the mail. This compared with 28 percent in terms of number of pieces, which would indicate that the average weight per piece for third-class mail is less than the average of the total mail. However, we must bear in mind that parcel post is in your total and that is a very heavy item.

Mr. PASSMAN. I do not think we should leave the record just there. I think we should now try to break out the third-class from the parcel post. Because of the third-class mail I handle, I know that most of it is much heavier per piece than first-class.

Mr. BELEN. 8.3 percent would be the weight.

Mr. PASSMAN. That same bulk mail, what percentage of total pieces would that be?

Mr. BELEN. 22.7.

Mr. NOBLE. The bulk mail you are speaking of now.

Mr. BELEN. Pieces.

Mr. NOBLE. Pieces of bulk mail was 22 percent in 1960, the bulk mail. I have the average weight per piece here, Mr. Passman.

Bulk mail average weight per piece for 1960 in terms of ounces was 1.077. That compares with letters, first-class letters which average about a half-ounce.

Mr. PASSMAN. That gives us the record we want.

In other words, the junk mail per piece would average about double the weight of first-class mail?

Mr. NOBLE. Yes, sir.

Mr. PILLION. And the revenue you receive is what?

Is it 4 cents per piece on first-class and how much per piece on the bulk mail?

Mr. BELEN. Two and a half.

Mr. PILLION. On a comparison basis, one costs 8 cents, the other costs 2½, by weight?

Mr. BARNES. Right.

Mr. NOBLE. However, the largest single element of our cost is the handling charge, the actual distribution of the mail. That is pretty much on a piece basis.

In other words, weight, except in the case of parcel post, is a very minor factor in our cost per piece. It is a factor, but it is a relatively minor one.

Mr. PASSMAN. Nevertheless, it costs as much to deliver a piece of third-class mail as first-class mail; does it not?

You have to segregate the mail and put it in a box or else deliver it on rural routes or city routes?

Mr. NOBLE. As far as ultimate delivery is concerned, I believe operations could tell us about the difference in initial handling. In other words, bulk mail is much less work at the office of origin because it is packaged and arranged in a way that reduces the cost materially.

Mr. BRAWLEY. I believe mailer performs some service for the point of delivery, do they not?

Mr. NOBLE. Only packaged for the city.

RELATIONSHIP OF ECONOMIC DATA TO MAIL VOLUME

On this relationship of economic data to mail volume, we find that where there is an immediate adverse effect on mail volume because of an economic decline, it is frequently followed by a rebound and the economy goes right on up immediately following that at an accelerated rate.

Mr. PILLION. Thank you. I hope that we reach that point pretty quickly.

Mr. NOBLE. So do we.

Mr. PASSMAN. If the gentleman will yield, I think the record indicates the overall effect of this recession is more than the overall effect of the 1957–58 recession.

Mr. PILLION. Yes.

To get back to that, I am a little bit hard put to digest this 3.8 percentage of volume increase in view of the fact that in 1958 the actual percentage increase was 1.8 and in 1959 the actual increase in volume was 1.9. I think you have it there.

Mr. NOBLE. Yes, we have a chart that shows that.

Mr. PILLION. Then it ran to 3.7.

Mr. NOBLE. 3.7 in 1960 after you exclude the leap year day which is the fair way to compare it.

Mr. PILLION. 1961, your estimate was 3.3?

Mr. NOBLE. Yes.

Mr. PILLION. As of now, it is 2.9?

Mr. NOBLE. That is correct.

Mr. PILLION. For the first half of the year. So that it might be possible that your volume of mail for 1962 could range anywhere from 2 to 4 percent, depending upon the uncertain future.

Would that be a reasonable assumption, Mr. Noble?

Mr. NOBLE. Those ranges are reasonable.

Mr. PILLION. Thank you.

CUSTODIAL SERVICE

I note that on page 166, Mr. Belen, you estimate that your increase for regular custodial service is 4.9 percent. This increase is based upon a 5.3 percent increase in space occupied. How firm is that figure of 5.3? Is that subject to variations also as to the amount of space you are going to have in 1962 over 1961?

Mr. BELEN. That should be quite a firm figure.

Mr. PILLION. Is that based on the beginning, middle, or end of the fiscal year?

Mr. BARNES. It is based upon our plans for next year, the average for the year, 1962.

Mr. BELEN. Knowing what buildings are scheduled.

Mr. PILLION. Would there be a possible variation of 1 or 2 percent or so in that figure?

Mr. BELEN. It might actually increase if there is an acceleration based on the President's program, as Mr. Day mentioned earlier, sir.

Mr. PILLION. Thank you, Mr. Chairman. I have nothing further.

Mr. PASSMAN. Mr. Milliken.

Mr. MILLIKEN. I have no questions at this point.

VOLUME OF MAIL

Mr. PASSMAN. In discussing the several classes of mail a moment ago, the third-class mail was referred to as "junk mail," and second-class mail is newspapers and periodicals. Of the total weight of mail handled in fiscal year 1961, of these 65 billion pieces, what percentage of the total would represent second-class mail?

Mr. BELEN. Mr. Noble, I believe, has the latest estimates on that in firm figures.

Mr. NOBLE. The weight of second-class mail for fiscal year 1960 is about 25 percent of the total weight of all mail.

Mr. PASSMAN. Again, parcel post comes in, though?

Mr. NOBLE. Yes. In terms of weight per piece, the average weight is 6 ounces per piece for second-class mail.

Mr. PASSMAN. And what is the revenue per piece?

Mr. NOBLE. It was about 1 cent per piece in fiscal year 1960. There have been rate increases since then and that would be slightly increased at the present time as of January 1, 1961.

Mr. PASSMAN. Would this be the proper place in the record to insert the loss by category of handling first-, second-, and third-class mail and also fourth-class parcel post?

Mr. PILLION. By categories?

Mr. PASSMAN. Yes. The main categories would be first, second, third, and fourth?

Mr. BELEN. Yes.

Mr. PILLION. Are there any splits between those?

Mr. BELEN. There are different categories, yes.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Perhaps it would suffice to have the receipts from first-, second-, third-, and fourth-class mail, the cost of handling them, and then the loss by category.

Mr. NOBLE. I believe I can give you that. We have just completed our cost ascertainment report for 1960. We have not released it publicly, but we are ready to do so and I see no reason why this committee should not have this information.

The figures I give are for fiscal year 1960 adjusted for the subsequent pay increase and for rate increases presently authorized; that is, adjusted for known changes authorized by law.

On that basis, first-class mail as a whole is just about breaking even.

Mr. BELEN. Can we not just give that to Mr. Passman?

Mr. NOBLE. First-class shows a small loss of $3,900,000.

Airmail shows an excess of revenue over cost of $10 million, or 106 percent coverage. That is the excess of revenue over the cost.

Mr. PASSMAN. You are not taking into account the subsidies to the feeder lines?

Mr. NOBLE. No. There are no subsidies in our costs any more. Those are paid by the CAB.

Mr. PASSMAN. If the subsidies should be considered you would have a loss on airmail, would you not?

Mr. NOBLE. Yes, but those subsidies, as I understand it, are not related to mail. That is a matter of national policy.

Mr. PASSMAN. All right.

Mr. NOBLE. In the second-class category as a whole there is a loss of $344 million, of which $256 million is at the regular rates, the remainder being on the reduced rate after applying the public service appropriation which the Congress made for 1960.

For third-class mail there is a loss of $252 million.

For fourth-class mail, all categories but principally parcel post and catalogs, there is a loss of $113 million.

Mr. PASSMAN. For a total of how much?

Mr. NOBLE. Actually, we did not total this projection. We can add it up. We can put that in the record.

Mr. GARY. If you will insert that in the record at this point.

Mr. NOBLE. Yes, sir.

(The information follows:)

The total loss for the above mentioned classes of mail amounts to $702,743,250, based on 1960 volume and operations.

Mr. BRAWLEY. Mr. Chairman, I think the record should show at this point that the new administration does not necessarily subscribe to the way these figures have been allocated. This is not a part of our presentation and does not reflect on the budget at this point. We may want to make some changes in the allocation of mail costs.

Mr. PASSMAN. You may change the percentages in the categories, but so far as the net operating deficit, that will remain the same; is that right?

Mr. BRAWLEY. That is right.

Mr. PASSMAN. That is all.

Mr. GARY. Off the record.

(Discussion off the record.)

MAIL VOLUME

Mr. GARY. Mr. Noble, if you will please insert those charts that have been presented at the appropriate place in the record.

Mr. NOBLE. I will be glad to do so.

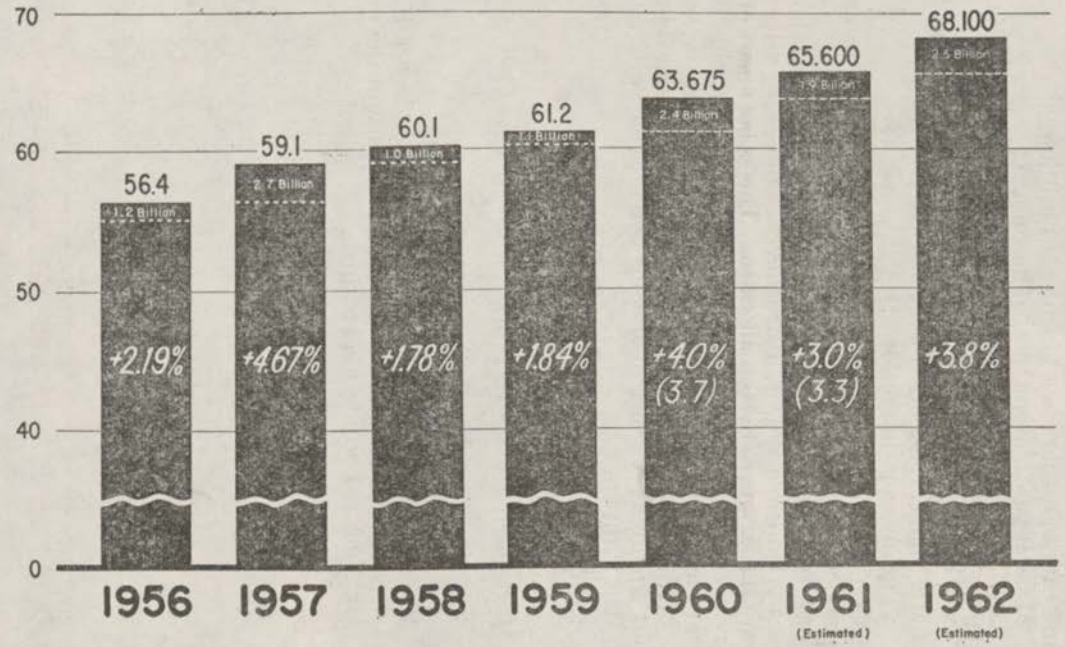
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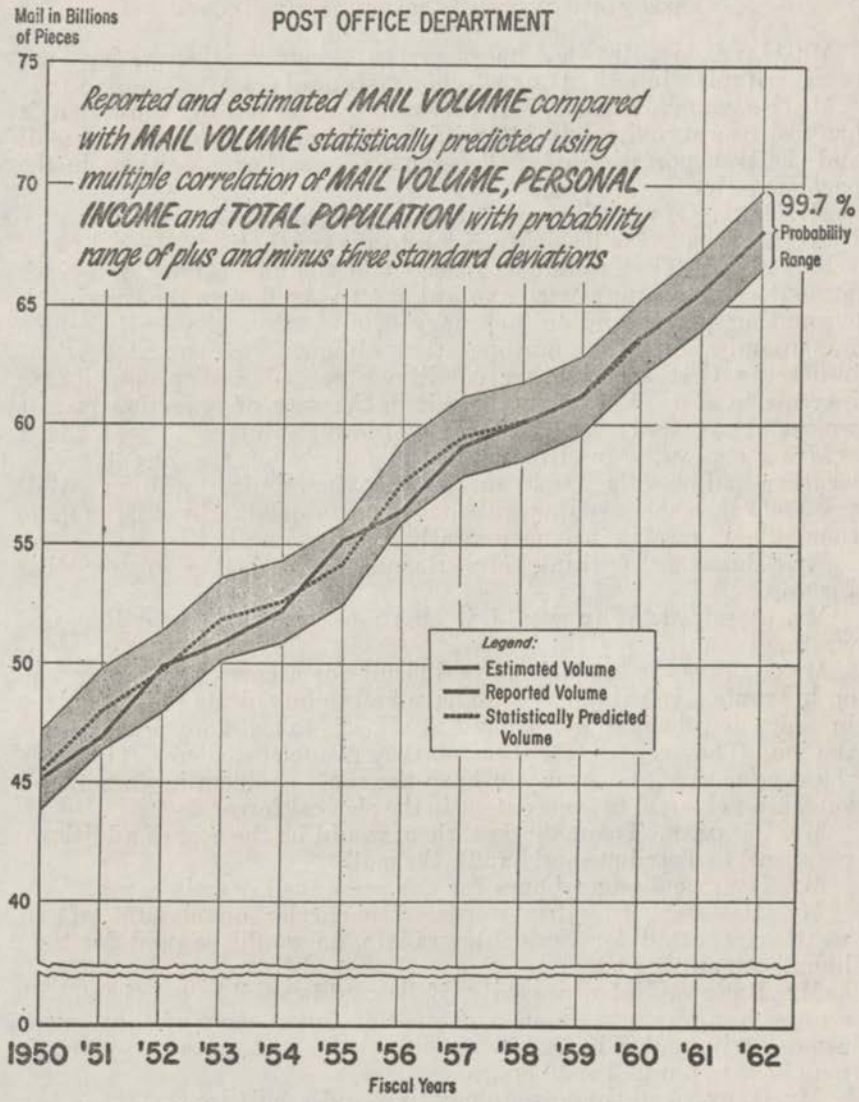
POST OFFICE DEPARTMENT

MAIL VOLUME

1956 - 1962

In Billions of Pieces




Mail in Billions of Pieces
POST OFFICE DEPARTMENT
Reported and estimated MAIL VOLUME compared with MAIL VOLUME statistically predicted using multiple correlation of MAIL VOLUME, PERSONAL INCOME and TOTAL POPULATION with probability range of plus and minus three standard deviations
99.7 % Probability Range
Legend:
Estimated Volume
Reported Volume
Statistically Predicted Volume
75
70
65
60
55
50
45
40
0
1950 '51 '52 '53 '54 '55 '56 '57 '58 '59 '60 '61 '62
Fiscal Years

I may also say, Mr. Chairman, when we were discussing the relation between the state of the economy and mail volume, there is a tendency during a recession to step up advertising, and we sometimes find an increase in third-class mail when the economy is in a recession.

EFFECT OF WEATHER ON MAIL HANDLING COSTS

Mr. GARY. Mr. Brawley, has the recent severe weather we have experienced this winter had any effect on your mail costs?

Mr. BRAWLEY. Yes, sir, Mr. Chairman. The records show that it has cost us approximately $10 million to handle the delivery of mail and the transportation of mail because of weather conditions in the past 2 months.

Mr. GARY. Of what items does that consist, mainly?

Mr. BRAWLEY. I will ask Mr. Noble to answer that.

Mr. NOBLE. That would be reflected in the city carrier and clerk account. For example, we have just gotten the figures for the eighth accounting period ending February 3, and while the mail volume was up only 1.3 percent, our operations obligations are up 2.9 percent, indicating that the weather conditions caused a disproportionate increase in cost. We got no benefit in the way of reduction in cost we would have had otherwise because of lower volume.

Mr. PASSMAN. Mr. Brawley, you stated that the recent severe weather had cost the Department approximately $10 million. Will you state in what way this extra money was spent, why it costs more to handle the mail in inclement weather than normally?

Mr. BRAWLEY. I think Mr. Barnes could better answer that for you.

Mr. PASSMAN. Why would it cost more to handle mail in bad weather?

Mr. BARNES. It is much more difficult for a carrier to get around on his route. In many cases we have had to buy cleats for their shoes in order for them to get around at all. It takes more people to do the job. They report later because they cannot get there. That is in the carrier service. And you have the same problem in your motor vehicle service and to some extent in the clerical force.

Mr. PASSMAN. The main cost, then, would be the cost of additional personnel to distribute and handle the mail?

Mr. BARNES. Longer hours for the personnel, overtime, yes.

Mr. PASSMAN. In other words, if a carrier on account of bad weather reported for work 2 hours late, he would be paid for the 2 hours' commuting time?

Mr. BARNES. Not necessarily, if he could possibly get there. We require him to work 8 hours. But don't forget most of these routes are one-trip, and if he cannot possibly make that route in 8 hours, he may have to put in 9 or 10 hours.

Mr. GARY. And you have to pay time-and-a-half for that?

Mr. BARNES. Overtime.

Mr. PASSMAN. That would not apply to rural carriers and star route carriers?

Mr. BARNES. Not always, but we do have late train arrivals and departures which affect the cost for other employees.

Mr. PILLION. It is off schedule?

Mr. BARNES. Yes, off schedule, and if your train comes in late you will have to call in additional clerks for that day.

Mr. PASSMAN. I think that explains it.

EFFECT OF AIRLINE STRIKE ON MOVING OF MAIL

Mr. GARY. What effect is this airline strike having now?

Mr. BARNES. It means that mail has to go by surface transportation. It will delay that mail.

Mr. GARY. Are you having difficulty getting sufficient space on surface transportation to transport the mail?

Mr. BARNES. We have had no particular difficulty there yet.

Mr. GARY. It will probably result in some delay and nothing more?

Mr. BARNES. The airlift would be grounded and airmail, of course, would be delayed.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

TRANSPORTATION

WITNESSES

FREDERICK E. BATRUS, EXECUTIVE ASSISTANT, BUREAU OF TRANSPORTATION

EMIL J. STEPPER, CONTROL OFFICER, BUREAU OF TRANSPORTATION

GREEVER P. ALLAN, DIRECTOR, INTERNATIONAL SERVICE DIVISION, BUREAU OF TRANSPORTATION

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Program and financing

[In thousands of dollars]

	1960 actual	1961 estimate	1962 estimate
Program by activities:			
1. Surface transportation:			
(a) Water	23,186	24,345	25,680
(b) Highway	95,412	102,349	109,659
(c) Rail	342,959	360,185	368,486
2. Air transportation	71,227	80,721	89,775
Total obligations (object class 22)	532,784	567,600	593,600
Financing: Unobligated balance lapsing	3,716		
New authority	536,500	567,600	593,600
New authority:			
Appropriation	531,000	548,700	593,600
Transferred (73 Stat. 69) from—			
"Administration, regional operation, and research"	1,800		
"Operations"	1,700		
"Postal modernization"	2,000		
Appropriation (adjusted)	536,500	548,700	593,600
Proposed supplemental due to railroad rate increases		18,900	

Mr. GARY. The next item is "Transportation."

INCREASE REQUESTED FOR 1962

The appropriation for 1960 for this item was $536,500,000. The appropriation for 1961, including the supplemental, is $567,600,000. The request for 1962 is $593,600,000. Assuming the 1961 supplemental is granted, the request for 1962 represents an increase over 1961 of $26 million.

JUSTIFICATION DATA

We will insert at this point in the record pages 30.1 and 30.2 of the justifications.

(The pages referred to follow:)

Statement relating 1960, 1961, and 1962 programs

[In thousands]

1960 appropriation (including supplementals)	$536,500
1961 budget estimates	567,600
1961 appropriation in annual act	548,700
Proposed supplemental due to railroad rate increase	18,900
Adjusted appropriation, 1961	567,600
1960 program (obligations incurred)	532,784
Railroad rate increase	30,900
Increase due to volume and expansion of service	3,916
1961 program (obligations incurred)	567,600
Railroad rate increase	6,700
Increase due to volume and expansion of service	19,300
1962 program (obligations incurred)	593,600

Analysis of estimated increase in obligations, 1961–62

[In thousands]

Activity and account	1960 (actual)	1961 (estimate)	Increase or decrease (−) due to—			1962 (estimate)	Increase or decrease (−)	
			Leap year day in 1960	All other			Amount	Percent
				Amount	Percent			
Surface transportation:								
Water transportation	$23,186	$24,345	−$70	$1,229	5.3	$25,680	$1,335	5.5
Highway transportation	95,412	102,349	−19	6,956	7.3	109,659	7,310	7.1
Railroad service	342,959	360,185	−1,029	18,255	5.3	368,486	8,301	2.3
Subtotal	461,557	486,879	−1,118	26,440	5.7	503,825	16,946	3.5
Air transportation:								
Domestic airmail service	49,916	57,480	−150	7,714	15.5	64,114	6,634	11.5
Foreign airmail service	21,311	23,241	−64	1,994	9.4	25,661	2,420	10.4
Subtotal	71,227	80,721	−214	9,708	13.7	89,775	9,054	11.2
Total transportation	532,784	567,600	−1,332	36,148	6.8	593,600	26,000	4.6
Total increase over prior year	25,495	34,816					26,000	

Mr. GARY. Mr. Batrus, do you have a statement to make at this time?

GENERAL STATEMENT

Mr. BATRUS. Mr. Chairman, I have a brief statement, with your permission.

Mr. Chairman, members of the committee, I, and the other members of the Bureau of Transportation staff here today are pleased to appear before you to explain the request for 1962 appropriations for the transportation of mail, and to answer questions which you may have concerning it.

Before discussing the change which reduces the request of the previous administration by $12 million, I would like, with your permission, to summarize briefly the requested appropriation for 1962 as it now stands before your committee.

The total amount requested is $593,600,000 for all domestic and international transportation of mail, both surface and air.

This is an increase of $26 million over estimated obligations of $567,600,000 for 1961. The 1961 figure reflects the increased railway mail rates prescribed by the Interstate Commerce Commission effective September 1, 1960, applicable for 10 months of the fiscal year.

The 1962 requested appropriation also reflects the increase in railway mail rates, but on a full-year basis, as compared to the 10-month application in fiscal year 1961. The 2-month difference amounts to $6,700,000 which accounts for part of the $26 million total increase over 1961. The remainder, $19,300,000 is requested to meet volume increases, and expansion of service, and anticipated cost adjustments in contract highway transportation required by law.

Our request for surface transportation amounts to $503,825,000. This includes all domestic rail, highway, and water transportation, and international steamship transportation as well as terminal and transit charges made by foreign countries for surface mail. It is $16,946,000 above the 1961 amount, which is the increase projected to cover higher railway mail rates on a full year basis, cost adjustments in star route service, volume increase, and expansion of service.

Air transportation, both domestic and international, amounts to a total of $89,775,000, an increase of $9,054,000 over 1961 to cover increased volume of air mail and air parcel post.

Now as to the modification which reduced by $12 million the request originally submitted by the previous administration.

Volume of surface parcel post being handled and transported in the current fiscal year is running about 5.5 percent below last year, a major factor in enabling the Department to absorb $12 million of the $30.9 million increase resulting from the railway mail rates prescribed by the Interstate Commerce Commission. This adjustment was reflected in our request for 1961 supplemental appropriation, submitted last Friday to the House Subcommittee on Deficiency Appropriations.

The reduction of $12 million is likewise reflected in the amount requested for 1962, thus accounting for the modification in the original submission by the previous administration.

May I express our appreciation for the opportunity to appear here today. We will be glad to answer any questions which you may have concerning the items contained in our submission.

INCREASE IN RAILROAD RATES

Mr. GARY. What was the increase granted the railroads by the Interstate Commerce Commission last year?

Mr. BATRUS. The Interstate Commerce Commission granted an increase to the eastern railroads of 8 percent over the rates which were then in effect, and granted to the western railroads and southern railroads an increase of 13 percent. They made the increases effective September 1, 1960.

Mr. GARY. What did the railroads request?

Mr. BATRUS. Originally when they filed their petitions they had what is called an open-end request. They merely requested an increase without specifying the amount. They had done this before. They pursued this by submitting evidence which showed a differential between their cost and revenues which in some cases far exceeded the 13 percent and the 8 percent in each instance. This cost evidence was based upon their own determination as to what their cost of carrying the mail is under usual cost and ratemaking procedures approved by the Interstate Commerce Commission.

Mr. GARY. Did the Department oppose these increases?

Mr. BATRUS. The Department originally opposed the increases, but as the evidence developed the Department indicated to the Commission it would interpose no objection or contest the case if the Commission limited the increases to 8 percent and 13 percent, respectively.

Mr. GARY. In other words, they acquiesced in this before the decision was reached?

Mr. BATRUS. That is correct, sir. The Department said they would not contest it. They did not say, "This is the rate you should fix," but they said they would not contest such increases.

AIR LIFT OF REGULAR FIRST-CLASS MAIL

Mr. GARY. Do you have any other rate cases pending at the present time?

Mr. BATRUS. We have no other rate cases pending at the present time before the Interstate Commerce Commission and we have no rate case pending before the CAB except in the nonpriority airlift mail. This was initiated by Board action in 1959. There has been an interim rate established by the Board which was established last year, and still pending is the case which involves the establishment as a final permanent rate, a nationwide airlift rate applicable to any airlift of first-class mail.

Mr. GARY. What is the difference between the regular airmail rate and the airlift rate?

Mr. BATRUS. The airlift rate as now applicable to the new segments is exactly 50 percent of the airmail rate. We had some segments established in 1953 and 1954. Those rates are slightly different than the rates later prescribed for the new segments. They are on a per ton-mile basis and they amount to about 50 percent of the regular airmail rate, but not exactly.

Mr. GARY. Why can they transport mail cheaper if it is airlift than if it is regular airmail?

Mr. BATRUS. The Civil Aeronautics Board has prescribed this differential for the reason, as assigned by the Board, that it is a deferred, nonpriority type of movement. It moves on a space-available basis after all other traffic is accommodated. The airlines have no obligation to use space for airlift mail but they may use it to fill otherwise unfilled space if they so desire. That is the basis in general for the differential.

Mr. GARY. How do you work this airlift so that you will not send a lot of mail down to the terminal and have it left there because there is no space available?

Mr. BATRUS. Usually our postal people who are working at the airports and responsible for seeing that this mail moves are aware, by custom, of the amount of space that regularly is available so that they know as a matter of course how much space is generally available.

We have a rule that requires if the mail, once it has been turned over to a carrier, is not moved within a 4-hour period the carrier must notify our postal personnel of that fact and our personnel then make a determination as to how it will be moved.

Mr. GARY. You have no control over these rates at all, do you? What I mean is, the railroad rates are fixed by the Interstate Commerce Commission, and the airmail rates are fixed by the Civil Aeronautics Board, and you cannot fix any rates yourself? You cannot even negotiate for them?

Mr. BATRUS. That is correct.

Mr. GARY. So you have no control over the amount you have to pay?

Mr. BATRUS. That is right. The rates are prescribed by the Civil Aeronautics Board in the case of airmail and we must pay that rate. And the rates are prescribed by the Interstate Commerce Commission in the case of mail carried by the railroads, and we must pay those rates.

Mr. PILLION. Will the gentleman yield?

Mr. GARY. Yes.

Mr. PILLION. But you do not have to use the airlift if you think the rate is too high? You can send that mail by railroad?

Mr. BATRUS. That is correct.

STAR ROUTES

Mr. BRAWLEY. We do have authority to contract for star routes and highway post offices.

Mr. BATRUS. In the case of star routes we contract with the lowest responsible bidder, so we must use the lowest bidder.

HIGHWAY POST OFFICES

Mr. GARY. And in the case of highway post offices you operate either directly or by contract? How are you operating now?

Mr. BATRUS. By contract awarded after competitive bids except that we have a few contracts with railroads to operate highway post offices that are negotiated contracts. This is permitted by law at negotiated rates different from those prescribed by the Interstate Commerce Commission for rail service.

Mr. GARY. Do the rural routes come under you, too?

Mr. BATRUS. No, they do not.

Mr. GARY. They come under Operations?

Mr. BATRUS. Yes.

Mr. GARY. You have nothing to do with the operation of rural routes?

Mr. BATRUS. No.

Mr. GARY. But you do handle the star routes?

Mr. BATRUS. All star routes.

RENEGOTIATION OF STAR-ROUTE CONTRACTS

Mr. GARY. The question was raised awhile ago about the renegotiation of star-route contracts. What is your policy with respect to that?

Mr. BATRUS. Under the law we are required in the case of star routes, when due application is made, to make an appropriate adjustment to cover any cost increases that have been caused by changes arising since the date of the contract. If there are cost increases that are occasioned, for example, by increases in taxes that the star route contractor must pay, or higher cost of gasoline, he is entitled to show that as having occurred since he entered into the contract, and with due proof, if we are satisfied with the proof, an adjustment is made.

Mr. GARY. Off the record.

(Discussion off the record.)

Mr. PILLION. Could you give us an estimate of the number of star routes that have been renegotiated, say over a period of the last year you may have in mind, as a percentage, 1, 5, or 10 percent?

Mr. BATRUS. I do not have those figures. We will be glad to supply them for the record.

Mr. GARY. Will you insert that information at this point in the record, please?

Mr. BATRUS. Yes, sir.

(The information follows:)

Contract adjustments—Fiscal year 1960 under Public Laws 669, 262–763, 862

Public Law	Item	Number of routes adjusted	Percent of total routes	Amount of increases	Percent of total obligations
669	Star routes	2,540	23.1	$1,198,000	1.7
262–763	Mail messengers	579	8.4	192,000	1.0
862	Highway post offices	86	50.6	87,000	1.3

AIRLIFT OF FIRST-CLASS MAIL

Mr. GARY. We had some discussion of the airlift, Mr. Batrus, before you came in when we were discussing operations, and they told us that should be discussed under transportation. Can you give us some information as to the policy on the airlift?

Mr. BATRUS. Yes, sir, Mr. Chairman. As indicated by the Postmaster General, we have no plans at this time for any expansion of the airlift. There is some possibility of perhaps some reallocation of the segments that are actually operating, but no expansion in the scope of the airlift is planned.

If you would like to have information as to the various segments of the airlift as presently operating, I have a tabulation showing the segments by postal regions, if you would like to have that.

Mr. GARY. Yes. I wish you would put that in the record at this point.

Mr. BATRUS. Transportation of first-class mail by air on a voluntary, space available basis by trunkline carriers was first inaugurated in October 1953 between New York-Chicago and Washington-Chicago, and was expanded in February 1954 to Jacksonville, Tampa, and Miami, Fla. The west coast airlift was inaugurated in November 1954. During the same period airlift was inaugurated on a network of local service (feeder) airlines. In March, April, and June, 1960, the trunkline airlift was extended to 57 additional segments.

Currently the airlift is moving approximately 35,000 tons of first-class mail annually. Rates paid to the air carriers are fixed by the Civil Aeronautics Board and average approximately half the rate applicable to airmail.

(The matter referred to follows:)

The following is a consolidation by regions showing the trunkline first-class mail airlift in effect as of January 15, 1961:

ATLANTA REGION

From—	Date established	To—	Mail involved
Atlanta	June 25, 1960	New York/Newark	Metro to metro.
	do	Philadelphia	Do.
	Jan. 15, 1961	do	From gateway, all Pennsylvania, 2246-0600, 1236-1800.
	Apr. 4, 1960	Tampa/St. Petersburg	Gateway to metro.
	June 25, 1960	Washington	Metro to metro.
	Jan. 15, 1961	do	From gateway, New York State (excluding metro directs for New York/Newark), Delaware, Maryland, New Jersey, and New England—split hours.
Jacksonville	Feb. 22, 1954	Chicago	Illinois and Wisconsin.
	Apr. 4, 1960	Cleveland	Ohio.
	do	Detroit	Michigan.
	Feb. 22, 1954	New York/Newark	Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, Vermont.
	Apr. 4, 1960	Pittsburgh	To metro.
	Feb. 22, 1954	Washington	Delaware, District of Columbia, Maryland, Pennsylvania, Virginia.
Miami (same as Jacksonville)	June 17, 1960	San Juan	Puerto Rico.
	Apr. 4, 1960	Atlanta	Metro to metro.
St. Petersburg/Tampa.	Feb. 22, 1954	Chicago	Illinois and Wisconsin.
	Apr. 4, 1960	Cleveland	Ohio.
	do	Detroit	Michigan.
	Feb. 22, 1954	New York/Newark	Connecticut, Maine Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, Vermont.
	Apr. 4, 1960	Pittsburgh	Metro to metro.
	Feb. 22, 1954	Washington	Delaware, District of Columbia, Maryland, Pennsylvania, Virginia.
San Juan	June 17, 1960	Baltimore/Washington	United States by scheme.
	do	Miami	Do.
	do	New York	Do.

BOSTON REGION

From—	Date established	To—	Mail involved
Boston	June 20, 1960	Chicago	Metro to metro.
	do	Cleveland	Do.

CHICAGO REGION

Chicago	June 20, 1960	Boston	Metro to metro.
	do	Dallas/Ft Worth/Houston	Do.
	do	Denver	Do.
	Feb. 22, 1954	Jacksonville/Miami/Tampa/St. Petersburg.	Standpoint Florida.
	Apr. 4, 1960	Minneapolis/St. Paul	Minnaepolis betewen 2100–0230.
	Oct. 6, 1953	New York/Newark	Connecticut, Staten Island, Long Island, New York City, Brooklyn, New Jersey.
	June 20, 1960	Salt Lake City	From metro to metro including all Utah.
	Oct. 6, 1953	Washington	District of Columbia, Maryland, Virginia.
Detroit	June 25, 1960	Washington	Metro to metro.
	do	Baltimore	Do.
	Apr. 4, 1960	Jacksonville/Miami/Tampa/St. Petersburg.	Standpoint Florida.

CINCINNATI REGION

Cleveland	June 20, 1960	Boston	Metro to metro.
	Apr. 4, 1960	Jacksonville/Miami/Tampa/St. Petersburg.	Standpoint Florida.

DALLAS REGION

Dallas/Fort Worth/ Houston.	June 20, 1960	Chicago	Metro to metro.
	June 25, 1960	Los Angeles	Metro to southern California metro.
	do	New York/Newark	Metro to metro.
	do	Philadelphia	Metro to metro.
	do	Phoenix	Metro to Phoenix area.

DENVER REGION

Denver	June 20, 1960	Chicago	Metro to metro.
	June 25, 1960	Omaha	Metro to metro between 1930–0520.
	June 20, 1960	Salt Lake City	Originating for Salt Lake City.
Phoenix	June 25, 1960	Dallas/Fort Worth/Houston	Originating to metro.
Salt Lake City	June 20, 1960	Chicago	Metro to metro.
	do	Denver	Originating for Denver.
	June 25, 1960	Omaha	Metro to metro.

MEMPHIS REGION (None)

MINNEAPOLIS REGION

Milwaukee	Apr. 4, 1960	Baltimore/Washington, D.C	Maryland to either point Virginia, District of Columbia to Washington, D.C.
	do	New York/Newark	Connecticut, New York City, Long Island, New Jersey to Newark.
Minneapolis/St. Paul.	do	Chicago	Cities to Chicago and suburban area between 2000–0145.

NEW YORK REGION

New York/Newark	June 25, 1960	Atlanta	Metro to metro.
	Oct. 6, 1953	Chicago	Illinois and Iowa.
	June 25, 1960	Dallas/Fort Worth/Houston	Metro to metro.
	Feb. 22, 1954	Jacksonville/Miami/Tampa/St. Petersburg.	Standpoint Florida.
	June 25, 1960	Kansas City/St. Louis	Metro to metro.
	Apr. 4, 1960	Milwaukee	Wisconsin.
	June 20, 1960	San Francisco/Oakland	Metro to northern California metro.
	June 17, 1960	San Juan	Puerto Rico.

PHILADELPHIA REGION

From—	Date established	To—	Mail involved
Newark		(See New York/Newark.)	
Philadelphia	June 25, 1960	Atlanta	Metro to metro.
	do	Dallas/Ft. Worth/Houston	Do.
	do	Kansas City/St. Louis	Do.
Pittsburgh	Apr. 4, 1960	Jacksonville/Miami/Tampa/St. Petersburg.	Standpoint Florida.
	June 25, 1960	Kansas City/St. Louis	Metro to metro.

ST. LOUIS REGION

Kansas City/St. Louis.	June 25, 1960	New York/Newark	Metro to metro.
	do	Philadelphia	Do.
	do	Pittsburgh	Do.

SAN FRANCISCO REGION

Honolulu	Mar. 25, 1960	Los Angeles/San Francisco/Portland/Seattle.	United States by scheme.
Los Angeles	June 25, 1960	Dallas/Ft. Worth/Houston	Southern California, metro to metro.
	Mar. 25, 1960	Honolulu	Hawaii.
	Nov. 22, 1954	Portland	Oregon.
	do	San Francisco	Northern California.
	do	Seattle	Washington by scheme Alaska.
Oakland/San Francisco.	Mar. 25, 1960	Honolulu	Hawaii.
	Nov. 22, 1954	Los Angeles	Southern California.
	June 20, 1960	New York/Newark	Metro to metro.
	Nov. 22, 1954	Portland	Oregon.
	do	Seattle	Washington by scheme.

SEATTLE REGION

Alaska points [1]	Mar. 25, 1960	Seattle	United States.
Portland	do	Honolulu	Hawaii.
	Nov. 22, 1954	Los Angeles	Southern California.
	do	San Francisco	Northern California.
	do	Seattle	Washington by scheme.
Seattle	Mar. 25, 1960	Alaska points	(1).
	do	Honolulu	Hawaii.
	Nov. 22, 1954	Los Angeles	Southern California.
	do	Portland	Oregon.
	do	San Francisco	Northern California.

[1] Anchorage, Fairbanks, Cordova, Juneau, Ketchikan, Kodiak, Yakutah.

WASHINGTON REGION

Baltimore	Oct. 6, 1953	Chicago	Illinois, Iowa via District of Columbia.
	June 25, 1960	Detroit	Metro to metro.
	Apr. 4, 1960	Milwaukee	Wisconsin.
	June 17, 1960	San Juan	Puerto Rico.
Washington, D.C.	June 25, 1960	Atlanta	Metro to metro.
	Jan. 15, 1961	do	Alabama and Georgia 0301-1720.
	Oct. 6, 1953	Chicago	Illinois and Iowa.
	June 25, 1960	Detroit	Metro to metro.
	Feb. 22, 1954	Jacksonville/Miami/Tampa/St. Petersburg.	Standpoint Florida.
	Apr. 4, 1960	Milwaukee	Wisconsin.
	June 17, 1960	San Juan	Puerto Rico.

WICHITA REGION

Omaha	June 25, 1960	Salt Lake City	Metro to metro including Utah working.

Mr. BATRUS. This [indicating] reviews very briefly the various airlifts and when they were instituted, if you would like to have that.

Mr. GARY. Yes. It will be inserted in the record along with the other material.

VOLUME AND REVENUE FROM AIRLIFT MAIL AND REGULAR AIRMAIL

What percentage of the total airmail is airlift mail?

Mr. BATRUS. Well, in terms of weight, total tons of mail, we are flying in the case of airmail close to 50,000 tons a year. We are now flying in airlift about 35,000 tons of first-class mail. This is weight alone. In terms of ton-miles of service, the airmail service is much greater in scope than is the airlift. Percentagewise, the airlift first-class mail that is now flown is still a small percentage of the total first-class mail.

Mr. PILLION. Will the gentleman yield?

Mr. GARY. Yes.

Mr. PILLION. Following that same statement, could you give an estimate of revenues?

Mr. BATRUS. Revenues paid to the air carriers?

Mr. PILLION. No, the revenues we derive.

Mr. BATRUS. From the airmail?

Mr. PILLION. That is right, and from the airlift. How much income do we obtain for this? You have given us the weight.

Mr. BATRUS. Mr. Pillion, I think there may be some difficulty in this because we would have to determine the difference between, for example, the airmail and the air parcel post. We have to take an estimate of the weight of this mail and then try to break out the number of pieces that are going by airmail, so it would have to be a very rough estimate.

Mr. PILLION. Would you not have to have that for an ascertainment of cost?

Mr. BATRUS. Not the particular revenue that is derived from the amount of mail moving in air transportation as such as against the amount of first-class mail moving in the airlift.

Mr. NOBLE. I have information as to airmail and its relation to total mail, breaking out air parcel post separately.

Air letters in fiscal 1960 comprised only four-tenths of 1 percent of the total weight. Was your question in relation to revenue?

Mr. PILLION. Yes. You carry a good load of weight but how much revenue is derived from it?

Mr. NOBLE. $112 million was derived from airmail letters in 1960, which was 3.4 percent of our total revenue for that year. That is only pure airmail for which the 7 cents is paid.

There is no information on the revenue from airlift mail to my knowledge.

Mr. GARY. What do you carry on airlift?

Mr. BATRUS. Only first-class mail.

Mr. GARY. You do not carry any parcel post mail even though there is space available for it?

Mr. BATRUS. No, sir.

FLEXI-VAN SERVICE

Mr. GARY. What is the status of the Flexi-Van service?

Mr. BATRUS. Well, we are using this service, Mr. Chairman, on four or five different segments in and around the Chicago area. The Flexi-Van is principally operated by the New York Central Railroad. We are in the process and hope to be able to expand the use of Flexi-Van service as well as the regular conventional piggyback operation.

I believe last year a list of segments was furnished to the committee and appeared in the record on the Flexi-Van service. I do not believe there has been any expansion since then.

BULK MAIL CONTAINERS

Mr. GARY. Have you done any further work on bulk mail containers?

Mr. BATRUS. Yes; there has been some.

Mr. GARY. I believe Mr. Moore testified that the experiment had been terminated, but I wondered if any further developments had occurred?

Mr. BATRUS. The one that was referred to last year was the so-called Bunyan box, used in connection with air transportation. That experiment was terminated because of certain disadvantages, not only in the particular container itself, but also because of problems that arose in connection with the cargo schedule on which it was used.

Since then, there have been other container experiments with other airlines which have been completed and which are not now in operation. There are other container experiments that we are developing in connection with surface transportation. We have one that will operate soon between the Midwest and the west coast, and this involves 20-foot containers that will be operated interchangeably on rail flatcars or on flatbed truck trailers.

DISPOSABLE MAIL SACK PROJECT

Mr. GARY. What is the status of the disposable mail sack project? Has that been abandoned?

Mr. BATRUS. Well, we learned what we needed to know in connection with the advantages and disadvantages of using the disposable paper bag.

Right now the only place that we are using the disposable paper bag is in steamship operations between Seattle and Alaska, where we have run into a little bit of trouble in its use. We had experimented in its use in air transportation between Miami and Latin American points and found there that it was not nearly as suitable as the nylon bag. One of the reasons was the character of the paper bag itself. It did not lend itself to compact loading and piling inside the aircraft and was subject, a little more, to loss and damage, and as a matter of fact, it was more costly because it only involved the one-time use.

EXCHANGE OF MAIL BETWEEN UNITED STATES AND CUBA

Mr. GARY. By the way, you mentioned the South American points. What is the situation with reference to the exchange of mail now with Cuba?

Mr. BATRUS. I would like to ask Mr. Allan, Director of International Service, to answer that for you, Mr. Chairman.

Mr. ALLAN. We are still exchanging mail with Cuba, Mr. Chairman. It is rather sporadic, particularly from the south to the north. There are lengthy delays in the dispatch of mail from Cuba, but we dispatch to Cuba weekly, using a car ferry service out of West Palm Beach to Havana.

Mr. GARY. Do you have any trouble with censorship or anything of that kind?

Mr. ALLAN. We have had some indications of it; yes, sir, and some complaints of delays in delivery indicating that the mail going to Cuba is being scrutinized. In that connection, with mail to Cuba, there is a rigid export control enforcement program, policed primarily by the Department of the Treasury, on materials sent to Cuba.

One other rather interesting facet is that just a few days ago we were asked what should be done with a sizable volume of mail addressed to the Cuban consul in Miami, which apparently is closed; the mail had not been picked up for quite some time. I guess they have gone out of business.

Mr. GARY. The Cuban consul?

Mr. ALLAN. Yes, sir; in Miami.

Mr. GARY. How about the mail addressed to our consul in Cuba?

Mr. ALLAN. It is handled by the Swiss Government.

Mr. GARY. That is turned over to the Swiss?

Mr. ALLAN. Yes, sir; they are handling U.S. representation in Cuba.

Mr. GARY. And, Cuba has not designated anyone to handle theirs?

Mr. ALLAN. Apparently not.

Mr. GARY. So, you are getting an accumulation of mail in Florida?

Mr. ALLAN. We have just returned it to the senders and said that the consulate is closed.

Mr. GARY. That is very interesting.

EXPERIMENTS ON THE NYLON MAIL SACK

How is the nylon mail sack working out? Can they be repaired by the hot patch process like the old canvas sacks were?

Mr. BATRUS. Mr. Chairman, I am not quite certain as to how they are repaired. I really do not know with reference to the nylon as compared to the canvas sack. I know the nylon, generally, is working out quite well. We had a problem earlier in connection with slippage which, in part, has been overcome.

Mr. BRAWLEY. Mr. Chairman, I think that can be handled by facilities tomorrow.

Mr. BATRUS. My understanding is that the patch seal repair is operable on nylon equipment, but that can be confirmed.

INTERNATIONAL STEAMSHIP RATES

Mr. BATRUS. Mr. Chairman, if I may, I would like to add a point to an earlier question.

When you asked about pending rate cases, I mentioned the Civil Aeronautics Board rate case on the airlift mail. In addition to that, in our international steamship transportation of mail, while it does not involve a case before a regulatory agency, we do have a claim that has been made by the steamship companies for an increase in the rates that are prescribed by the Postmaster General for this transportation. That is a pending matter and has been a pending matter for quite some months.

AIRLIFT MAIL—DIVERSION FROM RAILROADS

Mr. GARY. Well, you are no doubt aware of the fact that Members of Congress have been receiving a good many complaints from the railroads to the effect that they are being put out of business because of the airlift of first-class mail.

Can you give us the latest statistics on that as to what effect it has had on the railroads and how much mail has been diverted from the railroads by reason of the airlift?

I believe you gave us some statistics as to how the airlift compared with the total mail volume.

Mr. BATRUS. Well, when this airlift was further expanded last year, as I understand it, there were no railway post office cars discontinued on account of it. The additional mail that is now moving by air, first-class mail, came in part from the RPO service, and, in part, out of the regular storage service for which we make payment on a space basis. So, in that sense, there has been diversion from rail, but no impairment of the RPO service on account of it.

I have no figures here to show the actual diversion of the mail now moving by air.

The total railroad compensation being paid, especially in view of the increase, is higher than it was before this expansion took place.

Mr. GARY. Can you give us those figures?

Mr. BATRUS. Yes, sir; we can.

Mr. GARY. Please supply them for the record.

Mr. BATRUS. We will.

Mr. GARY. And, also, if you can, give us some statistics to show the trend of air versus surface transportation of mail for the last 3 years.

Mr. BATRUS. Yes, sir.

(The information requested follows:)

Post office obligations for transportation of mail by rail, highway [1], and domestic air service, 1958–60

Fiscal year	Railroad	Star route, T-route highway post office	Total rail-highway	Domestic air
1958	$335,847,906	$62,409,169	$398,257,075	$39,594,042
1959	334,798,902	67,043,596	401,842,498	43,701,594
1960	342,959,000	76,613,000	419,572,000	49,915,789

[1] Excluding mail messenger service.

EXTENSION OF STAR ROUTE SERVICE

Mr. GARY. Do you plan any extension of the star route service?

Mr. BATRUS. We do, sir. We have, in connection with the justifications in this requested appropriation, projected 50 additional star routes. This is the net difference between those that will be discontinued, as we estimate it, and those which will be added as a result of changes in service and as a result of expansion in service. The net addition is 50 star routes.

Mr. GARY. What is the reason for the change in service? Is that to increase the star routes?

Mr. BATRUS. Well, it is the result of several factors. In some instances we will discontinue routes because of changes in service. In the discontinuance of these routes there may also be consolidations of service. Then, the additional routes—the new routes—the net of 50 will merely take care of expanding service requirements and situations where volume has increased in areas to a point where additional services under separate contracts are required.

DISCONTINUANCE OF RAIL SERVICES

Mr. GARY. Do you find any rail services being discontinued to any great extent now?

Mr. BATRUS. That, Mr. Chairman, is the other reason. We anticipate, as has been occurring in the past, that there will be further discontinuances in rail services. As a matter of fact that has been a principal cause for the expansion in highway services.

EXPANSION OF STAR ROUTE SERVICE

Mr. GARY. I believe you are going to provide us with some figures to show the trend in the cost of these star routes? I think Mr. Pillion suggested that. Did you not ask for that information, Mr. Pillion?

Mr. PILLION. No; we asked for the figures on renegotiations.

Mr. GARY. Well, if you will give us the figures to show the trend in the cost of star routes for the last 3 years, we will appreciate it.

Mr. BATRUS. Very well, sir.

(The information requested follows:)

Cost of star-route service, fiscal years 1958, 1959, 1960

Fiscal year	Number of routes	Amount
1958	10,688	$56,751,000
1959	10,788	61,106,000
1960	11,011	70,051,000

DIFFERENCES BETWEEN STAR ROUTES AND RURAL ROUTES

Mr. GARY. What is the fundamental difference between star routes and rural routes?

Mr. BATRUS. The rural route is an operation which has the characteristics of a post office service. The star route is the name used to designate contract transportation service actually between post offices.

This cuts across the whole field of highway transportation. Any movement between one city post office and another city post office is what is encompassed by star routes.

Mr. ALLAN. Mr. Chairman, some star routes do perform a service similar to a rural route service, that is the delivery of mail to rural patrons along their route. In those cases the principal distinction is that the rural route is operated by a civil servant; whereas the star route is operated by a contractor.

Mr. GARY. Then there are star routes that serve a number of post offices, are there not?

Mr. BATRUS. That is correct, sir.

Mr. GARY. And one route would carry mail to more than one post office?

Mr. ALLAN. That is right.

Mr. GARY. And, in a number of instances those post offices do not have rural routes, and to that extent they are used instead of rural routes; is that correct?

Mr. ALLAN. Yes, sir. In an instance such as you cited they might well perform a box service between offices just like a rural carrier does.

Mr. BATRUS. Both box and collection service.

Mr. GARY. The star route contracts are always awarded on a competitive bid basis?

Mr. BATRUS. Yes, sir. Under the law we are required to do that, except in cases where we negotiate and enter into temporary contracts not exceeding 1 year, which we need not advertise. In situations where we renew the contract with a contractor, we need not advertise, but merely renew the contract on the basis of the old rate of pay, with appropriate adjustments to take care of the current situation.

EFFECT OF MECHANIZATION ON MAIL TRANSPORTATION

Mr. GARY. Is there any possibility that mechanization might lessen the mail transportation problem?

Mr. BATRUS. Well, it would insofar as it may improve the distribution procedures that are involved in nonlocal mail and which are actually interrelated with transportation. Also, if there were any mechanization that might develop a means whereby we can improve the handling of mail in our post offices at that point where it is prepared for dispatch to carriers, and in the development of appropriate containers and loading practices. It would have to be something that would improve, by and large, our terminal handling insofar as this terminal handling relates to the preparation of mail for dispatch on the particular form of transportation.

STATUS OF TERMINAL AND TRANSPORTATION CHARGES BY FOREIGN GOVERNMENTS

Mr. GARY. What is the status of terminal and transportation charges by foreign governments?

Mr. BATRUS. Well, we do not project any increase in the rates that they will charge us. However, we will incur greater expense in the coming year because of the greater volume of mail that is being handled internationally and that we are shipping internationally.

The rates charged by foreign countries are expected to remain at the same level as they are today.

NUMBER OF HIGHWAY POST OFFICES OPERATING

Mr. GARY. Do you have available the number of highway post offices operated during the past 3 years?

Mr. BATRUS. Yes, sir; I have them here as a part of our justifications, sir, if you will bear with me while I get them. We had 170 in fiscal year 1960; 175 in fiscal year 1961—the current year—and project an increase of 5, for a total of 180 for 1962.

