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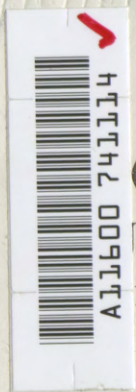
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POSTAL RATE REVISION

PART 2

GOVERNMENT
Storage



HEARING

BEFORE THE

COMMITTEE ON

OFFICE AND CIVIL SERVICE

HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS

FIRST SESSION

ON

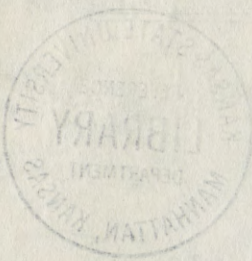
H.R. 7927

A BILL TO READJUST POSTAL RATES, AND FOR
OTHER PURPOSES

JULY 13, 1961

Printed for the use of the
Committee on Post Office and Civil Service





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POSTAL RATE REVISION

THURSDAY, JULY 13, 1961

HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The committee met in executive session at 10:20 a.m. in room 215, House Office Building, Hon. Tom Murray (chairman) presiding.

The CHAIRMAN. Mr. Day, we appreciate your coming back this morning. Some members wanted to ask you some further questions about the postal rate increase legislation, and we are happy that you were able to come down. We hate to impose on you this way, knowing how busy you are.

Mr. GROSS, do you have any questions?

Mr. CORBETT. Mr. Chairman, I wanted to say this off the record first.

(Discussion off the record.)

STATEMENT OF HON. J. EDWARD DAY, POSTMASTER GENERAL, ACCOMPANIED BY HON. H. W. BRAWLEY, DEPUTY POSTMASTER GENERAL

The CHAIRMAN. Mr. GROSS, do you have any questions?

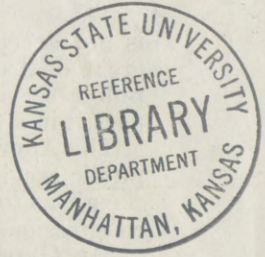
Mr. GROSS. Yes, Mr. Chairman.

Mr. DAY. I have gone back over your statement before this committee approximately 2½ months ago and I am astounded that you have now come up with a bill substantially less from the standpoint of revenue. How do you now support rates substantially less than you did at that time? What has transpired?

Mr. DAY. The testimony at that time, Mr. GROSS, was related to a public service allowance of \$63 million, which we felt was in accordance with the previous congressional determination of what the public service allowance should be. The revised bill suggests a different approach to determining what is the public service allowance, and since it comes up with a much higher amount of public service allowance it permits balancing the Department's budget and wiping out the deficit with a smaller rate increase.

Mr. GROSS. Well, now, how did you make this sudden change from \$63 million to \$235 million? That issue was raised in the original hearings. Why this sudden change?

Mr. DAY. I think it is a practical recognition, Mr. GROSS, of the fact there has been a difference of opinion in Congress and among Members of Congress as to the figure we should use. We started out with the figure that we thought was the congressional determination, and it was the approach of the Appropriations Committee before whom we had already appeared at that time, and we see that that approach



is not acceptable to the legislative committees; we think there is a great deal of rational argument to be made on the side of a larger public service allowance, and so we suggest that the legislation be passed in a form that will permit us to use the larger allowance.

The Appropriations Committee, after our appearance, wiped out all public service allowance from the bill. So we were even more up in the air as to how we could bring together all the different views of the congressional groups that have an important impact in this.

Mr. GROSS. You started out with a bill to produce \$741 million additional revenue; is that correct?

Mr. DAY. Yes, sir.

Mr. GROSS. You have come from \$63 to \$235 million as a charge-off to public service; is that correct?

Mr. DAY. Yes, sir.

Mr. GROSS. The difference between the \$235 million and the \$63 million is approximately \$172 million; is that correct?

Mr. DAY. Yes, sir.

Mr. GROSS. Now, subtracting \$172 million from \$741 million leaves \$569 million; is that about right?

Mr. DAY. Yes, sir.

Mr. GROSS. There is something funny arithmetically here. There is a difference of \$21 million in those figures.

Mr. DAY. Yes, sir; but the proposal for the rate increase in the later bill provides, in contrast to the earlier bill, that the second-class increase would go into effect in steps and the second step would not go into effect for 18 months, and we think it is only logical to make some provision for increases in our budget through normal increases in mail volume and through increases in our expenses that we can see are ahead.

For example, there is a bill going through which would increase the travel allowance, which would increase the allowance to rural carriers, and we can see that we are going to have an addition to our expenses, and since this increased bill would not go into effect fully until January 1, 1963, we do not attempt to have the dollar amounts come out exactly even.

Mr. GROSS. So that accounts, according to your explanation, for the \$21 million difference in the bill you have proposed as compared with the previous bill?

Mr. DAY. Yes, sir.

Mr. GROSS. If the Senate committee is reluctant to support the rate increases you recommend, will you lessen the amount you suggest in the Senate?

Mr. DAY. I cannot predict with rigidity as to what we might have to do. I personally feel so strongly about the necessity for getting a substantial rate increase through that I do not like to take the position that we are completely inflexible if we face the facts of life. But we have had indication from a number of members of the Senate committee that they support a rate increase and that they are going to work to get it through. I think the probability is that we will be able to support this amount.

Mr. GROSS. That leads to this question. What about the round robin that was circulated over there? What is the status of that round robin thing that was circulated on the Senate side?

Mr. DAY. There was a letter submitted for signature by members of the Senate committee and several of the Democratic members signed it and at least one Republican member indicated he was in favor of the increase but that he was reluctant to sign a letter to commit himself in that particular way. We feel at the present time we have a majority of the members of the Senate committee who are with us.

Mr. GROSS. Have there been some withdrawals from this round robin?

Mr. DAY. Yes. One of the Democratic Senators indicated that he would prefer to change his mind. I cannot speak for him, but I think he will vote for an increase.

Mr. GROSS. Let me ask this question. Do you have any assurance as of today that the Senate will hold hearings on a postal rate increase bill?

Mr. DAY. We are faced with the same situation we have been, that the chairman of the committee is not willing to take any action in the present posture of the bill. We feel that when a bill is passed by the House and arrives in the Senate, there will be hearings.