HIGHWAY TRANSPORTATION

Mr. PILLION. Mr. Batrus, I note that your highway transportation figure is $109 million for the year 1962. That appears on page 30.2 of the justifications; does it not?

Mr. BATRUS. Yes, sir.

Mr. PILLION. This is pretty much a star route service and mail messenger service and highway post offices?

Mr. BATRUS. That is correct.

Mr. PILLION. Do you do any transporting by trucking? In other words, if you had a large volume of mail and you had some to go to Buffalo and some to Cleveland and some to Philadelphia, is there any trucking of that at all, or is that delivered strictly by railway? How is that handled?

Mr. BATRUS. We have several, which you might term, major contracts with trucking companies involving sizable dispatches of mail. So, we do have many services which involve large trucking operations in several areas throughout the country.

Mr. PILLION. Where does that information show up here in any of your figures?

Mr. BATRUS. That is included in the total figure of $109 million to which you referred and in one of our detailed justifications.

Mr. PILLION. Is that broken down anywhere?

Mr. BATRUS. There is no figure which will show you the number of operations that we have by the size of the trucks. There is nothing that appears in here, but most of them are included in the 11,000 star routes that are listed in one of our sheets. There is on one table an indication of what we refer to as short-haul truck routes, which shows an increased use of short-haul truck routes, but this table does not tell the whole story. This is on page 31–E.

Mr. PILLION. Are these short-haul truck routes all given out through competitive bidding?

Mr. BATRUS. That is correct, sir; those that are operated by any trucking company must be the result of advertising for bids unless, as I said earlier, they are temporary contracts for a period of no more than 1 year, which we need not advertise. In many of the temporary contracts, however, we do advertise for bids, even though it is going to be a temporary service.

Mr. PILLION. Do you have truck routes out of Philadelphia and out of each large city in the country?

Mr. BATRUS. Yes, we would in local service operations, particularly, we would have some trucking services. We have during this past year added a very major type trucking operation from one area in the Midwest, from Nevada, Iowa, where we are shipping at irregular intervals something like 200 truckloads of mail to various parts of

the country. This is in connection with an operation that has been developed because of a large volume of mail generated by a large mail user. This entire operation is handled by truck.

Mr. PILLION. I suppose trucking is a growing means of transportation insofar as you are concerned? It must be, because that is so in every other service.

Mr. BATRUS. Yes, sir; it is, Mr. Pillion. Each year its use expands.

Mr. PILLION. Is there a breakdown of this in your justifications?

Mr. GARY. Are you still using trucking service to truck mail from one station to another on a railroad where two railroads run parallel and you truck the mail across rather than have it go all the way around the circuit to be delivered?

Mr. BATRUS. Yes, we are. This would be a mail messenger service, Mr. Chairman, which is a service that involves the interconnection of different means of transportation and the post office—the rail terminal, the post office, and the airport. We do use contract service for that in a great number of instances.

HELICOPTER SERVICE

Mr. GARY. What is the status of my pet peeve, the helicopter service?

Mr. BATRUS. Well, there has been little change, I believe, since last year, Mr. Chairman. We are still using them in New York City, in Chicago, and in Los Angeles. These are the original operations that were installed by the Civil Aeronautics Board many years ago. There has been a slight increase in the volume of mail moving by these helicopters, simply because of the increased volume of airmail on jet schedules. We have a greater volume of mail coming in at particular hours where it is to our advantage to use helicopter schedules.

Mr. GARY. I understood that situation had been remedied. I have no objection whatever to the use of helicopters. I think they have a very definite place in our modern life, but at one time they were operating a service from the roof of the Chicago Post Office to the airport. The Postmaster General reported to us that he was losing several hundred thousand dollars a year as a result of the operation of this service, but he said that the CAB had issued the carrier a certificate of convenience and necessity to operate that route and had told the Post Office Department they had to use it.

Does that situation still exist?

Mr. BATRUS. No, sir; that does not. Under the reorganization plan, when the subsidies that are paid to air carriers were transferred from the Post Office Department to the Civil Aeronautics Board, when that happened, then we did not have to bear the cost of subsidizing these carriers. The rate of compensation that we pay for helicopter service is fixed by the Civil Aeronautics Board at a level which the Board decides is a fair price merely for the service, and includes no subsidy. Consequently, with that change, we are not compelled to use it and pay subsidy, nor are we compelled to use it at all.

Mr. GARY. That is the main thing in which I was interested. I have no objection whatever to the Post Office using just as many helicopters as are necessary to deliver the mail, but I want the judgment as to when they are used to be determined by the Postmaster General and not by the CAB. I do not think they have a thing in the world to

do with the carrying of mail. They can operate the airplanes, but I do not think in doing so they ought to try to operate the Post Office Department. I have very definite views on that. I fought it for several years and we understood it had been corrected, and I am glad to know it does not exist now.

Mr. BATRUS. The judgment is entirely ours as to whether we would use it.

VOLUME OF MAIL AND TRANSPORTATION COSTS

Mr. PILLION. Your figures here are based upon a projected increase of 3.8 percent in the volume of mail; is that right?

Mr. BATRUS. That is correct. I think it is 3.9 percent in the surface transportation.

Mr. PILLION. There is a very direct relationship between the volume of mail and your transportation costs; is there not? In other words, if the increase were 5 percent, then you would expect the cost would increase by 1½ percent over the 3.9 percent; is that right?

Mr. BATRUS. That is correct, with this one exception, Mr. Pillion: In our railway transportation it would correspond closely to increase in volume because our payments are geared to volume. But in connection with highway transportation service, we advertise for bids for contract service in which we pay an annual rate for certain specified services. Here you could have a fluctuation in volume—a downward fluctuation or up, that may not have a corresponding effect on the cost, since payments are not directly related to volume. But in every other respect, in connection with our steamship transportation of mail on which we pay on the basis of weight and in railroad transportation and in air transportation on which we pay on the basis of volume of mail, correspondingly, if there were a decrease, the cost would be less.

Mr. PILLION. If there were a decrease, correspondingly, your cost would be less?

Mr. BATRUS. That is correct.

Mr. PILLION. Except in the contracts about which you talked?

Mr. BATRUS. That is correct.

There would be a point, if I may add, of course, in the contract situation where an increase in volume may have a great impact. If we go beyond the capacity of a vehicle or schedule and the contractor must add another schedule or another vehicle, then there would be a rather sharp increase in cost.

Mr. PILLION. And, it works the other way also where they are taken off and you have a decrease? In other words, it is marginal?

Mr. BATRUS. Yes, sir.

METRO PLAN

Mr. CONTE. Have you increased your metro system at all over the last year?

Mr. BATRUS. I think that during the course of this past year there may have been some increases, Mr. Conte, but I believe those have been handled in the Bureau of Operations. We did not handle them. I am not sure whether they completed the installation of all of the metro operations before this fiscal year. I am not certain. There have been changes made and alterations made in the system of operations within metropolitan areas for service improvement.

Mr. BRAWLEY. I think you missed, Congressman Conte, the testimony of Mr. Belen. That is handled by Operations, and he will return on Monday.

Mr. CONTE. We had some difficulty, actually, last year and I just wanted to know how it was working out this year.

RAILROAD RATE INCREASES

Last year when they came up here to testify—transportation—they said the southeastern railroads were requesting an increase, and that was fully a year ago from this time.

Mr. BATRUS. That is correct.

Mr. CONTE. Did they obtain that increase?

Mr. BATRUS. They did. That is part of the increase that I mentioned earlier which was prescribed by the Interstate Commerce Commission. That represents a 13-percent increase.

Mr. CONTE. How about the eastern railroads?

Mr. BATRUS. The eastern railroads received an increase of 8 percent over the previous rates, and the western railroads received an increase of 13 percent.

Mr. CONTE. They obtained an increase last year and they obtained another one on top of that?

Mr. BATRUS. Yes, sir; they had an increase previously, the eastern railroads in 1958, and the western in 1959.

Mr. CONTE. Representatives of the Transportation Bureau came up here and testified last year that they had received an increase.

Mr. BATRUS. That is correct. That was an earlier increase. The reason for the separate increases was that in the last major mail rate case the Interstate Commerce Commission treated them separately. As a matter of fact, the railroads applied as separate regional groups, rather than as a national group of railroads, and there were different rates prescribed for the different railroads.

Mr. CONTE. You are still going under the new rate system of charging merely for the space used by the Post Office Department?

Mr. BATRUS. Yes, sir; that was prescribed by the Interstate Commerce Commission as a uniform rule for all railroads, which eliminated the requirement that we make advance authorizations for space. This has also enabled us to pay only a pro rata rate when it is of a certain footage of mail. We are operating now universally on what we commonly call the space-used system.

Mr. CONTE. Of course, at that time the Post Office Department thought they were going to save some money, but the railroads have obtained several increases since and we are paying a lot more now than we were then, are we not?

Mr. BATRUS. That is correct. The increases have more than offset any savings that might have accrued from the change in the method of paying them.

REDUCTION IN RAILROAD SERVICE

Mr. CONTE. Are you receiving any cooperation from the railroads in trying to retain some of these lines?

We have had a great deal of difficulty in the East with the railroads taking off passenger service and also dropping the mail service. They do not want either one of them.

Are you experiencing any difficulties throughout the country in relation to this?

Mr. BATRUS. Well, we have instances where there are problems and where the railroads have filed applications with State commissions or with the Interstate Commerce Commission for the discontinuance of trains. This requires, of course, when the train is discontinued, that we alter our operations in order to provide some substitute service.

We have not been participating in the State cases nor in the ICC cases on the question of discontinuance of trains as such. In other words, we have been using the service that the railroads offer. We have not placed them under any compulsion for continuing service that they wished not to continue.

Mr. CONTE. Have they shown any encouragement in wanting to increase business or retain some of the business which they previously had?

Mr. BATRUS. Well, in many instances they do. When they are going to discontinue a train, many of them are interested in performing substitute service or otherwise arranging to accommodate mail, hoping to retain this traffic. Some of them have been interested in developing what we have termed the "head end train" which is the solid mail and express-type train. So, there has been interest on the part of many to retain the traffic which they might continue to hold, despite discontinuances of passenger trains.

Mr. CONTE. I know we were having difficulty in trying to get them to run a train at proper hours so you can get good delivery of the mail.

Mr. BATRUS. We are, indeed, having difficulty getting the kind of schedules we want, especially with passenger train schedules. When they diminish their service, railroads have the problem of trying to accommodate the mail as well as accommodating the passengers, and there is a conflict between the needs of the mail and the needs of the passengers. The arrival time or departure time which is good for passenger traffic is seldom good for mail.

Mr. CONTE. Your volume of mail being transported by train in the last 5 years has declined, has it not?

Mr. BATRUS. No; I do not believe the physical volume has declined. It has probably leveled off rather than increased in proportion to what it may have increased had there not been the train discontinuances that have occurred in the past few years.

I think the total car-foot-miles of mail estimated for next year, for example, is slightly higher than what we are experiencing this year.

There have been times during the last 8 years when the railroads had a decline in mail revenues, but for most of the period their revenues have been increasing.

Mr. CONTE. As you look at the justifications, you can see a continual increase in railroad mail revenue, but the volume of mail has not increased that much. They have continually obtained higher rates.

Mr. BATRUS. This is the result of the rate increase itself. Next year, for example, if you were to exclude the impact of the rate increase, the revenues that they will receive will be about $1.6 million, over what they will have received in 1961, exclusive of the rate increase.

Mr. CONTE. Getting back to the space-available question in regard to airplanes, have you discontinued that policy—what is the exact status of airlift at the present time?

Mr. BATRUS. Well, the airlift segments that are now in operation will continue in operation, as the Postmaster General indicated, with some possibility of modification, but no expansion in the service. The airlift of first-class mail will continue to operate on a space-available basis, which means that it is transported by the air carriers only when the air carriers have space to carry it and elect to carry it. It is a nonpriority service.

Mr. CONTE. What is your reason for not expanding this?

Mr. BRAWLEY. May I interject there?

Mr. CONTE. Surely.

Mr. BRAWLEY. There will be no expansion, as the Postmaster General said, for the time being, pending a complete and thorough study of the overall effect of this program on the railroads and on the service generally.

Mr. CONTE. Personally, I think it is very unfair for the railroads to come in here and cry "wolf" and want their cake and eat it too when they are getting continual rate increases and do not cooperate. Yet, when somebody else wants to carry this mail at the same price on a space-available basis, they are up here screaming to the Congress.

Mr. GARY. That is not the only question involved here, Mr. Conte. The question involved is the impact on airmail stamps. If you are going to charge 7 cents for airmail and then carry 4-cent mail by air, there is no reason why people should pay 7 cents for it.

Mr. CONTE. It is a chance the public takes on the space-available basis, and that is the big gamble. On a 7-cent stamp they are guaranteed airmail service while on a 4-cent stamp they are not guaranteed airmail service, but if space is available, they obtain the service.

Mr. GARY. If the airlift is expanded to the point that there is reasonable expectation that it will be carried by air, there would be no point in putting an airmail stamp on it.

Mr. CONTE. There is still an area of chance that it may not get on a plane, depending upon the space available.

Mr. GARY. I am merely saying that that is a point involved, as I see it. You have a 7-cent stamp for airmail now.

Mr. CONTE. I do not want to argue this point, but I have been most sympathetic down through the years, when I was a State senator and also when I came here, to the railroads, but——

Mr. GARY. One thing that impresses me about it is that the airlines can afford to carry this mail at a lower rate. Then, why cannot they carry all of the airmail at a lower rate? Why do we have to pay more for the regular airmail. That is a thing which puzzles me.

Mr. CONTE. If they guaranteed you that they would take so many sacks of mail per day, then I would agree, but this is a question of space availability. If they do not have the cargo and if the plane is half empty, fine. I think that is good business to do it this way.

Mr. BRAWLEY. So does the Post Office. We charge more for first class than we do for second or third class. This is because first-class mail receives priority in handling.

Mr. PILLION. I think, in the absence of the gentleman from Massachusetts, we discussed the question of cost here and so far I have been unable to get any figures as to the cost of the airlift situation insofar as the Post Office Department is concerned.

Mr. CONTE. Space available?

Mr. PILLION. Yes, sir. I am hoping that some figures can be developed as to the cost for that airlift with reference to our space-available means of sending mail.

Mr. GARY. I think it is a matter that ought to be determined by the Congress. At the present time, apparently, the Congress has never given complete authority for this airlift. They gave authority for the airlift on an experimental basis, and to expand that now to a permanent basis, it seems to me Congress itself ought to act, and that is what this committee last year simply requested. It requested the Postmaster General to hold the matter up until Congress acted. If the Congress says carry it all, to continue it and we expand it, certainly I would not raise any objection.

Mr. PILLION. My understanding still is that we were not able to get figures as to the revenues and the cost involved.

Am I correct in that, Mr. Noble?

Mr. NOBLE. We have the cost of the airlift.

Mr. PILLION. But, you do not have the revenues?

Mr. NOBLE. No, sir.

Mr. PILLION. So, you cannot——

Mr. NOBLE. We do not have the revenue, but we know the unit price on our airlift.

Mr. BRAWLEY. We know, of course, how much we are paying for its transportation.

Mr. PILLION. Yes; 50 percent of the other.

Mr. BRAWLEY. We have the actual cost of all of the airlift. We know how much we are paying the air carriers for transporting first-class mail by air. I think your question is how much revenue do we derive from this volume, and that is a rather difficult amount to determine.

Mr. PILLION. Before continuing or expanding it, we certainly ought to know what the costs are one way or the other, or even if we talk about legislation, you cannot legislate with any degree of accuracy or wisdom without having cost figures.

Mr. NOBLE. Mr. Pillion, would not the comparison between the cost by aircraft versus the cost by some other means apply?

Mr. CONTE. That is the question I was going to ask.

Mr. NOBLE. The revenue on this mail would be far in excess of the transportation costs, since we cover in our first-class rate the cost of handling, which is 80 percent of the ordinary type of mail. We are sure in the airlift we must be covering considerably more than the cost of transportation, since it is approximately the same as the surface transportation, I believe.

Mr. BATRUS. That is correct. When the expansion was taking place, it was projected on the basis that it would not cost more than by moving it by surface means. To make this cost computation at this point, we would have to make certain assumptions as to how it would move by surface transportation, because surface transportation costs would vary, depending on the means.

Mr. PILLION. Thank you very much, but you are way beyond me.

Mr. BATRUS. I wanted to point out certain difficulties. We could supply an answer.

Mr. MILLIKEN. Did we not pass a bill last year in the House?

Mr. GARY. The House did.

Mr. MILLIKEN. That is, we passed a bill in the House to stop this airlift of first-class mail on a space-available basis. What happened to that?

Mr. GARY. It passed the House but did not pass the Senate.

Mr. MILLIKEN. I see. I wondered what happened to it.

Mr. GARY. It did not get through the Senate.

That was the thing that our committee was rather insistent upon, that there should be some legislation on it. What the legislation should be is a question that ought to be determined after considerable study and consultation with the Post Office Department. I, personally, would not want to say to the Post Office Department authorities that they could not use airlift if it was to the advantage of the Department. I think you have got to take into consideration the various questions of what effect it will have on the railroads, and if you reduce it, will that mean that the railroads would have to stop handling most of the mail. There are so many questions involved that it requires a lot of study and it ought not to be undertaken without a thorough study. That is all.

Mr. PILLION. But it should not be done, certainly, for the purpose of aiding or hurting either the airplanes or the railroads.

Mr. GARY. That is right.

Mr. PILLION. The prime consideration is this: Is it good for the mail service?

Mr. GARY. That is right.

Mr. PILLION. And, the Nation as a whole?

Mr. GARY. Yes, sir; that is absolutely correct.

Mr. PILLION. We do not have those facts.

Mr. MILLIKEN. But, in our economy do we have to have the railroads?

Mr. GARY. As a matter of fact, that is not our problem anyway. That is the problem——

Mr. PILLION. Not necessarily.

Mr. GARY. That is the problem of the legislative committee—the Post Office and Civil Service Committee—and we said last year that we thought the Postmaster General ought to hold up until after that Committee considered it and it was acted upon by the Congress. As I say, it was acted upon in the House but not in the Senate.

Mr. BRAWLEY. One of the problems we have now, Mr. Chairman, is that the people have become accustomed to fairly fast service across the Nation. If some restrictive legislation were to pass and we had to return to surface transportation across the Nation, which means 5 days to the west coast instead of 1, I'm sure we would hear from your constituents. They have been accustomed to this service for a period of 4 or 5 years. So you see, it's a difficult situation.

Mr. PILLION. That is the point the chairman was making. There is something wrong with this whole picture which needs clarification.

Mr. BRAWLEY. We hope our study will give us some information on this.

Mr. GARY. A good question in that connection is what effect has the airlift had on airmail?

Mr. BATRUS. Mr. Chairman, the only indication we have, from earlier data which are available to us, does not show any perceptible change in the volume of airmail and in the use that is made of the airmail service. This is a very difficult thing to determine however. The only data previously developed before the recent expansion suggest that there has been no change in the trend in the use of airmail in those cities that have major airlift as compared to those cities that do not.

AIRMAIL REVENUES

Mr. GARY. Has the airmail revenue increased in proportion with the other mail revenues?

Mr. NOBLE. Mr. Chairman, airmail revenues have not increased in proportion to other revenues. They have increased in greater proportion than the number of pieces. There has been an increase in the average weight of airmail. That is, presumably, due to a decrease in the letters which are lightweight and a growth in the air parcel post.

Mr. GARY. But, the volume has not increased in proportion with other volumes?

Mr. NOBLE. That is true of airmail as a whole.

Mr. BRAWLEY. In fact, the number of pieces have decreased.

Mr. NOBLE. There has been a decrease in the number of pieces.

Mr. PILLION. And your problem would be an increase in your airmail and the small pieces of regular letters, because it is where you get the highest price for the weight; is that right?

Mr. NOBLE. We are making a substantial profit on air parcel post.

Mr. BATRUS. Mr. Chairman, if I may, I would like to clarify one point. The actual volume of airmail, by weight and by distance, has been increasing and the average weight of each individual piece of mail or air parcel post is increasing each year. While the number of pieces is actually going down, the weight, in total, is up.

Mr. GARY. But, I was trying to get the effect on the users who might have stopped putting airmail stamps on their letters with the expectation that it would be carried by air anyway. That is what I was trying to get at—whether an expansion of this airlift might have caused some decrease in the purchase of 7-cent stamps. Certainly, if a person thought his letter was going by airmail, or had a reasonable chance of going by airmail, there would be no reason in spending the additional 3 cents.

Mr. BATRUS. As I indicated earlier, one basis of comparison that was developed previously by our research people, indicates that the trend before the recent airlift expansion, in the use of airmail is no different in those cities where there was no major airlift service available, as compared to those cities where it was available.

Mr. GARY. Off the record.

(Discussion off the record.)

Mr. CONTE. Some discussion was made about the jeopardy of the railroads by the possibility of this mail being transferred over to the airlines on a space available basis.

I want it understood on the record that I am not interested in subsidizing the railroads through the mails at the expense of the mail users. Likewise, I am not interested in subsidizing the airlines. I expect to file a bill this year to cut out all subsidy of airlines. I am interested in only good mail service at the lowest possible cost for my constituents.

Mr. GARY. Mr. Milliken.

Mr. MILLIKEN. Off the record.

(Off the record.)

EFFECT OF AIRLINES STRIKE

Mr. ALEXANDER. In a situation as we have today where the airlines are on strike and a person mails an airmail letter to a certain Washington, Chicago, Detroit, or Los Angeles address, what do you do?

Mr. BATRUS. We use any remaining air service that is available.

In the Washington to Chicago instance, United Airlines and Capital Airlines are both operating, at least as of our last information, and from what we understand they have had capacity to handle the airmail. We would use them.

Between points where the service is shut down entirely and we have no alternate service aside from those struck airlines, then we must use surface transportation. But we take advantage of every bit of space that is available. That is the case at present out of New York and out of Washington and out of Chicago.

Braniff Airlines I understand is still operating, Continental Airlines is still operating, and where we do have them operating we use them to the greatest degree we can.

Riddle Airlines, a cargo carrier, for example, is still operating. They are probably providing substantial space.

Mr. ALEXANDER. Do you have any contact from contract carriers that would carry nothing but the mail as an alternate method for your usual method of carrying airmail?

Mr. BATRUS. To this point in this situation, no, sir, we have not. Actually, there are very few contract air carriers that would be available for mail. The major operations are all performed by certificated air carriers operating under certificates of the Civil Aeronautics Board for which mail rates are prescribed by the Board. There are no instances as yet where we are trying to develop contract service at this point that I know of.

Mr. ALEXANDER. Thank you.

Mr. GARY. Any further questions?

Thank you, gentlemen.

We will adjourn until tomorrow morning at 10 o'clock, at which time we will take up facilities.

THURSDAY, FEBRUARY 23, 1961.

FACILITIES

WITNESSES

ROBERT J. BURKHARDT, ASSISTANT POSTMASTER GENERAL, BUREAU OF FACILITIES
ROY D. SCHLEGEL, DEPUTY ASSISTANT POSTMASTER GENERAL, BUREAU OF FACILITIES
ROBERT H. BRINKMEYER, FINANCIAL CONTROL OFFICER, BUREAU OF FACILITIES
L. REX LANDIS, DEPUTY DIRECTOR, OFFICE OF RESEARCH AND ENGINEERING
VIRGIL C. STONE, ASSISTANT DIRECTOR FOR PROGRAMING AND CONTROL, OFFICE OF RESEARCH AND ENGINEERING
RICHARD A. WEDIN, ASSISTANT FINANCIAL CONTROL OFFICER
KENNETH L. RABIDOUX, ACTING DIRECTOR, DIVISION OF REAL ESTATE
WILLIAM H. TOWNSEND, DIRECTOR, SUPPLIES DIVISION
F. F. SMITH, DIRECTOR, VEHICLES DIVISION
WILHO KALLIO, ASSISTANT DIRECTOR, SUPPLIES DIVISION

Object classification

[In thousands of dollars]

		1960 actual	1961 estimate	1962 estimate
11	Personnel compensation:			
	Permanent positions	6,257	7,005	7,055
	Other personnel compensation	205	290	177
	Total personnel compensation	6,462	7,295	7,232
12	Personnel benefits	437	543	547
21	Travel and transportation of persons	27	30	30
22	Transportation of things	1,212	1,389	1,407
23	Rent, communications, and utilities	68,834	87,802	110,845
24	Printing and reproduction	4,681	5,048	5,288
25	Other services	3,492	3,820	4,595
26	Supplies and materials	32,265	35,173	37,756
32	Lands and structures	5,240	1,000	
	Total obligations	122,650	142,100	167,700

Personnel summary

	1960 actual	1961 estimate	1962 estimate
Total number of permanent positions	1,396	1,414	1,414
Average number of all employees	1,395	1,444	1,428
Number of employees at end of year	1,396	1,414	1,414
Average postal field service level	4.5	4.5	4.5
Average postal field service salary	$5,035	$5,463	$5,482

Program and financing

[In thousands of dollars]

	1960 actual	1961 estimate	1962 estimate
Program by activities:			
1. Building occupancy	75,393	90,563	113,521
2. Supplies and services	47,257	51,537	54,179
Total obligations	122,650	142,100	167,700
Financing:			
Comparative transfers to other accounts	63,643	25,666	
Unobligated balance lapsing	1,542		
New authority	187,835	167,766	167,700
New authority:			
Appropriation	195,560	168,000	167,700
Transferred from "Operations" (74 Stat. 288)		100	
Transferred to—			
"Administration, regional operation, and research" (73 Stat. 69)	−325		
"Operations" (73 Stat. 69)	−7,400		
"Modernization and improvement of buildings and equipment" (73 Stat. 288)		−912	
Appropriation (adjusted)	187,835	167,188	167,700
Proposed supplemental due to pay increases		578	

Mr. GARY. The committee will come to order.

We will take up this morning the item of "Facilities."

After allowance for changes in budget structure and including supplementals, the appropriations for "Facilities" for 1960 were $124,192,000; for 1961, $142,100,000; and the request for 1962 is $167,700,000.

SUMMARY JUSTIFICATION DATA

We will insert at this point in the record pages 40.1 and 40.2 of the justifications.

(The pages referred to follow:)

Statement relating 1960, 1961, and 1962 programs

[In thousands]

1960 appropriation adjusted	$187,835
Less: Programs transferred for comparability to "Plant and equipment":	
Building and equipment improvement (modernization)	−37,022
Equipment for standard program	−10,593
Vehicle program	−16,028
1960 appropriation adjusted—after transfers	124,192
1961 appropriation in annual act	168,000
Functional transfer from "Operations"	100
Proposed supplemental due to pay increase	578
Transfer to "Modernization and improvement of buildings and equipment"	−912
Adjusted appropriation	167,766
Less: Programs transferred for comparability to "Plant and equipment":	
Equipment for standard program	−12,540
Vehicle program	−13,126
Current appropriation, 1961	142,100

Statement relating 1960, 1961, and 1962 programs—Continued

[In thousands]

1960 program (obligations incurred)		$122,650
Increase or decrease due to:		
Rent program	10,260	
Fuel and utilities	4,468	
Communications	442	
Building and postal supplies	950	
Mail equipment shops	618	
Stamps and accountable paper	1,402	
Printing and reproduction	367	
Field personnel	949	
Awards	—6	
	19,450	
1961 program (obligations incurred)		142,100
Increase or decrease due to:		
Rent program	16,556	
Fuel and utilities	5,917	
Communications	485	
Building and postal supplies	2,839	
Mail equipment shops	—610	
Stamps and accountable paper	232	
Printing and reproduction	240	
Field personnel	—59	
	25,600	
1962 program (obligations incurred)		167,700

Analysis of estimated increase or decrease (—) in obligations

Account	1960 actual	1961 estimate	Increase or decrease (—) due to—				1962 estimate	Increase or decrease (—)	
			Leap year day in 1960	Pay and health increase	All other costs				
					Amount	Percent		Amount	Percent
Average number of positions	1,395	1,444	—5		54	3.88	1,428	—16	—1.11
Building occupancy:			[In thousands]						
Rent program	$52,200	$62,550			$10,260	19.62	$79,106	$16,556	26.47
Fuel and utilities	19,115	23,583			4,468	23.37	29,500	5,917	25.09
Communications	3,988	4,430			442	11.08	4,915	485	10.95
Subtotal	75,393	90,563			15,170	20.12	113,521	22,958	25.35
Supplies and services:									
Building and postal supplies	22,539	23,489			950	4.21	26,328	2,839	12.09
Mail equipment shops	4,190	4,808			618	14.75	4,198	—610	—12.69
Stamps and accountable paper	8,920	10,322			1,402	15.72	10,554	232	2.25
Printing and reproduction	4,681	5,048			367	7.84	5,288	240	4.75
Subtotal	40,330	43,667			3,337	8.27	46,368	2,701	6.19
Facilities field personnel [1]	6,927	7,870	—$27	$667	303	4.39	7,811	—59	—.75
Total facilities	122,650	142,100	—27	667	18,810	15.35	167,700	25,600	18.02
Total increase over prior year	10,022	19,450						25,600	

[1] 1960 includes $6,000 for awards.

ROBERT J. BURKHARDT

Mr. GARY. Mr. Robert J. Burkhardt, Assistant Postmaster General, Bureau of Facilities, will present the request. Mr. Burkhardt, in compliance with the usual procedure of the committee, we will appreciate it if you will insert a short biographical sketch at this point in the record.

Mr. BURKHARDT. I will be happy to, sir.

(The biography of Robert J. Burkhardt is as follows:)

ROBERT J. BURKHARDT

Residence: 319 I Street SW., Washington, D.C.

Born: June 10, 1916, at Chicago, Ill.

Education: Purdue University (West Lafayette, Ind.), Wisconsin University Extension.

Married: December 29, 1936, to Lucille Frances Hogan (college: Skidmore).

Children: Constance Roberta, born April 18, 1939, Cornwall, N.Y.; Robert James, Jr., born December 9, 1940, Cornwall, N.Y.; Ross Messinger, born December 9, 1940, Cornwall, N.Y.; Valerie Lucille, born May 11, 1942, South Kingstown, R.I.

1936–45: Timekeeper, rodman, transitman, assistant superintendent and construction superintendent for George A. Fuller Co., Chicago, Ill., and New York City; Merritt Chapman & Scott Corp., A. M. Hazell, Inc., on construction projects in Wisconsin, Illinois, New York, Rhode Island, and Canal Zone.

1947–51: Vice president, Hudson Valley Aluminum Co., Newburgh, N.Y.

1948–49; Chairman, New York Young Democrats.

1950–51: National committeeman, Young Democrats of America.

1951 to June 1953: Director of speakers bureau and assistant to the chairman of the Democratic National Committee.

1953: Directed gubernatorial campaign of Robert B. Meyner, of New Jersey.

1954–57; Served as executive secretary to Gov. Robert B. Meyner, of New Jersey.

1957–60: On leave from position as Governor Meyner's executive secretary to serve as executive director of Democratic State committee of New Jersey. Directed Gorernor Meyner's reelection campaign and Senator Harrison A. Williams, Jr., senatorial campaign.

1957–60: Member, advisory committee on political organization, Democratic National Committee.

1960: Member, campaign planning committee, Democratic National Committee.

August 1 to November 8, 1960; Executive director, National Voters' Registration Committee, Washington, D.C.

November 28, 1960 to January 23, 1961: Executive director, Inaugural Committee, 1961, Washington, D.C.

January 23, 1961 to present: Assistant Postmaster General for Facilities, 4000 Post Office Building, 12th and Pennsylvania, Washington, D.C.

Associations: Titusville Methodist Church, Titusville, N.J.; past master, Woodbury Lodge Number 993, F.&AM.; member, Trenton Lodge Number 105, BPOE.

Mr. GARY. We will be very glad to hear from you at this time, Mr. Burkhardt.

GENERAL STATEMENT

Mr. BURKHARDT. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee; It is a pleasure to appear before you to present the budget estimates of the Bureau of Facilities.

Since I have been on the job only 3 weeks, there are many things which I have yet to learn about the Bureau and the funds which you appropriate for it. Therefore, when necessary, may I take the liberty of referring some of your questions to my associates.

66934—61——15

As Mr. Nicholson stated, these estimates are presented for the first time in what we believe is an improved appropriation structure. One appropriation, facilities, covers only normal operating costs. The other plant and equipment, includes all capital costs to be incurred by the Department, both for modernization and normal growth.

CHANGES IN MODERNIZATION PROGRAM

Last Monday you asked for an explanation of the shift in programming the capital program from mechanization to Federal building alterations. I have a schedule showing the changes, which indicates a shift of $28,147,000 out of current year mechanization, of which $5,113,000 is to be used for changes to prior year mechanization projects, and $23,034,000 for additional Federal building alteration and extension projects. The basic reason for the change is that the planning for eight of the mechanization projects could not be completed in time to award the contracts during the current fiscal year. Therefore, tentatively, these projects will be obligated against 1962 funds.

May I submit this schedule in the record at this time, sir?

Mr. GARY. We will be very glad to have that. Without objection, it will be inserted at this point in the record.

(The schedule referred to follows:)

Recapitulation of changes—Modernization program, 1961

[In thousands]

	Original budget program	Change	Revised budget program
Major mechanization:			
Current year projects	$38,147	($28,147)	$10,000
Prior year projects		5,113	5,113
Federal buildings: Alterations and extensions (see detail below)	38,051	23,034	61,085
Automatic customer service equipment	900		900
Furniture and fixtures: New buildings	17,363		17,363
Total	94,461		94,461
Detail of Federal building: Alterations:			
Fuel conversion	350		350
Regional projects	2,500	3	2,503
Special projects	1,000		1,000
Philadelphia alterations		2,287	2,287
Other major alterations and extensions	25,555	20,744	46,299
Air conditioning	8,646		8,646
Total	38,051	23,034	61,085

CHANGE IN APPROPRIATION STRUCTURE

Mr. BURKHARDT. Facilities. This estimate covers the building occupancy and supply activity of the Bureau.

Building occupancy covers rents, fuel, electricity, and other utilities and communications. The rent estimate provides for the Department's program for adequate space, and includes costs of occupancy of the many new leased buildings now being constructed or planned for construction. Utilities costs are increasing because of better lighting, additional air conditioning, and increasing use of mechanization.

Our increase in rents and utilities reflects, in the most part, programs previously put in motion.

The supply estimate covers both procurement of supplies and services and the costs of warehousing and distribution of supplies and equipment. The supply estimate also includes the cost of manufacturing, repairing, and storing mailbags and locks.

Mr. GARY. Mr. Burkhardt, in order to clarify the record, will you and Mr. Noble detail the functions, together with corresponding figures, which have been transferred between appropriations to arrive at this proposed new budget structure? Possibly you could develop some kind of table for the record to clarify these changes.

Mr. BURKHARDT. I have such a schedule here, Mr. Chairman, and will insert it and ask Mr. Noble to explain it, if it is permissible to do so.

Mr. GARY. Fine.

(The schedule referred to follows:)

1961 appropriation changes—Facilities

[In thousands]

Original appropriation	$168,000
Transfer in from operations	100
Pay raise, supplemental	578
Total	168,678
Transfer out to Modernization and improvement of buildings and equipment	−912
Final appropriation	167,766
Comparative transfers out to Modernization and improvement of buildings and equipment:	
Standard equipment	−12,540
Vehicles	−13,126
Total	25,666
Net comparison with facilities estimate	142,100

1961 appropriation changes—Modernization and improvement of buildings and equipment

[In thousands]

Original appropriation	$100,000
Transfer in from Facilities appropriation	912
Final appropriation	100,912
Comparative transfers out to administration:	
Contract research	−4,460
Personnel	−4,460
Subtotal	−6,451
Total	94,461
In from facilities:	
Standard equipment	12,540
Vehicles	13,126
Total	25,666
Net comparison with Plant and equipment	120,127

Mr. GARY. Mr. Noble. Off the record.

(Discussion off the record.)

Mr. NOBLE. Mr. Chairman, the changes that have been made in the appropriation structure for "Facilities" are primarily the transfer out to the new "Plant and equipment" appropriation of the purchases for the so-called standard equipment program. For 1961 this amounts to $12,540,000, for which funds have been provided for this purpose in 1961 in the "Facilities" appropriation.

Mr. GARY. What constitutes that standard equipment item?

Mr. NOBLE. That is purchase of screenline equipment for post offices and other standard items that are procured when old equipment is replaced. It is identical with the type of equipment that goes in a new building, but it is primarily replacement equipment. And there is some normal growth, but it is different from the modernization program concept, in that it did not provide on a large scale for updating the equipment of post offices. But it is the regular run-of-the-mill—sorting cases, screenline—excuse me; I think facilities had better give the details of that.

Mr. BRINKMEYER. Yes.

Mr. NOBLE. Mr. Brinkmeyer.

Mr. BRINKMEYER. We have all the screenline in one place in modernization, because the bulk of it goes into modernization. These items—and I will mention a few items—are those which have no particular bearing on the new construction and buildings. For instance, air-conditioning units—window air conditioners—typewriters, accounting machines, tow tractors, handtrucks, parcel post containers, various types of carts and carriers, and that kind of thing.

Mr. GARY. That type of equipment is for the old existing buildings rather than for the new buildings; is that right?

Mr. BRINKMEYER. This is for any building, and not just for an old or new building. These things, if they go into a new building, would be carried on into the new building, because they are a part of the operation of the post office.

Mr. GARY. And still be carried under this?

Mr. BRINKMEYER. It is called standard equipment; yes, sir.

Mr. GARY. All right, Mr. Noble.

Mr. NOBLE. It includes——

Mr. GARY. And you have transferred that?

Mr. NOBLE. We have transferred that sum from the "Facilities" appropriation where the money is now provided, into the new appropriation—"Plant and equipment." For 1961, we show it in the statements as a transfer. Actually, this year there has not been a money transfer. But for comparative purposes we are showing it that way in this table, because that is the way that we are asking for the funds for 1962. So it is really a comparative transfer to make the figures comparable.

But, actually, for 1961 we are operating under the appropriation structure that this committee established. In addition, we have transferred the funds provided for the procurement of motor vehicles from the "Facilities" appropriation to the new "Plant and equipment" appropriation, and for 1961 this amounts to $13,126,000.

Those are the principal changes. There were a number of minor changes during this year that I can mention, if you would like to have them.

Mr. GARY. Do all motor vehicles now come under this item?

Mr. NOBLE. All motor vehicles are in the "Plant and Equipment" appropriation in this estimate; yes, sir.

Mr. GARY. Including the mailsters and all of them?

Mr. NOBLE. That is correct.

Mr. BURKHARDT. Yes, sir.

Mr. PILLION. Will the chairman yield?

Mr. GARY. Yes, sir.

Mr. PILLION. Are we now in the position, Mr. Noble, where we referred the other day that items that are capable of being amortized over a couple of years are now going into the "Plant and Equipment" heading and items that are currently used in 1 year or so are remaining in the "Facilities" category; is that about the breakdown?

Mr. NOBLE. That is correct, Mr. Pillion. That is an exact statement of the situation.

Mr. PILLION. I again want to say that I think it is a good method of doing it. The modernization breakdown as against new and old, I think we agree, was unnatural and an abnormal accounting method. I think you are right in your approach here.

Mr. NOBLE. There is one exception to that, Mr. Pillion, which is of a temporary nature. The temporary procurement of land for resale under our leasing program is bought out of rent money and shows in our "Facilities" appropriation. But when we sell it, that reimbursement comes back into that appropriation and offsets it.

For 1962, for instance, reimbursements and our obligations will be the same. But they wash through that account, because the law provided that we might use rent money for this purpose temporarily and then pay it back to the rent account.

Mr. PILLION. But that comes under facilities?

Mr. NOBLE. That comes under "Facilities" appropriation in the "Rent" account.

Mr. PILLION. An in and out transfer?

Mr. NOBLE. That is correct.

Mr. GARY. What does that leave now; what items does that leave in facilities as you have them set up now?

Mr. BURKHARDT. Well, it would leave, Mr. Chairman, the items of building occupancy, supplies and service, facilities field personnel.

Under building occupancy, of course, that would include your rent program, fuel and utilities, and communications. Under supplies and services, building, and postal supplies, mail equipment shops, stamps and accountable paper, printing and reproduction.

RENTAL COSTS

Mr. GARY. I wonder if you could give us a comparative table showing rental costs for the last 10 years?

Mr. BURKHARDT. Yes, sir; I am sure that we could, and we will do that.

Mr. GARY. Will you place a table of that kind in the record?

Mr. BURKHARDT. Yes, sir.

(The comparative table of rental costs referred to is as follows:)

Rent obligations for the past 10 years

[In thousands]

Fiscal year:	*Amount*	Fiscal year—Continued	*Amount*
1951	$19,962	1956	$32,767
1952	23,154	1957	34,989
1953	26,193	1958	37,660
1954	28,545	1959	42,171
1955	32,112	1960	47,050

Mr. GARY. Those costs have been steadily up, have they not?

Mr. BURKHARDT. Mr. Chairman, I think that I should have someone answer that question for you.

Mr. GARY. Yes.

Mr. BURKHARDT. Mr. Kenneth L. Rabidoux, our Acting Director, Division of Real Estate, can direct himself to that, if you wish.

Mr. GARY. Fine.

Mr. RABIDOUX. You are correct, Mr. Chairman. They have been steadily increasing over the last 10 years.

Mr. GARY. I have heard some complaints, and I do not profess to know whether they are rumors or proper statements, but in a great many instances where new post offices have been constructed, that there has been a tremendous increase at times in rents.

Now, is that true?

Mr. RABIDOUX. Well, it is difficult to explain "tremendous." I would say that there has been definite increases in rental, yes, sir. To what extent would depend upon the various locations.

Mr. GARY. For example, somebody told me not long ago, I think in a building in their district the rent had been something like $50 a month, and when they built a new post office it was five times that amount—$250 a month.

Mr. BURKHARDT. Perhaps, Mr. Chairman, it might be explained, over the course of years, that an increase would come about through need for additional space in a new post office, additional loading, truck platforms, additional maneuverable area for the trucks that service the post office. That, together with the increases in construction costs, and so forth, might be a factor in the steadily increasing figure that you mentioned.

Mr. GARY. Well, I can see that might be the case. I know with the trucks and automobiles today you have to have more space around post office buildings to provide proper access to the building. I know that building costs have increased. And I know that the addition of air conditioning and items of that kind, that heretofore did not figure into the post office, and which, frankly, I think should—I think it is a mistake today to build any new building in an area where you need air conditioning without putting air conditioning in when you build it. What at one tme was a luxury has now become recognized, I think, more or less as a necessity in certain areas.

But I do hope that when you go into these matters, you will hold these rents down just as much as possible, because when you enter into these new rental contracts, it is a fixture for sometime, and the Government has to pay the bill. And with our increasing deficit, all that we can save in these rental items holds the deficit down.

Mr. STEED. I agree.

Mr. ALEXANDER. Mr. Chairman, would you yield?

Mr. GARY. Yes, sir. I will yield.

Mr. ALEXANDER. I believe that the Postmaster General last year had a projected program of renovation and a number of new post offices. I wonder if the Department has determined its policy and its program in regard to the building of new post office buildings?

Mr. GARY. Excuse me, Mr. Alexander. I think that would come under "Plant and equipment." We are now under "Facilities," dealing with the rental projects, and I think you have reference to new projects. Are they rental projects that you have reference to?

Mr. ALEXANDER. Yes, I do have reference to that, but I think it has at least some point to the question that we are talking about here as to the increase.

Mr. GARY. Yes, I agree with you.

Mr. ALEXANDER. Well, we will put that in at some other time.

Mr. GARY. If you are talking about rental projects—and I think we ought to get that information—I just want to call attention to the fact that there is a difference between the two. And if you relate your questions to the rental projects; at the present time that was a——

Mr. ALEXANDER. Just strike that.

Mr. GARY. No, let it stay and ask for it on the rental information.

Mr. ALEXANDER. I would like for you to put into the record, right after you show the increase in costs of rent, or whatever it may show for the last 10 years, then show your projected rental program for at least, if you have got it figured out on a 5-year basis, put it in for that; if it is 1 year, put in whatever you have projected to.

Mr. BURKHARDT. All right, sir, we will be happy to do that.

(The information supplied follows:)

Our estimate for rents for fiscal year 1963 is tentatively projected at $100 million. The major factor in this increase is payment of the full year's rent on a number of large leased facilities which are occupied for only a part of fiscal year 1962. The requirements for large facilities have not been projected beyond those which can be occupied in fiscal year 1963. Therefore, we have limited our projection to that year. However, the rate of increase of space occupied should start leveling off in and after fiscal year 1963.

This estimate is based on known plans at the present time. It is subject to change by the time the 1963 estimate is prepared.

Mr. STEED. Mr. Chairman, would you yield?

Mr. GARY. Yes, sir.

BASIS OF COMPUTING A FAIR RENT COST

Mr. STEED. I think it would have some bearing on why these rents are what they are if you would explain how they go about arriving at the figure of what the rent on one of these new privately rented facilities is going to be when they make one of these deals. Just how do you arrive at the rent that you are going to pay if somebody goes out here and puts up a new building for you?

Mr. BURKHARDT. Mr. Steed, I will ask Mr. Rabidoux to answer that question directly for you, sir.

Mr. RABIDOUX. Mr. Steed, there are several approaches that are used that are the basis of arriving at rental in any real estate transaction, whether it is commercial or whether it is confined merely to post office.

Primarily, the two basic approaches that are used are the cost approach and the comparability approach.

In the cost approach, you attempt to define in your own mind an estimate of what the cost of the building is going to be. And of course you have a known factor in the cost of the land. We attempt to amortize, or at least negotiate, with a bidder to amortize his costs over a period of time in excess of the lease term.

Now, in our 10-year leases that we are making today I would say the average rate of recovery of an investment on a building where we would have a 10-year lease would approximate 20 years, as near as we are able to determine.

Of course, to the amortization of the building you must add a certain factor for land value in computing a rental; and we, as a matter of policy, have allowed investors a 6 percent return annually on their land investment; not amortizing that land, but merely a return on the investment.

Then to the amortization of the improvements and to the return on the land is added a factor for insurance costs which he must assume, a factor for maintenance costs which he must assume, and a tax base which we estimate and arrive at in conjunction with local taxing authorities in any given community.

So that is one approach we use in arriving at what a fair rental is.

The other approach is on a comparability basis, where in any given community we attempt to make a comparison between what buildings are costing in the commercial field in that community as compared with what we might pay after making adjustments for length of leases involved, the type of buildings involved, and as to size and nature; and we certainly pay no more, comparably, than any other commercial tenant in a given community.

Mr. PILLON. Will the chairman yield?

Mr. GARY. Yes.

TOTAL COST OF RENTS

Mr. PILLION. I think we are referring here to page 40.2. And under "Building occupancy" there, we have a figure of rent program for 1960 of $52.29 million, which jumps in 1961 to $62.550 million, which is an increase of $10 million, or 19 percent. Then you have a further jump in 1962 projected from $62 million to $79 million. So then you will have a further increase of 26 percent, or $16 million.

Now, does this item constitute all of the rentals paid for the occupancy of buildings?

Mr. BRINKMEYER. Yes, sir.

Mr. PILLION. Is that the item?

Mr. BURKHARDT. Yes, sir.

SITE ACQUISITION

Mr. PILLION. Now, where is the amount for the lands that Mr. Noble included?

Mr. NOBLE. That is included in that table, Mr. Pillion. If you look at the table in 41.1, you will see the breakout of that. You see in 1960 there was $5,240,000.

Mr. PILLION. Oh, yes; the site acquisition.

Mr. NOBLE. That is correct.

Mr. PILLION. I see.

Mr. NOBLE. Whereas there was no such item in 1962.

Mr. PILLION. Why is there not an item such as that in 1962?

Mr. NOBLE. By that time our reimbursements from previous acquisitions will be sufficient to finance the new acquisitions.

Mr. PILLION. I see. Then you will be self-financing; the income and the outgo will balance.

Mr. NOBLE. That is correct.

Mr. PILLION. I see.

INCREASE IN RENTAL COSTS

Now, this is in reference to the matter that the chairman brought up. Now, are we to expect an increase, an annual increase in the neighborhood of 20 to 30 percent in our rental programs from now on, as compared to a 3-percent increase in volume of mail, a roughly 2-percent increase in population, roughly 2-percent increase in our gross national product? Are we going to be faced with a 25-percent increase in rentals each years? I think that is what the chairman had in mind.

Was it not, Mr. Chairman?

Mr. GARY. Yes.

Mr. PILLION. The jump in the staggering increases in rents.

Mr. GARY. That is right.

Mr. RABIDOUX. Congressman Pillion, of course we initiated, two appropriations ago, our modernization program, and I think the records indicate that we had arrived at the conclusion that, over the next 8 to 10 years, we must build approximately 12,000 new facilities to handle our impending mail load, and so forth, across the country.

Now, in this year's appropriation, estimated for 1962, we are just beginning to bear the brunt of the institution of that modernization program.

For instance, in the last fiscal year, 1960, which concluded last June 30, we contracted for new buildings that particular year numbering 1,602, all of which are under construction or near completion now. Now, that 1,602 figure is better than double any production that we achieved in any prior year. If we continue at our present pace for fiscal year 1961, we will exceed 1,600 buildings, awards for new buildings, by perhaps two or three or four hundred, maybe coming close to 2,000.

There is no reason to believe that the 2,000 figure would not be held in 1962 fiscal year, productionwise, and again possibly increased beyond that, because we have reached a point now where we can accomplish high production.

Now, the need is there, and certainly as we get more new buildings, the rentals are going to increase every fiscal year. Now, whether we will maintain a 25- or 26-percent increase annually from now on, I could not say exactly. A lot will depend upon the market in the next few years.

SAVINGS FROM LEASING PROGRAM

Mr. PILLION. Well, where does the saving come to the Government; where is the saving? How do we arrive at a saving of any kind? Is this just a program to build? You say because you need it, and

a continuous program of building 2,000 or 1,600, whatever it may be, buildings per year. How do we achieve any economic good for the taxpayers by this program? What is the economic objective?

Mr. RABIDOUX. I believe the economic objective eventually is to reduce operational costs. That is the reflection in getting these better buildings.

Mr. PILLION. I understand you make money by losing money, is that it? Now, that is just what I am trying to find out. Where does it reflect in any figures as to any operational savings? I appreciate that each town wants a nice new building and better working conditions, more space, more elbow room. But where does it pay them off?

Now, let us assume that you have an 8-year program. At the end of 8 years, you will have completed 12,000 or 14,000 of these buildings, 10-year leases. When you go to lease you are going to be required to renew your lease, if it is only a plain 10-year lease without an option. They are going to say: My property has doubled in volume, inflation has come about. Then what happens?

Mr. RABIDOUX. I think we have overcome that, Congressman, by the fact that today we require——

Mr. PILLION. Options?

Mr. RABIDOUX. Options to renew; and almost without exception——

Mr. PILLION. What are your options?

Mr. RABIDOUX. They are less than the rental that we are paying for the basic lease term.

Mr. PILLION. I see. What are your leases, 20 years, 30 years?

Mr. RABIDOUX. If we ask for a 10-year lease, we ask for two 5-year renewal options. If we make a 15-year lease, we will ask for three 5-year options. If we ask for a 20-year lease, we will ask for one 10-year and two 5-year renewal options.

COMPARISON OF LEASED AND FEDERALLY OWNED BUILDINGS

Mr. PILLION. Suppose that, instead of paying all this rent, suppose you built your own buildings and maintained them. And then you would have them; no matter what inflation did, you would be in the position where you would not be paying these rents.