There have been hearings, Mr. Gross, I believe, in all instances in the past. In the last 10 or 12 years where there has been a rate bill passed by the House, in all cases it has been taken up by the Senate and I believe in all cases the Senate passed such a bill except that in one year it was late in the session and they waited over until the first of the following year, but in the same Congress. As a matter of fact, a few years ago they came up with a larger first-class increase than had been passed by the House, and there is very much the same top personnel on the Senate committee now that there was at that time.

Mr. GROSS. But you have no assurance as of today, no more than you had when you first appeared before this committee in April, that the Senate is going to act on a postal rate increase bill?

Mr. DAY. No assurance from the chairman, but the purpose of the letter to which you refer was in order to see the position of the other members of the committee, and because of the signatures that were obtained and the statements that were obtained from others who did not sign the letter, we feel we have the majority of the committee with us.

Mr. GROSS. Mr. Day, your new bill makes substantial concessions to the organized mail users; is that not correct?

Mr. DAY. The reductions, almost of necessity if there are to be reductions, have to come from second and third class, because the bulk of any rate increase bill has to come on first class, and there is not much room for a change there.

Mr. GROSS. So you have not done anything to make the rate increase more palatable to the average American family, to the American housewife?

Mr. DAY. Our statement on that at the original hearings was that according to our information the impact of an increase in rate on first-class mail would be less than one-half cent a day on the average household.

Mr. GROSS. Of course, you can break any tax down into small units, but the fact remains that this is the simple and easy way to get money—and when I use the word “simple” I use a word you apparently used on the west coast a short while ago in saying that is the simple way to get money, an increase in first-class rates?

Mr. DAY. I did not say it was the simple way, Mr. Gross, in the sense that it was an approach to the rate increase instead of going after the other classes. I am not here to speak in behalf of or in defense of the other classes. But, as you know, the second- and third-class users have had, percentagewise, very large increases, going up over 100 percent, in recent years, while during that same period the first class has had only a 33 percent increase.

Mr. GROSS. In view of the recent statement of Secretary of the Treasury Dillon, which outli ed possible tax reductions next year, I wonder if a rate increase is justified, because it surely is in the nature of a tax.

Mr. DAY. I think if I were speaking on behalf of the second- and third-class users—and I certainly am not—I would say that any idea of a reduction in taxes is for the purpose of trying to stimulate business activity if there is to be such a reduction, and the second- and third-class users have persistently stated to us and before this committee that this increase which was proposed in the original bill was more than they could absorb without hurting their business. So I do not think the two things are inconsistent.

Mr. GROSS. A general tax reduction would not be inconsistent, in your opinion, with an increase in postal rates?

Mr. DAY. No, sir. I think the Post Office Department, subject to a proper public service allowance, should operate on a breakeven basis, and I think the rates that are proposed in order to achieve that are fair and that other changes in the tax structure which may be made primarily for the purpose of stimulating business activity or incentives is an entirely separate matter.

Mr. GROSS. Mr. Day, if you had the \$300 million annual savings which Mr. Brawley says can be achieved, the rate increases you propose should be reduced from \$591 million to \$231 million; is that not correct?

Mr. DAY. Mr. Gross, Mr. Brawley's reference to savings was on the basis of long term and an accumulation of many efforts, and there is certainly nothing that either we or anybody else can propose that will have any such immediate effect on our budget. Mr. Brawley was talking about efforts we are working on which in the long term would effect reductions in our budget, but, as I mentioned, we have other factors, particularly an increase in mail volume, that makes our gap increase as the years go on. I think that any reductions we can achieve under the programs Mr. Brawley outlined would simply take care of those normal increases.

Mr. GROSS. This \$300 million saving is a rather nebulous thing; is that correct?

Mr. DAY. Mr. Brawley described it as something that is based upon hopes and research and efforts that we are making, not as anything we could pinpoint or that we could promise.

Mr. GROSS. What authority do you need to effect economies in the Post Office Department?

Mr. DAY. One matter is something we touched on during our original hearings and that is that it is possible it might be feasible, after proper study and experimentation, to reduce the use of cancellations on mail, either removing the time cancellation die or removing the individual cancellation entirely, and that is something that obviously has a lot of problems in it. We are working on an experiment

in that direction. We think that has a possibility for major savings, but we are not sure about our position on making such a drastic change.

Mr. GROSS. Mr. Day, I cannot think of a better place than this bill, if it is to come out, to include the authority you need to effect economies in the Post Office Department. If you need authority in any way to effect economies in the Department, let us put it in this bill, and I would like to have your suggestions as to the authority that you need for that purpose.

Mr. DAY. Mr. Gross, we have not even conducted our preliminary experiments on the cancellation problem. We are expecting to conduct a partial experiment on postal cards in one post office, but we have not gotten to the point that we know it can be done or that it will be feasible. For that reason we do not have our program sufficiently firm that we would have anything to propose to the committee at this time.

Mr. DAVIS. Will the gentleman yield for a question at this point?

Mr. GROSS. Yes.

Mr. DAVIS. Does the law now require cancellation of mail such as is being done?

Mr. DAY. It requires cancellation but it does not require it in the way it is being done with the time on the die changed every half hour.

Mr. DAVIS. Does the law require that?

Mr. DAY. No, sir.

Mr. DAVIS. Thank you.

Mr. GROSS. Mr. Day, I have a clipping from the Los Angeles Examiner under date of June 8, 1961, from Santa Barbara, the first paragraph of which reads as follows:

Postmaster General Day praised the work of postal workers Tuesday and said he would work to bring them a pay increase.

Mr. DAY. That is completely untrue. I never said anything even remotely resembling that. That would be inconsistent with everything I have ever said or thought about it. I made several talks in California and in none of them did I say anything remotely resembling that.

Mr. GROSS. When I read that I was somewhat disturbed.

Mr. DAY. I can well understand. I have not seen it but I am disturbed. It is like many other things you read. I read in a magazine sometime ago about a trip I had taken by jet to Wisconsin to handle a problem, and I had not even heard of the problem, much less going to Wisconsin.

Mr. GROSS. I think you can understand my concern as to the particular proposition.

Mr. DAY. I have been particularly careful of all my statements, publicly and privately, and every statement I made was a complete endorsement of the financial program we submitted before this committee and was consistent with my testimony. I stated in answer to a question from you that I would not do anything to initiate or promote a pay increase proposal.