Mr. BURKHARDT. I think that was touched upon in the Postmaster General's statement on Monday, Congressman Pillion, and the general philosophy of the leasing program as contrasted to the federally owned buildings.

I think some of the advantages that were outlined included the maintenance of a piece of property on the tax rolls, to the benefit of local communities, for one specific thing.

Secondly——

Mr. GARY. That is to the advantage of the local community and the disadvantage of the Federal Government. The Federal Government has to pay that as a part of the rent.

Mr. BURKHARDT. That is so, Congressman, but included is a second item——

Mr. GARY. I do not say that in opposition to it, because I know the Federal Government is taking so much property in our State that it does not leave us much to tax these days.

Mr. PILLION. Of course, the other avenue is to pay in lieu of rent. The Federal Government can still pay the taxes as they do in some instances.

Mr. GARY. You might as well realize the fact that we are not getting these taxes free. The Government is paying for it. Because the owner, the lessor, of the property has to figure that in the amount of his lease.

Mr. PILLION. Yes, sir; I understand he does.

Mr. BURKHARDT. Yes, sir; I understand that.

The second item might be, sir, that insofar as I have been able to determine, the cost of a Federal building is considerably in excess; probably the cost of a lease facility is 50 percent of what it would be to construct a Federal building. This is on the figures that I have seen or the conversations that I have had with respect to this program.

Mr. PILLION. Well, that again I do not understand.

Mr. GARY. I do not either. I cannot figure that one out.

Mr. PILLION. If I build a concrete block structure with a footing of so much and a height so much, why should it cost the Federal Government a dollar more than it costs a private individual to build it?

Mr. MILLIKEN. Would you yield there?

Mr. PILLION. Yes, surely.

Mr. MILLIKEN. I will tell you exactly why. The man who builds this post office building is usually a man who is a builder or in allied lines. He gets this ground and he goes out to make a side investment for his grandchildren. I was an estimator for a contractor and when we bid on Federal work, the excessive red tape increased the price on everything we put in that building.

Now, if you were just building, you can build a building and, if it is acceptable to the Government, you maintain it; what difference does it make to the Government whether it has a roof that will last 10 years or 5 years, as long as the owner keeps that roof in repair? And therefore the building is much cheaper. You can build a building cheaper if you build it for yourself than you can for the Government.

The Public Housing Authority in our community just wanted to buy 26 public housing units for $10,000 apiece—row houses, and put public housing in there. The people objected. But to build the unit itself for public housing was going to cost $17,000 a unit.

Now, that is the difference. And I say that you get a much cheaper building. You take the schools in Levittown, Pa. Levitt built some schools and gave them to the State of Pennsylvania for less money than he would have to pay if he just paid his proportionate share of it under State construction. And the schools are just as good.

A post office building is constructed to last for 10 or 20 years or the length of the lease. When the Government builds a building, they build it to last a hundred years.

And I know that we have always added something when we bid for the Government, on account of the redtape that goes with it.

Mr. CONTE. Will the chairman yield there?

Mr. GARY. Yes, sir.

STANDARD DESIGNS FOR BUILDINGS

Mr. CONTE. Has the Post Office Department ever given any consideration to having a standard design for post offices?

Mr. BURKHARDT. We do have that now, Congressman Conte. There is a functional plan that has been developed over the years

that is adaptable to any private builder for the site that he constructs this building on.

Mr. CONTE. Yet when every time there is a new post office, it goes to an architect, does it not, for a design, blueprints?

Mr. BURKHARDT. Yes, but our functional plan is used as a guide resulting in potentially lower costs.

Mr. CONTE. You have a standard?

Mr. BURKHARDT. Yes, sir.

Mr. CONTE. That is excellent.

Mr. BURKHARDT. On the major leased facilities where there is an increased utility program, for instance, or a mechanization problem that has to be worked into the structure, experts are brought in in the form of architectural engineers who are familiar with the problem. But on the smaller sites we use the functional design.

Mr. CONTE. Good.

Mr. ALEXANDER. Will the gentleman yield?

Mr. GARY. Yes.

Mr. ALEXANDER. Do you pay architectural fees, even with your standard designs, to check to see whether the building is being built according to specifications and blueprints, and so forth, or do you have a man in the Post Office that is qualified and can do that?

Mr. BURKHARDT. To the best of my understanding, Congressman Alexander, we have an inspection and acceptance of the building.

Mr. ALEXANDER. I know you have an inspection, but the architectural fee, part of which is for drawing the plans and part of which is for inspecting it as it progresses, to be sure that you have got what you are paid for——

Mr. BURKHARDT. Can Mr. Rabidoux answer that specifically, sir?

Mr. RABIDOUX. Congressman Alexander, on the smaller buildings where there is no mechanization to be installed, we bid the projects on the basis of what we refer to as a tentative drawing or layout of the building, with a guideline for the exterior appearance of the building. We prepare minimum specifications for that building, and the project is bid that way by bidders. Then once an award of a contract is made, the successful bidder is required to hire an architect of his own choosing to prepare working drawings and specifications for that building. Those working drawings and specifications to be approved by members of our Engineering Department before construction can commence.

Whether or not the private individual that is going to own the building wants his architect to inspect the building during construction or supervision of construction is his responsibility. But our engineering department—and it is represented at the regional level as well as in Washington, D.C.—has members on its staff who have the responsibility of inspecting those buildings during construction to be sure that the specifications and plans, as submitted by the architect, for approval, have been followed; yes, sir.

Mr. ALEXANDER. Actually, you lose the benefit of your mass-scale production and architectural workings if, in addition to giving them that, you require them to go out and hire an architect, because they have to pay for that architect, and that is figured in the cost of the building and rental.

And what I was getting at is to whether or not the Post Office Department, producing post offices, we will say, in second- and third-class areas and small towns, they have a standardized post office, they have had an architect to draw up the plans, they could give the blueprints to the successful bidder. It seems to me that in this field there might be an avenue of some savings. And I would like to see the Post Office Department look into that phase of it.

Mr. PILLION. Will the gentleman yield a minute?

Mr. ALEXANDER. Certainly.

ARCHITECTS' FEES

Mr. PILLION. Do you allow architect fees to be added to the cost of building for the purpose of amortizing and, if so, how much; what is the percentage?

Mr. RABIDOUX. We do not examine an architect's fee on any individual project of the size and scope we are talking about.

Mr. PILLION. Yes.

Mr. RABIDOUX. We figure the maximum cost of a building, and included in that maximum cost is some sort of fee for an architect.

Now, on the outside, outside of Government, architects' fees vary all over the country.

Mr. PILLION. Yes.

Mr. RABIDOUX. Because private investors have different types of contracts with architects than what the Government is able to make. An architect could conceivably have an interest in some building; maybe not the post office, but something else. So it is hard to judge what a fee might be.

But we do know that the fees are far less when negotiated by private individuals than they are when negotiated by the Government.

Mr. PILLION. I will say they are.

The school buildings we have in New York State, it is 6 and 7 percent. And it is to their interest, of course, to stretch the cost of school buildings.

Mr. STEED. Will the gentleman yield?

Mr. PILLION. Yes, sir.

AUTHORITY OF REGIONAL DIRECTORS TO MAKE CONSTRUCTION CONTRACTS

Mr. STEED. Actually, when you get ready to go into the deal in one of these towns—I know they have built several in my district—notice is given, and any individual interested could come into your office and make you a proposition to execute this job for you. Is that not true?

Mr. RABIDOUX. Provided he meets certain requirements, Congressman.

Mr. STEED. I mean you do accept propositions from different people, and then you try to select the best one?

Mr. RABIDOUX. That is right. We select the bid that is most advantageous to the Government; yes, sir.

Mr. PILLION. Now, are these worked out of the regional office, or are they worked out of the Washington office?

Mr. RABIDOUX. It depends upon the size, Congressman.

Mr. PILLION. I see. The smaller ones out of the regional office and the larger ones like Buffalo out of the Washington office?

Mr. RABIDOUX. That is right.

Mr. BURKHARDT. There are specific limitations; rentals up to $15,000 per annum providing the firm lease is 10 years or less are permissible to be negotiated in the region, and anything beyond that scope comes to the Bureau, sir.

Mr. GARY. But you do have a real estate man at every regional office?

Mr. BURKHARDT. Yes, sir.

Mr. GARY. And he more or less supervises or inspects the work on all of them, does he not?

Mr. BURKHARDT. That is my understanding, Mr. Chairman.

Mr. GARY. In other words, while he cannot negotiate the contract, he does still have certain functions to perform with reference to inspection, and so forth, even on the larger jobs; is that not correct?

Mr. RABIDOUX. Not exactly correct, Congressman. On the larger facilities that are assembled, the likes of perhaps Buffalo that Congressman Pillion mentioned, engineers and architects from the Department will inspect those buildings during construction. We have what we call project managers.

Mr. GARY. Well, I understand; and your regional man does not have anything to do with them at all?

Mr. RABIDOUX. Not on the larger ones, no, sir. The smaller ones he does. And actually, the inspections during construction on the smaller facilities are not conducted by members of the real estate staff; they are conducted by members of the regional engineer's staff, who are competent engineers and architects themselves.

Mr. CONTE. Mr. Chairman, will you yield for a question?

Mr. GARY. Yes, sir.

STANDARD ARCHITECTURAL DESIGNS

Mr. CONTE. To get back to the standard architectural design, in this brochure, "United States Post Office Designs," in the foreword it says:

> It is intended as a guide in the development of working drawings and specifications for proposed postal facilities.

And later on it points out:

> We wish to point out that it is not the intention of the Post Office Department to exclude original designs by architects. Any such original designs must be submitted to the Post Office Department in Washington for approval.

So, therefore, there is not a standard architectural blueprint for a post office. This is merely a guide for a design.

Mr. BURKHARDT. That is true, Congressman Conte.

Mr. CONTE. What I was driving at, if we had one blueprint for a 5,000-square-foot post office, we could use that throughout the United States and it would save a lot of money.

Mr. GARY. I do not think so. I have to differ with you there, Mr. Conte.

For example, I am certain if the Post Office Department was erecting a building in Massachusetts, the people would want it to conform with New England architecture. On the other hand, if they are building it in Williamsburg, I am certain that we would want a very different kind of architecture there; because millions of dollars have been spent in restoring Williamsburg and trying to construct it as

nearly as possible as it was in Revolutionary days. Now, to go in there and put some standard type of architecture in there would spoil that whole concept of the Williamsburg development. And I just do not believe that you can use mass production to that extent. Certainly insofar as architecture is concerned, where the architecture is supposed always to fit into the general scheme of architecture surrounding it.

Mr. STEED. Will the gentleman yield?

Mr. GARY. Yes, sir.

Mr. STEED. When I was a member of the Public Works Committee, I remember distinctly a project in one Virginia city down below Roanoke where they had this architectural system, and the project was rejected because the architects had not made it conform to the historic architecture of the community. And they had to re-do the whole thing. They did not want any building at all if it tore up the picturesqueness of their community.

Mr. CONTE. Will the gentleman yield?

Mr. STEED. Now, down in Florida you find Spanish-type construction, for example.

Mr. GARY. That is right.

Mr. STEED. Which is quite important to them and their ideas. And then in some of these new developments where they have a particular architectural plan they would want a building that conformed to the community.

Mr. CONTE. There is no question that there is a great deal of truth in what the gentleman is saying. But, on the other hand, we have 2,000 buildings. You certainly know pretty well the size and dimensions and the spacing that you need for it, and of course I think you gentlemen were talking about the facing of the building.

Mr. GARY. There is no question that there could be some standardization.

Mr. CONTE. But within the limits asked.

Mr. GARY. Yes.

Mr. PILLION. That is right. And I gather that is what they have tried to do in this plan they have set up. Now, it may be improved, but I think you are absolutely right, that there can be some standardization.

But when I was up in Massachusetts sometime not too long ago, I noticed the buildings with the widow's walks. Well, I have not seen a widow's walk down in Virginia.

Mr. STEED. You find it in coast cities.

Mr. GARY. We do not have widow's walks in Virginia.

Mr. CONTE. Mr. Chairman, I am sorry to say that our post offices, right now, certainly do not conform to the beautiful colonial spirit of New England.

Mr. GARY. Off the record.

(Discussion off the record.)

Mr. CONTE. Mr. Chairman, I defer to Virginia, I am going to ask to strike my remarks from the record.

Mr. STEED. Mr. Chairman, I know in the case of the things I have seen them put up that the schematics, as they call them, furnished by the Post Office Department have been followed almost exactly by those who contracted to put up their own buildings. And I think that

those schematics have served as a very definite guide, and the shape of the lot, the location of the lot in the community gives rise to why one would be more serviceable than another, and all that is taken into account. And in the several I have seen put up I do not believe any two of them are exactly alike in their outward appearance. However, the schematics were followed very closely.

SAVINGS FROM LEASING PROGRAM

Mr. PILLION. Mr. Chairman, to get back to the question of the rentals and why we are increasing them at 25 percent per year, we have had a very interesting discussion. I will concede Mr. Milliken's ideas, temporarily, that perhaps the leasing may be the better arrangement.

But where is this picture taking us? Now, next year, I assume that the increase in rentals will again approach 25 percent over the estimated $80 million for this year. Where do we stop, and where can we find any semblance of reimbursement for this continuing increase in rentals?

Mr. GARY. Off the record.

(Discussion off the record.)

Mr. BURKHARDT. Of course, Mr. Congressman, our work is done based upon the requirements that are proposed to us. We do not go out and arbitrarily purchase or construct a building if the need is not established by the Bureau of Operations and the people who determine these things. After we accept the need for space and facilities, we try to negotiate in the best interests of the Government.

I share your concern for this ever-increasing rise in rentals. It would seem to me, however, that within the foreseeable future, based on the increased volume, the increased population, that if we have a goal of 12,000 buildings as of several years ago, we would hit that in a few years and it would level off.

Mr. STEED. If the gentleman would yield?

Mr. PILLION. Yes, surely.

Mr. STEED. I have to go back to something that I have some personal experience with in one community. They were renting it in an old store building. The owner apparently was trying to make all he could out of it, and he would not patch the holes in the floor and the roof was leaking, and it was damaging the mail. They built one of these new buildings, and, of course, the rent was considerably more. Well, within a year after they occupied this building, the block in which the old store building was confined had burned down. So if the post office had not been moved, it would have burned up along with the rest of the building.

Mr. PILLION. I can concede that in 1, but I cannot concede that in 99 others.

Mr. STEED. In that case I think the Government not only got more space and air-conditioned space and modern space, and they cannot only handle the mail much more efficiently, and a higher rent is justified.

I have another project down there where the man who owns the building where the post office is located protests that he has furnished them as good quarters for much lesser rent than they are going to

get in their new building. So he is very unhappy about the fact that they are building another building and moving the post office out of his property. So you run into both types.

PROJECTING REQUIREMENTS FOR SPACE

Mr. MILLIKEN. Might I just ask this one question, if you do not mind, right here?

When you get a new lease for a post office, you project what you think you are going to need. You may not need all that space that you require now, but do you not project what your requirements will be 5 or 10 years hence, or at the expiration of that lease?

Mr. BURKHARDT. It is projected, I believe, Congressman, to the extent that the options are asked for. In other words, if we have a 10-year lease, there is an anticipated projection of an additional 10 years through two 5-year options.

Mr. MILLIKEN. No, but I mean, when you rent a new place for 10 years, you have to allow for growth in that neighborhood?

Mr. BURKHARDT. Yes, sir.

Mr. MILLIKEN. Growth in that mail?

Mr. BURKHARDT. Yes, sir.

Mr. MILLIKEN. You then have to get more space than you need at the minute.

Mr. BURKHARDT. That is so.

Mr. MILLIKEN. In other words, you need a room with this space at the minute, but you figure in 5 years you will need half of this again, so you allow for that when you build it?

Mr. BURKHARDT. Yes, sir; that is all taken into consideration.

Mr. GARY. Does it not all boil down to this? I remember during World War II, we had a terrific increase in the volume of mail. We all thought that it was an abnormal increase due to the war and that, after the war was over, it would go back to normal. Instead of that, it has increased every single year since the war. So that our postal volume is increasing tremendously.

POSTAL DEFICIT

Now if we are going to handle that increased volume, we have to have modern facilities. Modern facilities cost money. The trouble with our Post Office Department is that the Government has been bearing these increases and has not been passing them on to the users of the mail.

If a commercial organization has increases in cost of facilities and personnel and other increases, they have, during the years, passed those costs on to the public in increased charges for the services rendered.

The Post Office has not done so in proportion to the increase. And that is the reason we have this tremendous deficit that we face today.

Mr. STEED. That is right.

Mr. GARY. Of nearly a billion dollars. And if we keep on that same principle, that deficit is going to increase. And what we are doing is subsidizing the users of the mail and passing those costs

today onto the taxpayers instead of letting the users of the mail bear them as they should do.

If the Post Office Department gives the people extra postal service, someone will have to pay for it. The Government has no way of furnishing this additional service without additional cost. And if we are going to keep up with the times and give the people the type of service that they want, then they must be willing to pay for it, and it is going to be reflected either in increased mail costs or in increased taxes.

Mr. BURKHARDT. That is very logical.

LEASING PROGRAM, 1960–62

Mr. GARY. Now can you furnish a list for the record of the new post offices constructed last year, showing the total floor space, the term, and the amount of the lease?

Mr. BURKHARDT. Yes, sir.

Mr. PILLION. Can we have that for the years before?

Mr. BURKHARDT. Yes, 1960 and 1961?

Mr. GARY. 1960 and 1961 and the estimate for 1962.

(The information supplied follows:)

The number of actual and estimated agreements to lease made for new construction or major remodeling for fiscal years 1960–62 as follows:

Year:	*Number of agreements*
1960	1,602
1961	2,000
1962	2,000

The committee has been furnished a complete list of new construction for postal facilities placed under contract for lease by the Post Office Department during calendar years 1959 and 1960 and 1961 through January. The information furnished includes location, type of facility, interior and platform area and square feet, and estimated construction costs. About 91 percent of the leases presently in effect are in terms of 10 years or less.

PAYMENTS FOR FUEL AND UTILITIES

Mr. GARY. How are the maintenance costs, fuel, and utilities handled in these new rental post offices?

Mr. BRINKMEYER. Paid separately in almost every case. The rent does not include the utility costs.

Mr. GARY. Well, how are they handled, by contract or does the Post Office Department furnish it or is it furnished by the GSA?

Mr. BRINKMEYER. We furnish it. Of course, the utilities we pay directly, according to their standard rates.

Mr. GARY. The Post Office Department pays that. That is paid out of this appropriation?

Mr. BRINKMEYER. Yes, sir. On page 40.2, the next line under the rent program, that is the fuel and utilities we pay; they are paid by the regional offices.

Mr. GARY. That is not true with respect to the Government-owned post offices, is it?

Mr. BRINKMEYER. Yes, sir; it is, generally speaking. There are a few Government-owned post offices which are controlled by GSA which we occupy. GSA pays all of the fuel and utilities. We pay

nothing. If we control the building, and that is the case in about 3,000 buildings, we do pay the fuel and utilities.

Mr. GARY. What is the difference? Where is the line drawn between the buildings you control and the buildings that GSA handles?

Mr. BRINKMEYER. This was based on an arrangement of 10 years ago. If we occupied less than 50 percent of the space, the building was given to the GSA. If we occupied over 50 percent, we paid the utilities.

Mr. GARY. And is that still carried out now?

Mr. BRINKMEYER. Yes, sir.

SUPPLIES AND SERVICES

Mr. GARY. What has been the trend in the cost of supplies and services under this appropriation?

Mr. BURKHARDT. It has remained fairly constant, Mr. Chairman.

In 1960 we spent $40,330,000 and the stated estimate for 1961 was $43,667,000 and our estimate for the 1962 budget is $46,368,000.

Mr. GARY. Has the new program of leasing post offices had any effect on the amount of supplies and services required?

Mr. BRINKMEYER. It would have effect on custodial supplies pretty much directly related to the space, sir, and other supplies would be more directly related to manpower, on the use of manpower.

We also have in the supplies and services, mechanization parts which were never a factor until this year—that is to say repair parts.

Mr. GARY. How are the major supplies handled; that is the office furniture, postal equipment, et cetera?

Mr. BRINKMEYER. Those are in the "Plant and equipment" appropriation.

MAIL EQUIPMENT SHOPS

Mr. GARY. What is the status of your mail equipment shops?

Mr. BURKHARDT. We can have Mr. Townsend, who is the director of that activity answer that specifically, Mr. Chairman.

This is Mr. Townsend.

Mr. GARY. Mr. Townsend, can you tell us the status of your mail equipment shops?

Mr. TOWNSEND. Well, we are operating now on a 40-hour week, full capacity. However, we are not producing all the sacks and pouches required. The overflow is being produced by the prison industries at Atlanta.

NEW MATERIALS UNDER STUDY

Mr. GARY. What kind of sacks are you using?

You have been experimenting with various kinds of sacks. Tell us the results of some of those experiments.

Mr. TOWNSEND. We have right now, out on the west coast a thousand vinyl sacks. That is a textile, coated with vinyl, which indicates from results of tests by the Bureau of Standards that they are at least 100 percent greater in resistance to penetration, puncture, abrasion, and practically every test that you would subject them to and we are having a service test at the present time on the west coast.

We are also having a service test on a light vinyl for airmail pouches and that is taking place on the west coast.

Mr. GARY. What is that, a kind of plastic bag?

Mr. TOWNSEND. Vinyl chloride plastic.

Mr. GARY. You would have to use them awhile before you could tell how they would wear, wouldn't you?

Mr. TOWNSEND. Yes, sir; before they would be declared standard there would be a lot of discussion about them and we would want a true service test of them.

Mr. GARY. What is the difference in cost?

Mr. TOWNSEND. This vinyl sack which would replace our regular parcel post sack would cost around 20 percent more than our present sacks—that is per yard. However, it would have the same labor, hardware, and so forth on it and would probably come down to 13 or 14 percent more than our standard sack as an allover figure.

Mr. GARY. Have you abandoned your experiments on paper sacks?

Mr. TOWNSEND. I understand that they have been, yes, sir. The Office of Research and Engineering had that project. However, we are using a limited quantity of these sacks between Seattle and Alaska; that is standard between these two areas, but we have abandoned their use as I understand, as far as Latin America is concerned.

Mr. GARY. And are you now using mostly nylon sacks for airmail?

Mr. TOWNSEND. All of our production is in nylon sacks for airmail.

Mr. GARY. You are still using the canvas sacks?

Mr. TOWNSEND. Oxford weave, our old air sacks. There are still quite a few hundred thousand of these in service, yes. However, as they are condemned they are replaced with the nylon sack.

Mr. GARY. The question was raised the other day whether you could repair the nylon sacks with the heat seal.

Mr. TOWNSEND. Yes, sir; you can.

Mr. GARY. And do it satisfactorily?

Mr. TOWNSEND. Yes, sir.

Mr. GARY. Do you find the nylon sacks more satisfactory than the old weave?

Mr. TOWNSEND. Oh, yes. From a wear standpoint and a puncture standpoint and so forth, they are far superior. From an abrasion standpoint, they are far superior to the old oxford weave.

Mr. GARY. Now you are using the old oxford weave for what?

Mr. TOWNSEND. For airmail.

Mr. GARY. I want to know about rail.

Mr. TOWNSEND. That is a regular canvas bag.

Mr. GARY. You are using the heavy canvas for rail?

Mr. TOWNSEND. For surface.

Mr. GARY. For surface movements?

Mr. TOWNSEND. Yes, sir.

Mr. PILLION. Will the gentleman yield?

Mr. GARY. Yes.

REDUCTION IN REQUIREMENTS FOR NEW SACKS

Mr. PILLION. I note that your request for 1962 is down by $610,000. Will you tell us why you are able to give us that very welcome figure?

Mr. TOWNSEND. Yes, sir. Back in 1956 we had about a 26 million inventory of sacks and pouches and we have been building that inventory up, whereas today it is up to 32 million and the only thing that

we will be going in for will be to replace condemnations and also to satisfy the increase in mail service in the future.

We are now up to the highest inventory in sacks, which the Bureau of Transportation controls; that is the quantities of sacks and pouches that we are to carry in our inventories.

REPAIR OF SACKS

Mr. GARY. Well, do you repair the sacks in the same shops that you make them in?

Mr. TOWNSEND. No, sir.

Mr. GARY. Where are the shops located that manufacture the sacks?

Mr. TOWNSEND. Sir, we have 16 depositories throughout the United States and in 6 of those, there is a repair center and prior to the new heat seal process, all sacks were repaired at one of these 6 repair centers.

Now, in all the depositories except Pittsburgh, sacks are repaired through the heat-seal method and they are put into service at point of repair. Prior to that they were collected in these depositories and then bundled up and when you had a carload they were sent to one of the six repair shops.

Mr. GARY. What are those locations? Just put a list in the record.

Mr. TOWNSEND. That will be inserted in the record at this point.

(The list referred to is as follows:

MAIL BAG REPAIR CENTERS AND DEPOSITORIES

Atlanta, Ga.
Chicago, Ill.
Cincinnati, Ohio
New York, N.Y.
Philadelphia, Pa.
St. Louis, Mo.

MAIL BAG DEPOSITORIES ONLY

Boston, Mass.
Buffalo, N.Y.
Denver, Colo.
Oakland, Calif.
Pittsburgh, Pa.
St. Paul, Minn.
Kansas City, Mo.
Los Angeles, Calif.
Seattle, Wash.
Washington, D.C.

MANUFACTURE OF SACKS

Mr. GARY. How many plants do you have for manufacturing these sacks?

Mr. TOWNSEND. Only one, in Washington here.

Mr. GARY. Here in Washington, D.C.?

Mr. TOWNSEND. Here at Fifth and W Streets NE. I say the overflow is manufactured at the prisons in Atlanta, Ga. In other words, if our requirements would call for about 3 million sacks, about 2 million would be manufactured here in Washington and the balance manufactured by the prison industries.

We only have a one shift operation here in Washington, a 40-hour week and we gear ourselves to that 40-hour shift and as I say, any requirement for the overflow, that we can't produce at the shops is furnished by the prison industries.

Mr. GARY. In the prison industry, do they use the services of prisoners to manufacture them?

Mr. TOWNSEND. Yes, sir.

Mr. GARY. But you do not use them here in Washington.

Mr. TOWNSEND. Oh, no, sir.

Mr. GARY. That is strictly civil service?

Mr. TOWNSEND. Yes, sir.

Mr. GARY. Any questions about the sacks, gentlemen? We are proceeding a little bit differently this morning. We have gotten off on this, but I think as we take up these items if anyone has any questions I would be very glad to have them asked at any time.

Mr. CONTE. Did he say some of these sacks are made in prisons by prison industries?

Mr. GARY. Yes.

Mr. CONTE. Is there a comparison in price?

Mr. TOWNSEND. Yes. We make these sacks in the shops here at practically the same cost that the prisons charge. You know, prison industries make a profit on practically everything that they sell and they gear the price to what the Government can pay for it. In other words, they don't undersell less than we can really make them for.

Mr. GARY. What is the prison industry under?

Mr. TOWNSEND. It is under the Department of Justice.

Mr. GARY. Operated by the Department of Justice?

Mr. TOWNSEND. Yes, sir.

Mr. CONTE. Are the prisoners paid?

Mr. TOWNSEND. Yes, sir; so I understand. Well, I know they are paid and they get some premiums if they produce over a certain quantity.

SAVINGS FROM IMPROVED METHOD OF REPAIR OF SACKS

Mr. PILLION. Can we look forward to a further saving next year on this item? It looks awfully welcome here and it's awfully nice to see a minus side once in a while.

Can you maintain that sort of operation?

Mr. TOWNSEND. Yes, sir; I hope so, because up until we put the heat-seal method into operation, we had condemnations of approximately 1 million or 1 million and a quarter sacks and pouches each year. However, since we put the heat-seal process in, it has gradually gone down where condemnations for 1960 was 400-and-some-odd thousand.

Mr. PILLION. I think you should be commended here in this situation.

Mr. GARY. I think we all agree with that. It is so seldom we see somebody coming in and requesting less money. I think we are all glad to extend those compliments.

USE OF PRISON LABOR

With reference to the use of this prison labor, I remember some years ago I was on a committee of the State legislature in my State that dealt with that problem and there has been a controversy for many years between labor and the Government with reference to the use of State prison labor.

Mr. TOWNSEND. Yes, sir.

Mr. GARY. At one time, outside contractors employed prisoners and in some instances in some States, they merely exploited them.

An understanding was reached about the time I was on the State legislative committee, that prison labor would only be used for manufacturing articles used by the Government and not to be sold in competition with private enterprise.

Does that situation still exist?

Mr. TOWNSEND. In Federal prisons, yes, sir. You see, it is mandatory that we buy all of our canvas from prison industries and they manufacture all the canvas we use at the mail equipment shops and they also make canvas hampers for us, and canvas hamper inserts. They make these for all agencies of the Government, but I am sure that they make nothing for anyone outside of agencies of the Government.

Mr. GARY. It is quite a problem because you have to keep the prisoners employed. Unless you have something to keep them busy the discipline problem is increased.

On the other hand, there is very great objection by labor if they come into competition with labor and I think that has been worked out where they are employed now only for producing goods actually used by the Government itself which would be the case here where you are using the bags in the postal service.

Mr. CONTE. Do they make anything else such as mailboxes?

Mr. TOWNSEND. No, sir.

PRINTING COSTS

Mr. GARY. What has been the trend in printing costs for the Post Office Department for 1960, 1961, and your estimate for 1962?

Mr. BURKHARDT. For 1960 there was $4,681,000, Mr. Chairman. In 1961, it was $5,048,000 and our estimate for 1962 is $5,288,000 which certainly for 1961 and 1962 indicates a more constant figure than anything else.

Mr. GARY. Remains pretty much the same, doesn't it?

Mr. BURKHARDT. Yes, sir, it does.

Mr. GARY. What printing does that include?

Mr. BURKHARDT. It includes such things as postal manuals, information sheets, part of the training program, bulletins, et cetera, from the departments to the bureaus to the field and to people, and so forth.

Mr. GARY. It does not include your cards for your money order, does it?

Mr. BURKHARDT. It is in a different item, Mr. Chairman, the money order costs.

Mr. BRINKMEYER. The money order forms are called accountable paper and are included in the stamp estimate.

Mr. GARY. What I was speaking of was the cards you use in your central system where you have the electronic cards for handling these money order transactions.

Mr. BRINKMEYER. Any other punched cards other than the money orders themselves are included in printing.

Mr. GARY. The punched cards are included in the printing costs?

Mr. BRINKMEYER. Yes, sir.

Mr. GARY. And how about the other forms, the various forms that you use?

Mr. BRINKMEYER. Yes, sir, they are in the printing estimate.

Mr. GARY. You don't use this distinctive paper for anything except your money orders, do you, and the stamps?

Mr. BRINKMEYER. Not as far as I know. I think someone else would have to answer about the kind of paper used. I don't know. That is for accountable paper and other than that, no, we don't use special paper.

Mr. GARY. I was referring to special paper such as you use when you manufacture money, et cetera. You would not use that?

Mr. BRINKMEYER. No, sir.

FIELD PERSONNEL

Mr. GARY. Will you describe your personnel program in the field?

Mr. BURKHARDT. Mr. Townsend will speak for that.

Mr. TOWNSEND. We have approximately 1,400 employees in the field. They are divided between the depositories, repair centers, capital equipment warehouses, supply centers, and the mail equipment shops. That encompasses our whole field operation and we have a ceiling and we naturally cannot go above that ceiling.

Mr. GARY. What are their functions?

Mr. TOWNSEND. Well, in the mail equipment shops, it is the manufacturing of all sacks, pouches, locks and keys for the postal service, and we also repair some letter carrier satchels, we cannibalize a lot of the satchels and use the leather for washers, and so forth in the other operations we have in the making of the sacks and pouches.

In the depositories we receive, examine, warehouse, and ship mail sacks where needed to all parts of the country. Also repair sacks and pouches through the heat seal method.

In the repair centers we repair sacks and pouches both by sewing machine and heat seal method.

Mr. GARY. Does your field personnel program cover all of the people in those operations?

Mr. TOWNSEND. Yes, sir.

Mr. GARY. That covers the operating staff of these various shops.

Mr. TOWNSEND. In the field, yes, sir.

Mr. GARY. How many people are assigned?

Mr. TOWNSEND. Well, there are approximately 1,400. I could get the exact numbers for you.

Mr. GARY. Will you give us those figures for 1960, 1961, and 1962?

Mr. BURKHARDT. We have them right here. For 1960, 1,396; 1961, 1,414; 1962, 1,414.

Mr. GARY. That is remaining fairly constant.

Mr. BURKHARDT. Yes, sir.

Mr. GARY. What part, if any, does the region have in this program?

Mr. TOWNSEND. They have no jurisdiction over this program in the region. This is entirely administered by the Bureau of Facilities from headquarters.

Mr. GARY. That is not a decentralized program?

Mr. TOWNSEND. It is decentralized you might say, sir, but it crosses regions. It crosses over from one region into another.

Mr. GARY. Thank you, gentlemen. That concludes the hearing on Facilities.

PLANT AND EQUIPMENT

WITNESSES

ROBERT J. BURKHARDT, ASSISTANT POSTMASTER GENERAL, BUREAU OF FACILITIES
ROY D. SCHLEGEL, DEPUTY ASSISTANT POSTMASTER GENERAL, BUREAU OF FACILITIES
ROBERT H. BRINKMEYER, FINANCIAL CONTROL OFFICER, BUREAU OF FACILITIES
L. REX LANDIS, DEPUTY DIRECTOR, OFFICE OF RESEARCH AND ENGINEERING
VIRGIL C. STONE, ASSISTANT DIRECTOR FOR PROGRAMING AND CONTROL, OFFICE OF RESEARCH AND ENGINEERING
RICHARD A. WEDIN, ASSISTANT FINANCIAL CONTROL OFFICER
KENNETH L. RABIDOUX, ACTING DIRECTOR, DIVISION OF REAL ESTATE
WILLIAM H. TOWNSEND, DIRECTOR, SUPPLIES DIVISION
F. F. SMITH, DIRECTOR, VEHICLES DIVISION
WILHO KALLIO, ASSISTANT DIRECTOR, SUPPLIES DIVISION

Object classification

[In thousands of dollars]

	1960 actual	1961 estimate	1962 estimate
22 Transportation of things	1,998	3,575	2,765
25 Other services	52,146	34,032	40,546
31 Equipment	75,200	80,214	76,219
32 Lands and structures	2,062	2,306	2,470
Total obligations	131,405	120,127	122,000

Program and financing

[In thousands of dollars]

	1960 actual	1961 estimate	1962 estimate
Program by activities:			
1. Building and equipment improvement	104,784	94,461	97,587
2. Regular capital program	10,593	12,540	12,913
3. Vehicle program	16,028	13,126	11,500
Total obligations	131,405	120,127	122,000
Financing: Comparative transfers from (−) other accounts	−131,405	−120,127	----------
New authority (appropriation)	----------	----------	122,000

Mr. GARY. We will now take up plant and equipment. After allowing for transfers due to changes in budget structure the appropriations for this account were $131,405,000 for 1960; $120,127,000 for 1961.

The request for 1962 is $122 million.

Do you have a statement with reference to this, Mr. Burkhardt?

Mr. BURKHARDT. Yes, Mr. Chairman.

GENERAL STATEMENT

This estimate covers the modernization program, a standard equipment replacement program, and the vehicle procurement program.

The modernization estimate provides for mechanization of several large facilities. It provides for a group of Federal buildings to be completely modernized, plus a number of individual air-conditioning installations and minor improvement projects. The estimate provides for equipment for the new leased buildings to be occupied.

The standard equipment program provides for normal replacement of other types of equipment.

The vehicle program provides for procurement of regular vehicles for replacement with the exception of 24 tractors and 54 trailers. The disposal of the older vehicles will be made in accordance with criteria established by the General Services Administration. By June 30, 1962, no vehicles will be older than 1954 models.

In addition, 2,222 mailsters are requested to implement the Bureau of Operations program of improved service through the mechanization of foot routes.

Finally, Mr. Chairman, with respect to both budgets I want to express to you and the members of this committee the assurance of my associates and myself to work closely with you in the months ahead.

With your advice and counsel I am sure we can continue to improve postal service for all of our citizens.

SUMMARY JUSTIFICATION DATA

At this point, I would like to insert for the record, pages 50.1 and 50.2 of our justification.

Mr. GARY. All right.

(The documents referred to are as follows:)

Statement relating 1960, 1961, and 1962 programs

[In thousands]

1960 programs transferred for comparability:	
From facilities:	
Building and equipment improvement (modernization)	$37,022
Equipment for standard program	10,593
Vehicle program	16,028
From postal modernization: Building and equipment improvement (modernization)	67,762
1960 program (obligations incurred) (comparable)	131,405
1961 programs transferred for comparability:	
From facilities:	
Equipment for standard program	12,540
Vehicle program	13,126
From modernization and improvement of buildings and equipment [1]	94,461
1961 program (obligations incurred) (comparable)	120,127
1960 program (obligations incurred) (comparable)	131,405
Increase or decrease due to—	
Building and equipment improvement (modernization)	−10,323
Equipment for standard program	1,947
Vehicle program	−2,902
Total	−11,278
1961 program (obligations incurred) (comparable)	120,127
Increase or decrease due to—	
Building and equipment improvement (modernization)	3,126
Equipment for standard program	373
Vehicle program	−1,626
Total	1,873
1962 program (obligations incurred)	122,000

[1] Building and equipment improvement program.

Analysis of estimated increase or decrease in obligations

[In thousands]

Account	1960 (actual)	1961 (estimate)	Increase or decrease (−)		1962 (estimate)	Increase or decrease (−)	
			Amount	Percent		Amount	Percent
Building and equipment improvement (modernization):							
Major mechanization projects	$32,583	$38,147	$5,564	17.08	$34,753	−$3,394	−8.90
Federal buildings—modernization and extensions	54,208	38,051	−16,157	−29.81	44,466	6,415	16.86
Automatic customer service equipment	540	900	360	66.67	900	----------	--------
Money order issuing equipment	2,911	----------	−2,911	--------	----------	----------	--------
Furniture and fixtures for new and remodeled buildings	14,542	17,363	2,821	19.40	17,468	105	.60
Subtotal	104,784	94,461	−10,323	−9.85	97,587	3,126	3.31
Equipment for standard program:							
Freight	1,288	1,350	62	4.81	1,400	50	3.70
Custodial equipment	495	975	480	96.97	1,050	75	7.69
Office fixtures and equipment	3,018	3,358	340	11.27	3,418	60	1.79
Mail and material handling equipment	5,750	6,520	770	13.39	6,920	400	6.13
Mail equipment shop and repair center equipment	43	337	294	683.72	125	−212	−62.91
Subtotal	[1] 10,593	12,540	[1] 1,947	18.38	12,913	373	2.97
Vehicle program:							
Freight	138	1,500	1,362	986.95	535	−965	−64.33
Vehicle purchases	15,652	11,326	−4,326	−27.64	10,665	−661	−5.84
Garage equipment	238	300	62	26.05	300	----------	--------
Subtotal	16,028	13,126	−2,902	−18.11	11,500	−1,626	−12.39
Total plant and equipment	131,405	120,127	−11,278	−8.58	122,000	1,873	1.56

[1] Does not add due to rounding.

PROGRAM CHANGES IN 1961

Mr. GARY. I notice in connection with your statement you have a recapitulation of changes. Does this cover the changes that have been made in switching in the budget?

Mr. NOBLE. Mr. Chairman, I believe the statement you have refers to some reprograming about capital funds for 1961 and it bears no relationship to the appropriation structure change.

I will be glad to speak to that type of change, the structure change, if you like at this time.

Mr. GARY. Off the record.

(Discussion off the record.)

Mr. GARY. On the record.

Insert in the record at this point the recapitulation changes and modernization program of 1961 with the explanation.

(The document referred to appears on p. 226.)

Mr. GARY. Mr. Noble, give us just a brief explanation on that.

Mr. NOBLE. The change in the program for 1961 has developed during the year partly as a result of operational developments and partly as a result of the new emphasis currently being placed on the expenditure or the acceleration of expenditure of funds for the alleviation of the economic conditions.

It involves principally the application of money originally programed for major mechanization to Federal building improvements,

some $23 million of money originally programed for the procurement of major items of mechanization which will now be spent for the Federal building improvement program.

I believe the Bureau of Facilities can speak to the details of that and as to the more specific reasons.

Mr. WEDIN. We found a number of the mechanization projects, the major mechanization projects could not be sufficiently engineered and designed to put on the market prior to June 30. Yet, we did have a backlog of the Federal buildings modernization projects ready to move forward to GSA for accomplishment so we shifted the funds into the Federal building program, giving due consideration to the so-called distressed areas.

Mr. GARY. And this table shows those shifts.

Mr. WEDIN. Yes, sir. It also provides for certain additions and contracts that were let in prior years where modifications were made to perhaps the type of equipment that was going in or it was determined that there would be some additional type of mechanization required.

CHANGES IN APPROPRIATION STRUCTURE

Mr. GARY. Mr. Noble, will you tell us about the structural changes?

Mr. NOBLE. Yes, the plant and equipment appropriation for which we are requesting $122 million is practically the same as the appropriation you established last year, modernization and improvement of buildings and equipment, with the following exceptions.

We have excluded from the plant and equipment appropriation the portion of the research program that you had in that modernization appropriation last year and transferred that to the administrative appropriation.

We have done the same with the technical personnel necessary to implement the modernization program.

On the other hand, we have transferred into this appropriation out of the facilities appropriation the amounts to which I referred to a little while ago for the standard equipment program and the procurement of vehicles totaling $25 million.

In terms of 1961 money, this represents a transfer out of the modernization appropriation of $6,451,000 which went into administration and a transfer in from facilities of $25,666,000. This brings into one appropriation all of the capital items of the Department and provides only for capital field items in the Department. It excludes research and excludes all personal services.

(Additional explanation may be found on p. 227.)

Mr. GARY. What are the major items, together with the amount requested for each, that will make up this appropriation?

Mr. NOBLE. The details of this appear on page 50.2, Mr. Chairman, and possibly the Facilities Bureau should talk to that table.

BUILDING AND EQUIPMENT IMPROVEMENT

Mr. WEDIN. In the building and equipment improvement program we have it divided into major mechanization, the Federal building program which is the modernization and extension of existing buildings, the purchase of certain automatic customer service equipment and furniture and fixtures for new and remodeled buildings.

Now, in the building and equipment, rather in the major mechanization projects, it envisages the accomplishment of the projects which will not be accomplished this year and a portion carried over into the next fiscal year.

The Federal building program includes not only the major projects that we are carrying out from the Department but also an air-conditioning program and a certain amount of money that is allocated to the field for accomplishing improvements right in the field with direct liasion with the local GSA.

The furniture and fixtures, of course, are the same as in the prior year appropriation which includes the new equipment for the leased building program as well as a certain amount for the Federal buildings that are modernized and extended.

Mr. PILLION. Will the gentleman yield?

Mr. GARY. Yes.

Mr. PILLION. Are you talking, on page 50.2 on this same subject here, the transfer out of major mechanization of $28 million into Federal buildings?

Mr. WEDIN. Yes, sir, that is in the 1961 program. I thought we were speaking to the 1962 program.

Mr. PILLION. The 1962?

Mr. WEDIN. Yes, which involves primarily the same type.

Mr. PILLION. Thank you.

STANDARD EQUIPMENT PROGRAM

Mr. WEDIN. The equipment for the standard program, of course, is also detailed on 50.2 and involves the program that formerly was in the facilities appropriation and, of course, the vehicle program is also detailed on this page and was formerly in the facilities appropriation.

Mr. GARY. Will this appropriation be used to finance the purchase of new machines to be tested, such as the Burroughs machine?

Mr. WEDIN. Not in research; no, sir. The research appropriation is separate from this. Anything that is purchased in this appropriation, sir, will be, you might say, standard equipment, tested and ready to go into a building.

Mr. GARY. What items will you purchase under standard equipment?

Mr. WEDIN. Well, the standard equipment program, sir, includes the day-to-day requirements of the service.

For instance, if you have a station that has an expanded business, you might perhaps have three or four carrier routes added to the station so that you would need a certain number of mailboxes. You might need various items of equipment that go with the expansion. This is opposed to the whole package approach of equipment that goes into a new building.

There are certain things that are needed from day to day, plus replacement of wornout equipment that would be in this category.

Mr. GARY. I would like for somebody to give us a very full statement concerning the vehicle program for 1962.

Mr. BURKHARDT. Mr. Smith, the director of our vehicle program can address himself to that, Mr. Chairman.

Mr. Smith, will you address yourself to that?

Mr. SMITH. Yes, sir.

Mr. GARY. Before we go into that, on this Burroughs machine, I asked about that and you said you bought some Burroughs machines to go into the Detroit post office before they had actually worked with them. Now, were they paid for out of the research or paid for out of this program?

Mr. WEDIN. That was in the 1960 research appropriation.

Mr. GARY. How much have we paid on that machine all together? Off the record.

(Discussion off the record.)

Mr. GARY. On the record.

VEHICLE PROCUREMENT PROGRAM

Mr. Smith, will you give us a very complete statement, please, on your vehicle program for 1962?

Mr. SMITH. Yes, sir. This program was included in the facilities appropriation for 1960 and 1961.

For 1962, all programs consisting primarily of modernizing, replacing, or adding to the postal plant or equipment are being submitted to the Congress in a new appropriation proposed for 1962 with the title, "Plant and equipment."

This program covers the purchase of all vehicles and garage equipment used in the postal service. The quantity and types of vehicles and garage equipment purchased are based upon the requirements of the Bureau of Operations in its program of processing and distributing the ever-increasing volume of mail.

The procurement policy for this program in 1962 is geared to the standard types of vehicles which meet the needs of the postal service and provide maximum competition among those supplying vehicles. During the past year sufficient competition developed in industry to permit the department to procure the first compact trucks, ½-ton, 110 cubic-foot capacity, right-hand drive, four-cylinder motors, at a greatly reduced original cost as compared to the previously purchased ¾-ton, 140 cubic-foot capacity, right-hand drive vehicles.

The procurement of these vehicles will be continued in the fiscal year 1962. This program contemplates the procurement of an additional 1,000 of these vehicles as replacements for 1952 model 1-ton vehicles.

In addition, 2,483 ¾-ton, 300 cubic-foot capacity vehicles will be procured as replacement for older and obsolete vehicles, the condition and age of which fully meet the disposal criteria of the General Services Administration.

The procurement of 59 tractors and 174 trailers is planned—24 tractors and 54 trailers for new service and 35 tractors and 120 trailers for replacement.

Included in our disposal program are 2,088 2-ton dual rear wheeled, vehicles with 330 cubic-foot capacity. The ¾-ton 300 cubic-foot vehicle with single rear wheels which replaces the 2-ton dual rear wheeled model combines economy of operation with improved design for more efficient operation.

The vehicles to be disposed of will all be 8 or more years old and other than service type vehicles—wreckers, trailers, and so forth—the oldest vehicle in the fleet will be a 1954 model.

The latest advancements in vehicle design by the industry will be incorporated in our specifications. The 2½-ton walk-through van will be of the most modern design; the tractors will be of the cab over engine design, and the ¾-ton, 300 cubic-foot workhorse of the fleet will likewise be of modern, standard commercial design.

During the fiscal year 1960, the first mailsters powered by two cylinder, gasoline motors were purchased. Those purchased during fiscal year 1961 are of the same design and the procurement of 2,222 mailsters for 1962 likewise contemplates the heavier two-cylinder motor.

Cooperative research, initiated by the Department and conducted by several interested manufacturers, has resulted in the development of a mailster type vehicle powered by batteries. As this program develops, it is planned to purchase a portion of our mailster requirements utilizing electric power. Although the initial cost of the electric vehicles will be slightly higher, it is expected that the lower regular maintenance and operating costs will more than compensate for this.

The replacement program follows a normal pattern of disposal of overage uneconomically repairable vehicles. This estimate provides only the essential requirements for new service.

AGE, MILEAGE, AND MAKE OF VEHICLES

Mr. GARY. Will you give us a table showing the number of vehicles by type, age, mileage, and so forth? Do you have that table with you?

Mr. SMITH. Yes, sir.

Mr. BRINKMEYER. We have a table in these sheets which shows the age as at the end of 1962.

Mr. SMITH. That is 53–C.

Mr. GARY. As at the end of 1962?

Mr. BRINKMEYER. Yes, sir. If we make the procurement we project here and dispose of the vehicles which Mr. Smith mentioned, this will be the fleet as it will exist at that time by model years.

Mr. GARY. Well, do you have this table for the end of 1961? That is what we are interested in.

Mr. BRINKMEYER. We can get that for you.

Mr. CONTE. Does that table include the make?

Mr. GARY. No, it does not. It is just the totals.

Mr. CONTE. Can we have the truck make included?

Mr. GARY. Off the record.

(Discussion off the record.)

Mr. GARY. On the record.

What we want is this table of vehicle inventory showing, as of June 30, 1961, the number of vehicles.

Then we would like to have a table showing your requests for 1962 broken down as this table is broken down and we would like for that table to show how many of those new vehicles you are requesting for replacement and how many are new.

Mr. SMITH. It is in here already.

They are all replacements except 24 trucks and 54 trailers.

Mr. GARY. Now, preceding this table we would like to have this vehicle inventory as of June 30, 1961, with the make of the vehicle and then we would like to insert this inventory into the record, the projected inventory through June 30, 1962.

Is that agreeable?

Mr. CONTE. Yes, sir.

Mr. GARY. All right.

(The tables referred to are as follows:)

KANSAS STATE UNIVERSITY
REFERENCE
LIBRARY
DEPARTMENT
MANHATTAN, KANSAS

Estimated inventory of vehicles as of June 30, 1961

Capacity and make	Number by model year											Total by makes	Total by capacity
	1950	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961		
¼ ton:													
Cushman							1,493	1,905	329		1,502	5,229	
Highway Products (Electric)											300	300	
Eshelman								1,623	51			1,674	
West Coaster								11		2,400	600	3,011	
													10,214
½ ton:													
Dodge				1,334								1,334	
Ford				40				589	1,496			2,125	
Willys										3,210	2,815	6,025	
													9,484
¾ ton 140 cubic foot:													
Chevrolet						1	417	1,870				2,288	
Dodge					1,996	796	200		996			3,988	
													6,276
¾ ton 200 cubic foot:													
Chevrolet—RHD							625					625	
Chevrolet—LHD						1,000	1,147					2,147	
International						1			29	20		50	
													2,822
¾ ton 300 cubic foot:													
Chevrolet							826	1,250				2,076	
Dodge				399					1,500		1,000	2,899	
International					373	575	143			1,200	300	2,591	
													7,566
1 ton: Dodge		1,393										1,393	1,393
2 ton:													
Dodge		2,088										2,088	
International										3		3	
													2,091
2½ ton:													
Chevrolet				1	1					1,250		1,252	
International								250	63	1		314	
													1,566
3 and 5 ton: International	[1] 12											12	12
Truck-tractors:													
International		18	17	113				66	79	40	50	383	
White				56			7	4	1	10		78	
													461

[1] Specially equipped (hydraulic tailgates, curbside doors, and raised floor-bed).