Mr. GROSS. Mr. Day, I wonder if you could tell me why I got a telegram from the postmaster at Grass Creek, Wyo., urging me to support a postal rate increase. Have you any idea why I got such a telegram?

Mr. DAY. Yes, I can. The National Association of Postmasters, as you know, is an organization that appeared before this committee and testified in favor of the bill, and they have advocated the bill and have encouraged their members to support the bill. We did not ask them to send in any telegrams or any communications, but entirely on their own they did so.

Mr. GROSS. I was surprised to be getting a telegram from the postmaster at Grass Creek, Wyo. It did not go that far when Summerfield was Postmaster General. He had no hesitancy in putting on a propaganda barrage, but it did not go that far.

Mr. DAY. I am not responsible for anyone being urged to send such telegrams but this association, I have noticed, has done so.

Mr. GROSS. Let me ask you this question concerning the operation of the Post Office Department and the costs involved.

How will you handle the 70,000 to 100,000 letters that Eleanor Roosevelt and Milton Eisenhower and—what is his name with CIO?

Mr. DAY. Mr. Dodge?

Mr. GROSS. No.

Mr. DAY. He is a member of the committee.

Mr. GROSS. Walter Reuther. How will you handle those letters?

Mr. DAY. We will require the committee to put new postage on them and to take care of handling them for remailing.

Mr. GROSS. I am delighted to hear that. I wanted to be sure the Post Office Department would not pick up the load for that abortive effort.

Mr. Day, are you still employing consultants in the Post Office Department?

Mr. DAY. To a limited extent. Some of the people that work on research and engineering projects are referred to as consultants, but we are not employing people to tell us how to organize or run the Department. As a matter of fact, we are in the process of winding up what I think is one of the most comprehensive studies of organization ever made, and it has been carried on by Government personnel.

Mr. GROSS. I hope you will hold the hiring of consultants to an irreducible minimum.

Mr. DAY. I am very cold to the idea of outside consultants.

Mr. GROSS. And I would hope if the economies we hear about are to take place in the Post Office Department we have very few consultants in the Post Office Department.

Mr. DAY. I agree with you wholeheartedly.

Mr. GROSS. Have you applied to the Interstate Commerce Commission for an increase in fourth-class mail?

Mr. DAY. Yes, sir.

Mr. GROSS. Mr. Chairman, I believe that is all the questions I have.

Mr. CORBETT. Will the gentleman yield?

I wanted to comment on the first series of questions you raised. When you arrived at certain figures, you started out by asking what the allowance was for public service. I am rather sure my colleague did not mean that he objected to that figure.

Mr. GROSS. Not at all. I think it is too low.

Mr. CORBETT. I wanted to get that clear and that is what I thought the gentleman meant, because even if we agreed for the moment that this figure is too low, I think it is a very big step toward what some

think it should be. And also I think there has been an improvement in that there was a recognition given to the fact that second- and third-class rates have very recently been increased and they have been increased so recently that the effects on volume and the like cannot yet be well ascertained. I think the recognition of that is wholesome.

I think also one word in the policy statement that is so frequently forgotten is the provision that requires that in ratemaking we consider the impact of the new rate on existing business; and I believe the new proposal definitely does take into consideration much better the fact of public service, it takes into consideration the fact that second- and third-class rates have recently been raised, and in so doing it gives some recognition to the fact that impact is an important consideration in the determination of rates.

Now it is my thought that with certain amendments we might come out with a bill that is reasonably satisfactory. I recognize some people are dead set against any increase at this time and they have a lot of logic and sincerity to back their position, but I think this is a far better proposal. At long last it recognizes that the users of the mail should not pay for policies adopted by the Congress. While there is an area of dispute left, I do not believe it is beyond resolution.

The CHAIRMAN. Are you referring to the Henderson bill?

Mr. CORBETT. I am sorry. I forgot the bill had his name on it.

Mr. GROSS. Mr. Day, have you given any consideration to the increase in the public service chargeoff due to the differential as between the rate charged by the railroads to the Post Office Department for the transportation of mail and the rate charged by the railroads to the express company for the transportation of similar items?

Mr. DAY. No. That is not a factor in arriving at the \$235 million figure.

Mr. GROSS. So we could logically add \$50 to \$100 million to the public service chargeoff?

Mr. DAY. We do not feel so because it has never been possible for us to document anywhere near such a figure and we do not know where that \$100 million figure came from. We know it was used by the representative of the Parcel Post Association in some of his testimony but we have never been able to find that such a spread existed.

Mr. GROSS. Mr. Day, I am sorry I did not bring the hearing record with me because the gentleman on your left questioned Mr. Stans on it when Mr. Brawley was chief counsel of the Senate Post Office and Civil Service Committee and elicited from Mr. Stans, and it is a part of the hearing record, that Mr. Stans would not be surprised if it is \$100 million.

Mr. DAY. I do not subscribe to everything that he said.

Mr. GROSS. Beg pardon?

Mr. DAY. I do not subscribe to everything that he said at all times. I know Mr. Stans is a very outstanding man and very highly informed.

Mr. GROSS. Apparently Mr. Brawley was satisfied with his answer because he did not disagree with him. I will have to mark up a copy of the Senate hearings and send it to you, Mr. Day.

Mr. DAY. I will be happy to read it.

The CHAIRMAN. When was that hearing, Mr. Gross?

Mr. GROSS. It was not long ago. It was when Mr. Stans was in the Post Office Department. It is not ancient history.

The CHAIRMAN. Any further questions?

Mr. BROYHILL. Getting back to the public service allowance, in H.R. 7927, beginning at line 12 on page 2, we refer to the terms "total loss" versus "loss."

Do I understand correctly we are planning here to charge to public service the difference between the actual revenue received and the total allocated cost and all of that is being charged to public service?

Mr. DAY. That is correct.

Mr. BROYHILL. In your original proposal you were considering the difference between the actual revenue and what would be received if you would charge the same rate to nonprofit organizations as to profit organizations?

Mr. DAY. That is correct.

Mr. BROYHILL. Does that make the total difference between the \$63 million—

Mr. CORBETT. If the gentleman will yield, that \$63 million was something that came out of the subcommittee. I do not know where they got it or where it came from.