Capacity and make	Number by model year													Total by makes	Total by capacity
	1949 or older	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961		
Semitrailers:															
20-22 feet		30	82	111	45		1	6	27	70	90	50	90	602	
28 feet			1			47			1			20		69	
30 feet						24								24	
32 feet						71						35		106	
33 feet						4								4	
35 feet						160					6	15	10	191	
20-ton (low bed)				2										2	
24 feet			5											5	
26 feet				1										1	1,004
Service (pickup)	1	99	58	23	11	150	11	8	55					416	416
Wreckers	38	7	13	3										61	61
Miscellaneous [1]	14	11	28	11	8	4	1	4	3	1		3		88	88
Custodial			5		1				2		100		20	128	128
Grand total	53	159	192	3,650	82	2,403	2,383	2,391	4,946	7,639	4,740	8,257	6,687	43,582	43,582

[1] Includes 20 automobiles which will be transferred into interagency motor pools as they are established.

Total vehicles by manufacturer

Recap:	Number
Mailsters:	
Cushman	5,229
Eshelman	1,674
West Coaster	3,011
Highway Products	300
Trucks and tractors:	
Dodge	11,702
Chevrolet	8,388
Ford	2,125
International Harvester	3,353
White	78
Willys	6,025
Trailers:	
Copco	6
Dorsey	194

Recap—Continued	Number
Trailers—Continued	
Fruehauf	107
Gramm	112
Great Dane	238
Highway	82
Kentucky	35
Kingham	230
Subtotal	42,889
Custodial	128
Service vehicles	416
Wreckers	61
Miscellaneous	88
Grand total	43,582

NOTE.—Custodial—122 stake trucks used by custodial force purchased from Willys Motors Co.; balance acquired through surplus list at no cost to the Department. Service—150 1-ton pickup service trucks purchased from Dodge in 1954; balance acquired through surplus list at no cost to the Department. Wreckers—Majority acquired from surplus list at no cost to the Department. Miscellaneous—Includes automobiles, mobile shops, mailster trailers, passenger buses, etc.

Analysis of vehicle purchases for fiscal year 1962

Type of vehicle	Total number of units proposed to be purchased	Cost (thousands)	Unit cost	Units for new service		Units for replacement	
				Number of units	Cost (thousands)	Number of units	Cost (thousands)
½-ton, 92-140 cubic feet	1,000	$1,900	$1,900	------	------	1,000	$1,900
¾-ton, 300 cubic feet	2,483	5,835	2,350	------	------	2,483	5,835
Tractors 55,000 gross pounds combined weight	59	372	6,305	24	151	35	221
Trailers	174	609	3,500	54	189	120	420
Total regular program	3,716	8,716	------	78	340	3,638	8,376
Mailsters	2,222	2,222	1,000	2,222	2,222	------	------
Total vehicle purchases	5,938	[1] 10,938	------	2,300	2,562	3,638	8,376

[1] Includes $273,000 reimbursement; net vehicle purchases, $10,655,090, but does not include the cost of freight.

Vehicle inventory projected through June 30, 1962, model year

Capacity	1950 or older	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	Total
½-ton	------	[1] 1	------	[1] 1	1,374	------	------	------	589	1,496	3,210	2,815	1,000	10,486
¾-ton, 140 cubic feet	------	------	------	------	------	1,996	797	617	1,870	1,025	20	------	------	6,325
¾-ton, 200 cubic feet	------	------	------	------	399	373	1,001	1,772	1,250	1,500	1,200	1,300	2,483	2,773
¾-ton, 300 cubic feet	------	------	------	------	------	------	575	969	------	------	3	------	------	10,049
2-ton	------	------	------	------	------	------	------	------	251	63	1,251	------	------	3
3-ton [2]	11	1	------	------	169	------	------	7	75	80	50	50	59	1,577
Tractors	------	------	112	45	306	1	6	28	70	96	120	100	174	490
Trailers	------	------	------	------	------	------	------	3	------	------	------	------	------	1,058
Passenger	11	2	1	1	2	------	------	2	------	100	------	20	------	20
Custodial	------	5	------	1	------	------	------	------	------	------	3	------	------	128
Miscellaneous [3]	159	96	36	17	152	12	12	55	1	------	------	------	------	543
Total	181	105	149	65	2,402	2,382	2,391	3,453	4,106	4,360	5,857	4,285	3,716	33,452
Mailsters	------	------	------	------	------	------	------	1,493	3,539	380	2,400	2,402	2,222	12,436
Grand total	181	105	149	65	2,402	2,382	2,391	4,946	7,645	4,740	8,257	6,687	5,938	45,888

[1] Used by inspection service.
[2] Includes 2½- and 5-ton.
[3] Includes 1-ton Ford held for Smithsonian, mailster trailers, pickups, wreckers, mobile shops ambulances, baggage tractors, stake, loader, dump, carryall, and passenger bus.

Mr. GARY. Now you will also supply one other table or can you give us the 1961 figures in addition to mileage?

Mr. SCHLEGEL. The individual miles or average mileage?

Mr. GARY. Both.

Mr. SCHLEGEL. We can get that to you, the totals.

Mr. GARY. Well, give us a breakdown on it.

Mr. WEDIN. The average postal vehicle travels 10,000 to 12,000 miles a year. The vehicles to be disposed of will be 8 or more years old and that will average out to 80,000 miles.

Mr. GARY. Well, it's not practicable to get the mileage in the table. I believe the criteria for the replacement of the vehicles usually is the age and mileage.

REPLACEMENT OF VEHICLES

Do you observe those two criteria in your replacement program?

Mr. WEDIN. We do in these, sir.

Mr. GARY. And what age and mileage standards do you use?

Mr. WEDIN. Our present program involves from 7 to 8 years of age for the average of the vehicles.

Now, the vehicles travel an average of 10,000 to 12,000 miles per year. Therefore, it would follow that these vehicles would have from 84,000 to 96,000 miles plus on them at the time they are disposed of.

All the vehicles disposed of will meet or exceed either the mileage or age criteria as set out by General Services Administration.

STANDARD BODIES FOR VEHICLES

Mr. GARY. In your vehicles now are you using standard bodies or are you using special bodies?

Mr. WEDIN. Definitely standard bodies slightly modified to meet postal needs.

Mr. SCHLEGEL. On that, "modified" would not mean a modified design of the structure of the body, but it would mean the addition of a mail sorting tray, a screen in back of the driver to keep the sacks from rolling up.

Mr. GARY. Off the record.

(Discussion off the record.)

Mr. GARY. On the record.

Are we going to continue to paint all vehicles red, white, and blue?

Mr. SCHLEGEL. As far as I know. There is a lot of economy in that, Mr. Chairman. The experience in that has been excellent, the safety factor, and so forth.

TWO-CYLINDER MAILSTERS

Mr. GARY. You mentioned a few moments ago the use of these two-cylinder mailsters.

Mr. SMITH. Yes.

Mr. GARY. How are they working out? They were in an experimental stage when we last discussed them.

Mr. SMITH. Yes. And they are working out splendidly.

Mr. GARY. Are they supplanting the one cylinder or merely being used in different areas?

Mr. SMITH. Well, they will eventually replace the one cylinder as the one cylinder becomes obsolete. The two cylinder is speedier and we find so far that they are going to be more economical both in repairs and otherwise, have much less clutch and transmission trouble.

When we went into our mailster program there was no two-cylinder engine available for them.

Mr. GARY. When they were first produced it was the thinking that the one cylinder mailster would be better for certain flat locations and that the two cylinder would be better in hilly locations.

Mr. SMITH. The original concept of our experimental two cylinder was not available so we tried to use the one cylinder from the experimental angle on level territory and with the one cylinder engine and the horsepower available, it turned out all right. With industry working with us and with them working to try to get the business, they finally perfected a two-cylinder engine that will meet our service requirements for all terrain.

Mr. GARY. And you think they will be better for all purposes, including the use for which the one cylinder was previously made?

Mr. SMITH. Definitely, because we can increase body capacity by several cubes and incorporate in a lot of our mailster service the added power. We can incorporate more parcel post service by the extra cube we have been able to add to the body with the extra horsepower.

Mr. GARY. How does it compare in cost?

Mr. SMITH. The cost in operation?

Mr. GARY. I mean the cost of the vehicle.

Mr. SMITH. Well actually, the two cylinder we are buying now is about $100 less.

Mr. SCHLEGEL. The first two-cylinder test machines about which I testified before you in 1960 we paid $1,400 apiece for those because they were test machines.

When we did get into production we bought that two-cylinder machine in rather large quantity for $998, that is fiscal 1961, and that is $2 less than our estimate of $1,000 apiece.

The comparison between that and the previous one cylinder was certainly in proportion to the added strength that we had gotten into the vehicle, the additional power, and so forth.

The bid in 1961, to our surprise and gratification is $112 less than what we received in 1960 and so you see by these people getting into production that the cost of the two cylinder is now down to what we paid for the one cylinder.

Mr. GARY. That is very gratifying. I am glad to know they are working out so well. We held up the appropriation for some of them in 1960 because we felt they ought to be tried out before we went into mass production. But I am glad to hear they are working out at the present time.

Are you having any trouble getting sufficient quantities of these mailsters?

Mr. SCHLEGEL. No, sir; we are not. There has been quite a development in competition. As a matter of fact, Studebaker Packard Corp., bid last year because they had acquired the Onan Co., manufacturing plant. We have the Ingersoll Division of Borg-Warner Corp., who had the working arrangement with the West Coaster, and Cushman was another bidder. But all together we had six bids, so you see that competition has developed there.

Mr. GARY. Off the record.

(Discussion off the record.)

Mr. GARY. On the record.

These mailsters have improved our suburban delivery very materially throughout the entire United States and as our cities continue to grow we have to extend this urban delivery out into the suburbs and these mailsters work ideally in the suburban districts. I think that has been a great improvement to our service.

NEED FOR NO-YEAR APPROPRIATION

Now, why is it considered necessary to have no-year funds more than other appropriations in the Post Office Department?

Mr. BRAWLEY. I wonder if Mr. Noble might address himself to that?

Mr. GARY. Yes.

Mr. NOBLE. Mr. Chairman, I touched on that in the first session I believe where we discussed language changes and it is in the capital program where the greatest difficulty in sticking to schedules arises.

When programing funds for additions to Federal buildings or procurement of major equipment, developments arise such as were referred to here a bit ago requiring reprograming of 1961 money because of some lag in the development of mechanized equipment, why in this case we could economically reprogram to available building projects that were ultimately scheduled for improvement and so no difficulties were encountered. But we do find that the plans of obligating these funds are not always possible of being held to an exact schedule and when the end of the fiscal year comes, and we are not in position to make these awards, without no-year funds we are faced with having to use the following year's money for that purpose, which disrupts the whole program.

In capital procurement, it has generally been found that some flexibility as to the use of the funds as between years is an advantage.

Now you will recall we discussed the possibility at your suggestion of modifying this language so as to put some limitation on the availability of funds in subsequent years and we are giving that study and will have a suggestion to make shortly.

Mr. GARY. We will discuss that when we come to your suggestion.

(The following statement was subsequently supplied:)

PROPOSED REVISIONS TO CHANGES IN APPROPRIATION LANGUAGE DEVELOPED AS A RESULT OF QUESTIONS RAISED BY SUBCOMMITTEE IN CURRENT HEARINGS

ADMINISTRATION, REGIONAL OPERATION, AND RESEARCH APPROPRIATION

The language revision as originally proposed read as follows:

"* * * (including current increases [made as a result of changes in plans] in prior year contracts thereunder), * * *."

The following substitution is offered:

"* * * (including *not to exceed $3,000,000 for* current increases [made as a result of changes in plans] in prior year contracts thereunder *in addition to current increases made as a result of changes in plans*), * * *."

PLANT AND EQUIPMENT APPROPRIATION

The language originally proposed read as follows:

"* * * *including current increases in prior year contracts therefor, $122,000,000, to remain available until expended* * * *."

The following substitution is offered:

"* * * *including not to exceed $3,000,000 for current increases in prior year contracts or orders therefor in addition to increases made as a result of changes in plans, $122,000,000 of which $35,000,000 shall remain available until expended* * * *."

Mr. BURKHARDT. Can we go off the record?

Mr. GARY. Yes. Off the record.

(Discussion off the record.)

Mr. GARY. On the record.

EFFECT OF SEVERE WINTER WEATHER ON VEHICLES

What effect has the extreme weather that we have had this winter had on your vehicles?

Mr. SCHLEGEL. Sir, I would say this. The weather north of the Tennessee line and particularly east of the Mississippi—and we will all agree that it has been the worst winter since 1883 according to records on snowfall—but just to give you an estimate, it will increase our maintenance costs anywhere from 10 to 20 percent, at least, because we have excessive tire wear due to chains and ice and snow and you know what we have been up against.

Mr. GARY. Questions, gentlemen?

FREIGHT COST OF VEHICLE PROCUREMENT

Mr. STEED. I have only one question. I notice here that you have made a saving in the freight cost of vehicle procurement. How does that come about? What resulted in that saving?

Mr. BRINKMEYER. That comes about because the 1960 vehicles were ordered late in the fiscal year and are being delivered during 1961 along with the 1961 orders, so that we have built up deliveries in this current year.

Next year, we expect it will only be the 1962 vehicles that will be delivered.

GARAGE EQUIPMENT

Mr. STEED. In the garage equipment item, what does that consist of?

Mr. SCHLEGEL. I will answer that. That consists of normal replacement of air compressors and hoists and things of that nature and the acquisition of new equipment like an oscilloscope for new garage installations.

Mr. STEED. In other words, this is about a standard item that you have expense with every year?

Mr. SCHLEGEL. Every year.

Mr. STEED. That is just for the normal turnover.

Mr. SCHLEGEL. Yes, sir.

Mr. STEED. That is all I have.

REDUCED REQUIREMENTS FOR VEHICLE PROCUREMENT

Mr. PILLION. In the vehicle purchase account I note that in 1960 you had $15,652,000. It dropped to $11 million in 1961 and to $10,665,000 in 1962. Why did we have that great bulge in 1960?

Mr. SCHLEGEL. Well, we had a lot of factors in that thing and I think you were here last year when we discussed it, were you not?

Mr. PILLION. Yes.

Mr. SCHLEGEL. And we tried to take advantage of some good prices because at that time the automotive field and particularly the truck field was in a highly competitive state. So we did go into a heavy replacement program because a lot of our equipment was in very bad shape.

Now, the reduction of that in the number of vehicles, you have to take the fact that a mailster's average cost is $1,000 and a truck on the average costs about $2,000. If you made a comparison numerically against the number, you will see what I mean, sir.

Mr. PILLION. Are you stabilized now at $10 million?

Mr. SCHLEGEL. Right at about $10 million.

Mr. PILLION. What can we expect for next year?

Mr. SCHLEGEL. Just about the same.

Mr. PILLION. Well, congratulations. This also has a minus figure.

Mr. SCHLEGEL. Thank you.

CUSTODIAL EQUIPMENT

Mr. PILLION. Now your custodial equipment under the equipment program. That has jumped from $495,000 in 1960 to $975,000 in 1961 and to $1,050,000 in 1962. Why has that doubled, the custodial equipment?

Mr. KALLIO. The increases in the new shop equipment with the additional mechanization, we have need for shop equipment such as lathes, grinders, and things of that nature to maintain the equipment.

Mr. PILLION. Mechanization mostly?

Mr. KALLIO. Yes, sir.

Mr. PILLION. Will that become stabilized at this figure or do you contemplate a further increase?

Mr. KALLIO. It should stabilize at that figure, sir.

Mr. PILLION. Thank you, sir.

FURNITURE AND FIXTURES

Furniture and fixtures for newly remodeled buildings. Does that mean desks and things of that kind?

Mr. BRINKMEYER. All kinds of furniture of that type. It also means the counter line installed in new buildings.

Mr. PILLION. Did you get a lot of bids on that?

Mr. KALLIO. Oh, yes; we have had excellent competition on all of this. In fact, today we are buying equipment for less than we were 9 or 10 years ago.

Mr. PILLION. Thank you.

MAJOR MECHANIZATION PROPOSED

Now the building program, major mechanization projects, $34 million. How many barrels and bailing machines and that sort of thing are there—how many large projects, roughly, do you have in that $34 million? Where does this all go?

Mr. WEDIN. That $34 million will take care of approximately 16 to 20 projects.

Mr. PILLION. Large projects?

Mr. WEDIN. Yes, sir.

BUFFALO POST OFFICE

Mr. PILLION. Does that include Buffalo?

Mr. WEDIN. Yes, sir; definitely.

Mr. KALLIO. For Buffalo, I have a sheet here which says we have money in this year's appropriation for the mechanization for Buffalo

Mr. PILLION. This year's money?

Mr. KALLIO. Yes, sir.

Mr. PILLION. Will that carry over into next year?

Mr. WEDIN. Buffalo will be this year.

Mr. KALLIO. The engineers tell me I will have plans and specifications in my hands next month to advertise.

Mr. PILLION. And what is your estimate on the mechanization there, roughly, if you have it at hand?

Mr. KALLIO. I think the estimate was $3.2 million.

Mr. WEDIN. $3.2 million. That is for the mechanization only.

Mr. PILLION. Yes. I think Mr. Belen had a timetable here as to when he expected bids and that sort of thing. Mr. Burkhardt, do you have that slip with you?

Mr. BURKHARDT. I don't have it but I recall it.

Mr. PILLION. Maybe you can give it to us without the document.

Mr. BURKHARDT. We expect to have our architectural and engineering plans completed by the end of this fiscal year, June 30, 1961. To accelerate that particular program we are cutting down on the bidding time for contractors from the normal 90 days to 60 days, and we expect that the contract for the Buffalo facility would be executed on or about Labor Day. That would give you September and October to do foundation work up there and get this project underway very shortly.

Mr. PILLION. I would hope so because we have it rough up there. Foundation work in the wintertime really isn't very good.

What is the estimated cost of the building itself?

Mr. BURKHARDT. We have an estimate here, Mr. Pillion, of $9.5 million.

Mr. PILLION. That would include mechanization plus the building?

Mr. BURKHARDT. No, sir.

Mr. PILLION. Just the mere building itself?

Mr. BURKHARDT. The land acquisition and the cost of building the building.

Mr. PILLION. The mechanization is $3.2 million.

Mr. BURKHART. Yes, sir.

CHANGES IN 1961 PROGRAM

Mr. PILLION. Thank you. You made a transfer in 1961 of roughly $23 or $28 million from the mechanization into your Federal buildings, major alterations and extensions.

Can you tell me roughly what that consists of and where that went?

Mr. WEDIN. You mean in Federal buildings?

Mr. PILLION. Yes.

Mr. WEDIN. That would be approximately 140 or 150 Federal buildings which required extension and modernization. Very few of the buildings involved are just modernized. There is always the need for additional space. There seems to be a need always for more space and it is accomplished by extending the building.

Mr. PILLION. Is there a provision in law that provides for that, Mr. Chairman?

Perhaps Mr. Noble can answer that.

Mr. NOBLE. The funds are all in one appropriation so there is no technical transfer involved. It is a mere reprograming of the appropriation and of which we like to keep the committee advised.

Mr. GARY. That has always been the understanding, that the committee is usually advised of any change. But this was all in the modernization fund and I think the Department can use those funds as they see fit.

Now they outline to us each year a program of how they intend to spend it and when there is any change in that program we would like for the committee to be consulted on it.

Mr. PILLION. I have no objection to what you did. I am just wondering about the technique of it.

Mr. GARY. Now, that is the situation.

Off the record.

(Discussion off the record.)

Mr. GARY. On the record.

FACILITIES PROVIDED AT BUFFALO

Mr. PILLION. Conditions in the Buffalo post office have been deplorable. There is a horrible situation there and I wondered what the conditions are going to be, that is the working conditions for the men in this brandnew building.

Can anyone tell me anything about that? Will we have a cafeteria? I know that the washroom facilities are just terrible. Men and women go in the same room, and all that sort of thing, and it was just sickening to see those conditions there.

Can anyone tell me here what the new building contemplates? Is there a parking area, and that sort of thing?

Does anyone have any details at all?

Mr. RABIDOUX. I don't have a specific breakdown as to areas. It will be a very nice building, wonderful toilet facilities, and so forth, separated, of course, and excellent maneuvering areas.

Mr. PILLION. Thank you, very much.

LIGHT AND COLOR AND AIR-CONDITIONING PROGRAMS

Mr. GARY. I overlooked one item here that I might ask about now. What is the status of your light and color program?

Mr. WEDIN. We don't have a light and color program as such any longer. However, this does not preclude us taking care of an emergency situation which may arise.

We have built light and color into our overall modernization program. For example, an office that is considered for alteration and extension will automatically have built into it a light and color program.

We do have an air-conditioning program which was formerly part of light and color; light, color, and ventilation for 1962, something over 200 of the smaller buildings.

These would be buildings where we don't foresee the need of any extension in the foreseeable future. But, nevertheless, they do need the air conditioning.

Now, from time to time, GSA will approach us where they have control of the building and they are going to do light and color treatment in the nonpostal space. Certainly, we would go in and participate with them to the extent of our space in these instances.

We try to confine it to our regularly established program of Federal building improvement.

Mr. GARY. Any further questions?

MODERNIZATION EQUIPMENT COMPARED TO STANDARD EQUIPMENT

Mr. ALEXANDER. One question, Mr. Chairman. I am not quite sure that I am altogether clear about your modernization, or what is included under modernization here, as distinguished from standard equipment, and so forth.

Would you go into a little explanation of that, please?

Mr. WEDIN. The modernization program envisages going into a post office from stem to stern, giving it a full modernization treatment, rearrangement of space, extension of space, improvement of the parking and maneuvering areas, replacement of furniture, additional furniture that might be needed, and other things along those lines.

Now in the standard program we furnish items to post offices more or less on an individual basis. For example, street boxes. Those are things that are in the standard program. That would be one item that is based on growth. A portion of the street letterboxes are for growth; a portion of them are for replacement of those that get beat up by automobiles running into them, and the like.

A post office might have a requirement for an additional canceling machine. This would be in the standard program.

There is the requirement for office appliances, typewriters, adding machines, and the like. That would be in the standard program.

Mr. ALEXANDER. Wouldn't your standard equipment be in your mechanization program if it went in as a new operation and then it would be modernization, and if it went in maybe as a replacement, it would be standard; is that right?

Mr. WEDIN. Not exactly, sir. In the mechanization program we have built into this the conveyor systems, the high speed facer canceling machines, the things that you would normally tie into a completely

mechanized situation, whereas the other stuff, well, we could put a new canceling machine in a post office say in Richmond, for example, where there isn't any great degree of mechanization. Maybe the postmaster down there might be requiring an additional canceling machine. This by no means could be part of the modernization program or at least the mechanization portion of the modernization program.

We contemplate equipping certain buildings with quite intricate mechanization in this program.

Mr. ALEXANDER. I am not going to belabor it. I am still a little hazy on the distinct line.

Mr. STEED. Wasn't this standard item including for instance if the community had grown and you were going to add on a new city carrier route, that you would have to have a new sorting case for this extra carrier?

Mr. WEDIN. Yes, sir; however, the sorting case for ease and handling, we have put the sorting case all in one account. That would be one deviation from what I said. We buy the sorting cases in lump and they are all in this furniture and fixtures for new buildings.

Mr. STEED. In my home town the post office there, when it was built installed a certain number of lock boxes. Now they had some space left over and in case of future growth they could add more boxes to it.

What would that come under?

Mr. WEDIN. In other words, they put a blank panel in there.

Mr. STEED. That is right.

Mr. WEDIN. It happens we have that equipment in the furniture and fixtures for new buildings.

Mr. STEED. That wouldn't be under modernization?

Mr. WEDIN. Its in the overall appropriation.

Mr. BRINKMEYER. This was a purely arbitrary distinction so we could more or less pinpoint the items which applied to modernization more than the others; so we have just arbitrarily picked some items out and put them in the modernization program, certain types of furnishings.

They generally went along with the new buildings. They are in stock in the warehouses, but each program covers items of equipment.

Mr. ALEXANDER. In your transfer into this new category of plant and equipment, does the balance of your budget show the increased cost both in that category and also in your facilities?

In other words, what I am trying to get at is how you can compare what the overall cost of the things that you put in here are as against previous years.

Mr. NOBLE. Mr. Chairman and Mr. Alexander, we made those transfers in these tables in the 1960 and 1961 columns just for that reason so that you would have a comparison then of previous obligations for the same type of items the way they are grouped in 1962.

We regrouped the years to make them comparable.

Mr. ALEXANDER. Thank you.

MAILSTER PROGRAM

Mr. CONTE. Mr. Chairman.

Mr. Burkhardt, you anticipate during 1961, 2,402 more mailsters. This will bring you up to a total of how many mailsters?

Mr. SCHLEGEL. I will answer that. It will bring us up to about 10,200 including the deliveries pending now.

Mr. CONTE. 10,200.

Mr. SCHLEGEL. Right.

Mr. BRUCE. Excuse me. That would be 12,422.

Mr. NOBLE. That is on hand.

Mr. SCHLEGEL. That will be on hand.

Mr. BRAWLEY. That 12,000 figure is at the end of 1962.

Mr. CONTE. Last year in questioning Mr. Barnard I asked him if he envisioned just how many mailsters the Department would use. At that time he said the Bureau of Operations Division had as a target between 12,000 and 14,000

Would you go along with that?

Mr. BURKHARDT. I would have to check with the Bureau of Operations and would be happy to check and so advise you.

Mr. SCHLEGEL. I would like to answer the question off the record, if I may.

(Discussion off the record.)

Mr. CONTE. On the record.

I believe in our program on mailsters and I realize that you will have to have replacements yearly on this program, but I think we should draw the line here because your entire fleet is increasing. This is a brandnew program and is increasing by leaps and bounds since its inception a few years ago.

Mr. SCHLEGEL. May I say one thing?

Mr. CONTE. Yes.

Mr. SCHLEGEL. You say the entire fleet is increasing. We are only increasing in this year just by a few tractors and trailers in 1962. We do not envision and are anticipating increasing nothing in 1963 because now, with our utilization program which is being prosecuted rapidly together with the mailsters, the mailsters are naturally increasing, but the truck fleet will remain altogether fairly stationary for the next few years.

There are a lot of factors that go into that; your city growth, where many cities have lost population within the confines of the city but the periphery has grown and where the mailster program comes in is expanding by leaps and bounds.

Our greatest mailster population by next year will be in southern California and Florida due to these small towns that are practically exploding.

USE OF BICYCLES

Mr. CONTE. In Florida, I witnessed quite a few mail carriers with bicycles and I stopped and talked to them and they seemed to be perfectly happy with their bicycle.

Mr. SCHLEGEL. A bicycle for a route where the boxes are not mounted at the curb. We still have 4,253 bicycles but the Bureau of Operations doesn't want to buy any more bicycles.

A bicycle has its own peculiar application where a man has to rest the bicycle down and go up to the door, that is where the bicycle is good. Where you can deliver the mail to boxes, say 75- or 100-foot lot intervals, the mailster is the ideal vehicle.

UTILIZATION PROGRAM

Mr. GARY. You referred to the utilization program. What is your utilization program?

Mr. SCHLEGEL. The utilization program is carried on, a joint project between the Bureau of Facilities and the Bureau of Operations, to increase the utilization of each vehicle, where possible.

We will take, for example, Richmond. Mr. McRee, the postmaster there, will make a semiannual survey on load factor and time use of the truck. It may be Mr. McRee's superintendent of mails can rearrange some trucks so he can maybe use one 2½ ton instead of three 1 tons. I am just giving you an example here. He may have a truck out on the route where he will have parcel post on relays and things like that.

With a larger capacity mailster, we can put the mailster to work. It's a genuine program that we discussed last year.

Mr. GARY. Well, the reason I ask that question is because Mr. McRee was talking to me the other day and he said that the utilization program was fine, but it required some flexibility.

For example, he said Transportation wanted him to pick up mail in certain localities at 8 o'clock in the morning. He said, in order to give further utilization to the vehicles, that he had tried it and at 8 o'clock in the morning there was no mail in the boxes because the people deposited the mail in the boxes as they were going to work.

On the other hand, if he picked up that mail at 9 o'clock he got the mail, but at 8 o'clock they were just making a trip for nothing.

He said that where the proposed utilization resulted in poor mail service, he had insisted on following the course where they could give the best mail service and the two have been dovetailed together.

It seems to me there has to be a certain flexibility about this.

Mr. SCHLEGEL. There have been isolated cases, Mr. Chairman.

INCREASE IN NUMBER OF MAILSTERS

Mr. CONTE. The mailster program has been in effect for 4 years?

Mr. SCHLEGEL. Yes. Beg pardon—6 years.

Mr. CONTE. Six years ago.

Mr. SCHLEGEL. Limited service test quantities. We started the program in 1954.

Mr. CONTE. Since 1954 you will wind up by the end of June 1962 with 12,400 mailsters and your carrier personnel has increased also. It is hard to comprehend why you need all this equipment when your mail volume hasn't increased correspondingly.

It has increased every year, but you have come in here for additional carriers and additional personnel who meet the expansion of your mail volume and you have also come in with this added program of mailsters.

Mr. SCHLEGEL. Mr. Conte, I think the Bureau of Operations could speak of that, but certainly, there is a yardstick that they won't put the mailster to work unless it can save man-hours and result in better service.

I think the average saving of any mailster is about $300 annually. That is our base.

Mr. BRAWLEY. Which includes the cost of the mailster.

Mr. SCHLEGEL. Yes. And also the amortizing of the cost of the vehicle, you see?

DISPOSAL OF VEHICLES

Mr. CONTE. In regard to these vehicles, when they are retired, such as the 3,000-odd you are going to retire this year, what do they do with those, turn them over to surplus property?

Mr. SCHLEGEL. Yes, sir; we sell no vehicles. The only vehicles the Post Office ever disposes of are those damaged in a wreck and where an inspection team of three of our Post Office inspectors together with vehicles and operations people survey that vehicle off.

Now, those are the ones damaged beyond repair. The vehicles we dispose of due to obsolescence and age are turned over to GSA and we hold sales in various areas and we try to take advantage of the market.

For example, as you know, right now would not be the time to be selling trucks. Six weeks from now the truck market will be more favorable.

Mr. CONTE. Do they turn those proceeds over to the post office?

Mr. SCHLEGEL. Yes, sir. Also we have tried to arrange this vehicle replacement program where at Christmas time we would not dispose of any vehicles commencing with November if they were serviceable but instead, we keep those vehicles until after Christmas and we put them in storage in GSA lots.

Mr. CONTE. That is good business.

Mr. SCHLEGEL. And we also borrow over 10,000 vehicles every year from other services.

Mr. GARY. The armed services furnish a good many.

Mr. SCHLEGEL. Yes, sir; over 6,000 last year.

BURROUGHS MACHINE

Mr. CONTE. In regard to the Burroughs machine last year, I asked whether any other company was bidding in on this particular machine and they stated that there were, that 12 companies had expressed an interest in entering the program.

Do you know whether bids have been let to other companies besides Burroughs?

Mr. SCHLEGEL. Yes, sir. Cadillac Gage, Burroughs, two European bidders, and Pitney-Bowes. There have been several.

Mr. KALLIO. We did actually have three bids that came in, Burroughs, Cutler-Hammer, and Cadillac Gage and Cadillac Gage was awarded the contract for the 20. They are actually installing those in Detroit right now.

Mr. CONTE. They were low bidder?

Mr. KALLIO. Yes, sir.

POST OFFICE AT PITTSFIELD, MASS.

Mr. CONTE. Mr. Burkhardt, last year I had a similar problem as Congressman Steed had in his district, which he brought out in the record, the Post Office Department would build a new post office in the city of Pittsfield and the city of Pittsfield had agreed to give them a large tract of land for $1 and in turn, they wanted the old post office for a city hall for $1 as an even swap. This was reported in the local papers. Parties interested came down to the point of swapping properties when they found that GSA has control of the post office and they are not going to enter into any agreement until the post office is declared excess property.

People back home are vitally interested in this. A good part of Berkshire County is in the depressed area at the present time and could use some new construction.

Do you have any progress report on this?

Mr. RABIDOUX. Pittsfield, Mass., we will be asking for bids on that project in the early part of this summer, June 1 and GSA will be notified that the building will be vacated by us in fiscal 1962.

That building will not take more than a year to build and occupy so that GSA will be notified by us probably around the 1st of May of our intent to vacate the next fiscal year.

Mr. CONTE. Then they can work with the city on it.

Mr. RABIDOUX. Yes, sir.

Mr. CONTE. I surely want to compliment the Post Office Department and the new administration for this fast action, Mr. Chairman.

That is very good.

Mr. GARY. Any further questions? If not, that concludes the hearing for today.

We will adjourn until 10:30 o'clock Monday at which time we will meet in executive session and then meet with you gentlemen at 11 o'clock.

66934—61——18

MONDAY, FEBRUARY 27, 1961.

ADMINISTRATION, REGIONAL OPERATIONS, AND RESEARCH

CONTRACT RESEARCH, DEVELOPMENT, AND ENGINEERING

WITNESSES

HON. J. EDWARD DAY, POSTMASTER GENERAL
H. W. BRAWLEY, DEPUTY POSTMASTER GENERAL
L. REX LANDIS, DEPUTY DIRECTOR, OFFICE OF RESEARCH AND ENGINEERING
VIRGIL C. STONE, ASSISTANT DIRECTOR FOR PROGRAMING AND CONTROL, OFFICE OF RESEARCH AND ENGINEERING
H. W. LIESKE, ASSISTANT DIRECTOR FOR RESEARCH AND DEVELOPMENT, OFFICE OF RESEARCH AND ENGINEERING
E. R. DUNZWEILER, PROJECT ENGINEER, OFFICE OF RESEARCH AND ENGINEERING
FREDERICK C. BELEN, ASSISTANT POSTMASTER GENERAL, BUREAU OF OPERATIONS
A. C. HAHN, DEPUTY ASSISTANT POSTMASTER GENERAL, BUREAU OF OPERATIONS
MARK GRADY, ADMINISTRATIVE OFFICER, BUREAU OF OPERATIONS
RALPH W. NICHOLSON, ASSISTANT POSTMASTER GENERAL, BUREAU OF FINANCE (DESIGNEE)
LINDSLEY H. NOBLE, DEPUTY ASSISTANT POSTMASTER GENERAL AND CONTROLLER, BUREAU OF FINANCE
CLARENCE N. BRUCE, ASSISTANT CONTROLLER FOR BUDGET, BUREAU OF FINANCE
JAMES J. WILSON, ASSISTANT GENERAL COUNSEL, REAL PROPERTY DIVISION

Mr. GARY. The committee will come to order. Our first order of business today will be the item of "Contract research, development, and engineering."

The appropriation for this item for 1960 was $15,831,000. The appropriation for 1961 is $9,960,000. The request for 1962 is $11,950,000.

The 1962 request represents an increase of $1,990,000 over the 1961 appropriation.

JUSTIFICATION OF THE ESTIMATE

We will insert pages 13.1 through 13.10 of the justifications at this point in the record.

(The pages referred to follow:)

ADMINISTRATION, REGIONAL OPERATION, AND RESEARCH, 1962

CONTRACT RESEARCH, DEVELOPMENT, AND ENGINEERING, INCREASE $1,990,000

Analysis of obligations

[In thousands]

Item	1960 (actual)	1961 (estimate)	Increase or decrease (−)	1962 (estimate)	Increase or decrease (−)
Freight on equipment	$1		−$1		
Rental of experimental equipment	2		−2		
Contractual services:					
Contract engineering	2,212	$2,500	288	$2,500	
Coding and mail processing systems studies	424		−424		
Contracts for consultants on special surveys	766	605	−161	100	−$505
Total contractual services	3,402	3,105	−297	2,600	−505
Supplies and materials	8		−8		
Equipment:					
Letter mail handling equipment	4,562	2,970	−1,592	2,450	−520
Parcel post handling equipment	12	1,355	1,343	1,150	−205
Speed mail	2,860	1,680	1,180	2,200	520
Project Gateway	4,503		−4,503	2,750	2,750
Patron operated equipment	358	150	−208	150	
Other	123	700	577	650	−50
Total equipment	12,418	6,855	−5,563	9,350	2,495
Total obligations	15,831	9,960	−5,871	11,950	1,990

JUSTIFICATION

General

Funds requested for this activity are for the conduct of a Department-wide research and development program, and for the employment of engineering services under contract to supplement the efforts of postal personnnel in carrying out an extensive engineering program.

The research and development program represents a coordinated and concerted effort to design and make available to the postal service a variety of equipment urgently needed to permit the mechanized processing of mail. Such a program has been pursued for a relatively short time. However, efforts are being encouragingly rewarded as evidenced by the equipment which is now being procured and assigned operationally in limited quantities.

The efforts of the contract and postal engineering personnel of the Department are directed to the construction of critically needed new and modern postal buildings, and to the rehabilitation of those which can be made adequate by structural improvements. During the past fiscal year about 150 facility modernization projects were started by the architectural and engineering staff at the headquarters. Each was of significant scope and many of these projects are for the construction and mechanization of major postal facilities. In addition, the regional engineering units provided the necessary technical guidance and engineering work to place under contract over 2,300 facility projects of lesser complexity.

A great stride has been taken to provide the equipment and the plant required for a modern postal service. The benefits of the combined research and engineering program are beginning to accrue.

During the fiscal year now under consideration, it is estimated that $11,950,000 will be required to continue work now in process and to pursue significant research and engineering projects which promise the greatest potential for improving and modernizing postal service. The fiscal program for 1962 is presented in detail in the material which follows:

Contract engineering, $2,500,000

During fiscal year 1962 the need will continue for contract engineering services in the modernization program and it is planned to continue utilization at about the same level as in the preceding 2 years. This program consists of projects requiring intermittent services of many specialized engineering personnel in locations throughout the Nation. The employment of engineering services in this manner is highly desirable as it will not only be more economical but will also provide flexibility in securing needed engineering talent so that the entire modernization program may progress in a systematic manner. It is estimated that $2,500,000 will be required during fiscal year 1962.

Contract consultant services, $100,000

The program anticipates an intermittent need for special surveys and studies. Such activities will be of short duration in various parts of the country and will require unique, specialized skills of qualified private individuals and firms. It would be impractical to enlarge the permanent staff for this type of work. The best interests of the Department will be served by contracting for these specialized services.

Letter mail handling equipment, $2,450,000

1. *Culling machine improvement, $250,000.*—Significant progress has been made in mechanizing the culling operation. A limited number of basic culling machines will be placed in operation during fiscal year 1961. Further improvement will be necessary in fiscal year 1962 to:

(*a*) Increase operating efficiency;
(*b*) Increase reliability;
(*c*) Reduce production costs; and
(*d*) Reduce size.

Initial work is underway to develop a device to link the culler and the facer-canceler. The prototype linking device will be designed to remove objects and envelopes containing metal, and to feed two facer-canceler units. The device will contain an accumulator for receiving and temporarily storing letters which are excess to the capacity of the facer-cancelers, and will also contain feedback circuitry to modulate the speed of the culling machine. During fiscal year 1962, it will also be necessary to make refinements to the prototype model prior to volume procurement.

2. *Facer-canceler improvement, $250,000.*—Automatic facing and canceling of letter mail requires a completely reliable method of machine detection of stamp location. The present machines, which utilize a light-sensing technique in contrasting stamp and envelope to activate canceling heads and direct letters to the proper receptacle, do not have the degree of accuracy desired in these operations. Also, at present, to improve their performance and reliability, possible applications of phosphorescent, magnetic, isotopic, luminescent, and photocromic techniques of detecting stamp location and denomination are under investigation and should improve the accuracy of locating the stamp position. The incorporation of one or more of these sensing techniques in the facer-canceler will require design changes in the sensing device and the canceling mechanism. More precise sensing techniques will allow varying postage denominations and priority mail to be automatically separated for appropriate handling. Output receptacles must be designed to accommodate these separations. These improvements, and the production engineering design changes, will be undertaken during fiscal 1962.

3. *Automatic reading, $800,000.*—As the result of a long-range program undertaken by the Department in 1954, it is expected that by fiscal year 1962 automatic reading equipment will be developed which can read and sort mail with printed or typed addresses to 50 separations (cities and/or States). The equipment is also expected to read zone numbers within the bottom line of city addresses. During fiscal year 1962 it is planned to construct a prototype machine for limited application and test in a selected post office. This machine will be used to sort specially selected live mail such as that from a large mail-order house. It is also planned to undertake a 3-year program to continue development of automatic reading so that equipment will be developed which will have the capacity to read and sort to street addresses and certain large mail recipients. This will enable the machine to be used on incoming mail to make distribution to carriers and to selected large firms. The work involved consists basically of expansion of the machine's memory storage capacity, control system, and its sorting scheme programing capability.

4. *Letter sorting equipment improvements, $650,000.*—These funds will provide for the continuation of a program to continuously improve the reliability, performance and efficiency of existing type letter sorters as well as production engineering to reduce complexity and purchase price. Major areas in which engineering and design improvements can be made are: development of improved letter-feeding devices, improvement in internal machine distribution reliability, improved safety and alarm devices, and size reductions.

In addition, improvements and refinements will be made in code printing and reading equipment including human engineering of operator coding desks and stations.

5. *Further work in bundle sorting, $200,000.*—After letters are sorted, they are tied into bundles, labeled, and the bundles then sorted to pouches for dispatch. Equipment has been and is being developed which will mechanize the sorting, tying, and labeling operations, leaving the sorting of bundles to pouches a manual operation. Through experience with the development of sorting machines, it is believed that the bundle-sorting operation is ideally suited to mechanization and that a high potential exists for considerable savings in time and manpower. During fiscal year 1961, engineering and design work is under way for the fabrication of a laboratory model of a bundle-sorting device. In fiscal 1962, it is planned to test this laboratory model, make any necessary modifications and refinements, and build and install a prototype bundle-sorting system in a selected post office for operational test and evaluation.

6. *Automatic weigh-count equipment, $300,000.*—Experimental equipment has been developed which automatically weighs trays of letter mail and converts the weight into a piece count, based on a predetermined weight-piece ratio. During fiscal year 1961 two scale units have been tested and have demonstrated their basic utility. In fiscal year 1962, it is planned to further refine this equipment and to make a test installation at a selected post office which will include a sufficient number of these machines with associated controls, printout devices, and monitoring consoles to permit an evaluation of their utility as a production and control device for postal supervisors in the processing of mail. This device is expected to be a valuable tool in the scheduling of manpower, the control of mail flowing to distribution centers, and in the immediate location and correction of delays in the mail processing operation as they occur. Initial application of this equipment will be in post offices where Mail-Flo is installed.

Parcel post handling equipment, $1,150,000

1. *Parcel sorting, further work, $500,000.*—Parcel sorting systems and equipment developed up to now have employed either of two basic principles for the movement of parcels—moving belts or a series of moving trays. Each of these principles has certain advantages and disadvantages. These involve such problems as parcel spacing, storage capacity, changes in the direction of parcel flow, space, parcel damage, the number of separations which can be made, and reliability of operation. It is planned in 1962 to select the most desirable features of all known types of parcel sorting systems and to embody these features into new engineering design. A single system will be built and installed in a selected post office for operational testing and evaluation.

2. *Improved conveyor components and systems, $100,000.*—Conveyors are an integral part of internal transport and sorting systems for parcel post and sacked mail. Improvements are necessary in several areas to provide more positive control of conveyor loading, to reduce damage to sacks or loose parcels, and to reduce requirements for manual attention at critical areas. Additional improvements planned for fiscal year 1962 on all conveyor systems are design of devices for transfer of material from conveyor to conveyor, improved chute design, and testing and adoption of new belting materials.

3. *Development of a series of containers for bulk handling of mail, $150,000.*—During fiscal year 1962 it is planned to develop a series of standardized containers for use in postal operations. These containers will be used to transport all classes of mail by truck, rail, or air. The standardization of container sizes will permit more efficient loading of transports, allow use of any container for further processing of mail at the receiving point, and will provide less expensive shipment of empties where necessary due to the fact that containers will be designed so that small containers will nest inside larger containers. Standardized containers will be more readily adaptable to existent mechanical handling systems for loading, offloading, and internal transport of mail. Of prime importance is the fact that these containers will be constructed so that sequential loading of mail will be maintained.

4. *Coding and machine address reading of parcel post, $250,000.*—Progress is well along in the development of codes and coding equipment for sorting of letter mail. In 1962 it is planned to apply the present coding knowledge and techniques to the sorting of parcel post on an experimental basis. Plans are also being made to apply the existing knowledge and techniques developed in the letter sorting field for the automatic reading and distribution of parcel post on an experimental basis. This work would include the fabrication of necessary laboratory equipment.

5. *Improvement to sack sorting systems, $150,000.*—The receipt and dispatch of sacked mail has long posed a major material handling problem at post offices and terminals. With the continuing shift in recent years from rail to truck movement of mail, the distribution problem has been made increasingly complex. Two pilot sack sorting systems are presently being designed and installed. These two systems will represent our first efforts to mechanize the handling and partial sorting of sacked mails, and we expect that as the equipment becomes operative many engineering improvements will become apparent. These improvements must be engineered for incorporation into future installations of this equipment. The transportation of sacked mail to a given destination is performed by a variety of rail lines and truck routes depending upon the time of dispatch. The dispatch knowledge is complex and specialized, and it acts to limit the effective use of existing sack sorting equipment. Potentially, this operating limitation can be overcome by the development of a memory system which can be reindexed to accommodate hourly or periodic changes in dispatch schedules. This time indexing for the sacked mail sorter, as well as anticipated product improvements, will be undertaken during fiscal 1962.

Speed mail, $2,200,000

An item was included in the fiscal 1960 budget to study new methods of message transmission and their possible impact on the postal installations.

Out of these studies came the possibility of a new service for the public using facsimile transmission. This method of transmission, or "speed mail" has been tested on a limited basis using official Government communications. After these initial tests, it was concluded that "speed mail" could be developed so that it would be technically and economically feasible for future postal service.

This development program has continued and an operational live mail service using Government correspondence was in operation from October through November 16, 1960. This program provided information on operating problems such as methods of collection and delivery, reliability of equipment, ability to obtain sanctity of mails and the letter format desired or required. Information was also obtained regarding such matters as methods of electronic switching, line drop-out, "fail-safe" techniques to stop transmission in case of print-out failure, multiplexing (signal equalization), minimizing distortion of signals, and resolving the problem of integrating the variety of necessary equipment components into a compatible system.

The program for 1962 provides for a continuation of the development program and continued testing of the "speed mail" model systems to improve and refine them. As in the past use will continue to be made of the facilities and services of several commercial organizations. Technical work will include:

(1) Development of low-cost facsimile paper and format.
(2) Development of low-speed and medium-speed facsimile machines.
(3) Development of mechanical and electronic bandwidth compression techniques.
(4) Improvement and refinement to "speed mail" model.
(5) Development of improved high-speed facsimile systems.

Project Gateway, $2,750,000

This is a major undertaking, the objective of which is the establishment at Oakland, Calif., of a fully mechanized experimental post office, including an integrated mail processing system housed in a building especially designed for this operation. This project has been in progress since November 1959, and it is estimated that it will be in operation by June 1965.

This new facility will provide improved postal services for Oakland, Calif., and will also serve as the gateway mail handling facility for the entire northern California area, for oversea mail including military mail, and for mails formerly worked in distant terminals, which will be worked in Oakland as a result of the national integrated postal service plan. This postal facility will also be used as a processing plant for mail which was formely worked in nearby post offices

whenever such changes will result in better service to the public or reduce costs.

This project represents a comprehensive effort to apply an overall systems approach to the design of equipment and building. Particular emphasis will be given to the development of equipment which will permit a controlled production flow from the receipt of mail through all processing stages including dispatch. Every design feature of the building and the mechanization it contains will be developed to achieve this objective. Primary emphasis will be directed toward a second generation of mechanized and automated equipment and the facility will also serve as an operating postal laboratory to upgrade machines for use in other new and existing offices.

By the end of fiscal year 1961 the machine and process concepts will be firm. Adjustments will have been made to consider local data and the product processing rates and other requirements will have been developed, along with the building concept and the finalized project concept. Also, approximately 60 percent of the work on any special mail processing equipment to be developed will have been completed. The fabrication and testing of the prototype equipment, the engineering tasks of adapting equipment to manufacture, the selection of purchased items, and the engineering of the detailed layout and plant installation will begin before June 1961.

In fiscal year 1962, $2,750,000 will be required to maintain the rate of progress which is considered to be minimum.

Patron operated equipment, $150,000

The Department, as a result of its research efforts in recent years, has made considerable progress in the development of automatic patron-operated vending equipment. During 1962 our research activities will be directed toward improving and refining the equipment developed thus far to improve its reliability, to reduce costs and size, and the ease of maintenance. During this period, extensive field testing and evaluation will be performed and the equipment will be production engineered for future competitive procurement.

Other equipment, $650,000

1. *Closed circuit television for surveillance and control of mail processing systems, $575,000.*—Some work has been done in the development of a closed circuit television system for surveillance and an experimental installation has been developed. This equipment shows much promise. However, some additional work remains to be done to improve the equipment thus far developed, such as, (*a*) reduction of camera enclosure size and improved optical methods, including such techniques as the use of fiber optics; (*b*) improved control systems for multicamera installations; (*c*) determination of proper light levels for optimum picture quality including possible use of infrared techniques; and (*d*) additional work in production engineering camera enclosures with a view to cost reduction.

It is also planned to concurrently perform engineering and design work to develop closed circuit television as a tool for use in controlling mechanized mail processing operations. Commercially available equipment will be used wherever practicable and modified to the extent necessary for this special purpose.

2. *Development of calculating money order issuing machine, $75,000.*—The Department has procured for assignment to all money order issuing stations a print punch money order issuing device. The advantages of this device, in addition to better window service to patrons, are primarily in the area of accounting. The printed and punched money order form allows rapid processing, reduces vulnerability to fraudulent raising of the money order, and makes fraud detection faster and simpler. Studies leading to the development of the print-punch issuing device indicated that about 500 service windows, located in large cities issued in excess of 65 percent of the money orders sold. It is planned to develop in fiscal year 1962 a calculating money order issuing machine for use at the 500 heavy volume issuing points. The machine would issue the same form as the print-punch machine, thus insuring compatability of the entire money order issuing system. The motorized calculating issuing machine will improve patron service by reducing issuing time. Additionally, the running totals of sales and fees will reduce accounting time by issuing clerks, ease detection of errors, and provide more positive revenue control.

Mr. GARY. Who will testify on this item?

General DAY. Mr. Landis.

General Statement

Mr. Landis. I have no formal prepared statement. However, I would like to make a few opening remarks if I may. These remarks are in line with Postmaster General Day's testimony given on February 20.

The total funds requested for contract research, development, and engineering are $11,950,000. This, although more than that requested in 1961, is almost $1 million less than the average used in the 2 preceding years, fiscal year 1960 and 1961.

We have requested sufficient funds to maintain our program at about the same level as in the 2 preceding years.

We are going to review and reevaluate, and perhaps readjust, some of the individual line items or projects. Perhaps through this policy we may consolidate some of our gains and improve the reliability and cost factors in fiscal year 1961.

Mr. Gary. Have there been any changes in the last 3 years in items included in the research and engineering program?

Mr. Landis. Yes, there have been a few new projects added each and every year. In fiscal year 1962 we are asking for about $500,000 which will be less than 4 percent of the appropriation to be applied toward new research projects.

Mr. Gary. Will you give us a brief description of the major items on which you are now working?

Mr. Landis. The major items might be divided up into letter-mail handling, parcel post, facsimile mail, and the Gateway project.

Under the letter-mail handling we have been providing work in the area of culling and facing-canceling, particularly the tagging of the postage. We are looking into automatic reading, continuing investigation of sorting machines, bundling machines, and automatic weighing machines.

In the parcel-sorting field we have continued to develop a parcel-sorting machine as a supplement to the items we now have in that field.

There was a large item on facsimile transmission. We had our Gateway project. We had an item which provided for surveillance using TV closed circuits. There was a contract engineering item—about a $2½ million item—and there was another item for consultants and surveys of approximately a half million dollars. That was generally the 1961 program.

Speed Mail Project

General Day. If I may interject there, Mr. Chairman.

On the speed mail project, we are dropping it entirely. I do want to emphasize that we feel it is very important to have this money available, and at an appropriate time I can elaborate on why we feel that our overall request is entirely justified, particularly in view of the history of the way it was developed.

Discontinuance of Facsimile Mail

I think I should inform you gentlemen that since I appeared here I have made a policy decision to discontinue any further work on facsimile mail.

Mr. GARY. Could you give us the basis for that decision?

General DAY. Yes, I can. I think there is great doubt as to whether facsimile mail is mail in the first place. It would have to be a very expensive per-item operation because there is no use in sending messages instantaneously across the country by use of wires or radio unless it is to be given special delivery service at the other end.

I have heard estimates ranging from 30 cents to 50 cents an item for handling a message by facsimile mail.

I feel we are fortunate in this country that in contrast to European countries, and most countries in the world, the wire communication systems and the radio systems are privately owned, and I do not believe the post office should get into that area.

The need for any such method of transmission of message is dubious in my mind. If there is a public demand for it so that it can be operated in the black, I am sure private companies will pursue experiments on which they are already well along to do it on a private basis.

Mr. GARY. Are they not already doing that, Mr. Postmaster General?

General DAY. Yes, they are.

Mr. GARY. I have here a sample of the process developed by Alden. The Post Office Department did not have any contract with Alden, did it?

General DAY. No, sir.

Mr. GARY. Therefore this has been developed at the cost of the company which has conducted the research. Is that correct?

General DAY. Yes; there are several companies which have been conducting research and proceeding quite well along with this general type of thing.

A year ago, in my private business capacity, I observed a facsimile transmission process between two cities which involved the ability to send maps, charts, written communications, or any type of written or printed material that you wanted to send.

Mr. GARY. Newspapers already have that on photography, have they not?

General DAY. Yes, sir.

Mr. GARY. Do they not transmit wire photos almost instantaneously?

General DAY. Yes, sir. There is another type of process which is available from private sources under which you can lease a telephone line and purchase equipment which is already in existence and available for purchase by anybody that wants it, which you can have attached to your own telephone or to a telephone at some destination, and you can send material by this method over a leased line.

There are experiments well along by private companies for being able to send such facsimile messages in the course of a normal long-distance call without use of a lease.

I feel with the many important things we have to do in our Department we should not divert our available personnel and abilities to working on a type of transmission that is being actively pursued by private concerns, and I myself hope that the Department will not end up in a position of a new method of competing with private concerns.

CONTRACT WITH INTERNATIONAL TELEPHONE & TELEGRAPH CORP.

Mr. GARY. Will you tell us why we entered into a contract with International Telephone & Telegraph Corp. for $3,690,000 in October of 1959 to investigate electronic transmission of letters when all of these various research projects were going on by other companies in that field without any subsidization at all?

General DAY. When I was asked briefly about this subject a week ago, Mr. Chairman, I made the statement that this whole problem presented us with a dilemma. The reason for the dilemma is because I did not want to seem to irresponsibly abandon a large investment the Department already had made, but I continued working on that the remainder of that day and the next day, and I felt we would not be justified in pursuing it.

I do not know all of the thinking that went into the decision to conduct this research, but it no doubt was part of a program to attempt to speed up transmission of mail and provide better service.

I heard the statement made that if the Department pushed it it would stimulate private companies to expedite their research and development on it, but I have serious doubts as to whether that is the function of the Post Office.

Mr. GARY. If we are going to stimulate private research should we not attempt to stimulate various companies rather than picking out one company and giving them the contract to do the research?

General DAY. I do believe there were a number of concerns which participated in the original work on this, including one of the concerns that is now very much opposed to the Department working on it. However, I want to make clear that our decision is not based upon complaints or criticism from private concerns except as they reflect our objective decision that this is not an area which we should be pursuing.

The reason I described it as a dilemma is not only that we have such a large investment in it already, but I want to emphasize at every turn that in toto we feel we need the money that is in this budget. I do not want to be inconsistent with any practices of dropping out of the Department's program anything that has been cleared through the proper budgetary channels.

You are all very conscious of the fact there is a certain unusual aspect presented here inasmuch as we have not had time to take a new look at the detailed expenditure items, but on the overall total we feel very strongly that it is well justified.

Mr. GARY Can you tell us what the investment in this speed mail experiment is thus far?

General DAY. Subject to correction by Mr. Landis I believe it is approximately $14½ million.

Mr. LANDIS. That is right.

Mr. GARY. What is the present status of this $3,690,000 contract with I.T. & T.?

General DAY. Again subject to correction, I believe all of that money has been expended, and in contrast to predictions which were made there is no operative facsimile transmission system working. There is a great deal of equipment which is in the possession of the Department which has been developed in the course of this research, but we are not using it. As I understand it we would not be in a

position to use it even if as a matter of policy we thought we should without additional expenditure on research and development.

Mr. GARY. A poor type model of the system was being used between Washington, Chicago, and Battle Creek. Has that been abandoned?

General DAY. It was only a pilot operation, Mr. Chairman. It was not in day-to-day use. There were two pilot operations. One was quite a low-speed system which, in relation to the total volume of mail that we handle, was insignificant so far as handling a significant part of the workload is concerned.

There was a higher speed operation which was developed, but there were many unsatisfactory aspects of that having to do with the paper that was used and the result which was achieved. There are also many incomplete parts of the research which were shown up by the experimental operation which indicated that, in order to finalize it and make it operative, we would have to have considerable additional research and development expenditure, which I hope not to have to embark upon.

Mr. GARY. Will it be possible to recoup anything from these expenditures? Can you salvage any of the machinery you are talking about or recoup anything from it?

General DAY. I believe it is experimental equipment and not operational equipment. It is possible and we certainly will make every type of inquiry we can to see if there is something there which can be used by some other concern. I don't know what the situation on it will be.

UNOBLIGATED BALANCE IN "SPEED MAIL" PROJECT

Mr. GARY. Do you have any money in the present budget for speed mail?

General DAY. Yes, sir; $2,200,000. That is reallocable, and we want very much to be able to make use of that money for more productive projects. This particularly relates to our accelerated facilities program, which, as I said, is a part of the total administration's program to speed up the acquisition of vehicles and the construction of leased facilities where they are badly needed. We feel that this will enable us to pursue that program and the money can and should be so used.

CONTRACT WITH INTERNATIONAL TELEPHONE & TELEGRAPH CORP.

Mr. GARY. Was this $3,690,000 I.T. & T. speed mail contract let on a competitive bid?

Mr. LANDIS. No, a research and development negotiated contract.

Mr. GARY. That has been completely expended?

Mr. LANDIS. Yes. I believe it is about $4,436,630.

Mr. GARY. We contracted for $3,690,000 and the final figure was over $4 million?

Mr. LANDIS. There were other items, such as line rental, and lease of equipment from several other organizations which were handled through the prime contractor, I.T. & T., for a total of about $4½ million.

Mr. GARY. Are we bound for any rental contracts subsequently to be performed?

Mr. LANDIS. No, sir.

Mr. GARY. That, then, has ended?

Mr. LANDIS. So far as commitment of funds is concerned it has ended. I.T. & T. is continuing to work, using their own funds, to solve problems revealed in the test model.

USE OF EQUIPMENT DEVELOPED

Mr. ALEXANDER. General Day, I believe you stated you had certain equipment which had been produced out of this facsimile mail. Is there any possibility of disposing of this equipment since you have made a decision not to pursue this to I.T. & T. or any of these other people so that the Post Office can recoup some of this money?

General DAY. The decision to discontinue the project is so recent that I have not had a chance to get an informed answer on that subject, but we will certainly pursue it. I think some of the equipment that is on hand is obsolete on the basis of research which has been done subsequently by us, because the slow-speed system, which was the original experiment, produced so little volume that it would have been just a minor sideline of the Post Office Department's operation. I have not myself examined this equipment, and I have not gotten a detailed report as to what there is that might be of interest to some private concern, or even as to what the limitations may be on disposing of such equipment.

Mr. ALEXANDER. Before the overall policy was announced it would be a good idea to see what you can do about disposing of it. Once they hear you are disposing of it they are not likely to buy it.

General DAY. I have not made any announcement.

Mr. ALEXANDER. I would like to see you pursue this to see what can be recouped.

Mr. LANDIS. I believe the salvage value of the equipment will be low in that the only development work done under the contract was on the problems which were peculiar to the Post Office.

General DAY. Secrecy.

Mr. LANDIS. It was only yes, sanctity is an example of such a Post Office problem. There was no research and development performed on problems which would be a communications problem or an industry problem just on problems peculiar to the Post Office.

General DAY. This has to do with the fact you have to have a machine for opening a letter without anybody seeing what it says, and making the facsimile transmission without any human eye seeing it, having it sealed up at the receiving end, and having the original first-class mail item destroyed so that you preserve the secrecy of the mails. That was part of the equipment.

Mr. PILLION. We spent $4½ million for that.

Mr. GARY. Off the record.

(Discussion held off the record.)

FACSIMILE SYSTEMS ALREADY DEVELOPED

Mr. GARY. Is it true that the speed mail system, as developed by the Post Office Department, is quite similar to the Western Union facsimile system?

General DAY. I saw the Western Union facsimile system about a year ago. I do not believe that it involves the secrecy and keeping the message from the human eye that the Post Office Department was working toward, but the idea of sending an item on a piece of paper, whether it be a drawing, a blueprint, a map or a letter, or whatever it is, is something which has been experimented with, and to a large degree it has been perfected by several firms.

Mr. GARY. As I previously mentioned, the Alden Electronic Co. and Western Union both have systems of that kind, do they not?

General DAY. I am not familiar with the Alden Co., but the Stewart Warner Co. in Chicago has a system which can be attached to a leased telephone line. A company in Los Angeles, called Tel-Autograph, has announced a breakthrough on being able to use this system on a normal long-distance call, and one other company says they also have made that discovery.

Mr. GARY. The sample I had in my hand just a few moments ago is from the Alden Co. It appears to be the same general type of transmission.

General DAY. If I may go off the record.

(Discussion held off the record.)

RESEARCH WORK PERFORMED IN WASHINGTON, D.C.

Mr. GARY. What kind of work is performed by your research office in Washington?

Mr. LANDIS. We have in the Department, the Office of Research and Engineering which services the entire postal system. We also have, located in Washington at the city post office, a laboratory which is associated with the Office of Research and Engineering. I assume that is what you are talking about?

Mr. GARY. We are talking about the laboratory.

Mr. LANDIS. We have a laboratory which is a division of our Office of Research and Engineering. We have an area there where we investigate and evaluate machinery, components of larger pieces of equipment, and determine where it fits into the postal system; we determine the reliability of certain elements of the system and do considerable troubleshooting through that organization. It is an organization which at the present time has 1 engineer and 9 or 10 technicians. It is a very small organization.

Mr. GARY. What are the specialties of the technicians?

Mr. LANDIS. A machinist, model makers, tool and gage makers, and two or three men classified as engineering technicians who are expert in the testing and evaluation of equipment which requires having both mechanical and electrical backgrounds.

CULLING MACHINE

Mr. GARY. You mentioned in enumerating the projects of research and development the culling project. As a matter of fact, you have one mechanical culler in operation at the Washington, D.C., post office. Is that correct?

Mr. LANDIS. Yes, we do.

Mr. GARY. That machine was tested by Ebasco, which reported that it did not provide a significant cost improvement over manual culling,

and yet apparently, without any further cost studies, the Post Office Department issued an order for 16 of these cullers with 45 more planned for 1961 and 1962 at $15,000 each.

Are you continuing that program?

Mr. LANDIS. Yes; we are asking in the next fiscal year's budget for $250,000 to continue the culling machinery research and the development of the connecting link to the canceling and facing operation.

The piece of equipment evaluated by Ebasco was an earlier model.

Since the testing program, the Office of Research and Engineering, using our own engineers, have reengineered that machine and have what we now consider to be a very efficient machine. It will process about 60,000 letters per hour, separating those which are over a quarter of an inch from those which are under a quarter of an inch. It is about 100 percent efficient.

Now, then, that is only 50 percent of the total culling process. After we separate the thicks from the thins we have a requirement for another machine which is included in next year's budget, which will be the connecting link to the facer-cancelers, and this machine will separate the large flat mail from the letter size mail.

Mr. GARY. Are those new machines which you have perfected in operation at Turnkey?

Mr. LANDIS. No. The culling machine at Turnkey is manufactured by another company.

Mr. GARY. Have you appraised the effectiveness of that machine?

Mr. LANDIS. No. We know of its capacities, and we know it is a machine that runs in the neighborhood of 23,000 letters per hour. The capacity of this machine when combined with the facing and canceling machines at Turnkey appear to be well matched in capacity and are compatible to the process.

Mr. GARY. We were told when we inspected Turnkey last Friday that you could handle that culling manually at approximately the same cost.

Mr. LANDIS. There is a problem there. When we have to run these letters through a facer-canceler or sorting machine they must be divided between letters over a quarter of an inch and those under. Letters over a quarter of an inch or which have stiff objects in them will not flex and are not a suitable item to process through the machines. Manual culling does not remove the thick letters effectively enough to give us good production on mechanical processing equipment.

Mr. PASSMAN. Did I understand you to say the most modern machine will cull 60,000 an hour?

Mr. LANDIS. Yes, our newly designed machine was tested at the laboratory and on the floor of the Washington post office—will process 60,000 letters an hour. We have a production contract for 16 such machines.

Mr. PASSMAN. And the one at Turnkey will process only 23,000? Is that the statement you just made?

Mr. LANDIS. Yes.

Mr. PASSMAN. That is supposed to be a brandnew model installation?

Mr. LANDIS. As I mentioned, the machine we are developing is 50 percent developed, and does not perform the entire culling process.

The next link, to remove the magazines and the flats, is under development and we are requesting funds for such.

Mr. PASSMAN. Then this is not the most modern and advanced machine at Turnkey?

Mr. LANDIS. At Turnkey they selected what they believed to be the very best machine available at that particular time.

Mr. PASSMAN. Do you agree it is the most modern and up-to-date at this time inasmuch as it will process only 23,000 as against 60,000?

Mr. LANDIS. Our machine is not a finished machine. We have 50 percent of it complete. This other link or machine segment is being worked on. At Turnkey, Intelex Systems, Inc. were to provide a facility where they were to select the best equipment available, so at the time they selected this equipment our development was not as far along as it is now and our culling machine development is not yet complete.

Mr. GARY. If I am not mistaken, their machine is a German machine, is it not?

Mr. LANDIS. I believe it is.

General DAY. Off the record.

(Discussion held off the record.)

Mr. GARY. Suppose we recess now and return at 1:30.

AFTERNOON SESSION

Mr. GARY. The committee will come to order.

FACER-CANCELERS

Mr. GARY. General, as I understand it there are 25 facer-cancelers in use and 75 at a cost of $30,000 each on order. Is that correct?

Mr. STONE. I think those have all been delivered or are being delivered right now.

Mr. GARY. All 75 of them?

Mr. STONE. Yes.

Mr. GARY. That will give you 100 altogether?

Mr. STONE. It will give us 87 so-called tandem units, which are two single facer-cancelers joined together as one unit to provide for facing and canceling in one operation. The first procurement was 25 single units; the second for 75 tandem units.

Mr. GARY. How successful is that machine?

Mr. STONE. It has been very successful. We have had very good luck with it, every installation we have made. Some of the installations have been much better than others because the first machines that went in required a certain amount of adjustment and training of the people operating them, and a certain amount of training of the maintenance people, but I would say it has been very successful.

Mr. GARY. What is the saving through the use of the machine?

Mr. STONE. We do not have as of now final cost analysis figures on it, but the production results are very good.

Mr. GARY. The information we have is that a study in July 1959 showed that these machines would pay for themselves through savings in 1.8 years. Is that your present experience on them or has it improved?

Mr. STONE. I do not have available that information, Mr. Chairman.

General DAY. Are there any of the gentlemen present from the Department who have additional information on that?

Mr. GARY. Is it available?

Mr. STONE. There are some studies that have been made. I do not have them here.

Mr. GARY. Will you get such information as is available and insert it in the record at this point?

General DAY. We will have inserted in the record whatever information is available.

Mr. GARY. We will appreciate it very much, General.

(The information supplied follows:)

The July 1959 cost study on the facer-cancelers at Washington, D.C., post office has been revised to give effect to current wage rates and new maintenance standards. On the basis of these revisions, there is an indicated annual saving of $10,987 per machine before depreciation and interest. At a capital cost of $41,328, including turnover and batching tables, this represents a payout period of 3.8 years. The principal reason for the reduction in savings from that previously reported is the increase in estimated maintenance requirements. The estimated service life of these machines is 15 years, so that there still appears to be a substantial economic advantage to the installation of these machines. It is the intention of the new administration to review thoroughly all the cost-finding methods and procedures presently in use.

CONVEYOR SYSTEMS

Mr. GARY. What about your conveyor systems?

General DAY. Well, the conveyor systems are in use in a number of the post offices and I think they are quite fundamental to a good operation for a large post office with a big volume. They help in working conditions and in speeding up service, and I think that is one of the basic types of equipment that we will want to continue and improve upon. I have, for example, observed in the Los Angeles Post Office a type of system under which parcels and mail that are brought in trucks are poured directly into chutes which go to a conveyor system and are moved around the post office without having to be taken off by hand and carted to the place where it is to be processed.

Mr. GARY. What about Chicago?

General DAY. I will be there next week, but I have not observed that yet.

Mr. LANDIS. We have conveyor systems for handling bulk and sack mail throughout the larger postal plants. We also have what we call the Mail-Flo system for the transport of trayed mail.

Mr. GARY. We have information that at Chicago they have an overhead rail conveyor system known as a power and free system which we understand is out of service because of mechanical difficulties and the high cost of maintenance, but the post office expects a portion of it will be improved so that it will be workable.

General DAY. I will be in Chicago next week and this is one of the matters we want to look into right away.

MAIL-FLO SYSTEM

Mr. GARY. What about your Mail-Flo system? Is that working satisfactorily?

Mr. LANDIS. Yes, the Mail-Flo system is working very satisfactorily. The payoff has been from 1.7 to 3 years.

Mr. GARY. You plan, as I understand, for 1961–62 16 Mail-Flo installations to cost $21,200,000. Is that right?

Mr. LANDIS. No. I would say with the completion of the Philadelphia Mail-Flo installation that that will be the end of the large Mail-Flo systems. The systems now being provided are more of a connecting system between machines and not the integrated conveyors that we call the Mail-Flo system.

General DAY. I have seen the installation in Los Angeles in operation. It seemed to be satisfactory from what I was able to observe. There is also a system of that sort in place in the New York main post office which I observed 2 or 3 weeks ago.

Mr. PILLION. Will the gentleman yield?

Mr. GARY. I will be glad to yield.

PROVIDENCE CONVEYOR SYSTEMS

Mr. PILLION. The Providence, R.I., system, how would you describe that?

Mr. LANDIS. There would be no Mail-Flo system as such in the Providence, R.I., Post Office. There are bulk conveyor systems, an overhead power and free system, an overhead trolley sack conveyor system which removes the sacks and takes them out to the platform, a towveyor, and simple tray conveyors.

Mr. PILLION. It is a connection of interdependent systems?

Mr. LANDIS. They are not interdependent systems.

General DAY. As I understand, the Mail-Flo installation involves trays that are moved automatically according to coding on the trays, and these trays carry letter mail rather than the overhead or conveyor belt systems observed at Providence.

Mr. PILLION. Is that very much like the system in Washington you are talking about?

Mr. LANDIS. Yes.

Mr. GARY. And they are surface conveyors?

Mr. LANDIS. Yes; the conveyor brings the trays in.

Mr. GARY. And turn them off at different locations by electronic devices?

Mr. LANDIS. Yes.

Mr. GARY. You say these systems in Providence are interdependent, they do not switch from one to the other?

Mr. LANDIS. They do not switch from one to the other; no.

Mr. GARY. What about the picture we had of the Providence installation when we were asked to appropriate for it that it would be completely automated and that the mail would come in at one door and out the other without being touched by human hands?

General DAY. I do not know what was the particular publicity that resulted in that impression, but I think that is one of the difficulties in Providence now, that many of the people in the community have the impression that that is what the post office does, and of course it does not. As you can see, it is an assembly of various types of mechanical equipment, almost all of which have been used or are in operation in other post offices, but it is not fully automated by any means. I doubt it would ever be practicable, from what we know now, to have a fully automated system; but the people in that community seem to have that impression, and that seems to be one of the difficulties in explaining to the community some of these things that have been happening.

PLANS FOR 1961–62 MAIL-FLO INSTALLATIONS

Mr. GARY. Can you identify these figures, then, that the plans for 1961–62 call for 16 Mail-Flo installations to cost an estimated $21.2 million?

Mr. LANDIS. Would you be able to identify that, Mr. Stone?

Mr. STONE. That would come under the capital program. That is not a part of the research and development account that we are discussing here, and I do not have that information.

General DAY. We will put in that information, Mr. Chairman.

Mr. GARY. That information was given to one of our staff members so I would like to check it and see what those installations are. Mr. Landis says there is only one more. We would like to know what the program is.

Mr. STONE. I think it has to do with the mechanization going in the new post offices to be built in the 1961–62 period. I do not think it refers specifically to the Mail-Flo system.

(The following information was submitted for the record:)

The 16 Mail-Flo installations referred to were those started in or prior to fiscal year 1960. Except for modification of existing installations no additional Mail-Flo installations are programed for either fiscal year 1961 or 1962.

The 16 installations are:

New York, N.Y.:
- Grand Central
- Pennsylvania Terminal
- West Side Terminal
- GPO
- Church Street

Chicago, Ill.
Los Angeles, Calif.
Philadelphia, Pa.
Boston, Mass.
Detroit, Mich.
Washington, D.C.
Cleveland, Ohio
Kansas City, Mo.
Pittsburgh, Pa.
Denver, Colo.
Ogden, Utah (terminal)

LETTER SORTERS

Mr. GARY. What about your letter sorters? What is the status of that program now?

General DAY. Well, there are letter sorters in operation in Washington, Detroit, and Flint, Mich. Then there is the letter sorter which you observed at Providence. I believe that is the full extent of the operational letter sorting equipment.

Mr. GARY. Are you limiting your operations on letter sorters to the Burroughs machine?

Mr. LANDIS. We have now installed or will install during the coming year, 30 machines which you might say are produced under the Burroughs design. Twenty-eight will be in the Detroit Post Office, one is already in Flint, and one is in Washington. We will continue to shake down and improve this particular item, and I would say by the end of this calendar year we will have a very useful and operable letter-sorting machine. We are asking for funds in this budget to continue the letter-sorter program——

Mr. GARY. Ten machines were constructed under the original Burroughs contract by the Burroughs Corp.; is that right?

Mr. LANDIS. Yes.

Mr. GARY. What did those 10 machines cost?

Mr. STONE. The contract with Burroughs for those machines was $2,779,172.

Mr. GARY. That was the total contract cost?

Mr. STONE. Yes, for letter sorters.

Mr. GARY. And is that the total amount paid to Burroughs under that whole project?

Mr. STONE. No. There was an item of $264,082 for training equipment and an item of $20,000 for maintenance, making a total of $3,063,254.

Mr. GARY. And out of that we were to get 10 machines?

Mr. STONE. Ten machines plus the training equipment, and interim maintenance service.

Mr. GARY. And they did all the research work on it and they built the machine, as I understand, from the ground up?

Mr. STONE. No, sir. There was prior work done by the Bureau of Standards and by Rabinow Engineering Co. which laid the foundation for that work. The results of that work were turned over to Burroughs to build machines and improve them.

Mr. GARY. What did we pay Rabinow Engineering?

Mr. STONE. In the neighborhood of $135,000.

Mr. GARY. That was just for research?

Mr. STONE. Yes.

Mr. GARY. But they did not follow the Sestak machines or any of the others?

Mr. STONE. No, sir.

Mr. GARY. The Belgian machine or the Holland machine? This was a new concept?

Mr. STONE. Yes. This handles mail of larger size common in this country. The foreign machines are designed for much smaller mail. Our machines have to be designed to handle a much wider range of mail and mail that is not in as good condition as is found in foreign countries. The foreign machines have six operating positions and ours have twelve operating positions, so our machines get out more production per machine.

Mr. GARY. What happened to the Sestak machine? Has that been completely junked?

Mr. STONE. Yes, a good many years ago.

General DAY. Mr. Chairman, I want to point out that we have not yet designated the new Director of our Office of Research and Engineering and our new management team has not taken as deep a look as we have tried to do in some of the other major parts of the Department. We are working on it very rapidly, but much of the information we have not developed independently as yet.

Mr. GARY. You have ordered 20 additional sorters of the Burroughs type from the Cadillac Gage Co.?

Mr. LANDIS. Yes.

Mr. GARY. And the cost of those 20 machines is $2 million; is that correct?

Mr. LANDIS. Yes.

Mr. GARY. $100,000 apiece?

Mr. LANDIS. Yes.

Mr. PILLION. Off the record.

(Discussion off the record.)

Mr. GARY. The Cadillac people are not doing any research on it, they are just building the machine that Burroughs and Rabinow developed?

Mr. LANDIS. It is a contract based on competitive bids.

General DAY. The 20 machines being made by Cadillac Gage, will those complete the new Detroit Post Office?

Mr. LANDIS. There will be 28 letter sorting machines in Detroit.

Mr. PILLION. With how many operators on each?

Mr. LANDIS. Twelve at one particular time. It depends on the volume of mail as to the utilization over the 24-hour day.

Mr. GARY. You have no operating experience on this, do you?

Mr. LANDIS. We have gained a great deal of experience from the very first Burroughs machine made that was placed in Detroit and has been in operation for a year and a half. We have had a machine in Flint about 1 year. We have run 110 million pieces of mail through the machine at Detroit, 35 million pieces through the machine at Flint, as well as sizable quantities of mail through several other machines, so we are getting experience very rapidly and benefiting from this.

Mr. GARY. I mean cost experience. You do not know to what extent they will pay for themselves?

General DAY. I have a statement on that subject, Mr. Chairman, which has been prepared by the Department. It says it is expected that the original cost of these machines is about $8,500 per operator position, which may be compared with foreign machines costing $25,000 per operator position. Even though the machine sorting rates are naturally higher and better than the manual rate, the big economy comes in elimination of piece handlings through these distribution schemes and larger number of pockets. In Flint, Mich., a system was devised to reduce the piece handling in half. These machines, when properly adjusted, had error rates of less than 1 percent.

MACHINE OPERATORS

Mr. GARY. Who is operating those machines, General?

General DAY. The operators are career Post Office Department employees. In Washington I understand a good many of them are women who were hired for the purpose. As you could see at Providence, one of the problems was that some of the men who were put on operating the machines, having had long experience in other lines of work, probably do not have the manual dexterity you would need for a keyboard operation.

Mr. GARY. Is it not true when you do take an experienced postal clerk and put him on that work that you lose the services of a good postal clerk and obtain the services of a poor machine operator?

General DAY. That seems to be the information I obtained at Providence on Friday. As we were told up there, they are thinking of hiring new people up there in order to train them specifically for this work.

Mr. GARY. The Post Office Department, I think, some years ago when they developed the electronic system for handling postal money orders, started out on those machines with regular postal clerks and they found out they had to switch, that they could get young girls to handle the machines much better than the older trained postal clerks. And I believe we were told in Providence the other day that some of the postal clerks who had tried this work had found it rather dis-

appointing to them and they asked to go back to their old job, which resulted in a considerable turnover.

Are these machines being paid for out of research or plant and equipment money?

Mr. LANDIS. Yes, plant and equipment money.

PARCEL SORTERS

Mr. GARY. What about your parcel sorters?

Mr. LANDIS. We have a parcel sorting machine which we sometimes call the Webb machine, that is installed in the Washington, D.C., Flint, Mich., Providence, R.I., and Denver post offices and is planned for several new installations. We are asking for funds to look into the parcel sorters; we plan to combine into one design all the good features that have been developed in several earlier systems.

General DAY. Mr. Chairman, when we were at Providence an employee in the post office whom I can not even identify as to who he was made the statement to a number of us that that parcel sorter was damaging 25 percent of the parcels being handled. I do not know why he made such a statement. No one who happened to be around at the time said what the correct statistics were, but I am told the actual figure was seventeen-one hundredths of 1 percent, which is about average. This gentleman is not involved in that work, so I do not know why he undertook to make such a statement.

Mr. GARY. I am very glad to get that correction, because we received the same information when we were in Providence.

Mr. ALEXANDER. Off the record.

(Discussion off the record.)

Mr. CONTE. Off the record.

(Discussion off the record.)

General DAY. I am told that of 700,000 packages worked from January 1 to February 17 of 1961, that there were 1,190 that were damaged.

Mr. PILLION. Off the record.

(Discussion off the record.)

Mr. STEED. We were told 60 hours a day were being devoted to rewrapping.

Mr. HAHN. I know from personal experience that no such amount of time as 60 hours a day is being devoted to rewrapping. There are people who are dumping parcels and picking out those which require rewrapping, but there is one man who is assigned to the rewrapping activity.

Mr. PILLION. I saw at least two men working in that area of repackaging myself.

Mr. ALEXANDER. Off the record.

(Discussion off the record.)

Mr. CONTE. Off the record.

(Discussion off the record.)

NONLETTER SIZE MAIL PROCESSING

Mr. GARY. What is the status of your nonletter size mail processing?

Mr. STONE. The contractor is now finalizing the concept of this machine and the plan is to start the building of an experimental ma-

chine to be installed in the Sacramento post office by the end of this calendar year.

Mr. GARY. That contract was first negotiated in 1958 with Food Machinery & Chemical Corp.

Mr. STONE. That is correct.

Mr. GARY. That was for $636,013.

Mr. STONE. That is right.

Mr. GARY. Then it was later increased to $730,913. It called for system study, system design, designs and tests of a model NLS machine, and production, installation, and checkout of a prototype.

Mr. STONE. That is right.

Mr. GARY. We understand that no survey of the contractor's facilities and capabilities was made by the Department. The cost of the system study phase of the contract doubled after it was found that Food & Machinery Corp. had underestimated the problem. In May of 1959 Food & Machinery Corp. claimed to be in a position to start specifying and designing equipment. However, in October of 1960, after over $500,000 had been spent, the company had abandoned the model of one machine and had built only an experimental model of another.

Is that a correct statement?

Mr. STONE. I am not able to verify those dates. The abandonment of one model and the taking up of another is not quite correct. These machines had never been built. They still have not built one. They are just getting ready to build one now.

What they had done was to make the drawings and a concept of one machine which they found, and we were glad they were forthright enough to admit it, was not going to be successful if they continued in that direction, so they did not.

They now have another concept which seems to be very feasible and reasonable.

Mr. GARY. Is that the same company that has the contract for Gateway?

Mr. STONE. Yes, sir.

Mr. GARY. At that rate, Gateway will not only cost some $30 million-plus but it will perhaps be some 30-plus years before it is completed. Is that right?

Mr. STONE. I wouldn't say that, sir.

Mr. PILLION. Is this only part of the contract with Food & Machinery Corp. in referring to the figures cited by the chairman? Is that right?

Mr. STONE. Yes.

Mr. PILLION. They have other contracts amounting to $4 or $5 million?

Mr. STONE. That is right.

Mr. PILLION. On top of this?

Mr. STONE. That is right.

Mr. GARY. That is for Gateway.

Mr. PILLION. This is part of Gateway.

Mr. GARY. It is not part of Gateway.

Mr. PILLION. The same company.

Mr. GARY. But an entirely different project. This was a contract to develop one machine.

Gateway is a contract to develop a system, as I understand it.

Mr. PILLION. No.

Mr. GARY. I want to find out something about it.

Mr. PILLION. Everything other than what is now in use. This would be part of the overall Food Machinery Corp. contract, would it not?

Mr. STONE. The work they are going to do in Gateway will be partly on nonletter size mail, yes, sir; but this was a separate contract.

Mr. PILLION. But still part of their overall concept of what they will do in developing an automatic or a new type of mail-handling machine. Is that right?

Mr. GARY. I think it is the other way, Mr. Pillion. I think they gave them a contract to develop this one machine. There will be a need for this machine in Gateway, as it will in every other post office.

Mr. PILLION. That is right.

Mr. GARY. But this contract was given separately, and any result that they may achieve by this contract probably will be used in Gateway, but they have the Gateway contracts in addition to that.

TURNKEY PROJECT AT PROVIDENCE

Now we get to Project Turnkey. It seems somebody has failed to turn the key.

I believe, General, that in our inspection at Turnkey last Friday most of the committee reached the conclusion that Turnkey has not lived up to its advance advertisement; it is not fully automatic, does not serve the large area originally contemplated, and has serious limitations on its usefulness as a laboratory.

The Post Office Department entered into Turnkey with the attitude that Intelex should be given a free hand to plan, build, and equip the facility. The project proceeded in spite of shortcomings pointed out by the Office of Research and Engineering. The economic justification of manpower requirements of the project never had been determined. The Department justifies the project, however, in part on its value as a laboratory. This value is questionable because installation of new equipment may be limited by provisions in the lease and lack of space.

The lease is disadvantageous since it amortizes the cost over a 20-year period, was obtained without competitive bidding, and bases the rental on 2-year-old contractor estimates rather than actual costs.

Turnkey is processing only the mail which was handled by the former Providence post office. In January of 1960, the Department advised the Appropriations Committee that at its inception Turnkey would serve Providence and 81 other post offices.

The highly mechanized transport system within the plant has not been accomplished. There is considerable manual handling on the loading platforms and in processing parcel post. Some pieces of mechanized equipment proposed by Intelex have not materialized.

A detailed study of the capabilities of the contractor, his personnel, the equipment to be supplied, and system to be installed was not made, and the contractor apparently has been given an absolutely free hand in designing the facility without sufficient help from the actual operating force of the Post Office Department.

COST OF PROJECT

In addition to all of this can you give us the cost of the project——

General DAY. The amount of the annual rental, including the charge for maintenance, is approximately $2 million a year running for 20 years. The annual rental is $1,445,986, and the cost of services and maintenance, which is also part of what will be paid by the Department, is currently estimated at approximately $890,000, so that comes to a total of about $2.3 million.

Mr. GARY. A year for 20 years, which would be $46 million for the project. If we undertook to install a project of that kind in every city the size of Providence it would be a very expensive postal system.

Then I understand that after we pay that $46 million the Government has an option to purchase Turnkey for $1,040,000 at the expiration of the lease.

General DAY. That is correct.

Mr. GARY. Can you tell us what that rental cost was based on?

General DAY. The rental cost includes the structure and the necessary equipment and the research that went into developing that part of the equipment which was original.

Mr. LANDIS. Engineering rather than research. There is no research in that contract.

General DAY. The contract which underlies the Providence post office is that Intelex would construct the building, equip it completely with all necessary furniture, fixtures, and equipment, including an integrated, mechanized mail-handling system of its design to embody the most modern mail handling machinery and conveyors available, and to lease it to the Department for a period of 20 years, during which time the building and equipment maintenance are to be performed by the lessor.

Mr. GARY. Have you found any figures in the Department to tell you what the Intelex Co.'s costs are included in that contract?

General DAY. I have not as yet seen such figures myself.

Do any of the staff people present know authoritatively what those figures would be?

(No response.)

General DAY. I think we should ask Intelex for whatever information they have to furnish on that.

When I made a statement in answer to a question about this Providence post office, an officer of Intelex said he was amazed that I did not think it was working properly, so I think perhaps we ought to get some figures from them to see where this was derived.

Mr. GARY. Our information is that no reports were prepared by Intelex or the Department on the economic justification of Turnkey. The reasons advanced were that Turnkey is an experimental facility, and since it was the first facility of its kind there was no basis for a cost comparison.

There is no basis for comparing rental costs at Turnkey with those of other post offices. The lease is for 20 years and was negotiated without competitive bids. Other leases are for 30 years and are based on competitive bids and do not provide for rental of equipment.

General DAY. I wish to point out in that connection, Mr. Chairman—and again I do not want to seem to be looking for ways to ques-

tion the past administration of the Department—it was stated by my predecessor not that this was an experiment and a laboratory but that it was a working post office which was justified at that location because of various factors.

A statement prepared by my predecessor and released on January 21 was as follows:

> We have built and have in operation a fully mechanized post office at Providence, R.I. The Providence post office handles the outgoing mail for a large New England area in which 81 smaller post offices are located. Thus Providence is a working post office and at the same time a laboratory for testing machines and operating methods under actual production conditions. The knowledge of mechanization we gain in Providence should enable the new administration to move more rapidly and more surely in mechanizing large postal installations throughout the country.

There was another statement by my predecessor to the effect that one advantage of this location was that it was away from the heavy traffic of the center of the city, but as you can see this post office is located a mile and a half from the center of the city. The mail arrives in the center of the city and it has to be trucked to this installation, which takes up at least an additional hour. Furthermore it is on the opposite side of the city from the airport, so I am quite mystified myself as to why it was put in this location.

Naturally, from the Department's standpoint we must assure the citizens of Providence that we are going to perform a good job for them and that we are going to make this operation work effectively so that it can give them good service. Our high priority effort will be to send people up there to work out whatever difficulties there are in the operation of the equipment and in the results that are achieved so we can have a good service system for the people in the Providence area.

One of the things that disturbed me considerably was the obvious fact that there was no training and orientation of the employees who were to work in this new installation. It is fundamental in any type of an operation, in private business or in public service, that when you are going to do something new you have as a corollary to that the preparation of the people who are going to work in it so that they will know what they are supposed to do and you will know who is qualified to actually perform the new tasks that they are given. However, I am informed, and what I observed up there the other day confirmed, that there was very little training and orientation of the career employees in the post office so that they would know how to take over this new system; while they may have been taught details of operating the individual machines they were not given a concept of the overall system, and that has been one of the difficulties which has occurred. I hope in any further installations of this kind we can always see that the employees are trained and oriented well in advance and that we know we have the appropriate employees for the job they are expected to do.

Mr. GARY. I understand there have been several adjustments made to the rental fee. Do you know on what those adjustments were based?

General DAY. I am not familiar with those.

Mr. WILSON. I believe on the basis of certain revisions in the plans there were one or two adjustments made before the lease was executed on November 30.

COST OF PROJECT TO INTELEX CO.

Mr. GARY. Have you seen any figures at all, General, or does the Post Office Department have any figures, on the cost of this project? I refer to the cost to the Intelex Co.

General DAY. I would like Mr. Brawley to speak on that subject. He has some figures here.

Mr. BRAWLEY. I have been given some figures by Mr. Noble, a list of figures inserted in the record in January of 1960. Also there is a balance sheet that Mr. Noble can speak to if you would like to hear him.

Mr. NOBLE. We just obtained a preliminary balance sheet of the project as of December 31 as it appears on the books of Intelex. That shows that the value of the property and equipment on the lease is $14,567,000. I think that is not the final total cost but it is substantially it. In other words, more work was still being done and alterations being made.

That is being financed by Intelex through a mortgage loan. They have an investment in the project in common stock of $600,000. The I.T. & T. people have that in this project.

Our rental payment is to amortize——

Mr. GARY. Do you have the breakdown of that $14 million?

Mr. NOBLE. I do not, sir. We can get it and we intend to get it. Our auditors are going over their books to determine the items which make that up. However, that is the amount.

RENTAL COSTS

In fixing the rent, by way of background, as I understand it the annual rental fee, which is divided into two parts, is as follows: One is the amount which would amortize the initial investment other than land over 20 years, and it would pay for the property taxes and insurance, and 6-percent interest on the land investment. That is a figure of roughly $1,400,000.

The other part of the rent is fixed annually and covers the cost of maintaining the equipment and providing the necessary mechanical service and repair to the equipment and the building, and that has been estimated and established for this current calendar year at $890,000-plus.

The original estimate of the cost of the job which was negotiated out formed the basis of the rental which was negotiated at $1,400,000-plus at an interest rate of 5¾ percent over 20 years.

Thereafter, as modifications were made in the building, determination was made as to whether the changes were as the result of the Department's change in requirements, in which case the rental base would change, or whether the changes were made by Intelex in order to make the property operable, in which case there would be no change in the rent. In other words, if they had to spend more money than originally had been estimated to make the property work there would be no increase in that base rent, and the adjustments to which we referred here which were recently negotiated out were as a result of changes in the Department's specifications.

Mr. GARY. The return on the annual rent to amortize the estimated $15,580,636 in 20 years, with interest at 5¾ percent, amounted to

$1,307,380, but the return per annum on land value of $410,000 was at 6 percent interest.

Mr. NOBLE. That is correct. That has been the Department's general practice, as I understand it, in ordinary lease contracts, to allow a rate of return on the land, which is not amortized, at 6 percent.

LAND

Mr. GARY. How many acres do you have there?

Mr. LANDIS. About 14.2 acres.

Mr. GARY. And the land cost was $410,000?

Mr. LANDIS. I thought it was $493,000.

Mr. GARY. This figure shows $1,441,000, and there has been more.

Mr. PILLION. One figure, which is another example of the types of figures we get here, shows $410,000. The Chairman mentioned $410,000. Last year's testimony mentioned something like $493,000. Those are the types of figures we are getting. We cannot even nail down the land cost.

Mr. GARY. Do you have any idea where they acquired the land and what they paid for it?

General DAY. There is an inspection-of-records clause in the contract, Mr. Chairman, and we intend to find out what the cost to Intelex was. That is part of the lease and we are certainly going to examine this thing from the bottom up to see what the cost was and what the justification was.

Mr. GARY. Certainly from the information we have it is a matter that demands a great deal of investigation, and I think our committee will also conduct an investigation on it, General.

General DAY. I certainly hope that you will, Mr. Chairman; I know that you will.

PAYROLL COSTS SINCE JANUARY 1, 1960

Mr. GARY. Would you please give us a statement showing the monthly payroll at Turnkey since January 1 on a monthly basis from 1960 through February of this year?

General DAY. We will be happy to do that, Mr. Chairman. The fact is that there has been no reduction in the number of employees as a result of the new installation there, but we will get you the exact figures for insertion in the record.

Mr. PILLION. You refer to postal employees in the old Providence post office and then as it went on into Turnkey?

Mr. GARY. Yes, a comparative statement so we can see what effect Turnkey has had on the cost of employment.

General DAY. We will give you the overall figure, including the downtown operation, which is where most of the carriers are operating from, there are only 17 operating out of Turnkey.

Mr. PILLION. Those 17 would have to be added to the present cost of Turnkey because they are doing the same work done by the old.

Mr. GARY. I would think what we would want, Mr. Pillion, is the total cost of the Providence post office since January 1, 1960, the total personnel cost.

General DAY. We know the type of figure you want. We will get you an intelligent figure.

(The information requested follows:)

Total work hours, Providence, R.I., post office

Accounting period	PFY 1960	4-week period ended—	PFY 1961	4-week period ended—	Difference
1	171,209	July 24, 1959	185,198	July 22, 1960	13,889
2	176,115	Aug. 21, 1959	190,664	Aug. 19, 1960	14,549
3	177,017	Sept. 18, 1959	183,229	Sept. 16, 1960	6,212
4	192,156	Oct. 16, 1959	204,202	Oct. 14, 1960	12,046
5	189,811	Nov. 13, 1959	210,313	Nov. 11, 1960	20,502
6	195,851	Dec. 11, 1959	217,134	Dec. 9, 1960	21,283
7	292,534	Jan. 8, 1960	331,552	Jan. 6, 1961	39,018
8	193,085	Feb. 5, 1960	214,608	Feb. 3, 1961	21,523
9	185,365	Mar. 4, 1960			
10	202,453	Apr. 1, 1960			
11	204,207	Apr. 29, 1960			
12	203,212	May 27, 1960			
13	192,368	June 24, 1960			

Beginning with period 6 of PFY 1961, improved window, box, and other patron service accounts for approximately 2,700 additional hours per period; loading and unloading railroad cars, previously performed by railroad employees, and paid for on a piece basis, accounts for approximately 3,000 additional hours per period.

Beginning with period 9, PFY 1960, and continuing through period 6, PFY 1961, a total of 81,886 hours were used in training employees preparatory to the activation of Turnkey.

Periods 6, 7, and 8, PFY 1961, includes additional hours required due to extremely inclement weather, as well as labor required to move the mail handling operation to Turnkey during period 6.

NOTE.—Mail worked at Providence is being worked up into more directs than before, which means that the amount of distribution required at other offices is reduced, but it is not possible at this time to determine the man-hour savings resulting from this. Our cost study will attempt to develop the amount of such savings at other installations.

GATEWAY PROJECT

Mr. GARY. What is your present policy, if you have arrived at one, with reference to Gateway?

General DAY. The Gateway contract extends until June 30 of this year, and work is in progress under that contract. I am going to be out there next week to look over the location, Mr. Chairman.

One thing I think that needs to be done is for the people working on the research and engineering for the Gateway project to have the advantage of what we have learned from the Providence project rather than working off in a vacuum as though they are working for two entirely separate organizations. I do not see that it is advisable for them to be proceeding completely without knowledge of and without reflecting the experience of the Department's mechanization efforts in other areas and in Providence. That is one of the things I want to bring about promptly—get them in touch with the Turnkey project and the difficulties we are having there, and to be sure we do not make the same mistakes all over again.

Mr. GARY. I agree with you thoroughly, General, and I asked the question last year, when the Department was before us, why we had to have two experimental projects, why the Turnkey project and then Gateway?

They explained that they were two different approaches and they wanted to see if one approach was better than the other.

If we have to try out a dozen or more approaches on this experiment and do not let our right hand know what the left hand is doing it

seems to me we would be adding tremendously to the cost and also losing advantage of a good deal of the money that you are spending in research for these various projects.

General DAY. To the extent that it is feasible and we can bring it about within the contract commitments to which we are subject, I want to be sure that they take advantage of what has been done so far, and they work on from there rather than attempting to achieve something new all over again.

Mr. GARY. I speak of the present contract. What is the present contract?

General DAY. The contract is for engineering and research on types of equipment for mail handling which were held out as being a more advanced stage of automation than that which is in the Providence Post Office and other mechanized post office facilities in the United States. It was referred to in the publicity and the promotional material as being second generation automatic equipment. It is supposed to take advantage of the experience of the particular concern that has the contract in handling other types of articles than mail involving packaging, sorting, and that sort of thing which they do in their business, and we want to try and bring them into line with improving what we already have rather than spending money to go out and try to start all over again without using the knowledge we had acquired.

Mr. GARY. How many contracts have been let so far for Gateway?

Mr. STONE. Just one. That contract is for research and development work and the preliminary planning of the building and the mail-handling activities to be carried on there. That contract goes, as the Postmaster General stated earlier, until June 30 of this year except for two or three very minor items which go on a little beyond that. We had a 90-day contract for preliminary work prior to the current Gateway contract with Food Machinery.

Mr. GARY. That contract has been modified several times, though; has it not?

Mr. STONE. Yes, sir; and it is written in such a way that it can be modified by periods from here on out.

The present contract is only for the work specified until June 30 of this year.

COST OF GATEWAY PROJECT

Mr. GARY. How much has that contract cost the Government so far?

Mr. STONE. $4,425,652 has been obligated.

Mr. GARY. The total estimated cost of Gateway, as I understand it, ranges from a minimum of $29,840,300 to a maximum of $33,843,000. Is that right?

Mr. STONE. There is no substantiation of any estimate such as that. We are nowhere near the point where such estimates really can be made except in the most general way.

General DAY. During the transition period, when I saw the presentation in Mr. McKibbin's office by Food Machinery Corp., there were figures used which Mr. Brawley, Mr. Burkhardt, and I heard, which broke down the cost into three categories:

The research and engineering——

Mr. GARY. $10,344,000.

General DAY. The rental of the building, the rental of the equipment which was to be in the building. Is that generally correct?

Mr. STONE. Yes, sir.

General DAY. It is true, as I believe you gentlemen previously have been informed, that there is a need for a major new mail-handling facility at Oakland, Calif. Whether it is to be of this second generation type or not, we need to have a major new building there.

The site has been acquired. It is practically cleared, and we need to move ahead with the construction of a major facility there because that is the transcontinental rail terminus for the entire San Francisco Bay area. Part of this overall cost does have to do with the leasing of the structure.

Mr. GARY. And part of the overall cost, as I understand it, is for machines, research and engineering, to develop machines used not only in that office but other offices. Is that correct?

General DAY. That is correct.

Mr. GARY. Does that site in Oakland mean you will have to truck the mail all the way from San Francisco to Oakland and back to San Francisco?

General DAY. You already have to transport a great deal of your mail and other items from the east side of the bay into San Franciso because the railroads coming from the west do not actually run into the city of San Francisco. They run into Oakland. You go over either by trucks on the bridges, or ferries. That has been the situation even on passenger service, coming on a passenger train from the East you get off in Oakland and come across either on a ferry or a bus.

Mr. GARY. Is the postal center now in Oakland?

Mr. HAHN. We have a major mail-handling facility in Oakland which serves as the terminal for the transcontinental railroad operation.

Mr. GARY. Is Gateway going to take the place of that facility?

Mr. HAHN. Yes.

Mr. GARY. It will not do away, then, with the San Francisco post office?

Mr. HAHN. No, sir; it will take on the foreign mail activity which is now performed at the ferry annex in San Francisco. This activity would move over to the new Oakland facility in accordance with our present concept.

General DAY. The population of the San Francisco metropolitan area is approximately 3 million people and there are only about 700,000 of them actually living in the city of San Francisco, so a tremendous amount of the growth and population is on the east bay side and down south of San Francisco on the peninsula.

Just from my own knowledge of that area, I would think this would be an entirely appropriate location for a major mail-handling facility.

DIFFERENCE BETWEEN TURNKEY AND GATEWAY PROJECT

Mr. GARY. I had understood that this Gateway project was going to be different from the Turnkey project in the way in which it was to be handled by the Department; is that correct? I gathered that the Department itself was going to buy and construct and operate this project rather than as a rental project; is that right?

General DAY. No, I believe it has been contemplated right along that this would be a leased project; is that correct?

Mr. STONE. Yes, sir. The difference here—and I think it was inserted in the record last year, is that the Department would obtain the costs of the equipment from Food Machinery and include it as a part of the bid package for the building and the equipment. The bid package would then be put out to competitive bid and the lowest bidder would be given the job of constructing the building and installing the equipment in it. In other words, the Food Machinery Co. does not plan to enter into a rental agreement with the Department.

General DAY. But it could be one of the bidders.

Mr. STONE. They could be one of the bidders; yes, sir.

Mr. GARY. But, this would be a bid project; whereas the other one was not? Is that the difference between the two?

Mr. STONE. That is correct.

General DAY. They do not have any exclusive on being able to make the actual installation after the machinery is developed, and after the machinery is developed, the designs will be available for use by other manufacturers.

(The following explanation was supplied later:)

I had in mind here the general case, that is the position of Food Machinery & Chemical Co. in any possible future Gateway-type project. In the case of Gateway, the Department would negotiate with Food Machinery for a fixed price for fabrication and installation of all equipment, which price would then be included in the bid package for the building. Low bidder would receive the award. This was explained in previous testimony by Mr. Stone.

STATUS OF GATEWAY PROJECT

Mr. GARY. What is the status of the project at this time?

General DAY. An architect has been employed to begin work on the design for a building. The land has been acquired. It involved several square blocks.

Mr. GARY. Who hired the architects?

General DAY. The previous administration.

Mr. GARY. They have been employed by the Government?

Mr. STONE. Yes, sir; that is correct.

Mr. LANDIS. Yes, sir; by the Post Office Department.