Mr. BROYHILL. Is that the only change you are advocating in public service other than star routes and third- and fourth-class offices?

Mr. DAY. That is the main charge, from the revenue foregone approach to the total cost approach. There are some minor changes but that is the main one.

Mr. BROYHILL. I realize this public service allowance is a matter of controversy, but if we eliminated any subsidy to these nonprofit organizations and they paid the same rate as profit organizations pay, then we would not have the problem of public service at all and we would not be talking about \$235 million, would we?

Mr. DAY. No, sir.

Mr. BROYHILL. So actually we are charging the general public the difference between what they would pay if they paid the same as everyone else and the actual cost; is that right?

Mr. CORBETT. If the gentleman will yield, I think the gentleman leaves out one extremely important fact. Suppose this bill passes. Then it is assumed that the rates charged will eliminate any deficit. So if there were no deficit, nothing would be traveling at a calculated loss. It is only when you say to religious institutions, "You can send your mail at a preferential rate," when we make that policy somebody has to pay for it.

Mr. BROYHILL. At a preferential rate and less than what a profit organization would be paying. Some profit organizations are paying less than cost.

Mr. CORBETT. In this particular bill the attempt is being made to consider rates that would in effect eliminate all deficits. Certainly in ratemaking it is understood there are other things than cost that enter into scientific ratemaking.

Mr. BROYHILL. I realize this is an area of honest disagreement. I would go along with the Henderson bill as a compromise but I like the original bill better.

Mr. CORBETT. Would the gentleman propose amendments to eliminate preferential rates to religious and other nonprofit organizations?

Mr. BROYHILL. I would say I certainly would charge them an increase.

Mr. CORBETT. Would you charge them the full out-of-pocket cost?

Mr. BROYHILL. The profit organizations do not pay the full out-of-pocket cost. I would go along with any bill that would 100-percent balance the postal budget, but I recognize there has to be a compromise.

Mr. CORBETT. But will not this bill return some million dollars more than the total deficit?

Mr. BROYHILL. There is merely a question of bookkeeping in this. To the extent it recognizes third- and fourth-class offices and star routes as legitimate losses which should not be charged to public service, I think the new bill is an improvement.

Mr. CORBETT. The gentleman will find some people want to raise a part of the cost of star routes and rural routes also in the bill. That would be a matter for vote and discussion.

Mr. BROYHILL. I think it was brought out during the hearings that if we consider the postal service as a public service, or as a public utility, you will find that in any franchise where there is a monopoly some sections of that franchise do not pay as much as others. For example, a transit company would have certain lines they would have to provide on which they would sustain a loss, but that loss is made up to the transit company by the lines that make a profit. The same thing applies here.

Mr. CORBETT. The gentleman has a good deal of logic to support his position, but I would like to ask this question. We come along and subsidize the farmer; we subsidize business with a machinery depreciation allowance; we subsidize the natural resources people with a depletion allowance; we subsidize foreign countries——

Mr. GROSS. Will the gentleman yield? We even subsidize Virginia and Maryland by the bridge at Jones Point.

The CHAIRMAN. Let us get back to the subject.

Mr. CORBETT. I would like to direct a question to anybody on the majority side as a matter of information. I want to understand the political philosophy of why, since we subsidize everybody else, we single out the users of the mail and say they cannot have a subsidy?

The CHAIRMAN. Any other questions?

Mr. CORBETT. That is a question.

The CHAIRMAN. Any further questions?

Mr. LESINSKI. First of all, I want to commend Mr. Day on his presentation.

We are taking up with the users of mail methods of trying to save money by changing the peakloads and having a more level or uniform operation in the Post Office Department. You estimate this will save your budget about \$200 million.

You claim the public service allowance is \$235 million. That plus \$100 million in fourth-class mail, where for the last 10 years you have had an average loss of \$88 million, that is \$535 million. Your deficit is \$831 million. So the differential you should be making up is approximately \$296 million and you are asking for \$591 million in this new bill: therefore you will have a surplus of \$295 million.

Do you think it is proper for the Department to make money or to break even?

Mr. DAY. The Postal Policy Act is specific that the Department should not be making money, but the Postal Policy Act as it would be amended by this bill in our opinion would call for \$235 million of public service allowance which would be applied, not against \$831 million,

but against \$900 million, because that is the expected gap between income and outgo for the coming fiscal year. The \$831 million was after applying the previous public service allowance. But we do not accept the other suggestions for additions to the public service allowance which have been made at times. We realize there is a great degree of difference between the amount proposed and the public service allowance, but \$235 million is what we feel this bill as an amendment to the Postal Policy Act would call for.

Mr. LESINSKI. I am not saying \$535 million is the public service allowance. I am saying \$200 million saving in your program with the major mail users plus the fourth-class mail——

Mr. DAY. I have never mentioned or heard about or even thought about such a figure as \$200 million or any other specific figure as the saving from our major mail users program. We have been faced with a dilemma the past several months as to whether it was going to be inconsistent with our rate proposal to make efforts to save money. We think this will save money but we have no way of proving it and I think \$200 million is a very high figure. We do not have any idea what it will save or whether this response we are having from major mail users in the timing of their mail will continue or whether we can keep their interest up.

Mr. LESINSKI. The mail users are very enthusiastic about it and want to assist you in saving money.

Mr. DAY. They are having meetings all over the country.

Mr. LESINSKI. And the Department thinks it will result in savings. I am not using a figure of my own, but the Department's figure.

Mr. DAY. The only area in which we can have savings there would be clerk hire, internal handling.

Mr. LESINSKI. That is right.

Mr. DAY. It cannot be applied to the total budget, and what the amount of total saving will be is only somebody's hope at this time.

Mr. LESINSKI. Do you expect to save several millions in the future if this program is worked out properly?

Mr. DAY. That is our hope. We are working on a number of things we hope will save us money. Anybody can look at the history of the Post Office Department budget and they can see it is going up all the time. A great effort has to be exerted to see that it stays even.

Mr. LESINSKI. To use the figures of the prior administration, the greater the volume the more the savings, so if you want to use their figures I will not argue with that, but if you do save \$200 million, you will have a surplus of \$295 million if this bill goes through.

Mr. DAY. I do not recall anybody from the Department in these current hearings having said the greater the volume the greater the saving, because actually the way it works out most of the items of mail are not paying their fully allocated cost and the greater the volume the greater the deficit.

Mr. LESINSKI. I wish to correct that statement. The greater the volume the less the cost per piece.

Of course we realize there might be increases in salaries and so forth, but if this bill goes through you will have a \$295 million surplus. Suppose we do have a surplus; do you think that would be proper?

Mr. DAY. We do not come up with any surplus under the public service allowance which we interpret the legislation as producing and when we take into account the fact that part of this rate increase

proposal will not go into effect for 18 months and that there are certain increases that are already coming along such as I mentioned on the rural carriers and the travel allowance.

Mr. JOHANSEN. Mr. Chairman.

The CHAIRMAN. Mr. Johansen.

Mr. JOHANSEN. I had an inquiry from a representative of the paid-circulation second-class magazines which I would like to direct to you in fulfillment of his request that I get the answer.

He raises the question as to why the administration in this bill fails to recommend raising the rate for free or controlled circulation publications on the same scale or more nearly the same scale as they are raised for the paid-circulation magazines?

Mr. DAY. Mr. Johansen, that has to do with the historical past increases in that there is a close relationship between controlled circulation publications and books and catalogs, and it is possible to shift back and forth as to how you treat an item. Controlled circulation publications had a substantial increase recently which brought it over the rate for books and catalogs so there was a shiftover to sending a lot of material under that category. In order to try to bring those two classifications back into line, that is the reason for leaving out controlled circulation publications in this proposal.

Mr. LESINSKI. Will the gentleman yield at that point? There is a definite difference between controlled circulation and books. Books per se are written by authors. Controlled circulation is no such thing. It is set up by a group of advertisers, to advertise manufacturers of related commodities, to be sent to individuals that might be interested in that field. The circulation and the printing is paid for by the advertiser, and the person advertising in that magazine and controlled circulation sends it to the individuals without their requesting it. So there is a difference between controlled circulation and second-class mail that is sent to a subscriber.

Mr. JOHANSEN. I have one other question, General. I notice in the third class, for example, that the various individual rates, the adjustments that are made between this new bill and H.R. 6418, comparing the percentages of increase over the current rate, that whereas the percent increase is reduced in some instances 50 percent and some instances—in other words, you have a drop from an 80 percent increase on books and catalogs down to a 20 percent increase on the pound rate; and a drop from 40 percent to 20 percent on the per piece rate.

In other words, there are variations in the ratio of drop and I wondered, for the purpose of clarifying the record, if you would explain why it was not feasible or desirable to make a proportionate decrease across the board?

Mr. DAY. Taking, for example, the books and catalogs under the bulk rate, the percent increase that is proposed would result in an increase of 200 percent in that rate since 1950, while the increase for the single piece rate in third class, while it is a larger current percent increase, they will have ended up with an 87 percent increase since 1950.

So the answer relates to tying these to the history of increases as well as the immediate situation.

Mr. JOHANSEN. My only concern is whether tying it into the 1950 rate, that may be a valid procedure if there was not a gross discrepancy between the types and categories as of 1950.

Do I make myself clear?

Mr. DAY. We picked that as a 10-year period as to what had been happening to rates in the various classes and some of the original proposals would have ended up with as much as a 250 percent increase since 1950. The biggest reduction in the revised proposal is in your bulk rate on your regular circulars.

Mr. DAVIS. If the gentleman would yield for an observation at that point, I would like to say with reference to the reduction of 20 percent on the bulk rate on books and catalogs, I think that is a very appropriate change in this legislation because some of the mail users in that category were faced with very disastrous consequences if the original proposal had gone through.

The CHAIRMAN. Any further questions?

Mr. WALLHAUSER. I would like to explore for a moment this public service charge again, and I presume you must be tired hearing about it. I hope you do not believe you are sitting on an electrified seat.

Mr. DAY. I am not tired at all.

Mr. WALLHAUSER. Under the Postal Policy Act there are certain items that are to be charged for and they go a little beyond the free items. They also include nonpostal services, such as the sale of savings stamps and special services such as c.o.d.'s et cetera, and the proposal you make in this bill would require that you make an estimate on April 1, and the estimated amount, it would seem to me, could be rather flexible. I am not sure about your accounting system, but we all know that items can be charged here or charged there depending on the desire of the head of the accounting department.

My question relates to this primarily, whether it would not be more realistic to take a set percentage of the budget and charge it to public services. For instance, we have a great disagreement about the chargeoff of third- and fourth-class post offices. The distinguished gentleman from Virginia has one viewpoint and I have the other. It seems to me that if a business enterprise had offices all over the United States and if these offices were not producing they would be closed by any ordinary business enterprise.

The purpose of the postal service in the United States, to my mind, is to provide postal service to all people and I believe the cost of these services should be charged to all the people of the United States as a public service. So the gentleman and I are in disagreement on that. Certainly there must be some percentage of these third- and fourth-class post offices that should be charged to public services and the entire amount not charged off.

Now why should there be any reasonable objection to including a percentage charge?

Mr. DAY. If the Congress passes the bill as pending the decisions and interpretations which would have resulted currently in the \$235 million figure will establish a pattern which is very hard to change and get away from so far as any departmental discretion is concerned. If we get that pattern firm by virtue of the Congress saying this is the bill we are to have and the \$235 million is the figure under present circumstances, it is a mathematical matter to come up with a comparable figure in following years, just as in the previous pattern which we considered had been established we came up with the \$63 million figure, which was an interpretation of the same formula that had been the reason for the figure of \$40-some million the previous year.

We think this is subject to adjustment under firm rules that would not allow discretion or leeway in the Department in changing the approach.

Mr. WALLHAUSER. The losses incurred in performing special services such as special delivery and money orders, would this include the employees' wages and salaries? What other items would be included as a loss?

Mr. DAY. We have a fully allocated figure for performing those services just as we do for the various services of mail.

Mr. WALLHAUSER. Including the space they occupy—the rent?

Mr. DAY. Yes. It includes the cost of the overhead as well as the performance of that particular duty.

Mr. WALLHAUSER. It includes heat and light and everything?