Mr. GARY. I suppose that cost will be added onto the cost of the building, will it not, when it is completed in order to determine the rental; is that the idea?

General DAY. Yes, sir; that would be normal, sir.

Mr. PILLION. Is that cancelable?

General DAY. Mr. Doyle, are you familiar with that?

Mr. DOYLE. The Gateway contract is cancelable at any time upon written notice by the Post Office Department.

Mr. PILLION. Including the architects?

Mr. DOYLE. Yes, sir.

Mr. PILLION. The reason I ask is this: If you do not know what machinery is going in and if the machinery has not been developed and proven, this seems a little bit premature to rush into hiring an architect prior to the time that you know what your machinery needs are going to be.

General DAY. I believe we do need the facilities as rapidly as possible and that the structure will be suitable for use, even if the

machinery is not entirely as it has been projected. I think that we need to proceed with a structure as rapidly as possible.

Mr. GARY. Off the record.

(Discussion off the record.)

TYPE OF RESEARCH AND ENGINEERING CONTRACTS AWARDED

Mr. GARY. Approximately what percent of research and engineering contracts are awarded on a noncompetitive basis or on a negotiated basis?

Mr. STONE. Almost all of them.

Mr. GARY. None of them are awarded on a competitive basis?

Mr. STONE. We have had some but most of them are on a negotiated basis.

Mr. GARY. What percentage of research and engineering is performed by contract as compared with Government personnel?

Mr. STONE. Almost all of it. Our limited staff of personnel is engaged almost exclusively in monitoring the contracts and in trying to perfect improvements in equipment rather than to perform the basic research and development necessary for these items.

Mr. GARY. How do you determine whether a price or a cost quotation by a noncompetitive bidder is reasonable and fair?

Mr. STONE. Our engineers review the estimates made by the contractor and they estimate the engineering hours that he has in it and they estimate the materials that are required, the time he estimates that will be required to do it, and form their own opinion as to whether or not the item is reasonable or not.

There are cases where we have more than one proposal for the same project and that, too, aids us somewhat in making an appraisal of the validity of the contractor's estimate.

MAJOR PROJECTS UNDER CONTRACT RESEARCH, DEVELOPMENT AND ENGINEERING APPROPRIATION

Mr. GARY. How many major projects are proposed to be financed under this appropriation?

Mr. STONE. In 1962?

Mr. GARY. Yes, sir.

Mr. STONE. I will have to supply that information for the record.

Mr. GARY. That is, research and engineering contracts.

Mr. STONE. We do not have it broken down by individual contracts, but there are several of those in which we might have more than one contract. I do not believe we could give you a figure like that until we get well into the program.

General DAY. The only project that is comparable to Turnkey or Gateway that is in this appropriation is the Gateway project, and it is included in the amount that is requested for research, development, and engineering. That total amount, as I believe I mentioned a week ago, is about three-tenths of 1 percent of the total budget requested.

Now, I do certainly not indicate that one dime is small in relation to the total budget, if the dime should not be spent, but we feel that we should have money available for properly directed research work toward updating our operation in a sensible way.

We have in the research, development, and engineering figures amounts for other types of equipment which we will be working on, but there is no major project at a location other than the Gateway project.

Mr. GARY. But, you are working on these other machines like the cullers and the Burroughs machine and other machines of that nature?

General DAY. Yes, sir.

Mr. GARY. Will any of the funds be used to refinance old projects?

Mr. STONE. We do not know yet whether or not it will be necessary to do that. We hope that it will not be necessary. We hope that they are funded sufficiently now.

Mr. GARY. Mr. Pillion, do you have any questions?

Mr. PILLION. Mr. Postmaster General, I probably will be asking a number of questions and I do not want to leave the impression that your present administration and your staff are responsible for some of the waste that we think has existed in the past in the research, modernization, and mechanization program. In fact, I would like to commend you for the businesslike attitude that you are taking toward some of the extravagances that have existed in this program and the wastage of taxpayers' funds.

CONTRACTS FOR SPEED MAIL

With respect to the facsimile mail, Mr. Postmaster General, that is the same as speed mail; is that correct?

General DAY. Yes, sir.

Mr. PILLION. And, there was only one contract with respect to that and that was with the I.T. & T.; is that correct?

Mr. LANDIS. That is what I said this morning, but in reconsidering there are actually several contracts. The I.T. & T. was the prime contractor. I testified this morning, and it was incorrect, that the use of the A.T. & T. microwave circuits and service was included in the I.T. & T. prime contract. Line rental and service was a separate contract for $280,000. There was a contract for $2,500 with the A. B. Dick firm, and the rest of it was generally in the I.T. & T. area.

Mr. PILLION. I see. Actually, the sending of messages by microwave or radio beam or by wire is nothing new; is that correct?

Mr. LANDIS. The telegraph was originated in 1844, the telephone in 1876, and radio transmission and facsimile experimentation logically followed.

Mr. PILLION. So that business of the sending of messages was not new?

Mr. LANDIS. No, sir.

Mr. PILLION. And not in this contract with I.T. & T?

Mr. LANDIS. That is correct.

Mr. PILLION. The theory there was merely to perfect a machine that would send these messages and receive them without any operator having seen the messages which involves the sanctity of the mail and that sort of thing; is that correct?

Mr. LANDIS. That is generally correct. We wanted a contractor to investigate all of the recent developments and to canvass all the organizations or firms which are in this particular business and select the best combination of equipment which could be used in a model and to determine what the best service might be.

Mr. PILLION. Why was I.T. & T. selected? Do you know? I am just asking, if you know, why I.T. & T. was chosen as the firm that could best develop this apparatus?

Mr. LANDIS. I believe that we interviewed several firms and I.T. & T. seemed to show the most interest and seemed to have the technical capabilities. They are a very large firm and have been in this communications business for some time.

Mr. PILLION. I see. Now, this facsimile mail was tried out here last October between Washington and Detroit or Chicago and Flint, Mich.; is that correct?

Mr. LANDIS. Yes, sir; between Washington and Chicago, with a side line to OCDM, Battle Creek, Mich.

Mr. PILLION. And, it was found to be impractical, is that correct?

Mr. LANDIS. No, I would say that it was found that it is very feasible from a technical point of view or an engineering point of view.

Mr. PILLION. And, why was it discontinued?

Mr. LANDIS. The model was set up only to run for a period of 4 weeks and that was then extended to run to 6 weeks. We needed to operate this model to determine what the results were and what the acceptability was engineeringwise, the readability of the message. I believe that from an engineering point of view we received the answers which we needed to know.

Mr. PILLION. From the engineering point of view? That is nothing new. The Alden Corp. is doing that for the Weather Bureau, is that correct?

Mr. LANDIS. The volume which the Post Office Department would be considering—and we are the only organization which would have the volumes which would warrant the development of the equipment which we were considering—makes existing systems inadequate for our use—I believe we were transmitting messages at a rate of 90 times beyond any commercially available facsimile system. We were transmitting at very high rates with the equipment which we were able to pull together into this model system and, of course, we were thinking of rates even beyond that. Rates which only the Post Office Department volumes would be able to support.

Mr. PILLION. Well, at any rate, the prime problem was to develop or defend the sanctity of the mail operation; is that right?

Mr. LANDIS. That was one of the prime purposes; yes.

Mr. PILLION. That was not done, was it?

Mr. LANDIS. Yes, it was and that was the only area in which we used R. & D. funds. But, we had a systems problem—the solution of our own problems which are peculiar to the Post Office Department—worked in and combined with the various combinations of equipment available in the transmission field. Much of the equipment used in the transmission, including the use of the microwave lines and the cables, were rented.

Mr. PILLION. Well, if you had been successful in developing the technical aspects in sending the messages and if you were successful in developing an apparatus which would protect the sanctity of the mail, and you are not using this successful research and development, then the original concept was in error; is that correct?

Mr. LANDIS. Generally, this was a research project where we were to determine the feasibility of this particular method of transmission and to gather this information data which we would supply to top management and upon which they would base their decision. The part we had to perform was the technical part. Top management have taken the information which we have provided them and the information which they have received through the operational viewpoint and have decided not to continue this project at the present time.

Mr. PILLION. Based upon the idea of the cost at which you would have to deliver these messages anyway and that sort of thing, what would be the cost be per message? Would it be comparable to the present rate?

Mr. LANDIS. We have not, from an engineering point of view, gone into the cost. We, generally, confined ourselves to the technological problems. We do know with proper volumes, that the cost would have been a major factor.

General DAY. Is not that assuming that you give an ordinary delivery at the other end of the line? And, as I mentioned earlier, if you are going to send a message instantaneously, does it not almost require that you give it special delivery service at the other end of the line?

Mr. LANDIS. If we were going to give a new service, that would be required, but comparing it with the airmail service, which is an expedited service you might say—I believe it would be very comparable in cost, but this the engineering department did not look into.

Mr. PILLION. One of the statements made here in justifying the I.T. & T. facsimile idea was that Russia was using it; is that correct?

Mr. LANDIS. There are, I believe, Russia, England, France, and Belgium have a facsimile system.

Mr. PILLION. And, we are using it also in this country, are we not, in connection with the Alden type of sending messages by the Weather Bureau and others?

Mr. LANDIS. We have systems which are commercially available and/or which you can rent for use within your own company.

Mr. PILLION. That is right.

How much money have we spent on this project?

Mr. LANDIS. About $4.5 million.

SALVAGE VALUE OF CONTRACT WITH I.T. & T.

Mr. PILLION. And right as of now, since we are not going to install it or we have given it up or the contract will be canceled, that work has been an economic waste, has it not, from a practical point of view?

Mr. LANDIS. The equipment salvage value would be very little, but from an engineering point of view, which I always have to throw in, being an engineer, the technical salvage value is great. It will be used to base decisions on for many years.

Mr. PILLION. Well, do you not use costs and dollars in engineering?

Mr. LANDIS. Yes.

Mr. PILLION. Is not that the very purpose of engineering, to develop efficiency dollarwise rather than pure engineering knowledge?

Mr. LANDIS. Yes, sir. We attempt to develop equipment and processes which are most efficient for processing the mail in the best way. The best way is always the most economical way.

Mr. PILLION. If you were to start over today, would you enter into such a contract and spend $4.5 million in order to obtain the results which we have obtained in this contract?

Mr. LANDIS. I believe the Postmaster General has mentioned that we have reconsidered this project and are going to drop it from our program at this particular time.

Mr. PILLION. Let me congratulate you, Mr. Postmaster General, for your decision.

General DAY. Mr. Chairman, if I may interrupt there for 1 minute, I do feel that this idea of going into this program was a top-level decision in that the research people did not originate it, and I felt that since it was a new service for which there would have to be a special rate, that the matter more properly might have been something that Congress asked the Department to undertake, since the Department would have to come to the Congress eventually for a rate for it. But I do not believe that the engineering people were the ones who were responsible for going into it as deeply as we did.

Mr. PILLION. Is there a contract pending now for the period of up to the end of the year with I.T. & T., Mr. Postmaster General?

General DAY. I believe the contract for any work by them has been performed and finished.

Mr. LANDIS. There is a little work which runs through March 31 for which the funds have been committed, it is merely a reporting procedure. Actually, some of the firms working with us on the project are continuing on with the work on using their own funds in order to bring the loose ends together so that we have the proper reports. I believe I.T. & T. is committing $100,000 of their own money to pull the loose ends together so that we have a suitable report.

Mr. PILLION. $4.5 million of the taxpayers' funds were spent, from which there will be no economic return to the Post Office Department; is that correct?

Mr. LANDIS. With the project being dropped, I would say that is correct.

ACTION TO PREVENT REPETITION OF SPEED MAIL CONTRACT

Mr. PILLION. Now, how do we protect ourselves against a repetition of this sort of thing where the Department gets an idea such as this and we spend $4.5 million and find that it is of no practical monetary return to the taxpayer? How do we stop a repetition of this sort of thing in one contract after another?

General DAY. Mr. Pillion, I would answer, first, on that that I think the best protection against it is to have the Department's management devoting itself to trying to perform its job quietly and without fanfare. This project is the subject of eight pages in Mr. Summerfield's book, under a chapter entitled "Bouncing Mail Off the Moon." Anyone is entitled to a difference in emphasis and in attitude as to how they think the Department should be operated, but our group that will be responsible for running the Department is not interested in trying to publicize "Bouncing Mail Off the Moon." We want to try and move 65 billion pieces of mail as rapidly and as economically as possible and we would prefer to publicize and talk about our activi-

ties after they are completed and performed and to have any publicity and talk reflect the work of all of the people in the postal service as a group working together rather than to attempt to dramatize what is essentially a quiet day-to-day service operation.

Mr. PILLION. It is refreshing to have that point of view, Mr. Postmaster General.

Mr. GARY. Will the gentleman yield?

Mr. PILLION. Surely.

Mr. GARY. I hope, in addition to that, General—and I am sure you will in view of what you have already said here—that you will withhold the letting of contracts for quantity production of machines until after the machine are perfected.

If you start research on a machine and then before it is perfected, go out and enter into contracts before you know whether it is going to work or not, it seems to me that you are taking an awful risk.

General DAY. I certainly agree 100 percent with that point of view because, after all, we are not performing a crisis function here like some branches of the Government are. We have a going concern and we are handling, as I understand it, about 15 times as much mail as the Department handled 70 years ago with only about twice as many people. So, we are not in some kind of a crisis program that requires us to spend a lot of money in the hope that something is going to work. I think we need proper equipment or proven equipment before we commit ourselves to it.

Mr. GARY. In my judgment change should never be made just for the sake of change. When we change, we ought to know we are getting something better and until we do, then we ought to go slowly. That has always been my theory through life, and I think it is a sounder theory than just guessing that something might work and basing our actions on that. Thank you, Mr. Pillion.

Mr. PILLION. What other I.T. & T. contracts are there besides this one in existence?

Mr. STONE. We do not have any others.

Mr. PILLION. In view of the lack of success of this contract and in view of the Intelex contract, you are to be congratulated, I am sure.

TURNKEY PROJECT AT PROVIDENCE

Mr. Postmaster General, you talked here about some of the publicity given to the problems of the Turnkey project, that it was a project for laboratory testing and that sort of thing, and you gave some other reason for it.

I would like to call to your attention a booklet called "Keystone of a Major Urban Development Program." I have a letter from the former Postmaster General, and this is a very fine brochure and is very nice, but I consider this an example of irresponsible waste of the taxpayers' funds. Now, the excuse for what is no longer a matter of testing is urban redevelopment. You are not in the urban redevelopment business, but you are in the business of handling mail as cheaply as possible with the best possible service to the public; is that correct?

General DAY. Absolutely correct; yes, sir.

Mr. PILLION. So this piece of junk is just another example of how waste can grow in a bureau. I do not know the purpose it was in-

tended to serve, but it is certainly a piece of junk and a prime example of what should not be done with the taxpayers' funds.

Mr. BRAWLEY. Mr. Pillion, was that put out by the Department?

Mr. PILLION. It surely was.

General DAY. I have not previously seen that.

Mr. PILLION. It comes from all of the contractors and, naturally, when they get a job, they are pleased to send you a letter saying what a fine job they did, along with you. So, it is a self-serving declaration if I ever saw one.

CULLER MACHINE

With respect to the Turnkey project there are six cullers in that project, are there not?

General DAY. That is "c-u-l-l-e-r-s," is that correct, and about 20 other colors.

Mr. PILLION. Now, what is the type of the culler and the make of the culler at Providence? Does anyone know who made that?

Mr. DUNZWEILER. It was made by Standard Elektrik Lorenz A.G. in Berlin.

RESEARCH CONTRACTS

Mr. PILLION. By the way, the I.T. & T. contract, was that a standard research and development contract? Do you have standard contracts for this type of work?

Mr. STONE. We have standard provisions that apply to all of our research and development contracts. They vary depending upon the scope of the work.

Mr. PILLION. Is this a type of contract in which they furnish so many man-hours of engineering and so many man-hours of this and that and then they send you a bill with a management fee on top of that and, if so, what was the management fee?

Mr. STONE. You are referring to what?

Mr. PILLION. The I.T. & T. contract for research and development for the facsimile mail.

Mr. STONE. It is a cost-plus-a-fixed-fee type of contract.

Mr. PILLION. And, what is the percentage of the management fee or percentage of profit paid?

Mr. STONE. The fee differed for different phases of work under the contract. The composite fee fixed for the whole contract is $190,100 which is 4.91 percent of estimated costs exclusive of fee.

Mr. PILLION. And, how do you audit the amount that they spend? By whom is that audited?

Mr. STONE. It is audited by the Post Office Department or by one of the Defense audit agencies, if they already have auditors there. Our auditors arrange with the Defense Department to conduct their part of the audit so that the work is not duplicated.

Mr. PILLION. Who audits the I.T. & T. accounts?

Mr. STONE. I do not know if it is our own or Defense Department auditors.

Mr. PILLION. Are they supposed to be audited by the internal audit of the Inspection Bureau?

Mr. STONE. They are audited either by them or by their direction.

Mr. PILLION. Was that followed in this case?

Mr. STONE. Yes, sir.

Mr. PILLION. Are you sure?

Mr. STONE. Yes, sir.

Mr. PILLION. Was it followed in the Turnkey project?

Mr. STONE. I do not know. That is not a research and development contract.

Mr. PILLION. To get back to the culler, you say that was made by what firm in Germany?

Mr. DUNZWEILER. It is a subsidiary of I.T. & T., Standard Elektrik Lorenz A. G.

Mr. PILLION. Is that a subsidiary of I.T. & T.?

Mr. DUNZWEILER. Yes, sir.

Mr. PILLION. Is that culler as good as the type of cullers that you have in Washington and of the same type? I have reference to the cullers at Providence.

Mr. LANDIS. I believe that I offered some testimony this morning to the effect that the culler which is used at Turnkey, the Providence job, is a completed machine, a proven machine, and they were to select existing machines which would work into their system. Our culling machine, which we have developed and which performs only 50 percent of the operation at this time is a faster culler and more compatible with our faster facer-cancelers and faster letter sorting machines.

Mr. STEED. Will the gentleman yield?

Mr. PILLION. Yes, sir; surely.

Mr. STEED. At the time the decision was made to use the culler that is in the Turnkey job at Providence, was any other machine doing that same work available?

Mr. LANDIS. I do not believe there was another proven machine. There were, however, several machines which were developmental machines which we have looked at and had tested in our laboratories.

Mr. STEED. Are you saying that you consider this machine at the Providence plant a proven machine?

Mr. LANDIS. It is a proven machine and had been used in Europe; yes, sir.

Mr. PILLION. What would you estimate the value—the market value—to be to the Post Office Department of a machine like that if you bought it yourself from the manufacturer? Do you have any idea?

Mr. LANDIS. I would have no idea.

Mr. PILLION. Have you seen these cullers operating, the ones at Providence?

Mr. LANDIS. Yes, sir; I saw it on the day of the dedication.

Mr. PILLION. You were not there the other day when they had five or six people running around with all of the errors it was making—mechanical errors?

Mr. LANDIS. No, sir; I was not there.

Mr. PILLION. I have reference to the errors that were taking place. Based upon what we could get and the information we received the opinion was that they were anything but perfected and that they were not all at a stage where they were even acceptable.

You have no idea what the value of that is? If there are six machines and they were worth $10,000, they are only worth about $60,000. Is that a reasonable figure for those?

Mr. LANDIS. It would not be less than that.

FACERS AND CANCELERS

Mr. PILLION. Now, there are six facers and cancelers?
Mr. LANDIS. Yes, sir.
Mr. PILLION. And, by whom were they made?
Mr. LANDIS. By the same firm, a subsidiary of I.T. & T.
Mr. PILLION. It is a German machine?
Mr. LANDIS. Yes, sir.
Mr. PILLION. What is the value, roughly, of those six facers and cancelers?
Mr. LANDIS. Machines such as that should run in the neighborhood of $25,000 to $35,000.
Mr. PILLION. So, if they were valued at $30,000, the total figure would be $180,000?
Mr. LANDIS. That is true.
Mr. CONTE. Will the gentleman yield to me at that point?
Mr. PILLION. Surely.
Mr. CONTE. Are there any American concerns who make those machines?
Mr. LANDIS. Yes, sir; there is a machine made by the Pitney Bowes firm.
Mr. CONTE. And, what is the difference in price?
Mr. LANDIS. I believe they sell for about $30,000.
Mr. LANDIS. In that neighborhood?
Mr. CONTE. That is about the same price; is it not?
Mr. LANDIS. Yes, sir. In fact, that is what I based my estimate on for this German machine.
Mr. CONTE. With this unfavorable balance of payments, why are we buying German machines when we have them in the United States?
Mr. LANDIS. The contract for the Turnkey was for the I.T. & T. subsidiary, which is called Intelex Systems, Inc. They were to furnish the equipment already proven which was compatible to go into a post office. So they, more or less, had the option of determining the equipment.
Mr. CONTE. Was not the equipment manufactured by Pitney-Bowes compatible?
Mr. LANDIS. Evidently the firm—Intelex—must have investigated and determined that their own equipment was superior to Pitney-Bowes.
Mr. PILLION. Well, of course, you would also have this situation where the subsidiary company—the German company—could produce this machine for $18,000 and then turn it over to Intelex for $30,000 and your amortization is on $30,000 or $35,000. So you had no real basis upon which to determine cost because it is just a bookkeeping system from one to the other and they can puff up the estimated cost of their apparatus in that way very easily.

CONVEYOR SYSTEM

Now, you have a conveyor system there. Could anyone in your Department give us an estimate of the cost of a comparable conveyor system? What would all of that conveyor system at that place cost? Do you have any idea? You must have some idea, because you signed a contract. I am not talking personally, understand, I am

just talking now departmentwise. There is nothing personal here. Certainly, you must have some idea of what these costs are, if we are going to amortize them based upon cost. Do you have any idea what the conveyor systems were worth?

Mr. LANDIS. I do not believe we do. I assumed that there was a cost estimate made and proposed to the Department which was reviewed. The only thing we have which is comparable is our "Mail-Flo" systems, and we perfected those, we reduced the cost in those from $80 a lineal foot down to $40 a lineal foot.

Mr. PILLION. We have no estimate as to what it cost to duplicate that system of conveyors?

Mr. LANDIS. No, sir. I would say we have no experience to base that on.

PARCEL POST MACHINES

Mr. PILLION. You have two Webb Co. parcel post machines which you are buying from the Webb Co. I notice you have them in here for a number of items. What is the cost to the Post Office Department of each of those, or similar parcel post machines?

Mr. LANDIS. I do not know.

Mr. PILLION. Could you get it for the record? You must have some price on it.

Mr. LANDIS. I can get the cost from our other experience.

Mr. PILLION. Could you supply that for the record?

Mr. LANDIS. Yes, sir; we will do that.

Mr. PILLION. Give us some idea of what their costs were.

(The information follows:)

Cost estimate for parcel sorting machine: Based on our experience in the Office of Research and Engineering the cost of the installed sorter would be $500,000. This does not include the bulk conveyors which bring the parcels to the sorting machine proper.

Mr. STONE. I might add that the cost of a machine of that type depends entirely upon the size of the office in which it is placed.

Mr. PILLION. Let us take the size of the office at Providence, R.I. You have seen the machines, have you not?

Mr. STONE. Yes, sir.

Mr. PILLION. You can identify them as to their size and their capability?

Mr. STONE. Yes, sir.

Mr. PILLION. You have a knowledge of them or, certainly, someone in the Post Office Department deals with this every day and certainly has a knowledge of this.

Mr. STONE. Yes, sir.

Mr. PILLION. And, that is what we want.

Mr. STONE. We will submit it for the record, Mr. Pillion.

SORTING MACHINES

Mr. PILLION. You also have the Bell sorter with six positions each. What is your experience insofar as cost in purchasing these is concerned as to the reasonable cost of 11 Bell sorters of the capacity of those that you have at Providence?

Mr. LANDIS. We bought one Bell sorting machine and we paid in the neighborhood of $170,000 for it.

Mr. PILLION. The same type?

Mr. LANDIS. We purchased ours about 3 years ago. So I would say it would be relatively the same.

Mr. PILLION. How about the other Burroughs-type sorters that are now selling for $100,000 at 12 positions? Is that what we ordered here?

Mr. LANDIS. Yes, sir; that is what we ordered for the Detroit post office. These were not developed at the time they selected the mail sorting machines for Turnkey.

Mr. PILLION. So this is now outmoded, that $170,000 for six positions?

Mr. LANDIS. They had the job of selecting the equipment which would be compatible. In other words, the rates and capacity of these machines had to be made somewhat alike so they would feed from one machine into the other and into the third machine.

Mr. PILLION. Is that a part of the I.T. & T.?

Mr. LANDIS. Yes, sir.

Mr. PILLION. This is another intercompany situation where they could change from one company to another without any fixed cost whatever in order to lay a foundation for their rentals?

Mr. CONTE. Will the gentleman yield?

Mr. PILLION. Surely.

Mr. CONTE. Is the Bell sorter made in Belgium?

Mr. LANDIS. Yes, sir; it was designed in Belgium and it was made over there.

Mr. CONTE. This is more "Government" equipment being bought overseas.

Mr. GARY. Will the gentleman yield?

Mr. PILLION. Surely.

MACHINERY FURNISHED BY I.T. & T.

Mr. GARY. Who designed and made that?

Mr. DUNZWEILER. The engineers at the Bell Telephone Manufacturing Co. in Antwerp.

Mr. GARY. Then, all of this foreign machinery which they brought in here was designed and made by subsidiaries of the I.T. & T. overseas; is that correct?

Mr. DUNZWEILER. Yes, sir.

COST OF PROJECT TO INTELEX CORP.

Mr. PILLION. Now, I think Mr. Noble said that this was financed—that is, the value of the building and the machinery placed in that plant—by the Intelex Corp. in the amount of $14,567,000; is that correct?

Mr. NOBLE. Yes, sir; that is the present figure of cost as of December 31.

Mr. PILLION. Mr. Noble, there are costs and costs. What type of costs were these? Did you have a chance to check on these and determine the normal costs or actual costs or wholesale costs or rental costs? How did they arrive at this figure? Was this figure arrived at from a certified accounting point of view? Who made a check on it?

Mr. NOBLE. We have not done so, Mr. Pillion. The auditors for I.T. & T. are in the process of making their audit now for 1960.

Mr. PILLION. But that is their audit?

Mr. NOBLE. That is correct.

Mr. PILLION. Auditors on two sides of the table will use methods to best protect their own clients. This firm will protect its own client, which is I.T. & T., to the best of their ability or they should not be working for them.

Mr. NOBLE. That is correct, but what that project costs will not affect the end result. In other words, once a rental fee was negotiated a letter of intent was signed on January 29, 1959, based on estimated construction costs, to which the Department agreed, and the actual cost thereafter would serve only to affect the results from the standpoint of I.T. & T. In other words, if the project costs more, they would be out-of-pocket; if its costs less, they would make a profit on it. Therefore, we have not concerned ourselves subsequently with what the actual construction cost amounted to because it does not change the rental established and negotiated on the basis of a comparison of their judgment of cost with ours before the letter of intent was signed.

Mr. PILLION. The letter of intent was signed when?

Mr. NOBLE. January 29, 1959.

Mr. PILLION. Is that a usual method of contracting, a letter of intent based upon estimates?

Mr. NOBLE. For this type of project there apparently was no other alternative. The I. T. & T. or Intelex had submitted a proposal to the Department in reference to the Department's request, in which they had itemized various elements of cost which were reviewed by our Bureau of Facilities and a final agreement reached. This was apparently the only device that could be used for this type of project. We have no similar contract of this nature in the Department.

Mr. PILLION. Do you have one other contract, of the thousands of contracts that you have, that is based on this same sort of thing?

Mr. NOBLE. I know of no other, Mr. Pillion.

Mr. PILLION. What is the law under which this was contracted, do you know?

Mr. NOBLE. I think that should be answered by our counsel.

Mr. WILSON. That was under 39 United States Code 794(f) of the old code; I believe section 2102 of the revised code.

Mr. PILLION. Does that permit this wide-open situation, this sort of thing?

Mr. WILSON. It permits the negotiation of such lease contracts as the Postmaster General considers appropriate.

Mr. PILLION. No restrictions of any kind?

Mr. WILSON. "Notwithstanding the provisions of any other law" I believe is the language of the statute.

Mr. PILLION. Now, Mr. Noble, I understand I. T. & T.'s total investment in this operation was $600,000?

Mr. NOBLE. The Intelex System, Inc., a subsidiary of I. T. & T., is capitalized at $600,000. At the time this contract was entered into, I. T. & T. transferred all other activities of that subsidiary to I. T. & T., and Intelex System was capitalized at $600,000.

Mr. PILLION. With a capitalization of $600,000, it will be receiving back net rentals over a period of 20 years of $46 million or $47 million?

Mr. NOBLE. Roughly speaking, that $47 million will consist of a return of investment of $15 million, $10 million interest on mortgage,

and $18 million out-of-pocket maintenance, and $4 million for taxes, insurance, and interest on land.

INCREASE IN MAINTENANCE COST

Mr. PILLION. I understand that, Mr. Noble.

Last year, in testimony before this committee, it was estimated the maintenance cost would be $739,300. That has been upped and upped. What is the basis for the increase?

Mr. NOBLE. The contract provides that Intelex shall submit each year in advance of the lease year a budget or an estimate of the cost of maintaining the facilities for which the Department is to pay. Such an estimate was submitted in November 1960 for the calendar year 1961. That estimate was the subject of many conferences with various divisions in the Department because it involved a staffing pattern, salary scales, estimates of replacement parts, and the scope of the work to be done. Ultimately a decision was reached by all divisions concerned that the budget was a reasonable one, and it included a fee of 8½ percent for maintenance to be paid to Intelex. That was accepted. As we go along, I.T. & T. will expend those funds, and we will review and audit their vouchers and reimburse them for those payments.

Mr. PILLION. Yes, but why is there that increase when we were told the cost of maintenance per year would be $739,300?

Mr. NOBLE. I do not have the details of that original estimate. I presume it was a rough estimate.

Mr. PILLION. I see. Is there no limit to the maintenance increases from year to year? Can they come in next year and make that $950,000 on which there will be an 8½-percent management fee? Is there no limit to this?

Mr. NOBLE. The estimates are subject to review and acceptance by the Department, and the Department is not required to accept them.

Mr. PILLION. This one you have accepted?

Mr. NOBLE. This one for 1961 has been accepted; yes, sir.

MAINTENANCE PERSONNEL

Mr. PILLION. We were at Turnkey and saw a number of offices that had Intelex signs on them. How many people are required to maintain that and what is maintenance? Does that mean you have no mechanics, you have no master mechanics, and that they supply everything? What do you supply in the way of maintenance?

Mr. DUNZWEILER. We supply the custodial help and they supply all other.

Mr. PILLION. Eight percent of $870,000 would run about $69,000, so that leaves $800,000 for maintenance of that equipment besides their managerial fee. Does that not sound to you as extremely high in any business operation? Take a whole mill in a steel plant, a master mechanic can handle the whole steel mill with machinery that is certainly greater than that. That $800,000 is how much per man?

Mr. LANDIS. I believe within that maintenance figure there is also included electricity, water, and various services.

Mr. NOBLE. I could give you a general breakdown of that.

Mr. PILLION. Almost $1 million to maintain a plant like that is inconceivable to me.

Mr. NOBLE. The payroll segment of that is about $400,000.

Mr. PILLION. What would 50 men do?

Mr. DUNZWEILER. There are to be about 70 people on the payroll.

Mr. PILLION. Seventy people to maintain it?

Mr. DUNZWEILER. On a 24-hour basis, 365 days a year.

Mr. GARY. You mean just to maintain it?

Mr. DUNZWEILER. Yes. There are three shifts.

Mr. PILLION. I do not care if there are 10 shifts. What kind of an imposition is this on the taxpayers of this country?

Mr. STEED. Will the gentleman yield?

Mr. PILLION. Yes.

Mr. STEED. If it takes this much to maintain it when it is brand new, what will it cost when it is a little used?

Mr. GARY. That $800,000, as a matter of fact, is just the estimate for the first year; is it not?

Mr. NOBLE. Yes, sir.

Mr. PILLION. You ought to be able to run the whole Providence post office for that. Off the record.

(Discussion off the record.)

Mr. NOBLE. The estimate for water, fuel, light and power and gas comes to approximately $150,000. No fee is paid on that. In other words, the establishment of the fixed fee is on the basis of the estimated cost exclusive of fuel and utilities.

Mr. PILLION. Is that estimated or actual?

Mr. NOBLE. That is estimated.

Mr. PILLION. Why do we not pay on actual?

Mr. NOBLE. We will pay on actual. The fixed fee, however, will not vary. That fee is fixed for the year. It is for programing and providing the necessary funds that this agreement is reached.

HEAT, POWER, LIGHTS, ETC.

Mr. PILLION. Just a minute. You say you arrive at an estimate for the power, lights, and so forth, then it becomes fixed, is that correct?

Mr. NOBLE. No, sir. The fee is the only fixed part. This is the budget for the year on the basis of which the annual fee is fixed and on the basis of which we set aside funds. But we only reimburse them for actually incurred expenses, and if it appears they will overrun that, we have to take another look at it and write another letter of agreement authorizing them to go over that if we approve it. This is merely a ceiling.

Mr. GARY. Will the gentleman yield?

Mr. PILLION. Yes.

Mr. GARY. Do they furnish the heat and lights and power?

Mr. NOBLE. No. We furnish those. They are put in this budget for the purpose of getting the total maintenance cost. Mr. Dunzweiler can speak to that.

Mr. DUNZWEILER. All utilities are to be paid by them and billed to the Post Office Department directly without any additional charge.

Mr. CONTE. The actual cost is $650,000, then, just to maintain this equipment? Of the $800,000, $150,000 is for utility costs?

MAINTENANCE, REPAIR PARTS, AND MATERIALS

Mr. NOBLE. $400,000 was for payroll. Then there is $123,000 estimated for maintenance and repair parts and materials.

Mr. CONTE. Any parts that are required for this equipment, the Government has to pay for?

Mr. NOBLE. I believe it depends whether it comes under the original warranty; if so it would not be reimbursable, but normal wear and tear and supplies are reimbursable.

Mr. PILLION. Of course they can charge you anything for parts, can they not? They are the only ones that have the parts. You have to buy from them, and they can charge anything they want to?

Mr. NOBLE. I think we would object if they were more than the price at which they were obtainable commercially.

Mr. PILLION. $150,000 is for power?

Mr. NOBLE. Utilities and fuel.

HEADQUARTERS GENERAL AND ADMINISTERING EXPENSE OF I.T. & T.

Mr. PILLION. Where does the balance come in?

Mr. NOBLE. The next large item is the headquarters general and administrative expense of the parent company.

Mr. PILLION. Headquarters of the parent company?

Mr. NOBLE. Yes.

Mr. PILLION. Where?

Mr. NOBLE. I.T. & T., New York.

Mr. PILLION. But your contract is with Intelex.

Mr. NOBLE. That is for their general direction.

Mr. PILLION. But you already have an 8½ percent managerial fee?

Mr. NOBLE. This overhead is a cost element that is allocated.

Mr. PILLION. How much is that?

Mr. NOBLE. $59,245 estimate.

Mr. GARY. Will the gentleman yield?

Mr. PILLION. I am just thunderstruck. I cannot for the life of me understand how officers of the U.S. Government representing the people of these United States could possibly, could possibly, dare to enter into such irresponsible arrangements and contracts.

Mr. GARY. Will the gentleman yield?

Mr. PILLION. Yes.

Mr. GARY. In addition, is it not true Intelex has five offices in the building?

Mr. DUNZWEILER. Yes, sir; that is true.

Mr. GARY. What do they do with those offices? Are those offices solely for the operation of this plant, or do they use those for general offices for the company?

Mr. DUNZWEILER. They are supposed to be for the operation of this plant.

Mr. GARY. Does Intelex have other offices?

Mr. DUNZWEILER. In New York.

Mr. PILLION. You have accounted for about $730,000, Mr. Noble.

Mr. NOBLE. With respect to your comments on headquarters administration, that item like all other items in here is a type of item today being allowed on every cost-reimbursable contract the Govern-

ment has that I know of. This meets the requirements of the military departments and the GSA.

Mr. PILLION. I am not interested in the wastages of other departments. I am interested in getting their dollar's worth for the taxpayers of America. I am not interested in the fact we are wasting money because other departments are wasting money.

What is your next item, Mr. Noble?

OTHER ITEMS

Mr. NOBLE. Stationery and office supplies, $6,800.

Mr. PILLION. That is for Intelex stationery, for letters?

Mr. NOBLE. Presumably this would involve forms and that type of supplies. They will have stock records to keep and they will operate a cost system to develop the maintenance cost by machine and so on.

Mr. PILLION. And this goes on for 20 years?

What is your next item?

Mr. NOBLE. Postage, $500.

Mr. PILLION. That is separate from stationery?

Mr. NOBLE. Yes.

Mr. PILLION. What is the next item?

Mr. NOBLE. Telephone and telegraph, $1,200; rental of office equipment, $500; expense supplies and materials, $12,000.

Mr. PILLION. What does that item consist of?

Mr. NOBLE. Mr. Dunzweiler, do you know?

Mr. DUNZWEILER. No.

Mr. PILLION. How much funds have been used in the first 2 years, do you know?

Mr. NOBLE. No. I have only received the initial amount approved in which the reimbursable items for the first 4 weeks amounted to $40,508 for salaries and these other items, everything except fuel and electricity. We accept these figures preliminarily and then our internal auditing division makes an audit before final settlement is made.

The next item on the budget is small tools, $1,000.

Mr. GARY. Per year?

Mr. NOBLE. For the year 1961.

Mr. CONTE. That will not be a recurring item?

Mr. NOBLE. There will be a certain amount of replacement of small tools.

Mr. CONTE. Unless someone steals them, there is not much wear and tear on small tools?

Mr. NOBLE. These are ceiling budget estimates and we will not pay for them unless they use them.

Relocation expense, $4,000; traveling and living expense, $3,000.

Mr. STEED. Will the gentleman yield?

Mr. PILLION. Yes.

Mr. STEED. What is this relocation expense?

Mr. NOBLE. I presume it is bringing the top people they are bringing in that unit from some other location.

Mr. STEED. You mean transportation of household goods?

Mr. BELEN. And staying in a hotel until they find a place to live, I suppose.

Mr. PILLION. Is this all in the contract?

Mr. NOBLE. This type of detail is not in the contract. The contract provides that the contractor will submit each year an estimate of the cost and that will be reimbursable in accordance with the standard Government provisions. All these types of items are normal reimbursable items under the cost-type contracts of the Government.

Mr. PILLION. Mr. Noble, this letter of intent was entered into in January 1959. Was that considered to be a binding contract from then on?

Mr. NOBLE. Yes, sir.

Mr. PILLION. Merely a letter of intent?

Mr. NOBLE. It was subject to a final definitive contract, but it had the force and effect of a binding contract.

COST OF BUILDING AND LAND

Mr. PILLION. In April 1959 the construction of this building was commenced?

Mr. NOBLE. Yes, sir.

Mr. PILLION. Without a definite contract? A definite contract was not signed until November 1960, a year and a half later? Is that usual procedure?

Mr. NOBLE. There is one other step, Mr. Pillion. There was a formal contract signed June 23, 1960. That was the definitive contract which was an agreement to lease. Then the lease was finally signed in November or December.

Mr. PILLION. Then more than a year elapsed between the start of construction and the agreement to lease, which was your real contract, and then the lease itself merely followed the agreement to lease. Is that correct?

Mr. NOBLE. Yes.

Mr. PILLION. Is it usual for a contractor to go out and build a $15 or $12 million building and wait a year and a half before he gets an agreement to lease?

Mr. NOBLE. No.

Mr. PILLION. That would indicate that there is a great deal of—what is the right word, Mr. Postmaster General?

General DAY. Expectation.

Mr. PILLION. I do not want to use the word "collaboration," but faith and confidence of an unusual degree so far as business is concerned between the contracting parties. It appears from the record that the Intelex Co. was so sure they would obtain a favorable contract based upon, evidently, personal considerations, that they went along and made this investment prior to the signing of the contract itself.

Now, with regard to the land, I understand the land is about 14 acres?

Mr. LANDIS. Yes.

Mr. PILLION. And the cost was $493,000, which runs to about $35,000 an acre. That is pretty high for land anywhere, is it not, Mr. Noble? Is there a real estate man here for the Department?

Mr. NOBLE. I do not believe there is this afternoon.

Mr. PILLION. That is rather a high figure. Do you have any idea what the cost of comparable land is in that area?

Mr. NOBLE. No, sir; I have no idea of that, Mr. Pillion.

General DAY. Off the record.

(Discussion off the record.)

Mr. PILLION. Mr. Noble, the cost of the building, how was that estimate arrived at before the contract was let?

Mr. NOBLE. I was not in on that negotiation myself, but I understand the Bureau of Facilities reviewed the proposal of Intelex and checked through their own means as to the reasonableness of the estimates.

Mr. PILLION. Can you tell us with any certainty whether this figure of $5,372,000 which was given to the committee last year was the actual cost or more or less than the actual cost?

Mr. NOBLE. The figure I gave you a few minutes ago was indicated on their balance sheet.

Mr. PILLION. I am not interested in their balance sheet. There is no law governing what is put on their balance sheet.

Has anyone checked the building permits and the estimates of contractors as to what the cost of this would be?

Mr NOBLE. Not to my knowledge.

Mr. PILLION. Since the Post Office is paying the rent amortized from a certain figure, one would think they would be interested in finding out how much it cost.

Do you know what the assessed valuation of this building is?

Mr. NOBLE. I am sorry, I do not.

Mr. CONTE. Do you know what the assessed valuation of the land prior to construction of the building was?

Mr. NOBLE. No, sir.

Mr. CONTE. Could you get that information?

Mr. PILLION. The assessed valuation of all the lands and acreages immediately surrounding this property.

General DAY. I have a paragraph here from the document to which you referred, Mr. Pillion, which may have a bearing on that.

Mr. PILLION. You lend it a lot of dignity by calling it a document.

General DAY. Yes; it is a copy of a letter from a building company in Providence dated January 12, 1961. It states, in a letter to my predecessor:

> All of us here can remember the sad state of affairs in the West River area prior to the announcement that Project Turnkey was to be built in the West River area

Mr. NOBLE. The Department acquired the option to purchase the land.

Mr. PILLION. I understand that. I am still questioning the situation.

On the building itself again, Mr. Noble: We have had figures as to the square footage of this property, anywhere from 202,000 down to 150,000 square feet. I refer to the working space. Do you have any idea as to the exact figures?

Mr. NOBLE. I believe we have a figure in the backup of our budget, Mr. Pillion, which shows 648,000 square feet, of which 417,000 are outside. The interior space would be 202,000. Platform space is 29,000.

This was made up last fall and I am not sure whether there has been any construction change since.

Mr. LANDIS. I would say there was. We would have to provide that for the record.

General DAY. Paragraph on this subject in the book which was written by Mr. Summerfield states it is the size of two football fields. There are eight pages on this subject in this book.

(The information follows:)

Actual measured "inside" square-foot areas of the facilities at Turnkey, Providence, R.I.

Main building:		
1st floor		126,000
Mezzanine		17,720
Lookout and public walkway		3,005
Tower		1,228
Basement		42,000
Platforms:		
West	24,600	
North	3,330	
Coding	8,064	
		35,994
Railroad		6,549
Lubritorium		6,370
Tire and storage	1,314	
Swing room	1,314	
Boiler room	2,862	
		5,490
Carriers' protected area		2,379
Total		246,735

Mr. GARY. Off the record.

(Discussion held off the record.)

Mr. PILLION. Assuming a square footage of 200,000, the construction costs then would run something like $25 to $27 a square foot. Is that not a rather high construction cost for this type of structure, Mr. Noble? Certainly there is no other building which cost that much, is there?

Mr. NOBLE. I am not familiar with construction costs myself, Mr. Pillion.

Mr. PILLION. The cost should be that. The rental is $10.35 a square foot.

Mr. NOBLE. This includes machinery.

Mr. PILLION. I understand.

Mr. LANDIS. I would say it would be reasonable at $25 a square foot for that kind of construction and design. The Federal buildings generally run in that same area, and those are built by GSA.

Mr. PILLION. You mean a regular factory type building suitable for this would run that much? Is that what you are paying for buildings you are building and renting?

Mr. LANDIS. No. If a building were provided through GSA, for example——

Mr. PILLION. I am not talking about GSA, but a post office operation. I am not talking about a luxurious Federal building but a working operation.

Mr. LANDIS. We would provide a building of a different design which would run at a lower figure.

Mr. PILLION. You bet you would. It would run between $10 and $15, would it not? I see the gentleman nodding yes. Is that about correct, sir?

So there you have a wastage of about 50 percent.

Taxes are estimated to be $125,000 a year. Does the contract provide for our repaying actual taxes paid by them or does it require us to pay upon estimates of taxes?

Mr. NOBLE. The rent includes a base tax of $110,000 a year. If the taxes are less than that we will receive a refund from Intelex. If the taxes are more than that we will pay the difference.

Mr. PILLION. So that is based strictly upon the amount of actual tax?

Mr. NOBLE. That is right.

Mr. PILLION. No estimates?

Mr. NOBLE. That is right.

COST OF EQUIPMENT

Mr. PILLION. Yours cost of equipment, $5,485,000. How is it possible to check upon the actual cost of the equipment they placed in there, the cost to them? I do not refer to the amount they carry on their books but the actual out-of-pocket cash expense for this equipment. How is it possible for us to check that?

Mr. NOBLE. It would not affect the contract as such but it would be a matter of interest.

Mr. PILLION. So that if we found that the actual cost of these two items which are on their books for roughly $11 million that they actually paid out $8 million it would not affect this lease and we would still have to continue paying this amount, the approximate rent based upon the original estimates. Is that correct?

Mr. NOBLE. In the absence of fraud I would say so.

Mr. PILLION. To get back to fraud, and the question of misrepresentation of facts, what fact do you have upon which to base this? Do you have assurances of any kind based upon a letter of intent or verbal as to whether or not there has been a foundation for a recision of the contract, or has there been any misrepresentation?

Mr. NOBLE. I am aware of no misrepresentation, and I have not seen the record of negotiation. I assume that would indicate what representations had been made which could be reviewed in the light of today's knowledge.

Mr. CONTE. Can we not get the cost of these Belgian machines and the machines made in West Germany and what they are charging foreign countries for this equipment?

Mr. NOBLE. I am sure of that.

Mr. CONTE. They are being used in foreign post offices?

Mr. NOBLE. Yes.

Mr. PILLION. Could we have a record of the cost to other governments?

Mr. NOBLE. Yes.

Mr. PILLION. We certainly would be interested in that. I am not interested in what the Intelex Co. has been charged by the subsidiary but I am interested in what the subsidiary charges other buyers. Intercorporation arrangements can be made any way they want to make them.

Mr. NOBLE. We can obtain that. It may take longer than you would want to hold the record open. We can submit it to the committee after the record is closed.

Mr. PILLION. We would be interested in obtaining those figures.

The installation and equipment and cabling and wiring is next, $960,000. Was that done by the Intelex Corp. or by subcontract?

Mr. DUNZWEILER. On the site it was done by selected Belgian engineers, directing local millwrights and electricians. The German engineers came over and worked in the I.T. & T. Royal Electric Corp, Pawtucket, R.I., plant. The work was supervised by their foreign representatives.

Mr. PILLION. Is there any way we can get a breakdown of the cost of that cabling and wiring?

Mr. DUNZWEILER. Perhaps Intelex would open their books for this purpose.

General DAY. We have an inspection clause in the contract and we will certainly find out every detail we can as to what went on here. This certainly needs to be gone into. It is article 13 of the lease.

Mr. PILLION. That would be a very wise procedure, Mr. Postmaster General.

SYSTEM PLANNING

Next is system planning, $900,000. I suppose that means engineering planning. Does anyone know how that can be broken down so we can find out whether that figure is a correct figure?

What is system planning, sir?

Mr. LANDIS. The engineering. We can obtain the number of men assigned to the job and their rates of pay and determine whether that was a logical figure to charge.

Mr. PILLION. As I understand this situation, and as we said in our hearings last year, the Turnkey project was merely the connection with conveyor lines of machines already in being. It was just a mechanical gadgetry affair. Why does that require $900,000 worth of system planning? That seems to be an awful lot of money.

Mr. LANDIS. It is a lot of money, sir.

Mr. PILLION. It sounds excessive to me. Does it to you?

Mr. LANDIS. The planning of a facility, determining the selection of the equipment, and there they selected a lot of their own equipment, the floor layouts——

Mr. PILLION. It has all been tied in, in other places in Belgium; 99 percent of the work already had been done in other places. It is not a completely new installation.

Mr. LANDIS. That is true and they should have gained a lot of experience. The Director of Research and Engineering indicated in last year's hearings they used in the neighborhood of 500 man-years to plan the Brussels-X post office.

Mr. PILLION. You should not be paying for that. That has been paid for.

Mr. LANDIS. Our figure should be considerably lower.

Mr. PILLION. We should not pay for the Brussels operation, should we?

Mr. LANDIS. No; I gave that figure as a comparison.

Mr. GARY. You say it is supposed to be a connecting of units. Yet I recall 12 to 15 years ago I was in Chicago and I called attention at that time to the fact that in the facing machine they brought the letters up to a certain point, and then instead of transmitting them by machinery over to the canceling machine, there were two men using their hands to transfer it.

I called attention to the fact that a gadget to make that one transfer would save two employees. That was 12 years ago. They are still doing it by hand.

They say it is difficult to work out, but I cannot figure why. With all this gadgetry why can you not transfer these letters from one machine to another?

Mr. PILLION. Is the Washington post office a fairly efficient operation?

Mr. LANDIS. I do not know whether or not it is. I know it is a rather highly mechanized office.

Mr. PILLION. Who put the system planning in there?

Mr. LANDIS. The Office of Research and Engineering.

Mr. PILLION. Your own office?

Mr. LANDIS. Yes, sir.

Mr. PILLION. How much did that cost?

Mr. LANDIS. I do not know what the engineering and planning costs were. The equipment costs ran in the neighborhood of $3½ million.

TESTING AND COMMISSIONING BUILDING

Mr. PILLION. Testing and commissioning building, $300,000. Can you tell me what testing there was in the building? Can anyone tell me?

Mr. LANDIS. I assume that would be the "shakedown" on the equipment and building.

Mr. PILLION. What do you pay for shaking down a building and the equipment? What is the item? You have man-hours and costs?

Mr. LANDIS. Generally man-hours. In other words, they use the machinery and proccesses to make sure it is functioning in the way it was supposed to.

Mr. PILLION. That is all in the maintenance and other items?

Mr. LANDIS. Maintenance does not begin until the lease begins. The lease did not begin until January 1, less than 60 days ago. There will be an increased maintenance during the first year, and this is usual for a new facility. Maintenance in a new facility in the first year is higher than in the following years, even though it is new equipment.

CONTINGENCY COST

Mr. PILLION. Next we have the contingency item of $534,789. Was there a contingency? There was none that you know of?

Mr. NOBLE. I know of nothing unusual happening during the construction period but I was not in touch with the project.

Mr. PILLION. No water in the cellar, no sand holes, and so on? If there was no real contingency that is an item that is pure profit, also?

Mr. NOBLE. Yes, sir.

Mr. PILLION. Does anyone here have an idea whether the sum of $300,000 was actually expended, whether it amounted to $20,000, $5, $500, or $300,000? Can anyone here state whether any of those figures are correct? I want something outside of the wildest guess, and I assume Mr. Landis' statement was based on a guess.

Mr. LANDIS. Yes, sir.

Mr. PILLION. Do you have an estimate of the actual cost of this vague term called "shakedown and commissioning"?