Mr. DAY. Yes. It includes the plant.

Mr. WALLHAUSER. And your officers here that have to supervise that, that is all charged specifically?

Mr. DAY. Yes, sir.

Mr. WALLHAUSER. What observation would you make about my comment of exclusion of third- and fourth-class post offices in the chargeoff?

Mr. DAY. We had two observations there. One was a rather incidental point that some of the allowance for third- and fourth-class offices and for star routes is already covered by the fact that we had a public service allowance for free and reduced rate publications. But we do not think we can take a segment of our distribution system and say that it is uneconomic and it is not essential to the whole system and treat it differently from others.

It would be the farthest thing from my thoughts to suggest this, but we could say that many parts of our city delivery system are not 100 percent economic. The delivery by city carriers in suburban areas is an expensive proposition in some areas and if we made all these people come to the post office and get their mail and save the cost there we could say that is a public service. I think there would be no end to it.

Mr. CORBETT. Will the gentleman yield?

Mr. WALLHAUSER. Yes.

Mr. CORBETT. As a matter of information, are there very many city carriers that do not pay their own way? I am tending to think that here is a fellow delivering mail at a rate of \$30 or \$40 a thousand as compared with other people that are doing the same thing for \$15 or \$20 a thousand. This is strictly for my information. I am wondering if 98 percent of the city carriers would be earning their way?

Mr. DAY. I am including with the delivery everything except the rural routes and that includes people driving around delivering mail in suburban areas. Since our figure is it costs 5 cents a minute on the average for time exerted by people in the postal service, when you can see men driving along in a not too concentrated area and dropping off a few letters here and there, I think a different conclusion could be arrived at, but I am very reluctant to get into this because I do not want to indicate there is anything the least bit wrong in having that kind of service and expanding it when the population justifies it.

Mr. CORBETT. When you have houses 2 or 3 miles apart I will grant that becomes a very uneconomic operation.

Again for information. A fellow told me the other day, a retired postal employee, that in his rural area the Post Office Department even took a census of livestock in the area. Is that true or false?

Mr. DAY. They do certain work at times for the Department of Agriculture and for the Fish and Wildlife Service. They sometimes conduct a survey of game birds. These are types of services performed for other agencies for which we get reimbursed.

Mr. CORBETT. You get reimbursed for that?

Mr. DAY. Yes, and for other services such as the registration of aliens.

Mr. GROSS. Will the gentleman yield?

Mr. WALLHAUSER. Yes, in a moment. I just want to ask one more question and I will be glad to yield.

Is it not a fact the first- and second-class offices do pay their way and therefore you would have a difficult job trying to take out of them any kind of service? So does not your argument reduce itself to theory rather than practicality?

Mr. DAY. I was using that as an example, that you could take bits and pieces and say one by one they did not pay their way. You could take our entire mail operation in Alaska, which has only 235,000 people in the entire State, or take our entire mail operation in the Aleutian Islands, where there are only 2,500 people, and somebody could say that is not economic so we should separate that out. We could take various parts of our operation and separate them off, and the basic approach to suggesting that third- and fourth-class offices be taken out of the Postal Policy Act as an item of public service is that the entire distribution system is a unit and that we should not say one part is less important or less economic than another.

Mr. GROSS. Will the gentleman yield?

Mr. WALLHAUSER. Yes.

Mr. GROSS. Do I understand the Post Office Department is scheduling some 3,000 postmaster examinations or reexaminations and throwing out examinations that have been held?

Mr. DAY. There has been no decision to throw out any examinations. We are considering holding other examinations for supervisory positions.

Mr. GROSS. I am talking about postmasters, some 3,000. Is there anything to that, that you will reschedule the examinations?

Mr. DAY. There is not any such number as 3,000, or anything close to it, of available vacancies for postmasters, but the standards for postmaster qualifications have been changed. We used a very substantial portion of the existing registers when we came in, much more than some people thought we were going to use. We have new examinations coming up which is right in accordance with the pattern that has always been followed.

Mr. GROSS. Of course, I am one member of this committee that did not always agree with the pattern of the past administration, but according to Mr. Young in his column the Civil Service Commission has cleared the way for the Kennedy administration to fill between 3,000 and 4,000 postmasterships with Democratic appointees.

Mr. DAY. He is taking all vacancies that might become available in the next few years.

Mr. GROSS. But you are presently going through your list, are you not, scheduling new examinations?

Mr. DAY. Yes.

Mr. GROSS. And it is a costly operation; is it not?

Mr. DAY. There will be about 1,000 of them.

Mr. GROSS. And it is a costly operation?

Mr. DAY. Any examination costs a certain amount of money.

Mr. GROSS. Plus the use of inspectors to go out over the country, and so forth.

Mr. JOHANSEN. Mr. Chairman, I would like to press the question that I think was implicit in Mr. Wallhauser's line of questions as to whether there would be serious objection, and if so why, to applying a percentage formula rather than a dollar formula here. I am curious because I think I see some advantages in the percentage figure.

Mr. DAY. The objection we have, Mr. Johansen, just using this word as explanatory, it is an arbitrary and automatic way of arriving at something rather than with an explanation. We think it is better to have an explanation as a part of the derivation of the figure.

Mr. JOHANSEN. There was a concern about possible future flexibility where it might lead to a reduction in the dollar figure through some change in the formula. It is your feeling that by reason of being arbitrary or inflexible it could be more realistic? Is that your point?

Mr. DAY. Yes, sir.

Mr. CORBETT. Will the gentleman yield?

Why would it be impossible, granting the figure is reasonable, to put a floor under this ceiling and then proceed with the dollar estimate?

Mr. JOHANSEN. In other words, a percent floor on which you build the dollar estimate?

Mr. CORBETT. Yes.

The CHAIRMAN. Any further questions?

Mr. DERWINSKI. First, Mr. Day, I want to say I have sympathized with you in the past 4 or 5 months, but I think in view of the circumstances we would not be fair to you if we were not frank, and I think the problem we face is as much in the whispers that have been rebounding here as in the stated words.

There is a rumor on the Hill here that should we approve this postal rate increase in 1961 it would be the means by which the postal employee organizations would then try for a salary increase in 1962. Congress historically has been much more sympathetic to salary increases than rate increases.