By the way, how do you commission a building? What is the cost of commissioning a building? What do you do?

General DAY. There was a motion picture on the subject. That is all I know about it.

Mr. PILLION. Is that part of commissioning a building?

General DAY. It will not be in the future.

INTELEX SPONSORSHIP AND ENTREPRENEURSHIP

Mr. PILLION. Now we get to the item "Intelex sponsorship and entrepreneurship, $1,355,179." That is what would ordinarily be called an overall profit. Is that the correct term for this sponsorship and entrepreneur fee, Mr. Noble? Would that be a fairly accurate and understandable term for it?

Mr. NOBLE. I would believe that would be the anticipated profit to Intelex on the construction of the project.

Mr. PILLION. Additional.

CARRYING CHARGES AND CONSTRUCTION

Now we have carrying charges and construction, $601,668. Do we have any record of their mortgages, advances on their mortgages, and so on, which constitute the $601,000 of carrying charges?

Mr. NOBLE. I have no details on that.

Mr. PILLION. So we have no knowledge whatever as to whether that would be $400,000, $500,000, $800,000, or $300,000. Is that correct?

Mr. NOBLE. That is correct.

Mr. PILLION. So in summing this up we are paying here for a situation in which we have no actual knowledge of the major items that go into these cost estimates. Would that be about right, Mr. Noble?

Mr. NOBLE. As to how the cost estimates finally came out?

Mr. PILLION. That is right.

Mr. NOBLE. That is right. We have not delved into those costs at all. They were reviewed by our Bureau of Facilities, and their judgment was that the total estimate was a reasonable cost for that type of project, and on that basis signed a letter of intent.

Mr. PILLION. Is it not usual for the Bureau of Internal Audit of the Inspection Department to determine the allowances in contracts and verify them?

Mr. NOBLE. Reimbursable items?

Mr. PILLION. Yes; allowed and reimbursable.

Mr. NOBLE. That is right.

Mr. PILLION. These were not ordered, were they?

Mr. NOBLE. No, sir. This was a negotiated rent.

Mr. PILLION. A very unusual procedure, is it not, Mr. Noble?

Mr. NOBLE. It is the only one the Post Office has had.

Mr. PILLION. I think I have no further questions at this time, Mr. Chairman.

Mr. GARY. Mr. Steed?

APPRAISAL OF TURNKEY PROJECT

Mr. STEED. You assured the committee today of the fact you intend to go somewhat deeply into the Turnkey project in the various detail we have discussed. I wonder if, as you do that, it would be possible for you to make available to the committee the information that you come up with, either as a report or in some other way? It seems it will drag out for a long time.

General DAY. I would be happy to keep you informed, Mr. Steed, of what we find out which is of Government business and Government concern, and we want to keep you posted on what we do find out as we delve into it.

I do have the problem continually that I do not want anything that I do to try and take a new look at things to be misinterpreted as any partisan activity on my part because I am very disturbed about some of the things that have been done, but it is purely objective.

I would be happy to furnish your committee this information, and I know that all of you will understand the spirit in which we will do so.

Mr. STEED. As one member of the committee who is very interested in research, development, and modernization, and in the hope that we will come up with some good answers at a reasonable cost, I think all of us are objective in wanting to know if mistakes were made, where they were made, and how we can profit by this example in the future. Also I am interested due to the fact we are here confronted with what in the absence of any information to the contrary could really be rather disconcerting information.

Sometimes when you get into these things detailed information may indicate some of these things are not as odd as they seem at first glance, and for the sake of the entire objective picture I think most members would like to know the true facts.

Earlier today——

Mr. GARY. If the gentleman will yield, I want to say there is no partisanship on the part of this committee in this investigation. We have been called upon in the past to appropriate large sums for this modernization program. This committee, as a matter of fact, practically started the modernization program back some years ago. We are very much interested in the program, but we have had a feeling—I know some of us have had the feeling in the last year or two—that we were going overboard on the program. This project bears that out.

We are simply trying to appraise the situation. While we are thoroughly in sympathy with modernization we do not want to throw money away. Apparently this has been a very wasteful project.

General DAY. I think it was rushed much too fast, Mr. Chairman and gentlemen, and I think in justification of the position of some of the career people it should be pointed out that they operate under top direction. I think a great deal of the top direction was motivated by a desire to create publicity. I do not think that should be part of a proper running of the Post Office Department or research projects.

I do not think that the individuals who may have carried out the instructions—and I am sure you gentlemen agree—as a group, in the absence of some particular facts that may later come to our attention—should necessarily be held responsible for the fact that the

thing was rushed ahead with a promotional motivation rather than a motivation of providing good service.

Mr. GARY. I agree with you thoroughly on that. I think one of the great difficulties is that apparently some of the career men were not consulted on some of these things because they do not have the information now to enable us to form a proper evaluation of it.

I am certain if they were called into it and had been consulted they perhaps would have had that information. Apparently this project went ahead without looking into the background and into the matter of cost sufficiently. We are merely trying to get the facts so we can guard against such mistakes in the future and be certain that when we put up money for modernization it will be not only well spent but that the modernization program will be beneficial to the Post Office Department and will result in a more efficient and economical service.

General DAY. Yes, I am sure you gentlemen realize that in taking a new look at all of these projects, and in having serious questions about some of the timing and some of the approach, that we do not want to seem to be against modernization and against progress, but we do want to proceed with a great deal of care before we commit a large amount of money.

HISTORY OF THE BUDGET ESTIMATES

Mr. STEED. General Day, my next question takes on a little broader aspect:

At the beginning of these hearings you told the committee you had accepted this year's budget, more or less, as it was originally submitted. I think there is one exception of a $12 million reduction which you recommended. Then, today, you tell us you are cutting out the facsimile or speed mail item, but that you would like to have the whole amount in this research, development, and engineering made available because you apparently now see a need for all that amount of money, regardless of whether you use it for that particular thing or not. That brings up this point: Can you give us, or someone here with you today, any information as to what happened between the original budget prepared last year by the Department and the time it went to the Bureau of the Budget and came to us?

General DAY. Yes, sir. The normal procedure, of course, was that the budget was submitted by the Department to the Bureau of the Budget and in the course of their examination of it they reduced the Department's total by an aggregate amount of $39 million, of which $18 million was in the plant and equipment category, and the balance was in operations and the aspects having to do with running the Department, facilities, transportation, and things of that kind.

Three million dollars was taken off the research, development, and engineering item. The Department did not obtain a restoration of any of this amount, and we do feel in regard to this item for research and engineering that in the course of cautious and sound pursuit of good methods of mechanization and proved facilities that we need an amount of that kind and that we will not be spending a penny of it unless we are sure that we are going to get value for our money. But, we feel that the total amount in relation to the size of the operation and the responsibilities of the postal service to try to keep up to date as much as possible is entirely appropriate.

APPRAISAL OF GATEWAY PROJECT

Mr. STEED. Now, we have been told today that the Gateway project, under a contract, expires at the end of this fiscal year.

At the present time, assuming that a further study of the matter would justify going ahead with the budget as presented and plans as made, what would you anticipate putting into Gateway during the next fiscal year?

General DAY. The amount that is included in the $12 million total for research, development, and engineering that is specifically allocated to Gateway is $2,750,000 for fiscal year 1962.

Mr. STEED. What would that be expected to accomplish?

General DAY. That will accomplish the further work on the development of the machinery to go in the building. That would not get the building built or actually buy the equipment to go in it.

I want to say in that connection that just as fast as we have been able to do, we have been trying to go after each one of these big points and we are going to send somebody immediately out to take a new look at the whole Food Machinery program and what they are doing. I am going to be out there myself next week in San Francisco and in Oakland and we are going to look at it immediately to see whether in our opinion it is wise to continue it on the basis that has been projected, to examine what our contract situation is and to do as we hope to do with Turnkey—to get the best possible value out of the money that has already been spent. That was why this decision on speed mail, I thought, was a particularly important one, because it does, as has been brought out here, represent abandoning a rather large investment, but I think, since we do not have anything operational there nor even purported to be operational as we have at Turnkey, that that had to be a matter of spending more money and I do not think it was justified.

Mr. STEED. If what already has been spent and what is in this budget to be spent, assuming that that is all carried out, how much money would we have spent or invested on Gateway, before we will have, in effect, turned a spade full of dirt to accomplish it?

General DAY. I think the figure discussed here earlier was approximately $9 million.

Mr. LANDIS. $9 million to $10 million.

General DAY. That is the figure I was given when I saw the movie over there.

Mr. PILLION. So far in the Food Machinery Corp. contracts—I will not call them Gateway because they may not be finished when you are evidently ready to construct—but in this Food Machinery contract has there been anything at all that is definitely engineered and ready for operations at all? Anything that is ready out of this $4 million or $5 million or $6 million or $7 million project so far?

General DAY. No, sir. It has been in the planning, engineering and planning the jury rigging models. We have reached that point in our significant accomplishments.

Mr. PILLION. How will this committee know whether or not any part of this can be salvaged and whether any part of it will or will not work out? We are called upon here to make another substantial appropriation. What are the prospects? Who is going to gage and

judge whether or not we have a reasonable prospect for obtaining something of significance and of operational value?

Mr. STONE. May I say this: We have, unlike Turnkey, a group of post office people assigned full time to work on this Gateway project. We have a team of people at the Food Machinery plant almost all the time and we have almost constant communications and meetings with them to review their progress.

In April of this year they will submit to the Department a comprehensive report of exactly where everything that they have done stands. That report will have been reviewed by our people who are on the job and they will have given us a report on their appraisal of it before the contractor makes his presentation of it in April.

We do believe that in this contract we are abreast of what is going on in their work and are able to monitor it sufficiently to have some feeling of whether or not they are going to be able to accomplish their objectives.

Mr. STEED. General Day, in the several items——

Mr. GARY. In that connection, would the gentleman yield?

Mr. STEED. Yes, sir.

Mr. GARY. General, it has been stated that this property has been cleared. To whom does the property belong now?

General DAY. I believe the property belongs to the Post Office Department, pursuant to the type of program we have previously referred to, where we acquire the land and then it goes over to the eventual lessor under the leasing contract.

Mr. GARY. Have you purchased it or do you just have it under option?

Mr. WILSON. It has been both purchased and condemned and the whole parcel has been acquired out of several ownerships.

Mr. GARY. What did that cost?

Mr. WILSON. Those figures can be supplied.

General DAY. That, also, as you probably know, is part of an urban redevelopment project.

Mr. STONE. Mr. Chairman, may I add something to the previous statement I made about monitoring this Food Machinery contract?

Mr. GARY. Surely.

Mr. STONE. We have also asked the Bureau of Standards to make an independent examination of the progress of the work that these people are doing and their report will also be submitted to us early in April, prior to the time that the Food Machinery Co. submits their April report. So, we will also have that to aid us in evaluating it.

Mr. GARY. Fine.

Will you give us the number of acres in that tract and the total cost from which we can obtain the cost per acre of that tract?

Mr. CONTE. Would the chairman yield at that point?

Mr. GARY. Surely.

Mr. CONTE. Also comparable costs. If this is an urban renewal project, then it involves a large plot of land which they are selling off to other people and we should have information as to what it cost the Post Office Department and what it is costing other people for land in this development.

Mr. GARY. Yes. I wish you would furnish the committee with that information for the record.

General DAY. We will see that that information is furnished, Mr. Chairman.

(The information requested follows:)

Oakland, Calif., involved the acquisition of 127 tracks of ground comprising the acreage necessary for the facility. Property was acquired through condemnation procedures. No urban redevelopment project connected with the acquisition. Government condemned only property it needed.

Land costs at the present time are $1,682,562, which amounts to $81,476 per acre for 20.651 acres.

Of the 127 tracts involved, 22 are still pending settlement by the court so that the acquisition cost cited previously could conceivably be adjusted to a minor degree.

Cost of land was determined by appraisal made by an M.A.I. (member of Appraisal Institute) appraiser. Check of county records would indicate acquisition cost for parcel of this size is below market.

STUDY AND REVIEW OF PROJECTS IN R.D. & E. PROGRAM

Mr. STEED. General Day, I was going to say that in your research, development, and engineering program here, there are a number of items mentioned. Is it your plan—and I assume it is—to do this same sort of study and review of all those before any new contracts are entered into, if this money is made available?

General DAY. Yes, it is and we feel that in connection with our facilities program it is entirely appropriate that we have the most effective mail-handling equipment in the larger installations, and we think that there is need for funds for the engineering work that is necessary in order to adapt them to a particular location. But, as far as entering into new contracts or turning over jobs to any outside concerns or consultants or anything of that nature, you can be sure that that is going to have a very searching new examination in each case.

I mentioned the matter of the $39 million having been removed from the budget and the fact that we went along with that figure in order to indicate that there has already been a new look as far as the total budget justification by the new management is concerned and we felt that part of the savings that we thought we would be able to live with is already in the budget, because as I understand it, as rather new to this game, if the administration had not changed, that the Department would have made strenuous efforts to get a substantial part of this reduction by the Bureau of the Budget restored administratively. That has often happened in the past, and there are indications in the files of the Department that the Department intended to make such an effort prior to November 8.

Mr. STEED. Then, you are not in a position at this time to say whether or not this $39 million reduction which was made by the Bureau of the Budget is something with which you can live or not? Is that a fact?

General DAY. We have made the decision that we can live with it and that we hope that we are going to be able to operate within this budget and this amount. We think that our estimates of workload are accurate and the assumptions which they are based on are acceptable, and we feel that this is something we can accomplish, but we do feel that there has already been a rather substantial reduction, and while we made the reduction in the transportation item, that was because of

special circumstances which I described before—the falling off in parcel post volume—but we feel that the overall amount and the assumptions on which it is based is something that we accept and that we are very anxious to support.

Mr. STEED. That is all, Mr. Chairman.

Mr. CONTE. Mr. Postmaster General, at the outset, I want to commend you for dispensing with the facsimile mail contract.

If you will read the record of last year, and I am sure you have read it, you will find that I went into great detail on this project and questioned the advisability of the contract at that time. I thought it was ridiculous that the taxpayers would put up $4.5 million for actually nothing—some research and development—the Government didn't even reserve a wave band for itself. This represents an excellent start.

Mr. GARY. Off the record.

(Discussion off the record.)

TURNKEY PROJECT

POOR CONSTRUCTION ON THE PROJECT

Mr. CONTE. In respect to the Providence Turnkey post office, as has been brought out here, and based upon what we saw up there Friday, this definitely warrants a good looking into. In fact, I would dare say that it borders on a public scandal—the whole situation—and should be investigated. It is certainly unfortunate that so much money has already been expended, and it is going to be very difficult to recoup anything out of this, except experience.

When we were up there, there were complaints about the roof leaking.

Have you been able to go into that at all with the Gilbane Construction Co. to see if that can be corrected, or can we recoup some money on the contract as a result of poor construction?

General DAY. We certainly will follow that up, Mr. Conte. I am not in touch with the details right at the minute, or just what has been done since Friday in following that up.

As you observed, the day-to-day supervision of the Department's participation in the job is being done by the regional office people and we are keeping closely in touch with them to see what has been done, but I do not have a report as yet today or anything on the roof.

Mr. Dunzweiler, do you have anything on that?

Mr. DUNZWEILER. Yes, sir. We have corrected leaks on the west platform roof.

Mr. PILLION. By whom?

Mr. DUNZWEILER. By the Intelex people.

Mr. STEED. I was shown one place there near the postmaster's office where they told us that a repair had been made just before our arrival which had shown some water damage underneath the windows.

Mr. CONTE. Off the record.

(Discussion off the record.)

Mr. CONTE. Back on the record.

INDUSTRIAL RELATIONS

Mr. Noble, on the other $100,000 in that maintenance that we have not gone through, are there any items in there over $2,500?

Mr. GARY. A balance of $138,000.

Mr. NOBLE. Items over $2,500, sir?

Mr. CONTE. Yes.

Mr. NOBLE. There is a figure here of $5,000 entitled "Industrial relations."

Mr. CONTE. Industrial relations for whom?

Mr. NOBLE. Well, presumably, it refers to their dealings with the unions and employees in the normal course of employment.

General DAY. That would be their own employees, I take it, and not ours.

Mr. NOBLE. That is correct; not postal employees, but employees that would be reimbursable under the contract. The 70 employees employed by them.

Mr. CONTE. How much is that again?

Mr. NOBLE. $5,000.

Mr. CONTE. That is for 1 year for 70 employees?

Mr. NOBLE. This is an estimate. It is about $70 an employee.

Mr. CONTE. Well, more than that. You said $5,000.

Mr. NOBLE. $5,000, yes.

Mr. CONTE. It is a little over $70 per employee.

Mr. PILLION. We do not know whether any of that has actually been spent. That is just a label, is it not?

Mr. NOBLE. That is correct.

Mr. CONTE. Do you know whether they have had any labor disputes up there?

Mr. DUNZWEILER. None since January 1, 1961. There were several disputes during the construction and machinery installation phases.

Mr. CONTE. I have reference to these 70 people.

Mr. DUNZWEILER. No. There have been no disputes.

Mr. CONTE. There must have been labor disputes between the builder and his employees?

Mr. DUNZWEILER. Under the construction contract; yes.

Mr. PILLION. Will the gentleman yield?

Mr. CONTE. Surely.

MAINTENANCE PERSONNEL

Mr. PILLION. Do I understand that there are 70 Intelex people employed there?

Mr. CONTE. Maintenance people.

Mr. PILLION. Where are they? I am just wondering where they are. How can you house 70 there. We were there and I saw two or three offices there, each with four or five people in them.

Mr. CONTE. These are not officers. These are maintenance people. Where were they?

Mr. HAHN. These shops are in the basement. I think we did not get to the basement area but there are some shop areas in the basement that we did not see.

Mr. PILLION. Would there be 40 or 50 people down there doing work such as machining and lathing or what not?

Mr. NOBLE. I would not think so. Mr. Dunzweiler, do we not have a list of these people as to what their assignments are?

Mr. DUNZWEILER. Yes, but I do not have it here. We do have the other information.

General DAY. Would you have that put in the record, please?

Intelex, Project Turnkey—Maintenance staff

Position	Number
Salary:	
Manager (Intelex)	1
Secretary	1
Turnkey controller	1
Clerk-steno	1
Payroll clerk	1
Maintenance control manager	1
Control clerks	2
Maintenance superintendent	1
Tour superintendent	2
Maintenance foreman	3
Powerhouse foreman	1
Shop foreman	1
Subtotal	16
Hourly:	
Electronic technician	9
Maintenance A	20
Maintenance B	8
Stock clerk	3
Electrician	3
Mechanic	2
Carpenter	1
Stationary engineer	6
Subtotal	52
Total	68

Mr. NOBLE. Outside services, $5,300. This would be where there would be some kind of repair, and I presume their own staff would not be able to handle it and they would give it out to a local shop.

Mr. CONTE. Could you have them give us a report, for the record, of all possible outside services used by Turnkey?

Mr. NOBLE. Yes, sir; we can get that.

TAXES, COMPANY PENSIONS, AND BENEFITS

For taxes—sales and excise—$4,500; company pensions and benefits, $14,348.

Mr. CONTE. This is for the 70 workers?

Mr. NOBLE. Yes, sir.

Mr. GARY. What was that?

Mr. NOBLE. Company pensions and employee benefits, $14,348. That is on that $400,000 payroll for those in that group who would be subject to the pension provisions.

Our Bureau of Personnel looked into the pension arrangements of the Intelex employees.

EMPLOYER INSURANCE AND WELFARE

For employee insurance and welfare there was a sum of $7,971.

Mr. CONTE. That is over and above the $14,000? Is it $14,000 strictly for life insurance?

Mr. PILLION. The $14,000 is for pensions, is it not?

Mr. NOBLE. Yes, sir. This is employee insurance as well as other benefits. For payroll taxes and workmen's compensation, $24,311, and then miscellaneous, $10,000.

Mr. CONTE. Do you have anything in there for entertainment?

Mr. NOBLE. There is nothing as such in here.

Mr. PILLION. Anything for taxicabs?

Mr. NOBLE. No, sir.

Mr. CONTE. Could you ascertain what part of that miscellaneous $10,000 is for entertainment?

Mr. NOBLE. We can see if there was any provision in that estimate for that type of item. Actually, we will scrutinize all of these before final settlement to see that they conform with standard provisions of reimbursable cost-type contracts. I would doubt if we would reimburse for entertainment.

APPROVED MAINTENANCE BUDGET

Mr. CONTE. In order to save time I think, maybe, we had better put in every item, even if it is under $2,500 and submit it for the record.

Mr. NOBLE. Yes, sir; I will insert this schedule.

(The schedule referred to follows:)

Project Turnkey—Approved maintenance budget, calendar year 1961

	Amount
Salaries and wages:	
Supervisors	$52,964
Foremen	32,760
Maintenance	284,128
Clerical	20,696
Overtime premium	8,000
Holiday and vacation [1]	
Stationery and office supplies	6,800
Postage	500
Telephone and telegraph	1,200
Rental of office equipment	500
Expense supplies and material	12,000
Experimental materials and expenses	
Small tools	1,000
Water [2]	2,760
Fuel [2]	24,200
Light and power [2]	126,100
Gas [2]	1,557
Relocation expenses	4,000
Traveling and living expenses	3,000
Educational and tuition refunds	1,000
Industrial relations	5,000
Reproduction	1,500
Professional fees	1,000
Outside services	5,300
Memberships in technical and business associations	500
Miscellaneous	10,000
Taxes, sales and excise	4,500
Company pension and benefit	14,348
Employee insurance and welfare	7,971
Payroll taxes, workmen's compensation	24,311
Headquarters G. & A.	59,245
Maintenance and repair material	123,034
Total	839,874
Fee, 8½ percent of $685,257	58,247
Total (including fee)	898,121

[1] Included in salaries and wages.
[2] Not included in total for calculation of fee.

LEGAL AUTHORITY FOR ITEMS INCLUDED IN MAINTENANCE BUDGET

Mr. PILLION. As a matter of law—the gentlemen here represent the legal department, do they not?

Mr. WILSON. Yes, sir.

Mr. PILLION. As a matter of law is there a specific authorization to include the items enumerated by Mr. Noble into the type of contract? Is that permitted by the law referred to under which this contract was entered into?

Mr. WILSON. Generally speaking, the Armed Services Procurement Regulations apply and what is allowable under part 2 of section XV is allowable here.

Mr. PILLION. Is the law under which this contract was signed—the law under which there is only this one instance—and that particular law which permits leasing of post office buildings for 20 years, I think it is, does that specifically permit the types of reimbursements enumerated here by Mr. Noble which has reference to some defense type of allowances? Are all of these allowances permitted under that law?

Mr. WILSON. In my opinion this contract is entered into under proper authorization of law.

Mr. PILLION. Then, if there is any recoupment of the loss here by the Government, it would have to be based upon some law other than the original law, and you are satisfied that the law allows and authorizes the Post Office Department to enter into this type of contract?

Mr. WILSON. Yes, sir; I am.

Mr. PILLION. So, if there is any recoupment of loss here, it has to come from some other legal action rather than attacking the initial authority?

Mr. GARY. Will the gentleman yield?

Mr. PILLION. Surely.

Mr. GARY. Does the Renegotiation Act apply to this contract?

Mr. WILSON. No, sir; it does not.

Mr. PILLION. Is there an act in the Federal Government which permits a followup or bringing suit to prevent a waste of taxpayers' funds, as there is in many States? Could an action be maintained or instituted for that purpose?

Mr. WILSON. Generally speaking, I believe the False Claims Act would be one general statute that would apply.

Mr. PILLION. I see. I wonder if some study could be made, Mr. Postmaster General, as to the various legal means or methods by which our Government can be saved all possible loss with respect to the Turnkey project?

General DAY. We will look into the legal aspects indeed, Mr. Pillion, just as we will look into the engineering aspects. Shortly after we took office, we were able to obtain the services of some engineers from the Bureau of Standards in order to have them immediately start taking a look at both Turnkey and at the food machinery work on Gateway so that we could get from the people in the Government who are familiar with such standards an appraisal as rapidly as possible of what we could make out of this thing and a recommendation as to whether we should pursue the Gateway project, and we will do the same thing, as you suggest, in looking into the legal and contract aspects.

Mr. PILLION. I request that because the enumeration of some of these items is scandalous. It is just unbelievable.

Mr. CONTE. General Day, I believe it was last year when the Post Office Department instituted the placement of vending machines in the lobby of certain post offices for the sale of envelopes and writing paper. Do you know whether they are continuing this practice?

General DAY. I am only familiar with the machines that vend stamps at cost in post office lobbies. I will ask Mr. Belen if he is familiar with machines that sell other types of things other than actual stamps or post office supplies.

Mr. BELEN. I do not know of any. This is the first time I have heard of it, but, certainly, before we are finished with this, you will have a definite answer.

Mr. CONTE. I guess you and I agree on the same philosophy, General: that this is something that can be handled by outside business and something the Post Office Department should not be involved in?

General DAY. That is correct.

Mr. ALEXANDER. Mr. Postmaster General, I certainly want to commend you on the fine start you have made. I have been absolutely amazed, after looking over Turnkey, and I had intended to ask a number of questions about it, but it has been covered rather thoroughly and I will not go into that aspect, other than to say that I hope that in our dealings with Gateway or any future projects that mistakes which have been made or the things that have been done by the prior administration, we will certainly scrutinize and take to heart the lessons I believe that have been brought out.

ACCOMPLISHMENTS OF MODERNIZATION PROGRAM

Now, just one question or two:

In your modernization program, I wonder if you could put into the record a summary of the accomplishments of the modernization program up to now, together with the total amount that has been spent, we will say, for the period of 10 years.

Then I would like to have for the record, if you could give it to us, a summary of what we spent in the last fiscal year and the things that we have accomplished under the modernization program during that period of time.

General DAY. Is that in the 1961 fiscal year, Mr. Alexander, or 1960?

Mr. ALEXANDER. I think the last full year.

General DAY. Ending June of last year?

Mr. ALEXANDER. Yes.

(The information follows:)

Public Law 231 which was approved by the Congress August 16, 1949, authorized and required the Department to create a research and development organization. As a result of this public law, the Department's program for modernizing and improving postal space began in fiscal year 1951. The program was then known as a light, color, and ventilation program and was intended to improve working conditions for the vast number of postal employees. During the period 1951 through 1960, a total of approximately 575 light, color, and ventilation projects were authorized and placed under contract. The Postal Modernization Act of 1958 recognized and encouraged a much larger scale program for completely modernizing post offices in addition to the previous light, color, and ventilation program. The first appropriation for modernization under this act was approved in fiscal year 1960, and as a result, plans for modernizing 106 Federal buildings were submitted to General Services

Administration for complete modernization, including necessary building extensions. In addition to the modernization of Federal buildings, large-scale mechanization (Mail-Flo) has been contracted for and as of fiscal year 1960 is being installed in 16 major facilities. During fiscal year 1960, air conditioning was contracted for in 10 major Federal buildings. Though not requiring cash outlay except as to lease payments, the Department's leasing program has been greatly expanded from the former average of about 604 buildings per year to 1,602 buildings in 1960. Each of these buildings is furnished with new, modern counterline, screenline, lockboxes, and workroom furniture as part of the overall modernization program.

Modernization program, 1951–60

[In thousands of dollars]

1951	710	1957	16,134
1952	708	1958	43,656
1953	2,368	1959	47,290
1954	4,333	1960	120,615
1955	8,629		
1956	8,354	Total	252,797

Modernization obligations in this statement include research and development for contractual service and equipment, and building and equipment improvement, including mechanization of major facilities.

MODERNIZATION OF WASHINGTON POST OFFICE

Mr. ALEXANDER. I believe we have completely modernized the Washington post office. As such it has been in operation more than a full year. In order to show how modernization has cut down on the cost of operation, if it has, I would like to have you put into the record the full cost of the operation of the Washington post office for 1 year prior to the time it was modernized, and then put in the full cost of the operation for the next full year when it was completely modernized.

General DAY. We will get busy right away on developing those figures, and we certainly are anxious ourselves to see them so that we can separate the actual facts and proven accomplishments from a great deal of the material that has been furnished to us that seems to be a little far away from the actual statistics.

Mr. PILLION. Will the gentleman yield?

Mr. ALEXANDER. Certainly.

Mr. PILLION. In submitting the cost estimates of the Washington post office for both before and after mechanization, I wonder if your accounting department could review the type of information given us last year, which I believe to be incomplete, and give us the proper information taking into account the full costs. There were any number of factors left out in the figures given us a year ago as between premechanization and aftermechanization. So I wonder if your cost accounting department could be a little more accurate than the figures given to us last year?

General DAY. We certainly will do all we can to make it completely accurate, because our approach to this committee and to the public in giving information is to call a spade a spade and give you the actual facts, and if we in the Department made a mistake we will come out and say so and we will see that the figures are developed in such a way that they are completely accurate.

(The information follows:)

COST OF WASHINGTON POST OFFICE BEFORE AND AFTER MODERNIZATION

We find that at this time we are unable to make a direct response to the request for current data on costs of operating the Washington Post Office before and after modernization. The last study made by the Department was that included on pages 228–230 of the hearings for the 1961 appropriations. To conduct a new study would require some time.

The year before modernization was fiscal year 1958. Since that time we have had pay increases, postal rate increases, and installation of the metropolitan area plan, which have resulted in material changes in costs and in both the volume and character of the mail handled by the Washington post office, which would affect the comparability of the two periods. It is our intention to re-examine the concept, methods and techniques used in making these cost studies before any new studies are issued or any opinion expressed as to the validity of those previously issued.

Mr. ALEXANDER. In my request for information, when I used the word 'modernization," I also meant to include "mechanization".

PROPOSED PROJECTS FOR MECHANIZATION OR MODERNIZATION

Would you also place in the record a similar list for the proposed projects to be mechanized or modernized in this fiscal year?

General DAY. Yes, we will indeed, Mr. Alexander.

(The information requested follows:)

PROPOSED PROJECTS TO BE MECHANIZED OR MODERNIZED IN FISCAL YEAR 1961

1. Present schedules call for the award of contracts for mechanization on the following projects during the remainder of fiscal year 1961: El Paso, Tex., Sioux City, Iowa, Omaha, Nebr., Buffalo, N.Y., Saginaw, Mich., Grand Rapids, Mich.

TURNKEY PROJECT

FURNITURE COSTS

Mr. ALEXANDER. That is all I have other than it has been brought to my attention that while we were visiting Turnkey, I come from a district where they manufacture furniture and know the prices fairly well of different types of furniture, and I was shown a couch that was supposed to have cost $900, a couch and two chairs, which in my district furniture manufacturers produce similar products that would not run over one-third of that amount.

Mr. GARY. I did not see that couch, but I bought one the other day for my Richmond office that is adequate for the needs and I paid $87 for it.

Mr. ALEXANDER. That is all I have.

Mr. GARY. Mr. Milliken.

Mr. MILLIKEN. I have just one question. I have been sitting here listening.

PROFIT ON TURNKEY

Did you say when you were listing the expenses that they show a profit of $1 million? Did I understand that right?

Mr. NOBLE. I believe the item you have reference to is one of the construction costs, to which there is a fee added of $1.3 million in the estimates for construction.

Mr. MILLIKEN. What would the whole thing cost if they were to add $1 million to it?

Mr. PILLION. It is more than $1 million. It is $1,355,000.

Mr. NOBLE. What was your question, sir?

Mr. MILLIKEN. What would be the entire cost of that building if they are to have $1,500,000 profit? I wondered what the entire cost would be?

Mr. NOBLE. The only figure we have is their estimate of $14,600,000.

Mr. MILLIKEN. And then they add over $1 million profit, and then they rent it back to you?

Mr. PILLION. That is right.

Mr. NOBLE. Presumably that cost includes their profit on construction.

Mr. MILLIKEN. They have charged in there everything they have put in the building—overhead, office rent, and all the other items that would naturally go in, including supervision from the main office, and then $1,500,000 profit, almost?

Mr. NOBLE. This was the fee for their know-how as a private corporation. We could not expect them to build it on a straight cost basis. This was put in the estimate and from then on they take the risk. They might or might not realize that.

Mr. MILLIKEN. Thank you.

Mr. PILLION. They took what risk? Where was their risk, Mr. Noble?

Mr. NOBLE. Well, I think the engineers could speak to that, but in the construction industry there are uncertainties that arise besides the normal contingency that was included.

(Discussion off the record.)

WORK MEASUREMENT SYSTEM

Mr. GARY. We are running rather late and I do not want to prolong these hearings, but this is the last day; we had set aside this as an open date. We start Treasury tomorrow with the Secretary of the Treasury. We were delayed somewhat by the trip to Providence on Friday, which I think everybody will agree was well worthwhile. But there was another subject we wanted to discuss at this time and that was with reference to the work measurement system. We have a report which was prepared for our committee by the Bureau of the Budget. This report, General, after we have prepared and given out a release on it ourselves, will be turned over to you in order to give you the information and such assistance as it will be to you in the study which we understand you are making at this time. But I have a number of questions here on the work measurement system, and rather than take up the time of you and the committee at the present time, I am going to turn these questions over to you and request that you have them answered and have the questions and answers placed in the record at this point, if that is agreeable to you?

General DAY. We shall be most happy to do that, Mr. Chairman.

Mr. GARY. Is that agreeable to the committee?

There is some basic information concerning the work measurement system that we wanted in the record.

Mr. PILLION. Mr. Chairman, will there be time later on, in the event we have further questions in respect to any of this material that we have gone over, when we might have another meeting?

Mr. GARY. Yes. The point I was making was that it could not be done tomorrow, because we do have the Secretary of the Treasury coming up tomorrow.

(The information above requested follows:)

WORK MEASUREMENT SYSTEM

1. Question. Will you please describe in some detail the current work measurement system now in use in the Post Office Department?

Answer. The work measurement system, as it has operated since June 25, 1960, contains four basic elements:

A. Individual postal installation evaluation by determining productivity based only on first handling volume.

B. Recording all hours used at main office and at stations and branches into: (1) distribution and related labor service hours; (2) window service to patrons, registry sections, hours, etc.: (3) administrative hours—example, accounting sections, personnel sections, etc.

C. Individual measurement of distributors' performance.

D. Group measurement of performance in areas where individual measurement is not feasible.

Relating the number of hours used to the volume of mail processed gives an overall efficiency index for the installation. Such an index is obtained, separately, for outgoing and incoming mail, by the four basic categories: (1) letters; (2) flats and magazines; (3) parcel post; (4) small parcels, papers, rolls. This makes possible a determination of the relative efficiency of the various subunits.

Measurement of individual productivity is operative at the 203 largest offices. Here an employee personally records the beginning and ending time of his various assignments and the amount of nondistribution time connected with his work assignments. These entries are reviewed by the clerk's immediate supervisor, who also enters the time credits earned by the employee. Relating the net distribution time to the total time credits earned establishes an efficiency factor on a daily basis that is recorded and averaged on an accounting period frequency. Thus both daily and at 4-week intervals, the clerk and his supervisor can gage the efficiency with which the employee is performing assigned distributions.

The expenditure per year at first-, second-, and third-class offices for clerk-mail handlers is approximately $1.5 billion. Approximately 76 percent of the work hours of these employees is included under the work measurement system.

2. Question. Who has the responsibility for seeking and making use of the technical assistance of the Office of Research and Engineering and the Bureau of Finance?

Answer. Top staff in the Post Office Department. Primary responsibility rests with the Assistant Postmaster General, Bureau of Operations.

3. Question. How were the uniform volume conversion rates developed?

Answer. By countless tests conducted under varying conditions at the original 43 WPS offices with all classes of mail involved. Updated by comparison of the various rates with those developed by engineering methods under the basic motion time study program, which continued in effect until June 25, 1960.

4. Question. How are changes made to those uniform rates, and how are the rates applied?

Answer. By making use of trained people in former WPS/BMT offices. For example, during September–October 1960, each of the 15 regions conducted tests at 3 offices to determine current conversion rates for small parcels and rolls and bulky flats. The results clearly indicated that, due to the great variance existing, local conversion factors should be developed for these categories of mail in order to assure greatest volume reliability.

Instructions to accomplish this objective are contained in our draft of proposed modification to the work measurement system, which, however, has not yet been disseminated to our field people.

5. Question. Do you have any concrete plans to minimize the tremendous burden of paperwork? It appears that a considerable amount of savings, both

of time and money, could be made by elimination, consolidation, and simplification of the many reports now required.

Answer. Yes. The proposal to reduce the individual measurement feature to a less than daily basis will substantially reduce the amount of paperwork at the offices affected. Consolidation and simplification of other reports will receive prompt study and attention.

The work measurement system as presently constituted uses less than half of the paperwork used by the prior systems, relative to recording of volume, man-hours, and related managerial reports.

6. Question. Do you have any plans to strengthen first-line supervision and to develop a little better evaluation of their performance?

Answer. Yes. We propose to inaugurate the recording of volume in second-handling work centers, which will permit development of an efficiency index for those areas and evaluation of the performance of supervisors assigned thereto. The strengthening process will consist of counsel and further training of those supervisors in whose areas weaknesses are detected.

7. Question. In the development and application of yardsticks and other minimum or average rates of production, do you provide for modification to suit local conditions?

Answer. The work measurement system as it is now constituted does not contemplate any change in the minimal productivity rates. Experience to date has proved the feasibility of such an approach and the ready attainability of the published rates.

8. Question. Just how are the results of the work measurement system used—who gets the reports—who determines what they mean—and who directs necessary corrections?

Answer. Reports of the results of the work measurement system are first received and analyzed by the postmaster, who is charged with the responsibility of initiating any local corrective action. Individual office reports are transmitted to the respective regional headquarters where they are analyzed to determine and control the expenditure of man-hours as related to total workload. Regional headquarters, in turn, channel accounting period reports to the Bureau of Operations accompanied by their narrative operating analysis. At the departmental level, the reports are used to determine whether national workload and work hours are proportionate.

The statistics developed by the program are an important management tool for forecasting future workload and man-hour usage.

9. Question. Is this measurement system a continuous operation, taking the time of a large number of people all the time—or do you use it at intervals just to test the operation?

Answer. The measurement system is continuous at individual offices when the workload warrants such. On Saturdays, Sundays, and holidays, the degree of measurement is sharply curtailed. One of the modifications under study is to use the individual measurement concept on a supplementary basis in lieu of a continuing basis.

The workroom floor supervisors are responsible for the daily operation of the system, and there has been no increase in the supervisory force based solely on the system.

The administrative services (statistical unit) average approximately 0.35 percent of the work hours at individual offices.

10. Question. What has been the reception of this system by employees and by employee organizations?

Answer. The clerical employees organizations have protested the use of the system. Their complaints have seemed to follow a nationwide pattern. It is questionable if the rank and file employees object to the system anywhere near to the degree as purported by the leaders of employee organizations.

The postmasters and supervisors organizations are for retaining the system "as is."

11. Question. How much pilot testing is done on a proposed system before it is ordered into full use?

Answer. The present system was not field tested due to time limitations. However, most of the phases of the system had been field tested over a period of years. Any major modifications, made in the future, will be pilot tested at a representative group of post offices.

12. Question. What are your plans for future use of the work measurement system?

Answer. The plans for the future use of the work measurement system will be commented on as to the two categories of offices under the system. At the 203 large offices, the clerical work hours are broken down into 3 categories; mail processing hours (72 percent); hours used to support mail processing (13 percent); and administrative hours (15 percent).

In the first category, 72 percent of the total, a concerted effort will be made to limit the nondistribution hours to the maximum extent practicable. (Nondistribution hours are, for example, ledge loading; transporting of mails; hanging and dropping of sack racks, etc.) This will be done, in the main, by local management and may entail a local educational program outlining the techniques to be used.

The second category, 13 percent of the total hours, consists of the hours used in the registry section, window service, claims and inquiry section, etc. Experience has proved that the most effective way of determining the amount of hours to be utilized in these sections is to have them periodically surveyed by knowledgeable local supervisors. Such instructions now exist and will be strongly reemphasized.

The third category, 15 percent of the total hours, represents those hours expended in the chief accountants section, executive sections, small stations and branches, etc. These administrative hours are best controlled by periodic surveys by knowledgeable supervisors, who, after completion of their survey, recommend an average apportionment of daily man-hours.

At the 993 smaller offices, a considerable amount of attention will be given to determine if the scheduling and staffing of employees is in the best interest of the postal service. It was at these offices, where they had no prior experience with work measurement, that a breaking-in period was needed. It is believed that these offices have attained a degree of sophistication in the work measurement area so that they should be able to apply the statistics developed daily in a meaningful manner in order to bring about better postal management.

The 993 smaller offices are the growth offices of the postal service, and it is vitally necessary that the man-hour usage be controlled in order to attain maximum efficiency for man-hours expended.

13. Question. How do the cost ascertainment system and the work measurement system work together? How are they coordinated?

Answer. The cost ascertainment system and the work measurement system are not coordinated for the following reasons: Cost ascertainment is designed to provide for a combination statistical accounting procedure to determine the proportionate postal revenue and expense for each class of mail service. These procedures are implemented 1 week per postal quarter at 635 post offices, 1st, 2d, 3d, and 4th class. The work measurement system is devised to relate daily workload against man-hour usage at 1,196 post offices. Of the 635 cost acertainment offices, only 114 are under work measurement.

A study will be made to ascertain if any of the statistics developed by work measurement system can be used in the cost ascertainment program. This will be done with the view of elimnaiting any overlapping or duplication of statistical data.

14. Question. How much work has been done on sampling techniques? Of course, that is the basis of the whole system, but what I am trying to find out is, how do you allow for items in your sample that are not typical of the whole operation? For example, large volume mailings of identical pieces might tend to distort your sample.

Answer. The only formalized sampling system used by the Department is under the Bureau of Finance. This system is used to develop statistics by a controlled sample procedure. During past years, this system has been employed experimentally to develop conversion factors for mail at selected offices.

The use of such a system establishes a local conversion for each category of mail. Such local conversions have an upper and lower band of confidence. This upper and lower band of confidence can run to about 20 percent higher or lower than the norm. Consequently, the Department would, if such a system were adopted nationwide, still be in the position of using an average conversion for each category of mail. The employees would still continue to object when they received a unit of measurement that contained more pieces than the established norm.

The work measurement system does utilize a random sampling technique on a continuing basis. This is done to develop conversions for large scale special type mailings, such as, treasury checks, utility bills, etc.

15. Question. Are stopwatches or other timing devices used in the new work measurement system?

Answer. The use of stopwatches or other timing devices is not authorized under work measurement. During the early stages of work measurement system, a few isolated instances of such were reported to the Department. Such action was not authorized, and instructions were immediately issued to stop the use of such devices.

16. Question. What is the total estimated annual cost of the work measurement system?

Answer. Estimated costs to date indicate that 0.36 percent of the total hours covered by the work measurement system are attributed to administrative costs. In terms of dollars, this totals about $4.1 million. These costs include local, regional, and departmental people assigned to the program. It is anticipated that these costs will be substantially reduced when the individual productivity is measured on a supplementary basis.

17. Question. Do you think the benefits justify the expenditure?

Answer. The benefits derived, to date, do justify the administrative costs of the program.

DEPUTY POSTMASTER GENERAL'S CLOSING STATEMENT

Mr. GARY. Now I understand Mr. Brawley, the Deputy Postmaster General, has a statement he would like to present, and we will hear from him at this time.

Mr. BRAWLEY. Mr. Chairman and members of the committee, these days of hearings have provided us with a real education.

We are deeply grateful for the courtesy extended us by the chairman and members of the committee and take new spirit from the obvious dedication and concern in postal affairs that the committee has made so clear during these hearings.

I feel it may be worthwhile if I sum up the major impressions that we have gained and the major points about which we have developed sharpened points of view as a result of this stimulating experience.

My comments can be grouped into two categories. The first category consists of a number of pledges that we make to you. The second category contains a summary of the most vital points about which we hope you will take favorable action for 1962.

We pledge to you that from the Postmaster General down we will work with a dedicated application to the problems of the Post Office Department.

In a sense this is the least we could do. I have just remarked about the notable spirit of dedication exhibited by this committee itself. The Postmaster General in his opening statement commented on his observation of the dedication and conscientiousness of the postal workers. The new administration of the Post Office Department certainly intends to be a worthy partner in this enterprise.

We renew the pledge made by the Postmaster General to give vigorous attention to cost reduction in the Department. We will, as we have indicated, press our study of management functions and Department organization in order to eliminate duplication, increase efficiency, and save money.

We pledge to pursue a sane program of mechanization. We have benefited by the discussion that followed your inspection trip to Turnkey. I believe our testimony during these hearings has indicated to you that we do not wish to push the mechanization of the post office as an end in itself. Certainly one of the lessons to be learned from the Turnkey project is the importance of having a carefully conceived

program to retrain personnel who will be expected to effectively operate newly mechanized facilities. Such a program must take into account the unique operating requirements of the equipment included in the engineering specifications. Our objective is to use mechanization where it will improve service or reduce costs, and to the extent that it enables postal workers to perform better, more accurately, and more efficiently. We will push hard for development and application of the right equipment in the right amounts, and in the right places.

POSTAL REVENUES AND RATES

We realize that no cost reduction program taken by itself can close the gap between costs and revenues short of that kind of brutal reduction of service and facilities that would wreck the postal service and fail to provide for the needs of our growing and changing population.

Consequently, we also pledge to you a vital concern for rate adjustments in order to increase the postal revenues so as to cover our costs, in accordance with the standard set by the Postal Policy Act of 1958.

To the extent raising the revenues is within our authority, we are already acting. We have included in our 1962 submission or are moving forward now on $19 million of additional revenues through administrative rate changes.

As the law requires, we are now seeking rate increases from the Interstate Commerce Commission on parcel post. Our work has been underway for some time but is not yet quite ready for submission to the ICC.

In total we will pledge to seek the $843 million of extra revenues in 1962 that were part of the submission of the previous administration. Some of this revenue is provided by the administrative and parcel post increases referred to above, but the bulk of the increases is dependent on legislative action to increase postal rates.

We are in the process of sending to the Congress the rate increases developed by our predecessors which will provide the revenues as included in the budget.

As the Postmaster General said in his statement, we have been actively at work preparing a rate proposal for the Congress to authorize the targeted revenues. We need to study carefully, however, the details of increases by classes of mail to support the $843 million total that was placed before the Congress by the preceding administration.

We are also realistic enough to recognize that an increase of this magnitude to be effective for the fiscal year 1962 poses an extremely difficult problem. Never before have increases of this magnitude been proposed. Previously lesser amounts have been rejected by the Congress.

Furthermore, we are also realistic enough to realize that the market for postal services is elastic and that except in the case of first-class mail where the post office has a monopoly the users of our services may, as our rates increase, turn to alternate methods of delivery to reduce their costs.

We have found this to be true in the case of parcel post. We find it is true in the case of some of the special services.

Major users of second-class, at certain rates even as they exist today, find they can more economically distribute their mail by decentralizing

their manufacturing or by using private means of transport to carry many tons of mail closer to its ultimate destination. In such cases the post office performs the high cost local messenger service but is stripped of the beneficial income from long haul transport of these many tons of mail.

It is far less expensive according to the experience of major publishers to ship an alternate set of plates or negatives to printshops located near masses of their readers than it is to produce all the materials in one place and distribute them through the mails.

So far only the larger than average mailers find this alternate type of distribution economical.

The post office thus misses much of the income from one phase of its operation—transportation—but at the same time it ultimately handles each and every piece through the post office, through the carrier system, and up to the door of the addressee. The post office, therefore, is not relieved of this volume but retains only the high cost aspect of it.

APPROPRIATION STRUCTURE AND LANGUAGE

We are convinced that we can do a better job under the new appropriation structure—the structure under which we made our submission to you during these hearings.

We also believe we can do a better job and return a greater value to the Government in our research and capital program if we may be allowed the flexibility afforded by the language as we have presented it to you. This committee will always be advised of the projects for which this money is spent. No money will be spent except for programs approved by this committee. The difference is that we will be enabled to develop these programs more carefully. If toward the end of a fiscal year circumstances prevent execution of plans for various reasons, then the programs themselves would suffer through needless delay until subsequent-year appropriations could be provided.

BASIS FOR APPROPRIATION REQUIREMENTS

Our greatest need, of course, is the provision of the full obligating authority requested in this submission. I have already told you about our determination to reduce costs. This objective will be pursued aggressively. Nothing could please us more, nor I am sure please the committee more, than to find at the end of the year that the Department has been able to reduce its operating costs and with resulting savings. However, until we can carry through our programs, we will need the appropriations that have been requested.

The key appropriation is that for "Operations." The costs of operations, to an extent, are directly related to the volume of mail. So mail volume is an important factor in our budget estimates.

It is important therefore to examine the degree of accuracy attained in our estimates of mail volume.

I would like very briefly to tell you about the two main parts of our estimating process.

First, I would like to tell you about the basis for our estimate and the degree of accuracy this basis gives us, and, second, to tell you about the accuracy of our predictions of future economic conditions within which our estimating process operates.

We have arrived at the basis for estimating through use of a multiple correlation process. As a result of this process, we have found the right combination of factors which, when applied in the past, most closely parallels actual mail volume in the past. The key factors in this multiple correlation process are personal income and total population.

When we apply our basis for estimating in the period 1926 to 1960 we find an overall average variation of only 1.2 percent. In other words, if we had used our basis of estimating year by year since 1926 and if we had accurately predicted the key factors for each year, we would have predicted the actual mail volume for that period within ± 1.2 percent.

Now, turning to our abilities as predicters of future economic conditions, our experience has been that we have predicted the future level of our key economic and population factors within ± 1.3 percent. It will be of interest to the committee to know that these predictions tend to be lower than actual conditions turn out.

These two parts of our work—isolating the critical economic factors and predicting future values for those factors—lead us to the volume estimate.

The thought has been expressed that the present recession may have the effect of reducing volume in 1962 from the amount estimated. In the first place our predictions for mail volume during periods of recession have been accurate to the same high degree that I have already referred to. Obviously, the recession period affects the economic indicators that are the original basis on which our mail volume prediction rests. Recessions are thus already taken into account.

Additionally, a study of volume trends through recent recession periods indicates that the two classes of mail volume which contribute the largest proportion of volume continue to increase at normal rates or even somewhat greater than normal rates during recession times.

For example, I would like to submit for the record this chart which shows the actual volume of first- and third-class mail since 1947. The recession periods 1948–49, 1953–54, and 1957–58 have been indicated for comparison. You will note that in any recession period first-class mail volume did not show any significant decline, and some increase in 1957–58 despite a rate increase.

You will also notice that particularly in recent years the rate of increase in third-class mail volume has been very high during recession periods. Nearly this entire period—1947 through 1960—has been complicated by increases in the rates for handling third-class mail, which increases would presumably have a depressing effect on mail volume. If use of this class of mail were affected by recession periods you would expect to find that the combination of increased rates and recession would have caused appreciable losses.