If I am asking the question properly, do you feel that by urging a postal rate increase we would set the stage for a salary increase which would in turn upset the budget and return us to a deficit situation?

Mr. DAY. I think the two things should be kept separate and that there is a much better chance of keeping them separate by passing a rate increase this year than next year.

Mr. DERWINSKI. I have been subject, as you can appreciate, to a great deal of pressure from the users of second- and third-class mail facilities. For example, I received a letter this morning, which I think every member of the committee received, from Coronet magazine, saying they are going out of business in October.

Mr. CORBETT. I wonder if the gentleman would read the letter? I did not receive it.

Mr. DERWINSKI. I think it went to all members of the committee. the letter states:

Before you cast your vote on the bill to increase postal rates, I want to be sure you know that Coronet magazine will die on its 25th birthday next October.

Then they enclose some newspaper clippings, and then go on to say:

When you consider increases in postal rates this year I think you ought to be mindful of the fact that increases in postal rates over the past 10 years were an important factor, though not the only factor, in the demise of Coronet. Last year, we lost \$600,000 on Coronet.

Then they go on and give some statistics. They say:

The increases in postage rates have been almost three times as much as the increases in the price of our paper since the end of the war. If postage rates had increased by the same 34 percent that paper prices have increased, Coronet might have been able to survive. Then we wouldn't have had the grim task yesterday of telling most of Coronet's staff that we could no longer employ them.

The point I am making is that you will be the whipping boy for this charge that the rate increase leads to unemployment and all these other charges.

However, when we overcome this hurdle the next problem is, if we pass a rate increase, in the Henderson bill the bulk of it falls upon first class and airmail and then we will be subject to the criticism that we are passing the rate increase on to the average citizens that use the first-class and airmail facilities and that do not have a lobby working for them.

The point I am raising is this. It seems to me the only practical long-range postal rate increase would be one that would cover every possible area so that the charge of discrimination of bowing to pressure could not be raised. And I am not sure we are at that point in this bill.

Mr. DAY. First, the first class is used to the extent of 75 percent by business, so it is not strictly a fact that they have no organized group to represent them.

As far as Coronet magazine, of course anyone is sorry to see an organization go out of business. I imagine the New Haven Railroad would not have had to go into trusteeship if they had not had to pay taxes, but I think you touched on the key point at the end of your question, and that is that there must be a distribution of the increase among all the classes and we have that in this bill.

Mr. DERWINSKI. Let me ask two perhaps unrelated questions.

We have also been receiving mail—not only members of this committee but I am sure all Members of Congress—over the issue of the so-called Communist propaganda flowing through the Post Office Department. My understanding is that this is part of the Postal Union agreement and it is my understanding traditionally Americans have sent more mail to foreign lands than we have had from those countries, so in effect we can say that our balance has been favorable.

Do you have any statistics to show that since the change in policy which permitted the complete flow of this mail from the Soviet Union and the satellite countries this volume has increased so as to affect this traditional balance we had?

Mr. DAY. Our preliminary figures indicate there has been no change in that balance and that there has been no marked increase in the flow of mail from the Iron Curtain countries since the change in policy.

It is true the international postal agreements are the reason why the mail from a foreign country is moved without a transfer of funds after it arrives here. In the same way, the large amount of mail sent to foreign countries, including Iron Curtain countries, by our people is moved without a transfer of funds after it gets there.

Mr. DERWINSKI. The charge is made that we live up to the postal agreements and there are charges that the Soviet bloc countries do a job of censoring and fail to deliver mail. Is there anything you feel you can do in the future to force them to abide by the intent of the agreements?

Mr. DAY. I have been watching that particular point very closely and I have not been able to come up with any real documentation as to mail going from us to Iron Curtain countries not being delivered. A tremendous amount gets delivered, and there would be complaints if it were not delivered because there are many people in this country who have friends and relatives in the Iron Curtain countries and who send them many things, including food and clothing.

Mr. DERWINSKI. I receive mail from all over the country from postmasters and from some supervisors in effect asking for this postal rate increase bill. Allowing for the normal loyalty and devotion of these men to the postal service, I wonder if there was any organized effort to produce this mail.

Mr. DAY. Yes. As I answered in response to a previous question, some associations, the two postmasters associations and the supervisors also, testified in favor of the bill and they traditionally support the management, so to speak, in the Department, and they initiate things of this sort. They wrote to the postmasters supporting a number of bills, some of which I am not sure I would support.

Mr. CORBETT. Will the gentleman yield for a question?

Mr. DERWINSKI. Yes.

Mr. CORBETT. I wonder if it would be a good idea to put in this bill an amendment prohibiting postmasters from getting increased salaries because of the increased revenues that may come from this bill.

Mr. DAY. The other rate increase bills, I believe, have contained such a provision when they first came out.

Mr. CORBETT. Sometimes we have allowed some of the increased revenues to count, and at other times we have not. If the purpose is to meet this deficit, we should not immediately increase the cost of the Post Office Department by giving raises to the postmasters.

Mr. DAY. I believe this provision is already in the bill, Mr. Corbett, in section 10 on page 9:

Section 711(c) of title 39, United States Code, is amended by striking out "Public Law 85-426" and inserting in lieu thereof "any Act of Congress enacted on or after May 27, 1958".

Mr. CORBETT. Of course without an interpretation I could not agree with that.

Mr. DAY. That "on or after" is the provision.

Mr. CORBETT. I would suggest to the gentleman that when he replies to the postmasters he make reference to this provision.

Mr. DERWINSKI. I have one other question. When Mr. Murphy was here some time ago I discussed with him the transition in him where he becomes management conscious in contrast perhaps to the

expectations of the employees for complete sympathy in terms of all their demands.

Speaking from a management standpoint, managing the operations of the Post Office, last year we had a prolonged conflict over the postal pay increase bill. To mail that came in from postal employees I would reply by asking for their suggestion as to how the deficit might be cured so the postal pay increase would be more acceptable to the then administration, and in 9 out of 10 cases the postal employee would write back and say: "Get rid of the junk mail or raise the rate on junk mail."

The testimony we got from industry completely contradicts the position taken by your carriers. So we get back to this dilemma where the management of the Post Office Department and the rank and file employees deliberately put their finger on the junk mail as the financial problem. Yet the users of the junk mail point to the loss of employment that would come through a postal rate increase on this type of mail. So, if the ladies will pardon me, we are damned if we do and damned if we don't.