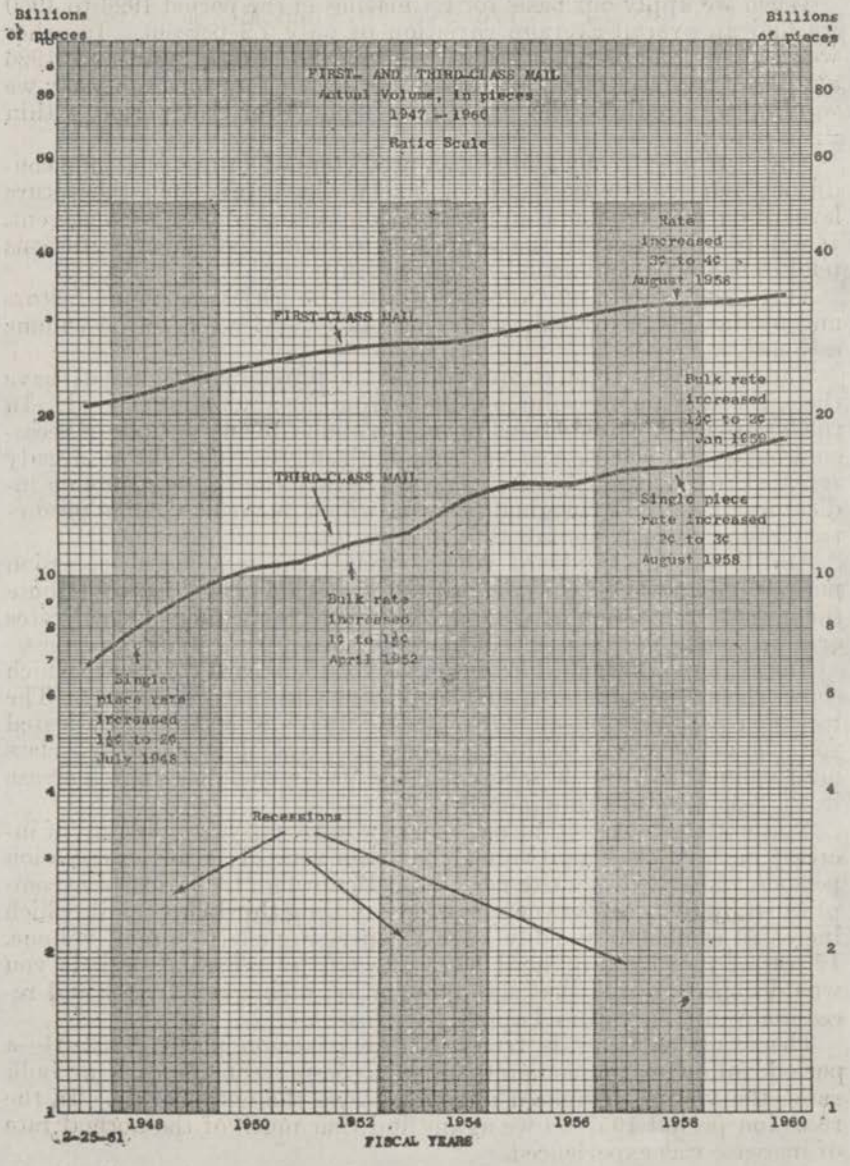
The exact contrary is true. In the recession period 1953–54—a period following immediately upon a 50-percent increase in bulk rate—the volume increased at much above the normal rate. In the recession period 1957–58 we again find that much of the normal rate of increase was experienced.

So I want you to know that we have brought you the mail volume estimate with considerable confidence and that we, to a great extent, stake our whole decisionmaking process on it.

These are the main reasons why we feel we must urge you to accept the estimate of mail volume for 1962, which estimate in turn justifies important segments of the appropriations that we have requested.

Mr. GARY. Without objection the chart will be inserted in the record at this point.

(The chart follows:)



Mr. BRAWLEY. Although mail volume has the largest single effect on operating costs, other costs continue regardless of volume.

The growth of suburbia and the emergence of exurbia impose new dimensions on the cost of delivering mail. The carrier service makes its regular round whether the carrier's satchel is brimful or half full.

The cost of city carriers is close to $1 billion, almost a third of the total operations budget.

Similarly the cost of rural post offices and rural carriers is relatively fixed.

And, of course, postmasters and window clerks and such personnel, both in urban and nonurban service, must be provided for regardless of mail volume.

Let me emphasize that we are not requesting this appropriation simply for the purpose of spending it. We do not intend to spend a dollar of it unless it is necessary for the conduct of the Department, but if the funds are not provided we will be unable to fulfill our mission.

Without at this time enlarging on the presentations already made in support of transportation, facilities, and administration, I would like to go on the record as stating that each of these requests has been carefully developed and that the total amount requested is essential for our proper operation.

Our capital and research requests totaling $134 million represent 3 percent of the total. Perhaps of all the requests that we have placed before you this is the most modest. The Post Office is one of the world's largest operations. Its progress depends to a very great degree on its ability to find better and more efficient ways to conduct its affairs. We look to our research operations, which request is only three-tenths of 1 percent of the total budget, to make contributions worth many times more than the budget proposed for it.

This then is our position. There are many tasks that we set ourselves. I feel sure from observing the interest of this committee that these are the tasks that you would have us undertake. We ask you to give us the means of discharging our responsibilities to the public and to the Congress in the best possible way.

General Day in his statement mentioned the three M's of cost reduction—management, motivation, and mechanical assistance. In my closing remarks I would like to add another M. An essential addition for our effective operation is money.

We promise you we will be prudent stewards.

Thank you.

Mr. GARY. Thank you, Mr. Brawley.

General, I want to say that this has been a most satisfactory hearing. Both you and the new members of your staff have shown an amazing grasp of the problems facing you, which you have acquired in a short time. This committee has very great respect for and confidence in the career men in the Post Office Department. We have found them a dedicated group of men and have found they are able at all times to give us the information that we want. Apparently some of it was lacking today, but I agree with you it was not their fault but rather because of the fact that the information was not given them.

It may be that we will find out a little later on that there will be some further questions that we want answered, but we appreciate the cooperation of the Department with the committee, and I can assure you that it is the desire of this committee to cooperate with the Department in an effort to give the people the best postal service possible at the least possible cost.

General DAY. Thank you, Mr. Chairman. May I just respond in a sentence or two by expressing the appreciation of the members of the Department for the constructive and courteous manner in which you have gone into all these matters, and particularly at this stage of the game it has been very helpful to us to have the benefit of your searching and probing into some of the difficult areas, because it has brought to the attention of myself and some of the other people who are new in the Department a great many things that we need to look into with special care. We are appreciative of the chance you have given us to present all this material.

Thank you.

Mr. GARY. Gentlemen, the committee will adjourn until tomorrow morning at 10 o'clock.

MONDAY, MARCH 13, 1961.

POST OFFICE APPROPRIATIONS

WITNESSES

JOHN W. MacKAY, PRESIDENT, NATIONAL POSTAL UNION
DAVID SILVERGLEID, NATIONAL SECRETARY-TREASURER

Mr. GARY. We have before us Mr. John W. MacKay, president of the National Postal Union. We shall be very glad to hear from you at the present time, Mr. MacKay.

Mr. MACKAY. My name is John W. MacKay and I am privileged to serve as president of the National Postal Union, located at 509 14th Street NW., Washington, D.C. We now represent approximately 32,000 postal employees situated in over 400 local unions located in 43 States, the island of Puerto Rico and the District of Columbia. In the District, incidentally, we now have the largest single local union of postal employees, with nearly 1,000 members affiliated.

I am accompanied by Mr. David Silvergleid, our national secretary-treasurer, a veteran postal employee with over 30 years of service at Brooklyn, N.Y. My permanent residence is in Los Angeles, Calif. I have been with the postal service over 23 years, with the exception of two leaves of absence at which time I served with the U.S. Marine Corps in the Pacific during World War II and in Korea during the later action there.

We are grateful, Mr. Chairman, for this opportunity to testify before your committee. This makes our second appearance here and we appreciate this significant privilege.

We ask your indulgence momentarily to review briefly our progress as a national union of postal employees subsequent to our first meeting with you here on February 4, 1960. Over 7,500 new members have joined with us during this period, and the number of affiliated locals has approximately doubled. We are encouraged over this progress.

We believe it constitutes evidence of achievement inasmuch as we have only been organized since January 17, 1959.

Now, Mr. Chairman, in our preparation of this statement we read and reread most of the testimony appearing in the proceedings of your 1959 and 1960 hearings. In our statement to the committee last year, we endeavored to refute the discrediting remarks submitted by Department officials concerning our union. We hoped, at that time, to clarify our position to a sufficient extent as to merit recognition and respect by this committee as well as those officials of the Post Office Department not entirely familiar with our background and establishment. However, we note in your proceedings for 1960, as also to a greater degree in 1959, there still remains a degree of suspicion and doubt concerning our activity, our objectives, and our procedure. For example, we note obvious references to our union are always off the record. Department spokesmen evidence an odd reluctance to identify us by name and we can but speculate over the content and validity of their statements.

That there may be no misunderstanding, Mr. Chairman, we would like to repeat that we are the National Postal Union. Until our Detroit convention in August 1960 we were titled the National Postal Clerks Union. (At Detroit we changed our constitution to provide membership for all postal employees below supervisory levels.)

We were formerly affiliated with the National Federation of Post Office Clerks (AFL–CIO) and have been frequently referred to in your proceedings by Department officials as a "splinter group" or "that other group" or some such undignified and inconsiderate term. We believe it about time Department officials ceased this hypocrisy as far as our union is concerned.

We meet regularly with Department officials and they have visited us in our offices and have been furnished copies of our constitution. They know we are an established, responsible union. They have been furnished full details on the nature of our contract with the Civil Service Commission to operate our health benefit program, the third largest in the employee organization group, with 17,500 members and 53,000 dependents. They have attended our State and National conventions, and we would like to believe they finally realize we are not only patriotic citizens and loyal members of the postal family but are also devoted to the principles of the trade union movement in this Nation.

As we go through this testimony, Mr. Chairman, we will endeavor to state our position emphatically and without reservation, as we have forthrightly done in our many meetings at the Department. We hope, at the conclusion of our remarks, the misunderstandings and doubts shall be dissolved.

To aid in our further identification, we respectfully request, Mr. Chairman, copies of our statement, as submitted to the committee last year, and copies of the statement we are now submitting, be included in the record that those reading the proceedings may be aware of our position.

The main body of our testimony today will relate to your hearings in 1960 as it pertained to the following phases of postal operations: Post Office Department (general statement); administration, regional operation and research; field inspection service; regional administra-

tion; Bureau of Operations; facilities and postal modernization. We will endeavor to confine our remarks to aspects of these several operation as they have affected our membership and our various local unions.

POST OFFICE DEPARTMENT

At your hearing in 1960, an opening statement was submitted for the Department by Postmaster General Arthur E. Summerfield and his staff of assistants, deputies, General Counsel, and chief postal inspector. From reports appearing recently in the public press, particularly as they pertain to the Providence Turn Key project, facsimile mail and so-called research, as well as a rather lengthy comment in the Congressional Record of March 7, 1961, as submitted by the Honorable Olin D. Johnson, chairman, Senate Post Office and Civil Service Committee, it begins to appear some of the glamour is wearing thin as far as the Summerfield administration's contribution to postal progress is concerned. May we emphasize we are not influenced one way or another by political affiliation of the postal administration, for career employees must function under both Republicans and Democrats alike. Hence, our position for or against any of the innovations in postal operations, during the Summerfield administration, depends on whether or not such developments will actually contribute to improved postal service and, at the same time, best improve the welfare and working conditions of the employee.

In his opening remarks, Postmaster General Summerfield stated:

> We intend to give the American people the kind of postal service they have the right to expect. We have gone a long way toward accomplishing this with the general reorganization of the Department. The reorganization has included management decentralization, research and engineering program, our modern accounting system, our revised transportation patterns, our creation of the bureau of personnel, the extension of rural service, and our metropolitan plan of distribution.

The Postmaster General painted a beautiful word picture and used some flowery phrases to convey the advantages of 20th century management techniques as essential to modern day postal operations. In many respects, we differ with the changes made in the Postal Establishment during the past 8 years. We believe, to a considerable extent, the American people have not received the kind of postal service they have a right to expect.

Management decentralization, through the establishment of regional offices, has produced an increase in administrative costs from approximately $16 million to over $56 million annually, according to the chairman of the Senate Post Office and Civil Service Committee. It has further engendered much controversy with employee unions, usurpation of postmaster prerogatives, and an extension of political patronage unprecedented prior to the Eisenhower administration.

The research and engineering program, an expensive aspect of the Department's long range $500 million modernization proposal, is fraught with unproductive and unsuitable mechanical devices that will never transform the postal service into a commercial production unit nor a postal installation into a factory.

The modern accounting system, though helpful in some respects, has unquestionably increased costs by having outside private enterprise, particularly banking institutions, perform duties previously handled by postal personnel. The revised transportation patterns and

the metropolitan plan of distribution, beautifully described as a concept of motion essential to the movement of today's mail today, are poor substitutes for two deliveries a day and practical contacts between various postal establishments to facilitate delivery.

The creation of a Bureau of Personnel, though helpful to a limited degree in establishing better labor-management relations, has been sadly reluctant to provide effective recognition of employee unions on both a national and local level. In some instances, postmasters still endeavor to inflict reprisals and recriminations against those active on behalf of their fellow employees. In addition, the Bureau of Personnel has been saddled with the operation of a highly inequitable Postal Classification Act, Public Law 68, that has proven more disruptive of employee morale, particularly for clerical and mail-handler personnel, than any prior salary legislation. We will comment later on Public Law 68 in that portion of our statement dealing with the Bureau of Operations.

A major portion of the Department's opening statement was devoted to guidelines, an integral phase of what is now known as the work measurement program. We will cover this item also in our comments as it relates to the Bureau of Operations.

ADMINISTRATION, REGIONAL OPERATION AND RESEARCH

Several items in this phase of the Department's testimony also relates to the Bureau of Operations. However, we comment briefly on employee relations, suggestions and awards and the issuance of employee paychecks by the Bureau of Finance.

The then Assistant Postmaster General, Mr. Frank Barr, stated:

"Reports of visits to post offices by representatives of the Department as well as of those outside of the postal service, such as the Civil Service Commission, have disclosed that our efforts to bring about better employee-management relations is succeeding. This is particularly true in regard to more frequent and productive meetings between postmasters and employee organizations locally.

We concur to some extent in the remarks by Mr. Barr but there are a number of locations where productive employee-management relations are sadly lacking. We refer especially to New York City; Detroit; Kalamazoo, Michigan; San Juan, P.R.; Los Angeles; San Francisco; San Pedro; and North Hollywood in California. There are, of course, many other localities that could stand improvement. We urge postmasters and supervisors be encouraged to contact employee union leaders before decisions are made concerning working conditions. In all too many instances, there is also a noticeable lack of compliance by postmasters with the actual provisions of the postal manual.

We believe the suggestions and awards program could be vastly improved if greater care was taken to credit employees with their ideas more expeditiously and provide higher rewards. We find employee suggestions occasionally shelved only to be adopted 2 or 3 years later and credit therefor accorded management. This occurred recently in New York City in a case we are now submitting for the attention of appropriate Department officials.

We have requested the Department, on several occasions, to revise its procedure with respect to the dating of employee paychecks.

We have suggested such checks be dated the day following the pay period they cover to expedite delivery to the employee promptly after computation. We appreciate the necessity for a "lag" to enable payroll personnel to accurately compute the amount of compensation due. However, additional delay is frequently encountered because the check cannot be released prior to the date thereon even though it has been drawn and made ready for delivery.

FIELD INSPECTION SERVICE

The Department's testimony incorporated innumerable aspects of the postal inspection service. We can best summarize our reaction thereto by stating we are thoroughly and completely in agreement with you, Mr. Chairman, in the matter of the inspection service operating in the management field. We cite references to this issue appearing on pages 10, 140, 178, and 179. We believe the management field has been usurped to an entirely unwarranted degree by the inspection service. We strongly endorse the statements made by the chairman and hope corrective action may be taken in this regard.

The influence of the inspection service on disciplinary procedure has increased greatly with the advent of the Summerfield administration. All too frequently, we find major employee grievances based upon charges prepared by inspectors. Following the submission of such charges and the inspector's recommendations, we find compliance therewith by the region and later the Department in an overwhelming majority of cases. This has become so well established we usually anticipate management's acquiescence in the recommendations made by inspectors. In the matter of manpower, surveys and special studies referred to on pages 146 and 147 of the hearings, there is found further evidence of the inspection service intrusion in the management field. We believe such operations should be conducted by those charged with the administration and management of the postal service and not the Inspection Division.

REGIONAL ADMINISTRATION

Within a comparatively short time after the Summerfield administration took over the operation of the postal service, a major decentralization program resulted in the establishment of 15 regional offices. The former Postmaster General, Jesse M. Donaldson, had opposed this Hoover Commission recommendation as expensive and inefficient.

Postal employee unions learned very quickly the new arrangement was not to their satisfaction nor beneficial to the postal service. In order to reach even half-solutions to problems it was necessary to wade through reams of redtape (known officially as "going through channels"), postmasters no longer ran their own offices, and countless new titles were created. Most postal employee unions have expressed open opposition to decentralization in its present form, and seek the elimination of the regional offices.

Senator Olin D. Johnston, chairman of the Senate Post Office and Civil Service Committee, in his speech on March 7, 1961, made the following statement relating to regional offices:

Apart from ill-advised research, misdirected modernization contracts, and high-sounding publicity, all of which cost money, there is another factor which has contributed to the greatly increased costs of our postal system. I refer to the regional organization established by the prior administration.

I should like to invite the attention of the Senators to the fact—some of whom already realize it—that during the Truman administration, before the last administration, we held many hearings to determine whether we should set up the regional offices. The committee voted against setting up any regional offices because it was thought to be unnecessary, and it was thought it would cost a great deal of money.

We were told in the hearings it would cost $5 million or $6 million, but now that we have gone into it we find it is costing about $37 million a year.

I know that complaints are rife among postmasters in the country that the regional organization is interfering so much with their operation that it is difficult for our loyal postmasters to run their establishments. Let us take a look at what occurred with the creating of the regional operation.

At the time it was conceived, we were told that it would substantially reduce the headquarters operation at the departmental level in Washington, D.C. In 1953 the total obligations for the overall administration of the Post Office Department amounted to a little over $16 million. The 1962 budget estimate calls for $19½ million for operations at the departmental level and additional $37 million for regional operations, for a total of $56½ million for both activities. In other words, administration costs jumped from some $16 million to over $56 million. It seems to me Summerfield created quite a collection of choice patronage plums for loyal party members in this glorified operation which has contributed substantially to postal costs and I am afraid, to the confusion and delays which have occurred in recent years.

We fully concur in the opinions expressed by the distinguished Senator from South Carolina. We suggest the regional offices undergo a thorough reevaluation with a view to their elimination and discontinuance.

BUREAU OF OPERATIONS

The two major items with which we are primarily concerned in the Bureau of Operations has to do with "guidelines," an integral phase of the work measurement program, and Public Law 68.

We could submit a volume of dissenting opinion on the value of the work measurement program and guidelines in the postal service. In fact, we caused to be sent to each Member of the Congress on May 20, 1960, a 9-page letter setting forth our opposition, in detail, to the guidelines program. This letter was in reply to a statement in favor of guidelines as circulated by Postmaster General Summerfield to each Member of Congress during April 1960. Gentlemen, we believe it is impossible to operate a post office like a factory and consequently we feel there is no place in the postal service for an individual measurement program such as guidelines.

At this time we would like to quote briefly from two statements received from our affiliates in Long Beach and Los Angeles, Calif., which accurately portray the employee's reaction to guidelines. From Long Beach comes the following:

There are two basic reasons why, in the best interest of the postal service, guidelines and similar type programs must be abolished.

Cost and morale: Of the two, the cost factor is most easily identifiable. In this office of approximately 1,000 employees, there are less than 300 on full-time mail distribution. To support the measurement system we have one WMS officer, and from five to seven clerks directly involved in computation. These five or seven clerks would normally be involved in direct distribution of letter mail. This represents, in dollar figures, at least $42,000 per annum.

In addition to this must be added the cost of numerous comptometers, adding machines, Thermo-Fax, and other reproducing and computing devices. While they are a one-time expenditure, they are nevertheless costly; and when this cost is multiplied by the number of post offices applicable, this cost is fantastic. To this, then, must be added the cost of printing the myriad forms required by the various measurement systems. The estimate for this office alone is approximately $500 per month.

A further, and probably the most extensive single cost, is the additional supervision needed to administer these programs. As recently as 4 years ago in this office, two supervisors were used on the morning tour in the Incoming Mails Division. Today, there are from three to five. There were formerly two supervisors who worked the evening shift—today there are from four to seven. And at times these figures may be increased. In showing this increase in supervisory complement, it must be noted that the increase in volume of mail during the last 4 years, exclusive of satellite operation, is less than 3 percent. The only possible conclusion is that the supervisorial increase is directly attributable to the measurement systems. This dollar factor is in excess of $40,000 per annum.

As a result, it is estimated that the measurement systems in this office cost the Department approximately $100,000 per year. And this does not constitute the entire gamut of attendant costs. There are, for example, continuous classes which supervisors must attend. There is the time lost from distribution by clerks while they weigh or measure mail, wait for volume slips, or lose time in several different ways directly chargeable to the measurement system. It would be an impossibility to properly assess the amount of dollar loss here, but if that were possible the cost would be excessive.

The second factor is morale. This, while an intangible, to us is the more important of the two. The basic problem here is that honest employees, who are the vast majority, are notified through implication that they are less than honest. They are placed in the untenable position of being pursued by a relentless stopwatch which they, themselves, must regulate. The program was established to force the employees who were not sufficiently productive to pull their productivity up. Since this group of employees is a very small minority, it seems ridiculous to institute this costly program—especially so when the only effect so far has been to undermine the service.

There has been one outstanding fact that these programs have produced. Honest employees work exactly as before, and those who were nonproductive, cheat. This, in itself, is a serious factor since it can lead a good employee into a "what the devil" attitude thereby reducing his value to the Postal Establishment.

Mail, of every class, varies from piece to piece in size, weight, legibility, type, and envelope composition; and each of these seriously affects the number of pieces that can be distributed in a measured length of time. Yet, standards were based on supposedly equal amounts of mail only. Some classes of mail have standards set on a pure weight factor, which is highly improper since weight and size do not necessarily determine the ease or difficulty involved in the distribution of a single piece. Quite often, values given to a measured amount of mail credited to an employee are made on a "guess" basis. This is evidently unfair when the employee's very job may depend on his production percentages. It is also true that some employees "sharpshoot" high volume percentage mail. This means that those employees who go onto a certain job later must take the dregs—which can produce only a very low percentage performance. This can, and does, happen over extended periods of time.

From Los Angeles comes the following:

To begin with it is not a system as they claim. It has become a mode of seeing who can cheat the best. On the mailing on the third floor they have a ledge loader (I think they call them. At any rate they put the trays of mail up on the shelves for the clerks) and if there happens to be a cute young chick or some of their friends in the aisle they get all the mail which will go up quickly, the oil company bills, the hand-stamp, the thick mail of all kinds and for the rest of the clerks there is left the shorts, the thins, the mail from the Mark II and

any and all which takes longer to work. Then too the ledge loader cannot keep up with the whole aisle and most of the clerks try to sit as near the back of the row (where the mail is coming in) and grab any good mail as it enters the aisle. So that a really honest clerk rarely gets a tray of mail which can be put up in the time allotted, because they give the same credit for a tray of short thin mail which is boobytrapped with post cards as they do for a tray of hand stamp.

On the fourth floor—city mail and stations—it is strictly an every-man-for-himself deal and the one who can best evaluate a tray of mail at a glance and grab the fastest, gets all the best of it. If one is honest and gets stuck on the end seat, he hasn't a chance.

Then, too, they use their pencils to make it. Those working a full 8 hours on the floor mostly make it with their pencils. Each clerk enters his own time—beginning and ending and any and all breaks—the supervisor enters the number and work credit. Thus if one is behind and has worked 3 hours on an assignment he just conveniently shows 2 hours or whatever will cover the work credits entered by the supervisor. It's vicious.

The worst part of the whole thing is that most of the professional goof-offs have maneuvered until they don't have to work guidelines. They have pads walking around, or they check the workers cases for errors, or work somewhere in the offices, or figure the scores showing on those silly cards which we keep and turn in each night. There are so many useless jobs. You may be sure they are mostly filled with those for whom the system was installed.

They have never made any effort to really evaluate the mail so it would be fair. You have probably gathered by now that the credit for the good mail is the same as it is for that which takes much longer. For instance on the city, when you get a tray which is mostly shorts, thin and with dozens of those contest post cards, for the average clerk it is impossible to put it up in the time allowed.

KEEPING RECORDS

Mr. Chairman, on page 10 of your hearings, you inquired on the volume of personnel assigned to the keeping of records on guidelines. On page 24, Assistant Postmaster General Barnes stated it took eight people to keep records at Brooklyn. We submit herewith a cross section of approximate figures, as reported to us, on total personnel assigned full time to guidelines recordkeeping as performed in both record offices and workroom floor operations:

New York City	300	Seattle, Wash	50
Los Angeles, Calif	100	Charlotte, N.C	12
Philadelphia, Pa	80	Long Beach, Calif	8

In our humble opinion, the 100 largest post offices, now operating under guidelines, attach greater emphasis to recordkeeping than getting out the mail.

In 1955 the Postal Field Classification Act, Public Law 68, was adopted which, through its inequities, has created many problems for postal personnel. During the last session of Congress, we endorsed a measure submitted by the Honorable Joseph E. Karth (Democrat of Minnesota) and reintroduced in the 87th Congress, as H.R. 2037. Since previous testimony submitted to the House and Senate Post Office and Civil Service Committees provides in detail the basis for our support of the Karth bill, we are attaching a copy hereto and respectfully request it be entered into the record.

In passing, however, we feel it necessary to cite one passage from that testimony which pertains to the employment of hourly, substitute, and temporary employees. We believe this antiquated system should be terminated at the earliest opportunity for the sake of decency and humane working conditions:

It should be pointed out that substitute employees constitute a trained corps of experienced personnel destined to become the regular career employees of the future. They are guaranteed practically nothing in terms of duration of

employment, balanced schedules, regular days off, etc., yet they are expected to qualify on the necessary schemes, make themselves available for duty anytime during the 24 hours of the day and endure the brunt of a postal idol titled "Flexibility."

We do not believe in substitution and have long advocated the abolition of this antiquated, cheap labor device that makes a mockery of the career civil service system. However, until the Congress sees fit to enact such a law, we feel it is necessary to provide certain basic and fundamental guarantees that post office substitute positions might be made sufficiently attractive and remunerative.

FACILITIES

The members of this subcommittee have done a thorough job in evaluating the activity of the Bureau of Facilities. However, we would like to cite three locations as it pertains to post office buildings and two locations as related to the crucial problem of employee parking.

At San Juan, P.R., we were privileged to view what is probably the most substandard, antiquated, and completely inadequate premises occupied by a postal installation. Though we have visited many post offices and realize the need for improvement in quite a number of them, we believe San Juan should be put at the top of the list, for a completely new postal establishment, and soon.

We are attaching herewith pictures that depict the unsanitary, inadequate, and revolting surroundings in which the postal employees at San Juan are compelled to work. We fervently hope you will recommend immediate correction of this deplorable condition.

We have brought details on the situation at San Juan to the attention of the Department and the regional office but to date have not received much encouragement.

If I may digress, there are pictures of the San Juan installation appearing in the center of our report here on the tab marked "Post Office, San Juan." We have five photos here. One shows the office, in the center of the picture, the San Juan office. Second is a picture of the basement workroom. Each picture is described and gives some indication of what the surroundings are. Third is a picture of the parcel post rack located in the basement.

I would like particularly in picture No. 3 to call your attention to the tiny white dots in the center of the photo at the intersection of the walls under the iron grate. Those dots consist of rain and moisture cascading through from the sidewalk above during a rainstorm.

You will notice also the parcel post packages directly to the right of that parcel post rack, which will give you some indication of the conditions that prevail in this post office. I think it is perhaps the worst we have ever visited.

No. 4 will give you a picture of the washbasins in the men's restroom. There are 3 basins there for about 225 employees. Page 5 is a picture of the men's latrine, also servicing 225 employees.

There are two other localities, though not comparable to San Juan, with a serious space shortage that has provoked congestion of personnel, distribution cases, racks, tables, and miscellaneous equipment to a degree constituting a serious menace to the health, safety, and welfare of the employees. Should a fire break out in either location, it would surely prove a holocaust. We refer to Garden City, Long Island, in New York and Alexandria, Va., directly across the Po-

tomac. We have visited both locations and cannot too strongly urge immediate corrective action.

We do not have substantiating portrayals of the confusion and congestion at Garden City but we are attaching herewith pictures clearly depicting the inferior facilities, due to cramped quarters, that prevail at Alexandria. In this area, adjacent to the Nation's Capital, postal service has been expanded from 30,000 to 150,000 persons within the past 10 years. However, the amount of space at Alexandria remains precisely the same as it was a decade or more ago.

I would like to call your attention to pictures on Alexandria, which appear in a set just below those we submitted for San Juan. We have a picture, No. 1, the loading platform in the rear of the main office. No. 2 is the faceup table for first-class and airmail. No. 3 is the workroom floor, main pouch rack. You will notice the congestion there. The pouch rack is situated right in front of the administrative offices, completely choking up the main corridor.

No. 4 is the outgoing mail, primary, and pouch rack area for outward dispatch. This is a regular situation there. These pictures were not posed in any degree.

No. 5 is a rear view of the stamp windows and finance section immediately off the main lobby. So many items of equipment are moved in to such a small place there is hardly room enough to move around.

We realize there may be mixed feelings on the subject of parking for employee vehicles. However, there are two huge metropolitan areas in which this problem constitutes a highly essential facet of postal operations. We refer particularly to Los Angeles, Calif. and Philadelphia, Pa.

At Los Angeles and Philadelphia the Department is currently reviewing requests for the erection of Federal garages to house official vehicles. At Denver, Colo., the new terminal was constructed in such a way as to provide some degree of employee parking in levels below the first floor, and we strongly urge similar consideration be given for subbasement and roof-top parking in the construction now under consideration for Los Angeles and Philadelphia.

In both cities, public transportation is inadequate, and the use of private vehicles is an absolute necessity if the postal worker is to reach his place of assignment.

While on the subject of facilities we would like to refer to custodial employees. We call your attention to a matter of concern both to our union and these employees. The members of this subcommittee are well aware of the conditions confronting and affecting career postal employees during the Christmas season. For at least the past several years the Post Office Department has followed a policy of utilizing regular career postal employees to the fullest extent possible during the yuletide. This involved the use of considerable overtime with a commensurate reduction in the aggregate hours of service performed by so-called Christmas assistants.

In those offices where postmasters have applied this policy with understanding and commonsense the results have been eminently satisfactory. As a general rule, included in the operation of this policy are all categories of postal employees except those in top level positions, and unfortunately, those employees in the lowest level positions, to wit, the custodial employees.

For some inexplainable and, in our opinion, unjustifiable reason, the Post Office Department apparently does not include custodial employees in its request for a sufficient appropriation to cover Christmas overtime. As a result, these employees are not given the same opportunity to perform service in excess of 8 hours a day as other employees, even though the work conditions are such as to require their experience and special talents more than at any other time during the year. They are told they may perform service as Christmas assistants, at straight time mail-handler hourly rates, while Christmas assistants, not connected with the postal service, are hired as custodial employees to cope with the emergency situation. The responsibility for this anomolous situation is laid at the door of this Appropriations Subcommittee, as the customary response from local and departmental officials to requests for overtime for these custodial people is that moneys were not appropriated for such purposes.

We submit to the members of this subcommittee that:

1. The custodial employees involved herein are the lowest paid people in the postal service.
2. They are deserving of the same treatment accorded all other postal employees.
3. They should not be required to undertake duties dissimilar from those performed by them all year in order to enable them to provide a proper Christmas for their families.
4. The aggregate amount involved in providing custodial employees with a fair share of overtime during the Christmas period would be relatively insignificant.

We therefore respectfully request the members of this subcommittee consider the feasibility and desirability of an appropriation which would assure custodial employees in the postal service of nondiscriminatory and fair treatment in the matter of Christmas overtime pay.

POSTAL MODERNIZATION

A study of your 1960 hearings indicates greater attention to the subject of postal modernization than perhaps any other single item. With over $500 million earmarked for this activity during the next 10 years, it is easy to understand why you have devoted so much time and consideration to the various phases of Department's projected modernization.

Over 1 year ago, we established a national automation committee in our union to study and recommend appropriate action on our part, to provide for employee welfare and advancement that would keep pace with the mechanization of postal facilities.

We hope our national automation committee will soon have an opportunity for a visit to the Turnkey project at Providence. We have recently requested the Department to provide clearance for such a visit by our committee. A previous request, submitted shortly after the highly publicized dedication of the Turnkey project, was rejected by the Department on the grounds that full operation had not as yet been achieved.

In our statement to you 1 year ago, we endeavored to emphasize the impact of mechanization as it affected a human being engaged in postal employment. We believe employees should share in the benefits to be derived through mechanization. We believe every effort should

be taken to protect their health, and particularly their eyesight; the latter being a serious aspect of mechanical sorting.

We are following closely recent statements by members of this committee and others, as it concerns the Turnkey and Gateway projects at Providence and Oakland, Calif.

At this time we would like to express our thanks to the members of this committee for their questions to Department officials, as reported in the hearings, that enabled us to secure a greater understanding of these several projects. We were especially interested in the provocative questions as submitted by Mr. Passman, Mr. Pillion, and Mr. Conte. We commend the entire committee for the exhaustive study and consideration being directed to the Department's modernization program.

As Mr. Pillion so aptly stated, we sometimes find ourselves in the same position that, after listening to Department officials expound on their automation goals, we know exactly "nothing more than we knew before." However, we are continuing our study and research on this subject that we may better advance the best interests of our membership.

SUMMARY

As we conclude our statement before your committee, we would like to express our appreciation to you, Mr. Chairman and to the members of your committee for enabling us to testify today. We cannot emphasize too strongly our abundant interest in the entire subject matter of your hearings. At every opportunity we counsel our members concerning the work of this subcommittee and have urged their greater attention to your efforts.

We would like to assure you of our desire to promote the best interests of the postal service of our great Nation. We hope we may, in some small way, be able to match the commendable prudence and concern you have demonstrated time and time again in your actions to improve the Postal Establishment.

We hope we have not in any way evidenced any impertinence or disrespect. Since our members are directly involved in the receipt, distribution and dispatch of the mail, you can understand and appreciate our abiding interest in your deliberations.

Mr. GARY. Thank you, Mr. MacKay. You referred to statements made to this committee concerning your union in 1959 and 1960. So far as I can remember, I do not believe your union has been referred to in the present hearings.

Mr. PILLION. I do not believe so. You may be disappointed by that.

Mr. MACKAY. Maybe we are making progress, Mr. Chairman.

Mr. GARY. Thank you, sir, for your presentation. We appreciate it.

Mr. PILLION. Thank you for your appearance here. We are pleased to have what represents in the view of the members of the committee, I am sure, a look at the other side of the fence, coming from a different viewpoint.

Mr. GARY. We are always very glad to hear outsiders, particularly those who have the peculiar interest that your members have in the operations of the Post Office Department. We have already looked into some of the matters to which you have called attention in your report. We shall continue to look into them and other matters as they

come up from time to time in an effort to obtain the best possible postal service at the most economical expense.

Mr. MacKay. Mr. Chairman, may I ask a question?

Mr. Gary. Yes, sir.

Mr. MacKay. We have recently encountered reference during a meeting we had at the Department, it was on last Friday, pertaining to a report the Budget Committee had made on the guidelines program. My question, sir, is this: Will that report be included in your hearings as they come out or has that been received by the committee?

Mr. Gary. The committee has not yet acted on what will be done with that report. So far it is a report made by the Budget Bureau, at the request of our committee, and just what action will be taken on it I cannot tell you at the present time. It is a matter that the committee will have to determine.

Mr. Silvergleid. Will that be made part of the printed minutes?

Mr. Gary. It has not yet been decided.

Mr. MacKay. Thank you very much, Mr. Chairman. To you and the members of the committee I want to again express our gratitude for the opportunity of coming in and submitting this statement.

Monday, March 13, 1961.

Postal Rates

WITNESSES

DAVID W. BRUMBAUGH, EXECUTIVE VICE PRESIDENT, TIME MAGAZINE

EVAN INGALS, TIME MAGAZINE

Mr. Gary. We have before us this afternoon Mr. David Brumbaugh, vice president of Time magazine, and Mr. Evan Ingels. The committee will be very glad to hear from you at this time.

Mr. Brumbaugh. Thank you very much, Mr. Chairman and gentlemen. We appreciate very much your letting us appear before your committee because we have been and are interested in the Postal Establishment. We only heard about 5 o'clock Friday afternoon that we had an opportunity to appear before you gentlemen this afternoon. Accordingly, we have not prepared a formal statement or any visual material such as we often do when we appear before congressional committees.

Mr. Gary. We only heard at 3 o'clock Friday afternoon that you wanted to appear.

Mr. Brumbaugh. Accordingly, I will refer to my notes from time to time if it is all right, sir.

I think I should probably start by telling you gentlemen why we wish to appear before you. Prior to the regime of the last administration, my company had never taken any active part in postal rate matters nor had it ever appeared before any congressional committee on postal rates. We had that as a matter of policy because we report the news and we felt we preferred not to take an active part in postal affairs.

However, soon after the new administration took office, it released figures purporting to show the losses on individual magazines going through the Postal Establishment. Our magazine, Life, headed that list with a pretty horrendous figure. We were quite set back and surprised by this action because we had deemed it well known and understood that the heavier magazines were the ones which paid the most in postal revenue. We were very disturbed by this and immediately Mr. Ingels and I came down to Washington to see the postal administration, and we got the basis of these figures.

We engaged Messrs. Ernst & Ernst, public accountants, and Messrs. Cresap, McCormick & Paget to assist us in going over these figures and seeing what they meant. We found very wide discrepancies in these statistical figures. Accordingly, having put together this information with the help of these experts, we appeared before the postal committees of Congress to combat the impression that had been made by the release of these figures. We appeared twice before the House committee on postal rates and we appeared twice before the Senate committee.

I might say that I do not think it is too much to say that we destroyed the credibility of those figures that had been released by the Post Office. This year for the first time since that happened the Post Office Department has refused to release figures on individual magazines. Their expert has testified that it is impossible properly to compute the figures for an individual magazine.

We have analyzed the second-class deficit and we have testified before congressional committees as to the important reasons for the deficit in second class. They come primarily from the free-in-county and from exempt publications and otherwise from the carrying of billions of pieces of very lightweight mail at a fraction of a cent apiece, which for sure is not enough to cover the out-of-pocket cost of carrying those pieces of mail.

When we last appeared before the House Post Office Committee, they asked us quite a number of questions because apparently they were quite interested in our testimony and I think were convinced by it. They asked us if we had taken the opportunity to talk with members of the Post Office Department and to try to convince them of our point of view. Of course, we replied that we had done so and with a minimum of success, but they urged us to continue to make our views known to the Post Office and to other places where we might be able to do so.

Accordingly, as one more step in this study, we sent Messrs. Ernst & Ernst again to the Post Office Department last fall to have them make a further study of the cost and revenues and a breakdown of the pieces of mail going through the commercial sections of second class. They have not completed their study but we have had some preliminary figures from them.

Postmaster General Day asked if we had appeared before any of the Appropriations Committees of Congress, and we replied that we had not done so, that we did not know that they were open for public hearing. But when we found it was possible for us to appear before you, we were very glad to take the opportunity.

PAYMENT FOR PUBLIC SERVICE

Again, specifically, why are we here? Well, we are here because we understand that in the operation of the Post Office Department the Treasury Department collects the receipts of the Post Office Department and that the Appropriations Committees, with the approval of the Congress, in effect, pay the bill of the Post Office Department. In other words, whether you appropriate a given amount for public service or whether you do not appropriate that, I understand that in a general way you pay the entire bill of the Post Office, so that the matter of how you break that up between public service and non-public service items does not affect the amount of your appropriations. On the other hand, the Post Office Department in its accounting is supposed to pick up the amount you allocate as public service and thereby reduce its deficit. It is in that respect that it makes a big difference what you consider to be the public service.

The Public Law of 1958 defined public service in the Post Office in two general areas: one, the so-called loss on third-and fourth-class post offices and on the star routes, and the other in the loss in carrying certain sections of second class, and other classes of mail as well, where special rates were given.

It appears to us that if you do not recognize these public service costs for what they are, you bury them and you keep them from the attention both of the public and of the Congress. Frankly, we have been appalled that the Post Office has told us frankly that it was opposed to the provisions of the Postal Policy Act of 1958 and told us in so many words that it did not intend to effectuate this policy. We frankly are appalled by this because we believe that there is a great deal of commonsense to that law.

I will take one example. Take free-in-county mail where the Post Office figures say it costs $15.5 million to handle that mail, and they do not receive 1 sou for doing so. Yet the public service that they assign to this item is $800,000. I do not see any logic to leaving in the Post Office deficit an amount of around $15 million, which is the cost of this item, and which nobody proposes to change so far as I could tell, when we have there the principle that no one user shall pay for the costs of another user. I do not see anything to be gained by leaving that $15 million in the second-class deficit as if some other users should pay it. That idea I really do not understand.

POSTAL RATES

I would like to say that we know, of course, that your committee is concerned with appropriations rather than with postal rates, per se. Accordingly, we will address our remarks mostly to what you should, I think, consider pertinent to your particular work. However, the work of the Appropriations Committee and that of the Post Office Committee are interrelated. A few basics on postal rates are a proper background for what we have to say, and I would like Mr. Ingels to give you a brief statement on the conclusions we arrived at in our study of postal rates, which I think are pertinent to the work of your committee.

Mr. INGELS. I would like to be just as brief as I can.

Mr. GARY. Yes, because this committee has nothing to do with postal rates. That is within the jurisdiction of the Post Office and Civil Service Committee, the legislative committee, rather than the Appropriations Committee.

Mr. INGELS. Yes, sir. On the other hand, because of the interrelationship of the Policy Act and the intentions of what we believe the Post Office Committee desired in trying to set this policy, it is pertinent to get a little feel for the reasoning, as we understand it, behind it.

I did notice in the hearings here a couple of years ago there were several questions as to what was the reasoning, and very few answers were offered by the Post Office Department. The Post Office Department itself is a giant filing operation, that is really what it is. It is taking a letter from the time you put it in the box, goes through all the canceling and looking at it, and it travels from here across the country or wherever it is going. By any analysis, the basic cost denominator is a piece, so much a piece that it really costs you to handle. Over 75 percent of their costs fall under the piece denominator.

I have a quick exhibit here to show you the dilemma we face in the largest loss category, second class. Here is a first-class letter which weighs an ounce on which must be placed a 4-cent stamp to send it through the mail. Here are five first-class letters. Each one has to be individually handled, going to various places. How much do you pay? You pay 4 cents apiece, five times the one, which is a sense-making rate, because it attempts to cover the costs involved.

Here is a third-class piece, which under the present rates can weigh as much as 2½ ounces, but must pay a minimum of 2½ cents for this piece because it gets deferred handling, et cetera. Here are five pieces, which together weigh the 2½ ounces. How much do they pay? They must pay a minimum of 2½ cents apiece, five times the amount.

Here is Life magazine; this particular issue happens to weigh about a pound. It has 50–50 advertising and editorial, for which, traveling the average fourth zone, we must pay about 4¼ cents. We do all the sacking and the preparation for zoning for the Department. Supposing we were to change our habits, our publishing habits, and send each subscriber Monday through Friday five copies of Life of this size [exhibiting small size versions of Life] which together weigh the pound and have the same amount of advertising. How much do these pay? Just exactly the same as this one. This is the dilemma of second-class mail, where we have the strangest rate structure in the world, having nothing to do with the cost.

In discussing and arguing our case before the rate committee, we pointed out, for example, that exempt publications are required to pay only one-eighth of a cent minimum piece rate, nothing like what it costs to handle them. Also, that since 1925, exempt publications have not had a rate increase and nobody has tried to put one there. The free-in-county that Mr. Brumbaugh has mentioned has been in existence since 1845—some regulations have changed, so the official date goes back to 1879. Nobody has attempted to change it.

What we have asked and what is needed is a consistent policy and some measurement so that the losses may be set aside. It should be understood, it seems to me, if the Congress wishes to they can reduce

that public service loss to zero by raising the rates up, but nobody has intended to do it. Our plea has been: Why should we be the people asked to pay the $75 million loss on exempt publications and free-in-county publications? Why should it be left in the second-class deficit when people are talking about it?

Further, it is unfortunate that the cost ascertainment report, which is this, [offering cost ascertainment report] and many of the facts given to you during the postal presentations here come from this, is pretty obsolete. Furthermore, this is what is available to us today. This is March 1961, and this is the books closing out June 30, 1959, almost 21 months ago. I understand finally the fiscal 1960 has gone to press.

It is pretty difficult for us to try to keep up with postal costs when we have a type of report coming out as late as those do. I do not see how any business can run itself very well on this basis.

From all of the Ernst & Ernst studies, from the Cresop, McCormick & Paget people, from those interested in postal affairs, we feel this is a very obsolete way of reporting, and we have had some indication from the new administration that they hope to make some changes. It cannot be done overnight, of course.

We feel that public service costs ought to be set out. We feel that, to follow the Policy Act, an attempt must be made to show fixed and variable costs within the Post Office Department because only when you segregate the fixed costs is it possible to see how much should be on first class. The reason is that the basic system has been set up to handle first class and only thus can the Post Office Committees resolve the premium they feel is involved in the rate structure of first-class mail.

Mr. Stans, the former Deputy Postmaster General, former Director of the Budget, himself has testified and given examples of over $200 million, spread across first, second, and third class, which should be charged only to first class. We think it is a terrific overhaul job needed to make this meaningful for Congress. It is impossible for us civilians and must be very difficult for you people dealing with figures like this. The Post Office Department themselves admit that this is not the best system that they should have.

Furthermore, in this whole subject second-class rates are pretty universally set on the low side throughout the world. Most countries we have talked to are proud of it. I have noticed testimony here a couple years ago about the British Post Office saying that they make it pay its way. A lot of people forget that in Europe the telegraph, the telephone, and the post office are all Government monopoly and what covers the postal expenditures are telephone and telegraph. Pretty universally we find second-class mail for the dissemination of information to the people is a standard thing. We do not think it is bad.

In the case of third-class mail, which was started as a deferred service to fill in the down time slots, the Post Office Department showed in the 1959 report that a piece of third-class mail cost them 3.99 cents and that a piece of first-class mail cost them 4.04 cents. A lot of people say that tends to show the poor allocation. How can it be with items on a no-work basis costing just about the same as a first-class letter? But if first-class was asked to pay its cost on that

basis, there would be no third class. It would be 4 cents vs. 4 cents, the latter essentially with supposedly deferred service.

Once again we feel that there is not any question that in the allocaitons the fixed costs and overhead should be set out for all to see and to be properly allocated to first-class category.

On the out-of-pocket basis, the real cost to the Government—that is, looking at it as if Life were to suddenly stop, not be delivered at all—we feel our accountants have proven Life pays its way today. On the other hand, there are these billions of pieces of mail, which go through at fractions of the cost. There is a pull-out item which we constructed really for the House Committee just to show you one or two items. Stopping briefly, the first item is a half-ounce piece of mail. The out-of-pocket cost is indicated through Post Office figures at 1.7 cents. Under the present rate bill, over in the blue on the right, only 35 percent of its cost is covered.

This breaks it down to various categories. A 4-ounce piece, out-of-pocket costs, 2.2 cents. It covers 73 percent of its cost with today's bill.

If we move up to a 12-ounce piece, the out-of-pocket cost is 3.3 cents, it pays 3.7 cents postage under the present bill, and it is 112 percent covered of its out-of-pocket cost.

We go up to the top category of 20 ounces, a 20-ounce piece, which covers 129 percent of its out-of-pocket cost. Once again, this points up the dilemma of these little pieces of mail and the problem of the larger magazines, being tarred with this bad publicity that has gone out about them.

In final summary, as we say, 40 percent of the pieces of second-class mail go through on rates which have not been changed since 1925, 20 percent go through on rates which have not been changed since 1879 to 1885. The policy set by the Congress was to set aside the losses on those big items for all to see and say if Congress wishes to raise the rates, it is fine; the public service loss is thereby reduced.

What we are essentially pleading is not to hide it and certainly not to have it charged in the deficit for which we, the commercial users, are supposed to be asked to pay. That is our essential plea here.

Mr. BRUMBAUGH. If I may finish up, several conclusions seem to me to be sound and constructive. I present them to you in the hope that you will deem them sound and constructive.

First, we as mail users should like very much to have a sound, long-term way to look at the operations of the Post Office Department. This we have not had in the past. The Postal Policy Act of 1958 was an effort to secure one, but it has not yet been implemented.

Second, we believe no one desires to perpetuate the atmosphere of controversy which has existed around the ratemaking problem. There should be, and we think is, a genuine desire on the part of many responsible people to see constructive attitudes develop and proper actions taken as promptly as possible.

Thirdly, we believe the Postal Policy Act of 1958 contemplates a long-term rate policy, something sadly lacking until the present opportunity. A real reworking of the figures and of their public presentation is necessary, in our opinion, to implement a proper ratemaking policy.

Fourth, we hope that your committee would:

One, recognize public service for what it is, and we have given some examples of it which seem to us to be soundly conceived.

Two, insist on a sensemaking cost ascertainment report designed for ratemaking purposes. In other words, that the Congress and its committees be supplied with one consistent set of figures for ratemaking as well as costs.

Third, delete capital obligations from the current expense of the Post Office Department and account for them on a depreciation basis, as industry does.

Fourth, insist that the Post Office Department account for a relative record of efficiency over the years. The record since 1953 is not imposing. Remuneration to postal employees is up about 26 percent from 1953 to 1959, but the costs of handling a first-class letter in this period are up 33 percent, more than the increased remuneration of postal employees. The cost of handling a third-class letter is up 27 percent in this period and the cost of handling a second-class piece of mail—this is the classification of mail in which the mailers have put in so much effort to cut down on the work of the post office—the cost of handling a second-class piece of mail is up 17 percent in this period.

Postal rates from 1952 to the present are up 33 percent for first class, 150 percent for third class, 67 percent on editorial material, and a hundred percent on advertising material in second class, and yet because of the lack of relative efficiency on the part of the Post Office, the gap between income and expenditures is at an alltime high.

During this period wages in private industry likewise went up but efficiencies offset a large part of it, and the Cost of Living Index, which is perhaps the best index of what happened, went up less than 10 percent in this period in spite of the wage increases in private industry.

The Post Office has no comparable record. The Democratic platform on the Postal Establishment says:

> The Republican policy has been to treat U.S. postal service as a liability instead of a great investment in national enlightenment, social efficiency, and economic betterment. Continuous curtailment of service has inconvenienced every citizen. A program must be undertaken to establish the Post Office Department as a model of efficiency and service. We pledge ourselves to: one, restore the principle that the postal service is a public service; two, separate the public service costs from those to be borne by the users of the mail; three, continue steady improvement in working conditions and wage scales reflecting increased productivity; four, establish a long-range program for research in capital improvement compatible with the high standards of business efficiency.

We hope that you gentlemen will implement this platform and particularly in relation to the public service costs which we believe are there.

We thank you very much for this opportunity to appear before you and we would be most pleased to attempt to answer any questions you might have or have any discussion you may desire.

Mr. GARY. We appreciate your willingness to testify and give the committee the benefit of your views with reference to the public service costs. As I said, our committee does not handle the rates, but we do have the question before us of determining an amount to represent the public service rendered by the Post Office. We realize that that is a highly controversial question, and we are going to

handle it to the very best of our ability. We thank you for your help on the subject.

Mr. BRUMBAUGH. Thank you very much, sir.

Mr. PILLION. We appreciate the figures and the presentation. They will be most helpful, I am sure.

Mr. BRUMBAUGH. We have studied it quite hard for a long time.

Mr. PILLION. We are pleased to have them because I have always stated that the figures we get from some of the departments are not always completely reliable.

Mr. GARY. Thank you very much, gentlemen, for coming. That concludes the hearing.

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