I think with the Henderson bill we are in a more confused state than we would be with the original bill, and I think we are begging too many questions in this new bill. This is my offhand observation.

Mr. DAY. I do not think the historical picture on third-class mail justifies a feeling that the current bill is too easy on them in view of the fact, as I previously mentioned, the increases since 1950 on your regular circulars, which is the great amount of your third-class mail and what is referred to by that unflattering term, the increases since 1950 have been 200 percent. We know that class of mail is a favorite whipping boy. Sometimes the magazines are a favorite whipping boy. But if we raised the rate on magazines 300 percent we could not begin to wipe out our deficit, and our approach has been to try to spread it among all the classes.

Mr. JOHANSEN. Will the gentleman repeat the figure he quoted from the letter from Coronet magazine?

Mr. DERWINSKI. They say, "Last year we lost \$600,000 on Coronet," and in the previous sentence they say:

You ought to be mindful of the fact that increases in postal rates over the past 10 years were an important factor, though not the only factor, in the demise of Coronet.

Mr. JOHANSEN. I would like to say for the record, since this has been quite properly mentioned, that I would be very much interested in seeing added to the record exactly how much the increase in postal rates was for Coronet magazine under the immediate past legislation, and what proportion it was of the \$600,000 loss. I am just a little bit disturbed by this kind of pressure tactic, which I have seen exhibited by some other magazines, of attempting to tar the Post Office Department and the Congress of the United States for going out of business. I think unless it is very specific, it is a pretty contemptible procedure.

(Subsequent information supplied by the Post Office Department follows:)

Postage paid for Coronet magazine in 1960 totaled \$361,000. Some 27.4 million copies were mailed at an average of 1.32 cents per copy.

Postage costs were not the decisive factor contributing to Coronet's deficit. Even if all copies received free postal service in 1960, the publication would have shown a loss of \$239,000.

Based on current rates, postage for Coronet is 1.45 cents per copy. About 72 percent of the magazine's content is nonadvertising, for which postage is charged at the bulk rate of 2.5 cents per pound, irrespective of length of haul. Postage on the magazine's ad content averages 7.3 cents per pound.

On the basis of the magazine's 1960 mailing characteristics, postage per copy shows the following trend:

	Cents		Cents
1936.....	0. 82	1960.....	1. 32
1954.....	1. 05	1961.....	1. 45

Thus, from its inception to the present time, Coronet's postage increased 0.63 cents per copy, or 78 percent. In the same period, the wholesale price index rose 126 percent.

Mr. DERWINSKI. Lest I be misunderstood, I brought it up only to give the Postmaster General the information.

Mr. JOHANSEN. I am not objecting to your bringing it in. I am criticizing the Coronet magazine for trying to pressure the Congress by that approach.

Mr. GROSS. I thought Coronet magazine said the postal rate was not the only factor.

Mr. JOHANSEN. It said it was an important factor.

Mr. DERWINSKI. The implication was, the postal rate increases were the major factor. All of you should have that letter when you return to your offices. I thought the Postmaster General would be interested in this, being the latest information that has come to our attention.

Mr. JOHANSEN. I do not criticize the gentleman for reading the letter. My criticism is directed to the author of it.

The CHAIRMAN. Any other questions?

Mrs. GRANAHAH. In line with Mr. Derwinski's statement about Coronet, I have a letter from a very large publishing house which employs about 9,000 people, and they are very much concerned. They have explained it this way:

Our second-class mailing costs in 1960 were \$8,195,000, and the half-cent increase called for in H.R. 7927 effective January 1962 would represent an additional cost of \$2 million. The latter figure is considerably more than our entire net profit in 1960. In addition, the Henderson bill calls for another half-cent increase in January 1963, or a total second-class increase of almost \$4 million. Hence, percentage-wise this would represent a boost of 48 percent.

They are quite concerned. This is a reputable, long-established company.

Mr. DAY. In order to get the complete picture on their situation, I think we would also have to have what the recent history of increases in their newsstand distribution costs has been.

Mrs. GRANAHAH. I have heard that possibly the larger companies, rather than going out of business, will have to truck their publications and not use mail.

Mr. DAY. We have repeatedly said we are not advocating any increases for the purpose of punishing anybody, for the purpose of making it difficult for anybody to do business. The situation is here, and I do not think it will just go away and get lost. No rate increase proposal is a very happy thing for everybody concerned.

Mrs. GRANAHAH. I agree that something must be done, but it seems to me we are trying to do too much at one time.

Mr. DAY. I think if the impact on second-class users was cut down further than the very marked reduction that has been made in this compromise bill, we might very well be getting to the point which

was mentioned in an earlier question of whether we are trying to solve the entire problem by an increase on first-class mail. I think it must be distributed among all classes.

Mr. ROUSSELOT. Will you identify the publisher?

Mrs. GRANAHAH. I am sure the gentleman will not mind. The Curtis Publishing Co.

Mr. ROUSSELOT. How much will they add to their cost of mailing?

Mrs. GRANAHAH. With the Henderson bill?

Mr. ROUSSELOT. Yes.

Mrs. GRANAHAH. \$4 million.

Mr. GROSS. So we come to the end of this hearing and we still have no firm answer as to whether the Senate committee will do anything at all, and we have no firm answer to the question, if the Senate does move, that there will not be even a lesser rate bill proposed to the Senate.

The CHAIRMAN. This should not deter us from doing our duty.

Mr. GROSS. I would like the Postmaster General to comment.

Mr. DAY. I cannot give you any assurances from the chairman of the committee but, as we covered, we did what we could with other members of the committee, and we are very much encouraged by the support from other members of the Senate committee. I think that is an additional step than we had when we were here previously.

The CHAIRMAN. Any further questions?

If there are no further questions, we thank you very much, General Day. You have become quite an expert in such a short time. I marvel at your knowledge of Post Office fiscal operations. We thank you for your testimony this morning.

Mr. DAY. Thank you.

The CHAIRMAN. The hearing is adjourned until the next meeting day.

(Whereupon, the committee adjourned at 12:10 p.m., Thursday, July 13, 1961.)

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